NÜRNBERGER
VERSICHERUNGSGRUPPE

Annual Report 2005

NÜRNBERGER
VERSICHERUNGSGRUPPE

Report on the 122nd Financial Year 2005 of the
NÜRNBERGER Beteiligungs-Aktiengesellschaft
(Group Accounts)

NÜRNBERGER

Beteiligungs-Aktiengesellschaft at a glance

Life insurance	NÜRNBERGER Lebensversicherung AG NÜRNBERGER Beamten Lebensversicherung AG NÜRNBERGER Versicherung AG Austria PAX Schweizerische Lebensversicherungs-Gesellschaft (Deutschland) AG
Pension business	NÜRNBERGER Pensionskasse AG NÜRNBERGER Pensionsfonds AG
Health insurance	NÜRNBERGER Krankenversicherung AG
Property and casualty insurance	NÜRNBERGER Allgemeine Versicherungs-AG NÜRNBERGER Beamten Allgemeine Versicherung AG GARANTA Versicherungs-AG GARANTA ÖSTERREICH Versicherungs-AG (Branch) CG Car – Garantie Versicherungs-AG (included in the consolidation on a pro rata basis)
Investment consulting	Fürst Fugger Privatbank KG Fürst Fugger Privatbank Immobilien GmbH
Services	NÜRNBERGER Verwaltungsgesellschaft mbH Communication Center Nürnberg (CCN) GmbH EUROPÄISCHER HOF, Thermal-Sport-Hotel Badgastein Ges.m.b.H.

NÜRNBERGER
INSURANCE GROUP in figures

NÜRNBERGER Beteiligungs-Aktiengesellschaft		2005	2004
Shareholders' equity	EUR million	397	395
Net income for the year	EUR million	14	12
Total dividend 2005: EUR 13,824,000	EUR per share	1.20	1.00

NÜRNBERGER INSURANCE GROUP		2005	2004
Group revenues	EUR million	4,080	3,832
Premium income	EUR million	2,994	2,943
Investment income (including unrealized revenues from ULI[1])	EUR million	1,760	991
Commission income	EUR million	36	33
Claims incurred for own account	EUR million	1,675	1,753
Expenses for premium refunds	EUR million	358	142
Acquisition and administrative expenses	EUR million	682	739
Result before tax	EUR million	66	28
Group result for the year	EUR million	20	10
Investments (incl. ULI[1])	EUR million	17,464	15,629
Shareholders' equity	EUR million	696	658
Underwriting provisions for own account	EUR million	15,445	14,012
Number of insurance policies	million	7.429	7.462
Number of employees, internal		3,793	3,857
Number of employees, field service		32,997	32,917

[1] ULI: Unit-linked Life Insurance

Contents

As a general rule, numbers in brackets indicate preceding year's figures.

Supervisory Board and Executive Board

Supervisory Board

Dipl.-Kfm. Hans-Peter Schmidt,
Chairman,
Chairman of the Supervisory Boards
NÜRNBERGER Insurance Group

Josef Priller,*
Deputy Chairman,
Regional Director
NÜRNBERGER Insurance Group

Dipl.-Kfm. Fritz Haberl,
Deputy Chairman,
Managing Partner
MAHAG Vertriebszentrum
Haberl GmbH & Co. KG

Konsul Anton Wolfgang
Graf von Faber-Castell,
Chairman of the Executive Board
Faber-Castell AG

Dr. Hans-Peter Ferslev,
Lawyer

Helmut Hanika,*
Versicherungsfachwirt,
Head of Department
NÜRNBERGER Insurance Group

Dr. Heiner Hasford,
Member of the Executive Board
Münchener Rückversicherungs-
Gesellschaft AG

Wolfgang Metje,*
Versicherungskaufmann,
NÜRNBERGER Insurance Group

Norbert Plachta,*
Versicherungskaufmann,
Director
NÜRNBERGER Insurance Group

Dr. Bernd Rödl,
Auditor, Tax Consultant,
Lawyer
Rödl & Partner

Rolf Wagner,*
Deputy Managing Director
Vereinte Dienstleistungsgewerkschaft –
Central Franconia District

Sven Zettelmeier,*
Betriebswirt (VWA),
NÜRNBERGER Insurance Group

* Employee representatives

Executive Board

Günther Riedel,
Chairman,
Central Divisions
NÜRNBERGER Insurance Group

Dr. Werner Rupp,
Deputy Chairman,
Spokesman of the Executive Board
NÜRNBERGER Life & Health
Insurance Group

Dipl.-Päd. Walter Bockshecker,
Human Resources
NÜRNBERGER Insurance Group

Dipl.-Kfm. Henning von der Forst,
Investments
NÜRNBERGER Insurance Group

Dr. Wolf-Rüdiger Knocke,
Information Technology
NÜRNBERGER Insurance Group

Dr. Hans-Joachim Rauscher,
Sales
NÜRNBERGER Insurance Group

Dr. Armin Zitzmann,
Spokesman of the Executive Board
NÜRNBERGER Property
and Casualty Insurance Group

Report of the Supervisory Board

During the year under review, the Supervisory Board met four times and also received regular written reports from the Executive Board on the current situation of the company, the business development, corporate planning and key developments within the Group. The Supervisory Board was involved in all decisions of fundamental importance. Almost all members always attended the Supervisory Board's meetings and it always constituted a quorum. The Chairman of the Supervisory Board was in close contact with the Executive Board throughout the financial year. On all matters for which Supervisory Board approval is required by law, the articles of association or the rules of internal procedure of the Executive Board, the Supervisory Board gave such approval after detailed discussion with the Executive Board.

In ten special cases precisely defined by the rules of internal procedure of the Executive Board, approval was obtained – each time in a written procedure – from the Investment Committee appointed for the purpose. The deliberations and decisions of this Committee were reported at the Supervisory Board meetings.

The Human Resources Committee met twice ahead of Supervisory Board meetings.

No action was required on the part of the Mediation Committee formed in accordance with the German Codetermination Act (MitBG).

The Audit Committee similarly met twice. The financial statements of the Company and the Group financial statements were discussed in detail by the Committee. In addition, it deliberated on issues related to internal auditing and risk management, as well as on focal aspects with regard to auditing of the financial statements of NÜRNBERGER Beteiligungs-Aktiengesellschaft and of the Group. The auditor's appointment was likewise prepared. The Audit Committee presented the results of its deliberations to the full Board without delay.

Focal aspects of the deliberations

The Supervisory Board devoted close attention to business developments, investment and participation policy and risk management by both the Company and the Group and was regularly informed of all the essential points in the risk reports for the respective calendar quarters. Special audits as defined by Section 111 Para. 2 of the German Stock Corporations Act (AktG) were neither required nor undertaken.

The Executive Board's strategy programme to improve earnings prospects and the return on shareholders' equity which had been discussed in detail by the Supervisory Board in 2004 was monitored continuously. The Supervisory Board fully supports all the structural measures introduced to this end and is regularly informed of the progress made by the Executive Board.

The Supervisory Board also devoted attention to changes in the market for life/health and property and casualty insurance, as well as to NÜRNBERGER's corresponding product policy in the individual fields of business. Above all, this applied to old-age pension products meeting requirements in life insurance and the modular product system based on customers' needs in NÜRNBERGER's property and casualty insurance business. The strategic orientation of Fürst Fugger Privatbank and its business development were also discussed in detail, as was the Group's participation in a property management company which specializes in showroom properties for the motor vehicles industry.

The progress made in the project concerning the implementation of International Financial Reporting Standards (IFRS) in the NÜRNBERGER Group and the effects of new accounting principles were regularly discussed by the Supervisory Board.

General Meeting 2005

The Company held its General Meeting in the administrative building on Ostendstrasse in Nuremberg on 31 March 2005.

As in the preceding years, the purchase of own shares under Section 71 Para.1 No. 8 of the German Stock Corporation Act (AktG) was re-tabled for General Meeting resolution in 2005 at the joint behest of the Executive Board and the Supervisory Board and once again received General Meeting approval. The Company has so far made no use of this authorization by the Shareholders' Meeting.

Financial Statements and Consolidated Financial Statements

Bayerische Treuhandgesellschaft AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, which had been elected as auditor for the Company by the General Meeting, was appointed accordingly by the Chairman of the Supervisory Board. It conducted a detailed audit in line with the legal requirements and fully certified the financial statements and Management Report prepared by the Executive Board of NÜRNBERGER Beteiligungs-Aktiengesellschaft as well as the Consolidated Financial Statements and the Group Management Report for the financial year 2005. The Supervisory Board endorses the outcome of the audit.

Following a preliminary audit by the Audit Committee and after completing its own examination, the Supervisory Board has no objections to raise in connection with the financial statements and Management Report prepared by the Executive Board and the Consolidated Financial Statements and Group Management Report. It approves the financial statements and Consolidated Financial Statements for the financial year 2005. The financial statements are thus formally adopted in line with the German Stock Corporation Act (AktG). The Supervisory Board endorses the appropriation of balance sheet profit proposed by the Executive Board, according to which a 20 % higher dividend of EUR 1.20 per share is to be distributed.

At all the companies in the NÜRNBERGER INSURANCE GROUP, representatives of the auditing company attend the Supervisory Board meeting convened to resolve on the Balance Sheet, in order to answer Supervisory Board questions about the audit reports. This also applies for meetings of the Audit Committee at NÜRNBERGER Beteiligungs-Aktiengesellschaft. The members of the Supervisory Board thus receive additional information from the auditors responsible, especially with regard to the audit reports.

Corporate Governance Kodex

Good and responsible corporate management has always been a matter of course at NÜRNBERGER. Nearly all the recommendations of the German Corporate Governance Code are being implemented. The Company's declaration of compliance was deliberated and approved by the Supervisory Board. In accordance with its internal rules of procedure, the Supervisory Board has once again reviewed the efficiency of its activities and approved various changes in the internal rules of procedure for the Executive Board and Supervisory Board.

Thanks

Our thanks are due to the members of the Executive Board, as well as all internal and field service employees, and the general agents and sales partners representing our Group companies, for their commitment and support. Thanks to their efforts, the NÜRNBERGER INSURANCE GROUP was once again able to report good results in the financial year 2005.

Nuremberg, 20 March 2006

Dipl.-Kfm. Hans-Peter Schmidt
Chairman of the Supervisory Board

The members of the Executive Board from left to right:

Dr. Werner Rupp
Deputy Chairman

Dipl.-Kfm. Henning von der Forst

Günther Riedel
Chairman

Dipl.-Päd. Walter Bockshecker

Dr. Armin Zitzmann

Dr. Wolf-Rüdiger Knocke

Dr. Hans-Joachim Rauscher

NÜRNBERGER Share

The stock market

The German DAX index rose 27.1 % over its level of 4256 points at the beginning of the year to reach a figure of 5408 points at the end of 2005. International markets developed differently. The Japanese Nikkei index, for example, rose to 16,111 points, an improvement of 40 % over its value at the beginning of the year, thus ending several years of stagnation in the Japanese stock market. The American Dow Jones, on the other hand, declined slightly. The S&P 500 Index, which also includes the smaller and medium-sized securities as well as American stock exchange heavyweights, only rose by roughly 3 %.

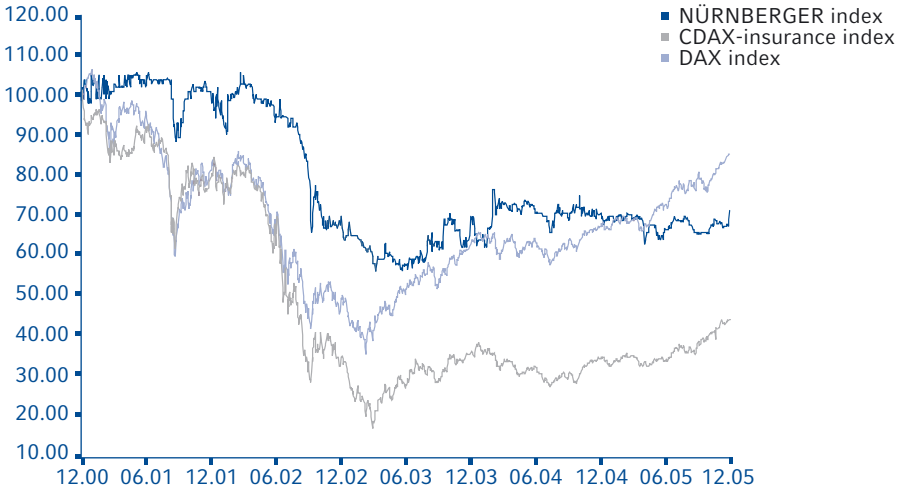
The individual sectors once again developed very differently in 2005. As the price of oil and raw materials continued to climb, above-average price increases were once again reported for securities in the energy sector – especially those of oil companies and suppliers of oil drilling equipment. In fact, the "raw materials" index grew by no less than 158 %, while telecommunications shares remained under considerable pressure worldwide, declining in value almost without exception. The German export industry was able to profit from the Euro's decline in value over the year. The Euro ended the year at 1.18 US dollars or 13 % below its value at the beginning of the year.

Most market observers assume that the DAX will be unable to repeat its dramatic development in the stock year 2006. The forecasts show a considerable margin of difference, ranging from 5100 to 6000 points at year-end 2006. A rise of 5 % is expected on average.

Performance of the NÜRNBERGER share

At EUR 73 on 30 December 2005, the price of the NÜRNBERGER share was 2.8 % higher than the year-end price in 2004, confirming its position as a very stable share. While the NÜRNBERGER share had already ended the year 2004 with an increase in price, many other insurance shares only improved in 2005. The C-DAX index for insurance industry shares increased by over 30 %. This development and the prospects for the insurance industry as a whole let us look forward optimistically to the future performance of our share.

NÜRNBERGER share/stock indices

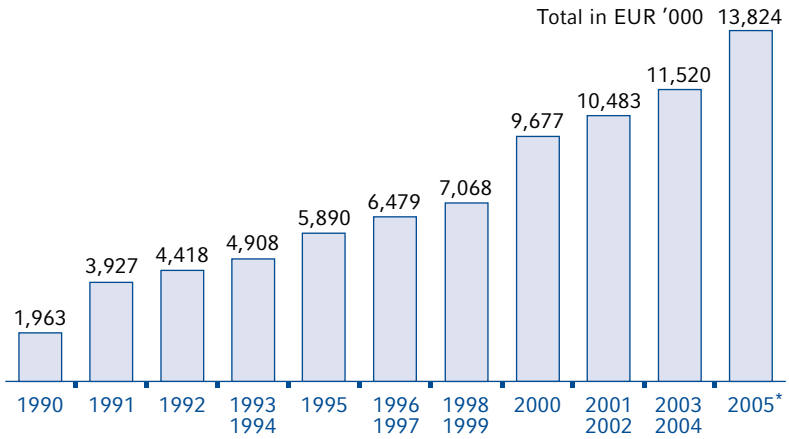


Position: 31 December 2000 – 31 December 2005 (31.12.00 index = 100)

Dividend

For the financial year 2005, the Executive Board and Supervisory Board of NÜRNBERGER Beteiligungs-Aktiengesellschaft will propose a 20 % higher dividend of EUR 1.20 (1.00) per share to the General Meeting. The total dividend paid out to shareholders will amount of EUR 13.82 million, thus continuing our successful dividend policy. In the last five years, we have continuously increased the dividends paid out to our shareholders, from EUR 0.84 per share to EUR 1.20 per share, a rise of roughly 43 %.

Development of dividends



	1990	1991	1992	1993 1994	1995	1996 1997	1998 1999	2000	2001 2002	2003 2004	2005*
Share capital in million EUR	12.3	24.5	24.5	24.5	29.5	29.5	29.5	40.3	40.3	40.3	40.3
Rate in %	16%	16%	18%	20%	20%	22%	24%	24%	26%	29%	34.3%
EUR per share								0.84	0.91	1.00	1.20

* Proposal for appropriation of the profit

NÜRNBERGER share at a glance

	2005	2004	2003
Registered shares ISIN DE0008435967 (security identification number: 843596)			
Year high in EUR	73	77	71
Year low in EUR	62	61	56
Year-end price in EUR	73	71	70
Total dividend in EUR million	13.82	11.52	11.52
Dividend per share in EUR	1.20	1.00	1.00

Market capitalization

On the basis of the year-end price, the market capitalization of NÜRNBERGER Beteiligungs-Aktiengesellschaft amounted to EUR 840.96 million, with share capital totalling EUR 40.32 million.

Shareholders

Our shareholders, who are interested in an independent NÜRNBERGER Group, have remained unchanged in the year under review and comprise 54 % insurers and reinsurers, 15 % banks and investment companies, as well as 31 % sales partners and institutional and private investors. The free float of NÜRNBERGER shares accounts for 37 % of the share capital.

Financial Calendar 2006

29 March 2006
Balance sheet press conference in Nuremberg

30 March 2006
Analysts' conference in Frankfurt/Main

18 May 2006
General Meeting in Nuremberg

May 2006
Quarterly report as of 31 March 2006

August 2006
Quarterly report as of 30 June 2006

November 2006
Quarterly report as of 30 September 2006

Group Management Report

Business and basic conditions

Overall basic economic conditions in Germany

Compared with other industrial nations in Europe, the German economy once again developed below average in 2005. The increase in gross domestic product was almost exclusively attributable to exports while domestic demand stagnated.

According to the latest extrapolations, real gross domestic product in Germany grew by 0.9 %. The domestic economy remained the decisive weak point in the economic motor. Consumer expenditure by private households rose by 1.6 %. Inflation amounted to 2.0 %, due to major increases in the price of heating oil and motor fuel. Investment in equipment grew by 4.0 % while investment in construction dropped by 3.6 %. The number of new vehicles registered rose 1.5 % over the previous year. The ratio of savings to disposable incomes increased from 10.5 % to 10.6 %. Exports rose by 6.2 % in real terms.

The situation on the labour market deteriorated, with unemployment rising to 11.7 %. However, this rise is also attributable to statistical changes, with recipients of social security benefits additionally being included in the unemployment figures. On average, 4.86 million people were out of work in 2005.

Development of insurance business in Germany

The overall economic environment did little to boost the demand for insurance products in the year under review. As in the previous years, developments once again differed widely from one insurance class to another. Gross premium income written by the companies in the German Insurance Association (Gesamtverband der Deutschen Versicherungswirtschaft) grew by 2.1 % to EUR 155.6 (152.4)[1] billion.

The gross premiums written by life insurers rose by 6.0 % on average for the life insurance business in 2005, to EUR 72.5 (68.3) billion. The life portfolio at 31 December 2005 totalled 93.3 (95.0) million policies. Pension insurance funds and pension funds reported considerable increases in conjunction with the growing importance of company pension schemes.

Premium figures in property and casualty insurance dropped 0.7 % to EUR 55.0 (55.4) billion. Motor insurance remains the most significant line of property and casualty insurance, and still accounts for roughly 40 % of the total premiums. The trend of the last four years has continued with a decline of 2.8 % in premium income, to EUR 21.9 (22.5) billion. Premium income from general liability insurance increased by 3.5 % to EUR 6.8 (6.5) billion, and remained virtually unchanged at EUR 6.0 (6.0) billion for personal accident insurance. In property insurance, the volume of premiums declined by 0.8 % to 14.0 (14.1) billion. Here too, there were considerable variations between the different insurance classes: while premiums declined by 6.0 % for industrial property insurance and by 1.5 % for marine insurance, commercial and private property insurance grew by 2.0 % each.

In private health insurance, premiums increased by 3.4 % in 2005 to EUR 27.3 (26.5) billion. The figure includes premium income from compulsory private long-term care (LTC) insurance totalling EUR 1.9 (1.9) billion.

[1] Here and below, provisional figures are used for 2005 and final figures for 2004.

Total benefits of German Insurance Association members rose 2.3 % to EUR 135.6 (132.6) billion. Benefits paid out for life insurance were 3.0 % higher at EUR 66.0 (64.3) billion. Excluding benefits paid prematurely, the benefits paid by life insurers in the previous year reached a level equivalent to roughly 26.2 % of the pensions paid nationwide by the German Pension Insurance Scheme (Deutsche Rentenversicherung). Ten years ago, the figure was just 16.6 %. This development underlines the significance of life insurance in Germany today.

In property and casualty insurance, benefits totalled EUR 39.8 (39.4) billion.

Private health insurers paid benefits totalling EUR 17.4 (16.6) billion and reported total expenditures of EUR 29.8 (28.6) billion, including allocations to the provision for premium refunds and to the ageing provision. This represents an increase of 7.0 %.

Development of insurance business in Austria and Switzerland

As in the previous year, premium income increased by 6.4 % in the Austrian market in 2005 and now totals EUR 14.9 billion. Premium income from life insurance rose by 9.3 %. Growth was fuelled above all by single premiums, with a rise of 15 %, especially in unit-linked life insurance business. Regular premiums grew by 7.4 %. In general accident insurance, the moderate growth already reported in previous years continued with a 4.0 % rise to EUR 674 million. Premiums from property and casualty insurance grew by 4.3 %. The underwriting result for motor insurance has improved in comparison with the previous year, due above all to the improvement in motor own damage insurance.

Premium volumes in Swiss life insurance business declined in 2005, with major differences between individual and group business. Policyholders' "wait-and-see" approach with regard to financial markets continued to affect the individual life insurance business, while group life insurance business maintained its high status. In non-life business, premiums were adjusted in line with the rising claims expenditure. The catastrophic storms in August imposed a major burden for the balance of claims in 2005, with the result that a combined ratio of less than 100 % will be difficult to achieve despite the higher productivity.

Companies consolidated in the NÜRNBERGER Group

We have included 82 domestic and foreign companies, as well as funds in our consolidated financial statements.

In addition to NÜRNBERGER Beteiligungs-Aktiengesellschaft, the consolidated companies comprise our insurance and other subsidiaries in Germany and abroad, as well as a bank, special purpose entities (special funds, special purpose leasing companies) requiring consolidation, two companies which have been included on a pro rata basis and participatory interests in associated companies.

The figures for the two companies included pro rata, one of which is a domestic insurance company, are included proportionally as a matter of principle in the following statements.

In the year under review, NÜRNBERGER Allgemeine Versicherungs-AG acquired the remaining 26.0 % shares in GARANTA Versicherungs-AG held by third parties, with the result that this company is now wholly owned by the Group.

Classes of insurance/ business segments

The insurance companies in the NÜRNBERGER INSURANCE GROUP, including the pension fund, operated in the following insurance classes in the year under review:

NÜRNBERGER Lebensversicherung AG, Nuremberg:
Life insurance
Life reinsurance
Pension scheme management
General accident insurance (run-off of existing policies)

NÜRNBERGER Beamten Lebensversicherung AG, Nuremberg:
Life insurance

NÜRNBERGER Versicherung AG Österreich, Salzburg/Austria:
Life insurance
General accident insurance
Property and casualty reinsurance

PAX Schweizerische Lebensversicherungs-Gesellschaft (Deutschland) AG, Nuremberg:
Life insurance

NÜRNBERGER Pensionskasse AG, Nuremberg:
Operation of life insurance as a pension insurance fund

NÜRNBERGER Pensionsfonds AG, Nuremberg:
Pension fund business

NÜRNBERGER Krankenversicherung AG, Nuremberg:
Health insurance

NÜRNBERGER Allgemeine Versicherungs-AG, Nuremberg:
Property and casualty insurance
Property and casualty reinsurance

NÜRNBERGER Beamten Allgemeine Versicherung AG, Nuremberg:
Property and casualty insurance

GARANTA Versicherungs-AG, Nuremberg:
Property and casualty insurance
Property and casualty reinsurance (run-off of existing policies)

GARANTA (Schweiz) Versicherungs AG, Basle/Switzerland:
Property and casualty insurance (run-off of existing policies)

CG Car – Garantie Versicherungs-AG, Freiburg (included pro rata):
Property and casualty insurance
Property and casualty reinsurance

In keeping with their articles of association and on account of their nature as recognized internal civil service organizations, the insurance business of NÜRNBERGER Beamten Lebensversicherung AG and NÜRNBERGER Beamten Allgemeine Versicherung AG focuses primarily on the main target group of public sector employees as well as their relatives and surviving dependents who are entitled to benefits.

NÜRNBERGER regards itself as a German insurance group with European connections. In Austria, it is directly represented through NÜRNBERGER Versicherung AG Österreich and the Austrian branch of GARANTA Versicherungs-AG. In Switzerland, NÜRNBERGER operates through GARANTA (Schweiz) Versicherungs AG. However, this company has not taken on any new insurance business since the beginning of 2004 and is successfully running off the existing insurance policies. Outside Germany, NÜRNBERGER is represented through the joint venture CG Car – Garantie Versicherungs-AG as well as through cooperation partners. Our cooperation with foreign partners enables us to provide insurance for our German clients abroad and find partners for our field service when they wish to operate outside Germany. We offer the same services to European companies that cooperate with us. Cooperation arrangements exist with PAX, Schweizerische Lebensversicherungs-Gesellschaft, Basle/Switzerland, Schweizerische National-Versicherungs-Gesellschaft, Basle/Switzerland, and Britannic Assurance PLC, Birmingham/Great Britain.

To round off our insurance range, NÜRNBERGER Allgemeine Versicherungs-AG also arranges legal protection insurance business for Neue Rechtsschutz-Versicherungsgesellschaft AG, Mannheim. Other special types of insurance not offered by NÜRNBERGER are arranged through NÜRNBERGER Versicherungs- und Bauspar-Vermittlungs-GmbH, as well as others.

In addition to its insurance operations, the Group also provides financial services through Fürst Fugger Privatbank KG, NÜRNBERGER Investment Services GmbH, NÜRNBERGER Versicherungs- und Bauspar-Vermittlungs-GmbH and NÜRNBERGER Versicherung Immobilien AG. Fürst Fugger Privatbank KG specializes in investment consulting and asset management, personal consulting services and securities trading.

Other activities include the provision of telecommunication services, development of new telecommunication techniques and technologies and the qualification of staff by Communication Center Nürnberg (CCN) GmbH.

Research and development

We are constantly improving the methods and procedures associated with the fulfilment of our corporate objective, but do not engage in any other form of research and development.

Overview of business development

The development of business in the year under review was generally positive, although a distinction must be made between the individual fields of business. The volume of new business assumed by the NÜRNBERGER life insurers was distinctly better than the market average. NÜRNBERGER health insurance once again grew most strongly. Performance in both segments was better than in the previous year.

The financial services segment headed by Fürst Fugger Privatbank KG similarly increased its contribution to the overall performance.

Our property and casualty insurers were able to improve their underwriting result; the investment result was characterized above all by revaluation of the involvement in showroom properties for the automotive industry.

The changeover to IFRS for Group accounting has made it necessary to include additional companies in the scope of consolidation in accordance with SIC-12. Our involvement in the automotive trade was reorganized in the course of 2004 and our shareholdings in companies engaging in operative automotive business were sold off entirely by 30 September 2004. In the opening IFRS balance sheet, the companies sold pursuant to IFRS 5 were classified as non-current assets held for sale and recognized at fair value less costs to sell.

The property management companies have been included in the consolidated financial statements. These companies' financial statements were available later than those of the companies already consolidated in accordance with German Commercial Code. For this reason, impairments from these companies were taken into account in the opening IFRS balance sheet as at 1 January 2004 up to the closing date when compiling the respective financial statements as at 31 December 2003 in autumn 2004, and also in the IFRS financial statements for 2004 up to the closing date when compiling the respective financial statements as at 31 December 2004 in autumn 2005.

Due to initial consolidation of these companies, the result in the opening IFRS balance sheet as at 1 January 2004 includes EUR 60.9 million from the involvement in the automotive trade. Expenditure of EUR 50.5 million from this business is included in the 2004 financial year. The consolidated financial statements for the year under review include impairments of EUR 40.5 million in this context.

The main indicators in the insurance business developed as follows:

New business

New and additional premiums for the Group totalled EUR 545.5 (619.3) million in the 2005 financial year. This development is related to the changes in basic tax conditions for life insurance business which came into force on 1 January 2005. Many clients had taken out insurance policies in 2004 in order to sidestep the effects of the Retirement Income Act (Alterseinkünftegesetz). As a result of this basic effect, new business in life insurance subsequently declined as was to be expected, although to a lesser extent than in the rest of the industry. New premiums in life insurance totalled EUR 321.1 million, as compared with EUR 387.6 million in the previous year. In health insurance, new premiums increased by 8.5 %. Despite the higher number of policies, new and additional premiums from property and casualty insurance business declined by 5.2 % due to the risk selection associated with underwriting policy and the fierce competition over prices.

Business in force

The Group's insurance portfolios of primary insurance business as at 31 December 2005 comprised a total of 7.4 (7.5) million policies, most of which were concluded with private clients and small or medium-sized enterprises. While the life and health portfolios grew by 1.6 % and 5.7 % respectively, the property and casualty insurance portfolio declined by 2.6 %.

Claims expenditure

Claims incurred for own account, i.e. after deduction of reinsurers' shares, dropped 4.4 % to EUR 1.675 (1.753) billion.

Expenditures for allocations to the net provision for future policy benefits totalled EUR 1.170 (0.500) billion. EUR 358.0 (142.0) million were put aside for premium refunds and another EUR 32.3 (35.4) million for interest credited to policyholders.

Acquisition and administrative expenses

Acquisition expenses were lower, at EUR 486.8 (540.2) million, due to the decline in new business from life insurance attributable to the aforementioned basic effect from the previous year. Administrative expenses were reduced from EUR 198.9 million to EUR 195.3 million.

Group revenues

The gross premiums earned (including premiums from the provision for premium refunds) by the NÜRNBERGER Group rose 1.7 % to EUR 2.994 (2.943) billion in the year under review. This figure includes EUR 8.8 (7.4) million from reinsurance business.

Disregarding unrealized gains from investments for unit-linked life insurance, investment income totalled EUR 1.049 (0.864) billion.

Together with commissions for mediation services totalling EUR 36.3 (32.8) million, this yields Group revenues in the amount of EUR 4.080 (3.832) billion. Premium income accounted for 73.4 % (76.8 %) of these revenues.

Earnings prospects

Insurance business

The earned gross premiums of EUR 2.994 (2.943) billion include EUR 84.7 (77.0) million from the provision for premium refunds in the life/health insurance segments (life insurance, pension business and health insurance).

EUR 3.472 (2.694) billion were paid out and set aside for claims. Of this total, EUR 1.912 (2.013) billion result from expenditure for claims incurred, including the allocation to the provision for outstanding claims.
The increase in benefit commitments yielded EUR 1.560 (0.680) billion. The increase in net provision for future policy benefits and other underwriting provisions in the amount of EUR 1.170 (0.500) billion is attributable to life/health insurance, as is the expenditure totalling EUR 32.3 (35.4) million for interest credited in life insurance and pension business, and the expenditure for premium refunds totalling EUR 356.9 (144.6) million.

In property and casualty insurance, the decline in other underwriting provisions, including the provision for future policy benefits, yielded income of EUR 0.8 million (previous year: expenditure of EUR 2.5 million). Expenditure for premium refunds amounted to EUR 1.2 (0.6) million.

Reinsurance business yielded revenues in the amount of EUR 301.5 (334.3) million. Expenses totalled EUR 339.3 (366.1) million.

Underwriting expenses for own account declined to EUR 682.1 (739.1) million, including EUR 486.8 (540.2) million in acquisition expenses and EUR 195.3 (198.9) million in administrative expenses.

The item Other revenues includes EUR 6.5 (64.2) million from insurance business. Other underwriting expenses were incurred in the amount of EUR 60.3 (2.8) million. In the year under review, the expenses include a reduction of EUR 42.9 million in accounts for future amounts due from policyholders; in the previous year, the increase in such accounts resulted in income of EUR 60.3 million. Both are associated with the previous year's exceedingly high level of new business from life insurance attributable to the change in basic tax conditions.

Investments

Investments yielded income in the amount of EUR 1.760 (0.991) billion, including EUR 134.2 million from the disposal of three special funds previously included in the consolidation.

Income from unit-linked life insurance accounted for EUR 776.2 (186.1) million of the total investment income. This figure includes EUR 710.7 (134.8) million in unrealized gains from appreciation of the investment fund. In conventional business, EUR 547.0 (579.9) million are attributable to regular income, with EUR 273.9 (293.1) million relating to securities available for sale and EUR 222.5 (229.5) million to loans. Gains totalling EUR 327.4 (144.1) million were realized from the disposal of investments. Write-ups totalled EUR 39.4 (17.4) million. Other revenues amounted to EUR 70.0 (63.5) million, including EUR 50.0 (41.8) million from derivative financial instruments.

Investment expenses totalled EUR 370.6 (450.0) million.

Unit-linked life insurance investments account for EUR 4.4 (28.4) million of the total investment expenses. Of this figure, EUR 2.9 (26.7) million refer to unrealized losses from impairment of the investment fund. In conventional business, write-downs account for EUR 90.3 (183.8) million. Losses of EUR 73.8 (97.3) million were realized from the disposal of investments. Expenses for investment management amounted to EUR 27.3 (30.7) million. Other expenses are recognized in the amount of EUR 174.9 (109.8) million, including EUR 158.5 (68.8) million from derivative financial instruments.

The investment result consequently totals EUR 1.389 (0.541) billion.

Other result components

Finance costs totalled EUR 30.1 (27.7) million.

Non-insurance and non-investment income totalled EUR 113.1 (107.2) million, with expenses of EUR 153.9 (132.0) million. These figures include, in particular, commission income in the amount of EUR 36.3 (32.8) million and commission

expenses for mediation services totalling EUR 30.6 (13.6) million, as well as personnel expenses for the non-insurance companies in the amount of EUR 21.8 (24.2) million.

Result structure

The result structure must be viewed in differentiated terms on account of the differences in the various fields of business.

In the life and health lines of business operated in the manner of life insurance, significant portions of the premiums are channelled into a capital formation process which is of major importance for the products concerned. For this reason, the investment result must be ascribed to the underwriting result in the segments concerned.

Investment result is not ascribed to the underwriting result in property and casualty insurance, however.

Consolidation effects encompassing all segments have not been taken into account in the figures reported below for the individual segments.

Of the total gross premiums earned in the amount of EUR 2.994 (2.943) billion, life insurance generated EUR 2.038 (1.969) billion, pension business generated EUR 34.6 (7.9) million, health insurance generated EUR 117.9 (102.2) million and property and casualty insurance generated EUR 815.2 (866.8) million.

Expenses for claims incurred totalled EUR 1.912 (2.013) billion, including EUR 1.349 (1.399) billion for life insurance, EUR 0.2 (0.0) million for pension business, EUR 47.8 (40.8) million for health insurance and EUR 515.9 (573.1) million for property and casualty insurance.

In conjunction with the increase in benefit commitments, the net provision for future policy benefits in life insurance grew by EUR 1.081 (0.434) billion. In addition, EUR 32.3 (35.4) million were placed in clients' accounts in the form of interest credits. The net provision for future policy benefits increased by EUR 16.8 (5.6) million in pension business and by EUR 39.8 (31.4) million in health insurance.

In the Property and Casualty Insurance segment, the change in other underwriting provisions, including the provision for future policy benefits, yielded income of EUR 0.8 million (previous year: expenditure of EUR 2.5 million).

Underwriting expenses totalled EUR 682.1 (739.1) million, including EUR 435.0 (479.9) million for life insurance, EUR 20.0 (13.4) million for pension business, EUR 23.6 (21.6) million for health insurance and EUR 225.9 (232.0) million for property and casualty insurance.

Total expenses for premium refunds in the amount of EUR 358.0 (142.0) million comprise EUR 342.4 (128.9) million for life insurance, EUR 3.2 (1.7) million for pension business, EUR 11.3 (14.0) million for health insurance and EUR 1.2 (0.6) million for property and casualty insurance.

Of the total investment result of EUR 1.389 (0.541) billion, EUR 1.344 (0.549) billion are attributable to life insurance, EUR 0.1 (0.3) million to pension business,

EUR 9.7 (8.4) million to health insurance, EUR 23.2 (–19.9) million to property and casualty insurance and EUR 5.8 (6.0) million to financial services. The previous year's negative result for property and casualty insurance is attributable to value adjustments in conjunction with our strategic involvement in the automotive trade.

The underwriting result – including the investment result in life/health of insurance – totals EUR 102.6 (98.0) million, including EUR 54.1 (57.1) million from life insurance, EUR –7.8 (–4.0) million from pension business, EUR 4.4 (2.2) million from health insurance and EUR 35.2 (34.2) million from property and casualty insurance. The negative contribution of the pension business results from the fact that the two companies making up this segment are still building up their business.

Consolidated results

Before amortization of goodwill and taxes, the Group posted net earnings in the amount of EUR 67.0 (28.8) million. EUR 0.8 (1.3) million were written down on goodwill. The accounting profit equals EUR 66.2 (27.5) million. Tax expenses totalled EUR 46.0 (18.0) million.

The consolidated net income for the year totals EUR 20.2 (9.6) million, of which EUR 20.9 (8.9) million accrue to shareholders of the NÜRNBERGER Group and EUR –0.7 (0.7) million to minority interests.

Segment reporting shows that life insurance contributed EUR 21.8 (36.9) million to the consolidated net income, with pension business contributing EUR –0.6 (–0.8) million, health insurance EUR 2.4 (1.3) million, property and casualty insurance EUR –3.3 (–19.0) million and financial services EUR 5.2 (–0.3) million.

Financial position

Basic principles and objectives of financial management

The primary objective of financial management is to preserve the Group's liquidity. The liquidity of the NÜRNBERGER INSURANCE GROUP is assured above all through an arbitrage effect created when investing the liquid funds received in the form of premium income after deduction of the benefits contractually promised to the policyholder. For us, as an insurance group, equity is also based on the capital required for compliance with solvency criteria. In conjunction with our strategy of "Profitable growth", we also take care to safeguard revenues and ensure that expenditures are organized cost-efficiently.

Capital structure

Group equity totalled EUR 695.9 (657.6) million at the balance sheet date. The unchanged issued capital of NÜRNBERGER Beteiligungs-Aktiengesellschaft totalling EUR 40.3 million and that company's capital reserve of EUR 136.4 (136.4) million are complemented by retained earnings of EUR 303.2 (286.7) million and other reserves totalling EUR 124.0 (95.2) million. The consolidated net income accruing to shareholders of the NÜRNBERGER Group amounts to EUR 20.9 (8.9) million, while the adjustment item for other minority interests totals EUR 71.0 (90.1) million, equal to their share in the shareholders' equity.

In conjunction with the changeover to IFRS for Group accounting, an opening IFRS balance sheet as at 1 January 2004 was prepared on the basis of the consolidated balance sheet under German Commercial Code as at 31 December 2003 as required by IFRS 1 regulations. With due regard for materiality aspects and the transitional rulings defined in IFRS 1, all assets and liabilities have been measured as if they had always been reported according to IFRS rules. The resultant changes in value were posted to retained earnings. The change in other reserves is essentially attributable to changes in the revaluation surplus reflecting the unrealized fluctuations in value of financial instruments available for sale.

Subordinated liabilities exist in the amount of EUR 186.4 (82.3) million.

Underwriting provisions – including those relating to unit-linked life and general accident insurance – total EUR 16.078 (14.627) billion. Of this total, the provision for future policy benefits for unit-linked life and general accident insurance accounts for EUR 3.919 (2.961) billion, the provision for future policy benefits for conventional business for EUR 9.992 (9.777) billion, while the provision for premium refunds accounts for EUR 1.038 (0.783) billion and the provision for outstanding claims accounts for EUR 942.9 (922.0) million.

Credited profit shares result in liabilities totalling EUR 685.6 (727.9) million.

In addition, there are liabilities from insurance business, including reinsurance, in the amount of EUR 557.2 (559.0) million.

Pension accruals amount to EUR 209.3 (212.3) million. Long-term accounts owed to banks amount to EUR 492.4 (499.7) million, with maturities between 2007 and 2023. Taking into account the subordinated liabilities of EUR 186.4 (82.3) million, the long-term borrowed capital excluding provisions and liabilities from insurance business amounts to EUR 908.1 (809.3) million.

Tax accruals in the amount of EUR 59.2 (87.9) million, deferred tax liabilities in the amount of EUR 387.4 (360.6) million and other accruals totalling EUR 60.2 (52.8) million are also recorded at the balance sheet date. Short-term liabilities exist in the amount of EUR 409.7 (401.0) million. Disregarding insurance business and deferred items, the short-term borrowed capital consequently amounts to EUR 916.5 (902.3) million.

Liquidity

Information on liquidity is provided by the consolidated cash flow account, which is also presented in this Annual Report and has been prepared by the indirect method.

Current operations yielded an inflow of funds amounting to EUR 368.4 (468.6) million in the 2005 financial year, with an outflow for investment totalling EUR 683.4 (316.8) million on balance. Financing activities resulted in an inflow of funds totalling EUR 56.6 (1.6) million.

With the indirect method, the cash flow from current operations is determined by correcting the consolidated results by non-cash expenses and revenues from operative business, as well as expenses and revenues to be ascribed to investment activities and financing activities. When calculating the inflow of funds from current

operations, the increase of EUR 1.433 (0.755) billion in underwriting provisions and the change in accounts receivable and payable, as well as the change in value of financial instruments must be taken into account in particular. The change in accounts receivable and payable boosted the cash flow by EUR 85.4 million in the financial year under review, after causing a decline of EUR 76.4 million in the previous year.
Inpayments from the sale of investments totalling EUR 5.938 (4.170) billion and outpayments for the acquisition of investments totalling EUR 6.351 (4.214) billion had to be taken into account in particular when calculating the cash flow from investment activities.
The increase in funds received from financing activities is due primarily to a subordinated loan of EUR 100.0 million taken out by NÜRNBERGER Beteiligungs-Aktiengesellschaft and the decline of EUR 34.8 million in accounts owed to banks by various non-insurance companies.

Liquid funds diminished by EUR 258.4 million to EUR 150.3 (408.7) million in the 2005 financial year.

Financial commitments not evident in the balance sheet are reported under "Contingencies and other commitments" in the section "Other information" in the Notes to the consolidated financial statements.

Net worth

Intangible assets

Intangible assets are posted in the amount of EUR 136.5 (128.5) million. Of this figure, EUR 85.9 (82.2) million are for goodwill and EUR 21.2 (18.4) million are for software (internally generated software, as well as purchased utilization rights). In addition, there are licences for the "Arena Nürnberger Versicherung" within the framework of public relations work.

Basic principles and objectives of investment management

Investments are made safely and profitably in accordance with the principles of the insurance supervisory law. The basic objective is to invest funds in such a way as to achieve adequate capital appreciation to finance the interest rate and a reasonable profit share on comparison with the rest of the industry, to generate a dividend for the shareholders, to allocate funds to the retained earnings and to create an adequate valuation reserve in the medium term as a buffer to compensate fluctuations in performance as capital markets become increasingly volatile.

Investment management is implemented through a long-term strategic asset allocation from which diversification of the investments is determined with the aid of historical time series. The investments are structured by means of a model in such a way as to yield the optimum result for a specified, fixed risk.

Statutory limits and internally defined limits are monitored by a comprehensive limit system which immediately indicates if any limiting values have been exceeded or undershot, so that remedial action can be taken without delay. In addition, thresholds are defined in such a way that, when these threshold values are reached, action can still be taken in good time to avert any potential threat to corporate figures and targets. Above all, this ensures that the provisions for our clients are

appropriately safeguarded by investments – in terms of both carrying amount and fair value – even in extreme market situations. Annual payment flows are additionally indicated by multi-year liquidity planning. Each investment is precisely controlled in such a way that payment obligations within the Group can be discharged at all times.

Investments

The Group's investments, including the investment fund for unit-linked life insurance, grew from EUR 15.629 billion to EUR 17.464 billion in the year under review. This development is substantially determined by those investments which must be reported at market value. In addition to the investment fund for unit-linked life insurance, these concern financial instruments available for sale and held for trading for conventional business. In this way, developments in the capital market are directly reflected in the development of our investments. Investments reported at market value account for 69.6 % (67.0 %) of all investments.

Segment reporting shows that life insurance accounted for EUR 15.784 (14.047) billion of the Group's total investments, with pension business accounting for EUR 30.6 (10.8) million, health insurance EUR 246.5 (201.7) million, property and casualty insurance EUR 946.4 (921.4) million and financial services (primarily Fürst Fugger Privatbank KG) EUR 301.2 (322.5) million.

New investment in the financial year under review totalled EUR 6.837 (4.606) billion. Most of the funds available for investment, namely EUR 4.883 (3.211) billion, were invested in financial instruments available for sale.

Shareholdings in associated companies and unconsolidated subsidiaries amount to EUR 248.0 (287.0) million.

The Group's investments focus primarily on financial instruments, the carrying amount of which rose from EUR 11.561 billion to EUR 12.586 billion in the year under review, without the investment fund for unit-linked life insurance. Of this total, financial instruments available for sale account for EUR 7.537 (7.154) billion, with instruments held for trading accounting for EUR 0.711 (0.351) billion. These items are posted at market value. Loans receivable amount to EUR 4.337 (4.054) billion.

Investments on account and at risk of life and general accident insurance policy-holders totalling EUR 3.913 (2.961) billion are similarly reported at market value.

The portfolio of "financial instruments held to maturity" totalled EUR 2.0 (2.5) million as at 31 December 2005.

The carrying amount of real estate used by third parties amounts to EUR 454.6 (511.3) million.

Deposits retained on assumed reinsurance amounted to EUR 3.5 (3.2) million.

There are also other investments in the amount of EUR 257.9 (304.9) million, comprising deposits with banks in the same amount.

Capital expenditure

In the year under review, NÜRNBERGER Allgemeine Versicherungs-AG acquired the remaining 26.0 % shares in GARANTA Versicherungs-AG still held by third parties, with the result that this company is now wholly owned by the NÜRNBERGER INSURANCE GROUP.

A number of rearrangements were made with regard to properties and property management companies. Among other things, NÜRNBERGER Beteiligungs-Aktiengesellschaft acquired a share of 51.0 % in ADK Immobilienverwaltungs GmbH, which specializes in showroom properties for the automotive industry, to support the strategic interests of our property and casualty insurance group, while a number of the US properties indirectly held by NÜRNBERGER Lebensversicherung AG were sold.

The intermediary Noris Insurance Service GmbH and three consolidated special securities funds have been sold and a new special fund included in the scope of consolidation instead.

There were no other major changes of Group significance in the subsidiaries and participations in the year under review.

All Group companies invest as planned in the optimization of business processes and the IT environment. In addition to marketing support and further improvements in the management of insurance portfolios, the optimization of reporting structures and reporting support for Group controlling and reporting are becoming increasingly important due also to the more stringent requirements imposed by IFRS accounting and future supervisory requirements (Solvency II).

Underwriting provisions, ceded

Ceded underwriting provisions are capitalized and amount to EUR 633.2 (615.4) million. Unlike the former presentation according to German Commercial Code, offsetting is not performed under IFRS rules.

The provision for future policy benefits including the reserve held for account and at risk of policyholders amounts to EUR 319.0 (280.3) million, while the provision for outstanding claims totals EUR 301.8 (322.7) million.

Other non-current assets

Owner-occupied properties in the amount of EUR 179.2 (185.6) million and other non-current property, plant and equipment in the amount of EUR 23.6 (22.7) million are posted to this item. The latter figure encompasses plant and equipment, technical plant and machinery, as well as tenants' installations in real properties.

Deferred tax assets total EUR 392.8 (367.2) million.

Accounts receivable

Accounts receivable from policyholders and intermediaries in the amount of EUR 389.1 (439.5) million and accounts receivable totalling EUR 13.6 (19.3) million on reinsurance ceded and assumed are classified as accounts receivable on insurance business.

Tax receivables have risen from EUR 12.9 million to EUR 20.3 million.

Other receivables exist in the amount of EUR 369.4 (409.1) million, including EUR 185.6 (187.5) million in interest receivable.

Liquid funds

The Group's liquid funds totalled EUR 150.3 (408.7) million as at the balance sheet date.

Balance sheet total

The Group's balance sheet total increased to EUR 19.848 (18.288) billion as at the balance sheet date.

NÜRNBERGER Life Insurance Segment

NÜRNBERGER Lebensversicherung AG
NÜRNBERGER Beamten Lebensversicherung AG
PAX Schweizerische Lebensversicherungs-Gesellschaft (Deutschland) AG
NÜRNBERGER Versicherung AG Österreich

New premiums	EUR	321.1 million
Number of insurance policies		3.154 million
Gross premiums earned	EUR	2.038 billion
Expenses for claims incurred	EUR	1.349 billion
Investments (including unit-linked life insurance)	EUR	15.784 billion
Investment income	EUR	1.677 billion
Overall result	EUR	364.2 million

Germany

In Germany, the NÜRNBERGER INSURANCE GROUP has three companies operating in life insurance business. Our position in the market has been further strengthened in the financial year just ended. With our product range, the Group was well prepared for the new basic conditions due to the change in the taxation of life insurance which came into force on 1 January 2005. The disability products remained highly successful. This applies particularly for the investment-linked stand-alone disability insurance known as NÜRNBERGER Investment-Berufsunfähigkeitsversicherung®. State-subsidized annuity insurance policies similarly contributed strongly to this segment's performance. Particular mention must be made of the annuity product "ZulagenRente" for which demand increased sharply in 2005.

A total of 309,284 (396,438) new policies were concluded, generating new premium income of EUR 305.1 (370.9) million and an aggregate sum insured of EUR 13.777 (16.667) billion. The number of new policies consequently declined by 22.0 % and the new premium income by 17.8 %, while the aggregate sum insured under new policies declined by 17.3 %. The premium income calculated for one year generated by new regular premium policies reached a figure of EUR 192.0 (253.8) million. Income from single-premium policies, most of which was channelled into annuity policies with an immediate inception of cover, amounted to EUR 113.1 (117.1) million. The decline in new business resulting above all from the exceptionally high previous year's figures has proved very moderate as compared with the market in general. Many people seized the last opportunity offered in 2004 to take out life insurance with tax-free capital payment.

On 31 December 2005, the companies in the Group had 3.0 (3.0) million policies with an aggregate sum insured of EUR 100.989 (95.329) billion in their portfolio. The volume of business in force consequently increased by 5.9 % over the previous year.

At NÜRNBERGER Lebensversicherung AG, the aggregate sum insured in the company's portfolio reached EUR 99.821 (94.192) billion. As in previous years, the lion's share of this related to stand-alone disability insurance, endowment insurance and unit-linked life insurance. The volume of disability rider business in force continued to increase; together with stand-alone disability insurance, it makes the company one of the biggest disability insurers in Germany.

The German companies reported gross premiums written in life insurance totalling EUR 1.861 (1.800) billion, a rise of 3.4 %. Most of this volume came from endowment insurance, with unit-linked life insurance ranking second. Single-premium income rose, mainly as a result of annuity policies with an immediate inception of cover. The proportion of premium income attributable to disability insurance has increased.

Benefits payable by the companies in Germany, including the corresponding profit shares, totalled EUR 1.486 (1.567) billion. Maturities had the biggest impact in terms of volume, accounting for EUR 683.1 (711.8) million, a decline of 5.2 % over the previous year.

Total acquisition expenses of the Group's German companies decreased by 12.6 % overall in relation to the previous year. The ratio of acquisition expenses to premium income from new business for all life insurers in Germany stood at 6.3 % (5.4 %). The companies' administrative expenses rose by 5.6 %, while the ratio of administration costs to premium income equalled 4.0 % (3.9 %).

Austria

In Austria, our life insurance business is conducted through NÜRNBERGER Versicherung AG Österreich. The aggregate sum insured of new business assumed amounted to EUR 308 million, after EUR 312 million in the previous year.

The aggregate sum insured of the life insurance portfolio increased by 2.5 % and totalled EUR 2.873 billion at the end of the year under review. Gross premiums written in life insurance business rose 3.8 % to EUR 97.8 million. Benefits payable, including the corresponding profit shares, totalled EUR 30.7 (27.1) million.

Results of the NÜRNBERGER Life Insurance segment

Life insurance business in Germany and abroad yielded aggregate overall results of EUR 364.1 (165.8) million, an improvement of 120.0 % over the previous year.

This rise is due not only to further improvements in the underwriting result and lower expenditure for adjustment of the provision for future policy benefits in annuity insurance, but also and above all to the distinctly better investment result. Revenues which have not yet been realized according to German Commercial Code play a significant part here. For this reason, the improved overall result is reflected above all in a considerably larger allocation to the deferred part of the provision for premium refunds.

The net result for the year amounted to EUR 21.8 million, as compared with EUR 36.9 million in the previous year which, however, was also attributable to special effects.

NÜRNBERGER Pension Business Segment

NÜRNBERGER Pensionskasse AG
NÜRNBERGER Pensionsfonds AG

New premiums	EUR 22.0 million
Number of insurance policies	30,400
Gross premiums earned	EUR 34.6 million
Expenses for claims incurred	EUR 222,100
Investments (including unit-linked life insurance)	EUR 30.6 million
Investment income	EUR 0.6 million
Overall result	EUR 2.7 million

The activities of NÜRNBERGER Pensionskasse AG which were formerly reported in the life insurance segment and the business activities of NÜRNBERGER Pensionsfonds AG have now been combined in this new segment.

After starting its business operations in November 2003, NÜRNBERGER Pensionskasse AG has now successfully concluded its second full financial year. Approval for the business of NÜRNBERGER Pensionsfonds AG was granted by the Federal Financial Supervisory Authority (BaFin) in November 2004 and it started operation at the beginning of 2005. The company's object is to operate a pension fund as the new, fifth option for company pension schemes. Both premium-based and performance-related pension plans are offered. As a result, NÜRNBERGER is able to offer all possible methods of implementing a company pension plan.

A total of 13,717 (17,190) new insurance and pension fund policies were concluded, generating new premium income of EUR 22.031 (16.992) million. The new premium income consequently increased by 29.7 % while the number of new policies declined by 20.2 %. The premium income calculated for one year generated by new regular premium policies reached a figure of EUR 17.640 (16.635) million. Income from single-premium policies, most of which resulted from the employers' direct pension commitments taken over by NÜRNBERGER Pensionsfonds AG, amounted to EUR 4.392 (0.357) million. It must be remembered in conjunction with the development of new business that the previous year's figures included a once-only

addition of 6,293 policies with annual premium revenues of EUR 3.579 million which had been concluded with NÜRNBERGER Pensionskasse AG as part of the provision for old age for employees of the NÜRNBERGER INSURANCE GROUP.

Gross premiums written by the two companies totalled EUR 34.6 (8.1) million, a rise of 325.4 %. Annuity covers by NÜRNBERGER Pensionskasse AG accounted for the lion's share.

Since the two companies have only been in operation for a short period of time, benefits were only paid out to a minor extent and primarily in the form of surrenders. Aggregate benefits paid, including the corresponding profit shares, totalled EUR 224,800 (5,200).

Total acquisition expenses of the companies increased by 46.9 % in relation to the previous year, due to the rise in new business. The ratio of acquisition expenses to premium income from new business stood at 4.2 % (2.9 %). The companies' administrative expenses rose by 115.7 % as a result of the major expansion in portfolio, but the ratio of administration costs to premium income dropped to 2.1 % (4.2 %).

Results of the NÜRNBERGER Pension Business segment

At EUR 2.7 million, the overall result for this segment is distinctly better than the previous year's figure of EUR 0.9 million. This improvement is due above all to revenues from the capitalization of deferred taxes on losses carried forward for tax purposes. Since these revenues must largely be ascribed to policyholders, they do not contribute to higher net earnings for the year but are instead allocated to the deferred provision for premium refunds. As the two companies operating in this segment are still in the process of building up their business, the segment has again reported a loss for the 2005 financial year, although it is lower at EUR –556,000 than in the previous year with EUR –804,000.

NÜRNBERGER Health Insurance Segment

NÜRNBERGER Krankenversicherung AG

New premiums	EUR	25.4 million
Number of persons insured		144,800
Gross premiums earned	EUR	117.9 million
Expenses for claims incurred	EUR	47.8 million
Investments	EUR	246.5 million
Investment income	EUR	9.8 million
Overall result	EUR	13.6 million

NÜRNBERGER Krankenversicherung AG continued to perform very well in its fourteenth year of business. Both new business and the business in force have continued to develop very strongly.

All activities continue to focus on acquiring good-quality business for NÜRNBERGER Krankenversicherung AG. We have established a very good basis for this in recent years through appropriate product design, efficient customer service and extensive support for our sales force.

In the year under review, new business produced annual premiums of EUR 25.4 (23.4) million for the company, including EUR 1.9 (1.8) million for compulsory long-term care insurance. Disregarding compulsory long-term care insurance, new business increased by 8.6 %.

Not counting foreign travel health insurance policies, NÜRNBERGER Krankenversicherung AG provided insurance for 144,757 (135,670) persons as at 31 December 2005. Of these, 35,645 (31,229) had comprehensive health insurance, a truly remarkable net increase of 4,416 comprehensively insured persons. Foreign travel health insurance policies numbered 97,344 (93,790).

Gross premiums written by NÜRNBERGER Krankenversicherung AG totalled EUR 111.3 (97.4) million, including EUR 8.4 (7.6) million for compulsory long-term care insurance.

The company spent a gross total of EUR 47.9 (40.8) million to meet claims incurred and increase the loss reserve. Claims experience was highly satisfactory, as indicated above all by the loss ratio, i.e. the ratio of claims incurred to gross premiums earned. At 43.0 %, it was only slightly above the previous year's extraordinarily low value of 41.9 %. According to the definition of loss ratio recommended by the German Private Health Insurers' Association (Verband der privaten Krankenversicherung e.V.), where account must be taken of allocations to ageing provisions as well as present claims payments, this figure amounted to 67.8 % (64.6 %).

Underwriting expenses totalled EUR 23.6 (21.6) million, including acquisition expenses of EUR 19.7 (17.2) million. The rise is attributable to the increase in new business.

EUR 11.3 (14.0) million were allocated to the provision for premium refunds.

Results of the NÜRNBERGER Health Insurance Segment

At EUR 13.6 (15.3) million, NÜRNBERGER Krankenversicherung AG's overall result after tax was lower than in the previous year. Taking into account the allocation to the provision for premium refunds, this yields net income of EUR 2.4 (1.3) million for the year.

NÜRNBERGER Property and Casualty Insurance Segment

NÜRNBERGER Allgemeine Versicherungs-AG
NÜRNBERGER Beamten Allgemeine Versicherung AG
GARANTA Versicherungs-AG
NÜRNBERGER Lebensversicherung AG
(run-off of existing general accident policies)
NÜRNBERGER Versicherung AG Österreich
GARANTA (Schweiz) Versicherungs AG
(run-off of existing motor insurance policies)
CG Car – Garantie Versicherungs-AG (included pro rata)

New and additional premiums	EUR	181.2 million
Number of insurance policies		4.0 million
Gross premiums earned	EUR	815.2 million
Expenses for claims incurred	EUR	515.9 million
Investments	EUR	946.4 million
Investment income	EUR	49.8 million
Underwriting result for own account	EUR	35.2 million
Net loss for the year	EUR	3.3 million

Germany

So that we can offer our clients "all-round protection" for every aspect of their daily lives, we have developed a unique market concept in property and casualty insurance. We see client orientation as the key to success. Various property and casualty insurance companies operate under the umbrella of the NÜRNBERGER INSURANCE GROUP to meet clients' individual needs with its own specific distribution and target group concepts.

The activities of NÜRNBERGER Allgemeine Versicherungs-AG consequently focus on general insurance business and intra-Group reinsurance business. As a recognized internal civil service organization, NÜRNBERGER Beamten Allgemeine Versicherung AG provides optimum insurance cover for public sector employees and the staff of privatized former public enterprises, as well as their families. GARANTA Versicherungs-AG operates as an insurer for the motor trade, offering economical made-to-measure specialist insurance for firms in this industry, their employees and customers. The range of car-related products is rounded off by the insurance for warranty and repair costs covered through CG Car – Garantie Versicherungs-AG. In addition, NÜRNBERGER Lebensversicherung AG is still running off a small portfolio of general accident policies dating from before 1981.

The German companies in the NÜRNBERGER property and casualty insurance group reported gross premiums earned of EUR 811.6 (851.4) million in 2005. Of this figure, EUR 802.9 (844.0) million related to primary insurance business and EUR 8.7 (7.3) million to inward reinsurance business with non-Group companies. Due to the relative insignificance of inward reinsurance business with external companies, the following comments refer solely to primary insurance business.

New and additional premiums amounted to EUR 181.2 (190.8) million. At balance sheet date, the portfolio comprised a total of 4.0 (4.1) million policies. CG Car – Garantie Versicherungs-AG is included pro rata in the figures reported here. NÜRNBERGER Beteiligungs-Aktiengesellschaft holds a stake of 50.0 % in this specialist insurer, which it operates together with partners not included in the scope of consolidation. In the consolidated income statement, CG Car – Garantie Versicherungs-AG accounts for gross premiums earned of EUR 43.5 (41.2) million, (net) expenses for claims incurred of EUR 23.3 (24.0) million and underwriting expenses of EUR 6.3 (5.7) million. The prorated net result for the year amounts to EUR 3.8 (2.1) million.

The following statements refer to the fully consolidated German subsidiaries NÜRNBERGER Allgemeine Versicherungs-AG, NÜRNBERGER Beamten Allgemeine Versicherung AG, GARANTA Versicherungs-AG and NÜRNBERGER Lebensversicherung AG (run-off of existing general accident policies).

The breakdown of gross premium income written by the aforementioned German subsidiaries was as follows for the respective lines of insurance:

	2005 EUR million	2004 EUR million	+/– %
General accident insurance	109.1	106.4	+ 2.5
Liability insurance	73.5	73.3	+ 0.2
Motor third party insurance	256.3	283.6	– 9.6
Miscellaneous motor insurance	183.9	203.2	– 9.5
Fire and property insurance	107.0	109.8	– 2.6
Marine and aviation insurance	14.8	14.8	+ 0.0
Miscellaneous insurance	13.7	13.6	+ 1.3
Total	758.3	804.7	– 2.8

Previous years' loss provisions yielded good run-off profits. At EUR 538.3 million, claims expenditure for the financial year was EUR 40.4 million lower than in the previous year. Our consistent reorganization efforts and the selective profit-oriented underwriting policy have been confirmed yet again. The number of claims for storm damage also remained low. Underwriting expenses declined EUR 1.1 million to EUR 214.9 million, including acquisition expenses of EUR 110.2 (105.3) million and administrative expenses (including renewal and collection commissions) of EUR 104.7 (110.7) million.

The gross account showed a higher profit than in the previous year, at EUR 68.3 (62.1) million.

Premium income from general accident insurance totalled EUR 109.1 (106.4) million. Work on revising the assumptions underlying calculation of the provision for future policy benefits for pensions was launched in 2004. As a further increase in the statistical life expectancy is imminent, we have already increased our provision for future policy benefits for pensions as recommended by the German Association of Actuaries (Deutsche Aktuarvereinigung). This has a significant impact on the performance of general accident insurance business. Claims experience in this class of insurance was also affected by an accumulation of major losses in the financial year under review.

Premium income from liability insurance business amounted to EUR 73.5 (73.3) million. Claims experience was good.

The development of motor third party insurance and miscellaneous motor insurance was substantially determined by the general decline in premiums for these lines of business. Premium revenues of EUR 440.2 (486.8) million were earned here. Claims experience for the financial year was good.

Gross premium income from fire and property insurance amounted to EUR 107.0 (109.8) million. The reduction is partly due to the market-wide decline in premiums for corporate insurance, but also to our reorganization efforts in certain lines of property insurance. Claims experience was good in all lines except fire insurance – another effect of our reorganization efforts.

The aggregate business after reinsurance showed an underwriting profit of EUR 26.1 (33.2) million, due above all to motor third party insurance with EUR 14.5

(24.3) million, householders' comprehensive insurance with EUR 6.0 (3.6) million and general accident insurance with EUR 3.8 (11.1) million. The other lines of property and casualty insurance produced an underwriting result in the amount of EUR 1.8 (–5.8) million altogether.

Other countries

In Austria, GARANTA Versicherungs-AG is represented by a branch operation GARANTA ÖSTERREICH Versicherungs-AG, Salzburg, which exclusively writes motor insurance supplemented by special "mobility general accident insurance". GARANTA ÖSTERREICH was able to boost its premiums in force by 5 % to EUR 22.7 million. Premium increases and tariff adjustments were once again necessary in the year under review. All lines except motor third party insurance showed a positive underwriting result. On the whole, the loss ratio is declining satisfactorily. In addition to the existing cooperation arrangements with Ford Bank, Mazda Bank, Fidis Bank, PSA Bank (Peugeot, Citroen), Autobank and Leasfinanz, a new cooperation agreement was concluded with Subaru in the period under review. The figures for the Austrian branch are included in those for the German business, as we have opted for allocation according to domicile.

In its field of business, namely warranty and repair costs insurance for motor vehicles, CG Car – Garantie Versicherungs-AG, which has been included pro rata, now has branch operations in five other European countries – Switzerland, Austria, Italy, Belgium and France – as well as in Germany. It also engages in cross-border transactions in Luxemburg and Hungary based on the freedom to provide services. The figures from business in the countries mentioned are included in the consolidated financial statements in the amount of 50.0 %. Of the reported gross premiums written, EUR 7.2 (6.2) million result from CG Car – Garantie Versicherungs-AG's foreign business. As in the case of GARANTA Versicherungs-AG, these figures are included in those for German business.

General accident insurance business in Austria is covered by NÜRNBERGER Versicherung AG Österreich. Premium income was lower than in the previous year, at EUR 1.7 (1.9) million. Expenses for claims incurred similarly declined to EUR 0.6 (0.8) million.

In Switzerland, the NÜRNBERGER INSURANCE GROUP is represented by GARANTA (Schweiz) Versicherungs AG. The company, which operates exclusively as a motor insurer, has consistently implemented its planned reorganization following the suspension of cover for new business in 2004 and has run off the existing policies almost completely in 2005. GARANTA (Schweiz) is concentrating on the run-off of outstanding claims. Gross premiums declined to CHF 2.7 (19.8) million or EUR 1.7 (12.8) million in this context. Claims expenditure for the financial year amounted to CHF 2.0 million or EUR 1.3 million.

Investments

The investment result for the segment amounted to EUR 23.2 (–19.9) million. Income of EUR 49.8 (58.3) million was offset by expenditure of EUR 26.6 (78.3) million. The previous year's loss is attributable to value adjustments in conjunction with our strategic involvement in the automotive environment.

Results of the NÜRNBERGER Property and Casualty Insurance segment

Property and casualty insurance business in Germany and abroad produced an underwriting profit of EUR 35.2 (34.2) million. Taking into account the investment result, other revenues in the amount of EUR 60.9 (51.0) million and other expenses in the amount of EUR 109.1 (77.4) million, this yields a net profit before amortization of goodwill and taxes in the amount of EUR 10.0 (–12.5) million. After amortization of goodwill in the amount of EUR 0.5 (0.4) million and tax expenses of EUR 12.8 (6.0) million, the segment showed a net loss for the year of EUR 3.3 (19.0) million.

Financial Services Segment

Volume of investment portfolios	EUR	1.85 billion
Investments	EUR	301.2 million
Investment income	EUR	18.1 million
Commission income	EUR	44.2 million
Net profit for the year	EUR	5.2 million

The financial services segment comprises the banking business of Fürst Fugger Privatbank KG and the mediation of other forms of investment – especially investment funds and home loan and savings contracts – as well as insurance mediation services for third parties, particularly in the class of legal protection insurance. These lines of business are presented separately below.

Banking products and investment funds

2005 was a highly successful year for Fürst Fugger Privatbank KG, with major increases in revenue in all areas of business. The strategy of expanding the two fields of private banking and operations as a partner bank for the NÜRNBERGER INSURANCE GROUP thus proved successful. The total volume of investment portfolios which it manages increased by 27.8 % to EUR 1.846 billion. Pension provision, systematic saving and asset protection were the fundamental issues of the last year. Fürst Fugger Privatbank KG was able to strengthen and improve its market position with products for specific target groups. Its managed asset management portfolios attracted considerable interest among clients and are increasingly appreciated. Reinvestment of funds from maturing life insurance policies improved. Investment portfolios structured to cater to specific investor attitudes proved their value despite the growing number of products on the market. Conservatively structured products are particularly favoured by investors at present.

Asset management and investment counselling are focal sales activities in the private banking sector. In addition to its head office in Augsburg and the branches in Munich and Nuremberg, the bank also opened a branch in Stuttgart in autumn 2005. Within the framework of its holistic approach, the bank also offers financial planning, investment management, old-age provision management and property management, as well as financing management and family office services in addition to investment counselling and asset management.

NÜRNBERGER Investment Services GmbH, a subsidiary of Fürst Fugger Privatbank KG, is the Group's centre of competence for direct business with investment funds or products based on this concept. In keeping with the philosophy of Fürst Fugger Privatbank KG, NÜRNBERGER Investment Services GmbH does not offer its own products, but instead selects products from among those offered on the market and

prepares them for marketing. In return for its mediation services, the company earned commission income totalling EUR 8.3 (6.9) million, including EUR 5.5 (4.2) million from Fürst Fugger Privatbank KG.

Property fund

NÜRNBERGER Versicherung Immobilien AG is sales coordinator for the open-end property fund "UBS (D) Real Estate 3 Kontinente Immobilien" which had originally been jointly initiated under the name "SKAG 3 Kontinente" by NÜRNBERGER Versicherung Immobilien AG together with Fürst Fugger Privatbank Immobilien GmbH and Siemens Kapitalanlagegesellschaft mbH (SKAG). The fund's name was changed accordingly when the leading Swiss bank UBS AG acquired a majority holding in SKAG. The fund's assets as at 31 December 2005 totalled EUR 196.8 million.

Home loan and savings business

Since 2002, NÜRNBERGER Versicherungs- und Bauspar-Vermittlungs-GmbH has mediated home loan and savings business for Deutsche Bank Bauspar AG. The volume of business mediated came to a savings amount of EUR 32.0 (29.7) million in the financial year 2005. The volume of business written came to a savings amount of EUR 31.6 (53.6) million.

Legal protection insurance

NÜRNBERGER Allgemeine Versicherungs-AG passes on new legal protection insurance business to Neue Rechtsschutz-Versicherungsgesellschaft AG, Mannheim. A total of 29,853 (24,590) new policies were concluded. Commission income from this business totalled EUR 9.0 (9.5) million. NÜRNBERGER Allgemeine Versicherungs-AG has a 30.01 % holding in Neue Rechtsschutz-Versicherungsgesellschaft AG; NÜRNBERGER Beamten Allgemeine Versicherung AG and GARANTA Versicherungs-AG have a holding of 5.0 % each.

Results from financial services

Total commission income amounted to EUR 44.2 (55.9) million in the Financial Services segment. This yields a profit of EUR 5.2 (–0.3) million for the year. The previous year's negative result was essentially due to depreciation on a real-estate property.

Other performance factors

Employees

The employees of the NÜRNBERGER Group are highly motivated, focussing their activities on the client. They are supported by a personnel policy which is geared towards a secure future, modern personnel systems and comprehensive personnel development programmes. The "NÜRNBERGER Mission" developed in 2004 and management principles based on it form the framework for our executives' and employees' activities.

Number of staff
A total of 5,476 (5,456) men and women were employed by the NÜRNBERGER Group on a long-term basis on average in 2005. The head offices and our insurance and intermediary offices employed a staff of 3,413 (3,482) internally on average in the year under review. The Group companies employed 1,683 (1,599) staff in the field service. The number of full-time intermediaries in the freelance field service stood at 27,659 (27,679) and the number of part-time intermediaries at 3,655 (3,639).

Employee structure
The average age of our internal staff and employed field service staff equals 39.2 years, with an average period of service for the company of 11.8 years. Women account for 43.3 % of our staff. 17.5 % of the internal staff are employed on a part-time basis. The fluctuation rate (excluding the field service) stands at 4.3 %.

Training
NÜRNBERGER invests in staff training as a matter of principle. At year-end, 434 young people were receiving initial vocational training, particularly in insurance business and office communication. In addition, 44 members of NÜRNBERGER's staff passed their final examinations set by the BWV (German Trade Association for the Insurance Industry) after training as insurance practitioners in 2005.

Further training/personnel development
Continuous further training of our employees plays a focal part in our personnel policy. The Group not only promotes their professional competence, but also their methodological, social and personal competence. Career structures were re-organized in 2005 with clearly defined requirements as regards both the job and its holder. The system now encompasses a management career, a specialist career and a sales career.
Significant personnel development concepts were introduced on this basis in the year under review, such as a new potential analysis system and special promotional groups.

Employee benefits
The company pension scheme is the most important employee benefit offered by our company. It has been offered by NÜRNBERGER Pensionskasse AG primarily as a premium-based pension plan for the staff of our insurance companies, NÜRNBERGER Beteiligungs-Aktiengesellschaft and Communication Center Nürnberg (CCN) GmbH since 1 January 2004. Employees can also pay contributions to the system through deferred compensation. This option is rewarded by NÜRNBERGER with additional contributions. 2,245 members of staff made use of this possibility in 2005.
Within the framework of our long-term employee share scheme, our staff were able for the third successive year to purchase employee shares at preferential rates in 2005 and thus participate in their company's performance.
Numerous additional employee benefits confirm our employee and family-based personnel policy.

Flexible work models
NÜRNBERGER's flexible work models make it possible for the Group's staff to organize their work purposefully and efficiently. Annual and lifelong plans help to reconcile the interests of our clients, the Group companies and our employees.

Structural measures
In consultation with the codetermination committees, a number of structural measures were implemented in the Group companies in 2005 with the aim of

strengthening our position in the market, maintaining our financial stability and safeguarding jobs in the long term. The proportion of sales-promoting activities by branch operations has been increased and their administrative tasks reduced. At the same time, first steps were also taken to make claims management more efficient by setting up loss adjustment centres.

Thanks
We would like to thank the staff and executives in our Group companies for their efforts and support in the financial year 2005. Our thanks are also due to the members of the works councils, the full works council, the representatives of our young employees and apprentices, and the employee representatives in our Supervisory Boards. Cooperation with these bodies was constructive and open, being founded on mutual trust and fairness.

Sustainability

Actively helping to protect the environment is an expression of our economic and social responsibility towards our clients and employees, as well as towards future generations. The NÜRNBERGER INSURANCE GROUP is an environmentally conscious company for whom the economic use of raw materials and energy is a matter of importance.

The materials used in construction of the head office on Ostendstrasse in Nuremberg were all tested with regard to their biological safety as building materials. The entire complex is heated without emissions, purely through district heating. On hot days, indoor temperatures are reduced by cooling ceilings in the offices, making energy-intensive air-conditioning systems unnecessary. To save electricity, the braking energy generated by the elevators is fed back into the grid by electronic control systems.

A comprehensive disposal concept has been developed to deal with waste. Those materials which can be recycled, such as paper, metal, glass, fluorescent lamps, wood and packaging materials are recycled as secondary raw materials. Since avoiding waste is better than recycling, work processes are continuously optimized in order to reduce the consumption of paper. With the help of paperless quotations and applications, as well as telephone services, NÜRNBERGER is not only making business processes more economical, but also improving their ecologically sustainable orientation.

The company print shop exclusively uses recycled paper for internal printed matter. NÜRNBERGER has been awarded the “Blue Angel” ecology mark for the use of special inks for publications printed on recycled paper by the company print shop. Eco-friendliness is also a matter of importance to NÜRNBERGER when purchasing computers, printers or photocopiers.

Many members of NÜRNBERGER’s staff make a personal contribution towards protecting the environment by using public transport on their way to and from work. More than 1500 of our employees use the “company ticket” offered by Nuremberg’s metropolitan public transport system, for which NÜRNBERGER pays a subsidy in the amount of roughly 60 %. This makes NÜRNBERGER the most important partner for public transport among the industrial enterprises in the region.

Sponsoring and social commitment

The NÜRNBERGER INSURANCE GROUP is committed to Nuremberg and the surrounding region. The Group benefits from their advantages, for instance with regard to attracting and retaining qualified labour. In return, NÜRNBERGER has made significant contributions towards improving the quality of life – also in the year under review – and is a major promoter of the region, which became one of Europe's metropolitan regions in spring 2005.

In October, NÜRNBERGER's commitment entitled "Corporate Citizenship" was rewarded with the city of Nuremberg's Sustainability Award 2005, commending the Group's achievements in the cultural and social domains in particular.

NÜRNBERGER's sponsoring activities support institutions and events. As sponsor of the women's cycling team Equipe NÜRNBERGER Versicherung and the cycle race "round the city's historical centre", NÜRNBERGER has helped to establish the city as an important centre for sporting activities.

NÜRNBERGER plays a leading part in promoting cultural activities in the region, thus demonstrating its social responsibility. As one of the main sponsors, the company once again contributed towards the annual "Blue Night", one of the largest all-night cultural events in Germany, in 2005. The "Germanisches Nationalmuseum" can likewise count on support from NÜRNBERGER: the branch, opened in Nuremberg's imperial palace ('Kaiserburg') with NÜRNBERGER aid in 1999, welcomed its 555,555th visitor last year.

NÜRNBERGER also maintains a very special relationship with the city's State Opera House and therefore continued to strongly support the project to promote it to the status of a State Theatre. NÜRNBERGER is also the eponymous sponsor of the opera ball, which was held for the fourth time in September with resounding success, and promotes the series of concerts by Nuremberg's Philharmonic Orchestra. The International Gluck Opera Festival which was held for the first time in 2005 attracted considerable attention both nationally and internationally and similarly received significant support.

As a leading family insurer, the Group's declared aim is to make the city more attractive to families with children. It therefore promotes the "Family Alliance", finances the illuminated procession to the "Christkindlesmarkt", the city's Christmas market, by primary school children and also supports social projects. All these publicity-attracting activities drew a broad echo in the media and have helped to strengthen the Group's recognition value and positive image.

Market position

More than once, the companies belonging to the NÜRNBERGER INSURANCE GROUP have received very good marks from highly reputed rating agencies. These ratings describe both financial and non-financial performance indicators:

In February 2005, analysts at Fitch Ratings Ltd. underlined the strong position of NÜRNBERGER Lebensversicherung AG, NÜRNBERGER Allgemeine Versicherungs-AG and NÜRNBERGER Krankenversicherung AG, giving each an A+ (strong) rating. Prospects are stable in each case. They owe their good rating to their high selling

power, especially in the mediated sector, combined with innovative products, such as in disability insurance, above-average service and a sophisticated sales concept in property and casualty insurance through the unique car dealer concept. According to Fitch, the good relations with the automotive industry constitute a decisive leading edge.

New clients are constantly acquired through the car showroom sales channel, creating an excellent starting point for cross-selling. The number of employed sales-people is being increased in order to exploit this potential. The majority of them have completed their training at our NÜRNBERGER Academy, where we have offered a course extensively combining theory and practice since 2000. The two-year training is provided exclusively on the job in sales, without vocational school, from the very first day. As in the two-tier training system, the course ends with an examination set by the Chamber of Industry and Trade. Both systems yield comparable examination results, which emphasizes the quality of the NÜRNBERGER Academy training. Around 85 % of the trainees subsequently found employment by the company in 2005. Our training quota of 10.9 % is considerably higher than that of the market in general.

The outstanding corporate quality of NÜRNBERGER Lebensversicherung AG as a provider of disability insurance was confirmed by Franke & Bornberg, a rating agency which specializes in insurance companies. For the rating, risk assessment, benefit assessment and controlling were subjected to a thorough analysis. Franke & Bornberg have confirmed that NÜRNBERGER has experienced staff, comprehensive medical expertise and an expert system for risk assessment – together, these represent a major prerequisite for sound long-term operation as a disability insurer. Optimum technical support, high efficiency and uniform handling procedures were highlighted in conjunction with benefit assessment. Moreover, NÜRNBERGER Lebensversicherung AG is characterized by total integration of the acquired findings and by the outstanding organizational structure of its controlling.

The rating agency Moody's stressed that NÜRNBERGER Lebensversicherung AG sells its products through several channels. Any problems occurring in one part of the sales system can be compensated in this way.

Standard & Poor's considers that multi-channel selling provides additional support for the products. The A (strong) rating confirmed in October 2005 is based, among other things, on NÜRNBERGER's strong market position due to its high product competence and selling power.

For the fourth time in succession, NÜRNBERGER Krankenversicherung AG received an A+ (very good) rating from Assekurata Assekuranz Rating-Agentur GmbH in December 2005. The agency's audit yielded ratings of "excellent" for corporate security and "good" for client orientation. The latter also includes the service potential of the medical service hotline and complaints management. The exemplary counselling software for the sales staff was highlighted in conjunction with the technical service potential.

NÜRNBERGER Pensionsfonds was awarded winning marks in a study by the consumer organization Stiftung Warentest (issue 5/2005). With 154 different investment strategies, the company clearly outstrips its competitors. NÜRNBERGER Pensionsfonds thus meets its objective of providing a new form of company pension scheme based on the capital market.

The high quality of NÜRNBERGER's service in providing sales support for the field staff is confirmed by a number of surveys:

According to the CHARTA quality barometer 2005, a study conducted by CHARTA Börse für Versicherungen AG and psychonomics AG, NÜRNBERGER was awarded top marks in the assessment of sales technology products.

Our portfolio acquisition service and information system BASIS is the only system to be offered free of charge to sales partners among the top ten systems in the survey of intermediaries conducted by the Internet platform www.experten.de in February 2005.

Assistance in preparing and following-up sales, sales campaigns, customer service and the possibility of obtaining contract information are major elements in NÜRNBERGER's Extranet offering which is optimally supplemented by counselling technology and the electronic application system (with digital signature by the client). NÜRNBERGER's Extranet ranked fourth in a survey of intermediaries carried out by the market research and counselling institute psychonomics AG in January 2005.

Supplemental report

There were no changes after the end of the year under review which could have brought about a significant change in the Group's position.

Risk report

Risk report and risk management

In the course of our business activities, we are also exposed to risks in order to seize the opportunities presented to us. On the basis of its long-standing experience in dealing with risks, the NÜRNBERGER INSURANCE GROUP has implemented a risk management system so that risks can be taken in a conscious and calculated manner.

In order to present a complete summary of the risks, the following sections "Underwriting risks" and "Investment risks" also include information which is to be disclosed in the notes to the consolidated financial statements according to IFRS 4.39 and IAS 32.52.

Risk management objectives

The objectives of organized Group-wide risk management and the resultant measures are based on the principles of the NÜRNBERGER INSURANCE GROUP's risk management, which serve to confine the existing risks to an acceptable level through a knowledge of the risks and of the relationships between risks. With the help of controlled risk management, potential threats due to risks should be identified at an early stage so that appropriate countermeasures can be taken, including measures serving to ensure compliance with the requirements imposed with regard to substantial supervisory ratios, such as solvency and coverage, in the future too. At the same time, opportunities should be identified and seized. The aim in both cases is to safeguard and boost the corporate value. Various measures are employed to achieve the objectives; these are presented in more detail below.

Risk management process

The risk manager plays a special part in the risk management process of the NÜRNBERGER INSURANCE GROUP. His main responsibilities are to monitor and report on the risks and to coordinate the annual stock-take of risks.

Risk controllers have been appointed as contacts for the risk manager in all divisions. They monitor the risks and report to the Group's risk management service. There, the risk reports are collated on a company level and forwarded to the Executive Board. The Supervisory Board receives regular reports on risk exposure and risk management from the Executive Board.

The risk controllers identify, analyse and assess the essential risks on the basis of a risk matrix. Risks are additionally assessed with due regard for risk-minimizing measures. Key parameters and corresponding limit values have been defined, and the adhoc reporting system formalized in cases where these values are exceeded. Indicators and thresholds are updated whenever new findings become available.

Underwriting risks

General
The insurance companies in the NÜRNBERGER INSURANCE GROUP operate mostly in Germany. NÜRNBERGER is a large family insurer and a partner to small and medium-sized companies, as well as pension funds for professional groups.

In these circumstances, major risks remain the exception in our portfolio. The concentration of risks in our portfolio is reduced by diversifying our insured risks.

On the basis of sound premium calculation, our underwriting risks are limited by clearly defined guidelines for acceptance and underwriting authorities.

Above all, we perform a comprehensive risk assessment including standard risks or moral hazards before concluding an insurance contract. Particularly substandard risks are only insured subject to special terms serving to limit the risk or in return for additional premiums. Unacceptable risks are not insured.

The nature and scope of the losses incurred and insurance benefits paid, as well as the applied actuarial bases are regularly reviewed so that potentially disadvantageous trends in underwriting risks can be identified at an early stage and steps taken to counteract them. The resultant findings are also used to model scenarios for the probable future development of the balance sheet and income statement. Timely information on our products, insurance business in force and on the development of benefits and losses is assured for the parties responsible for making decision.

The development of basic economic, social and statutory conditions is closely monitored at the same time in order to anticipate changing trends and respond to these in good time. If necessary, any required measures are implemented without delay in the terms and conditions, as well as in underwriting guidelines.

Reinsurance treaties are essentially concluded in order to pass on the risks assumed. Our reinsurance relationships are of a long-term nature and serve to minimize fluctuations in results. The individual treaties are based on the special features of

each specific line of insurance and are additionally tailored to the capital of the individual companies. Demand is regularly reviewed and adjusted. Both high individual risks and extreme events are reinsured. The credit standing of our reinsurers is constantly monitored according to rating aspects.

Policyholders are protected above all through formation of the security capital which is defined by law and subject to strict supervisory requirements.

New products are based on clients' respective needs and developed in consultation with our field service. In this way, client loyalty can be strengthened and the lapse rate kept low.

The underwriting risks faced by our insurers are in life, health, property and casualty insurance, as well as in pension business.

Life insurance

The principal underwriting risks faced by our life insurers are death, disability and longevity.
The insurance policies normally cannot be terminated by the insurer. Both the premiums and the benefits are defined for the entire term of the policy when the contract is concluded. In this way, we can guarantee interest earned on the capital. This is not the case with unit-linked life insurance, where the policyholder assumes both the financial opportunities and the risks associated with the investment.

Premiums and the provision for future policy benefits are calculated on the basis of probability tables approved by the supervisory authority (old policies) or recommended by the German Association of Actuaries (DAV) (new policies). In the case of death and disability risks, we sometimes also use actuarial bases of our own. They are derived from our own data in accordance with generally accepted methods.

Lapse rates are not taken into consideration when calculating the premium for life insurance tariffs. Where a policy lapses, the contractual surrender value is paid out. The provision for future policy benefits is calculated according to statutory requirements so that it at least covers the guaranteed surrender value of each policy. Where investments are adequately fungible, there is consequently no special lapse risk arising from the calculated tariff. The provisions for future policy benefits and reserves for unknown surrenders have been increased accordingly to cover possible additional claims by policyholders when a policy lapses on the basis of the Federal Supreme Court ruling of 12 October 2005.

All the actuarial bases applied can be considered adequate from the present vantage. They are not questioned by either the Responsible Actuary or DAV. They incorporate safety margins which are reasonable and adequate for the future. Particularly with regard to the future development of longevity, we will continue to monitor the safety margins in the actuarial bases applied and will take action accordingly if necessary in future valuations of the provisions for future policy benefits.

Death and disability are the most important underwriting risks affecting the performance of this segment. Fluctuations in the other underwriting risks only have a comparatively slight direct impact on the year's result. In principle, this also applies to the longevity risk: even extremely high or low mortality rates in individual years have little or no effect here. An impact is only produced when the prudence required by commercial law dictates that a better or significantly

improving mortality must also be assumed for the future and its measurement in the balance sheet must be adjusted accordingly. Substantial burdens of this kind are not expected in the short or medium term, following the appreciable adjustment in provisions for future policy benefits undertaken in 2004 for annuity policies in force.

The following table illustrates the effect of fictitious changes in claims experience for the disability and death risks on the net profit or loss for 2005 (and thus on the shareholders' equity). These changes correspond to a change equal to the standard deviation (sigma) in the loss ratio for 2005; the loss ratio represents the ratio between actual expense and the income calculated for covering that expense. The standard deviation is calculated from the loss ratios of the last ten years. Reinsurers' share in the change in expenses is included pro rata in accordance with their share in actual expenses in 2005. For the purposes of our model calculations, we have also assumed that changes in overall result will affect the expenses for premium refunds and the net profit or loss for the year in the ratio of 90:10. We have also applied a flat tax rate of 40 % to the net profit or loss for the year.

These calculations are undertaken for NÜRNBERGER Lebensversicherung AG, which is by far the largest life insurance company in our Group. This model takes into account 93 % of the entire gross premium volume (premiums written) in the life insurance segment.

Sensitivity of development in the financial year:

		Change in expenses before re-insurance	Change in expenses after re-insurance	Change in tax expenses	Change in expenses for premium refunds	Change in result
		mill. EUR	mill. EUR	mill. EUR	mill. EUR	mill. EUR
Loss ratio for the disability risk	– Sigma	– 32.21	– 29.26	1.13	25.32	2.81
	+ Sigma	32.21	29.26	– 1.13	– 25.32	– 2.81
Loss ratio for the death risk	– Sigma	– 2.68	– 2.61	0.10	2.26	0.25
	+ Sigma	2.68	2.61	– 0.10	– 2.26	– 0.25

Actual changes in expenses do not always lead to a change in result. They may also be compensated by a change in the opposite direction in expenses for premium refunds, provided that the latter do not undershoot the minimum limit imposed by statutory and contractual profit share commitments and the rules for measuring deferred provision for premium refunds.

German life insurance companies must belong to a statutory security fund. The security fund for life insurers collects annual contributions from its members and may also demand additional special contributions if required in order to discharge its duties. The complete annual contribution for the sector amounts to 0.2 per thousand of the net underwriting provisions; special contributions may amount to up to 1 per thousand of the same assessment basis. Calculation of the individual contributions for each insurance company is defined in a legal instrument which, however, has not yet come into force.

Pension business
Pension business is operated by our companies NÜRNBERGER Pensionskasse AG and NÜRNBERGER Pensionsfonds AG.

The principal underwriting risks faced by NÜRNBERGER Pensionskasse AG are death, disability and longevity. The insurance policies normally cannot be terminated by the insurer. Both the premiums and the benefits are defined for the entire term of the policy when the contract is concluded. Premiums and provisions for future policy benefits are calculated on the basis of officially approved actuarial bases. All the actuarial bases applied can be considered adequate from the present vantage.

NÜRNBERGER Pensionsfonds AG offers both premium-based pension plans and defined benefit plans. Maintenance of premiums is guaranteed in the first case; in the second case, it is the amount of old-age pension that is guaranteed, but not the amount of future premiums payable by the employer. Risks are only accepted with regard to the guarantee for maintenance of the premium and again when pension benefits become due without being offset by further premiums. These risks are not borne by NÜRNBERGER Pensionsfonds AG itself, as they are fully backed-up by NÜRNBERGER Lebensversicherung AG.

Health insurance
We offer insurance cover for the financial burden incurred as a result of illness and the need for long-term care. The insurance policies normally cannot be terminated by the insurer, but the premiums for a given tariff are adjusted under certain conditions. This means that we bear the risk of an unfavourable development in insured losses, interest, mortality, lapse and other expenses for which extra premiums are charged, but only until the next premium adjustment.

Premiums and the provision for future policy benefits are calculated on the basis of probability tables derived from own data or from external sources.

All the actuarial bases applied can be considered adequate from the present vantage and include appropriate security margins which can also be considered adequate for the future. According to our current knowledge, the provision for future policy benefits can therefore be considered adequate for the commitments in force.

The following table illustrates the effect of fictitious changes in claims experience on the net profit or loss for 2005 (and thus on the shareholders' equity). These changes correspond to a change equal to the standard deviation (sigma) in the loss ratio for 2005; we use the definition of loss ratio recommended by the German Private Health Insurers' Association, where account must be taken of allocations to the provision for future policy benefits in addition to claims payments. The standard deviation is calculated from the loss ratios of the last ten years. The reinsurers' share in the change in expenses is included pro rata in accordance with their share in actual expenditure for insurance claims in 2005. For the purposes of our model calculations, we have also assumed that changes in overall result will affect the expenses for premium refunds and the net profit or loss for the year in the ratio of 80:20. We have also applied a flat tax rate of 40 % to the net profit or loss for the year.

Sensitivity of development in the financial year:

		Change in expenses before re-insurance	Change in expenses after re-insurance	Change in tax expenses	Change in expenses for premium refunds	Change in result
		mill. EUR	mill. EUR	mill. EUR	mill. EUR	mill. EUR
Loss ratio in private health insurance	– Sigma	– 4.19	– 4.18	0.31	3.09	0.77
	+ Sigma	4.19	4.18	– 0.31	– 3.09	– 0.77

Actual changes in expenses do not always lead to a change in result. They may also be compensated by a change in the opposite direction in expenses for premium refunds, provided that the latter do not undershoot the minimum limit imposed by statutory and contractual profit share commitments and the rules for measuring deferred provision for premium refunds.

Our health insurance company must belong to a security fund. This security fund for health insurers can demand special contributions from us in order to discharge its duties after accepting insurance policies. The special contributions for this sector may amount to up to 2 per thousand of the net underwriting provisions.

Property and casualty insurance

Our companies offer insurance cover for property, marine, third party liability, general accident and motor insurance. In this way, we protect our clients against financial losses attributable to damage to or the loss of insured assets due to the occurrence of defined hazards. We also provide cover against consequential financial losses. In liability insurance, we provide cover against claims for damages by injured third parties. General accident insurance provides benefits in the event of personal injury due to accidents.

Motor insurance policies normally have a term of one year, while five-year terms predominate in the other lines of property and casualty insurance.

Policies may be terminated with due notice as at the end of the contractual term. One month's notice is required in motor insurance; three months' notice is normally required in the other lines.

Extraordinary rights of termination can apply under certain conditions, such as following a loss, increase in premiums based on a premium adjustment clause or, in motor insurance, when a vehicle is sold.

Insurance also ends with termination of the risk. In motor insurance, this is the case, for example, when the vehicle is written off or scrapped.

Premiums vary according to a merit rating system, such as the no-claims bonus essentially applied in motor insurance. After driving without claims for one year, policyholders advance to the next higher no-claims bracket. This regularly leads to a loss of premiums each year, as the higher premiums charged for policies with claims burden do not compensate the lower premiums earned for claims-free risks.

Provisions are formed for losses incurred but not yet adjusted by our German property and casualty insurers. To estimate the volume of provisions required, we draw on empirical values and statistical test methods. We also limit the risk by constantly monitoring the run-off of these provisions. The resultant findings are channelled into new estimates.

Loss ratios and run-off results for own account were as follows for our fully consolidated German property and casualty insurance companies:

	1996	1997	1998	1999	2000
Net loss ratio for the financial year	75.4	76.4	80.0	82.4	81.2
Run-off result [1]	17.0	13.1	15.6	16.5	11.6

	2001	2002	2003	2004	2005
Net loss ratio for the financial year	78.4	80.8	73.1	70.4	68.9
Run-off result [1]	22.9	11.4	8.4	9.0	6.5

[1] As a percentage of the opening loss provision

The development of claims in property and casualty insurance is a factor of decisive importance for our Group's performance. The following presentation therefore illustrates the effect of changes in loss experience on our consolidated results and consolidated equity. For the purposes of this presentation, we have concentrated on the main focus of our activities, namely the primary insurance business written by our fully consolidated German companies encompassing 92.2 % or EUR 757.1 million of the total business volume of the Property and Casualty Insurance segment.

Changes in claims experience can be observed from deviations in claims frequencies and average claims amounts over time. Fluctuations in these variables and the loss ratio are considered for an observation period spanning the last ten years. From this, we have determined the standard deviation (sigma) as the mathematical index for fluctuation. The potential effect of changes in this fluctuation range is presented below in order to illustrate the influence of changes in claims experience on our consolidated results and equity.

Sensitivity of development in the financial year:

		Change in underwriting result before reinsurance mill. EUR	Change in underwriting result after reinsurance mill. EUR	40 % tax mill. EUR	Change in consolidated results/equity mill. EUR
Claims frequency	– Sigma	35.9	24.9	– 10.0	14.9
	+ Sigma	– 35.9	– 24.9	10.0	– 14.9
Average claims amount	– Sigma	40.9	28.3	– 11.3	17.0
	+ Sigma	– 40.9	– 28.3	11.3	– 17.0
Loss ratio	– Sigma	25.4	17.6	– 7.0	10.6
	+ Sigma	– 25.4	– 17.6	7.0	– 10.6

The impact on results before tax and before relief through reinsurance is considered first. The next step shows the possible effect after deduction of potential relief through reinsurance. The reinsurance share has been taken into account in

accordance with the share of claims accepted by reinsurers for this financial year. Tax has been applied at an assumed flat rate of 40 % to yield the potential impact on consolidated results and consolidated equity.

Interest rate risk
The following statements on interest rate risks apply for all segments.

Various balance sheet items are determined with the aid of actuarial interest rates, particularly as regards the amount of the provision for future policy benefits. A change in actuarial interest rates and consequently the formation of additional provisions for future policy benefits becomes conceivable when market interest rates decline consistently and enduringly. Other than this, changes in market interest rates do not lead to any changes in either payment flows or in the measurement of balance sheet items for policies for which we bear investment risks. Changes in interest rates can, however, affect the fair value of assets and the resultant payment flows. These assets cover liabilities from insurance policies, which is why we are exposed to interest rate risks as a whole. To counter such risks, we select interest rates cautiously in accordance with statutory requirements and focus on business which is not sensitive to interest rate movements (unit-linked insurance or disability insurance).

Particularly for NÜRNBERGER Lebensversicherung AG, NÜRNBERGER Krankenversicherung AG and NÜRNBERGER Allgemeine Versicherungs-AG, risks are analysed with the aid of an internal model based on own funds. Our model follows that introduced by the Association of German Insurers (Gesamtverband der Deutschen Versicherungswirtschaft – GDV) in the debate over capital resources to be required by law in future. Above all, this means firstly that the capital required for a one-year period of time is determined on a risk basis and secondly that the consideration is based on fair values. Our model covers investment risks (including the interest rate risk described above when considering Asset Liability Management), calculatory risks and operational risks. The required capital is calculated for each material risk on the basis of a 99.5 percent security level. In other words: if this capital is available, the probability that it will not be sufficient to cover possible losses is no more than 0.5 %. Simpler estimates are used to calculate the capital required for individual, less significant risks. The total capital required is calculated from the individual values with due regard for correlation effects. Shareholders' equity, the unapportioned part of the reserve for premium refunds and hidden reserves on the asset and liability sides are used for comparison. Together, they make up the available solvency capital. The magnitude of the individual risks is revealed by the capital required in each case.

In life insurance, the risk of declining interest rates is consequently very much larger than the underwriting risks. It is the largest single risk. Since the solvency capital available to NÜRNBERGER Lebensversicherung AG exceeds the total capital required according to the above model by more than 50 %, this risk can be borne by our Group.

The risk of declining interest rates is also the largest single risk for NÜRNBERGER Krankenversicherung AG, and one which we can bear: according to the above model, the available solvency capital exceeds the total required capital by more than 300 %.

The risk of rising interest rates is an important single risk for NÜRNBERGER Allgemeine Versicherungs-AG in this model. Here too, however, this risk can be

borne, as the available solvency capital exceeds the total required capital funding by more than 200 %.

Changes in interest rates do not always lead to changes in the results for life and health insurance. They may also be compensated by correspondingly higher or lower expenses for premium refunds, provided that the latter do not undershoot the minimum limit imposed by statutory and contractual profit share commitments and the rules for measuring deferred provision for premium refunds.

We do not see any risks at present as regards long-term achievement of the actuarial interest rates. They are lower than the investment interest earned on average over a long period.

In the life insurance segment, the average actuarial interest rate for the provision for future policy benefits not formed on account and at risk of the policyholders equals 3.4 %. The investments also cover liabilities for which interest need not be accrued. The required rate of interest is below the average actuarial interest, while the actual rate is higher (net IFRS interest rate in 2005 excluding investments on account and at risk of the policyholders: 5.0 %). In addition, the re-investment risk in case interest rates decline has been significantly lowered with the aid of derivative financial instruments.

Since 2004, we have only concluded new insurance policies with actuarial interest rates of not more than 2.75 % for premium calculation and the provision for future policy benefits. The interest rate for policies in force lies between 1 % and 4 %. The following table shows how much of the provision for future policy benefits not formed on account and at risk of the policyholders is accounted for by the main actuarial interest rates.

Actuarial interest rate	Share
3.0 %	32 %
3.5 %	36 %
4.0 %	21 %
Others	11 %

The interest rate for premium and provision for future policy benefits is generally 3.5 % in health insurance.

In property and casualty insurance, the interest rate risk is only of relevance for the provision for future policy benefits for pensions. The present value for new pensions payable is calculated at an actuarial interest rate of 2.75 %. Pensions which became payable prior to 1 January 2004 are valued with 3.25 %, 3.5 % or 4 %, depending on the date on which the pension became due.

In life insurance, policies maturing in the next five years account for around 26 % of the available provision for future policy benefits not formed on account and at risk of the policyholders as at 31 December 2005 (maturities in the next ten years account for 47 %). Further portions of the provision for future policy benefits will also be reversed through death, lapse, scheduled release of savings or lump-sum settlement options exercised in conjunction with deferred pension policies. When these effects are taken into account, we expect roughly 12 % to 13 % of the current provision for future policy benefits to be reversed in the coming year.

Health insurance policies have a lifelong term as a matter of principle, but the interest commitments indirectly entered into in the respective tariffs only apply until the next premium adjustment.

In property and casualty insurance, commitments in the provision for future policy benefits for pensions predominantly remain in force until the pensioner dies.

On the basis of past experience, the following summary for property and casualty insurance illustrates the periods in which sums are likely to be realized from provisions for outstanding claims. These sums are realized through outpayments and adjustment of individual reserves.

	2005 mill. EUR	2004 mill. EUR
Remaining maturity periods of		
less than one year	224.857	225.508
over 1 to 2 years	77.006	74.915
over 2 to 3 years	50.824	49.688
over 3 to 4 years	36.963	35.928
over 4 to 5 years	29.262	28.284
over 5 to 10 years	224.087	211.748
over 10 years	127.060	138.363
	770.059	764.434

In the life insurance and pension segments, policyholders can choose between payment of a pension and a lump-sum ("lump-sum option" for annuity policies), cancel their policies and receive the guaranteed surrender values if applicable or increase premiums and sums insured without renewed medical examination ("dynamic premium adjustment"). The pension option selected, the continuation of a policy and the higher insurance benefit resulting from the increased premium are calculated at an actuarial interest rate. Policyholders can weigh up their decision whether and how to continue the policy with alternative investment possibilities. According to our experience to date, however, our clients are primarily interested in the insurance aspect of their policies. To a very significant extent, their decisions are also shaped by desired consumer investments and their personal financial circumstances. Capital market conditions are only of subsidiary importance here.

For this reason, changes in interest rates have no direct effect in view of the aforementioned options available to policyholders, options which also form a substantial aspect of our insurance policies.

Risks due to non-payment of accounts receivable for underwriting business

Accounts receivable for underwriting business from policyholders, intermediaries and reinsurers may not have been settled. At balance sheet date, premiums receivable from policyholders which were more than 90 days overdue amounted to 0.89 % of gross premiums. Bad debts in the last three years averaged out at 0.12 % of gross premiums written in primary insurance business. Receivables due from policyholders are monitored by our automatic premium collection and reminder system. In the case of intermediaries, we ensure that they have a good credit

standing and monitor accounts receivable at regular intervals. In addition, risk of non-payment is secured by fidelity guarantee insurance. The risk of non-payment by reinsurers can be rated low since the reinsurers whom we commission have first-class credit ratings (Standard & Poor's). Out of the total volume of property and casualty insurance business ceded to reinsurance, 93.8 % are placed with reinsurers who have at least an A rating (very good). Out of the business ceded to reinsurance by life/health insurers, 92.7 % are placed with companies which have at least an A+ rating (very good).

Investment risks

The vast majority of investments are held and managed by our insurance companies for their own account. Strict compliance with supervisory regulations (security, profitability, liquidity, mix and spread) and additional internal rules help to minimize the attendant risk. The internal rules, which have also been submitted to the Federal Financial Supervisory Authority (BaFin), are applied in particular. Our investments are systematically planned and structured to maximize earnings and minimize risk. The lion's share of the investments we hold attracts a fixed interest (listed fixed-interest securities, registered bonds, and loans with first-class credit standing). The high fungibility of our investments ensures permanent liquidity. This is also assured by long-term liquidity planning with due regard for all cash flows in the company. Investments are precisely controlled in such a way that the Group's payment obligations can be met at all times.

A steadily increasing proportion of our life insurers' investments relates to investment fund shares in which the savings element of premiums from unit-linked life and annuity insurance is mostly invested. In these cases, the financial opportunities and risks arising from the investment accrue to the policyholder. The task of investment management is performed by the relevant investment company. We act in an advisory capacity in the investment policy committees for various investment funds and for managed funds. In the case of unit-linked insurance, however, we see our principal function in the provision of high-quality, superbly managed funds from reputed investment companies.

Corresponding risks on the assets and liabilities sides (mainly risks from the interest guarantees given) are analysed and the ability of the individual companies to bear the risks verified within the framework of the Asset Liability Management (ALM) process.

Statutory and internally defined limits are monitored by a comprehensive limit system which also indicates if these limits are exceeded or undershot. Thresholds are additionally defined in such a way that, when these thresholds are reached, action can be taken in good time to avert any threat to corporate ratios and objectives.

For reasons of diversification, we ensure that our investments have a wide and international spread within the limits of the law. So that price and rate risks in the stock and bond markets are identified at an early stage, our Investment Controlling unit deploys special software that regularly monitors risk items, forecasts the impact on assets using scenario simulation techniques and sends up-to-the-minute reports to decision-makers. Derivative financial instruments are used, among other things, to control the respective risk exposure in the investment sector. Our stock hedges are based on stress tests with the aid of which we can monitor the available risk capital and employ it as a threshold indicator. Options and futures were employed

here above all in the financial year just ended. In the case of investments which are sensitive to interest rate movements, receiver swaptions significantly lowered the re-investment risk in case of a further decline in interest rates. Forward exchange operations were selected for both tactical and strategic reasons to control the currency risks. Such hedging activities make currency risks relatively insignificant for the NÜRNBERGER INSURANCE GROUP. Only 8.1 % of all investments are made in foreign currencies, including 4.5 % in US dollars, most of which were hedged at the balance sheet date. Most of the remaining foreign currency investments are held in a special fund with worldwide investment activities.

Changes in capital market conditions would affect the fair value of our investments as follows:

Change in share prices	Change in market value of investments which are sensitive to share prices million EUR	
Increase of 20 %	+	315
Increase of 10 %	+	156
Decrease of 10 %	–	152
Decrease of 20 %	–	300
Market values as at 31 December 2005		1,700

Change in interest rates:	Change in market value of investments which are sensitive to interest rates million EUR	
Increase of 200 basis points	–	883
Increase of 100 basis points	–	467
Decrease of 100 basis points	+	561
Decrease of 200 basis points	+	1,228
Market values as at 31 December 2005		9,171

The changes in market value outlined above are merely intended as a rough guide to the sensitivity of these investments. Counteracting measures have not been taken into account here.

Quality of issuer is a defining criterion for the credit risks inherent in fixed-interest securities. It is signalled, in particular, by the verdicts of international rating agencies. Most fixed-interest securities in our portfolio have been issued by banks and countries with excellent ratings. Category AAA issues account for EUR 6.6 billion, or 75.8 %, of our total fixed-interest securities and loans. Investment-grade ratings (up to and including BBB) apply to another EUR 1.5 billion (16.8 %). Other important factors in the assessment of credit risks include investment volume, collateralization and the default rates assigned to the ratings of the individual issuers. This is monitored by the internal limit system of the Group and our guidelines for investment.

In the year under review, the German property market suffered under the continuing sluggish economic trend, together with a surplus supply of office space. The market values determined for some properties were lower than their book values. Our overall portfolio of real estate properties, however, includes a distinct hidden reserve.

Adverse economic trends in the automotive sector resulted in lower rental income and vacancies in some of the properties used by car dealers. The present values recognized for the properties are based on contractually agreed rises in the reduced rental revenues which must be realized in the coming years.

Supervisory regulations governing the credit standing of the borrowers, the lending limit and the provision of collateral must be observed in conjunction with loans belonging to the security capital. Default risks are therefore of minor importance for these loans. Higher default risks may arise in the case of unsecured loans, however, if conditions develop unfavourably. The same also applies accordingly with regard to the availment of guarantees issued.

Operational risks

The NÜRNBERGER INSURANCE GROUP has a highly developed Group-wide internal control system. Functional divisions in operational sequences, built-in reconciliation and plausibility checks and hierarchical rules of authority and authorization reduce the risk of detrimental action and avoid aberrations. Random sampling for routine business and the dual control principle for important decisions help to reduce the risk. In addition, process-independent checks are run on systems, procedures and individual events throughout the Group by the Internal Auditing unit.

Particular attention is also devoted to potential risks connected with computing. A standby computer centre ensures that we are in a position to continue operation of our computers and applications without major downtimes in the event of a failure. Highly effective access controls and use of the latest security technologies reliably ensure the integrity of our data.

Other risks

We obtain regular up-to-the-minute reports on planning, the current situation and business developments at the non-insurance companies in which we hold participatory interests and discuss these reports in the various supervisory bodies. Annual reports and other documents concerning the companies in which we hold participatory interests are regularly analysed by our participatory interest controlling service. We also make extensive use of our rights to participate or be informed with respect to the companies in which we hold minority interests. Appropriate measures are initiated as required on the basis of these findings; provision for litigation risks has been formed in one case.

Risk report summary

The security of the insurance companies in the Group can also be judged by looking at solvency. The solvency requirements stipulated by the supervisory authority are also met for the individual insurance companies in the NÜRNBERGER INSURANCE GROUP. Adjusted Group solvency stands at 126.6 % (121.6 %), i.e. the Group's capital resources exceed the level stipulated by the supervisory authority by more than one-quarter. Those capital resources which may only be employed by application to and with the consent of the supervisory authority have not been included. In the preceding year, the adjusted solvency was calculated on the basis of the consolidated financial statements prepared according to German commercial law.

For several years, the financial strength and security of our principal subsidiaries NÜRNBERGER Lebensversicherung AG, NÜRNBERGER Allgemeine Versicherungs-AG and NÜRNBERGER Krankenversicherung AG have been monitored by the rating agencies Standard & Poor's and Assekurata. The ratings are based, among other things, on confidential and internal information which we have supplied in compliance with antitrust regulations. In 2005, Standard & Poor's gave NÜRNBERGER Lebensversicherung AG an A rating (very good). NÜRNBERGER Allgemeine Versicherungs-AG was given an A rating (very good) by Standard & Poor's, while NÜRNBERGER Krankenversicherung AG was rated A+ (very good) by Assekurata.

From the latest findings and the circumstances explained above, the efficient tools and systems used for identifying and managing risks and a sound appraisal of future developments, we see no sign of any substantial negative impact on the net worth, financial position or earnings prospects of the Group.

Forecast

Overall economic development

The nation's leading economic research institutes expect only moderate economic growth in Germany in 2006 as the world economy rallies increasingly. Global trends, such as stabilization in the price of oil and the lower value of the euro, will have a supporting effect on economic growth. Nevertheless, Germany may well fail to meet the deficit criterion of 3 % of gross domestic product in 2006 as defined by the European pact on stability and growth.

According to the latest forecasts, real economic growth in Germany is expected to lie at around 1.5 % in 2006. Unemployment is expected to remain unchanged at between 4.6 and 4.7 million. Inflation will presumably remain at the present level of around 2.0 % in 2006. Private consumption is expected to rise by 0.3 %. The forecast ratio of savings to disposable income should remain around 10.5 % as in previous years. A rise of 6.5 % is expected for German exports, which would mean higher growth than in 2005. Investments in plant and equipment are expected to increase by around 4.8 % in real terms, while investment in construction will probably rise by around 1.5 %.

Despite the slight economic recovery expected, overall economic developments are unlikely to provide any real stimuli for the insurance industry in 2006. Neither the income prospects of private households nor the situation on the labour market give cause to expect any sustained expansion. The uncertain economic situation and additional burdens imposed on citizens by reforms in social security systems could have a damping effect on demand, especially for insurance products involving a long-term commitment. At the same time, however, there are special factors to be taken into account for the insurance sector which will also have a positive effect on the business climate. First and foremost there are the increasingly pronounced demographic impacts on social insurance systems; the resultant need for private personal provision will have a positive effect on life/health insurance.

Life insurance business has declined following the extensive changes in the taxation of life insurance products which came into force on 1 January 2005, but less strongly than expected. The changed basic conditions resulting from the Retirement Income Act (Alterseinkünftegesetz) have significantly influenced demand for insurance products. At present, there is a distinct trend towards private personal provision for old age, especially among younger people, and this trend is expected to continue.

Quite apart from the effects of the Retirement Income Act, the restriction of benefits under statutory pension schemes and the growing resultant need for private provision will create an environment promoting demand for life insurance. In the long term, however, the demographic trend with younger and middle age groups making up an ever smaller proportion of the population could well curb new business.

In private health insurance, business in force is expected to increase in 2006 as private personal provision becomes increasingly more attractive despite the higher income thresholds in force since 1 January 2006. The restriction of benefits by statutory health insurance schemes has created a potential market for private policy riders. However, the changing age pyramid will also put the brake on health insurance in the long term. Just what effect the continuing debate on health policy will have on new business cannot be foreseen at present, as this aspect similarly does not feature in the present government's coalition agreement.

The potential for growth in property and casualty insurance is limited by both the overall economic environment and the market penetration already reached. Its course is determined above all by developments in motor insurance. The automobile market is expected to remain moderate in 2006 too, despite the higher number of new vehicles registered in comparison with the previous year, and is unlikely to exert any positive influence on the quantitative component in the volume of business for this class. Future development of premiums will probably also continue to be dictated by fierce competition.

In all probability, health insurance will once again be the fastest-growing segment with an upturn of around 4 % in premium income. Premium volume is expected to decrease by 1.5 % in property and casualty insurance. In life insurance business, premium volume should remain unchanged, although a rise of almost 1 % is assumed for life insurance in the broader sense, if the considerable growth expected for pension funds and pension insurance funds is also included. Growth of 0.5 % is forecast for the development of premium volume in the German insurance industry as a whole.

Positioning of NÜRNBERGER

The NÜRNBERGER INSURANCE GROUP is an independent insurance and financial services company which concentrates on the German-speaking market and cooperates with European partners. With premium income of EUR 3.0 billion in the financial year 2005, investments of EUR 17.5 billion and 7.4 million policies in force, we are one of the larger primary insurance companies in Germany.

NÜRNBERGER tradition goes back more than 120 years. As a quality insurer, we operate successfully in the high-opportunity fields of insurance and financial services, in the segments Life, Health, Property and Casualty Insurance, Financial Services and our latest addition Pension Business. The following companies operate under the aegis of NÜRNBERGER Beteiligungs-Aktiengesellschaft:

NÜRNBERGER Lebensversicherung AG with products for financial security and personal provision, as well as investment products.

NÜRNBERGER Allgemeine Versicherungs-AG in liability, general accident, motor, property, engineering and marine insurance.

GARANTA Versicherungs-AG as an insurer for the German automotive trade.

NÜRNBERGER Krankenversicherung AG as an alternative and supplement to statutory health insurance schemes.

NÜRNBERGER Beamten Lebensversicherung AG and NÜRNBERGER Beamten Allgemeine Versicherung AG as acknowledged internal civil service organizations for public-sector employees.

NÜRNBERGER Pensionsfonds AG and NÜRNBERGER Pensionskasse AG with products for various forms of company pension scheme.

PAX Schweizerische Lebensversicherungs-Gesellschaft (Deutschland) AG as a second brand with insurance products for old age and surviving dependents.

CG Car – Garantie Versicherungs-AG, in which NÜRNBERGER Beteiligungs-Aktiengesellschaft has a 50 % stake, with motor vehicle repair and warranty insurance.

Fürst Fugger Privatbank KG which covers private asset management for NÜRNBERGER.

Communication Center Nürnberg (CCN) GmbH which provides particularly qualified call-centre services for NÜRNBERGER and third parties.

NÜRNBERGER is a quality insurer with a field service organization. We have four sales channels, namely “Exclusive intermediaries”, “Brokers, multiple agencies and financial sales offices”, “Car dealership’ agencies” and “Family protection agencies”. All in all, more than 5,000 men and women work in our internal and field service, together with more than 32,000 full-time and part-time intermediaries to assure the success of NÜRNBERGER.

We intend to strengthen our position continuously through profit-oriented growth. Our focus lies on private clients, small and medium-sized business and pension funds for professional groups.

NÜRNBERGER’s strategy

Security, independence, quality, innovation and sustained profit-oriented growth: these are the basic strategic pillars of the NÜRNBERGER INSURANCE GROUP’s business. In the interests of our insureds, shareholders and employees, top priority is accorded to the Group’s long-term security, financial stability and independence.

NÜRNBERGER’s strategy is clearly defined:

Security
The security of an insurance and financial services company essentially depends on its capital resources and earning power. Safeguarding and expanding our capital base as well as the overall reserve situation are therefore fundamental elements in NÜRNBERGER’s strategy. In order to offer our clients maximum security, we pursue a security-oriented investment policy with circumspect risk management.

Our strategy in the insurance business is one of selective underwriting. With our cautious risk selection and control, we intend to keep the combined ratio in property and casualty insurance below 95 % in the long term. Those lines of business yielding adequate premiums for the risk concerned are developed in particular. As regards the investment and underwriting risks, our aim is to optimize the portfolio in terms of both individual and combined risks so that our risk capital is employed in the best possible way.

A sound capital base is a valuable asset for providers of financial services. Leading rating agencies have awarded NÜRNBERGER and its subsidiaries very good marks for financial performance and security.

Independence
We are committed to NÜRNBERGER's independence. As an independent insurance and financial services company, we can engage in our own autonomous transparent business policy with the aim of enhancing value in the long term. As a result, we are in a position to respond to market trends quickly and flexibly so that we can also offer the best solution serving our clients' needs.

Quality
NÜRNBERGER is a quality insurer. Our aim is therefore to become the leader for quality in every step of the value-added chain and in all our fields of business. We aim to be one of the best in the marketplace as regards the quality of our products, advice and service, as well as with regard to the insurance benefits offered to our clients.
In order always to meet our own standards and those of our clients, we continuously invest in improving the quality of processes, products and services. We place our trust in the know-how of our employees, their experience and their expertise.
NÜRNBERGER is an insurance company with a field service organization. Our aim is to establish and maintain close, long-term relations with our clients, based on mutual trust. We intend to provide our clients with competent advice and offer them individualized solutions tailored to each period of life.
We consider the excellent and all-embracing advice and support for our clients to be the most important sales criterion for our products. NÜRNBERGER's specific advisory competence is a significant feature distinguishing NÜRNBERGER from the competition.

Innovation
Our innovative strength is employed specifically to pick up future trends and develop these into new prospects for business. NÜRNBERGER has acquired an excellent reputation in the German insurance market with its innovative developments. Time and again, we have successfully moved into promising new fields of business. None other than NÜRNBERGER made unit-linked life insurance popular in Germany over 30 years ago. Due to our longstanding expertise in this sector and continuous innovations, we are now one of the market leaders.
Exceedingly flexible tariffs, pioneering product design and consumer-friendly insurance terms have given us a leading position in the market for disability insurance. Our disability insurance product NÜRNBERGER Investment Berufsunfähigkeitsversicherung® (IBU) has set new standards.
NÜRNBERGER's innovative modular system of property and casualty insurance offers made-to-measure insurance cover for every need. Basic cover under the "BasisSchutz" product for price-conscious clients and all-round protection under the "KomplettSchutz" product for security-conscious clients can be optimally rounded

off with pioneering supplementary modules. Demand is growing for such supplementary service products as the "SchutzBrief ProAktiv" for home care services during convalescence in our general accident product "Unfall-KomfortSchutz" for clients over 50 and the "RabattSchutz" no-claims discount protection module in NÜRNBERGER's motor insurance product "AutoVersicherung". In the meantime, other companies have brought out their own versions of these products.

NÜRNBERGER is also one of the first insurers on the German market to offer its clients useful services in the form of assistance above and beyond the insurance cover as such, and is a leader in the use of computer-assisted counselling technology.

Sustained profit-oriented growth
Sustained profit-oriented growth is another firm feature in NÜRNBERGER's strategy. We invest in primary insurance and financial services segments with high growth and stable profits. Our business does not include fields which are exposed to cyclic trends and high risks, such as industrial insurance and reinsurance.
Higher sales without profitability is not an option for NÜRNBERGER. We are not interested in growth based solely on volume and aimed purely at achieving or maintaining certain rankings.

Concentration on our core business
Our primary areas for growth are private insurance and the commercial insurance sector comprising mainly small and medium-sized business, as well as the business with pension funds for professional groups. For these target groups, we have developed a comprehensive range of products meeting all requirements in the fields of life, health, property and casualty insurance and pension business.

In the financial services sector, our focus rests on business with private clients. Fürst Fugger Privatbank KG therefore does not engage in high-risk credit business with corporate clients. Our activities concentrate on Germany, with niche concepts for other German-speaking countries. We are represented in the rest of Europe through partnerships.

Well developed sales channels
NÜRNBERGER's sales strategy is to address our clients through the well developed sales channels comprising "Exclusive intermediaries", "Brokers, multiple agencies and financial sales offices", "Car dealership agencies" and "Family protection agencies". Cooperation with associations and firms is an essential element of our strategy, especially in the sales channel "Car dealership agencies". In motor insurance, for example, we cooperate with the Central Association of the German Automotive Trade (Zentralverband Deutsches Kraftfahrzeuggewerbe – ZDK), several leading carmakers and their banks, as well as importers in conjunction with exclusive distribution through NÜRNBERGER backed by the carmakers.

NÜRNBERGER's high selling power is assured through our well trained and highly motivated field service.

Organic growth
Good positioning in fields of business with ample opportunities allows us to achieve our growth targets above all by organic means and through cooperation arrangements.

Our goals
If our efforts are worthwhile for both our shareholders and our clients, then we will prove enduringly successful. All the elements making up NÜRNBERGER's strategy therefore serve the purpose of enhancing the Group's value in the long term. The Group and its segments are positioned with the aim of employing its shareholders' capital in a profitable manner.
A successful strategy must also be measured in terms of its long-term results. We can consider ourselves successful if our ambitious goals are sustainably achieved. In addition to purely financial performance measures, a large number of non-financial indicators, such as recognition, market penetration, process efficiency, client satisfaction and image, play an important part when measuring NÜRNBERGER's strategic performance.
All this finds public expression in comprehensive activities in the field of sports sponsoring, as well as in our commitment to science, culture, education, commerce and the social sector.

NÜRNBERGER life insurance business

Further developments in life insurance will be shaped by the basic tax conditions which came into force at the beginning of 2005. As a matter of principle, endowment life insurance and annuity insurance covers for which the lump-sum option is exercised upon expiry of the deferment period will be taxed according to the so-called difference method (outpayment minus total inpayments) when the survival benefit matures. The tax base can be halved under certain conditions.

At the same time, the fact that certain life insurance products enjoy favourable treatment within the framework of basic provision by being placed on the same tax footing as statutory pension insurance also opens up new market opportunities.

Company pension plan products can be offered in various forms. The most interesting aspect for life insurance companies is that direct insurance will in future be placed on the same footing as pension insurance fund products in accordance with the tax provisions of Section 3 No. 63 of the German Income Tax Act (EStG). However, direct insurance taxed at a flat rate is no longer possible for new business concluded after 2005.

Together with the coexistence of different forms of support, these changes resulted in considerable uncertainty among clients in the past year as to which is the most advantageous form for them personally. To overcome this uncertainty, we have organized specific training schemes for our intermediaries and provided them with special programs within the insurance proposal software to assist them when advising clients.

The Retirement Income Act (Alterseinkünftegesetz) has not resulted in any major changes for one of our core areas of business, namely disability insurance.
We expect demand for disability insurance to increase further and are planning to introduce additional interesting components to round off our large range of offerings for this product form in 2006. Product innovations are planned for term insurance covering the risk of death, which are expected to yield additional incentives for both intermediaries and clients.

In the light of this situation, premium income from new business in 2006 is expected to top EUR 330 million and should increase by roughly 3 % in each of the two

following years. At EUR 1.99 billion, the premium volume should be marginally higher than in the previous year and also increase slightly in the two following years, despite numerous maturities.

A good risk result is again expected in the life insurance segment in 2006; this result plays a major part in the overall result. Total costs should continue to improve steadily in subsequent years.

The overall result is also shaped by the investment result – and that in turn depends extensively on the development of capital markets. The vast majority of investment experts believe that the stock markets will develop modestly in 2006 and possibly also thereafter, while interest rates on the bond market remain at the same low level as in 2005 or increase only slightly. We therefore presume that at least the regular investment income will be lower in the following years than in the year under review.

The result for the financial year 2005 also included a special positive effect from property transactions which will not be repeated in 2006, so that the overall result for the year should prove somewhat lower.

NÜRNBERGER pension business

NÜRNBERGER Pensionskasse AG and NÜRNBERGER Pensionsfonds AG are currently still in the process of building up their business. For this reason, this segment is still dominated by strong growth in new business, particularly when measured in relation to the size of the portfolio. The pensions segment is therefore not expected to yield a profit in 2006, but it should in 2007.

Considerable demand is expected for the defined benefit pension plans offered by NÜRNBERGER Pensionsfonds AG. These plans make it possible for employers to farm out their direct commitments for company pension benefits and the associated balance sheet items. With its products, NÜRNBERGER Pensionskasse AG now competes directly with the direct insurance products offered by “conventional” life insurers which have been placed on the same tax footing since 2005. This should result in further increases in new business in this segment. As regards the number of policies in force, considerable double-digit percentage growth is expected in the coming years.

NÜRNBERGER health insurance business

The public debate over further necessary reforms in the health system is in full swing. In the light of the new government’s current political situation it is impossible to predict which of the individual parties’ proposals will actually be implemented. As in the past, the statutory health insurance system is confronted with rising costs and the challenge of an increasingly older society. Although public uncertainty over the development of statutory health insurance could also spill over into private health insurance, the latter is resistant to demographic trends due to the formation of ageing provisions, remains attractive to the market and represents an interesting alternative. Due to the good competitive situation, we presume that NÜRNBERGER Krankenversicherung AG will be able to participate in this development at an above-average level. Tariffs for stand-alone insurance in particular should remain the main pillars for growth. Supplementary tariffs for our policy riders should make the

range increasingly more attractive. Overall, we expect premium income to increase considerably in the coming years, with growth of between 12 % and 15 % in 2006.

Despite the additional underwriting expenditure associated with the rise in new business, the overall result is expected to be good in the coming years, aided above all by a stable risk result.

Cash refunds from the provision for pension refunds will again be paid out to our clients in 2006 in return for one or more years without claiming insurance benefits.

NÜRNBERGER property and casualty insurance business

The struggle for market shares in property and casualty insurance is continuing unabated. Lower tariffs in motor insurance have become established in the market as a result of the "second tariffs" and have slowed the development of new business. To counteract the massive competitive pressure, we have furnished our field service with another competitive product affording basic motor cover known as "NÜRNBERGER AutoVersicherung BasisSchutz". This basic cover is characterized in particular by lower premiums and adjustment of benefits in motor third party and own damage insurance. Recent estimates by various associations indicate that a further decline in premiums must be expected throughout the motor insurance market in 2006. Together with client-oriented innovative product development, this makes outstanding service for our existing and new clients all the more important.

Our target groups are essentially private clients and self-employed people, as well as small and medium-sized firms. This is where we see potential for growth in the coming years. The further development of selected sales channels will also be intensified. Cooperation with the German automotive trade, the carmakers and their financial services will play an important part here.

We will also continue to rely on the selling power of our field service staff in future. To support their efforts, our electronic sales and communications systems are continuously being optimized, thus increasing the benefit to clients and at the same time cutting costs.

The claims management system "BOSS" which is already in place in the motor lines of insurance and in liability insurance will gradually be extended to the other property and casualty insurance lines. The transparent nature of the benefits paid will permit intervention in practical claims settlement. The resultant findings are also incorporated more extensively in the development of new products.

Further new products will be introduced within the framework of our modular system of products for private clients in 2006, such as the general accident product for children known as "Biene Maja UnfallSchutz" with innovative supplementary modules in the form of family cover ("Familien-SchutzBrief"), supplementary rehabilitation services for children ("Kinder-RehaPlus") and our new disability cover for illness ("InvaliditätsSchutz"). They will be launched in a NÜRNBERGER marketing campaign to coincide with the 30th TV anniversary of the children's favourite "Biene Maja". Two special offer packages will be launched at a "junior" price to encourage sales, namely the comprehensive general accident cover for children ("Biene Maja Unfall-KomplettSchutz") and the basic general accident cover for children ("Biene Maja Unfall-BasisSchutz").

NÜRNBERGER ProfiLine® business protection is a special modular product system providing comprehensive individual protection for small and medium-sized firms. This innovative product still enjoys considerable competitive advantages and a market potential which will be exploited more strongly in 2006. In addition, comprehensive coverage concepts in liability insurance, for example, and such special offers as business interruption survival coverage ("Existenz-Betriebsunterbrechungsversicherung") also continue to provide excellent potential for activating sales partners and winning new clients.

Future development of premium income will depend very largely on general economic developments. The trend towards an intensification of competitive activities in the property and casualty insurance market is continuing and could have a damping effect on growth.

The results of our property and casualty insurance companies depend not only on the development of premium income, but also and above all on claims experience and developments on the capital markets. We have been able to profit from our risk selection and a very moderate claims experience in the past three years. For 2005, we were able to report a gross combined ratio of 91.0 %; a slightly higher figure is expected for 2006. As a result of the accounting and structural measures undertaken in 2005, our involvement in the car dealership environment is not expected to have any further impact on performance. Where the capital market is concerned, a positive development is expected to emerge on the stock markets, with slightly higher interest rates. A positive result is expected overall.

Financial services

Due not least to the changed basic tax conditions in the product segment of provision for old age, we expect demand for private asset management to rise.

Banking business by Fürst Fugger Privatbank
With the opening of a new branch in Stuttgart and the enlargement of its sales capacities in the existing private banking units, Fürst Fugger Privatbank has set course for a successful year. The satisfactory increase in earnings achieved in 2005 is to be continued in 2006.

Rising stock exchange indices have already left their mark on the above-average development of our managed investment portfolios in the course of 2005. In addition to high portfolio levels on the one hand, continuous inflows especially from operations as a NÜRNBERGER partner bank have a decisive effect on the positive development of earnings.

Now that the bank has laid the foundations with these activities, a higher operating result in the order of around EUR 3.8 million after provision for risks is targeted for 2006 as markets remain positive.

Investment funds
2005 was a highly successful year for the investment business as regards both the inflow of funds and the managed assets. Equity funds fared best, with mostly high double-digit results over the year as a whole. On average over many years, equity funds have performed best with a return of roughly 8 %, while 6.2 % were achieved by Euro-bonds and 4.3 % with open-end property funds.

However, these rounded figures present only an inadequate reflection of the current market situation, particularly as prices have declined appreciably for equity-oriented products during the recent bear run. This has resulted in uncertainty among investors and prompted them to turn to seemingly less volatile products. Bond and money-market funds were therefore particularly popular among private investors in 2005.
Particularly as interest rates pick up slightly and equity funds begin to perform distinctly better again, however, we expect private investors to invest increasing amounts in equity funds.
With their stable performance, open-end property funds have contributed significantly to the balanced nature of investment portfolios in the past and were highly valued by clients. Potential investors have, however, become uncertain due not least to the first-ever closure of an open-end property fund by the leading market player and the associated high level of media reports over problems with some fund issuers. Demand for such products has cooled tangibly and this trend is expected to continue.

The increasingly evident need to make private personal provision for old age has made investment funds appear more attractive, especially following the change in basic tax conditions in the investment market which came into force on 1 January 2005. Demand in this product segment should therefore pick up steadily.

Our range is constantly being adapted in line with market circumstances in order to meet all clients' needs. In addition to providing brokerage services for individual funds in different risk categories, we also offer actively managed portfolios in the form of the Fürst Fugger asset management portfolio. This product range meeting market requirements places our sales partners in a position to provide competent counselling for our clients.

In the medium term, we expect steady growth in the portfolios mediated through our Group, even if that growth is sometimes slowed by fluctuations in stock market prices. The stabilization in demand, particularly towards the end of 2005, makes us confident that we will be able to meet our target for 2006 with 10 % portfolio growth.

Home loan and savings business
On the basis of our cooperation arrangements in the sales sector, we expect a distinct increase in home loan and savings business in 2006, both in combination with construction financing and in combination with renovation loans (so-called "blank loan accommodations"). A concept is currently being drawn up for the latter and will be implemented in 2006.
In addition, we intend to draw more attention among intermediaries in all sales channels to our new combination product linking home loan and savings with a basic pension.

Legal protection insurance
Future development of the legal protection insurance market also depends on whether and to what extent legal protection insurers will be able to offer their services independently within a certain framework. Greater market penetration and rising premium revenues can be achieved by offering additional services.

Our syndicate company Neue Rechtsschutz-Versicherungsgesellschaft AG (NRV) already relies on greater use being made of its JURCASH GmbH (service for collection of unpaid invoices) and JURCALL GmbH (direct mediation of independent lawyers and legal advice over the telephone). On the product side, legal protection insurance will be incorporated into NÜRNBERGER's multi-class market concept "Active & Experienced" ("Aktiv & Erfahren"). A special product has been developed for this as a modular system, providing basic cover in the form of a special private legal protection with new benefits. It can be supplemented with additional modules, such as legal protection for traffic and motor claims, legal protection for all matters associated with house and home, as well as professional legal protection – with advantageous prices for clients over 50.
Further increases in premium income are to be expected in 2006 following the systematic analysis of demand for private and commercial legal protection insurance by our field service staff and the positive effect of premium adjustments in autumn 2005.

Development of Group results

Forward-looking statements in this Annual Report are primarily based on plans, forecasts and expectations. Divergent developments cannot be entirely excluded on account of the assumptions and uncertainties associated with such remarks. Discrepancies may result, for example, on account of divergent developments in the planning parameters outlined above, or as a result of changes in the general economic climate, the competitive situation, developments in financial markets or exchange rates, as well as through changes in national or international law.

After having been very strongly affected by the effects of the Retirement Income Act (Alterseinkünftegesetz) in 2004 and 2005, life insurance and pension business should develop positively as demand for private personal provision continues to increase. Our rapidly growing health insurance segment is also expected to yield favourable basic conditions for our Group results, provided that the status quo in health policy remains unchanged. Due to the strong competitive pressure with its tendency to thwart growth in the development of business in the Property and Casualty Insurance segment, we expect a development in which a positive contribution to results must be assured through a good loss ratio combined with tightly controlled costs. The changed basic conditions in the taxation of old-age provision products are expected to result in growing demand for private asset management. For our financial services segment, we therefore expect a steady increase in the volume of managed portfolios and a positive influence on overall results, particularly in the banking business of Fürst Fugger Privatbank KG.
The strategy paper adopted in the financial year 2004 to improve overall performance is currently being implemented. The positive effects of the measures already initiated are expected to yield a further contribution to results in 2006 and especially in 2007. More attention will be devoted to identifying further synergistic potential in 2006.

Consolidated Balance Sheet

as at 31 December 2005
in EUR

Assets	No. in Notes			2005	2004
A. Intangible assets					
I. Goodwill	1		85,931,442		82,221,854
II. Other intangible assets	2		50,610,810		46,325,748
				136,542,252	128,547,602
B. Investments					
I. Land and buildings used by third parties	3		454,583,807		511,319,187
II. Investments in subsidiaries and associated companies	4		248,218,417		286,963,239
III. Financial instruments					
1. Loans	5	4,336,603,017			4,054,068,866
2. Held to maturity	6	2,000,248			2,527,691
3. Available for sale	7	7,536,706,591			7,154,196,032
4. Held for trading	8	710,770,084			350,612,284
			12,586,079,940		11,561,404,873
IV. Other investments					
1. Deposits with banks		257,887,086			304,430,361
2. Other investments		56,898			438,506
			257,943,984		304,868,867
V. Deposits retained on assumed reinsurance			3,515,800		3,206,978
				13,550,341,948	12,667,763,144
C. Investments on account and at risk of life and general accident insurance policyholders				3,913,410,369	2,961,049,883
D. Underwriting provisions, ceded	9			633,152,890	615,355,897
E. Other non-current assets					
I. Owner-occupied properties	10		179,233,873		185,639,558
II. Other non-current property, plant and equipment	11		23,550,821		22,661,973
III. Deferred tax assets	12		392,779,217		367,199,770
				595,563,911	575,501,301
F. Receivables	13				
I. Accounts receivable on primary insurance business					439,520,739
II. Accounts receivable on reinsurance business			13,601,073		19,347,891
III. Tax assets			20,344,610		12,877,811
IV. Other receivables			369,388,557		409,128,101
				792,479,546	880,874,542
G. Cash with banks, cheques and cash in hand				150,308,876	408,732,812
H. Other current assets					
I. Properties for sale at short notice			2,785,925		1,404,014
II. Inventories			3,744,676		3,610,412
III. Other current assets	14		69,680,926		45,595,072
				76,211,527	50,609,498
Total assets				19,848,011,319	18,288,434,679

Equity and Liabilities	No. in Notes		2005	2004
A. Shareholders' equity	15			
I. Issued capital		40,320,000		40,320,000
II. Capital reserve		136,382,474		136,382,474
III. Retained earnings		303,161,320		286,724,579
IV. Other reserves		124,040,207		95,175,244
V. Consolidated result attributable to NÜRNBERGER Group shareholders		20,945,652		8,874,380
VI. Adjustment item for minority interests in shareholders' equity	16	71,025,694		90,090,382
			695,875,347	657,567,059
B. Subordinated liabilities	17		186,400,832	82,300,000
C. Underwriting provisions	18			
I. Unearned premiums		173,727,267		169,142,353
II. Provision for future policy benefits		9,991,529,719		9,777,245,547
III. Provision for outstanding claims		942,939,408		921,956,135
IV. Provision for performance-related and non-performance-related premium refunds		1,038,370,168		783,489,892
V. Other underwriting provisions		12,997,685		14,660,058
			12,159,564,247	11,666,493,985
D. Liabilities from credited profit shares	19		685,568,365	727,892,523
E. Underwriting provision for life and general accident insurance where investment risk is borne by policyholders				
Provision for future policy benefits			3,918,552,442	2,960,566,974
F. Other provisions	20			
I. Provisions for pensions and similar obligations		209,257,764		212,312,388
II. Tax provisions		59,169,131		87,859,991
III. Deferred tax liabilities		387,424,553		360,590,228
IV. Miscellaneous provisions		60,197,804		52,802,275
			716,049,252	713,564,882
G. Liabilities	21			
I. Deposits retained on ceded business		328,249,146		289,285,890
II. Accounts payable on primary insurance business		215,425,080		261,285,029
III. Accounts payable on reinsurance business		13,515,967		8,385,086
IV. Accounts owed to banks		538,773,577		573,585,059
V. Other liabilities		383,338,365		342,163,529
			1,479,302,135	1,474,704,593
H. Deferred items	22		6,698,699	5,344,663
Total equity and liabilities			19,848,011,319	18,288,434,679

Consolidated Profit and Loss Account

for the period from 1 January to 31 December 2005
in EUR

	No. in Notes		2005		2004
1. Premium income	1	2,994,424,701		2,943,351,422	
2. Investment income	2	1,759,944,599		991,059,420	
3. Income from reinsurance business	3	301,455,977		334,274,668	
4. Other income	4	119,607,720		171,440,907	
Total income (1. to 4.)			5,175,432,997		4,440,126,417
5. Claims expenditure	5	– 3,472,106,960		– 2,693,588,956	
6. Underwriting expenses	6	– 682,149,484		– 739,095,445	
7. Reinsurance expenditure	7	– 339,334,671		– 366,129,019	
8. Investment expenses	8	– 370,603,673		– 450,023,808	
9. Finance costs	9	– 30,086,734		– 27,685,616	
10. Other expenses	10	– 214,186,063		– 134,786,688	
Total expenses (5. to 10.)			– 5,108,467,585		– 4,411,309,532
11. Result before amortization of goodwill			66,965,412		28,816,885
12. Amortization of goodwill			– 790,479		– 1,275,423
13. Accounting profit			66,174,933		27,541,462
14. Taxes	11		– 45,954,741		– 17,970,162
15. Consolidated result			20,220,192		9,571,300
thereof:					
– attributable to NÜRNBERGER Group shareholders			20,945,652		8,874,380
– attributable to minority interests			– 725,460		696,920
Earnings per share	12		1,82		0,77

Cash Flow Statement

for the period from 1 January to 31 December 2005 in EUR '000

	2005	2004
1. Consolidated result	20,220	9,571
2. Net change in underwriting provisions	1,433,259	754,815
3. Change in deposits retained and in accounts receivable and payable	49,532	– 21,297
4. Change in other receivables and liabilities	85,430	– 76,350
5. Gains and losses on the disposal of investments	– 253,695	– 46,757
6. Changes in other balance sheet items	– 66,320	36,638
7. Other income/expenses without impact on cash flow	– 900,005	– 188,003
8. Cash flows from operating activities	368,421	468,617
9. Inflows from the sale of consolidated companies and other business units	1,799	—
10. Outflows for the acquisition of consolidated companies and other business units	– 8,267	– 216
11. Inflows from the sale and maturities of other investments	5,938,387	4,169,634
12. Outflows for the acquisition of other investments	– 6,350,831	– 4,214,489
13. Inflows from the sale of unit-linked life insurance investments	232,942	153,953
14. Outflows for the acquisition of unit-linked life insurance investments	– 478,262	– 391,073
15. Other inflows	8,362	7,988
16. Other outflows	– 27,538	– 42,645
17. Cash flows from investing activities	– 683,408	– 316,848
18. Inflows from increases in capital	—	10,594
19. Outflows to company owners and minority interests	– 1,206	– 1,162
20. Dividend payments	– 11,520	– 11,520
21. Inflows and outflows from other financing activities	69,289	3,706
22. Cash flows from financing activities	56,563	1,618
23. Changes in the financial resources fund with impact on cash flow	– 258,424	153,387
24. Financial resources fund at the beginning of the period	408,733	255,346
25. Financial resources fund at the end of the period	150,309	408,733

The Cash Flow Statement has been prepared by the indirect method in accordance with IAS 7.20.

The Cash Flow Statement shows how the liquid funds of the NÜRNBERGER INSURANCE GROUP changed as a result of inflows and outflows during the financial year under review. It is divided into three sections showing the payment flows arising from operating activities, investment activities and financing activities. The financial resources fund shown in the Cash Flow Statement includes current bank balances, cheques and cash in hand and consequently corresponds to the asset item G of the Consolidated Balance Sheet.
Interest yielded inflows in the amount of EUR 461.9 (515.8) million, with dividends yielding an inflow of EUR 44.9 (36.8) million. Outflows due to interest amounted to EUR 52.4 (49.3) million. Taxes on income resulted in an outflow of EUR 67.2 (previous year: inflow of 14.1) million.

Segment Reporting

Consolidated Balance Sheet according to Business Segments in EUR '000

	Life		Pension Business		Health	
Assets	31.12.2005	31.12.2004	31.12.2005	31.12.2004	31.12.2005	31.12.2004
A. Intangible assets						
I. Goodwill	915	915	—	—	—	—
II. Other intangible assets	28,078	26,139	4	6	1,565	700
B. Investments	11,871,211	11,085,956	24,948	10,812	246,453	201,740
C. Investments on account and at risk of life and general accident insurance policyholders	3,912,736	2,960,828	5,637	—	—	—
D. Underwriting provisions, ceded	327,511	288,162	135	—	—	—
E. Other non-current assets	365,070	389,297	5,052	2,112	3,541	3,470
F. Receivables	703,119	765,102	10,543	9,170	9,669	7,472
G. Cash with banks, cheques and cash in hand	105,011	348,887	303	956	373	575
H. Other current assets	31,633	20,384	10	—	2,478	2,175
Total segment assets	17,345,284	15,885,670	46,632	23,056	264,079	216,132
Equity and Liabilities						
A. Shareholders' equity	329,921	277,266	7,964	8,516	14,718	13,044
B. Subordinated liabilities	92,000	55,000	—	—	3,000	—
C. Underwriting provisions	11,039,636	10,609,333	22,354	7,941	239,266	193,945
D. Liabilities from credited profit shares	685,401	727,820	167	72	—	—
E. Underwriting provisions for life and general accident insurance where investment risk is borne by policyholders	3,912,335	2,960,345	5,637	1	—	—
F. Other provisions	376,894	413,866	281	237	5,670	3,654
G. Liabilities	907,745	841,144	10,229	6,289	1,425	5,489
H. Deferred items	1,352	896	—	—	—	—
Total segment equity and liabilities	17,345,284	15,885,670	46,632	23,056	264,079	216,132

Property and Casualty		Financial Services		Consolidation/Other		Group	
31.12.2005	31.12.2004	31.12.2005	31.12.2004	31.12.2005	31.12.2004	31.12.2005	31.12.2004
67,586	61,515	9,246	9,023	8,184	10,769	85,931	82,222
19,832	18,349	9	87	1,123	1,045	50,611	46,326
945,859	921,168	301,184	322,484	160,687	125,603	13,550,342	12,667,763
586	222	—	—	– 5,549	—	3,913,410	2,961,050
307,387	327,805	—	—	– 1,880	– 611	633,153	615,356
195,673	155,086	7,434	8,214	18,794	17,322	595,564	575,501
190,328	204,902	57,048	43,030	– 178,227	– 148,801	792,480	880,875
31,021	38,625	13,507	13,921	94	5,769	150,309	408,733
36,397	23,981	2,844	1,457	2,849	2,612	76,211	50,609
1,794,669	1,751,653	391,272	398,216	6,075	13,708	19,848,011	18,288,435
392,777	333,877	33,218	35,091	– 82,723	– 10,227	695,875	657,567
20,000	70,000	8,901	4,800	62,500	– 47,500	186,401	82,300
872,027	861,215	—	—	– 13,719	– 5,940	12,159,564	11,666,494
—	—	—	—	—	—	685,568	727,892
586	221	—	—	– 5	—	3,918,553	2,960,567
243,650	208,301	12,093	15,041	77,461	72,466	716,049	713,565
265,555	277,718	337,057	343,279	– 42,709	786	1,479,302	1,474,705
74	321	3	5	5,270	4,123	6,699	5,345
1,794,669	1,751,653	391,272	398,216	6,075	13,708	19,848,011	18,288,435

Segment Reporting

Consolidated Profit and Loss Account for the period from 1 January to 31 December 2005 according to Business Segments in EUR '000

	Life		Pension Business		Health	
	2005	2004	2005	2004	2005	2004
1. Premium income	2,038,033	1,968,754	34,575	7,936	117,936	102,178
2. Investment income	1,677,451	908,641	594	326	9,803	8,440
3. Income from reinsurance business	81,096	71,411	16	—	116	227
4. Other income	111,821	116,537	4,732	10,452	332	289
Total income (1. to 4.)	3,908,401	3,065,343	39,917	18,714	128,187	111,134
5. Claims expenditure	– 2,842,684	– 2,026,936	– 20,249	– 7,274	– 98,837	– 86,258
6. Underwriting expenses	– 435,004	– 479,887	– 19,951	– 13,422	– 23,584	– 21,637
7. Reinsurance expenditure	– 80,417	– 78,194	– 32	—	– 445	– 387
8. Investment expenses	– 333,191	– 359,543	– 482	– 16	– 98	– 88
9. Finance costs	– 13,995	– 12,857	—	—	—	—
10. Other expenses	– 150,698	– 60,994	– 2,672	– 362	– 1,166	– 857
Total expenses (5. to 10.)	– 3,855,989	– 3,018,411	– 43,386	– 21,074	– 124,130	– 109,227
11. Result before amortization of goodwill	52,412	46,932	– 3,469	– 2,360	4,057	1,907
12. Amortization of goodwill	—	– 764	—	—	—	—
13. Accounting profit	52,412	46,168	– 3,469	– 2,360	4,057	1,907
14. Taxes	– 30,600	– 9,305	2,913	1,556	– 1,704	– 592
15. Consolidated result[1)]	21,812	36,863	– 556	– 804	2,353	1,315

[1)] Expenses/deficits are indicated by a minus sign (–).

Property and Casualty		Financial Services		Consolidation/Other		Group	
2005	2004	2005	2004	2005	2004	2005	2004
815,242	866,768	—	—	– 11,361	– 2,285	2,994,425	2,943,351
49,797	58,335	18,125	19,730	4,174	– 4,413	1,759,944	991,059
220,553	262,670	—	—	– 325	– 33	301,456	334,275
60,865	51,073	50,488	59,539	– 108,630	– 66,449	119,608	171,441
1,146,457	1,238,846	68,613	79,269	– 116,142	– 73,180	5,175,433	4,440,126
– 516,304	– 576,191	—	—	5,967	3,070	– 3,472,107	– 2,693,589
– 225,929	– 231,958	—	—	22,319	7,809	– 682,149	– 739,095
– 258,497	– 287,574	—	—	56	26	– 339,335	– 366,129
– 26,609	– 78,268	– 12,375	– 13,888	2,151	1,779	– 370,604	– 450,024
—	—	—	—	– 16,092	– 14,829	– 30,087	– 27,686
– 109,065	– 77,367	– 50,076	– 65,630	99,491	70,424	– 214,186	– 134,786
– 1,136,404	– 1,251,358	– 62,451	– 79,518	113,892	68,279	– 5,108,468	– 4,411,309
10,053	– 12,512	6,162	– 249	– 2,250	– 4,901	66,965	28,817
– 486	– 426	—	– 49	– 304	– 37	– 790	– 1,276
9,567	– 12,938	6,162	– 298	– 2,554	– 4,938	66,175	27,541
– 12,847	– 6,023	– 930	– 24	– 2,787	– 3,582	– 45,955	– 17,970
– 3,280	– 18,961	5,232	– 322	– 5,341	– 8,520	20,220	9,571

Data in the annual financial statements are assigned to segments on the basis of the internal structure of the NÜRNBERGER INSURANCE GROUP which is organized into strategic business segments (primary segmenting). These business segments are: Life Insurance (excluding pension insurance fund), Pension Business (pension insurance fund and pension fund), Health Insurance, Property and Casualty Insurance and (other) Financial Services. Secondary segmenting along regional lines has not been performed on account of the minor significance of international business for the Group.

The figures for the business segments are adjusted to take account of transactions within the segments. The transition to Group figures results from the data shown in the “Consolidation/Other” column, which contains the consolidation figures for transactions between segments and the data for companies and business segments which cannot be clearly assigned to the segments shown.

Statement of changes in shareholders' equity

in EUR '000

	Subscribed capital	Capital reserve	Group equity generated	Revaluation surplus	Accumulated other consolidated results	
					Foreign exchange differences	Other neutral transactions
Equity on 1 January 2004	40,320	136,382	299,467	67,485	—	—
Issue of shares	—	—	—	—	—	—
Dividens paid	—	—	– 11,520	—	—	—
Change in scope of consolidation	—	—	– 311	– 52	—	—
Other changes	—	—	– 910	—	1,083	—
Consolidated net income for the year	—	—	8,874	—	—	—
Other consolidated results	—	—	—	26,659	—	—
Total consolidated result	—	—	8,874	26,659	—	—
Equity on 31 December 2004	40,320	136,382	295,600	94,092	1,083	—
Issue of shares	—	—	—	—	—	—
Dividends paid	—	—	– 11,520	—	—	—
Change in scope of consolidation	—	—	– 196,265	– 137,996	– 1,441	—
Other changes	—	—	215,346	—	1,207	—
Consolidated net income for the year	—	—	20,946	—	—	—
Other consolidated results	—	—	—	167,095	—	—
Total consolidated result	—	—	20,946	167,095	—	—
Equity on 31 December 2005	40,320	136,382	324,107	123,191	849	—

Shareholders' equity excl. minority interests	Minority interests	Accumulated other consolidated results		Shareholders' equity minority interests	Group equity
		Foreign exchange differences	Other neutral transactions		
543,654	84,118	—	—	84,118	627,772
—	—	—	—	—	—
– 11,520	– 3,178	—	—	– 3,178	– 14,698
– 363	– 272	—	—	– 272	– 635
173	5,656	– 1,581	—	4,075	4,248
8,874	696	—	—	696	9,570
26,659	4,651	—	—	4,651	31,310
35,533	5,347	—	—	5,347	40,880
567,477	91,671	– 1,581	—	90,090	657,567
—	—	—	—	—	—
– 11,520	– 2,618	—	—	– 2,618	– 14,138
– 335,702	– 10,212	2,229	—	– 7,983	– 343,685
216,553	– 18,186	– 967	—	– 19,153	197,400
20,946	– 726	—	—	– 726	20,220
167,095	11,416	—	—	11,416	178,511
188,041	10,690	—	—	10,690	198,731
624,849	71,345	– 319	—	71,026	695,875

Notes to the Consolidated Financial Statements

Accounting regulations

The present consolidated financial statements of NÜRNBERGER Beteiligungs-Aktiengesellschaft for the financial year from 1 January to 31 December 2005 have for the first time been prepared according to International Financial Reporting Standards (IFRS) in conformity with Section 315a, paragraph 1 of the German Commercial Code (HGB) in conjunction with Article 4 of Regulation (EG) No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards.

All standards and interpretations which have been implemented in European law through EU regulations (EG) have been taken into account in the present consolidated financial statements for 2005 as the year under review and for the prior year 2004.

Since April 2001, the standards issued by the International Accounting Standards Board (IASB) have been designated "International Financial Reporting Standards" (IFRS); the regulations issued in prior years continue to be designated "International Accounting Standards" (IAS). Unless reference is explicitly made to a specific standard, we have employed the two terms synonymously in our Notes.

All IFRS, the application of which was prescribed for the years under review, and all interpretations approved by the International Financial Reporting Interpretations Committee or its predecessor, the Standing Interpretations Committee (IFRIC and SIC) have been taken into account for the consolidated financial statements. The commercial requirements specified in Section 315a, paragraph 1 of the German Commercial Code (HGB) have additionally been taken into account.

The Group Management Report has been prepared in conformity with the requirements of Section 315 of the German Commercial Code (HGB), taking into account the German Accounting Standards (Deutsche Rechnungslegungs Standards, DRS) approved by the German Standardization Council of the German Accounting Standards Committee (DRSC – Deutsches Rechnungslegungs Standards Committee e.V., Berlin) and announced by the Federal Ministry of Justice with regard to financial reporting (DRS 15) and risk reporting (DRS 5, DRS 5–20).

Explanatory notes relating to underwriting risks and investment risks are presented as required by IFRS 4.39 and IAS 32.52 in the section "Risk report" of the Group Management Report.

Basic data

NÜRNBERGER Beteiligungs-Aktiengesellschaft has its legal domicile in Nuremberg, Federal Republic of Germany.

In keeping with its articles of association, the company heads a group of insurance companies and holds participations in insurance companies, as well as others. In addition, it engages in investment business, services of every kind including counselling services (but excluding legal advice and tax consulting), as well as mediation services.

The company is authorized to undertake all transactions and measures deemed conducive to serving the company's object. It may set up, take over or participate in other firms, run other firms or limit its activities to management of its participation. Within the scope of its corporate object, the company is entitled to take out loans and to issue debentures.

The company operates in Germany and other countries.

Scope of consolidation

In addition to NÜRNBERGER Beteiligungs-Aktiengesellschaft as the parent company, the scope of consolidation also encompasses 54 (66) subsidiaries in conformity with the requirements of IAS 27 and SIC-12, including eight domestic insurance companies, a pension insurance fund, two foreign insurance companies, a pension fund, a bank and a provider of communication services.

Two companies, including one domestic insurance company, have been included in the consolidated financial statements on a pro rata basis in conformity with IAS 31.

A total of 25 (28) companies over which we exercise substantial influence had to be valued at equity as associated companies in conformity with IAS 28.

One subsidiary, for which timely availability of the figures required for the consolidated financial statements could not be guaranteed, has been recognized at amortized cost. Two subsidiaries of a company consolidated on a pro rata basis have not been included in the consolidation, as they are insignificant from a Group vantage, their aggregate sales accounting for distinctly less than 1 % of Group sales.

Additions:
A specialized securities fund was launched in the financial year 2005 and included in the consolidation for the first time.

Details concerning this addition are as follows:

Name:	MERLIN Master Fonds INKA
Date of acquisition:	18 August 2005 to 16 December 2005
Share acquired:	100.00 %
Acquisition cost:	EUR 1,766,400,000
Goodwill:	—
Income from participation:	—
Net income for the year:	EUR 168,000

We have also taken over the 26 % stake previously held by third parties in the share capital of our consolidated subsidiary GARANTA Versicherungs-AG.

Disposals:
Twelve subsidiaries were sold or wound up in the year under review, including three special securities funds and four property companies. One subsidiary is no longer included in the scope of consolidation following its absorption within the Group. Three companies valued at equity were sold off in the year under review.

The prior year's figures have been calculated on the same basis as those for the financial year 2005.

The opening IFRS balance sheet as at 1 January 2004 includes 53 companies which were essentially sold off prior to 30 September 2004. In conformity with IFRS 5, these companies have been classified as non-current assets held for sale and recognized at fair value less costs to sell in the amount of EUR 29.4 million.
At 1 January 2004, the carrying amount of these companies totalled EUR 408.8 million. They generated sales revenues totalling EUR 1.074 billion in the financial year 2003.

Seven specialized and retail investment funds which had been sold off or wound up by 30 September 2004 were similarly classified as non-current assets held for sale in conformity with IFRS 5. These were recognized in the opening balance sheet as at 1 January 2004 at fair value less costs to sell in the amount of EUR 355.7 million. Sale of the units in the investment funds and their dissolution added EUR 1.0 million to the consolidated result for 2004.

Effects of the transition to IFRS

The transition to IFRS has fundamentally altered our consolidated financial statements. The most important changes are outlined below.

IAS 39 requires that a large portion of the investments be accounted for at market values. This results in greater volatility of the corresponding asset items, as well as of the Group equity and consolidated result.

Internally generated intangible assets, such as software applications, must be capitalized according to IAS 38 and depreciated over their economic life.

The group of subsidiaries is more strictly defined through the so-called control relationship than was the case under commercial law provisions. Even without a capital stake or voting majority, the scope of consolidation must also include companies which are effectively controlled and whose financial opportunities and risks must predominantly be ascribed to NÜRNBERGER Beteiligungs-Aktiengesellschaft or its subsidiaries.

The claims equalization provisions and similar provisions do not constitute provisions as defined by IFRS and therefore had to be revaluated as Group equity as at 1 January 2004. This increases the volatility of consolidated result.

When preparing the opening IFRS balance sheet as at 1 January 2004 (taking over the assets and liabilities in accordance with IFRS requirements), we proceeded as follows:

Owner-occupied land and buildings and land and buildings used by third parties, as well as other property, plant and equipment and acquired intangible assets are recognized at fair value.

Compound financial instruments for which a liability component is no longer outstanding were not split into two separate equity components as permitted by IFRS 1.23.

The carrying amounts of assets and liabilities acquired in the past in conjunction with business combinations have been recorded in conformity with IFRS 1.15 without retrospective application of IAS 22 and IFRS 3, taking into account possible impairments in accordance with IFRS.

Within the framework of the transition, cumulative actuarial gains and losses from the recognition of employee benefits have been recorded in equity as the difference in value between commercial law requirements and IFRS in conformity with IFRS 1.20.

Both the opening IFRS balance sheet as at 1 January 2004 and the financial statements as at 31 December 2004 were prepared, as a matter of principle, on the basis of the information available on 16 February 2004 and 15 February 2005, as the dates for preparation of the corresponding consolidated financial statements in accordance with German Commercial Code. In the case of companies not recorded in the consolidated financial statements under German Commercial Code, we have based the opening IFRS balance sheet on the information available at the time of preparing the respective annual financial statements as at 31 December 2003 in autumn 2004 and as at 31 December 2004 in autumn 2005.

The following summary presents the reconciliation of Group equity from the previous accounting in accordance with German Commercial Code to IFRS at the transition date 1 January 2004:

	EUR '000
Group equity in the annual financial statements as at 31 December 2003 according to German Commercial Code	607,698
Capitalization of internally generated intangible assets	30,279
Reversal of claims equalization provision and similar provisions	162,711
Revaluation of pension provisions including the recognition in liabilities of obligations owing to the benefit fund	– 151,063
Revaluation of properties	1,895
Revaluation of financial instruments	– 102,906
Formation of deferred taxes	– 16,180
Formation of deferred provision for premium refunds	69,753
Change in minority interests	23,484
Other revaluations	2,101
Group equity in the opening IFRS balance sheet as at 1 January 2004	627,772

The reconciliation of Group equity as at 31 December 2004 is presented in the following table:

	EUR '000
Group equity in the annual financial statements as at 31 December 2004 according to German Commercial Code	614,994
Capitalization of internally generated intangible assets	32,257
Reversal of claims equalization provision and similar provisions	169,212
Revaluation of pension provisions including the recognition in liabilities of obligations owing to the benefit fund	– 144,195
Revaluation of properties	8,241
Revaluation of financial instruments	96,974
Formation of deferred taxes	– 6,160
Formation of deferred provision for premium refunds	– 134,839
Change in minority interests	25,771
Other revaluations	– 4,688
Group equity in the IFRS financial statements as at 31 December 2004	657,567

The following table presents the reconciliation of consolidated result for 2004 from German Commercial Code requirements to IFRS:

		EUR '000
Consolidated result after tax at 31 December 2004 according to German Commercial Code		18,012
+ Cancellation of the change in claims equalization provision and similar provisions		6,581
+ Change in pension provisions including the recognition in liabilities of obligations owing to the benefit fund		7,660
+ Reduction in amortization of goodwill		12,603
+ Income from deferred provision for premium refunds		30,146
+ Income from recognition of deferred taxes		20,678
+ Change in results of associated companies		1,254
+ Revaluation of financial instruments with impact on profit or loss		5,318
– Change in gains on disposal of properties due to recognition at fair value	–	15,014
– Change in scope of consolidation	–	79,148
+ Other differences		1,481
Consolidated result after tax as at 31 December 2004 according to IFRS		9,571

These changes also have a substantial impact on the availability and development of the financial resources fund in the consolidated cash flow statement for 2004. First and foremost, this concerns further delimitation of the scope of consolidation according to IFRS and particularly the inclusion of special funds. Non-cash items in the cash flow statement primarily change as a result of the values recognized for investments, property, plant and equipment, as well as intangible assets according to IFRS.

Consolidation principles

As a matter of principle, 31 December is the balance sheet date for all consolidated companies. Some special funds have other balance sheet dates and are consolidated as at 31 December on the basis of interim financial statements.

Capital consolidation is performed according to the purchase method. To quantify the equity capital at the time of acquisition, we have measured the subsidiaries' assets and liabilities at fair value.

Uniform accounting policies for the entire Group are applied for measurement of the subsidiaries' assets, liabilities and equity capital. The acquisition costs of the participation are set off against the fair value of the subsidiary's prorated equity apportionable to the parent company at the time of acquisition; any positive residual amount is capitalized as goodwill tested for impairment at least once per year.

Profits earned by the subsidiaries after initial consolidation is included in the consolidated retained earnings, insofar as it does not constitute minority interest income.

The shares reported in the balance sheet and income statement as being held by other shareholders represent the minority interests held in the equity and result for the year of the subsidiaries concerned.

Receivables and liabilities, as well as expenses and income resulting from intra-Group transactions are eliminated unless they are determined as not being material. The same also applies for gains and losses resulting from the intra-Group sale of investments. Transactions between affiliated companies are performed in accordance with market conditions.

Accounting policies

The individual financial statements of the subsidiaries included in the consolidated financial statements are based on uniform accounting policies. Appropriate adjustments have been made for the consolidated financial statements in the individual financial statements of major associated companies.

Recognition, measurement and disclosure methods are applied consistently. The effects of changes in accounting policies are recognized in compliance with IAS 8 where applicable.

Recognition and measurement are based on the going-concern principle. Expenses and income are calculated pro rata temporis. They are recognized and disclosed in the period to which they are financially attributable.

Where indicated, assets are tested for impairment in conformity with the requirements of IAS 36 and other relevant standards.

Insurance policies are accounted for in conformity with the requirements of IFRS 4, continuing the methods applied by the consolidated companies as a matter of principle.

Assets

Intangible assets

Goodwill from business combinations is capitalized as an intangible asset with indefinite useful life and shown in the amount of the difference between acquisition cost and net assets acquired of the purchased company based on the fair value in accordance with IFRS 3. They are tested for impairment at least once per year in accordance with the provisions of IAS 36.

The item Other intangible assets essentially comprises purchased and internally generated software. Software programs are recognized at amortized cost less cumulative amortization and possibly cumulative impairment losses. Software is amortized by the straight-line method over a useful life of normally three to five years. Directly attributable costs are recognized for separate project cost centres in order to determine the manufacturing costs of internally generated intangible assets.

Investments

Land and buildings used by third parties
Land and buildings used by third parties are recognized at amortized cost less cumulative amortization on buildings and possibly cumulative impairment losses. Depending on their category, buildings are depreciated by the straight-line method over a total useful life of between 30 and 70 years. The carrying amount is written down if the long-term recoverable amount permanently drops below the carrying amount. A 10 percent decline in fair value below the carrying amount of the property has been defined as the criterion for initiating a review. Impairment losses are recognized as investment expenses in the income statement; reversals of impairment losses are recognized as investment income.

Investments in subsidiaries and associated companies
Investments in subsidiaries and joint ventures which we have not consolidated on account of their subordinate importance are recognized at amortized cost. Investments in associated companies are valued by the equity method at the Group's prorated share in their equity. The earnings of associated companies attributable to the Group are included in the investment result.

Financial instruments
For all financial assets in the category of loans and receivables and all equity instruments, permanent impairments – in contrast to temporary impairments – are recognized at fair value with impact on profit or loss in the income statement (IAS 39.59).

Assets are in all cases written down in the NÜRNBERGER Group upon occurrence of relevant criteria impairing the value of assets, such as those listed below:
- Significant financial difficulties of the issuer
- Highly probable expected bankruptcy of the issuer
- Disappearance of an active market for a financial instrument, due to financial difficulties

In addition, IAS 39.61 stipulates that any significant or prolonged decline in the fair value of investments in equity instruments below their cost shall constitute objective evidence of impairment. For all assets within the scope of IAS 39, we have defined a criterion initiating closer scrutiny for impairment. This criterion is deemed to have been met when the market value or recoverable amount on the balance sheet date is more than 10 % below the carrying amount.

In the case of permanent impairment, the asset is written down as a matter of principle to the fair value at balance sheet date, i.e. to the publicly quoted market price, where available.

The effects of changes in stock and interest yields on the performance of the NÜRNBERGER Group's portfolio are presented in the section "Investment risks" of the Risk Report in the Group Management Report. Only a small percentage of the Group's investments are made in foreign currency. The currency risk is likewise included in the aforementioned section of the Group Management Report.

Purchases and sales of financial instruments are recognized at the value date.

We also participate in securities lending arrangements under which specific securities are lent to other institutions at short notice. For the most part, these lendings concern bonds, stocks and investment certificates. At 31 December 2005, the Group had lent out securities totalling EUR 84.4 million in volume.

The assignment of financial instruments to the categories presented below is defined at the time of purchase.

Loans and receivables
This category encompasses non-derivative loans and receivables with fixed and foreseeable payment arrangements for which there is no active market. In addition to mortgage loans and loans collateralized through land charges, this item also includes registered bonds and promissory notes, as well as other non-fixed-interest securities, insofar as these are not held for trading. The loans and receivables are carried at amortized cost taking account of any impairment. The interest margin of these loans and receivables ranges from 0.0 % to 7.8 %.

Held to maturity
This category encompasses fixed-interest securities which are held to maturity. The securities are carried at amortized cost taking account of any impairment. Term money running for more than 90 days is recognized under this item.

Available for sale
Securities available for sale encompass those which are neither held to maturity nor acquired for short-term trading, insofar as an active market exists for such securities. The item encompasses stocks and investment certificates. Insofar as an active market exists for the instruments concerned and they are not instruments held for trading, bearer bonds and other fixed-interest securities are also recorded under this item.
The instruments are recognized at their fair value on the balance sheet date. The fair value of listed securities is determined by the stock price on the balance sheet date. The fair value of unlisted securities is determined with the aid of yield curves.
For instruments in this category, unrealized gains and losses resulting from the difference between fair value and cost or amortized cost (in the case of fixed-interest securities) are recognized in equity without impact on profit or loss after deduction of deferred taxes and deferred provision for premium refunds, if applicable (revaluation surplus).
Permanent impairments, on the other hand, are recognized at fair value with impact on profit or loss in the income statement. Impairment testing is performed with due regard for the checklist specified in IAS 39.59 with reference to objective significant impairments. In addition, IAS 39.61 stipulates that if the fair value of equity investments drops significantly below their cost, this constitutes objective evidence of impairment. A subsequent reversal of the impairment of equity instruments cannot be written-up with impact on profit or loss. In such cases, the write-up is recognized through the revaluation surplus. Insofar as the instrument concerns borrowed capital, the reversal is written-up to the amount of the original cost with impact on profit or loss.

Financial instruments, held for trading (fair value through profit and loss)
This category encompasses those financial instruments which are held for short-term investment. Such instruments are purchased with the intention of obtaining the maximum possible yield from short-term fluctuations in market price. The category also includes all derivative financial instruments which do not fulfil the criteria for hedge accounting.
In addition, the item also includes financial instruments which were assigned to this category in accordance with the fair-value option at the time of acquisition.
The financial instruments held for trading are recognized at fair value. Their performance is recorded with impact on profit or loss after deduction of deferred taxes and deferred provision for premium refunds where applicable. If stock prices are not available as market values, the derivatives in particular are recognized in accordance with standard valuation principles. Since the unrealized gains and losses resulting from fluctuations in market value are recognized at fair value with impact on profit or loss in the income statement, fluctuations in the market value of financial instruments held for trading will always have an impact on profit or loss, regardless of their sustainability.
Gains or losses on disposal are recognized as the difference between the proceeds from sale and the fair value at the last balance sheet date.

Other investments
This item encompasses deposits with banks and other investments. These are recognized at par value.

Investments on account and at risk of life and general accident insurance policyholders

Units held in the investment fund for unit-linked life insurance are reported under this item and are recognized at the fair value on the balance sheet date, as required by IAS 39. Unrealized gains and losses from these investments are recognized with impact on profit or loss.

Underwriting provisions, ceded

Ceded underwriting provisions are recognized as assets. They are not set off. Detailed disclosures concerning measurement can be found in the explanatory notes on underwriting provisions.

Other non-current assets

Owner-occupied properties
Land and buildings in own use are recognized at amortized cost less cumulative amortization on buildings and possibly cumulative impairment losses. Depending on their category, buildings are depreciated by the straight-line method over a total useful life of between 30 and 70 years. The carrying amount is written down if the long-term recoverable amount permanently drops below the carrying amount. A 10 percent decline in fair value below the carrying amount of the property has been defined as the criterion for initiating a review.

Other non-current property, plant and equipment
Other non-current property, plant and equipment are recognized at amortized cost less cumulative amortization and possibly cumulative impairment losses. Depending on their category, depreciation is performed over a total useful life of between three and 20 years. Assets capitalized at a price of less than or equal to EUR 476 are written off in full in the year of acquisition.

Deferred tax assets
IAS 12 stipulates that deferred tax assets must be presented if asset items must be recognized at a lower value, or liability items at a higher value in the consolidated balance sheet than in the tax account of the Group company concerned and if these differences will be equalized with effect on taxes in the future (temporary differences). Also included are deferred tax assets deriving from tax loss carryforwards. The deferred taxes are calculated at the tax rates applicable to the individual Group company. Any changes in tax rates adopted before the balance sheet date are taken into account.

Deferred taxes on loss carryforwards and tax-deductible temporary differences are capitalized insofar as positive tax results of a sufficient amount to realize the deferred taxes are expected in future. Deferred taxes on tax loss carryforwards and temporary differences which have already been capitalized must be adjusted if the future realization of these deferred tax assets is no longer probable.

Insofar as temporary differences with impact on profit or loss arise, the associated deferred taxes are also recognized at fair value with impact on profit or loss in the income statement. On the other hand, the deferred taxes are recognized directly in equity if the corresponding temporary difference is without impact on profit or loss.

Receivables

This item encompasses accounts receivable on primary insurance business, accounts receivable on reinsurance business, tax assets and other receivables.

Accounts receivable on primary insurance business and accounts receivable on reinsurance business are carried at face value. General value adjustments have been formed on the basis of experience and carried as assets to cover the general credit risk for receivables due and not yet due from policyholders. Appropriate individual value adjustments have also be made for receivables from insurance intermediaries.

Other receivables are carried at face value minus required depreciation or individual value adjustments.

Cash with banks, cheques and cash in hand

Cash and cheques are accounted for at their face value.

Other current assets

Other current assets are recognized at amortized cost as a matter of principle.

Equity and Liabilities

Shareholders' equity

The items Issued capital and Capital reserve contain the sums paid in by the shareholders in NÜRNBERGER Beteiligungs-Aktiengesellschaft on their shares. Retained earnings encompass the profits generated and retained by Group companies since becoming part of the NÜRNBERGER Group, as well as income and expenses from consolidation measures. Effects due to the transition to IFRS which would have impacted earnings prior to 1 January 2004 have similarly been recognized in retained earnings at 1 January 2004. Unrealized gains and losses from the recognition of securities available for sale at fair value are posted to the item Other reserves (revaluation surplus), as are exchange differences resulting from currency translations by foreign subsidiaries.

Adjustment item for minority interests in shareholders' equity
This item encompasses those shares in the shareholders' equity of subsidiary companies which are not held directly or indirectly by NÜRNBERGER Beteiligungs-Aktiengesellschaft.

Subordinated liabilities

Subordinated liabilities are recognized at amortized cost.

Underwriting provisions

Where permitted by IFRS 4, the accounting policies applied by the companies included in the consolidated financial statements at 31 December 2004 are continued for the underwriting provisions.
Underwriting provisions in the consolidated financial statements according to IFRS comprise the unearned premiums, the provision for future policy benefits, the provision for outstanding claims, the provision for premium refunds and the other underwriting provisions.
IFRS 4 prohibits the recognition in liabilities of claims equalization provisions and similar provisions to be formed in property and casualty insurance under national regulations. These provisions have therefore been reclassified as Group equity as at 1 January 2004. The smoothing effect of changes in the claims equalization provision recorded in the commercial law accounts of the property and casualty insurance companies is eliminated under IFRS.
Calculation of the underwriting provisions for primary insurance business is based as a matter of principle on the gross values in each case. The portions for business ceded to reinsurance are calculated in accordance with contractual arrangements and recognized separately on the assets side as required by IFRS 4.
Provisions for assumed reinsurance have been formed in accordance with the instructions of the ceding companies. The provisions for such contracts are based on estimates insofar as instructions were not provided by the ceding companies.

Unearned premiums
Unearned premiums represent the portion of premium income already collected which is attributable to future periods. They are determined individually for every insurance policy as a matter of principle and recorded pro rata temporis on a daily basis. In marine insurance, the unearned premiums are included in the provision for outstanding claims.

Provision for future policy benefits
The provision for future policy benefits is formed according to actuarial principles as the present value of future benefits less the present value of premiums still to be paid (prospective method), unless the investment risk is borne solely by the policyholder and the reserve does not concern the contingent rights to reduced premiums in old age formed in health insurance.

The following rule applies in these exceptional cases: if the investment risk is borne solely by the policyholder, the provision for future policy benefits is recognized in the amount of the fair value of the corresponding investments in each case. Contingent rights to reduced premiums in old age are recognized in the amount of the current entitlement.

The actuarial bases applied for determining the provision for future policy benefits according to the prospective method have been cautiously selected in accordance with the requirements of supervisory and commercial law.

In property and casualty insurance, the correspondingly formed provision for future policy benefits for pensions is included in the provision for outstanding claims. The provision for future policy benefits for premium exemption in general accident insurance is calculated without probability tables as the annuity certain present value for the premium-free time.

The average actuarial interest rate for business in force equals 3.4 % in life insurance and 3.0 % in pension business. In most cases, we use the highest rate permitted by law at the time of concluding the policy as actuarial interest rate. In health insurance, the actuarial interest rate is generally 3.5 %, which is the highest such rate currently permitted. In property and casualty insurance, the interest rate for provision for future policy benefits equals 3.3 % on average.

In the segments Life, Pension Business and Property and Casualty Insurance, the provision for future policy benefits is calculated with the aid of probability tables, especially for mortality and the disability risk. All these tables are based on data collected nationwide or industry-wide. A different procedure is normally applied for policies concluded since 1994 in life insurance for the death risk, endowment insurance and disability insurance; in these cases, we use tables based on our own experience. For cash value life insurance, we have developed a mortality table based on observations in our portfolios over many years. A total of 7.3 million risks were evaluated over a period of nine years for this purpose. Our disability table without differentiation according to occupational groups is based on own business over six successive years, with one million risks altogether. Results from own business over a period of five years have been incorporated into the differentiated disability table, with differentiation according to the four occupational groups in each case. A total of 3.4 million risks were considered in all occupational groups and over the complete period of time. The raw data were also differentiated according to sex for all tables. All the tables used were derived from corresponding observations, with equalization of random fluctuations and inclusion of safety loadings for the risk of error, change and fluctuation. Where insurance includes the longevity risk, a future decrease in mortality rates has additionally been taken into account through a trend which is dependent on the insured community.

In health insurance, we apply assumptions on lapse and medical expenses based on own experience with due regard for reference values collected throughout the industry.

The same actuarial bases are used as a matter of principle for calculating provisions as for calculating premiums. Exceptions only apply in the Property and Casualty Insurance segment and in annuity insurance in the Life and Pension Business segments.

The reduction in mortality has not slowed as assumed in the tables applied to date for measuring the provision for future policy benefits for annuity policies in the Life and Pension Business segments. We have therefore modified the probability tables and increased the provision for future policy benefits, while at the same time reducing the receivables not yet due from policyholders. This has resulted in expenses of EUR 5.0 million in Life and EUR 3.4 million in Pension Business. Assumptions for determining the provision for future policy benefits for pensions in Property and Casualty Insurance are similarly being revised to take account of the observed reduction in mortality. In keeping with a recommendation by the German Association of Actuaries (DAV), we have increased our provision for future policy benefits for pensions by EUR 2.6 million gross in anticipation of the expected result.

One or more of the actuarial bases applied (medical expenses, interest, mortality, lapse, loadings) are adjusted under certain circumstances in German private health insurance. Such adjustments also affect the premiums payable under policies in force. The only premium adjustment for the financial year 2005 became effective at 1 January 2005. In addition to the medical expenses for the tariffs concerned, the other actuarial bases were also adjusted in part. However, the actuarial interest rate remained unchanged in all cases. For the policyholders concerned, the increase in premiums was limited through single premiums in the amount of EUR 3.1 million from the provision for premium refunds. This yielded an increase of EUR 0.1 million in monthly target premiums.

Provision for outstanding claims

The provision for outstanding claims (loss reserve) encompasses future benefit commitments for claims, the amount and time of which is normally not yet known. An estimated amount is recognized for discharging these commitments and for forming the provision for future policy benefits needed to cover them. The estimate is formed using methods based on company experience. The provision for future policy benefits for pensions recognized in property and casualty insurance is included here. The comments made above with regard to the provisions for future policy benefits also apply here.

Provisions for claims reported at balance sheet date are calculated individually for each loss event. Our claims management system ensures that reserves are subject to permanent controlling. The calculated reserves are augmented by qualified estimates for events which have occurred prior to the balance sheet date but which have not yet been reported at balance sheet date, so-called IBNR losses. Current trends and past experience are taken into account here.

For timely preparation of the annual financial statements, the portfolio closing dates were brought forward to the period between 28 and 30 November 2005. Losses incurred between these dates and the period end were estimated using appropriate methods.

In addition to direct claims settlement costs, such as lawyers' fees, court fees and cost of litigation or expenses for external experts, partial provisions must also be formed in accordance with statutory guidelines for indirect claims settlement costs (prorated internal company expenses). Expenses probably incurred for the settlement of claims after the balance sheet date are also allocated to these partial provisions. In non-life insurance, we calculate a modified cost rate based on the settlement expenses paid and claims settled; this rate is applied to outstanding claims and recognized in curtailed form. It is recognized as a lump sum in life insurance.

Provision for performance-related and non-performance-related premium refunds

In the segments Life Insurance, Pension Business and Health Insurance, our policyholders participate in profits through direct credits and through the provision for premium refunds. The provision for premium refunds comprises a commercial portion and a deferred portion. The allocation to the commercial portion for which statutory and contractual minimum requirements must be met is decided each year.

In life insurance, the tariffs entitled to share in the profit account for almost the entire portfolio of policies. Insofar as the net investment income for new policies is not already credited within the framework of the actuarial interest, at least 90 % of this income must be allocated to the provision for premium refunds or credited directly to policyholders' accounts, together with a reasonable portion of the risk and cost surplus. In the case of old policies in force, the minimum rate equals 90 % of the unadjusted earnings. In unit-linked life insurance, clients participate directly in the performance of investments held on account and at risk of the policyholders.

At least 90 % of the unadjusted earnings are similarly employed for the profit shares of the pension insurance fund. All policies are entitled to share in profits here. Pension policies issued by the pension fund are not entitled to share in profits.

At least 90 % of the interest surplus (i.e. investment income in excess of the actuarial interest rate) must be credited to the policyholders in medical expenses and voluntary long-term care insurance. This rule affects more than half the entire provision for future policy benefits. More than 95 % of premiums are earned in health insurance operated in the manner of life insurance. At least 80 % of the associated unadjusted earnings from these tariffs must be used for the profit shares; the profit shares already accrued under the ruling on interest surplus may be set off here. We apply the 80 % rule separately for the unadjusted earnings in compulsory long-term care insurance and for those of the other tariffs.

The deferred provision for premium refunds results from the differences between assets and liabilities as recognized according to commercial law and IFRS requirements. Insofar as these balancing items are realized according to commercial law, we must observe our commitments to give policyholders a minimum share in the profit. For life insurance and pension business, 90 % of the aforementioned differences, and 80 % in the case of health insurance, are allocated to the deferred provision for premium refunds or deducted therefrom. We presume that the commitments would currently be met in this way. Deferred taxes are formed for the changes in the deferred provision for premium refunds at individual rates for each company. The deferred provision for premium refunds may be negative in value up to the amount of the free portion of the provision for premium refunds formed according to commercial law.

Other underwriting provisions
Other underwriting provisions include the following in particular:
- Provision for anticipated lapses
- Provision for unused premiums from dormant motor insurance policies
- Provision for anticipated losses

The provision for anticipated lapses is formed in property and casualty insurance for premiums to be refunded due to cancellation or reduction of the underwriting risk. In health insurance, it refers to the credit risk of negative ageing reserves due to excess lapses. Our provision for anticipated lapses is realistically based on empirical values from prior years.
We have formed a provision for unused premiums from dormant motor insurance policies for those motor insurance policies for which cover has temporarily been suspended but for which premiums have already been paid. It is determined on the basis of individual measurement. For investment business, we have set up the provision as instructed by the leading insurer.
Provision for anticipated losses is formed when future premiums and the prorated investment income in an insurance portfolio will probably not suffice to cover the expected losses and costs.

Liabilities from credited profit shares

Liabilities from credited profit shares are stated in the amount of the current entitlement.

Other provisions

Provisions for pensions and similar obligations

Pensions:
Both premium-based (defined contribution) and defined benefit pension plans are offered to employees in the NÜRNBERGER INSURANCE GROUP.

In the case of pension plans with defined contribution, the employers pay a fixed premium or contribution to an insurer or pension fund. The obligation is discharged with payment of the premium or contribution.

Defined benefit plans concern individual, direct contractual promises for members of executive boards and executive employees, as well as indirect pension commitments in the form of a pension fund promise for an internal relief fund within the Group. Beneficiaries include all employees who joined a Group company in the NÜRNBERGER INSURANCE GROUP prior to 1 January 2004. The benefit guidelines of the relief fund were amended with effect from 1 January 2004 so that all new employees joining the Group after this date are no longer eligible to join the group of beneficiaries and, with the exception of a transitional ruling, those already included in the group of beneficiaries at this date cannot acquire any additional pension rights. The nature and amount of pension promised depend on the underlying pension rules. They are normally calculated on the basis of the employee's period of service and salary.

Similar obligations:
These include commitments to pay jubilee benefits on the occasion of a service anniversary, as well as commitments to pay a unique additional lump-sum benefit upon retirement from service due to disability or reaching the age limit. The nature and amount of such benefits are defined in the work rules of the NÜRNBERGER INSURANCE GROUP. Other similar obligations include the entitlement to compensation for commercial agents and service commissions (Austria). For the new partial retirement agreements, the statutory protection of partial retirement credit balances against insolvency has been realized by transferring security capital to a trustee.

Calculation methods and parameters:
Direct and indirect pension commitments in the form of promised benefits are measured in conformity with IAS 19 on the basis of the present value of entitlement. This method takes into account both present and future developments. Measurement is based on the following assumptions:

	31.12.2005	31.12.2004	01.01.2004
	%	%	%
Actuarial interest rate	4.1	4.5 – 4.8	5.0 – 5.5
Expected yield of the fund's assets	4.1	4.5 – 4.8	5.0 – 5.5
Entitlement/salary trend	2.0	2.5	3.0
Fluctuation trend	5.0	5.5	6.0
Annuity trend	2.0	2.5	3.0
Biometrics	RT 2005 G	RT 98	RT 98

RT = Mortality tables of Prof. Dr. Klaus Heubeck

Deferred tax liabilities
IAS 12 stipulates that deferred tax liabilities must be recognized if asset items must be recognized at a higher value, or liability items at a lower value in the consolidated balance sheet than in the tax account of the Group company concerned and if these differences will be equalized with effect on taxes in the future (temporary differences). Further information can be found in the explanatory notes on deferred tax assets.

Miscellaneous provisions
Miscellaneous provisions make reasonable account for recognizable contingent liabilities.

Liabilities

Liabilities are stated at their repayment amount.

Deferred items

The items recorded here concern revenues received prior to the balance sheet date and representing income for a certain time after the balance sheet date. They are presented in relation to the correct periods.

Currency conversion

The reporting currency of NÜRNBERGER Beteiligungs-Aktiengesellschaft is the euro. Amounts in foreign currency were converted in accordance with the functional currency concept at the rates applicable at the period end. All foreign-currency assets and liabilities are valued on an individual basis. Exchange rate gains and losses within a currency are set off against one another. The items in commercial balance sheets prepared in foreign currencies have been converted at period end at the prevailing exchange rates, except in the case of shareholders' equity, which is translated at historical exchange rates. The resultant translation differences are posted to the adjustment item resulting from foreign currency translation which is shown under retained earnings. The items of the income statement are converted at quarterly average exchange rates.

The option permitted by IFRS 1.22 has been adopted by the NÜRNBERGER Group and the translation differences from currency translation of foreign subsidiaries whose national currency is not the euro reset to zero at the date of transition from German Commercial Code to IFRS.

The exchange rates used for converting the financial statements prepared in foreign currencies are as follows (values shown = 1 EUR):

Currency	Period-end rates		Average rates	
	31.12.2005	31.12.2004	2005	2004
Swiss franc	1.5551	1.5429	1.5485	1.5440
US dollar	1.1797	1.3621	1.2449	1.2424

Notes to the Consolidated Balance Sheet (Assets)

(1) Goodwill

Goodwill developed as follows:

	2005 EUR '000	2004 EUR '000
Acquisition cost		
Opening balance at 1 January	153,437	154,485
Currency translation differences	—	—
Changes in the scope of consolidation	– 1,671	47
Additions	9,802	42
Disposals	– 5,752	—
Transfers	—	– 1,137
Closing balance at 31 December	155,816	153,437
Value adjustments		
Opening balance at 1 January	71,215	70,359
Currency translation differences	—	—
Changes in the scope of consolidation	– 1,474	—
Depreciation in the financial year	719	1,197
Disposals	– 575	—
Transfers	—	– 341
Closing balance at 31 December	69,885	71,215
Carrying amount at 31 December	85,931	82,222

Goodwill must be tested for impairment at least once per year and also if there is any indication of impairment.

For the purposes of impairment testing, we have allocated the goodwill existing at 1 January 2004 to so-called cash-generating units. As a matter of principle, these cash-generating units were defined on the level of legal units; certain legal units were combined insofar as sufficient data were not available at this level. The cash-generating units are identified in conformity with the NÜRNBERGER Group's internal reporting structure. A significant portion of the carrying amount of goodwill as at 1 January 2004 was allocated to the unit "CG Car – Garantie Versicherungs-AG", in the amount of EUR 61.5 million.

Within the framework of impairment testing as at 1 January 2004, existing goodwill and goodwill resulting from first-time consolidation was scrutinized for signs of impairment. In the financial year 2005, this regular impairment test resulted in write-downs in the amount of EUR 719,000 (1,197,000). The recoverable amount of the cash-generating units was determined on the basis of their "value in use". Planning data approved by the management served as the basis for this. A detailed planning period of up to five years was assumed. A general extrapolation was performed after this period, a discount for growth only being applied at the capitalization rate of up to 1 % in justified exceptional cases. The discounting rates used lie between 8.3 % and 11.6 %.

(2) Other intangible assets

This item essentially comprises purchased rights of use, software programs and licences.

Their development is illustrated in the following table:

	2005 EUR '000	2004 EUR '000
Acquisition cost		
Opening balance at 1 January	83,751	48,320
Currency translation differences	—	—
Changes in the scope of consolidation	– 107	—
Additions	23,208	39,108
Disposals	– 6,303	– 3,624
Transfers	—	– 53
Closing balance at 31 December	100,549	83,751
Value adjustments		
Opening balance at 1 January	37,425	2,653
Currency translation differences	—	—
Changes in the scope of consolidation	– 83	—
Depreciation in the financial year	13,948	35,453
Disposals	– 1,352	– 679
Transfers	—	– 2
Closing balance at 31 December	49,938	37,425
Carrying amount at 31 December	50,611	46,326

Depreciation on software from insurance companies is broken down according to functional areas (claims expenditure, underwriting expenses and investment expenses) in the income statement.

(3) Land and buildings used by third parties

Development of the item "Land and buildings used by third parties" ("income properties") is illustrated below:

	2005 EUR '000	2004 EUR '000
Acquisition cost		
Opening balance at 1 January	547,882	615,770
Currency translation differences	—	– 1,218
Changes in the scope of consolidation	—	– 15,524
Additions	5,105	28,598
Disposals	– 25,043	– 75,617
Transfers	– 1,534	– 4,127
Closing balance at 31 December	526,410	547,882

	2005 EUR '000	2004 EUR '000
Value adjustments		
Opening balance at 1 January	36,563	13
Currency translation differences	—	—
Changes in the scope of consolidation	—	—
Depreciation in the financial year	36,180	37,502
Disposals	– 917	– 952
Write-ups	—	—
Transfers	—	—
Closing balance at 31 December	71,826	36,563
Carrying amount at 31 December	454,584	511,319

Depreciation includes impairment losses in the amount of EUR 26.1 (26.6) million.

Restrictions on disposal and pledged collateral amounted to EUR 165.4 (166.8) million at balance sheet date. Payments for plant and equipment under construction totalled EUR 0 (29,000). There are no substantial commitments concerning the acquisition of income properties.

The fair value of the income properties amounted to EUR 459.9 (512.5) million at balance sheet date. As a rule, the fair value is determined by internal experts according to the net income value in conformity with the Valuation Regulation (Wertermittlungsverordnung – WerV) and according to valuation guidelines. The fair value of new buildings and purchases is equal to the acquisition cost.

The following totals were recognized in the income statement in the year under review:

	2005 EUR '000	2004 EUR '000
Rental income	23,223	29,604
Operating expenses for income properties for which rental income is obtained	4,528	5,381
Operating expenses for income properties for which rental income is not obtained	—	—

(4) Investments in subsidiaries and associated companies

One subsidiary for which timely delivery of the information required for the consolidated financial statements could not be guaranteed and two subsidiaries of a company consolidated on a pro rata basis have been recognized at amortized cost. This is insignificant from a Group vantage.

Investments in associated companies are valued at equity. The values shown in the consolidated financial statements are increased or decreased by the amount of earnings generated by the companies in the year under review, as well as changes in shareholders' equity prorated in accordance with our participatory interests, with elimination of profit distributions and intergroup profits.

Carrying amounts are as follows:

	2005 EUR '000	2004 EUR '000
Investments in subsidiaries	3,893	4,121
Investments in associated companies	244,325	282,842
	248,218	286,963

The goodwill of all associated companies totalled EUR 18.4 (19.2) million at year-end. As in the previous year, there were no balancing items on the liabilities side. The negative equity values not stated as liabilities amounted to EUR 11.5 (11.0) million at balance sheet date.

(5) Loans

Amortized costs and fair values developed as follows:

	Amortized cost 2005 EUR '000	Fair value 2005 EUR '000	Amortized cost 2004 EUR '000	Fair value 2004 EUR '000
Mortgage loans	1,280,924	1,357,231	1,351,585	1,447,390
Loans and advance payments on insurance policies	85,543	86,204	93,767	94,606
Other loans	208,940	209,665	257,770	258,693
Registered bonds	958,595	997,807	958,834	1,004,316
Promissory notes	1,795,268	1,898,659	1,384,559	1,488,570
Other fixed-interest securities	7,333	7,862	7,554	8,328
	4,336,603	4,557,428	4,054,069	4,301,903

Of the promissory notes, non-consolidated subsidiaries account for EUR 0.6 (0.0) million and associated companies for EUR 30.4 (39.5) million.

Loans have the following contractual terms to maturity:

	Amortized cost 2005 EUR '000	Amortized cost 2004 EUR '000
Up to 1 year	444,352	687,803
Over 1 to 2 years	448,380	367,031
Over 2 to 3 years	324,431	467,451
Over 3 to 4 years	397,034	328,998
Over 4 to 5 years	188,315	402,221
Over 5 to 10 years	1,853,816	1,130,475
Over 10 years	680,275	670,090
	4,336,603	4,054,069

The breakdown according to rating categories is as follows:

	Fair value 2005 EUR '000	Fair value 2004 EUR '000
AAA	2,634,208	2,148,603
AA	42,265	40,146
A	29,966	31,030
BBB	68,247	1,373
BB and lower	—	—
No rating	1,782,742	2,080,751
	4,557,428	4,301,903

The rating categories are based on the classification by leading international rating agencies.

Value adjustments were made in the amount of EUR 31.4 (12.3) million and recognized in the write-downs of investments. Reversals of value adjustments amount to EUR 3.0 (1.9) million and are recognized as investment income.

(6) Financial instruments, held to maturity

At 31 December 2005, these securities had a carrying amount of EUR 2.0 (2.5) million. The stated carrying amount corresponds to the fair value at the balance sheet date.

All financial instruments of this type have a term to maturity of less than one year. The credit risk is virtually non-existent due to the good credit standing of the issuers.

(7) Financial instruments, available for sale

The fair value and amortized cost of the non-interest-bearing and interest-bearing financial instruments available for sale developed as follows:

	Fair value 2005 EUR '000	Amortized cost 2005 EUR '000	Fair value 2004 EUR '000	Amortized cost 2004 EUR '000
Non-interest bearing				
– Stocks and shares	1,184,506	988,426	1,136,920	1,022,034
– Investment certificates	552,687	496,430	351,346	320,938
– Other non-interest-bearing securities	766,626	654,506	687,038	649,371
– Miscellaneous (securities lending)	84,424	70,193	62,299	58,131
	2,588,243	2,209,555	2,237,603	2,050,474

	Fair value 2005 EUR '000	Amortized cost 2005 EUR '000	Fair value 2004 EUR '000	Amortized cost 2004 EUR '000
Interest bearing				
– Promissory notes and loans	359,968	343,684	462,549	430,134
– Registered bonds	970,397	936,518	1,160,699	1,094,287
– Bearer bonds and other fixed-interest securities	3,618,099	3,497,346	3,293,345	3,104,800
	4,948,464	4,777,548	4,916,593	4,629,221
	7,536,707	6,987,103	7,154,196	6,679,695

Measurement at fair value yields an appreciation in value of EUR 549.6 (474.5) million. From this, we have set off unrealized gains and losses in the amount of EUR 29.1 (26.6) million – after deduction of the allocation to provisions for deferred premium refunds, deferred taxes, minority interests and consolidation effects – and recognized this as equity.

The remaining term to maturity of interest-bearing instruments is as follows:

	Fair value 2005 EUR '000	Fair value 2004 EUR '000
Up to 1 year	367,607	404,481
Over 1 to 2 years	440,642	529,830
Over 2 to 3 years	394,254	542,835
Over 3 to 4 years	611,012	492,236
Over 4 to 5 years	199,823	676,624
Over 5 to 10 years	2,333,399	1,878,717
Over 10 years	601,727	391,870
	4,948,464	4,916,593

The breakdown of interest-bearing financial instruments according to rating categories is as follows:

	Fair value 2005 EUR '000	Fair value 2004 EUR '000
AAA	3,575,091	3,502,013
AA	384,704	435,263
A	539,770	334,065
BBB	138,627	415,384
BB and lower	124,863	146,715
No rating	185,409	83,153
	4,948,464	4,916,593

The rating categories are based on the classification by Standard & Poor's. Other rating systems, such as Moody's or Fitch, have only been applied in exceptional cases.

By far the majority of our investments are rated from AAA to A, which proves that our portfolio is essentially made up of securities with excellent ratings.

Value adjustments were made in the amount of EUR 21.2 (127.0) million and are shown as investment expenses. Reversals of value adjustments amount to EUR 0.1 (0.5) million and are recognized as investment income.

(8) Financial instruments, held for trading

This item encompasses interest-bearing securities in the amount of EUR 671.8 (285.4) million, non-interest-bearing securities in the amount of EUR 12.7 (32.3) million and derivatives in the amount of EUR 26.3 (32.9) million.

The fair-value option has been adopted for securities with a fair value of EUR 645.3 (260.2) million. Structured products account for the lion's share.

Derivatives from which a financial commitment has arisen are recognized at fair value in the amount of EUR 20.3 (9.8) million under the item Other liabilities.

Derivatives are financial instruments for which the fair value can be derived from one or more underlying assets. A distinction is made between off-exchange, individually traded, so-called over-the-counter (OTC) products and officially traded, standardized products. Derivatives are used within the individual Group companies in accordance with the respective supervisory regulations and additional internal guidelines. Their purpose is to manage investments with a view to generating profits and essentially serve to protect portfolios from disadvantageous developments in the marketplace. A credit risk is virtually non-existent in the case of officially traded products. OTC derivatives which are traded off the floor, however, do entail a theoretical risk equal to the cost of replacement. We therefore only select counterparties with very good credit standing for our transactions.

The overall volume of derivative transactions completed in the period under review was small in relation to the balance sheet total, as was the volume of items outstanding at the balance sheet date. At the reporting date, the balance of fair values for all portfolio assets and liabilities from derivative transactions amounted to EUR 6.0 (23.1) million, which is less than 0.03 % (0.13 %) of the balance sheet total. The figures are based on listed prices or reporting date measurements using approved measurement methods.

The remaining term to maturity of the set-off derivative items at 31 December 2005 is illustrated in the following table:

	Up to 1 month EUR '000	Over 1 to 3 months EUR '000	Over 3 months to 1 year EUR '000	Over 1 to 5 years EUR '000	Over 5 years EUR '000	Total EUR '000
Equity derivatives/ index derivatives						
Listed	—	– 729	—	4,255	—	3,526
Off-exchange (OTC)	—	—	—	21,446	—	21,446
	—	– 729	—	25,701	—	24,972
Bond derivatives						
Listed	—	—	—	—	—	—
Off-exchange (OTC)	—	—	—	—	—	—
	—	—	—	—	—	—
Currency derivatives						
Listed	—	—	—	—	—	—
Off-exchange (OTC)	– 13,823	14	– 1,287	—	—	– 15,096
	– 13,823	14	– 1,287	—	—	– 15,096
Other derivatives						
Listed	—	—	—	—	—	—
Off-exchange (OTC)	—	—	– 1,772	– 974	– 1,165	– 3,911
	—	—	– 1,772	– 974	– 1,165	– 3,911
	– 13,823	– 715	– 3,059	24,727	– 1,165	5,965

(9) Underwriting provisions, ceded

Ceded underwriting provisions are recognized as assets. They are not set off. Detailed disclosures can be found in (18) Underwriting provisions.

(10) Owner-occupied properties

This item developed as follows:

	2005 EUR '000	2004 EUR '000
Acquisition cost		
Opening balance at 1 January	188,756	182,292
Currency translation differences	—	—
Changes in the scope of consolidation	—	—
Additions	1,497	2,793
Disposals	– 1,467	– 456
Transfers	156	4,127
Closing balance at 31 December	188,942	188,756
Write-downs		
Opening balance at 1 January	3,116	—
Currency translation differences	—	—
Changes in the scope of consolidation	—	—
Write-downs in the financial year	6,592	3,123
Disposals	—	– 7
Transfers	—	—
Closing balance at 31 December	9,708	3,116
Carrying amount at 31 December	179,234	185,640

Write-downs include impairment losses in the amount of EUR 3,479,000 (38,000).

Restrictions on disposal and pledged collateral amounted to EUR 149.2 (149.7) million at balance sheet date. There were no payments for plant and equipment under construction, nor obligations to purchase property.

The fair value of the owner-occupied properties amounted to EUR 183.8 (186.0) million at balance sheet date. As a rule, the fair value is determined by internal experts according to the net income value in conformity with the Valuation Regulation (Wertermittlungsverordnung – WerV) and according to valuation guidelines. The fair value of new buildings and purchases is equal to the acquisition cost.

(11) Other non-current property, plant and equipment

Plant and equipment, technical plant and machinery, as well as tenants' installations are recognized here in particular.

The carrying amount of plant and equipment includes assets in the amount of EUR 0.5 (1.3) million held within the framework of finance leases.

(12) Deferred tax assets

Deferred tax assets are made up as follows:

	Total 2005 EUR '000	Changes with impact on profit or loss 2005 EUR '000	Changes without impact on profit or loss 2005 EUR '000	Total 2004 EUR '000
Intangible assets	2,932	191	—	2,741
Investments	94,460	– 38,178	6,172	126,466
Underwriting provisions, ceded	—	– 581	—	581
Other non-current property, plant and equipment	—	– 110	—	110
Receivables	7,228	– 4,630	– 474	12,332
Other current assets	—	– 638	—	638
Tax loss carryforwards	42,782	36,029	—	6,753
Underwriting provisions	182,668	13,685	17,303	151,680
Other provisions	56,644	– 2,758	– 119	59,521
Liabilities	6,065	– 279	—	6,344
Deferred items	—	– 34	—	34
	392,779	2,697	22,882	367,200

The disposal of deferred tax assets totalling EUR -2,683,000 due to changes in the scope of consolidation is posted to the changes without impact on profit or loss. Currency translation accounts for EUR 254,000 in the changes with impact on profit or loss in the financial year.

(13) Receivables

The majority of receivables are attributable to underwriting business and comprise accounts receivable from policyholders, intermediaries and reinsurers.

The so-called zillmerization method is applied for the majority of life insurance and pension policies in order to cover the acquisition expenses. With this method, up to 4 % of the undiscounted total premium (new policies) and up to 3.5 % of the sum insured (policies in force and intergroup policies) are shown as accounts not yet receivable from policyholders; those portions of the premium income remaining after covering the regular risks and costs are used to redeem the receivables. When the account has been redeemed, these portions of premium income are used to build up the provision for future policy benefits. The receivable is developed according to the same actuarial bases as the provision for future policy benefits of the policy concerned.

A general value adjustment is made to cover the general credit risk for accounts not yet receivable.

The following tables present the breakdown of receivables arising from policies and their distribution over the respective business segments in the NÜRNBERGER Group:

NÜRNBERGER Life Insurance segment

	2005 EUR '000	2004 EUR '000
Accounts receivable on primary insurance business		
Accounts receivable from policyholders	36,963	38,505
Accounts not yet receivable from policyholders	234,014	273,998
Accounts receivable from intermediaries	45,502	44,168
	316,479	356,671
Accounts receivable on reinsurance business	—	1,107
	316,479	357,778

Capitalization policies with a provision for future policy benefits of EUR 1.3 (0.3) million and written gross premiums of EUR 1.0 (0.3) million (less than one per thousand of the total portfolio in each case) have also been taken into account here. Due to their discretionary entitlement to participate in the profit, they must be treated as insurance policies.

NÜRNBERGER Pension Business segment

	2005 EUR '000	2004 EUR '000
Accounts receivable on primary insurance business		
Accounts receivable from policyholders	827	375
Accounts not yet receivable from policyholders	6,333	8,564
	7,160	8,939

NÜRNBERGER Health Insurance segment

	2005 EUR '000	2004 EUR '000
Accounts receivable on primary insurance business		
Accounts receivable from policyholders	3,662	3,301
Accounts receivable from intermediaries	– 9	– 12
	3,653	3,289

NÜRNBERGER Property and Casualty Insurance segment

	2005 EUR '000	2004 EUR '000
Accounts receivable on primary insurance business		
Accounts receivable from policyholders	39,993	45,164
Accounts receivable from intermediaries	28,300	26,176
	68,293	71,340
Accounts receivable on reinsurance business	13,601	18,312
	81,894	89,652

In all segments, the accounts receivable from policyholders are due entirely to premiums receivable.

The item Other receivables is made up as follows.

	2005 EUR '000	2004 EUR '000
Interest receivable	185,647	187,543
Dividends receivable	1,177	952
Rent income receivable	1,865	2,194
Purchase prices receivable	11,233	18,998
Accounts receivable from mediation of insurance business	3,848	4,157
Accounts receivable from leasing transactions	18,980	16,853
Miscellaneous accounts receivable	146,639	178,431
	369,389	409,128

Of these receivables, EUR 48.6 (47.1) million have a remaining term of more than five years. The remainder is due within one year.

The carrying amount at 31 December 2005 corresponds to the market value of the receivables at the balance sheet date.

(14) Other current assets

This item predominantly comprises prepaid insurance benefits in the amount of EUR 66.9 (44.2) million.

Notes to the Consolidated Balance Sheet (Equity and Liabilities)

(15) Shareholders' equity

The fully paid-up share capital of NÜRNBERGER Beteiligungs-Aktiengesellschaft totals EUR 40,320,000. This is divided into 11,520,000 shares with a mathematical share in the capital stock of EUR 3.50 each. All shares are voting shares. They comprise 27,188 bearer shares and 11,492,812 registered shares, the latter transferable only with the consent of the Company.
The values shown for issued capital, capital reserve and legal reserve are identical to those recognized in the balance sheet of NÜRNBERGER Beteiligungs-Aktiengesellschaft.
Retained earnings include the sum of EUR 155.4 million from revaluation of the claims equalization provision and similar provisions to be formed in property and casualty insurance under national regulations, which sum is barred from distribution by these companies according to national regulations. A sum of EUR 158.9 million has been deducted from retained earnings as a result of adjustments to be made in conjunction with the transition to IFRS and attributable to events and transactions prior to the transition date which must be stated at fair value with impact on profit or loss.
Changes in the revaluation surplus are shown in the development of shareholders' equity.

(16) Adjustment item for minority interests in shareholders' equity

This item primarily concerns minority interests in the share capital of GROGA Beteiligungsgesellschaft mbH, LOMOND Grundstücksgesellschaft mbh & Co. KG, LOVAT Grundstücksgesellschaft mbh & Co. KG, MUROMA Grundstücksgesellschaft mbh & Co. KG and PAX Schweizerische Lebensversicherungs-Gesellschaft (Deutschland) AG.

These minority interests share in the following items as indicated:

	2005 EUR '000	2004 EUR '000
Consolidated result	– 725	697
Remaining shareholders' equity	71,751	89,393
	71,026	90,090

(17) Subordinated liabilities

This item concerns liabilities which can only be satisfied after the claims of other creditors in the event of liquidation or insolvency. They are measured at amortized cost. This means that any premiums or discounts are added to or subtracted from the acquisition cost by the effective interest rate method with impact on the income statement until the redemption amount becomes payable.

The breakdown according to maturities is as follows:

	2005 EUR '000	2004 EUR '000
Up to 1 year	101	—
Over 1 to 2 years	—	—
Over 2 to 3 years	—	—
Over 3 to 4 years	—	—
Over 4 to 5 years	—	—
Over 5 to 10 years	4,300	2,300
Over 10 years	182,000	80,000
	186,401	82,300

The subordinated liabilities existing at 31 December 2005 with a remaining term to maturity of more than one year earn interest at the following rates until 2013:

Interest rate in %	EUR '000
4.360	2,000
5.000 – 5.400	24,000
5.625	100,000
5.950	25,000
6.000	35,300
	186,300

Liabilities with a remaining term to maturity of more than ten years include loans in the amount of EUR 180.0 million with a special right of termination by the NÜRNBERGER INSURANCE GROUP as from 2013. From this date onwards, the interest rates for these loans would lie between 2.25 and 3.50 % plus 3-month euro interbank offered rate.

(18) Underwriting provisions

The breakdown of underwriting provisions and their changes is presented separately for the individual business segments:

NÜRNBERGER Life Insurance segment

	Opening balance 2004 EUR '000	Change in financial year 2004 EUR '000	thereof without impact on profit or loss 2004 EUR '000	thereof with impact on profit or loss 2004 EUR '000	Closing/ opening balance 2004/2005 EUR '000	Change in financial year 2005 EUR '000	thereof without impact on profit or loss 2005 EUR '000	thereof with impact on profit or loss 2005 EUR '000	Closing balance 2005 EUR '000
Unearned premiums									
Gross	85,342	– 2,929	– 80	– 2,849	82,413	– 1,544	– 54	– 1,490	80,869
Share ceded to reinsurance	– 597	295	—	295	– 302	– 258	—	– 258	– 560
Net	84,745	– 2,634	– 80	– 2,554	82,111	– 1,802	– 54	– 1,748	80,309
Provision for future policy benefits									
Gross	9,515,348	120,995	—	120,995	9,636,343	169,950	—	169,950	9,806,293
Share ceded to reinsurance	– 261,759	33,442	—	33,442	– 228,317	– 16,710	—	– 16,710	– 245,027
Net	9,253,589	154,437	—	154,437	9,408,026	153,240	—	153,240	9,561,266
Provision for outstanding claims									
Gross	128,549	15,636	—	15,636	144,185	13,817	—	13,817	158,002
Share ceded to reinsurance	– 5,709	– 1,895	—	– 1,895	– 7,604	– 451	—	– 451	– 8,055
Net	122,840	13,741	—	13,741	136,581	13,366	—	13,366	149,947
Provision for premium refunds									
Gross = Net	545,813	200,180	143,417	56,763	745,993	248,036	– 16,409	264,445	994,029
– thereof: deferred provision for premium refunds	– 69,047	203,764	231,917	– 28,153	134,717	186,427	75,310	111,117	321,144
Other underwriting provisions									
Gross = Net	326	73	—	73	399	44	—	44	443

Capitalization policies with a provision for future policy benefits of EUR 1.3 (0.3) million and written gross premiums of EUR 1.0 (0.3) million (less than one per thousand of the total portfolio in each case) have also been taken into account here. Due to their discretionary entitlement to participate in the profit, they must be treated as insurance policies.

The provision for outstanding claims includes both the provision for reported claims and the lump-sum provision for claims incurred but not yet reported.

Provisions for future policy benefits are formed in order to discharge our contractual obligations (items C.II. and E. on the Equity and Liabilities side of the balance sheet). This is done for each individual policy when the associated receivables not yet due from the policyholder have been redeemed from premiums. The following table presents the main factors influencing changes in the balance of provisions for future policy benefits and accounts receivable:

	2005 million EUR	2004 million EUR
Opening balance		
Provision for future policy benefits (C.II.)	9,636.3	9,515.3
Provision for future policy benefits (E.)	2,960.3	2,615.5
Accounts not yet receivable	– 274.0	– 222.3
	12,322.6	11,908.5
Allocation from premiums[1)]	1,312.2	1,323.3
Actuarial interest	311.5	321.8
Changes due to outpayments	– 1,353.6	– 1,455.1
Miscellaneous	891.9	224.1
Closing balance	13,484.6	12,322.6
– thereof: provision for future policy benefits (C.II.)	9,806.3	9,636.3
– thereof: provision for future policy benefits (E.)	3,912.3	2,960.3
– thereof: accounts not yet receivable	– 234.0	– 274.0

[1)] The breakdown of movements in 2005 has been determined on the basis of a provisional breakdown of income.

NÜRNBERGER Pension Business segment

	Opening balance 2004 EUR '000	Change in financial year 2004 EUR '000	thereof without impact on profit or loss 2004 EUR '000	thereof with impact on profit or loss 2004 EUR '000	Closing/ opening balance 2004/2005 EUR '000	Change in financial year 2005 EUR '000	thereof without impact on profit or loss 2005 EUR '000	thereof with impact on profit or loss 2005 EUR '000	Closing balance 2005 EUR '000
Unearned premiums									
Gross = Net	18	193	—	193	211	145	—	145	356
Provision for future policy benefits									
Gross	24	5,574	—	5,574	5,598	11,172	—	11,172	16,770
Share ceded to reinsurance	—	—	—	—	—	– 135	—	– 135	– 135
Net	24	5,574	—	5,574	5,598	11,037	—	11,037	16,635
Provision for outstanding claims									
Gross = Net	—	2	—	2	2	21	—	21	23
Provision for premium refunds									
Gross = Net	468	1,662	– 31	1,693	2,130	3,075	– 6	3,081	5,205
– thereof: deferred provision for premium refunds	467	1,448	42	1,406	1,915	2,725	85	2,640	4,640

The provision for outstanding claims includes both the provision for reported claims and the lump-sum provision for claims incurred but not yet reported.

Provisions for future policy benefits are formed in order to discharge our contractual obligations (items C.II. and E. on the Equity and Liabilities side of the balance sheet). This is done for each individual policy when the associated receivables not yet due from the policyholder have been redeemed from premiums.

The following table presents the main factors influencing changes in the balance of provisions for future policy benefits and accounts receivable:

	2005 EUR '000	2004 EUR '000
Opening balance		
Provision for future policy benefits (C.II.)	5,598	24
Provision for future policy benefits (E.)	1	—
Accounts not yet receivable	– 8,564	– 144
	– 2,965	– 120
Allocation from premiums[1]	31,705	7,176
Actuarial interest	296	81
Changes due to outpayments	117	26
Miscellaneous	– 13,079	– 10,128
Closing balance	16,074	– 2,965
– thereof: provision for future policy benefits (C.II.)	16,770	5,598
– thereof: provision for future policy benefits (E.)	5,637	1
– thereof: accounts not yet receivable	– 6,333	– 8,564

[1] The breakdown of movements in 2005 has been determined on the basis of a provisional breakdown of income.

NÜRNBERGER Health Insurance segment

	Opening balance 2004 EUR '000	Change in financial year 2004 EUR '000	thereof without impact on profit or loss 2004 EUR '000	thereof with impact on profit or loss 2004 EUR '000	Closing/ opening balance 2004/2005 EUR '000	Change in financial year 2005 EUR '000	thereof without impact on profit or loss 2005 EUR '000	thereof with impact on profit or loss 2005 EUR '000	Closing balance 2005 EUR '000
Unearned premiums									
Gross = Net	414	14	—	14	428	14	—	14	442
Provision for future policy benefits									
Gross = Net	105,785	31,441	—	31,441	137,226	39,756	—	39,756	176,982
Provision for outstanding claims									
Gross = Net	12,490	1,449	—	1,449	13,939	2,242	—	2,242	16,181
Provision for premium refunds									
Gross = Net	33,028	9,293	84	9,209	42,321	3,320	– 1,331	4,651	45,641
– thereof: deferred provision for premium refunds	3,737	2,438	2,779	– 341	6,175	1,520	2,106	– 586	7,695
Other underwriting provisions									
Gross = Net	27	4	—	4	31	– 11	—	– 11	20

Recourse claims in the amount of EUR 103,000 (78,000) have already been deducted from the provision for outstanding claims.

The following table presents the development of provision for future policy benefits for all our calculated tariffs. The compulsory long-term care insurance operated under the aegis of the Association of Private Health Insurers is excluded:

	2005 EUR '000	2004 EUR '000
Opening balance		
Provision for future policy benefits (carrying amount)	137,226	105,785
– Share for compulsory long-term care insurance	– 27,572	– 22,983
	109,654	82,802
Adjustment item	11,376	8,957
Premiums from the provision for premium refunds and direct credits	3,641	4,861
Withdrawals to finance benefits	– 92	– 53
Allocations from premiums	16,693	13,087
Closing balance	141,272	109,654
+ Share for compulsory long-term care insurance	35,710	27,572
Provision for future policy benefits (carrying amount)	176,982	137,226

NÜRNBERGER Property and Casualty Insurance segment

	Opening balance 2004 EUR '000	Change in financial year 2004 EUR '000	thereof without impact on profit or loss 2004 EUR '000	thereof with impact on profit or loss 2004 EUR '000	Closing/ opening balance 2004/2005 EUR '000	Change in financial year 2005 EUR '000	thereof without impact on profit or loss 2005 EUR '000	thereof with impact on profit or loss 2005 EUR '000	Closing balance 2005 EUR '000
Unearned premiums									
Gross	78,942	7,148	1,478	5,670	86,090	6,042	404	5,638	92,132
Share ceded to reinsurance	– 9,734	– 58	—	– 58	– 9,792	62	—	62	– 9,730
Net	69,208	7,090	1,478	5,612	76,298	6,104	404	5,700	82,402
Provision for outstanding claims									
Gross	767,025	– 2,591	—	– 2,591	764,434	5,625	—	5,625	770,059
Share ceded to reinsurance	– 321,209	5,469	—	5,469	– 315,740	20,253	—	20,253	– 295,487
Net	445,816	2,878	—	2,878	448,694	25,878	—	25,878	474,572
Other underwriting provisions									
Gross	10,654	37	—	37	10,691	– 855	—	– 855	9,836
Share ceded to reinsurance	– 4,220	1,947	—	1,947	– 2,273	103	—	103	– 2,170
Net	6,434	1,984	—	1,984	8,418	– 752	—	– 752	7,666

The provision for outstanding claims includes both the provision for reported claims and the lump-sum provision for claims incurred but not yet reported, excluding currency differences.

In the Property and Casualty Insurance segment, the item Other underwriting provisions includes the provision for future policy benefits, the provision for premium refunds, the provision for anticipated lapses and other underwriting provisions.

The provision for outstanding claims developed as follows:

	Gross business written 2005 EUR '000	Ceded to reinsurance 2005 EUR '000	Net business written 2005 EUR '000	Gross business written 2004 EUR '000	Ceded to reinsurance 2004 EUR '000	Net business written 2004 EUR '000
Carrying amount at 1 January	764,434	315,740	448,694	767,025	321,209	445,816
+ Allocations	290,966	88,653	202,313	281,667	89,293	192,374
– Benefits paid	– 228,811	– 83,455	– 145,356	– 239,769	– 85,496	– 154,273
– Reversals	– 56,960	– 25,906	– 31,054	– 44,720	– 8,833	– 35,887
+/– Currency translation	430	455	– 25	231	– 433	664
= Carrying amount at 31 December	770,059	295,487	474,572	764,434	315,740	448,694
– thereof:						
General accident insurance	78,828	16,851	61,977	63,656	15,040	48,616
Liability insurance	134,731	20,370	114,361	119,415	17,543	101,872
Motor third party insurance	451,123	226,401	224,722	474,016	249,822	224,194
Other motor insurance	46,263	22,780	23,483	50,032	22,658	27,374
Other lines of insurance	59,114	9,085	50,029	57,315	10,677	46,638

The following table shows how appraisals of the net provision for outstanding claims have changed in the course of time for primary insurance business written by our fully consolidated German property and casualty insurance companies. The difference between current and initial appraisal is revealed in the net run-off result:

	31.12. 1996 EUR'000	31.12. 1997 EUR'000	31.12. 1998 EUR'000	31.12. 1999 EUR'000	31.12. 2000 EUR'000	31.12. 2001 EUR'000	31.12. 2002 EUR'000	31.12. 2003 EUR'000	31.12. 2004 EUR'000	31.12. 2005 EUR'000
Net provision for the year concerned plus payments already made to/from the initial provision										
at the end of the year	159,073	153,894	166,657	169,445	163,318	163,734	183,278	168,120	171,772	179,680
one year later	123,509	121,540	123,578	143,944	122,420	143,981	153,011	149,460	147,502	
two years later	113,879	113,027	119,475	125,885	114,433	138,756	146,024	142,413		
three years later	107,103	108,750	107,895	121,481	111,144	132,539	142,726			
four years later	102,176	101,635	105,630	119,449	108,507	130,913				
five years later	97,826	99,154	104,500	118,078	107,922					
six years later	97,914	98,478	103,322	118,452						
seven years later	99,137	98,190	102,994							
eight years later	96,652	97,664								
nine years later	96,248									
Net run-off result	62,825	56,230	63,663	50,993	55,396	32,821	40,552	25,707	24,270	
thereof due to currency effects	—	—	—	—	—	—	—	—	—	
Net run-off result without currency effects	62,825	56,230	63,663	50,993	55,396	32,821	40,552	25,707	24,270	

The table presents the annual run-off of provisions for individual years incurred as at the balance sheet date. Except in the case of the provision for future policy benefits for pensions, loss reserves are not discounted.

(19) Liabilities from credited profit shares

The development of liabilities from credited profit shares is presented below for the individual business segments:

NÜRNBERGER Life Insurance segment

Opening balance 2004 EUR '000	Change in financial year 2004 EUR '000	thereof without impact on profit or loss 2004 EUR '000	thereof with impact on profit or loss 2004 EUR '000	Closing/ opening balance 2004/2005 EUR '000	Change in financial year 2005 EUR '000	thereof without impact on profit or loss 2005 EUR '000	thereof with impact on profit or loss 2005 EUR '000	Closing balance 2005 EUR '000
786,273	– 58,453	34,747	– 93,200	727,820	– 42,419	– 74,150	31,731	685,401

Capitalization policies with a provision for future policy benefits of EUR 1.3 (0.3) million and written gross premiums of EUR 1.0 (0.3) million (less than one per thousand of the total portfolio in each case) have also been taken into account here. Due to their discretionary entitlement to participate in the profit, they must be treated as insurance policies.

NÜRNBERGER Pension Business segment

Opening balance 2004 EUR '000	Change in financial year 2004 EUR '000	thereof without impact on profit or loss 2004 EUR '000	thereof with impact on profit or loss 2004 EUR '000	Closing/ opening balance 2004/2005 EUR '000	Change in financial year 2005 EUR '000	thereof without impact on profit or loss 2005 EUR '000	thereof with impact on profit or loss 2005 EUR '000	Closing balance 2005 EUR '000
—	72	72	—	72	95	93	2	167

(20) Other provisions

This item comprises the following items:

	2005 EUR '000	2004 EUR '000
Provisions for pensions and similar obligations	209,258	212,313
Tax provisions	59,169	87,860
Deferred tax liabilities	387,424	360,590
Miscellaneous provisions	60,198	52,802
	716,049	713,565

Provisions for pensions and similar obligations

Expenses for premium-based (defined contribution) plans amounted to EUR 2.9 (2.6) million in the year under review.

Provisions for defined benefit plans are made up of provisions for defined benefit pension commitments and provisions for similar obligations:

	2005 EUR '000	2004 EUR '000
Provisions for defined benefit pension commitments	179,870	186,143
Provisions for similar obligations	29,388	26,170
	209,258	212,313

The financing status of the defined benefit pension commitments is presented in the following table:

	2005 EUR '000	2004 EUR '000
Present value of vested benefits	265,402	256,563
– thereof: promised directly by a Group company	66,360	61,149
– thereof: promised through the relief fund	199,042	195,414
Plan assets	– 56,092	– 56,872
Disregarded actuarial gains (+)/losses (–)	– 29,440	– 13,548
Recognized net liability	179,870	186,143

The provisions for defined benefit pension commitments developed as follows:

	2005 EUR '000	2004 EUR '000
Balance at 1 January	186,143	191,224
Currency translation differences	—	—
Changes in the scope of consolidation	– 505	—
Allocations	3,963	3,828
Pension payments	– 9,731	– 8,909
Balance at 31 December	179,870	186,143

Actuarial gains or losses from the pension obligations and the plan assets are recognized by the so-called corridor method, by which differences between the estimated and actual risk experience are recognized in the income statement at fair value if they exceed 10 % of the present value of the vested benefits or of the fair value of the plan assets at the beginning of the financial year.

Expenses incurred in the financial year under review for allocations to the provisions for defined benefit pension plans comprised the following items:

	2005 EUR '000	2004 EUR '000
Expenditure for years of service	– 5,111	– 5,884
Interest expenditure	11,658	12,493
Expected income from plan assets	– 2,538	– 2,781
Redemption of actuarial gains/losses	– 46	—
	3,963	3,828

The Group's internal relief fund (Versorgungskasse der NÜRNBERGER VERSICHERUNGSGRUPPE e.V.) yielded a return on plan assets equal to 2.54 % (4.67 %) in the financial year under review.

Expenses for pension obligations are recognized in the income statement in the expenses of the functional areas (claims expenditure, underwriting expenses and investment expenses).

Tax provisions
Tax provisions encompass the provisions for taxes on income and other taxes payable by the individual companies on the basis of the respective national tax regulations. Deferred tax liabilities are recognized in the item Deferred tax liabilities.

Deferred tax liabilities
Deferred tax liabilities comprise the following items:

	Total 2005 EUR '000	Changes with impact on profit or loss 2005 EUR '000	Changes without impact on profit or loss 2005 EUR '000	Total 2004 EUR '000
Intangible assets	14,376	1,413	– 1	12,964
Investments	267,457	49,902	31,389	186,166
Underwriting provisions, ceded	442	– 79	—	521
Other non-current assets	58	– 12	—	70
Receivables	4,363	– 12,008	—	16,371
Other current assets	123	– 291	—	414
Underwriting provisions	98,169	– 40,630	—	138,799
Other provisions	2,093	1,566	– 38	565
Liabilities	57	– 2,536	– 40	2,633
Deferred items	286	– 1,801	—	2,087
	387,424	– 4,476	31,310	360,590

The changes without impact on profit or loss include the disposal of deferred tax liabilities in the amount of EUR -879,000 due to changes in the scope of consolidation. Currency translation differences account for EUR 630,000 of the changes with impact on profit or loss in the financial year.

Miscellaneous provisions
Miscellaneous provisions are formed for the following:

	2005 EUR '000	2004 EUR '000
Vacation commitments	10,361	9,553
Contributions to employers' liability insurance associations	1,125	1,203
Acquisition commissions	19,633	16,699
Cost of preparing and auditing annual financial statements	1,578	1,805
Other commitments	27,501	23,542
	60,198	52,802

(21) Liabilities

This item encompasses deposits retained on ceded business, accounts payable on insurance business (the balance sheet items Accounts payable on primary insurance business and Accounts payable on reinsurance business), accounts owed to banks and other liabilities.

Accounts payable on insurance business
Accounts payable on insurance business are made up as follows:

NÜRNBERGER Life Insurance segment

	2005 EUR '000	2004 EUR '000
Accounts payable on primary insurance business		
due to policyholders	118,130	137,566
– thereof: accounts payable from premium deposits	100,277	115,784
due to intermediaries	57,037	73,267
	175,167	210,833
Accounts payable on reinsurance business	12,383	7,969
	187,550	218,802

Capitalization policies with a provision for future policy benefits of EUR 1.3 (0.3) million and written gross premiums of EUR 1.0 (0.3) million (less than one per thousand of the total portfolio in each case) have also been taken into account here. Due to their discretionary entitlement to participate in the profit, they must be treated as insurance policies.

The breakdown of accounts payable from premium deposits according to maturities is as follows:

	2005 EUR '000	2004 EUR '000
Up to 1 year	6,458	12,085
Over 1 to 2 years	14,029	15,094
Over 2 to 3 years	25,524	19,927
Over 3 to 4 years	16,653	28,055
Over 4 to 5 years	6,764	12,493
Over 5 to 10 years	19,360	21,063
Over 10 years	11,489	7,067
	100,277	115,784

NÜRNBERGER Pension Business segment

	2005 EUR '000	2004 EUR '000
Accounts payable on primary insurance business		
due to policyholders	839	225
due to intermediaries	11	8
	850	233

NÜRNBERGER Health Insurance segment

	2005 EUR '000	2004 EUR '000
Accounts payable on primary insurance business		
due to policyholders	1,298	1,152
due to intermediaries	61	12
	1,359	1,164

NÜRNBERGER Property and Casualty Insurance segment

	2005 EUR '000	2004 EUR '000
Accounts payable on primary insurance business		
due to policyholders	32,209	42,833
due to intermediaries	5,901	6,049
	38,110	48,882
Accounts payable on reinsurance business	1,133	487
	39,243	49,369

Accounts owed to banks

The breakdown according to maturities is as follows:

	2005 EUR '000	2004 EUR '000
Up to 1 year	46,367	73,860
Over 1 to 2 years	2,810	5,027
Over 2 to 3 years	11,647	2,857
Over 3 to 4 years	85	12,579
Over 4 to 5 years	60,406	90
Over 5 to 10 years	252,775	312,356
Over 10 years	164,684	166,816
	538,774	573,585

The accounts owed to banks in force at 31 December 2005 with a remaining term of more than one year are charged interest at the following rates:

Interest rate in %	EUR '000
0,25 – 1,00	746
1,01 – 2,00	106
2,01 – 3,00	35,266
3,01 – 4,00	17,013
4,01 – 5,00	42,781
5,01 – 6,00	203,013
6,01 – 7,00	172,658
7,01 – 7,88	20,824
	492,407

Other liabilities
Other liabilities comprise the following items:

	2005 EUR '000	2004 EUR '000
Other tax liabilities	14,891	16,033
Other liabilities for social security	5,851	5,937
Other forward transaction liabilities	20,296	9,805
Other liabilities from mediation of insurance business	735	1,979
Other liabilities under leases	4,708	5,471
Other accounts payable to associated companies	943	2,126
Trade accounts payable	2,909	3,128
Other remaining liabilities	333,005	297,685
	383,338	342,164

Client deposits with Fürst Fugger Privatbank KG in the amount of EUR 220.0 (215.2) million are posted to the item Other remaining liabilities. In addition, this item also includes loans in the amount of EUR 20.0 (15.0) million with a remaining term to maturity of between five and ten years. Interest rates lie between 4.00 % and 4.27 %.

(22) Deferred items

This item essentially comprises interest and rent payments to be deferred.

Notes to the Consolidated Income Statement

(1) Premium income

The following table presents a breakdown of premium income and its distribution over the individual business segments in the NÜRNBERGER Group:

	2005 EUR '000	2004 EUR '000
Gross premiums from primary insurance business		
Life Insurance segment	1,958,367	1,893,644
Pension Business segment	34,584	8,129
Health Insurance segment	111,318	97,386
Property and Casualty Insurance segment	812,138	865,091
Consolidation/Miscellaneous	– 11,246	– 2,259
	2,905,161	2,861,991
Gross premiums from business assumed		
Life Insurance segment	270	95
Property and Casualty Insurance segment	8,742	7,347
Consolidation/Miscellaneous	– 191	– 26
	8,821	7,416
Premium income from the provision for premium refunds		
Life Insurance segment	77,905	72,167
Pension Business segment	136	1
Health Insurance segment	6,632	4,806
	84,673	76,974
Change in gross unearned premiums		
Life Insurance segment	1,491	2,848
Pension Business segment	– 145	– 194
Health Insurance segment	– 14	– 14
Property and Casualty Insurance segment	– 5,638	– 5,670
Consolidation/Miscellaneous	76	—
	– 4,230	– 3,030
Total premium income shown in the Consolidated Income Statement	2,994,425	2,943,351

The figures for the Life Insurance segment also include capitalization policies with a provision for future policy benefits of EUR 1.3 (0.3) million and written gross premiums of EUR 1.0 (0.3) million (less than one per thousand of the total portfolio in each case). Due to their discretionary entitlement to participate in the profit, they must be treated as insurance policies.

(2) Investment income

Investment income is made up as follows:

	2005 EUR '000	2004 EUR '000
Regular investment income	1,432,497	846,998
Gains on the disposal of investments	327,448	144,061
	1,759,945	991,059

Loans already written off yielded interest income in the amount of EUR 4.0 (1.1) million. Interest receivable in the amount of EUR 1.9 (0.0) million was written off.

Regular income was received from the following sources:

	2005 EUR '000	2004 EUR '000
Land and buildings used by third parties	23,223	32,554
Investments in subsidiaries	584	471
Investments in associated companies	9,099	10,479
Loans	224,488	230,098
Financial instruments, held to maturity	47	30
Financial instruments, available for sale	307,812	303,612
Financial instruments, held for trading	81,484	71,696
Miscellaneous investments	9,607	11,923
Investments on account and at risk of life and general accident insurance policyholders	776,153	186,135
	1,432,497	846,998

The following items yielded gains on disposal:

	2005 EUR '000	2004 EUR '000
Land and buildings used by third parties	72	3,067
Investments in associated companies	9,527	202
Loans	339	4,965
Financial instruments, available for sale	174,753	125,495
Financial instruments, held for trading	389	9,499
De-consolidation of subsidiaries sold off	142,368	833
	327,448	144,061

Gains on the disposal of financial instruments available for sale are essentially attributable to rearrangement of assets within the special securities funds.

(3) Income from reinsurance business

The following table presents a breakdown of income from reinsurance business and its distribution over the individual business segments in the NÜRNBERGER Group:

	2005 EUR '000	2004 EUR '000
Ceded share of claims expenditure in primary insurance business, excluding loss adjustment costs		
Life Insurance segment	26,282	24,686
Health Insurance segment	101	212
Property and Casualty Insurance segment	147,890	175,449
Consolidation/Miscellaneous	– 5	– 7
	174,268	200,340
Ceded share of claims expenditure in assumed business, excluding loss adjustment costs		
Property and Casualty Insurance segment	116	273
Ceded share of loss adjustment costs in primary insurance business		
Property and Casualty Insurance segment	21,720	23,825
Reinsurance commissions and profit shares received		
Life Insurance segment	15,180	15,873
Pension Business segment	16	—
Health Insurance segment	15	15
Property and Casualty Insurance segment	48,870	57,450
Consolidation/Miscellaneous	– 23	– 8
	64,058	73,330
Change in underwriting provisions for business ceded to reinsurance		
Life Insurance segment	39,634	30,852
Property and Casualty Insurance segment	1,957	5,673
Consolidation/Miscellaneous	– 297	– 18
	41,294	36,507
Total income from reinsurance business stated in the Consolidated Income Statement	301,456	334,275

(4) Other income

This item contains income from the increase in claims not yet receivable from policyholders in the amount of EUR 6.5 (64.2) million, as well as commission income from mediation services in the amount of EUR 36.3 (32.8) million.

(5) Claims expenditure

The following table presents a breakdown of claims expenditure and its distribution over the individual business segments in the NÜRNBERGER Group:

	2005 EUR '000	2004 EUR '000
Claims expenditure in primary insurance business, excluding loss adjustment costs		
Life Insurance segment	1,324,901	1,375,743
Pension Business segment	196	4
Health Insurance segment	43,803	37,555
Property and Casualty Insurance segment	434,134	489,357
Consolidation/Miscellaneous	– 22	– 109
	1,803,012	1,902,550
Claims expenditure in assumed business, excluding loss adjustment costs		
Life Insurance segment	90	45
Property and Casualty Insurance segment	4,424	6,843
Consolidation/Miscellaneous	– 5	– 7
	4,509	6,881
Loss adjustment costs in primary insurance business		
Life Insurance segment	9,558	8,318
Pension Business segment	5	—
Health Insurance segment	1,764	1,795
Property and Casualty Insurance segment	73,355	74,957
	84,682	85,070
Change in provision for outstanding claims		
Life Insurance segment	13,989	15,292
Pension Business segment	21	1
Health Insurance segment	2,241	1,449
Property and Casualty Insurance segment	4,010	1,967
Consolidation/Miscellaneous	– 332	206
	19,929	18,915
Change in other gross underwriting provisions		
Life Insurance segment	1,119,479	463,208
– thereof: directly credited to provision for future policy benefits	53,947	57,368
Pension Business segment	16,809	5,576
Health Insurance segment	39,746	31,444
– thereof: directly credited to provision for future policy benefits	573	588
Property and Casualty Insurance segment	– 778	2,506
Consolidation/Miscellaneous	– 5,608	—
	1,169,648	502,734

	2005 EUR '000	2004 EUR '000
Expenditure for premium refunds		
Life Insurance segment	342,351	128,930
Pension Business segment	3,216	1,693
Health Insurance segment	11,283	14,015
Property and Casualty Insurance segment	1,159	561
Consolidation/Miscellaneous	—	– 3,160
	358,009	142,039
Direct credit expenditure (excluding allocations to provision for future policy benefits)		
Life Insurance segment	10,542	11,895
Interest for profit shares		
Life Insurance segment	21,774	23,505
Pension Business segment	2	—
	21,776	23,505
Total claims expenditure stated in the Consolidated Income Statement	3,472,107	2,693,589

The figures for the Life Insurance segment also include capitalization policies with a provision for future policy benefits of EUR 1.3 (0.3) million and written gross premiums of EUR 1.0 (0.3) million (less than one per thousand of the total portfolio in each case). Due to their discretionary entitlement to participate in the profit, they must be treated as insurance policies.

Of the expenditure for premium refunds, EUR 112.9 (–30.1) million result from changes in the deferred provision for premium refunds.

(6) Underwriting expenses

The following table presents a breakdown of underwriting expenses and their distribution over the individual business segments in the NÜRNBERGER Group:

	2005 EUR '000	2004 EUR '000
Acquisition expenses		
Life Insurance segment	355,783	404,950
Pension Business segment	19,218	13,083
Health Insurance segment	19,692	17,155
Property and Casualty Insurance segment	114,407	112,375
Consolidation/Miscellaneous	– 22,297	– 7,368
	486,803	540,195

	2005 EUR '000	2004 EUR '000
Administrative expenses		
Life Insurance segment	79,221	74,937
Pension Business segment	733	339
Health Insurance segment	3,892	4,482
Property and Casualty Insurance segment	111,522	119,583
Consolidation/Miscellaneous	– 22	– 441
	195,346	198,900
Total underwriting expenses stated in the Consolidated Income Statement	682,149	739,095

The figures for the Life Insurance segment also include capitalization policies with a provision for future policy benefits of EUR 1.3 (0.3) million and written gross premiums of EUR 1.0 (0.3) million (less than one per thousand of the total portfolio in each case). Due to their discretionary entitlement to participate in the profit, they must be treated as insurance policies.

(7) Reinsurance expenditure

The following table presents a breakdown of reinsurance expenditure and its distribution over the individual business segments in the NÜRNBERGER Group:

	2005 EUR '000	2004 EUR '000
Ceded reinsurance premiums in primary insurance business		
Life Insurance segment	77,648	21,155
Pension Business segment	166	—
Health Insurance segment	445	387
Property and Casualty Insurance segment	234,910	279,441
Consolidation/Miscellaneous	– 190	– 26
	312,979	300,957
Ceded reinsurance premiums in assumed business		
Property and Casualty Insurance segment	506	759
Change in reinsurers' share in gross unearned premiums		
Life Insurance segment	—	296
Property and Casualty Insurance segment	1,296	302
	1,296	598

	2005 EUR '000	2004 EUR '000
Change in ceded share of provision for future policy benefits		
Life Insurance segment	—	48,786
Pension Business segment	– 134	—
Property and Casualty Insurance segment	7	—
Consolidation/Miscellaneous	134	—
	7	48,786
Change in ceded share of the provision for outstanding claims		
Life Insurance segment	188	—
Property and Casualty Insurance segment	21,584	7,072
	21,772	7,072
Change in ceded share of other underwriting provisions		
Property and Casualty Insurance segment	225	—
Deposit interest paid to reinsurers		
Life Insurance segment	2,581	7,957
Property and Casualty Insurance segment	– 31	—
	2,550	7,957
Total reinsurance expenditure stated in the Consolidated Income Statement	339,335	366,129

(8) Investment expenses

The breakdown of expenses is illustrated in the following table:

	2005 EUR '000	2004 EUR '000
Write-downs of investments	90,292	183,762
Losses on the disposal of investments	73,752	97,304
Investment management expenses, interest and other expenses	206,560	168,958
	370,604	450,024

Write-downs of investments comprises the following items:

	2005 EUR '000	2004 EUR '000
Land and buildings used by third parties	35,976	37,089
Investments in subsidiaries	227	956
Investments in associated companies	11,647	—
Loans	31,438	12,319
Financial instruments, available for sale	7,579	128,509
Miscellaneous investments	3,425	4,889
	90,292	183,762

A loss on disposal was recorded for the following items:

	2005 EUR '000	2004 EUR '000
Land and buildings used by third parties	5,360	5,165
Investments in associated companies	186	391
Loans	251	854
Financial instruments, available for sale	48,008	90,262
Other investments	179	263
De-consolidation of subsidiaries sold off	19,768	369
	73,752	97,304

Expenses from the disposal of financial instruments available for sale are essentially attributable to rearrangement of assets within the special securities funds.

(9) Finance costs

Finance costs comprise the interest payable on borrowed capital which is not directly related to the generation of investment income.

(10) Other expenses

These comprise the commission expenses for mediation services, interest payable on pension provisions, write-downs on accounts receivable from intermediaries and on other assets, as well as personnel and operating expenses which cannot be attributed to the functional divisions. In addition, they also include expenses from the reduction in accounts not yet receivable from policyholders in the amount of EUR 42,938,000 (144,000).

(11) Taxes

The taxes recognized in the consolidated financial statements are made up as follows (negative sums represent income):

	2005 EUR '000	2004 EUR '000
Actual taxes		
in the financial year	33,478	42,835
for prior years	19,239	– 811
due to a loss carryback	– 1	—
	52,716	42,024
Deferred taxes		
due to the change in temporary differences	4,610	– 21,194
due to changes in tax rates	1	558
due to loss carryforwards which were not previously deferred as assets	– 11,545	– 3,906
due to value adjustments in deferred tax assets	– 341	33
due to temporary differences which were not previously deferred as assets	– 274	—
	– 7,549	– 24,509
Taxes on income	45,167	17,515
Other taxes	788	455
	45,955	17,970

The expenditure recognized for taxes on income in 2005 is EUR 19.1 (6.7) million higher than the expected expenditure for taxes on income. Based on the accounting profit, the reconciliation between expected and actual expenditure for taxes on income is as follows:

	2005 EUR '000	2004 EUR '000
Accounting profit	65,387	27,086
Group income tax rate (in %)	39.80 %	39.80 %
Expected expenditure for taxes on income	26,024	10,780
Impact		
of differences in tax rate	194	– 546
of changes in tax rate	1	558
prior years' taxes recognized in the financial year	6,585	4,608
taxes on income not eligible for crediting	1,037	309
non-deductible operating expenses	13,942	56,593
tax-free income	– 13,256	– 14,282
trade-tax additions and curtailments	3,952	3,247
transfer of the basis for tax assessment to non-Group parties	223	1,304
tax loss carryforwards	10,073	8,441
permanent accounting effects	– 2,043	– 12,469
permanent effects on the consolidation level	– 931	– 41,085
Miscellaneous	– 634	57
Actual expenditure for taxes on income	45,167	17,515

The expected expenditure for taxes on income is obtained by multiplying the accounting profit with the Group income tax rate. The Group income tax rate comprises corporation tax at a rate of 25 %, the solidarity surcharge of 5.5 % on corporation tax and the parent company's trade tax rate of 18.3 %. Taking into account the effect of 4.9 % obtained by deducting trade tax from corporation tax, this yields a compound Group income tax rate of 39.80 % (39.80 %).

Deferred taxes in the amount of EUR 8.4 (19.1) million were charged directly to shareholders' equity.

Deferred tax assets were not recognized for the following unused tax loss carryforwards and deductible temporary differences:

	2005 EUR '000	2004 EUR '000
Corporation tax loss carryforwards	285,256	286,176
Trade tax loss carryforwards	182,024	168,436
Deductible temporary differences	1,873	2,559

The corporation and trade tax loss carryforwards include comparable foreign loss carryforwards.

Tax loss carryforwards for which deferred taxes are not recognized essentially result from companies which are included in the consolidated financial statements for the first time in conjunction with the transition to IFRS and for which exploitation of the tax loss carryforwards cannot be expected in the medium term.

Of the tax loss carryforwards which have not been recognized, EUR 426.1 (398.0) million can be used for an unlimited period of time. They will expire in the amount of EUR 41.2 (56.6) million in future as follows:

	EUR '000
Expiry in the financial year 2006	8,446
Expiry in the financial year 2007	14,780
Expiry in the financial year 2008	9,460
Expiry in the financial year 2009	5,954
Expiry in the financial year 2010	2,542

(12) Earnings per share

The earnings per share are determined by dividing the consolidated result owing to shareholders by the weighted average number of shares issued in the financial year concerned:

	2005	2004
Consolidated result in EUR attributable to NÜRNBERGER Group shareholders	20,945,652	8,874,380
Number of shares issued	11,520,000	11,520,000
Earnings per share in EUR	1.82	0.77

As there are no dilution effects, the calculated result represents both the diluted and the undiluted earnings per share.

Other notes

Related parties

The subsidiaries, joint ventures and associated companies included in the consolidated financial statements are listed under the heading "List of shareholdings".

Reinsurance relationships have existed for many years between insurance companies in the NÜRNBERGER INSURANCE GROUP and reinsurance companies which hold shares in NÜRNBERGER Beteiligungs-Aktiengesellschaft.

Companies in which Dr. Bernd Rödl, member of Supervisory Board of NÜRNBERGER Beteiligungs-Aktiengesellschaft, holds a participatory interest rendered counselling services for Group companies which were remunerated at usual market rates in the amount of EUR 255,000 in the year under review.

Group companies purchased goods and counselling services at usual market prices totalling EUR 60,000 from companies in which Konsul Anton Wolfgang Graf von Faber-Castell, member of the Supervisory Board of NÜRNBERGER Beteiligungs-Aktiengesellschaft, holds a participatory interest.

Remuneration and loans for board members

The members of the Supervisory Board and Executive Board are listed on pages 6 and 7.

The remuneration of the Executive Board is based on performance and is made up of two components, one fixed and one variable. The fixed portion covers the services of the Executive Board members. The variable emolument is based on performance and depends on the operating result. Total remuneration for members of the Executive Board for their services to the NÜRNBERGER INSURANCE GROUP amounted to EUR 4,091,000 in the year under review, including variable emoluments of EUR 1,666,000.
Former members of the Executive Board and their surviving dependents received EUR 1,520,000; pension provisions for these persons amounted to EUR 16,162,000 at 31 December 2005.
Claims for mortgages/land charges receivable from members of the Executive Board totalled EUR 57,000 at the end of 2005; redemption payments totalled EUR 189,000 in the year under review. Interest stands at 6.0 % for an agreed term of 12 years in each case.

Expenditures for the Supervisory Board totalled EUR 1,875,000 in 2005.
Mortgage/land charge receivables due from members of the Supervisory Board totalled EUR 611,000 at balance sheet date; redemption payments totalled EUR 13,000 in the year under review. Interest rates stand between 3.75 % and 5.85 % for an agreed term of between 3 and 10 years.

Long-term incentive plan

A long-term incentive plan is not applied by the NÜRNBERGER INSURANCE GROUP.

Employee share participation programmes

In the year under review, the Executive Board and Supervisory Board once again resolved to offer all permanently employed members of staff in the Group companies of the NÜRNBERGER INSURANCE GROUP a capital share in accordance with Section 19a of the German Income Tax Act (EStG). Employees were given the opportunity of purchasing up to 15 shares in NÜRNBERGER Beteiligungs-Aktiengesellschaft with a discount of between 8 % and 12 % of the corresponding listed price. For this purpose, the Group companies NÜRNBERGER Lebensversicherung AG, NÜRNBERGER Allgemeine Versicherungs-AG, NÜRNBERGER Beteiligungs-Aktiengesellschaft and Fürst Fugger Privatbank KG purchased a total of 6,485 shares in NÜRNBERGER Beteiligungs-Aktiengesellschaft at a price of EUR 66.00 per share on 19 May 2005 and sold these to employees at an average price of EUR 58.51 per share with effect from 30 May 2005. The shares purchased and resold account for a mathematical share of EUR 22,697.50 in the capital stock and correspond to 0.056 % of the share capital of NÜRNBERGER Beteiligungs-Aktiengesellschaft.

Various Group companies in the NÜRNBERGER INSURANCE GROUP purchased a total of 58 shares in NÜRNBERGER Beteiligungs-Aktiengesellschaft between January and December of the year under review. These purchases related to the gift of two shares per employee to mark the 50th anniversary of NÜRNBERGER Allgemeine Versicherungs-AG in 2002. At the time, the Executive Board and Supervisory Board had resolved that all those members of staff on parental leave, or doing military service or community service should receive their anniversary gift upon returning to the Company. The shares were transferred to the relevant employees free of charge immediately following the respective purchase dates. The total number of shares purchased in this way and transferred to employees free of charge corresponds to a mathematical share of EUR 203 or 0.0005 % of the capital stock of NÜRNBERGER Beteiligungs-Aktiengesellschaft.

Human resources/Personnel expenses

The companies in the Group employed an average of 5,476 (5,456) people in the year under review, mainly in Germany and Austria.

	2005	2004
Germany		
Internal service	3,560	3,617
including prorated figure for proportionally consolidated companies	48	37
Salaried field service	1,650	1,573
including prorated figure for proportionally consolidated companies	23	22
International		
Internal service	233	240
including prorated figure for proportionally consolidated companies	7	6
Salaried field service	33	26
including prorated figure for proportionally consolidated companies	10	8
	5,476	5,456

Personnel expenses – wages and salaries, social security contributions, pension expenses and family support – totalled EUR 295,815,000 (296,222,000) in the year under review.

Relevant occurrences after balance sheet date

There were no relevant occurrences after the balance sheet date to be reported in conformity with IAS 10.21.

Contingencies and commitments

A joint liability exists in connection with participation in six civil law associations. Group companies are personally liable partners in eight commercial partnerships.

Liabilities arising from guarantees amount to EUR 41,373,000.

Under Section 5 Para. 10 of the statute of the Deposit Protection Fund of the Federal Association of German Banks (Bundesverband deutscher Banken e. V.), NÜRNBERGER Beteiligungs-Aktiengesellschaft has undertaken, as a shareholder in Fürst Fugger Privatbank KG, to exempt the Federal Association of German Banks from any losses which might accrue to it as a result of measures pursuant to Section 2 Para. 2 of the statute of the Deposit Protection Fund taken for the benefit of Fürst Fugger Privatbank KG.

Further financial obligations arise from the fact that the security funds for life and health insurance companies is permitted under Section 129 Paras. 5 and 5a of the German Insurance Supervisory Act (Versicherungsaufsichtsgesetz – VAG) to demand special contributions in the amount of up to 1 per thousand of the net underwriting provisions from our life insurance companies and up to 2 per thousand of the net underwriting provisions from our health insurance companies if required in order to discharge its duties.

Other financial obligations not apparent from the balance sheet relate to participatory interests of EUR 7,055,000 and committed but unpaid land charges and loans of EUR 2,292,000. Further financial obligations result from other investments of EUR 173,910,000 as well as from property leasing agreements in the amount of EUR 9,032,000 per year.

Leases are classified as finance leases if the terms agreed in the lease or in other contractual agreements essentially transfer the opportunities and risks associated with the property to the lessee. All other leases are classified as operating leases. The NÜRNBERGER Group uses leased office premises from the first construction phase of the office building on Ostendstrasse in Nuremberg within the framework of a long-term operating lease. Leasing expenditure totalling EUR 6,598,000 has been recognized in the income statement. At 31 December 2005, the future minimum leasing rates until expiry of the basic rental term amounted to the following sums:

	EUR '000
2006	6,581
2007	6,725
2008	6,871
2009	7,022
2010	7,175
Later	22,480
	56,854

List of shareholdings

The scope of consolidation comprises the following subsidiaries, joint ventures and associated companies in which NÜRNBERGER Beteiligungs-Aktiengesellschaft has a participatory interest, either directly or through other Group companies:

Subsidiaries

Name and head office		Issued capital in '000	Capital share in %
2. ACB Immobilien GmbH & Co. KG, Nuremberg	EUR	6,395	100
515 North State Street Corporation, Chicago	USD	—	80
ACB Grundstücksverwaltungsgesellschaft mbH, Nuremberg	DM	40,000	100
ACB Immobilien GmbH & Co. KG, Nuremberg	EUR	9,208	100
ACB Immobilienverwaltungs GmbH, Nuremberg	DM	50	100
ADK Immobilienverwaltungs GmbH, Nuremberg	EUR	1,500	70
Bauherrengemeinschaft GdbR Elsterstraße, Leipzig	EUR	—	100
Business Tower Nürnberg (BTN) GmbH & Co. KG, Grünwald	DM	50	100
Communication Center Nürnberg (CCN) GmbH, Nuremberg	EUR	100	60
Dürkop Holding AG, Nuremberg	DM	60,000	90
FFI Real Estate USA, LLC, Atlanta	USD	—	100
FFI Ten Penn Partners, L.P., Atlanta	USD	—	100
FFI USA San Antonio, L.P., Wilmington	USD	—	90.01
Fürst Fugger Asset Management GmbH, Munich	EUR	500	100
Fürst Fugger Privatbank Immobilien GmbH, Augsburg	EUR	520	100
Fürst Fugger Privatbank KG, Augsburg	EUR	13,294	99
Fürst Fugger Verwaltungs-GmbH, Augsburg	EUR	1,025	100
GARANTA (Schweiz) Versicherungs AG, Basle	CHF	12,000	100
GARANTA Versicherungs-AG, Nuremberg	EUR	38,603	100
GROGA Beteiligungsgesellschaft mbH, Nuremberg	EUR	5,260	57.03
IUB Immobilien- und Beteiligungsgesellschaft mbH, Nuremberg	EUR	1,790	100
LOMOND Grundstücksgesellschaft mbH & Co. KG, Grünwald	EUR	25	100
LOVAT Grundstücksgesellschaft mbH & Co. KG, Grünwald	DM	50	100
MERLIN Master Fonds INKA, Düsseldorf	EUR	—	100
MUROMA Grundstücksgesellschaft mbH & Co. KG, Grünwald	DM	50	100
NÜRNBERGER Allgemeine Versicherungs-AG, Nuremberg	EUR	40,320	100
NÜRNBERGER Beamten Allgemeine Versicherung AG, Nuremberg	EUR	5,000	100
NÜRNBERGER Beamten Lebensversicherung AG, Nuremberg	EUR	5,000	100
NÜRNBERGER Beratungs- und Betreuungsgesellschaft für betriebliche Altersversorgung und Personaldienstleistungen mbH, Nuremberg	EUR	130	100

Name and head office		Issued capital in '000	Capital share in %
NÜRNBERGER Immobilienfonds Fünfzehnte KG, Nuremberg	DM	31,010	59.37
NÜRNBERGER International Center Realty, Inc., Wilmington	USD	125	0.01[1]
NÜRNBERGER International Center Realty, L.P., Atlanta	USD	—	100
NÜRNBERGER Investment Services GmbH, Nuremberg	EUR	50	100
NÜRNBERGER Krankenversicherung AG, Nuremberg	EUR	6,700	100
NÜRNBERGER Lebensversicherung AG, Nuremberg	EUR	40,000	100
NÜRNBERGER Pensionsfonds AG, Nuremberg	EUR	4,770	100
NÜRNBERGER Pensionskasse AG, Nuremberg	EUR	3,000	100
NÜRNBERGER RP Realty, Inc., Atlanta	USD	625	80
NÜRNBERGER RP Realty, L.P., Atlanta	USD	—	100
NÜRNBERGER Ten Penn Realty, Inc., Wilmington	USD	125	0.01[1]
NÜRNBERGER Versicherung AG Österreich, Salzburg	EUR	10,000	100
NÜRNBERGER Versicherung Immobilien AG, Nuremberg	EUR	2,500	100
NÜRNBERGER Versicherungen Ostendstraße GbR, Nuremberg	EUR	—	100
NÜRNBERGER Versicherungs- und Bauspar-Vermittlungs-GmbH, Nuremberg	EUR	50	100
NÜRNBERGER Verwaltungsgesellschaft mbH, Nuremberg	EUR	5,000	100
NÜRNBERGER-Akademie am Gewerbemuseumsplatz 2 GdbR, Nuremberg	EUR	—	100
PAX Schweizerische Lebensversicherungs-Gesellschaft (Deutschland) AG, Nuremberg	EUR	6,200	90
Pegasus, Frankfurt/Main	EUR	—	100
Pleichertor Grundstücks-Verwaltungs GmbH i.L., Nuremberg	DM	50	100
Reichstein Geschäftsführungs GmbH, Nuremberg	EUR	25	100
Reichstein GmbH & Co. KG, Nuremberg	EUR	9,460	100
Thermal-Sport-Hotel Badgastein Ges.m.b.H., Bad Gastein	EUR	37	100
Vega Invest (Guernsey) Ltd., St. Peter Port	EUR	—	100
Vega Invest plc., Dublin	EUR	—	100

[1] Voting rights 100 %

Joint ventures

Name and head office		Issued capital in '000	Capital share in %
CG Car – Garantie Versicherungs-AG, Freiburg[1]	EUR	6,225	50
Car – Garantie GmbH, Freiburg[1]	EUR	62	—[2]

[1] Joint management with non-consolidated companies
[2] Capital share in CG Car – Garantie Versicherungs-AG: 100 %

Associated companies

Name and head office		Issued capital in '000	Capital share in %
ASB Autohaus Berlin GmbH, Berlin	EUR	3,580	40
ATRION Immobilien GmbH & Co. KG, Munich	EUR	62,895	31.63
Autohaus Oberland GmbH, Munich	EUR	260	49
Bürhaus Immobilienverwaltungs KG, Berlin	DM	10,000	50
Consortia Versicherungs-Beteiligungsgesellschaft mbH, Nuremberg	EUR	767	30
F. Haberl & Co. GmbH, Munich	EUR	30	49
FFI American Market Fund, L.P., Atlanta	USD	11,240	20.92
Garanta Versorgungsdienst GmbH, Nuremberg	EUR	55	39
Global Assistance GmbH i.L., Munich	EUR	103	30
GÖVD Garanta Österreich Versicherungsdienst Ges.m.b.H., Salzburg	ATS	500	26
International Center Development IV, Ltd., Dallas	USD	—	84.70
Kurfürsten Galerie GbR (Bruchteilsgemeinschaft), Kassel	EUR	—	50
Kurfürsten Galerie Verwaltungsgesellschaft mbH i.L., Kassel	DM	60	50
MAHAG Münchener Automobil-Handel Haberl GmbH & Co. KG, Munich	EUR	16,136	49
MOHAG 2000 GbR, Recklinghausen	DM	27,164	25
Neue Rechtsschutz-Versicherungsgesellschaft AG, Mannheim	EUR	5,665	40.01
Noris Immobilienfonds-Verwaltungsgesellschaft mbH, Nuremberg	DM	100	50
Reichstein + Opitz Geschäftsführung GmbH, Jena	EUR	25	50
Reichstein + Opitz Immobilien GmbH & Co. KG, Jena	EUR	500	50
RNN, LLLP, Delaware	USD	—	85.00
Schweizerische National-Versicherungs-Gesellschaft, Basle	CHF	21,000	6.51
SEBA Beteiligungsgesellschaft mbH, Nuremberg	EUR	515	16.34
TECHNO Versicherungsdienst GmbH, Nuremberg	EUR	1,900	26
Ten Penn Associates, L.P., West Germantown	USD	—	62.10
Zweite Bürhaus Immobilienverwaltungs KG, Berlin	DM	10,000	50

Non-consolidated subsidiaries and joint ventures

The following subsidiaries and joint ventures are deemed insignificant from a Group vantage and are therefore not included in the consolidated financial statements:

Name and head office		Issued capital in '000	Capital share in %
Grundstücksgemeinschaft Magdeburg GbR, Braunschweig	EUR	—	96
Kühn & Weyh EDV-Beratung GmbH i.L., Freiburg	EUR	61	—[1]
CarGarantie N.V., Apeldoorn	EUR	2,060	—[2]

[1] Capital share of CG Car – Garantie Versicherungs-AG: 100 %
[2] Capital share of CG Car – Garantie Versicherungs-AG: 51 %

Investment companies
The following investment companies are of economic significance for the Group. Participatory interests of subordinated importance are also held in other companies.

Name and head office		Issued capital in '000	Capital share in %	Share-holders' equity in '000	Net result for the year in '000
Hannover Finanz GmbH, Hanover	EUR	62,100	10	76,651	6,857[1)]
Leoni AG, Nuremberg	EUR	19,800	19.92	371,340	33,225[1)]

[1)] Annual financial statements at 31 December 2004

Auditors

The fee recognized as expenditure in the financial year for the auditors of the consolidated financial statements and their associated companies comprises EUR 1,848,000 for auditing the financial statements and EUR 48,000 for other audit and consulting services. Fees of EUR 72,000 were incurred for tax consulting services and EUR 333,000 for other services. These figures also include the non-deductible turnover tax.

Corporate Governance Code

The declaration of compliance in accordance with Section 161 of the German Stock Corporation Act (AktG) was issued on 20 December 2005 and made available to shareholders at all times on the Internet (http://www.nuernberger.de/Unternehmen/Investor Relations).

Nuremberg, 14 March 2006

The Executive Board of NÜRNBERGER Beteiligungs-Aktiengesellschaft

Günther Riedel Dr. Werner Rupp Dipl.-Päd. Walter Bockshecker

Dipl.-Kfm. Henning von der Forst Dr. Wolf-Rüdiger Knocke

Dr. Hans-Joachim Rauscher Dr. Armin Zitzmann

Independent Auditor's Report

We have audited the consolidated financial statements, comprising balance sheet, income statement, statement of changes in shareholders' equity, cash flow statement and notes, as well as the group management report prepared by Nürnberger Beteiligungs-Aktiengesellschaft, Nuremberg, for the financial year from 1 January to 31 December 2005. Responsibility for preparation of the consolidated financial statements and group management report in accordance with the IFRS requirements applicable in the European Union and in accordance with the requirements of German commercial law as set out in Section 315a Para. 1 of the German Commercial Code (HGB) rests with the company's legal representatives. It is our responsibility to express an opinion on the consolidated financial statements and group management report on the basis of our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code (HGB) and the generally accepted German standards for the auditing of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW, Institute of Independent Auditors). Those standards require that we plan and perform our audit in such a way that misstatements and irregularities materially affecting the representation of the net worth, financial position and results presented in accordance with applicable accounting principles in the consolidated financial statements and group management report are identified with a reasonable degree of reliability. Knowledge of the business activities and the economic and legal environment of the company and expectations of possible errors are taken into account in determining audit procedures. The audit includes examination, mainly on a test basis, of the effectiveness of the internal accounting control system for rendering accounts and the evidence supporting disclosures in the consolidated financial statements and group management report. The audit also includes appraisal of the annual financial statements of the companies included in the consolidated financial statements, the delimitation of the scope of consolidation, the accounting and consolidation principles applied and assessment of significant estimates and judgements made by the legal representatives as well as an evaluation of the overall adequacy of the presentation of information in the consolidated financial statements and group management report. We believe that the audit we have conducted provides a reasonable basis for the formation of our opinion.

Our audit has revealed no grounds for objection.

In our opinion, the consolidated financial statements comply with the IFRS requirements applicable in the European Union, as well as with the requirements of German commercial law as set out in Section 315a Para. 1 of the German Commercial Code (HGB), and present a true and fair picture of the net worth, financial position and results of the Group in compliance with these accounting principles. On the whole, the group management report matches the consolidated financial statements, gives an accurate picture of the Group's position and accurately depicts the opportunities and risks involved in its future development.

Nuremberg, 17 March 2006

Bayerische Treuhandgesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Heigl
Independent Auditor

Steinle
Independent Auditor

Photographs:
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