

Group Report 2005
AMB Generali Group

2005

Security. Peace of mind. Quality of life. _____



AMB GENERALI

Outline of the AMB Generali Group

Another leap in profits and above-average premium growth in 2005

- Group net profit rises to € 314 m from 211 m
- Good result influenced by investment income and improvements in operating business
- Total premium income grows by 6.1 percent to € 12.8 bn
- Life and health insurers reach stronger growth than market:
premium income rises by 9.0 percent (market: 6.8 percent) in life and by 5.0 percent (market: 3.7 percent) in health
- New business development above market trend despite difficult environment
- Market leader in Riester business
- Combined ratio improves markedly by 2.5 percentage points to 96.9 percent
- Dividend rises to € 2.05 (2004: 1.75) per share

Strategic orientation

- AA rating assigned by Standard & Poor's to the AMB Generali Group, the third-largest German primary insurer
- Financial-service provider with strong innovation capacity, customer orientation and a broad diversification of product range and distribution channels
- Focus on profitability and risk-adjusted growth in all lines
- Concentration on profitable business with private customers and small to medium-sized commercial clients
- Strong position in the market of retirement and healthcare provision

Profitable expansion of market position in 2006

- Steady growth and rising profitability
- Continuation of programmes for optimization of structures and costs to increase corporate value
- Customer-oriented alignment of business and distribution processes
- Further qualification and efficiency increases for sales networks
- Additional market-share gains in life and health business
- Risk-adjusted pricing policy and strengthening of profitability in property and casualty insurance
- Group net profit target of € 340 m

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Key figures of the AMB Generali Group

		2005	Change ¹	2004	2004	For details
		€	%	after adjustment ²	before adjustment	see page
		€	%	€	€	
Total premiums³	bn	12.8	6.1	12.1	12.1	42, 123
Gross premiums written	bn	11.5	4.8	10.9	10.9	42 f., 123
of which (fully consolidated figures): life	bn	6.9	7.3	6.4	6.4	43, 123
health	bn	1.6	5.0	1.5	1.5	43, 123
property/casualty	bn	3.0	-0.8	3.0	3.0	43, 123
Investment income (net)	bn	3.4	5.3	3.3	3.3	43, 124 ff.
Claims and benefits (net)	bn	-10.8	1.5	-10.6	-10.7	43, 129
Operating expenses (net)	bn	-2.4	13.2	-2.1	-2.1	45, 130
Result before goodwill amortization	m	589.2	22.1	482.6	498.3	45
Goodwill amortization	m	0.0		-59.0	-59.0	42, 97, 134
Operating result	m	589.2	39.1	423.6	439.4	104 f.
Finance costs	m	-7.3	-14.4	-8.6	-8.6	42
Tax	m	-268.3	31.5	-204.0	-208.5	45, 131
Net profit before scheduled goodwill amortization	m	313.6	29.3	242.5	253.7	45
Net profit	m	313.6	48.6	211.0	222.3	45
of which attributable to the Group ⁴	m	314.8	51.9	207.2	218.4	42
of which minority interests	m	-1.2		3.8	3.9	42
Assets under management	bn	89.9	9.2	82.3	82.6	45
Equity	bn	3.8	18.6	3.2	3.0	43, 148 f.
Number of employees ⁵		17,540	-5.5	18,564	18,564	58, 160
of which fieldstaff		5,607	-4.9	5,898	5,898	58, 160
administrative staff		11,933	-5.8	12,666	12,666	58, 160
AMB Generali share						
Earnings per share		5.87	52.1	3.86	4.07	14, 132
Dividend per share		2.05⁶	17.1	1.75	1.75	14, 56
Dividend distribution	m	110.0 ⁶	17.1	93.9	93.9	14, 56
Price of AMB Generali share as at Dec. 31		84.20	40.0	60.16	60.16	13 f.

1 over the adjusted figures of the preceding year

2 see p. 41 f. and 94 f.

3 including the savings portions of "Riester contracts" and products of unit-linked insurance

4 corresponds to the line item of the Income Statement "of which attributable to the equity holders of the parent"

5 average number of employees in the enterprises covered by the consolidation scope

6 subject to resolution by the General Meeting

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Supervisory Board

Prof. h.c. Dr. h.c. (RUS)

Dr. iur. Wolfgang Kaske

Chairman

Attorney

Monika Hendricks*

Deputy Chairwoman

Insurance employee

Dott. Sergio Balbinot

Managing Director of

Assicurazioni Generali S.p.A.

Antoine Bernheim

Chairman of

Assicurazioni Generali S.p.A.

Martin Blessing

Member of the Board of Management

of Commerzbank AG

Prof. Gerardo Broggin

Attorney

Shirley Drawing-Jeitner*

Insurer

Dr. Alfredo Gysi

Chief Executive Officer of BSI SA

Karl-Rupert Hasenkopf*

(since June 1, 2005)

Insurance employee

Susanne Hille*

Trade Union Secretary of the

trade union ver.di – Vereinte

Dienstleistungsgewerkschaft e.V.

Brigitte Jakob*

Trade Union Secretary of the

trade union ver.di – Vereinte

Dienstleistungsgewerkschaft e.V.

Dr. Michael Kalka

Retired Chief Executive

Dr. Helmut Kohl

Former German Chancellor

Thomas Körber*

(since August 1, 2005)

Management employee of

AachenMünchener Versicherungen

Michael Kuß*

Insurance employee

Martin Lemcke*

Head of the Codetermination Division

at the Federal Executive Committee

of the trade union ver.di – Vereinte

Dienstleistungsgewerkschaft e.V.

Ulrich Peters*

(until July 31, 2005)

Management employee of

AachenMünchener Versicherungen

Dr. jur. Dr. h.c. mult. Reinfried Pohl

Chief Executive Officer of

Deutsche Vermögensberatung AG DVAG

Gerhard Preckel*

(until June 1, 2005)

Insurer

Roland Schwarz*

Banker

Rudolf Winkelmann*

Insurance expert BWV

Dr. Wilhelm Winterstein

Retired banker

* Employees' representative

Board of Management

Dr. Walter Thießen

Chief Executive Officer

Group Development

Sales Coordination

Human Resources

Public Relations

Law

Internal Audit

Information Technology

Health Insurance

Dietmar Meister

Chief Financial Officer

Controlling/Shareholdings

Investments

Accounting

Tax

Investor Relations

Life Insurance

Property and Casualty Insurance

Legal Expenses Insurance

Reinsurance

Building Society

To our shareholders

Dear Madam,
Dear Sir,

In the business year 2005, the AMB Generali Group again reached a substantial leap in profits: as at December 31, 2005 the Group's net profit increased to € 314 m compared to € 211 m in 2004. All business segments – life and health, property and casualty as well as financial services – made their contribution to this positive result by improved segment profits. Therefore the Board of Management and the Supervisory Board of AMB Generali Holding AG (AMB Generali) propose to the General Meeting to resolve the distribution of a dividend of € 2.05 (2004: € 1.75) per share for the business year 2005. By this proposed increase of more than 17 percent we follow the principle of having you, dear shareholders, steadily participate in the success of your company.

Besides the increase of the net profit, which was supported by good investment income and improvements in operating business, the positive development of the year 2005 was characterized by the marked premium growth of our life and health insurers. In this segment we again achieved a stronger growth than the industry. In property and casualty insurance premiums are back to market level, after the successful restructuring in previous years. Across all lines of business, premium income reached € 12.8 bn (2004: 12.1 bn). Our growth strategy based on profitability has been successful. We were able to improve the combined ratio of claims and expenses, which is an important profitability yardstick for the property and casualty segment, from 99.4 to 96.9 percent. At the same time the total expenses of the Group were reduced further.

Our Group's strong performance in the year under report is particularly satisfactory in the light of the economic and political environment and the major changes taking place in insurance markets. After the 2004 record figures ahead of the implementation of the Retirement Income Act, demand declined noticeably. The life insurers of the AMB Generali Group were not able to distinguish themselves altogether from this trend, but they experienced a markedly smaller decrease than the average of their competitors. As a whole, we were able to further expand our market share in 2005 and to reach the 2003 level of our new business. So-called Riester business again developed successfully. We have meanwhile sold more than one million Riester policies, which affirms our market leadership in this field.

The above-average growth of our health insurers is also to be seen as a positive development amid difficult conditions in the health market and a not clearly defined government policy regarding healthcare. The urgently needed reform of the health system still remains to be done. This creates a wait-and-see attitude among consumers, even though they are increasingly recognizing the advantages of a private and funded provision for healthcare, similar to retirement provision.

In 2005 we again focussed on a prudent risk selection and on the launch of product innovations for specific target groups in property and casualty insurance. Our strategy of concentrating on profitable customer segments amid an increasingly competitive environment – as in motor insurance, for instance – proved to be valid. On balance, we succeeded in gaining about 30,000 new customers in the highly competitive motor market, and we did so without participating in ruinous price-cutting.

Deutsche Vermögensberatung, our strongest distribution partner, has made an outstanding contribution to the successful development of the AMB Generali Group. Our



Dr. Walter Thießen, Dietmar Meister

To our shareholders

close and successful partnership with this biggest independent sales network for financial services worldwide has been existing for 30 years now. In the anniversary year 2005 we placed this cooperation on a new and long-term contractual basis. Together with Deutsche Vermögensberatung we will continue to intensify and expand our powerful partnership with regard to distribution, customer service and product development.

We can look back at a successful year not only as far as the good Group net profit and the operating figures are concerned: the financial strength, power and stability of our Group are also illustrated by the AA rating assigned to the AMB Generali Group in 2005 by the internationally renowned rating agency Standard & Poor's. The rating affirms our strategy and our performance the same way as it underlines the strong market position of our Group companies. We can state, not without pride, that we distinguish ourselves by the quality mark of a rating class no other competitor has achieved. The companies of the AMB Generali Group are the only primary insurers in Germany having received this rating in Germany which is the highest rating currently assigned by Standard & Poor's. In addition, the soundness and efficiency of our Group are also positive signals for our customers who can be sure to be in good hands.

Customer satisfaction is the cornerstone for our achievements. The key for a successful performance of the AMB Generali Group continues to lie in the strength and diversity of the brands and distribution channels used by our Group. By means of the variety of brands and the broadly diversified sales channels we can address the biggest possible customer potential and can guarantee close customer coverage. Therefore our future activities will also concentrate on the development of innovative products oriented at the needs of customers while taking into account the specific features of the individual distribution channels. This also includes measures to increase the productivity and efficiency of our sales networks and a steady qualification of our fieldstaff.

As the third-largest primary insurer in Germany we are excellently positioned in the growth market of insurance. Nevertheless we fully realize that the environment in which we operate is becoming increasingly difficult. Just to mention rising competition in the market for retirement provision, the rulings of the Federal Constitutional Court and the Federal Supreme Court with regard to hidden reserves and surrender values respectively or the price-cutting competition in motor insurance. We are operating in a tough market with rising challenges. This means that we have to keep on pursuing the initiated course of a business policy oriented at profitability while at the same time improving our cost position, if we want to reach our ambitious targets. We are well aware that this involves cuts for our companies and for our employees. But we will have to face these difficult challenges in order to persist in an aggravating market and to remain an attractive partner for our customers in the long term.

As a whole, the positive development of the year 2005 and not least the excellent Standard & Poor's rating clearly illustrate that we are steering the right course with our strategic orientation and with the measures taken for its implementation. We conceive what we have achieved until today as a stimulus to persist in our activities aiming to increase the value of your company. This includes a further development of our value- and risk-based management tools and a steady monitoring of our processes and structures with a view to customer orientation and productivity. By means of these measures

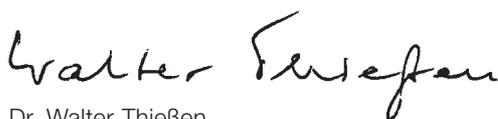
and with our Group strategy – summarized in the catchphrase of “Unity in Diversity” as a clear commitment to our diversity of brands and distribution channels – we will keep on operating successfully as a Group in the future.

After the strong performance of our Group in the closed business year, dear shareholders, we have set ourselves ambitious and challenging targets for the future. In the growth area of private provision for retirement and healthcare we will continue to reach a stronger growth than the market and we will make sustainable use of our competitive advantage. In property and casualty insurance, after the consistent restructuring in previous years, we will benefit from our return-based and risk-adjusted underwriting policy. For 2006 we aim to further improve claims management and to go on cutting expenses in order to reach an adequate combined ratio on a sustainable basis. Against this background and given our strong position in the German market of insurance and financial services we expect that in the coming years the Group net profit will continue to increase, provided that there are no extraordinary claims or adverse capital-market developments.

Our employees are the foundation pillar for the success of the AMB Generali Group. Again they are in the focus of the pictures illustrating this year’s report to show the variety of their personal interests and their commitment to our companies. I express my special thanks and appreciation to our employees for their successful work and their dedication to the Group in the closed business year.

Also on behalf of Dietmar Meister, my associate in the Board of Management, I equally convey my heartfelt thanks to you, dear shareholders. By your trust and your interest in our work you support the successful development of your company. We will do everything in our power to keep on strengthening and increasing the value of the AMB Generali Group in the future.

Yours sincerely,



Dr. Walter Thießen
Chief Executive Officer

Report by the Supervisory Board



Dr. Wolfgang Kaske

Dear Shareholders,

In the year under report, we continuously monitored the conduct of business of the Board of Management of AMB Generali Holding AG and accompanied management with our advice. For fulfilling these tasks assigned to us by the Articles of Association and by law, we regularly obtained detailed reports from the Board of Management on the business development, the situation and business policy of AMB Generali and its major Group companies. The reports were given in writing or verbally and they were subsequently discussed with the Board of Management. In addition, the Chairman of the Supervisory Board was in close contact with the Chief Executive Officer and informed himself regularly on the decisions taken by the management.

In the business year 2005 the Supervisory Board met twice in each half-year period. The General Committee of the Supervisory Board held two meetings. The Committee in charge of personnel issues of the Managing Board met three times. Furthermore the committees took resolutions in writing. The committee under section 27 para. 3 of the Co-Determination Act did not have to be convened.

The Board of Management informed us comprehensively about business policy, corporate planning, business performance, risk situation and risk management as well as about the state of the AMB Generali Group's activities to improve results by projects at Group level and by measures at the level of the individual Group companies. The Supervisory Board had extensive discussions with the Board of Management, in particular on activities in the context of the changing tax environment for life insurers due to the Retirement Income Act, the possible charges involved for life insurers as a result of the ruling of the Supreme Federal Court on surrender values (meeting of November 29, 2005), the challenges and opportunities for the Group's health insurance companies against the back-

ground of the early general elections and the formation of a new government (meeting of November 29, 2005) as well as the implementation of the realignment in property and casualty insurance (meetings of July 1, September 27 and November 29, 2005).

In line with the catalogue of transactions to be submitted for approval as resolved by the Supervisory Board, the Supervisory Board was involved, among others, in the decisions concerning the major transactions of the AMB Generali Group. In particular, in its meeting of November 29, 2005 the General Committee approved measures to optimize the Group structure.

In the period under report, the Supervisory Board dealt intensively with Corporate Governance issues. In particular the efficiency of the Supervisory Board was scrutinized and discussed in detail by us. It was stated that the Supervisory Board efficiently complied with the tasks assigned to it by law and by the Articles of Association. In this context, the internal rules of the Board of Management representing the constitution of our corporate body as well as the internal rules of the Board of Management, which also include specifications in respect of a timely and comprehensive information of the Supervisory Board, proved to be reliable instruments in principle. To further optimize the Supervisory Board's activities, the internal rules were slightly modified within the scope of a Group-wide harmonization. In its meeting of November 29, 2005 the Supervisory Board discussed and approved the structure of the remuneration of the members of AMB Generali's Board of Management.

A conflict of interest arose for one member of the Supervisory Board within the scope of the activities of the past business year. That Board member did not take part in the discussions and the voting on the decision concerned.

PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf, audited the Annual Financial Statements, the Management Report, the Consolidated Financial Statements established in compliance with the International Financial Reporting Standards (IFRS) and the Group Management Report for the business year 2005, including an assessment of AMB Generali's system for an early identification of risks. An unqualified auditor's opinion was issued. In addition, the auditor verified whether AMB Generali had published the declaration of compliance in respect of the German Corporate Governance Code as required by section 161 of the Companies Act. Furthermore the auditor examined the report by the Board of Management about the relationships with affiliated enterprises and issued an unqualified certificate as follows:

"After having duly performed our audit we confirm that

1. the actual information provided in the report is correct;
2. for the legal transactions indicated in the report the companies' consideration was not inappropriately high or that any disadvantages were compensated;
3. in respect of the measures indicated in the report there are no facts that would lead to an assessment materially different from the assessment expressed by the Board of Management."

We received for examination the Annual Financial Statements with the Management Report and the Consolidated Financial Statements with the Group Management Report

Report by the Supervisory Board

for the business year 2005, the auditor's reports on the financial statements of the company and the Group as well as the report on controlled companies. In the accounts meeting of the Supervisory Board, the reports were explained by the auditors and discussed by us in detail. The thorough examination of the reports and of the financial statements of the company and the Group did not result in any objections on our part. We share the assessment given by the Board of Management in its report on the relationships with affiliated enterprises.

The Supervisory Board approves the Annual Financial Statements of the company and the Consolidated Financial Statements for the business year 2005. The Annual Financial Statements are thus adopted under section 172 of the Companies Act. We join the Board of Management in its proposal for the appropriation of the balance-sheet profit.

With effect from June 1, 2005 Mr. Gerhard Preckel left the Supervisory Board and was succeeded by Karl-Rupert Hasenkopf. On July 31, 2005 Mr. Ulrich Peters retired from the Supervisory Board and was succeeded by Mr. Thomas Körber with effect from August 1, 2005. We thank Mr. Preckel and Mr. Peters for their dedicated cooperation in this Board.

We wish to express our particular thanks to the employees of AMB Generali and the Group companies and to the members of the respective companies' Boards of Management. The AMB Generali Group owes its successful development to their efficiency and commitment.

Also for the future we wish good luck and success to the Board of Management of AMB Generali and to all managers and employees of the AMB Generali Group.

Aachen, March 7, 2006

On behalf of the Supervisory Board



Dr. Wolfgang Kaske
Chairman

The AMB Generali share

2005 was a successful year for the AMB Generali share. With a 44 percent gain, our share was among the top performers of German insurance stock.

— In the course of 2005, stock markets worldwide experienced a positive development. This was mainly attributable to a substantial rise of performance in the second half of the year. The only exception was the U.S. market where the Dow Jones gained 2 percent thus remaining below the average trend. The European DJ STOXX index, however, the same as the German top-cap DAX index, witnessed a 27 percent rise. The upward trend was even more pronounced for the MDAX showing a 36 percent gain.

— This development was also followed by the 31 percent rise of the Prime Insurance Index, which is of relevance for the German insurance industry. The AMB Generali share again exceeded this performance, which takes the dividend into account, and reached 44 percent. At year-end 2005 the share quoted at € 84.20 thus evidencing a 40 percent rise over the closing price at the end of the previous year.

**Year-end price of
AMB Generali share
at € 84.20**

Performance of the AMB Generali share in 2005



Indexed performance development; December 31, 2004 = 100

Market places and indices

— The AMB Generali share is admitted to the prime standard segment and is traded at all German stock markets. More than 97 percent of its turnover was handled by the XETRA electronic trading platform. In addition, the AMB Generali share is represented in the MDAX, the European DJ STOXX and the FTSE World indices.

AMB Generali share at a glance

		2005	2004
Bearer share			
Number of shares (as at Dec. 31)		53,679,994	53,679,994
Number of shares (average)		53,678,181	53,678,124
Highest price	€	84.36	71.50
Lowest price	€	58.24	53.67
Year-end price	€	84.20	60.16
Market capitalization	€'000	4,519,855	3,229,388
Dividend distribution	€'000	110,044¹	93,934
Key figures per share			
Earnings per share	€	5.87	3.86²
Dividend per share	€	2.05¹	1.75

1 subject to resolution by the General Meeting

as at Dec. 31, 2005

2 preceding year's figure adjusted due to application of latest IFRS standards (see p. 94 f.)

Dividend for the business year 2005

**Dividend of € 2.05
per unit share**

— The dividend policy of AMB Generali is characterized by a continuous participation of shareholders in the business success of the company. In the past ten years – with the exception of the years 2002 and 2003, which were difficult for insurance companies and in which a dividend at the previous year's level was distributed – shareholders have benefited from the successful business development by continuously rising dividends. Also this year, the Board of Management and the Supervisory Board will propose to the General Meeting to be held on May 18, 2006 to distribute a dividend of € 2.05 for each unit share for the business year 2005, which is € 0.30 above the previous year's dividend level.

Share capital of AMB Generali

— The subscribed capital of AMB Generali remains unchanged at the preceding year's level of € 137,420,784.64.

Share capital of AMB Generali

	Number of bearer shares	Reuters symbol	Security id. no.:
137,420,784.64 €	53,679,994	AMBG	840 002

as at Dec. 31, 2005

Shareholder structure of AMB Generali

— Assicurazioni Generali S.p.A., Trieste holds a share in AMB Generali totalling 70.88 percent. The share is held directly and indirectly through subsidiaries. The free float comprises the remaining 29.12 percent of the shares which are held by other institutional investors, companies and private persons with an interest of less than 5 percent each.

Investor Relations

— It remains the primary target of our Investor Relations activities to keep on increasing the frequency and quality of our dialogue with private and institutional investors. For this purpose, numerous meetings were again held with investors and analysts in 2005. In addition, AMB Generali presented roadshows at the most important financial market places in Europe and North America. Like in previous years we attended several international investor conferences. By our continuous, trustworthy and active communication we make the economic strength of our Group transparent for the capital market. The latter is thus put in the position of giving a fair company assessment.

— On our website www.amb.de or www.amb-general.de interested investors can obtain detailed information on AMB Generali. Alongside complementary data such as key figures, price performance, analyst assessments and the financial calendar, the website also gives access to the most important publications of AMB Generali, such as annual and interim reports as well as presentations for analysts and investors. Detailed online information on our General Meeting is also available on the Internet.

— The Investor Relations team will be pleased to answer any questions you may have. Your contacts and our financial calendar 2006 are indicated on the back cover pages.

**Continuous
and transparent
information**

Standard & Poor's AA rating

The insurance companies of the AMB Generali Group were assigned an outstanding AA rating ("excellent") by the renowned rating agency Standard & Poor's (S&P) in an interactive rating procedure. The entities of the AMB Generali Group are the only primary insurers in Germany having obtained this rating which currently is the highest assigned by S&P in the primary insurance industry.

— In the year 2005 the AMB Generali Group had its Group companies rated for the first time by the internationally renowned rating agency S&P.

Within the scope of an interactive rating procedure, the AMB Generali Group's insurance companies

- Advocard Rechtsschutzversicherung AG
- AMB Generali Pensionskasse AG
- Central Krankenversicherung AG
- Cosmos Lebensversicherungs-AG
- Cosmos Versicherung AG
- Envivas Krankenversicherung AG
- Generali Lebensversicherung AG
- Generali Versicherung AG

were for the first time assigned a AA ("excellent") insurer financial strength rating. At the same time S&P again affirmed the existing AA insurer financial strength ratings for

- AachenMünchener Lebensversicherung AG
- AachenMünchener Versicherung AG
- Volksfürsorge Deutsche Lebensversicherung AG
- Volksfürsorge Deutsche Sachversicherung AG.

The entities of the AMB Generali Group thus obtained the best rating S&P has granted to date to primary insurers in Germany. All companies indicated above are classified by S&P as core entities of Assicurazioni Generali S.p.A. with a "stable" outlook.

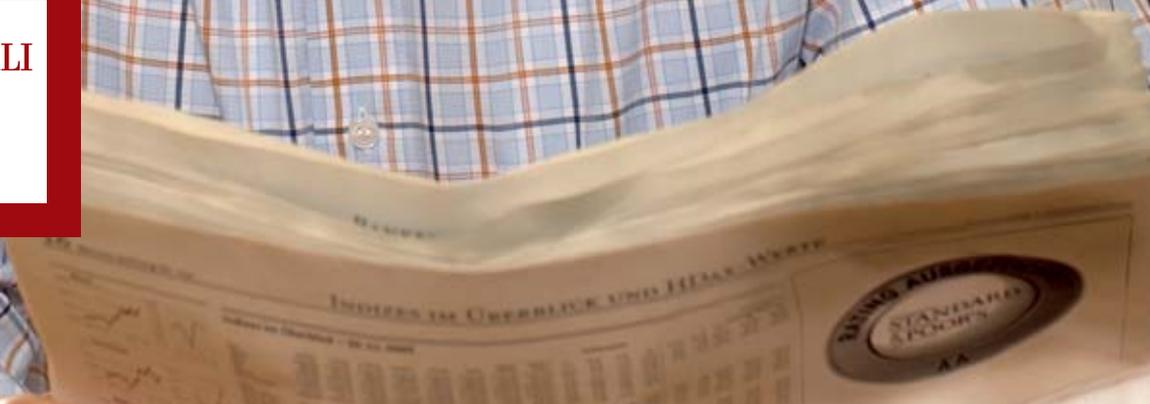
— Alongside the excellent AA rating for the insurers of the AMB Generali Group, Deutsche Bausparkasse Badenia AG was assigned an A rating by S&P under an interactive rating procedure. S&P qualified the outlook as stable. The rating reflects above all the successful overhaul of the company involving massive cost reductions and a new strategic orientation, which give reason to expect a further improvement of profitability and earnings capacity in the future.

Standard & Poor's assigned an excellent AA rating to the insurers of the AMB Generali Group. I am proud that we thus distinguish ourselves by the quality mark of a rating class no other competitor has achieved.

Dr. Claudius Vievers, Financial Controlling



AMB GENERALI



Standard & Poor's AA rating

— The analyses made under an interactive rating procedure go far beyond those of a rating based on public information only. S&P performs a future-oriented analysis of factors such as market risk, competitive position, management and corporate strategy, profitability, investments, capitalization, liquidity and, finally, financial flexibility. The competitive position is a particularly important element. Companies of the high and highest rating categories need to have an excellent competitive position since the latter is the prerequisite for sustainable success.

— Against this background it is particularly positive that in its rating rationale S&P recognizes AMB Generali's strong competitive position "based on its domestically unrivalled distribution and brand diversity". Other competitive advantages indicated in the rationale are name recognition, customer coverage and a strong distribution capacity while simultaneously the Group benefits from economies of scale. Furthermore, according to S&P the earning capacity of AMB Generali is strong and further improving. The success of the management becomes evident in its efficient leadership of the companies in combination with a profitability-oriented strategy. S&P affirms a significant improvement of the operational earning capacity and the existence of additional potential, thus confirming the course pursued by the AMB Generali Group.

— For the customers and the capital market this good rating is an important and positive signal that, after having analysed financial strength, competitive position and earning capacity, S&P certifies that the Group has "the attributes for long-term success in the German primary insurance market". The AMB Generali Group thus demonstrates to its customers and the capital market that it is well prepared for the challenges of the coming years and that it will give investors an adequate return on their invested capital.

— In the future the AMB Generali Group will have its companies rated annually in order to have its financial strength analysed and to demonstrate the positive sustainable development of its earning capacity.



Group Management Report

Economic environment in 2005

In 2005 the global economy again experienced a dynamic growth. Compared to 2004, however, economic activities cooled off slightly. In the eurozone growth was disappointing in the first half of the year while the second half witnessed a recovery. Bond markets were strongly influenced by the U.S. Federal Reserve's persistent tightening of rates. At year-end, also the European Central Bank increased rates for the first time in five years. Nevertheless the yields of 10-year government bonds dropped from their level at the beginning of the year. Shares picked up markedly in Europe and Japan. Only in the U.S. price gains remained below average. The U.S. dollar turned out to be strong.

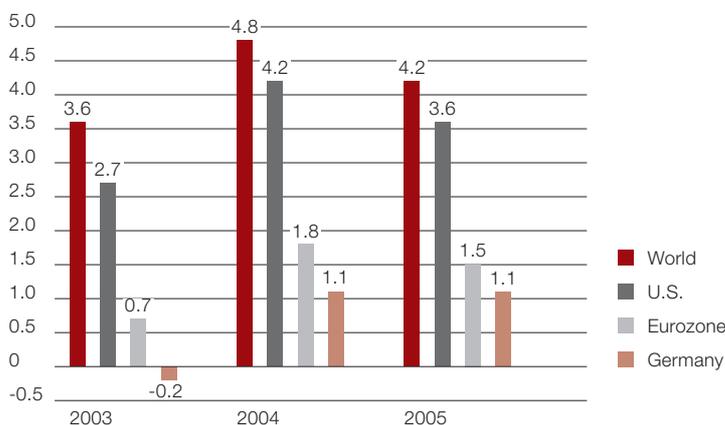
— In 2005 the global economy again achieved a robust growth of 4.2 percent. Compared to the previous year's 4.8 percent growth, however, it lost some of its momentum. Eurozone activities did not become more dynamic until the second half of the year. Nevertheless eurozone growth of 1.5 percent was markedly lower than growth in the U.S. or Japan. Growth in Germany was again below the European average. The rising demand for crude oil induced by strong worldwide growth made the oil price rise to new record highs and led to a price increase of 40 percent on an annual average.

Eurozone growth weaker than global market

— Overall economic production in Germany increased by 1.1 percent in 2005. This rise was mainly supported by exports which increased substantially, benefiting from a weakening euro. In the second half of the year an acceleration was also witnessed for investments. Consumer spending, however, which is vital for a self-sustaining recovery, remained without momentum. The labour market's average annual unemployment rate of 11.6 percent again was a heavy burden. Amid a change of government, political discussions about an increase of value-added tax and a cut of tax breaks also had an adverse effect on the environment for consumer spending. Furthermore the higher expenses for patrol and fuel oil presumably led to reduced spending in other fields. The increase of crude oil prices involved a rise of consumer prices by 2.0 percent against 1.6 percent in the previous year.

German gross domestic product rises by 1.1 percent

Economic growth in selected regions since 2003



Figures in %

Source: datastream

Substantial price gains for shares in Europe and Japan

Financial markets

— Stock markets in Europe and, in the further course of the year, also in Japan witnessed a strong upward trend. Compared to the level at the beginning of the year, prices rose by 20 percent in Europe and by even more than 40 percent in Japan. The main driver in Europe was the strong development of corporate earnings. German shares rose slightly above the average. Interest was fuelled by the early elections involving hopes for structural reforms, especially on the part of international investors. Well into autumn U.S. shares experienced a sideways trend as a result of various bank rate increases. Only towards year-end the prices of U.S. standard stock rose by 3 percent over the previous year's level.

Bank-rate increases in U.S. and eurozone

— The U.S. Federal Reserve continued its tightening cycle and increased bank rates over the year by 200 base points to 4.25 percent. The European Central Bank (ECB) also started a normalization of its rate level in December. It raised the repo rate by 25 base points to 2.25 percent. In the eurozone the yield of 10-year government bonds fell until well into the second half of the year, touching a low of slightly under 3 percent. At year-end the yield was 3.3 percent (preceding year: 3.7 percent). Taking into account price gains and interest rates, the total annual return was 5.3 percent. Also in the U.S. yields experienced a volatile development, but here the yields of 10-year treasury bonds increased by 20 base points in the course of the year, reaching 4.4 percent in December.

Yield development of selected asset classes¹

	2005	2004	2003
Bonds²			
World except U.S. and eurozone	-6.5	10.1	14.5
U.S.	2.9	3.7	3.4
Eurozone			
Treasuries	5.3	7.7	4.0
Corporate bonds (non including financial instruments)	3.3	7.5	7.8
Shares³			
S&P500	4.9	10.9	28.7
DJ STOXX	26.7	12.2	16.8
DAX	27.1	7.3	37.1

Figures in %

1 local currency; as at December 31, 2005

2 total yield composed of regular interest and price change

3 performance indices

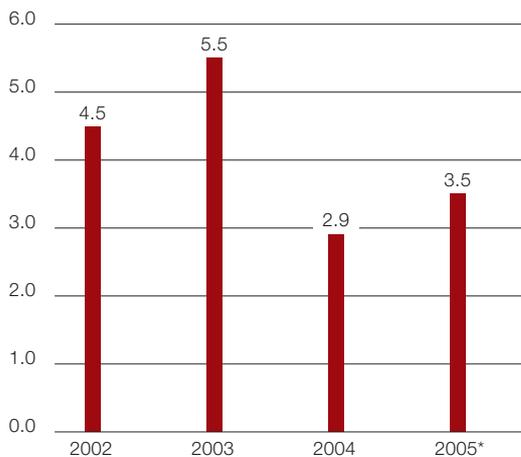
Insurance industry and financial services sector

The persistent difficulties of the economic environment are increasingly having repercussions also on the demand for insurance products. Driven by the extraordinary new business growth in life insurance, the industry's turnover continued to rise in 2005. The new business of life and health insurers, however, decreased as expected. In property and casualty insurance, business was also affected by intensive price competition.

— In 2005 the German insurance industry only experienced a slight increase of market growth. In the light of domestic activities continuing to be moderate, the economic environment did not give any appreciable impetus to the insurance market. According to provisional assessments, the member companies of the German Insurance Association (GDV) reached a premium growth of about 3.5 percent (preceding year: 2.9 percent). The total premium income across all classes and lines of business amounted to about € 157.6 bn (preceding year: 152.3 bn). Without pension schemes and pension funds premium growth was 3.1 percent (preceding year: 2.2 percent).

Insurance industry grows by 3.5 percent

Growth of premium income



Figures in %, pension schemes and pension funds included as from 2003

* provisional forecast

Source: GDV, company calculations

Premium growth supported by life and health insurance

— Again market growth was mainly supported by life and health insurers. The premium income of both life insurance and private-sector health insurance witnessed an above-average increase. The development of life insurance in 2005 was still marked by the year-end boom 2004 induced by the Retirement Income Act. As expected, the extraordinarily strong new business of the year 2004 led to a dented growth in the year under report.

**6.8 percent
increase
of life premium
income**

In terms of premiums, life insurers benefited from the 2004 year-end sales boom. According to provisional GDV estimates life insurers, pension schemes and pension funds witnessed a marked increase of premium income by 6.8 percent to € 75.0 bn (preceding year: 70.3 bn). Life insurance premiums in a narrower sense, i.e. without pension schemes and funds, grew by 6.0 percent (preceding year: 1.0 percent) to € 72.5 bn. The annualized premium income from net new business decreased by 49.7 percent to € 6.3 bn (preceding year: 12.5 bn) for life business with regular premiums, while for single-premium business, driven by some large-volume contracts, it rose by 18.7 percent to € 9.1 bn (preceding year: 7.7 bn).

— The demand for the so-called “Riester products” witnessed a very dynamic development: as a whole more than 1.1 million contracts (preceding year: 295,000) eligible for incentives under section 82 paras. 1 and 2 of the Income Tax Act were concluded. The portfolio of Riester policies taken out across the market by year-end 2005 meanwhile amounts to more than 4 million contracts.

2005 premium income by lines of business

	Premium income € bn	Change over prec. year in %
Life insurance	75.0	6.8
Private health insurance	27.4	3.7
Property and casualty insurance*	55.1	-0.5
Motor insurance	21.9	-2.8
General liability insurance	6.8	3.5
Personal accident insurance	6.0	0.5
Legal expenses insurance	3.0	3.0
Other classes	17.5	-1.0
Total insurance	157.6	3.5

German market, preliminary figures

* not including business abroad, credit, nuclear, aviation, aviation and space liability, professional indemnity insurance

Source: GDV

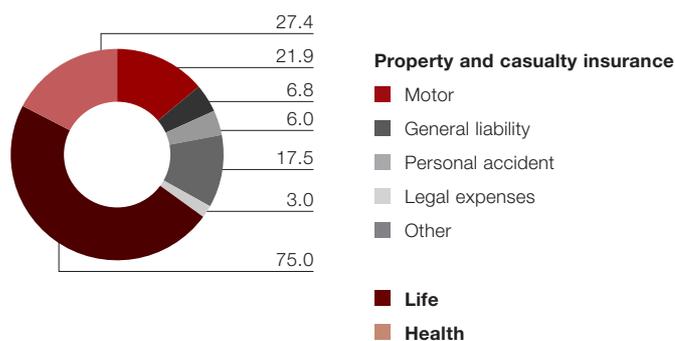
Everybody handles money, some way or other, every day. But it is not easy to invest money the right way. Thanks to our private and institutional customers, AMB Generali Asset Managers has become one of the biggest asset managers in Germany. Our clients’ trust is at the heart of our motivation and commitment.

Anne Marks, Research Assistant



AMB GENERALI
Asset Managers

2005 premium income by lines of business



Figures in € bn

Source: GDV

The new basic-pension products, however, had a difficult start. The demand for the so-called “Rürup pension” did not pick up until the second half of 2005. As a whole, close to 150,000 contracts of the new basic pension products had been sold across the market by year-end.

In corporate pension business the development continued to be satisfactory. Pension-scheme companies reached an over-proportionate premium growth of 37.3 percent, while pension-fund companies, accounting for a smaller business volume, experienced a 16.4 percent decrease thus witnessing a markedly weaker development.

Health premium income goes up by 3.7 percent

— In the year under report, the premium growth of private-sector health insurance was again above the average of the industry. The premium income went up by 3.7 percent (preceding year: 6.8 percent) to about € 27.4 bn. Out of that amount, about € 25.5 bn (preceding year: 24.5 bn) were attributable to full and complementary covers. The key factors for this growth were premium adjustments and a rise of about 10 percent in the number of policyholders of complementary covers. On the other hand, the net increase in respect of full health covers nearly halved. As far as covers for employees are concerned, the net increase dropped to zero. This development is deemed to be mainly the result of the higher income threshold for obligatory membership in health funds applicable since 2003 and of continuing uncertainties about the future political course with regard to the healthcare system.

Weaker development of property and casualty insurance

0.5 percent decrease in property and casualty

— After the good performance in the two previous years, the market development in property and casualty insurance slowed down noticeably in 2005. Primarily due to lower premium income in motor business, but also in industrial and marine insurance, the gross premiums of property and casualty insurers fell by a total of 0.5 percent compared to the previous year.

An over-proportionate level of upgrades to more favourably priced classes of no-claims discounts and car types and an intensification of price competition were the main reasons for the negative premium development in motor insurance. As a whole, the premium income in motor dropped by 2.8 percent (preceding year: +0.8 percent). The losses in premium income were rather equally spread across the different classes of motor insurance.

Personal accident insurance witnessed an 0.5 percent growth over the preceding year's level of 2.7 percent. Only slight growth was experienced in general liability insurance going up by 3.5 percent (preceding year: 3.6 percent) and in legal expenses insurance rising by 3.0 percent (preceding year: 3.3 percent).

Building-society sector affected by unfavourable environment

— In the year under report the environment for the building-society sector was characterized by persistently low interest rates while simultaneously competition among the providers of financial services became keener, the home-owner subsidy was abolished with effect from January 1, 2006, construction activities were weak and the overall economic situation was difficult. As a result, private-sector building societies witnessed a decrease of adjusted new business by 8.5 percent to 2,420,119 contracts with a target contract sum totalling € 60.5 bn (-3.5 percent) as at December 31, 2005.

**Decline of new
business for
building societies**

German investment industry manages close to € 1.2 trillion

— In 2005 the German investment industry had a net volume of new investments amounting to € 81.4 bn (preceding year: 24.2 bn). The net new investments of mutual funds were € 42.0 bn (preceding year: 6.5 bn) and thus lay ahead of special funds with an inflow of € 39.4 bn (preceding year: 17.7 bn). At year-end 2005 the fund assets managed by the industry reached a new record high. In the course of the year the volume of mutual and special funds grew by 16 percent to € 1,163 bn. Out of the total assets under management an amount of € 545.4 bn (preceding year: 459.9 bn) was attributable to mutual funds while special funds accounted for € 617.5 bn (preceding year: 543.1 bn).

**German investment
industry reaches
strong sales result**

Development focus of the AMB Generali Group

The strong market position of the AMB Generali Group is based on the diversity of our distribution channels and our multi-brand strategy. These are also the most important features by which we distinguish ourselves from our competitors. Additional key factors for the success of the AMB Generali Group are a broadly diversified product range oriented at customers, the concentration on profitable business with private customers as well as small and medium-sized commercial clients and a further optimization of the organization of our Group units.

— In 2005 we continued to push the growth initiatives and restructuring measures we had launched with a clear orientation on a sustainable strengthening of the earning capacity and the corporate value of the AMB Generali Group. This comprises increasing the profitability of underwriting business, expanding our market position while simultaneously maintaining a risk- and return-based approach and observing stringent cost discipline. In a steadily changing market for old-age provision and healthcare and amid keener competition in property and casualty insurance, the AMB Generali Group was largely able to reach its ambitious targets in respect of growth and earnings in the year under report.

Total expenses further reduced

— In the wake of an optimization of our business processes we again reduced overall expenses. Our progress in cutting administrative jobs was faster than planned. In 2005 our activity focus was increasingly directed at customer-orientation projects. In this context we pushed ahead with the qualitative expansion of the traditional sales networks of the AMB Generali Group, which led to a marked increase of their efficiency and productivity. In the year under report we again provided our customers and distribution partners with a number of new and highly attractive product solutions.

Cross-company business initiatives

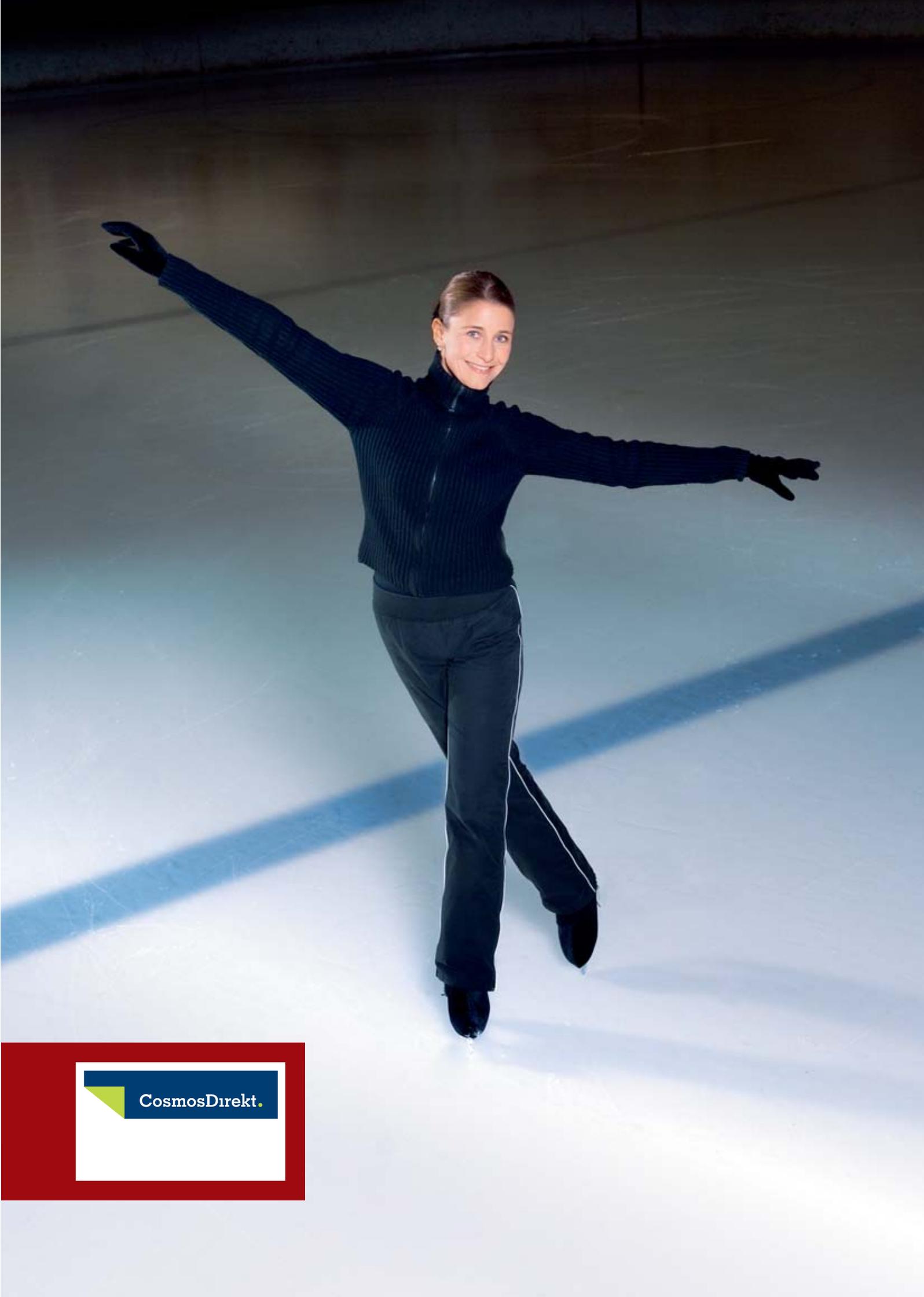
— To sustainably ensure that we reach our ambitious targets we implemented cross-company business initiatives complementary to the projects existing in the individual Group entities. The product strategy in motor insurance, for instance, was successfully developed further and claims management was optimized across the Group. In addition, our Group companies consistently went on pursuing the measures initiated to strengthen their brands. Also these activities are primarily oriented at the needs of customers.

Unity in diversity

— Our Group strategy “Unity in Diversity”, which describes the advantages of having one big entity comprising a broad diversity of brands and sales channels, clearly defines the role allocation between AMB Generali and the Group companies. The Group com-

It takes a lot of training to get to the top, but there is a lot of fun and creativeness, too. With CosmosDirekt it's the same: our passion to serve customers guarantees top products at a favourable price as well as help and advice 24 hours a day.

Anke Ory, Risk Assessment Life/Health Insurance



CosmosDirekt.

Clearly defined role allocation in the AMB Generali Group

panies have the operating responsibility for gaining and retaining customers and for customer service, which means that they are in particular in charge of their distribution activities and corporate design. AMB Generali as the management holding company with a strong leadership defines the Group strategy, organizes synergies and coordinates business activities. With its focus on increasing the corporate value, AMB Generali is responsible to its shareholders. It ensures cost and competency advantages as well as a shared culture within the Group.

— Each and every individual company of the AMB Generali Group works with its own sales channels and with a diversified product range focussing on different lines of business. Due to the diversity of company profiles it is possible to respond to a large variety of customer and market needs. This means that, on the one hand, the Group has a very broad customer approach. On the other hand the creation of uniform standards in the segment and the strong leadership of the Group by AMB Generali as the management-holding company lead to cost efficiency.

— The subsidiaries representing the main brands of the AMB Generali Group operate from the following locations in Germany: Aachen with AachenMünchener, Hamburg with Volksfürsorge, Munich with Generali Versicherungen, Saarbrücken with CosmosDirekt, Cologne with Central Krankenversicherung and Karlsruhe with Deutsche Bausparkasse Badenia.

The details of our development focus in 2005 are indicated below:

Cost-cutting activities continued

Personnel and material expenses

— We continue the measures initiated to improve our cost position. The core elements of the programme are a reduction of personnel and material expenses across all segments and targeted cuts of administrative jobs. In implementing our job-shedding measures we slightly exceeded our plan targets at year-end 2005. Meanwhile we have reduced administrative-staff capacities by 1,751 jobs, of which 465 in the year under report. We will further pursue our cost-reduction measures in the coming years. We aim to take these measures in a socially compatible manner and by making use of natural fluctuation. As a whole, the measures have led to a decrease of overall expenses (without commissions) by 1.6 percent to € 1,856.6 m in the business year 2005.

Distribution channels oriented at profitability

Distribution

— Due to the increasing requirements of a demanding market environment, the distribution networks of the AMB Generali Group are constantly facing new challenges. In 2005, attention was focussed on the expected decrease in demand following the boom at year-end 2004 and on the change of the product and incentive worlds after the coming into force of the Retirement Income Act.

One-dimensional growth purely oriented at turnover is no success factor for us. Therefore the AMB Generali Group concentrates on aligning the broad diversity of its sales networks in the sense of a stringent profitability orientation. For that purpose controlling instruments have been developed to give an even deeper insight into the profitability of the individual sales networks and to further increase the efficiency of controlling.

Strong traditional sales networks

— The tied-agent networks of our Group companies have a total of 100,000 persons at their disposal working on a full-time and side-job basis. The high effectiveness of our sales team is ensured by close to 11,000 employed and free-lance intermediaries. In addition, 93,000 side-job intermediaries ensure an optimum and close customer coverage.

High efficiency of traditional sales networks

— Besides the extensive sales-organization measures already launched in previous years, the focus of distribution activities lies mainly on a further improvement of return-based controlling. The economic transparency of distribution structures down to the level of the individual intermediary continues to be the prime prerequisite for a qualitative expansion of distribution capacity.

— Beyond this we consistently support our sales networks in fulfilling the requirements of the EU Insurance Mediation Directive, which will probably be transposed into German law by mid-2006. The AMB Generali Group has intensively dealt with this issue at an early stage and has taken appropriate measures, in particular with regard to the duties of advice and documentation. In the course of 2005 an electronic record of customer advice was developed and successfully tested in practice. The very good qualification and training of our intermediaries and the financial strength of our Group generate the corresponding competitive advantages for the traditional sales networks of the AMB Generali Group. We therefore regard the implementation of the EU Insurance Mediation Directive as a great opportunity to position ourselves even more successfully in the market of old-age and health provision thanks to our high advisory qualities.

Fieldstaff support with a view to planned EU Insurance Mediation Directive

CosmosDirekt – the number one of German direct-selling insurers

— Also in the business year 2005 CosmosDirekt continued its success story as the biggest direct-selling insurer in Germany. While, as expected, life new business in terms of regular premiums dropped noticeably in the market, CosmosDirekt even exceeded its record 2004 result by achieving double-digit growth. By means of its multi-channel sales activities with a 24-hour advisory service and a comprehensive offer on the Internet, Cosmos meanwhile reaches an annual premium income of more than € 1 bn. At the same time CosmosDirekt is the market leader in term life insurance. The high corporate quality of CosmosDirekt and the quality of its products are affirmed by excellent ratings.

Again record level in life business

30 years of successful partnership with Deutsche Vermögensberatung

— For the AMB Generali Group the sales success – frequently even achieved against market trends – of the more than 32,000 financial advisors working for Deutsche Vermögensberatung is of outstanding importance. For 30 years a close and successful partnership has been existing with this biggest independent sales organization for financial services worldwide. It is a unique entrepreneurial success. Within this intensive cooperation the companies of the AMB Generali Group and Deutsche Vermögensberatung complement one another with their respective strengths. In an optimum combination of expertise, the networks, which are very familiar with each other, are able to give a quick, flexible and innovative response to all changes in the market and in customer expectations. This generates vital competitive advantages in coping with the chal-

Cooperation is unique entrepreneurial success

**Partnership
on a new
contractual basis**

lenges of the market. Business success is supported by people, mutual respect and shared targets. In this context, 30 years of cooperation also mean personal and entrepreneurial biographies which have meanwhile become closely interwoven.

In 2005, the year marking their cooperation anniversary, and in the wake of agreeing ambitious corporate targets, AMB Generali and Deutsche Vermögensberatung put their cooperation on a new contractual basis to further strengthen their partnership. In doing so, both partners pursue the target of achieving growth above the market level also in the future.

Against this background, AMB Generali and Deutsche Vermögensberatung Holding as the shareholders of Deutsche Vermögensberatung have agreed, for a period of initially 10 years, to increase the profit share of Deutsche Vermögensberatung Holding by up to 20 percentage points if the agreed targets are reached.

This agreement takes into account the unique entrepreneurial achievements of Dr. Reinfried Pohl and at the same time it recognizes the outstanding importance of the Pohl family's personal commitment to a continued successful development of Deutsche Vermögensberatung.

**Distribution strength
in fields requiring
intensive advisory
activities**

— The premium volume produced by Deutsche Vermögensberatung for the AMB Generali Group meanwhile exceeds € 3.6 bn. In the year 2005, our by far strongest sales partner was again very successful, especially in the business fields of private and corporate provision for old-age, which require intensive advisory activities. With a production of about 120,000 Riester contracts, Deutsche Vermögensberatung is again one of the market leaders in Riester new business in 2005. Since the launch of this product in 2001 Deutsche Vermögensberatung has sold more than 600,000 Riester policies for AachenMünchener. Because of the intensity of its customer contacts and its extraordinary distribution strength, Deutsche Vermögensberatung will continue to make a vital contribution to the growth capacity of the AMB Generali Group.

**Commerzbank
cooperation continues
positive development**

Development of the Commerzbank cooperation

— Our cooperation with Commerzbank, which has a long-term perspective, continues to take a positive development. Nevertheless Commerzbank was not able to avoid the impact of a decreasing demand for life insurance products after the record year 2004. As expected, the new business volume produced in life insurance and building-society business did not reach the good level of the preceding year. The distribution of our products in the branch offices of Commerzbank is supported by Commerz Partner Beratungsgesellschaft, a joint venture of AMB Generali and Commerzbank.

In my family the little one has the say, but for my retirement savings I listen to Volksfürsorge. They keep worries away from me and my family by providing fair products and reliable benefits.

André Schultz, Sales Management Assistant, with his daughter Muriel



 **Volksfürsorge**
Versicherungen

— The tied-agent networks of AachenMünchener, Volksfürsorge, Generali Versicherungen, Central Krankenversicherung and Deutsche Bausparkasse Badenia provide our customers with one-stop solutions in the financial-services field. In addition to their own insurance products they also offer Commerzbank's banking products in order to give targeted advice in line with customers' needs.

Cooperation structure developed further

— In 2005 the cooperation was further developed by means of a new and targeted alignment of the cooperation structure in line with the requirements of the market of old-age provision. Under that new structure all branch offices of Commerzbank are now supported by specialists for old-age provision from Commerz Partner Beratungsgesellschaft. While Commerzbank sustainably positions itself as a bank for old-age provision by means of its generalist distribution network and a targeted adjustment of its product range in life insurance as well as a systematic and technically integrated advisory process, Commerz Partner operates as a complementary specialist organization with a focus on the products of corporate pension business, health as well as property and casualty insurance. In 2006 this newly launched business model will be further optimized in the field of sales controlling and fieldstaff expansion.

Furthermore some first success is becoming evident in the cooperation with the business and commercial client division for corporate old-age provision, which will be further expanded in 2006 by an improvement of support processes.

Development focus in the business fields

New product world in life business

Retirement Income Act in force since early 2005

— In 2005 one of the focus areas of our business activities in life insurance was the realignment of the products for old-age provision. With the beginning of 2005, the Retirement Income Act has led to an extensive change of the taxation rules applicable to life insurance products. The core element of the law is the introduction of deferred taxation for the benefits of old-age provision. At the same time, legislation brought about a crucial change in respect of tax incentives for contributions paid to accumulate retirement savings. Old-age provision on a private and corporate level now enjoys the same tax status as contributions to the state-run pension scheme. Though this involves a substantial enhancement of tax breaks for private old-age provision, the advantages are concentrated on products with lifelong pensions.

Changed requirements for product portfolios

— The new environment also involved a change of the requirements of the life insurers of the AMB Generali Group regarding their product portfolios. We responded to that situation at an early stage by a product offensive. Within the scope of the "three-tier model" defined by the governmental Rürup Commission we launched products early in 2005 which provide our customers with a range of provision products consisting of lifelong basic pensions, complementary provision as well as endowment and term life insurance, perfectly adjusted to their needs.

— In the long-term, the basic pension cover offered by our life insurers under the first tier is expected to have a high market potential. The product is conceived as a private pension complementary to the state-run pension scheme. Contributions to this policy are tax-deductible up to a maximum limit. At retirement age, our customers will also benefit from the fact that, as a general rule, they will be subject to a lower individual tax rate. Among other reasons because of the low degree of recognition and the fact that the

basic pension cannot not be paid out as a lump-sum, not be bequeathed to heirs and not be used as a collateral for a loan, customers initially were reluctant to take out this type of policy. In addition, the contributions will not become fully tax deductible until 2025 after an increase of the tax-deductible share by 2 percentage points every year.

— In the first year of the product launch, only about 150,000 basic-pension contracts were taken out across the market. During the same period, the life insurers of the AMB Generali Group sold a total of number of 10,700 policies. The demand for basic-pension products will not witness a substantial rise until legislation eliminates excessive regimentation and tax breaks have reached an attractive level. In order to make up for the rigid statutory rules we offer customized complementary features, such as pensions for surviving dependants, additional pensions for occupational disability and term life covers.

— Our business with the old-age provision products of the second tier had a very successful development in 2005. In the growth field of corporate pensions the AMB Generali Group achieved an adjusted new business in terms of regular premiums totalling € 184 m and of € 110 m in terms of single premiums. There is a noticeable shift in demand from pension schemes to so-called direct covers under which premiums are directly deducted from the employee's gross salary and which has become more attractive as a result of the harmonization in the taxation of retirement income. To take account of the importance of corporate old-age provision, which is expected to increase in the future, the AMB Generali Group expanded its sales and support capacities in this business field across the Group. This refers both to the special business for corporate solutions handled by Generali Lebensversicherung and to the solutions offered by AachenMünchener and Volksfürsorge for private customers and public institutions.

**Growth field
of corporate pensions**

— In the period under report AMB Generali Pensionskasse took out 45,000 new contracts representing a regular premium income of about € 64 m. Compared to the preceding year, the gross premiums written by the pension-scheme company nearly doubled to € 215.1 m (+80.9 percent). The new business development in 2005, however, shows that the Pensionskasse is particularly affected by the shift in demand to direct covers caused by the change of taxation rules.

**Pension-scheme
company with
strong growth**

— In 2005 the demand for the so-called Riester products was particularly strong. As the market leader we have sold more than one million Riester policies since the product launch in 2001, which represents an adjusted new business in terms of regular annual premiums of € 354.6 m; about 223,000 of these policies were sold in the year under report 2005. Compared to the preceding year this equals a 120 percent growth and a further expansion of our leadership in the market of this important segment of old-age provision.

**More than one million
Riester contracts sold
since product launch**

— Within the third tier of the model defined by the Rürup Commission we offer to our customers the classical endowment and pension covers, which continue to be attractive products also after the implementation of the Retirement Income Act. Due to the fact that benefits are guaranteed in the long term, biometric risks are covered and for policyholders over 60 years of age only half of the benefits become taxable, endowment life insurance remains a suitable instrument of providing for old age. There is a rising demand for flexible products. The "Private Future Concept" of AachenMünchener, for



Aachen
Münchener

instance, is based on a modular scheme of options. This way insurance cover, premium payment, personal investment strategy and pay-out options can be combined in a most flexible way to create a customized comprehensive cover which can also be adjusted upon request.

Rulings by the Federal Constitutional Court in respect of life insurance

— At the end of July 2005, the Federal Constitutional Court made fundamental rulings in respect of life insurance on the issues of “Transparency and Policyholder Bonus” and “Portfolio Transfers of Life Insurance Policies”. The court ruled that as a matter of principle policyholders were entitled to participate in the hidden reserves. The importance of hidden reserves for the safety and continuity of private old-age provision, however, was explicitly recognized and the court stated that it was necessary to weigh the community’s solidarity-based interest in maintaining hidden reserves against the interest of individuals in participating in these reserves. With regard to portfolio transfers it was confirmed that the transactions concluded were effective.

Fundamental court rulings create legal certainty

— The Constitutional Court ordered legislation to pass legal provisions by December 31, 2007 taking account of the requirements of constitutional law as stated in the rulings. In doing so, the court left legislation with a broad scope regarding the mechanisms to be applied, i.e. under company law, accounting law, supervisory law or contract law. The AMB Generali Group will take a constructive part in reform discussions. For the business year 2005 the rulings did not involve any direct consequences.

New legal rules by year-end 2007

Ruling by the Supreme Federal Court in respect of life insurance

— In its judgement of October 12, 2005 the Supreme Federal Court (BGH) ruled that the replacement of intransparent clauses in general insurance conditions by new clauses with an identical contents was ineffective. Under the BGH ruling, for most life insurance policies concluded between 1994 and 2001 the existing contractual clauses are replaced by a minimum surrender value calculated in line with a formula defined by the court.

— Supplementary claims made on the basis of the BGH ruling will be verified with regard to their amount and contents and will be settled if they are justified. For the life insurers of the Group, the supplementary claims will lead to additional financial charges for which adequate provision was made in the 2005 Consolidated Financial Statements of the AMB Generali Group.

Supplementary claims from policyholders

“Dreams need security”. Making them come true and coping with risks – that’s the yardstick for measuring the success of AachenMünchener.

Dirk Courté, Regional Agency, with his wife Undine and their sons Carl and Oscar

**Strengthening
of position in
private-sector
health insurance**

Strong growth in health business

— The AMB Generali Group's health insurers continued their successful development. In 2005 the number of insured persons with a full health cover increased to 405,279 from 395,983. Complementary covers experienced a strong growth with the number of insured persons going up by 4.0 percent to about 1.6 million.

Amid ongoing discussions about the state-run health-fund scheme we have begun to develop viable concepts to strengthen our own position in the private-sector health insurance market. Already early in 2004 we started a cooperation with Techniker Krankenkasse (TK), the third-largest public health fund in Germany. Envivas Krankenversicherung exclusively sells complementary covers developed under this cooperation for the about 6 million customers of Techniker Krankenkasse. We are thus making use of the opportunities of cooperation between health funds and private-sector health insurers created under the 2004 healthcare reform. As a whole, about 136,000 policies have already been produced under the cooperation with TK, of which about 119,000 in the business year 2005. This places the AMB Generali Group among the leading enterprises of this new cooperation market.

**Risk-adjusted pricing
and improvement of
profitability**

Profitability increase in property and casualty business

— It is of vital importance for the business result of the AMB Generali Group to increase the profitability of property and casualty business. Our target is to position ourselves in those business fields which make a positive contribution to earnings in the long term.

In motor business our strategy in 2005 was focussed on risk-adjusted pricing and a further improvement of profitability. Within the scope of a cross-company business initiative we fundamentally overhauled our product strategy in motor insurance. In July 2005 we launched a high-performance new business model with innovative features, such as a protected no-claims discount and the "DriverPlus" component protecting drivers from the financial consequences of accidents, at risk-adjusted premiums. All our Group companies adjusted their motor portfolios in line with requirements and on an optimized cancellation basis, thus making an important contribution to raising profitability. After a broad enquiry involving several thousand customers and intermediaries, CosmosDirekt – as a pioneer within the AMB Generali Group – implemented the two-product strategy for motor new business, which is already applied in other insurance classes: since October 2005 CosmosDirekt's customers benefit from an improved service by being able to choose between a favourably priced basic model and a more sophisticated "comfort" model. In the light of the substantial rate reductions by some competitors in the course of the year we will continue to carefully observe the market and price developments in motor business.

**Target to sustainably
improve the combined
ratio**

— With the Group project of "Future Claims Management" initiated in 2004 we support a sustainable improvement of the combined ratio. In 2005 we have got markedly closer to our target of a further optimization of operational claims handling involving a decrease of claims payments and settlement expenses. Under this project, active claims management is being improved by a portfolio of individual measures; in particular, direct contacts with customers in claims settlement are further optimized and accelerated. The target of these measures is to improve the speed of declarations, to push integrated claims handling across insurance classes and to intensify the use of claims networks.

— With regard to products, our Group companies steadily prove by means of their innovative solutions oriented at specific target groups that they are in touch with their customers. Examples for this are the new motor insurance model of our property and casualty insurers and the flexible “Private Future Concept” life policy of AachenMünchener. In October 2005 Generali launched a product oriented at the specific needs and expectations of people over 50. Under the “Selekta 50 Plus” model it is possible to combine cover for long-term care after an accident, householders insurance, general liability insurance and assistance services at home and on travel and to agree flexible benefit options thus adjusting the cover to the specific needs of customers over 50. With Volksfürsorge’s “Best Invest Long-Term Care” product, customers can close the gap of state-run provision by taking out a sound provision level on a private basis. The combined triple-cover provides security in case of a loss of working ability, an insufficient level of the state-run retirement pension and the need for long-term care at old age.

Close customer coverage by insurance solutions oriented at target groups

Reinsurance

— Within the AMB Generali Group, AMB Generali Holding AG has been acting as an internal reinsurer since 1997 and has thus been in charge of the Group companies’ treaty reinsurance business and of the management of the Group’s external reinsurance requirements.

In order to keep a larger share of the improved profitability of our gross business within the retention of the AMB Generali Group we adjusted our reinsurance programme and continued to increase our Group’s retention. We thus cede a smaller part of our profitable business to reinsurers. On a consolidated basis the total retention of the AMB Generali Group is more than 97 percent. In property and casualty business it amounts to more than 95 percent, while the average market retention in this segment is between about 75 and 80 percent. The treaties concluded with reinsurers of a sound financial strength protect our Group against the financial consequences of major claims, claims accumulations and natural catastrophes.

Improved profitability kept within Group retention

Brands in the Group

— The brand diversity in the AMB Generali Group makes it possible to address customers in a targeted manner and is a fundamental success factor for the Group. Therefore the brand portfolio was developed further in 2005 and adjusted both to distribution networks and target groups. In this context the brand profiles became more distinctive and comprehensive measures were taken with regard to corporate design, taking into account the entire business system of the Group companies. The further development of our corporate brands is consistently derived from our mission statement and from the strategic customer-orientation of our Group companies in the sense of gaining customers, retaining customers and providing service to customers.

Brand diversity as success factor for the AMB Generali Group

— The brands in the portfolio of the AMB Generali Group distinguish themselves by a high name recognition. In particular AachenMünchener and Volksfürsorge are among the best known German insurance brands.

Central Krankenversicherung now presents itself with a new and modern corporate design underlining the dynamic character of one of the biggest private-sector health insurers in Germany.

The brand of CosmosDirekt is derived from a consistent corporate design with a clear and attractive brand image. This is also illustrated by an award assigned by the international "Superbrands" organization which ranks CosmosDirekt among the top 100 brands in Germany. With this award the Saarbrücken-based company joins the exquisite circle of German high-quality brands.

**Realignment
as genuine property-
asset manager
completed**

Property management

— In the wake of focussing the AMB Generali Group on its core competencies we successfully completed the realignment of AMB Generali Immobilien to a genuine asset manager for the property asset class. Activities in 2005 concentrated on the complete restructuring of the property portfolio of the AMB Generali Group. By selling objects at non-strategic locations and by targeted new investments we ensured a sustainable improvement of the performance of our property investments.

**Decrease of
IT-expense ratio
by optimized
business model**

Restructuring of IT services

— On the basis of the success already achieved it was decided in 2005 to optimize the business model of AMB Generali Informatik Services, the central provider of IT services in the AMB Generali Group, by 2008. By means of this important measure we will go on reducing our IT cost ratio while simultaneously maintaining our performance and increasing the speed and quality of system and application development.

In June 2005 Central Krankenversicherung successfully launched its new management system for its insurance portfolio. This system ensures the use of state-of-the-art technology for the coming years and simultaneously it paves the way for a harmonized information technology across the Group.

Business development of the AMB Generali Group in 2005

Overall business

Our report about the business development of the Group is divided into two parts. The chapter "Overall business" describes the business performance of the AMB Generali Group as an economic unit on the basis of the consolidated figures. This is followed by segment reporting on the development in the segments of life and health insurance, property and casualty insurance and financial services. In segment reporting, relationships are only eliminated within one and the same segment. Therefore an addition of the amounts indicated under the segments does not lead to the figures stated in the consolidated balance sheet and the consolidated income statement.

In 2005 the political environment was primarily characterized by the formation of the new government. New business continued to be affected by the lack of important political decisions that would have been urgently needed to set the course. Against this background, consumers feel insecure and are reluctant to accept long-term financial commitments in providing for healthcare and old age. In life insurance, a decline of new business was to be expected after the acceleration of new business in the boom year 2004, ahead of imminent changes in taxation. We were not able to totally defy the market-wide decrease in new business development. Our life and health insurers, however, were less affected by this decline. Amid a business environment characterized by highly intensive competition, our property and casualty insurers experienced a development at market level.

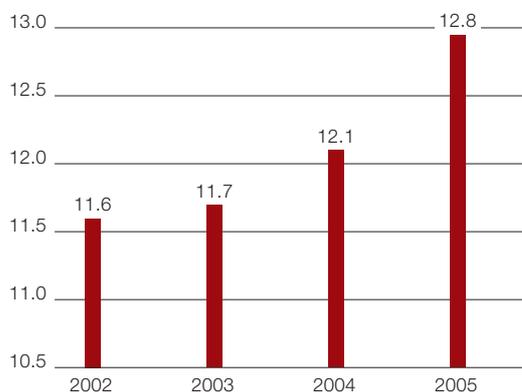
With a net profit rising from € 211 m to 314 m, the AMB Generali Group again proved its strength. This is a very successful result which even exceeds the profit forecast of € 300 m, despite the strains resulting from political and economic uncertainties and from jurisdiction. Besides a favourable capital-market environment and the lower claims experience in the property and casualty segment across the market, this extraordinarily positive development is, to a substantial extent, also attributable to measures taken to increase efficiency.

The retrospective application of new impairment rules led to supplementary write-downs for the business year 2004. This involved a total impact of € -11 m on the Group's net prof-

Consumers reluctant to accept long-term commitments

Group net profit 2005 rises from € 211 m to 314 m

Growth of the total premium income of the AMB Generali Group



Figures in € bn

it in 2004. In addition to the net profit, this adjustment also affected investment income and, within the life and health segment, claims and benefits as well as tax expenditure. In the preceding year, goodwill was for the last time amortized on a scheduled basis. Compared to the adjusted 2004 figure before scheduled goodwill amortization the Group net profit rises from € 242 m to 314 m.

Total premiums grow by 6.1 percent to € 12,815 m

— In the period under report our Group's total premium income increased by 6.1 percent to € 12,815 m (preceding year: 12,079 m). Without the savings portions of the life insurance products concerned, the gross premiums written amounted to € 11,458 m

Overall business

	2005 € m	2004 € m
Total premiums ¹	12,815	12,079
Gross premiums written	11,458	10,937
Investment income (net) ²	3,443	3,268
Ordinary investment income (net) ²	3,045	3,049
Claims and benefits (net) ²	-10,797	-10,639
Operating expenses (net)	-2,409	-2,128
Expense ratio in %	21.8	20.3
Result before goodwill amortization ^{2,3}	589	483
Goodwill amortization	0	-59
Finance costs	-7	-9
Tax ²	-268	-204
Group net profit before scheduled goodwill amortization ^{2,3}	314	242
Net profit ^{2,3}	314	211
of which attributable to the Group ⁴	315	207
of which minority interests	-1	4

	2005 € m	2004 € m
Investments ^{2,5}	78,847	71,995
Assets under management ^{2,5,7}	89,866	82,269
Equity ²	3,794	3,200
Unrealized capital gains not recognized in income ^{2,3,6}	861	651
Underwriting provisions ^{2,5}	75,825	69,988

1 before deduction of savings portions included in premiums

2 preceding year's figures adjusted due to application of latest IFRS standards (see p. 94 f.)

3 including minority interests

4 corresponds to the line item of the Income Statement "of which attributable to the equity holders of the parent"

5 including the amounts attributable to unit-linked insurance

6 after deduction of deferred tax and deferred expenditure for premium refunds

7 including third-party mandates and managed portfolio of the Austrian, Dutch and, in the business year 2005, also the Swiss companies of the international Generali Group

(preceding year: 10,937 m). A major contribution to this was made by our life insurers who, mainly due to the strong year-end business 2004, witnessed an increase of 2005 gross premiums by 7.3 percent to € 6,876 m. Our health insurers again reached a stronger growth than the market and increased their premium volume by 5.0 percent to € 1,592 m. In the property and casualty segment, the premium income of € 2,990 m remained roughly at the preceding year's level of € 3,013 m, with direct business witnessing a slight decrease in line with the market development.

— As a result of the strategic increase of retentions for insurance business, the amount of net premiums earned kept in the Group was € 11,049 m (preceding year: 10,485 m).

— We did not change our investment policy in 2005. As early as in 2003 our life insurers started to substantially increase the duration of investments in interest-bearing securities. Due to this measure and by forward purchases in the year under report we counteract the risk of a further decrease of interest rates. In addition, hybrid instruments with derivative elements are part of our hedging strategy. We did not expand our equity exposure by active purchasing.

The total investment income (net) rose by € 175 m to 3,443 m. This mainly reflects the timely write-downs of unrealized capital losses for dividend-bearing securities in the preceding year. The latter were also influenced by the already mentioned retrospective write-downs due to the application of new impairment rules. Contrasting developments of realized and unrealized gains and losses as well as write-ups and write-downs largely compensated one another.

The ordinary investment income (net) of € 3,045 m remained roughly at the preceding year's level of € 3,049 m.

**Net investment
income of € 3,443 m**

— As far as the liabilities side of the balance sheet is concerned, there is the line item of Group equity, whose components are quantified and commented on page 148 f. Another important capital component, next to equity capital, are the underwriting liabilities which are attributable to the fact that premiums are paid in advance and that savings are accumulated in life insurance. An additional capital element is the free reserve for premium refunds of the life insurers, which is composed of the policyholder bonuses not yet declared and has the cushion function of smoothing annual bonuses. Debt capital in its classical sense is taken up by Deutsche Bausparkasse Badenia, part of the Group alongside the insurance companies, in the form of loans.

Mainly due to the positive trend of stock markets, in particular towards the end of the year, the revaluation reserve increased by € 210 m to 861 m. The overall portfolio of our fixed-income securities had a slightly adverse effect on the net revaluation reserve stated in the balance sheet. The increase of market values of long-term securities in the life sub-segment was more than compensated by the decreasing market values of short-term bonds in other segments since life insurance policyholders participate in value changes.

— In the year under report claims and benefits rose slightly to € 10,797 m (preceding year: 10,639 m). Out of that amount, € 7,304 m (preceding year: 7,291 m) were attributable to the life insurers and € 1,588 m (preceding year: 1,463 m) to the health insurers. The claims and benefits of the property and casualty insurers amounted to € 1,905 m and remained roughly at the preceding year's level of € 1,885 m.

**Claims and benefits
rise slightly to
€ 10,797 m**



GENERALI
Versicherungen

Assets under management

	Carrying amounts	Fair value	Carrying amounts¹	Fair value
	2005	2005	2004	2004
	€ m	€ m	€ m	€ m
Land and buildings ¹	1,353	1,557	2,002	2,366
Shares in associated enterprises	172	172	154	154
Loans and receivables	21,417	22,230	19,027	19,813
Financial assets available for sale	48,869	48,869	45,609	45,609
Financial assets at fair value through profit or loss	547	547	489	489
Investments	72,358	73,375	67,281	68,431
Investments of unit-linked insurance		6,489		4,713
Current-account balances with credit institutions, cheques, cash in hand		917		1,241
Investments for third parties ² (off balance sheet)		9,085		7,884
Assets under management		89,866		82,269

1 preceding year's figures adjusted due to application of latest IFRS standards (see p. 94 f.); business year figures without non-current assets held for sale

2 including third-party mandates and managed portfolio of the Austrian, Dutch and, in the business year 2005, also the Swiss companies of the international Generali Group

— The development in the life sub-segment was mainly influenced by the rise of operating expenses by € 269 m to € 1,319 m. This increase was almost exclusively attributable to the adjustment of parameters, especially those referring to interest rates, used for determining deferred acquisition costs. The expenditure of property and casualty insurers amounted to € 905 m (preceding year: 901 m). In the health sub-segment, operating expenses rose to € 185 m (preceding year: 179 m). Mainly under the influence of the life sub-segment the overall expense volume reached € 2,409 m (preceding year: 2,128 m), which led to an expense ratio for the Group of 21.8 percent (preceding year: 20.3 percent).

— The result before goodwill amortization amounted to € 589 m (preceding year: 483 m). With tax charges going up by € 64 m to 268 m, the Group net profit after tax, finance costs and goodwill amortization was € 314 m (preceding year: 211 m).

Performance in line with customers' needs is part of our service. Generali creates security and peace of mind – for our customers and for myself. Now that Shirin goes to Generali's nursery I can reconcile work and family life.

Sybille Akdemir, Marketing, with her daughter Shirin

Decline of new business, as expected, after 2004 record level

Life and health insurance segment

Life

— As expected, the new business of the life insurers experienced a very moderate development after the particularly strong year-end business of the preceding year. In 2004 there had been an outstanding boom in demand, ahead of the coming into force of the Retirement Income Act involving a change of taxation rules for new business starting from January 1, 2005. This acceleration was the main reason for the marked decrease of 2005 new business in terms of regular premiums by 30.1 percent to € 957 m. To a certain extent this was cushioned by the backlogs from year-end business 2004, which entered the books at the beginning of the year under report. The decline was to be observed throughout the market where, however, new business fell by as much as 49.7 percent. In single-premium business our companies witnessed an increase of new

Life insurance

	2005	2004
	€ m	€ m
New business in terms of regular annual premiums	957	1,370
New business in terms of single premiums	532	385
Portfolio in terms of sums insured	353,503	334,722
Total premiums ¹	8,233	7,550
Gross premiums written	6,876	6,408
Regular premiums	6,373	6,032
Single premiums	503	375
Premiums from assumed reinsurance business	0	1
Investment income (net) ²	2,686	2,644
Ordinary investment income (net) ²	2,429	2,429
Claims and benefits ²	-7,312	-7,289
Operating expenses (net)	-1,327	-1,039
Expense ratio in %	20.2	16.9
Result before goodwill amortization ^{2,3}	303	281
Goodwill amortization	0	-12
Tax ²	-156	-128
Net profit ^{2,3}	147	141
	2005	2004
	€ m	€ m
Investments ^{2,4}	62,793	57,019
Unrealized capital gains not recognized in income ^{2,3,5}	512	335
Underwriting provisions ^{2,4}	65,486	60,435

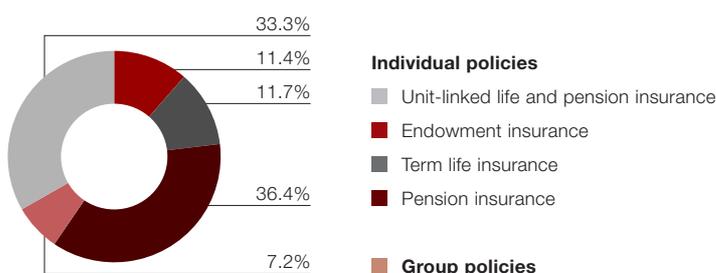
1 before deduction of savings portions included in premiums

2 preceding year's figure adjusted due to application of latest IFRS standards (see p. 94 f.)

3 including minority interests

4 including amounts attributable to unit-linked insurance

5 after deduction of deferred tax and deferred expenditure for premium refunds

New business mix in terms of regular annual premiums

business by 37.9 percent to € 532 m. The portfolio in terms of sums insured went up by 5.6 percent to € 354 bn.

— The total premium income of € 8,233 m was 9.0 percent higher than in the preceding year, which is mainly due to the impact in 2005 of the strong year-end 2004 business. Without the savings portions of unit-linked business and of the so-called “Riester” products included in total premium income, gross premiums written rose by 7.3 percent to € 6,876 m. The total premium income of direct business grew by 9.0 percent which is substantially stronger than the market average of 6.8 percent.

**Total premiums
in life rise
by 9.0 percent**

— In the year under report there was a lower level of realized capital gains than in the year before. Since during the same period, however, the write-downs on dividend-bearing securities decreased substantially, the investment income (net) rose by € 42 m to 2,686 m. One factor of influence in this context were the supplementary write-downs made in the preceding year due to the application of new IFRS impairment rules. The ordinary investment income (net) remained unchanged at the level of € 2,429 m.

— The revaluation reserves reached a volume of € 512 m which is € 177 m higher than at the beginning of the year. This reflects the decreasing level of interest rates for long-term fixed-income securities and the noticeable upward trend of stock markets, which became particularly evident towards the end of the year.

— Business expansion is not only reflected in rising premium income but also in an increase of claims and benefits. This increase, however, was a moderate 0.3 percent to € 7,312 m which is mainly attributable to the fact that rising expenses led to a lower allocation to the provision for premium refunds. The ruling of the Federal Supreme Court of October 12, 2005, by which minimum surrender values were fixed, represented an additional strain.

— The development of expenses was almost entirely marked by the regular adjustment of parameters to calculate deferred acquisition costs. In particular the true-up of calculation parameters led to an increase of operating expenses by € 288 m to 1,327 m. The high negative true-up effect in the year under report was attributable to a reduction of interest assumptions for the future following the current low-interest phase. Accordingly the expense ratio increased to 20.2 percent (preceding year: 16.9 percent).

**Additional expense
burden by true-up**

— The deconsolidation of investment funds in foreign currency (US dollars) involved substantial losses reflected by a decrease of other income/expenditure by € 129 m to -324 m. On the other hand, this transaction led to an increase of the reserve from foreign-currency translation under equity where currency-translation differences enter without being recognized in income.

**Net profit of
€ 147 m in
life sub-segment**

— The operating result before tax, which was affected in particular by the high true-up expenditure, increased to € 303 m (preceding year: 281 m). With tax expenditure going up by € 28 m to 156 m and taking into consideration the preceding year's scheduled goodwill amortization of € 12 m, the net profit amounted to € 147 m (preceding year: 141 m).

Health

**Gross premiums in
health increase by
5.0 percent**

— A sustainable reform of the healthcare system is still awaited. Given the pending decisions expected to be taken by the new federal government, uncertainty among consumers even intensified.

In this difficult environment our health insurers were able to increase their premium volume by 5.0 percent to € 1,592 m. This development is both due to new business and to premium adjustments. Our health insurers by far exceeded the expected market growth of 3.7 percent.

Though consumer uncertainty is still reflected in a reduced level of issued new business, the decrease of new business became weaker in the fourth quarter in comparison to the first nine months of the year.

**Ordinary investment
income rises to
€ 239 m**

— As a result of a higher portfolio, in particular of fixed-income securities, ordinary investment income grew by € 19 m to 239 m.

In addition, the substantially higher level of realized capital gains from equities in the business year and the supplementary write-downs in the preceding year necessary under the application of new impairment rules contributed to the positive development of the investment result.

As a whole, the invest income (net) rose from its level as at December 31, 2004 by € 49 m to 268 m.

The revaluation reserve of € 50 m was at the preceding year's level.

**Claims ratio affected
by rising costs
for hospitalization
and dental treatment**

— The claims expenditure rose by 9.4 percent as against a preceding year marked by an extraordinarily favourable claims experience. This also reflects the rise of expenses for hospitalization and dental treatment. The claims ratio was 56.6 percent (preceding year: 54.3 percent).

To convince by performance, to have a dynamic approach to reaching goals – for me these challenges are not only valid in sports: in Central we respond fast to the wishes and needs of our customers and sales partners by providing comprehensible and high-performance solutions.

Gregor Elskamp, Product Management



 central

Taking into account the higher allocations to the provision for future policy benefits and to the provision for premium refunds, total claims and benefits increased by € 125 m to 1,588 m.

— Portfolio growth and the investment expenditure for the new Wincent management system for the contract portfolio as well as additional future-oriented projects involved an increase of administrative expenses. With acquisition costs only experiencing a moderate rise, operating expenses went up by € 7 m to 187 m. Given the strong growth of premium income, however, the expense ratio nevertheless decreased from 11.8 to 11.7 percent. The combined ratio of claims and expenses amounted to 68.3 percent (preceding year: 66.1 percent).

Group net profit in the health sub-segment increases to € 43 m

— The result of the health sub-segment before goodwill amortization was € 69 m (preceding year: 79 m). The over-proportionate strain caused by taxes for preceding years in 2004 led to the corresponding withdrawal from the provision for premium refunds which eased the burden on the preceding year's result before tax. In the year under report the tax charge reduced by € 23 m to 26 m. As a whole, the 2005 net profit rose from € 29 m to 43 m.

Health insurance

	2005 € m	2004 € m
Gross premiums written	1,592	1,516
Investment income (net) ¹	268	219
Ordinary investment income (net)	239	220
Claims and benefits (net) ¹	-1,588	-1,463
Claims ratio in %	56.6	54.3
Operating expenses (net)	-187	-180
Expense ratio in %	11.7	11.8
Combined ratio in %	68.3	66.1
Result before goodwill amortization ^{1,2}	69	79
Goodwill amortization	0	-1
Tax ¹	-26	-49
Net profit ^{1,2}	43	29

	2005 € m	2004 € m
Investments ¹	5,905	5,212
Unrealized capital gains not recognized in income ^{1,2,3}	50	51
Underwriting provisions ¹	6,181	5,493

1 preceding year's figure adjusted due to application of latest IFRS standards (see p. 94 f.)

2 including minority interests

3 after deduction of deferred tax and deferred expenditure for premium refunds

Property and casualty insurance segment

Property and casualty insurance continued to be marked by favourable claims experience and keener competition. Our focus areas in distribution, i.e. profitable business with private clients as well as small and medium-sized corporate clients, have not changed. Gross premiums written decreased by 1.2 percent to € 2,984 m, with the 0.5 percent decrease in direct business being in line with the market development. As a result of our strategy to increase retentions in order to keep a higher share of our profitable gross business in the Group, net premiums earned rose by 2.4 percent.

Distribution focus on profitable business fields

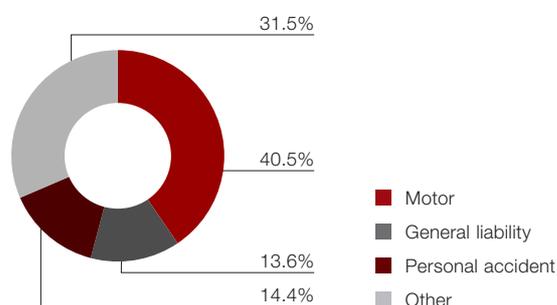
Given the higher volume of net premium income and the lower claims experience throughout the market, the claims ratio reduced to 65.6 percent (preceding year: 66.9 percent). The claims expenditure remained nearly stable at € 1,902 m (preceding year: 1,886 m).

The expense ratio also reduced to 31.3 percent (preceding year: 32.5 percent). The decrease of acquisition costs and administrative expenses was in part absorbed by the lower level of received reinsurance commissions as a consequence of the higher retentions in the Group. Operating expenses as a whole dropped slightly by 1.1 percent to € 901 m. The combined ratio of claims and expenses fell to 96.9 percent (preceding year: 99.4 percent).

Combined ratio markedly improved to 96.9 percent

The substantial increase of the investment result was mainly caused by an intra-Group streamlining of the portfolio of participating interests, the transitory disposal of Commerzbank shares and a high amount of realized capital gains from dividend-bearing securities. The application of changed impairment rules leading to higher supplementary write-downs for the preceding year also had a positive impact. The investment income thus rose to € 424 m (preceding year: 305 m). The favourable development was curbed by a non-recurring write-up on a participating interest in the preceding year, the markedly lower level of realized capital gains from fixed-income securities and a reduction of regular interest income as well as income from participations held. The ordinary investment income decreased by € 20 m to 206 m.

Investment income of € 424 m

Mix of insurance portfolio

Figures in % of premium income

Property and casualty insurance segment

	2005	2004
	€ m	€ m
Gross premiums written	2,984	3,021
Investment income (net) ¹	424	305
Ordinary investment income (net)	206	226
Claims and benefits (net)	-1,902	-1,886
Claims ratio in %	65.6	66.9
Operating expenses (net)	-901	-911
Expense ratio in %	31.3	32.5
Combined ratio in %	96.9	99.4
Result before goodwill amortization ^{1,2}	337	189
Goodwill amortization	0	-46
Tax	-70	-35
Net profit ^{1,2}	267	108

	2005	2004
	€ m	€ m
Investments ¹	5,864	5,741
Unrealized capital gains not recognized in income ^{1,2,3}	363	335
Underwriting provisions	4,223	4,179

1 preceding year's figures adjusted due to application of latest IFRS standards (see p. 94 f.)

2 including minority interests

3 after deduction of deferred tax

— The rise of the revaluation reserve by € 28 m to 363 m is primarily the result of stock market recoveries. Due to the rise of interest rates for short-term bonds in the current year there was a negative market influence on the development of the revaluation reserve.

— Mainly as a result of the higher investment income and the operating improvement of the combined ratio, the result before goodwill amortization rose by € 148 m to 337 m.

Net profit of property and casualty segment rises to € 267 m

— Given a tax expenditure of € 70 m (preceding year: 35 m) and goodwill amortization of € 46 m in the preceding year, the net profit rose markedly to € 267 m (preceding year: 108 m).

Moving to my new home worked out fine – apart from my aching muscles. But often there may be problems with the lease contract or other unforeseen difficulties. Minor disagreements can easily lead to expensive litigation. Advocard's "already done" service is ideal for me.

Thomas Winkler, Business Administration



Advocard
ANWALTS LIEBLING

Bücher

A simple black line drawing of a person standing next to a truck, located at the bottom left of the page.

AMB Generali Asset Managers with approx. 109,000 customer deposits

Financial services segment

— In the business year 2005 AMB Generali Asset Managers Kapitalanlagegesellschaft again affirmed its position as one of the leading asset managers in Germany. The portfolio under management, which in addition to mutual funds also includes third-party mandates and part of the financial assets of the AMB Generali Group and the international Generali Group reached a volume of € 69.6 bn as at December 31, 2005 (preceding year: 59.0 bn). Starting from the third quarter 2005 the portfolio also comprises part of the financial investment of the Swiss companies of the international Generali Group. The number of customer deposits rose from 100,600 (year-end 2004) to more than 108,900.

Building-society new business drops by 19.0 percent

— The result of the financial services segment, however, continues to be primarily marked by the performance of Deutsche Bausparkasse Badenia. Adjusted new business decreased because a persistently low level of interest rates had made loans under building-society contracts less attractive and as a result of the company's consistent focus on quality. New business dropped by 19.0 percent in terms of target contract sums and by 21.1 percent in terms of contract numbers.

— The market of private-sector building societies also witnessed a negative development trend. Across the industry new business fell by 3.5 percent in terms of target contract sums and by 8.5 percent in terms of contract numbers.

As at December 31, 2005 the contract portfolio of our building society consisted of 1,548,261 contracts, which is below the preceding year's number of 1,656,121 contracts. In terms of target contract sums the contract portfolio decreased from € 29,655 m to 28,256 m.

— A decrease in the take-up of new loans as a consequence of a persistently low level of interest rates and higher redemption payments led to a decrease of building loans included in investments from € 3,327 m to 3,060 m. Deposits under building-society contracts, on the other hand, rose from € 4,255 m to 4,358 m.

Ordinary investment income of € 238 m

— The ordinary investment income (net) dropped from € 243 m to 238 m. This development was primarily attributable to the decrease of interest income on building loans. Due to the necessary increase of risk provision in credit business in the preceding year, total investment income (net) nevertheless improved by € 21 m to 224 m.

— Following the decrease of market values of short-term bonds the revaluation reserve dropped from € 18 m to 15 m.

Mainly as a result of the decrease of interest income from the loan portfolios, the building society's interest surplus fell to € 108 m (preceding year: 113 m). The commission result of € 18 m slightly exceeded the preceding year's level of € 17 m.

— Due to a lower allocation to the provision for litigation expenses than in the preceding year and to a further decrease of general administration expenses, the operating expenses for building society business as a whole reduced by € 6 m to 76 m.

Financial services segment

	2005	2004
	€ m	€ m
Adjusted building-society new business:		
Target contract sums	2,705	3,340
Number of contracts	140,602	178,252
Contract portfolio of the building society:		
Target contract sums	28,256	29,655
Number of contracts	1,548,261	1,656,121
Investment income (net)	224	203
Ordinary investment income (net)	238	243
Interest surplus of the building society	108	113
Commission result of the building society	18	17
Result before goodwill amortization ¹	46	24
Goodwill amortization	0	0
Finance costs	-7	-9
Tax	-17	-3
Net profit ¹	22	12

	2005	2004
	€ m	€ m
Investments ²	4,943	4,865
Unrealized capital gains not recognized in income ^{1,2,3}	15	18
Building loans	3,060	3,327
Deposits under building-society contracts	4,358	4,255

1 including minority interests

2 preceding year's figure adjusted due to application of latest IFRS standards (see p. 94 f.)

3 after deduction of deferred tax

— Primarily because of a lower expenditure for risk provision than in the preceding year, the operating result improved from € 24 m to 46 m. After the deduction of finance costs and tax the contribution of the financial services segment to the Group net profit was € 22 m (preceding year: 12 m).

Net profit of financial services segment rises to € 22 m

Report on subsequent events

— No events of material importance occurred after the close of the business year.

Proposal for the profit appropriation of AMB Generali Holding AG

— In the business year 2005 AMB Generali Holding AG reached a net income for the year of € 191.4 m (preceding year: 164.8 m). After winding up the profit brought forward from the year 2004 of € 68 thousand (preceding year: 31 thousand), withdrawals from the provision for treasury stock of € 176 thousand (preceding year: allocation of 175 thousand) and from the reserve under the Articles of Association (charitable fund) of € 492 thousand (preceding year: 1,127 thousand) and an allocation of € 80.1 m (preceding year: 70.1 m) to the other revenue reserves, the balance-sheet profit amounted to € 112.0 m (preceding year: 95.6 m).

The Board of Management and the Supervisory Board propose the following profit appropriation to the General Meeting of AMB Generali Holding AG to be held on May 18, 2006:

Balance-sheet profit and appropriation

	€
1. Distribution to the shareholders	
Payment of a dividend of € 2.05 per unit share entitled to dividends, payable on May 19, 2006	110,043,524.40
2. Allocation to the reserve under the Articles of Association (charitable fund)	1,942,908.84
3. Profit carried forward	49,614.47
Balance-sheet profit	112,036,047.71

Safety means a lot to me – also in my leisure time. Those aiming high need competency, flexibility, swiftness and a good partner like Dialog Lebensversicherung.

Thorsten Schwendrat, Operations



Dialog:
Lebensversicherungs-AG

Human resources

The success of the AMB Generali Group is based on our employees. Their qualification, competency and commitment are vital for the positive development of the Group. They do everything with enthusiasm so that our customers are satisfied and recommend us.

— The strategic orientation of the AMB Generali Group is summarized by the catchphrase “Unity in Diversity”. An entrepreneurial way of thinking and acting at all levels and a consistent focus on customer requirements define the guidelines of our cooperation. With this strategy and a clear commitment to shared targets and values, our Group of companies faces the challenges of competition. Alongside our customers and partners, our employees are a key factor for the successful development of our Group.

Employment situation and structure measures

Headcount decreases to 18,411

— At year-end 2005, the AMB Generali Group had 18,411 employees (preceding year: 19,468). Out of these, 30 percent worked as fieldstaff and 70 percent in administrative jobs to serve the customers of our Group. In addition, there were about 5,000 self-employed agents and close to 93,000 side-job intermediaries operating for our companies as advisors in the fieldstaff network. In the last quarter of 2005 the share of part-time employees was about 13 percent. Across the Group 802 young people (preceding year: 844) were undergoing professional training at year-end.

Cost-cuts and optimized operational processes

— Job-cuts in the business year 2005 continued to be on schedule within the scope of our restructuring programmes by which we respond to the challenges of the economic environment and to current developments in the market. With these structure measures, which aim to optimize operational processes while simultaneously reducing costs, we reinforce the competitiveness and the strong market position of the AMB Generali Group. In this context, however, we continue to be aware of our particular responsibility for our staff. In those cases where jobs had to be shed we were largely able to find socially compatible solutions, make use of natural fluctuation or agree early retirements.

Human resources development

— The success of an enterprise is based on the people working there and making their contribution to achieving targets. For that reason it is of vital importance for the success of the AMB Generali Group and for a sustainable reinforcement of our strong position to gain, retain and promote competent, committed and customer-oriented staff. By their willingness to respond to change and to act in their own responsibility they contribute to a successful development of our Group. We attach much importance to providing our employees with an ample scope for action, not only by recruiting and promoting talented young people but also by providing basic and continued training also to our expert and management staff.

— The Group trainee programme for young graduates with above-average qualifications again developed successfully. The programme offers ambitious young entrants a

practical insight into all corporate areas both in AMB Generali and the Group companies. We thus convey an overall picture of the Group and enhance the necessary understanding of the Group's activities with a view to possible future assignments. In the spring of 2005 all Group trainees could be won as motivated and highly qualified employees for various companies in the Group.

**Successful
Group trainee
programme**

— Our management staff are our capital which sustainably strengthens the competitiveness of the AMB Generali Group. Their qualification and development enhances our performance and reinforces our position in the market. Within the scope of our activities for developing management staff we make systematic use of all the various capabilities and talents of people in our organization and deploy them in the best possible way for the value-based management and development of our Group. Recruiting, assessment and promotion of management staff have a harmonized structure across the Group. The core element of management-staff development, alongside a systematic assessment of performance, is the identification of individual potentials. That is the basis for a future-oriented enhancement of management competencies at the AMB Generali Management Academy and for job assignments within the Group.

— In order to ensure a targeted development of the personal and strategic competencies of our employees, a reorientation of the AMB Generali Management Academy was implemented in the past business year in order to adapt development measures even more to the requirements of business practice. A major task of the AMB Generali Management Academy is to take into account future market trends as an orientation basis for the enhancement of the corresponding management competencies in the Group. For that reason the Academy cooperates with leading institutions and management trainers across Europe in order to turn new information into durably established knowledge. Oriented at the challenges of the future, the Academy programme is a mix of topics of current interest for the companies of the Group, profound management expertise, practical solutions and a lively exchange.

**Reorientation of
AMB Generali
Management Academy**

Employee shares

— Like in prior years, we again issued employee shares in 2005, giving our employees the opportunity to participate in the business success of the AMB Generali Group. We thus encourage the identification of our staff with the Group. In the year under report, more than 44,000 employee shares were subscribed at special conditions within the scope of the programme issued on a yearly basis since its start in 2000. This positive response illustrates the strong willingness of our employees to participate actively in shaping the Group's success.

**Positive response
to employee-share
programme**

Thanks to the employees

— Our economic success is the result of the persistent commitment of our employees at all levels. They are a vital element of our Group's potential and they will enable us to set up and reach ambitious targets also in the future. We express our sincere thanks to our staff and equally we thank the works councils for a very constructive cooperation marked by trust and esteem.



AMB GENERALI
Immobilien

Public Relations and internal communication

In the business year 2005 we again provided comprehensive and transparent information about the development of the AMB Generali Group. Important issues for the Group's public relations activities were the Retirement Income Act, which came into force in the year under report and which involved a realignment of life insurance products, the necessity of individual provision for old age and health-care and the political discussions on reforming the social security systems.

— As a big listed financial services Group we do not only provide regular, timely and transparent information about our Group of companies, but we also comment topical developments of insurance industry, society and social policy. In addition we inform the public about the possibilities of providing for retirement and healthcare. In this context, the life insurers of the AMB Generali Group published detailed and comprehensive information about the new product world and changed tax environment in life insurance in the wake of the Retirement Income Act. In the light of the tense financial situation of social security schemes, the necessity of private provision for retirement and healthcare was explicitly underlined in press releases and interviews. We continue to appeal to those in charge of political decisions to go on strengthening and encouraging the willingness of people to build up funded provision.

The dialogue of partnership with politicians and representatives of research and science was further intensified. AMB Generali regularly invites top politicians and economic research specialists to discussions rounds about current developments in business and politics.

— In 2005, the highlight of Group headoffice events was the "European Dialogue". Ahead of the ceremony of the International Charlemagne Award of Aachen, which is the oldest and best known prize given to personalities or institutions having rendered outstanding services to Europe and European unification, top-class guests from different countries discussed about the future-oriented issue of "What kind of Europe do we want?". This international event focussed on the meeting with Dr. Dr. Carlo Azeglio Ciampi, President of the Italian Republic and winner of the 2005 Charlemagne Award, as well as a keynote address by Dr. Helmut Kohl, former German Chancellor and Honorary Citizen of Europe. Speeches were held, among others, by Dr. Theo Waigel, former German Minister of Finance, Prof. Dr. Bronislaw Geremek, former Foreign Minister of the Republic of Poland, and Pat Cox, President of the European Parliament from 2002 to 2004. Numerous countries were represented by their Ambassadors from Berlin and Brussels. The subjects covered at this event were the enlargement of the European Union as well as the economical, social and cultural development of the European community of states.

**Information about
new product world
in life insurance**

**"European Dialogue"
with Italian President
Carlo Azeglio Ciampi
and former
German Chancellor
Helmut Kohl**

On our holiday trips we are always fascinated to see to what extent the character of living space and economic areas is determined by buildings and what an achievement it is to plan and construct such complex structures and to maintain their value. This is the challenge we face every day in AMB Generali Immobilien.

Franz Gouderwis, Controlling, and his partner Stefanie Breer

**Communication
accompanying internal
process of change**

— Our Group companies' external communication activities inform the public about the Group's expertise and skills. Alongside public relations, the press and communication departments are also in charge of important tasks of internal communication. One of the focus areas is to accompany the current processes of change within the AMB Generali Group. A transparent communication of the targets of change and a trustful dialogue between the Group and company managements and the employees is vital for the success of these processes. The major instruments for this purpose – in addition to employee meetings, intranets and mailings – were the in-house magazines of the individual Group enterprises and the Group's "AMB Magazine".

**Social commitments
of the AMB Generali
companies**

— The companies of the AMB Generali Group act on their own behalf as sponsors in the social and cultural field and in sports. These commitments are in line with the individual nature and the self-conception of each company. The activities include, for instance, media awards for constructive and critical business journalism, awards in modern art or for movie-talents, financial support to students and to training and research institutions. In addition, the companies are sponsors of top and popular sports activities and of a large number of culture and leisure events at local and national level.

Internal controlling systems

The economic controlling system of the AMB Generali Group combines the two essential controlling dimensions of capital management and performance management. Capital management aims, in particular, at sustainably ensuring the financial strength of the Group of companies. Performance management, on the other hand, represents the value-based dimension.

Basic concept

— The economic controlling system of the AMB Generali Group combines the two essential controlling dimensions of capital management and performance management. Capital management focuses on sustainably ensuring the financial strength of the Group of companies. For that purpose the economic capital required under risk aspects is calculated at different controlling levels and compared to the existing capital available for bearing risks. Capital management therefore is an integrated part of risk management. Performance management, on the other hand, represents the value-based perspective. For that purpose the economic results of our business activities are derived and looked at in proportion to previously determined target and actual capital amounts. By linking the value-based and the capital-based dimension, key return figures are identified which are used to assess risk-based profitability.

Capital-management approach

— Within the scope of capital management the economic capital required (target) is calculated and compared to the risk-bearing capital available (actual). In our communication we use the terms economic capital (EC) for the target capital and embedded value (EV) for the actual capital attributable to the shareholders. The economic capital is calculated for all segments of the AMB Generali Group and consolidated. For that purpose internal risk models are used which simulate possible corporate developments. The broader the spread of the simulation results, the higher the risk exposure of the simulated business unit and the higher the economic capital required. The embedded value is calculated taking into account particularities specific to the segment on the basis of actuarial and accounting data. The difference between the embedded value (actual) and the economic capital (target) indicates the excess capital or the deficit capital.

Performance-management approach

— The derivation of economic results is strongly influenced by the business models used. For the Group's property and casualty insurers, for instance, due to the fact that contracts are on an annual basis, the economic result is mainly driven by the combined ratio. In life insurance, due to the long duration of contracts, models are used for an adequate value assessment which determines the present value of future profits resulting from the individual contract portfolios. The result of this approach is, among others, the new business value which represents the present value of all future profits expected from the contracts newly concluded in the business year.

In addition, performance management also takes into consideration extraordinary items due to investment results or tax influences. Since these items can have a significant impact on results they are eliminated, i.e. the result is "normalized" to measure operating profitability.

On the basis of these results it is possible to calculate the key figures of return on economic capital (RoEC) and return on embedded value (RoEV). The RoEC puts the economic result, adjusted for extraordinary items, in proportion to the economic capital (tar-

get). This figure measures our operating profitability. The RoEV, by contrast, indicates the actual economic result as a percentage of the actual capital. The RoEV is thus an indicator of our profitability including the impact of extraordinary items.

Results in the business year 2005

— In terms of relative figures, the property and casualty segment has as an economic capital (EC) of 26.4 percent (preceding year: 28.1 percent) of net premiums earned. The decrease of the EC compared to the preceding year is attributable to a reduced level of investment risks. The economic capital in life insurance amounts to 3.8 percent of net underwriting reserves (preceding year: 3.3 percent) and has thus risen over the preceding year's level due to higher interest-change and equity risks. The higher economic capital in health insurance amounting to 3.9 percent of net underwriting reserves (preceding year: 3.2 percent) is also attributable to the increase of capital-market driven risks in this sub-segment. Given an existing embedded value (EV) of € 4,142 m, the Group has an excess capital of € 409 m which represents a substantial rise over the preceding year's level.

Capital management

Overview

	2005	2004
	€ m	€ m
EC life	2,450	1,987
EC property/casualty	758	788
EC financial services	284	212
EC health	241	178
EC total	3,733	3,165
Excess capital	409	271
EV total	4,142	3,437

— Compared to the preceding year, the economic result in the life sub-segment decreased by € 9 m to 201 m. It was possible to partly compensate the declining volume of new business in 2005 by higher new-business value margins. Therefore the new-business value of the reporting year is only € 3 m below the preceding year's level.

Performance management

Life

	2005	2004
	€ m	€ m
New business value (before capital cost)	125	140
New business value (after capital cost)	100	103
Profits from insurance portfolio	107	118
Operational deviations	-6	-11
Economic result after tax	201	210

— The main result driver in the property and casualty segment is the combined ratio as an indicator of the earning capacity of underwriting business. Since across the Group the combined ratio improved substantially from 99.4 to 96.9 percent in 2005, the economic result also increased significantly over the preceding year's level to € 82 m.

Performance management

Property/casualty

	2005	2004
	€ m	€ m
Net underwriting result	88	18
Balance of other expenses/income	-160	-128
Normalized investment income	209	225
Economic result before tax	137	115
Normalized tax	-55	-46
Economic result after tax	82	69

A combination of the economic results with the previously calculated capital figures leads to the following key return figures:

Performance management

Key return figures

	2005	2004
	%	%
RoEC life	10.1	11.0
RoEC property/casualty	10.4	8.9
RoEC financial services	10.6	10.0
RoEC health	17.7	17.9
RoEC total	10.6	10.8
Return on excess capital	2.1	2.5
RoEV normalized	10.0	10.3
Debt capital cost	-0.2	
Extraordinary items (mainly investments)	13.9	
RoEV total	23.7	

— The lower operating profitability in the life segment can be almost completely compensated by a corresponding increase in the other segments. The return on economic capital totals 10.6 percent. Due to the favourable development of the capital market in 2005 there are positive extraordinary items which also contributed to the marked increase of the Group's embedded value by 13.9 percent compared to the preceding year. The double-digit key return figures underline the sustainable earning capacity of our Group.

— For the years 2006 through 2008 we expect a steady rise of risk-adjusted profitability. This is also reflected in our outlook for the main result drivers treated in a separate chapter of this Report.

Integration of internal management tools in the preparations for Solvency II

— The Solvency II project initiated by the European Commission aims at a revision of the regulatory requirements for insurance companies in Europe. In particular the capital requirements under the future solvency system are to be more closely linked to the specific business structure of an insurance company's risks. Since for regulation purposes there also is the option of applying internal approaches, the AMB Generali Group has started at an early stage to prepare for the future requirements. Within the scope of these preparations the internal models are being further developed on a continuous basis and the internal risk-management processes are tested with a view to future requirements.

The AMB Generali Group has concentrated its activities in this field in a "Solvency II" Group project. The Group project aims to further optimize integrated risk management by interlinking the processes of risk measurement and risk management.

In addition, representatives of the Group are members of various working parties of the German Insurance Association (GDV) and the German Actuary Association (DAV) and as such participate in the development of future regulatory standards and minimum requirements.

Risks involved in the future development and risk controlling

Overall system for monitoring and controlling risks

— As a financial services group focussing on insurance, investments and building-society activities, the AMB Generali Group is subject to a variety of risks. These risks arise, on the one hand, by assuming the risks of our customers, which is our core business activity, and, on the other hand, by the general operating activities of our Group. By means of our risk-management system we aim at making the risk position of AMB Generali transparent by systematic monitoring and active controlling and at keeping the risk position under scrutiny, thereby also ensuring the Group's long-term profitability.

— Within the scope of internal controlling we increasingly make use of models for quantifying and controlling the capital required to cover risks. Therefore capital management is an additional element of risk management. The target is to control the capital requirements and capital equipment in such a way that all potential risks are covered and that the financial strength of the AMB Generali Group is ensured as a whole.

Organization and tasks of risk monitoring and controlling

— In the Group companies, risk management is installed at two levels: on the one hand in the individual operational divisions and on the other hand with a superior Company Risk Manager for each company. In addition, AMB Generali has a centralized Group Risk Management.

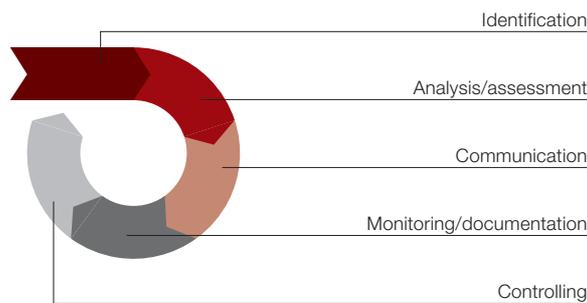
In the Group companies, the heads of the operational divisions are responsible for risk management in the areas they are in charge of. They implement the Group-wide standards set for their areas and are the operational contacts for the Company Risk Manager. The Company Risk Manager is the head of each company's controlling department. In addition to the risks specific to the Group company concerned, the Company Risk Managers also monitor the risks defined as Group risks. They thus are the link between the persons in charge of risk management in the company and the Group Risk Manager. Group Risk Management and the risk management of AMB Generali is in the responsibility of the shareholdings/controlling department of AMB Generali. That department is in charge of the Group risks and of the conceptual development and updating of the risk-management system at Group and holding-company level. In addition to setting uniform Group-wide standards for risk management, the tasks of the Group Risk Manager therefore include the activities of initiating, elaborating and coordinating risk-management measures together with the Company Risk Managers of the Group companies. The Group Risk Manager reports regularly on the Group's risk situation to the Board of Management of AMB Generali.

The Group's internal audit department as a superior body independent of risk-management processes regularly verifies the efficiency of the risk-management system, gives advice to the Risk Managers with regard to the further development of that system and documents the results of its findings for the Boards of Management of the Group companies.

The risk-management process

— Within the scope of the risk-management process all material risks are identified which could hinder the AMB Generali Group in reaching its operating targets. For that purpose, the Group companies use a uniform risk list and an explanatory risk glossary. The documents are updated regularly and allow a systematic identification of risks.

Risk-management process



— All major risks identified are assessed on the basis of the criteria of risk repercussions and risk probability. Existing controlling instruments and measures already initiated are taken into account. This ensures a focus on those risks which have a high probability of occurrence and a potential of far-reaching repercussions. In the wake of a further development of the risk-management system we increasingly make use of models for assessing risk exposure and risk-bearing capacity.

— To control Group risks, a dual threshold-value system is used. In respect of quantifiable Group risks, threshold values have been defined and specific measures are triggered if these values are exceeded. Non-quantifiable risks are controlled by classifying them in line with so-called hazard categories which indicate the tolerance ranges for the risks concerned. Complementary to these limitations, additional risk models are used on a step-by-step basis in order to assess the risk-bearing capacity with regard to a chosen safety level. A failure to achieve that safety level is interpreted as an infringement of the limits of the threshold-value system.

The Company Risk Managers report to the Group Risk Manager on a quarterly basis. In addition, the Company Risk Managers have a duty of immediate notification if previously defined threshold values are exceeded or if new material risks are identified which are not yet included in the risk list.

Risk categories and types of risk

— As a matter of principle, a distinction between the following risk categories is made within the scope of risk management:

- underwriting risks
- building-society risks
- default risks concerning amounts receivable under insurance business
- investment risks.

In compliance with the regulations of IFRS 4 details regarding these risks, in particular in respect of approaches and methods for controlling them, are disclosed in the Notes, item 5, p. 110 ff.

— In addition, operational risks are taken into consideration:

Operational risks occur in the context of all operating systems and processes, in particular

- as operating risks that may arise due to human or technical failure or to external influences or
- as legal risks resulting from contractual agreements or the framework of tax rules and law.

Monitoring and controlling of operational risks

— IT security

The tasks of the AMB Generali Group in the IT field are concentrated in AMB Generali Informatik Services GmbH (AMB Informatik). This provides the AMB Generali Group with efficient instruments for recognizing IT risks across the Group. To minimize risks, measures are taken on a continuous basis in order to ensure the largest possible availability of hardware and software systems in the data centre of AMB Informatik and the IT security and protection of the data of all Group companies.

In the business year 2005 activities focused on linking the data and communication networks operated by Generali IT-Solution GmbH in Austria and in the countries of the region Central Eastern Europe (CEE) to the AMB Generali Group's internal name and address directory AMComNET, on the protection against computer viruses, the checking and improvement of security options and an emergency simulation. In addition, a user guideline applicable across the Group for the use of IT hardware and software as well as for e-mail correspondence and Internet access was prepared.

Also in the business year 2005, the procedures used as a protection against computer viruses prevented noticeable disturbances.

In April 2005 an emergency simulation was carried out in the data centre. The test result shows that by means of implemented technical and organizational measures of precaution, AMB Informatik is able to ensure the functioning of the AMB Generali Group's IT operations even in the case of a catastrophe.

— Litigation risks

In the wake of control agreements and profit-transfer agreements concluded with subsidiaries and within the scope of the so-called squeeze-out procedure, indemnity offers were made to the outside shareholders of subsidiaries, in particular of AachenMünchener Lebensversicherung AG, AachenMünchener Versicherung AG and Volksfürsorge Holding AG. Furthermore, on the basis of the profit-transfer agreements, the shareholders of the companies involved were also offered compensation for no longer receiving a dividend from the companies concerned. Former shareholders of the subsidiaries filed court applications for an arbitration procedure to verify the adequacy of our offer of indemnity and compensation. Legally binding court decisions in these procedures are still pending. If the cases are lost, it may become necessary to make payments in addition to the indemnities and compensations already paid.

Apart from these risks directly concerning AMB Generali, the following describes the legal risks existing in the Group companies:

— The activities of Deutsche Bausparkasse Badenia as a lender in connection with investment property for which, mainly in the early '90s, various sales organizations had acted as intermediaries, have resulted in risks due to the fact that a number of investors have turned to Deutsche Bausparkasse Badenia alleging that the latter bears the ultimate responsibility for the failure of the investments made by the individual customer. Until today, in nearly all litigation cases with a legally binding and final court decision Badenia has been able to carry its point regarding the situation of facts and law and thus the claims raised against the company have been rejected in the individual proceedings. According to our assessment the ruling of the European Court of Justice of October 2005 does not involve a material change of the legal situation for Deutsche Bausparkasse Badenia.

— To cover default risks, AMB Generali has accepted a guarantee for part of the business of Deutsche Bausparkasse Badenia involving risks. Due to this measure and to measures taken by Deutsche Bausparkasse Badenia itself, sufficient precautions have been taken on the basis of the facts known today.

— Allgemeine Wohnungsvermögens-Aktiengesellschaft (ALLWO), an affiliated enterprise of AMB Generali held through the intermediary of the Group companies Volksfürsorge Deutsche Lebensversicherung AG and AachenMünchener Lebensversicherung AG, is faced with a larger number of court actions demanding the reversal of purchase and sale contracts for flats dating back to the early '90s. A final assessment of the litigation risk has been made. It was taken into account by ALLWO setting up adequate provisions.

— On October 12, 2005 the Federal Supreme Court ruled that life insurance companies have to reimburse, even after a brief policy duration, about half of the premiums paid by most customers who took out a life insurance policy in the period between 1994 and 2001 and who prematurely terminated their policy. The payments for the claims raised on the basis of this ruling will involve additional expenses for the Group's life insurers (AachenMünchener Lebensversicherung AG, Volksfürsorge Deutsche Lebensversicherung AG, Generali Lebensversicherung AG and Cosmos Lebensversicherungs-AG). The companies have set up adequate provisions for the expenditure resulting from this court ruling.

— Insider rules

The renown and reputation of the AMB Generali Group could already be damaged by the mere suspicion of an infringement of insider rules. For that reason we have taken measures by a compliance programme to ensure that the employees of AMB Generali and its subsidiaries handle insider information in line with statutory requirements.

Solvency requirements

— All Group companies subject to solvency requirements showed a sufficient solvency in line with statutory regulations.

Looking at the solo solvency requirements of the major subsidiaries of the AMB Generali Group, the total of the existing equity funds of € 7,770 m (without deduction of participating interests in credit institutions, financial-service providers and finance companies as well as receivables under profit-participation rights and subordinated loans from credit institutions, financial-service providers and finance companies and without excluding intra-Group financing) is by € 4,698 m or 153 percent in excess of the equity funds necessary on the basis of solo solvency requirements for these major subsidiaries and AMB Generali Holding AG. The solvency ratio calculated on that basis thus amounts to 253 percent.

— The substantial increase of the solvency ratio over the preceding year is attributable to the inclusion of the solvency requirements and equity funds of AMB Generali Holding AG, which, as a reinsurance company, had to document its equity funds and solvency ratio for the first time in the business year 2005 in accordance with the circular letter 6/2005 (VA) of the German Financial-Services Regulator (BaFin).

— The AMB Generali Group was identified as a financial conglomerate by BaFin. On the basis of our calculation forecasts of the equity equipment as a financial conglomerate we assume that solvency requirements at conglomerate level will be fulfilled.

Outlook and further development of risk management

— The further development of risk management is a continuous process. At regular intervals, new elements of business administration are included in risk management by updates in all areas. In the context of the further development of European insurance regulation (Solvency II) also the risk management in AMB Generali is consistently adjusted and enhanced in line with the requirements of the new regulatory system under a Group project established for that purpose. In its conception the Group project is oriented at the three-pillar structure chosen in the EU project of the regulatory authorities. Under the Group project and on the basis of the three-pillar structure, the further development of internal systems for risk measurement and controlling, the optimization of processes and the framework for transparent reporting are successively being pushed forward. For the business year 2006 the results in respect of risk measurement will be increasingly integrated in the controlling systems of AMB Generali.

Summary presentation of the risk position

— As a whole, no development can be identified at present that could substantially affect the assets, financial strength and earnings position of the AMB Generali Group. There are currently no risks recognizable that could jeopardize its existence.

Outlook

In 2006 the situation of the overall economy in Germany should improve slightly. It is, however, not yet to be expected that the economy will give significant impetus to the German insurance industry. For the AMB Generali Group the focus of its activities will continue to lie on a sustainable strengthening of its earning capacity and corporate value.

Expectations with regard to the overall economy

Slight acceleration of eurozone economy in 2006

— We proceed from the assumption that in the year 2006 global economic growth will slow down somewhat, while remaining at a high level. In the U.S. a slackening in the dynamics of growth forces is expected. On the other hand the eurozone should witness a moderate acceleration of growth to 2.1 percent as a result of external demand and investments in plant and equipment. In Germany, too, the gradual recovery is assumed to persist, though consumer spending will remain weak. The labour market will continue to weigh on the economic development. Purchases ahead of the planned VAT increase in 2007 and the football world cup could provide slightly positive impulses. Against this background, overall growth in Germany is expected to reach 1.8 percent in 2006. For the subsequent year, however, the VAT increase is assumed to have a curbing effect on growth.

European shares again having good potential

Moderate development of financial markets

— After the very good stock market year 2005, positive returns are also expected in the current year. Especially in the eurozone corporate profits will continue to witness strong growth. Besides, prices are still at an attractive level. Rate increases by the European Central Bank and high costs for raw materials, however, could represent adverse factors. As a whole, a return of 10 percent is anticipated for eurozone shares. With the end of the rate-tightening cycle, the development in the U.S. should also turn positive. Therefore gains in the U.S. are assumed to lie within the upper one-digit range. For bond markets in the U.S. and the eurozone a moderate rise of yields seems probable in 2006. The central banks' rate tightening, which should also have an effect on long-term bonds, speaks in favour of such development. Since inflation will rather be moderate, no big yield setbacks are expected. Especially in the eurozone a modest increase of returns is to be seen as a normalization after a historically very low level. With a view to the expected economic strains in 2007 the financial markets in Germany will not be able to escape a weaker international trend in the second half of 2006.

Long-term yields expected to rise slightly

Insurance industry with moderate growth perspectives

About 0.5 percent growth anticipated for German insurance industry

— Apart from the economic situation, the tax and social-policy environment for private provision will play a vital role for the future business development of the German insurance industry. Even if the economy improves, no significant impulses are to be expected for insurance demand in the current year. The German Insurance Association (GDV) assumes that growth will continue to slow down and that premium income will increase by 0.5 percent in 2006.

Normalization of life insurance business in 2006

— After the extraordinary development attributable to the introduction of the Retirement Income Act, the year 2006 will see a "normalization" of new business for German life insurers. A positive contribution will again come from the "Riester pensions" since at the beginning of the year 2006 the next increase step for incentives has come

into force. In addition it is to be assumed that the trend of a rising demand for Riester products will continue. Business with the new basic-pension products is also assumed to experience a better development than in the previous year.

The rising need for provision on an individual private basis and the fact that from a risk and return perspective life insurance continues to be one of the most attractive investment products will lead to premium growth again at least in the medium term. As a whole it is assumed that the premium income of life insurance in its narrower sense will remain nearly unchanged in comparison to the previous year's level. In addition, the expected growth of pension schemes and pension funds – though at a markedly reduced rhythm – will make a contribution of about one percentage point to growth.

Premium income in life insurance nearly unchanged

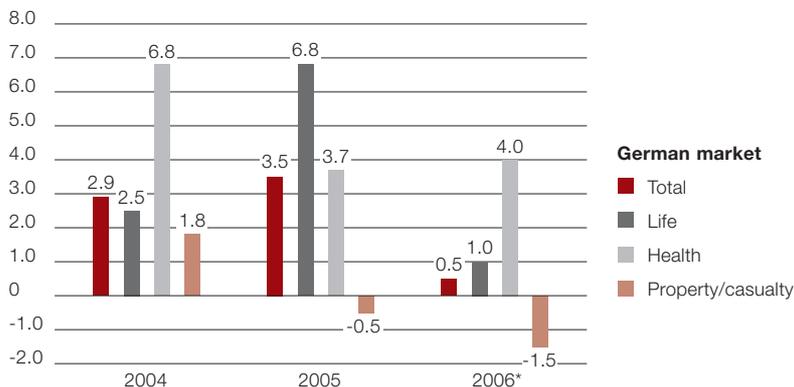
— Provided that the year 2006 will not witness any far-reaching political changes in respect of the healthcare scheme, private-sector health insurance will be the line with the strongest growth in 2006. For the current year premium income is expected to increase by about 4 percent. This rise, however, will be attributable to premium adjustments and the corresponding increase of benefits rather than to growing portfolios in full health covers. Business with complementary covers will keep rising and will increasingly be operated in cooperation with state-run health funds. The future development of private-sector health insurance will very much depend on the health policy measures to be taken by the new German government.

Growth forecast for health: plus 4 percent

— The lack of dynamics in the domestic economic development and the persistent intensification of price competition will continue to have a curbing effect on the development of property and casualty insurance in 2006. As a whole, premium income for motor and industrial insurance is expected to decrease markedly. Despite slight increases anticipated in the other classes of property and casualty business, the 2006 premium income of property and casualty insurers is assumed to decrease by 1.5 percent.

Property and casualty insurance again decreasing

Premium growth by lines of business



Figures in %

* estimate

Source: GDV and company calculations

Only restrained growth in building-society sector

— In the light of the cuts of home-owner subsidies decided by the German government it is difficult to give an assessment of the future development in the building-society sector. In addition, the figures of private housing construction continue to decline. The amendments of the Retirement Income Act scheduled to be implemented in 2007, under which home ownership would be considered a form of providing for old age, will open up new opportunities for building societies. For the time being, however, it is to be assumed that the sector will experience a rather restrained growth.

Investment industry benefits from rising need for retirement provision

— For the year 2006 the German investment industry again anticipates an increasing volume of new fund investments. Positive impulses will come from the rising attractiveness of funds for private old-age provision and from further market deregulation as a result of the amendment of investment law.

Activity focus of the AMB Generali Group in 2006

Profitable growth to increase corporate value

Good basis for above-average premium growth

— In the coming years, the focus of our activities will continue to lie on a sustainable strengthening of the profitability and the corporate value of the AMB Generali Group. This is to be achieved by a consistent expansion of our market position, accompanied by an increase of the profitability of our underwriting business. Besides our multi-brand strategy, the high distribution capacity and the diversity of distribution channels are part of our key strengths by which we distinguish ourselves from the market and secure our top position in the insurance and financial-services industry. Making full use of this distribution strength and benefiting from market opportunities arising out of the growing need for private old-age provision will be one of our most important tasks in the coming year.

Additional market-share gains in 2006

— Despite an increasingly keen competition, the AMB Generali Group again anticipates an above-average growth and additional market-share gains in insurance business in 2006. Growth will be mainly supported by our life and health insurers. Our activities focus on the development of innovative products with distinguishing elements oriented at the needs of customers and taking into account the specific features of the individual sales channels. In addition, we take measures aiming at an increase of fieldstaff productivity and efficiency and a consistent qualification of our sales networks.

Growth in life above the market average

High growth potential in life insurance

— With a share of more than 60 percent of the total premium income, life insurance is the most important line of insurance for the AMB Generali Group. Therefore the environment and the development trends in this segment are of particular significance to us.

Information technology is one of the key elements for the success of insurers and financial-service providers. Every day we work to achieve the best possible IT solutions for our Group. In our case knowledge transfer runs smoothly – even when we are just taking a walk together.

Klaus Krüger, Transition to Production, and his son Jörg Krüger, Major Project Coordination



AMB GENERALI
Informatik Services

Due to the demographical situation, the structural problems of finance in the state-run pension schemes and the growing awareness of the necessity of supplementary provision on an individual and corporate basis, life insurance clearly is a growth market. With our broad and comprehensive product range and the quality of our sales networks we dispose of the best prerequisites to position ourselves successfully in this market.

New business under the “three-tier model”

— After the market-wide decline of new business in 2005 following the implementation of the Retirement Income Act, we anticipate that in 2006 new business will pick up again amid a changed world of products and tax breaks.

— For 2006 no particular growth momentum is expected to come from the basic pension offered within the first tier since this product still has a low recognition level and is subject to restrictions. In our opinion, however, the basic pension is an interesting product for self-employed and high-income earners and it offers good growth opportunities in the mid-term.

New-business growth by complementary provision products

— In contrast to this, we anticipate an increase of new business and premium income from the complementary old-age provision products of the second tier. “Riester policies” will continue their successful development. As market leader we will benefit to a particular extent from the third incentive step for the “Riester pension”: the limit for the maximum state incentive will be raised by 50 percent to € 1,575, which will involve a substantial amount of increases under our contract portfolio, similar to the second incentive step in 2004. We regard corporate old-age provision, which is also part of the second tier, as a growth market. In this field it is not only important to conclude framework agreements with employers. It also is vital to provide the employees with high-quality advice on an individual basis. This is a service we can guarantee by means of our sales networks.

— The old-age provision products of the third tier, which comprise endowment life and private pension insurance, also continue to be attractive for customers. The advantages involved in these products are mainly due to the long-term guarantees for benefits and the additional cover of biometric risks. Furthermore, the tax treatment of pension insurance was improved for cases where customers actually opt for pension payments upon contract maturity. There also is an increasing demand for flexible products of old-age provision which give customers additional options regarding payment modalities and investment strategy. Already in the past we have demonstrated our expertise for product innovations in this regard. Growth momentum is also expected to result from covers of purely biometric risks, such as term life insurance or occupational disability insurance, since there is an insufficient level of provision among the population for this latter risk.

Above-average growth in the life sub-segment

— On the basis of the growth opportunities resulting, among others, from the “three-tier model” we are optimistic that in 2006 and in subsequent years we will achieve growth above the market average. At the same time we have the target of safeguarding our market leadership in unit-linked life insurance, term life insurance and “Riester pensions”.

Demand for private health covers will continue to rise in existing environment

— In their coalition agreement the government parties stated that there will be no large-scale changes in health policy before 2007. In the course of 2006, however, the conservative parties and the social democrats want to develop a joint solution for a

health reform. The overall aim is to achieve a fair competition between the state-run health funds and private-sector health insurance and to maintain the plurality of the state-run and private schemes. Since the financial situation of state-run health funds continues to be desolate, the importance and growth potential of private-sector health insurance, which is considerably more stable, should be largely assured. Because of the growing expenditure of the state-run health funds in 2006 it is to be assumed that either contributions to health funds will rise or benefits will have to be cut further. This will make private health covers more attractive. The need for reforms is particularly strong in compulsory state-run long-term care insurance. According to expert estimates, the financial reserves of long-term care insurance will be exhausted as early as in 2007. While compulsory state-run long-term care insurance is based on a pay-as-you-go scheme, private long-term care insurance, which has a funded basis and provides the same benefits, has been able to set up reserves of an amount of more than € 14 bn, which are available to policyholders as a provision for old age. Also here the advantages and the strength of private-sector health insurance become evident.

Government aims at fair competition between private and state-run health insurance

— According to estimates of the German Insurance Association (GDV), private-sector health insurance will be the insurance line with the strongest growth and experience an increase of premium income of about 4 percent in 2006. Against this background we proceed from the assumption that our health insurers will continue their above-market premium development. The number of insured persons is expected to increase, especially in complementary covers.

Growth in health remains above market level

Activities in property and casualty business continue to be oriented at profitability

— Presently property and casualty insurance is marked by an intensive price competition in motor business. The average premiums in motor insurance decrease across the market, which affects the claims ratio and the combined ratio. In order not to jeopardize profitability, activities have to be pursued on a selective basis. In this context we will continue to act prudently in our pricing and underwriting policy.

Selective approach in difficult market environment

— The activities of the AMB Generali Group's property and casualty insurers remain focussed on profitable business with private customers as well as small and medium-sized commercial clients. To improve the Group's market position, the product policy increasingly concentrates on the individual requirements of specific target groups. We will continue to pursue this course. Premium growth is to be generated especially in the classes of property, personal accident and general liability insurance. We apply stringent risk selection and a return-based pricing policy, without neglecting the competitiveness of our products.

— In the wake of year-end business in motor insurance, the AMB Generali Group succeeded in taking out about 30,000 new additional contracts. Together with the continued growth in property, personal accident and general liability insurance, this could contribute to a growth above market level in property and casualty insurance. It is not our primary objective, however, to gain market shares in this segment. We rather concentrate on profitability and an adequate level of the combined ratio. The latter may be affected by a decrease of average premiums in motor insurance and by the fact that the favourable claims experience in 2005 will not necessarily continue in 2006 and subsequent years. Therefore, in addition to the compensatory effect of growth in property,

Focus on adequate combined ratio rather than growth

personal accident and liability insurance, further improvements in claims management as well as cost reductions will be necessary in order to achieve a combined ratio of 98 percent.

Concentration of mortgage business in the building society

Expansion of the business activities of the providers of financial services

— In the year 2006 Deutsche Bausparkasse Badenia AG will celebrate its 75th anniversary. The company's activities concentrate on a further enhancement of service orientation on the basis of improved response times in all customer areas as well as a good advisory quality. In order to ensure the attractiveness of its products, Badenia regularly verifies its models and places its new-business focus on customers requiring finance. In this context, Badenia will introduce modifications of its current Via Badenia model with interest rates adjusted to the market level for savings and loans. The strengths of Badenia in credit control and credit handling as well as the sophisticated risk controlling of Badenia will be increasingly used across the Group. In this context, all activities of the AMB Generali Group in property financing will be handled by Badenia. Due to this concentration and the large financing volume, Badenia can offer favourably priced solutions for its partners. The markedly improved profitability is ensured by a continuation of strict cost management and a risk-based policy in granting loans. Like the entire industry, however, Badenia is affected by the low level of interest rates.

Strengthening of asset management business

— AMB Generali Asset Managers, our Group's fund company and asset manager, is one of the biggest asset managers in Germany. It is integrated in the asset-management activities of the Generali Group which are steadily developing. As a competence centre within the Group it will go on expanding its position. Currently AMB Generali Asset Managers already manages the financial assets of the Austrian, Dutch and Swiss Generali companies. In addition to handling customer mandates from within the Group, the activity of gaining external institutional clients will be pushed. The range of funds offered will be further optimized to strengthen mutual-fund business.

Continuation of internal structure measures in the Group

Strategic orientation of the Group on a sustainable strengthening of efficiency and productivity

— One of the great challenges for our Group consists in accelerating the initiated change process to sustainably strengthen our competitiveness. The programme already launched in 2003 to consistently optimize our business processes will be further pursued in 2006 and the following years. To achieve this, various measures will be implemented at the level of the individual Group companies which will involve reorganizations and, on

We made our dream of owning a home come true. And Badenia helped us to achieve this. Simple, fast and with a strong service – the way we operate for all our customers.

Michael Schär, DVAG Support, and his wife Annette, Customer Service, with Anna and Helena



a selective basis, the closing-down of locations. In addition, the business model of AMB Generali Informatik Services, the central provider of IT services – is being realigned in such a way that in the future it will only operate from two locations (Aachen and Hamburg).

Competitive situation requires further headcount reduction

— In the wake of the Group-wide cost-cutting programme already initiated in 2003 the original target of shedding 2,000 administrative jobs by year-end 2007 was extended to 2,750 job-cuts by year-end 2008. In this context we aim to take the necessary measures, if possible, in a socially compatible manner and by making use of natural fluctuation.

Weighing market risks against return opportunities

Prudent approach in investment policy
— In our investment activities we will continue to weigh yield opportunities against the risk-bearing capacity of our Group companies. The primary target is to be able to guarantee the benefits promised to our customers while at the same time earning adequate and stable profits for policyholders and shareholders. For this reason we will go on acting prudently. The percentage of equity investments will only increase slightly, at the most, and this will mainly be the result of market movements. With a view to structuring the duration of securities we will maintain our course of a compromise between limiting the risks involved in long-term interest guarantees by means of long durations and derivative hedging, on the one hand, and by taking advantage of short-term market opportunities in the case of rising interest rates, on the other hand.

Group net profit will rise steadily

Further improvement of results anticipated
— On the basis of the development planned in the individual business fields and in the light of the development focus we anticipate a further increase of our results. This will be driven by above-average premium growth and by improvements in operating business aiming at an optimization of claims management and of the cost situation. Provided that, similarly to the previous year, the current business year is not affected by

extraordinary claims or negative capital-market developments, we aim to reach a Group net profit of at least € 340 m in 2006. For the following year 2007 we expect that the Group net profit will continue to improve.

Group targets 2006, 2007 and 2008 on an internal management basis

_____ The following gives an outline of the concrete Group targets for the period 2006-2008. We refer to those elements on which our internal management and planning is based. These elements are growth targets, the new business value of life insurance, the combined ratio, a cost target and the Group net profit under IFRS.

**Quantitative
information**

Group targets 2006 – 2008

	2005	2006	Outlook 2007/2008
Premium development life	+9.0%	Growth above market level	Growth above market level
Premium development health	+5.0%	Growth above market level	Growth above market level
Premium development property/casualty	-0.5%	Growth at market level	Growth at market level
Total expenses ¹	€ 1,857 m	€ 1,830 m	Further reduction despite over-proportionate growth
Combined Ratio ²	96.9%	<98% against market cycle	<97% by 2008 against market cycle
New business value ³	€ 114 m	Steady rise in subsequent years	
Group net profit under IFRS ⁴	€ 314 m	€ 340 m	Average annual rise of 10%

1 without commissions

2 combined ratio of claims and expenses in property and casualty insurance

3 life insurance; before capital cost (preliminary figure for 2005)

4 before goodwill amortization

Corporate Governance

The term Corporate Governance comprises the reliable and efficient management and control of an enterprise, including its organization, business philosophy and guiding principles as well as the internal and external mechanisms of controlling and monitoring. In compliance with section 3.10 of the German Corporate Governance Code, the Board of Management and the Supervisory Board provide the following Corporate Governance report:

— AMB Generali complies with the requirements of a good and responsible corporate management and its reporting has a high level of transparency. It also fulfils the transparency requirements defined by Deutsche Börse AG for the so-called prime standard (such as international financial reporting standards, interim reports, publication of a financial calendar, at least one analyst conference a year as well as ad-hoc announcements in German and English). Accordingly AMB Generali is admitted to the prime standard segment of Deutsche Börse.

— To safeguard and maintain this high standard, the Corporate Governance is also under the permanent scrutiny of the company's Supervisory Board. Pursuant to the Articles of Association and the internal rules of the company's bodies, important transactions have to be approved by the Supervisory Board. The Supervisory Board's monitoring activities are described in detail in the report by the Supervisory Board to the General Meeting (see p. 10 ff.) in compliance with section 171 of the German Companies Act (Aktiengesetz).

— In addition, supporting organizational measures have been taken to ensure Corporate Governance, such as keeping a list of persons with insider information, the Group's compliance system and the Group-wide Ethical Code as well as the pertinent Codes of Conduct of AMB Generali and its Group companies.

In line with their statutory obligation defined by section 161 of the Companies Act, the Board of Management and the Supervisory Board publish an annual declaration stating to what extent AMB Generali complies with the recommendations of the German Corporate Governance Code. That declaration of compliance was last renewed on November 29, 2005.

Essential information about our Corporate Governance is provided for our shareholders on the Internet at www.amb.de or www.amb-generalis.de under the "Investor Relations" section. This information includes the financial calendar, annual and interim reports, ad-hoc announcements, information about directors' dealings, the declaration of compliance by AMB Generali, the latest and previous versions of the German Corporate Governance Code and the Ethical Code of the Generali Group.

Explanations in respect of the deviations from the recommendations of the German Corporate Governance Code

— AMB Generali complies with most of the recommendations and suggestions of the Corporate Governance Code. To the extent the declaration of compliance indicates deviations from the Code's recommendations, AMB Generali instead follows the applicable legal standards. The recommendations concerned are the following:

— The D&O insurance taken out by the company for the Board of Management and the Supervisory Board does not have a deductible (deviation from section 3.8 of the

Code). Considering the responsibility and motivation of the members of the Board of Management and the Supervisory Board in performing their tasks, AMB Generali continues to be of the opinion that a deductible is not necessary.

— AMB Generali does not have a stock-option programme of its own (deviation from sections 4.2.3 and 7.1.3 of the Code). The remuneration of the Board of Management is composed of an element not related to profits and a profit-related element. In addition, a stock-option programme of the international Generali Group exists for selected executives. AMB Generali does not consider a stock-option programme of its own to be necessary in addition to these remuneration elements.

— The remuneration of the members of the Board of Management is not indicated on an individualized basis in the Notes to the Consolidated Financial Statements (deviation from section 4.2.4 of the Code). For privacy reasons the company does not provide detailed figures and instead refers to the collective figures disclosed in this Report (see p. 161 f.) on the Internet and in the General Meeting. The structure of the remuneration, which is composed of profit-related elements and those not related to profits, is also explained in these information sources.

— Neither is there an individualized disclosure of the remuneration of the members of the Supervisory Board or a disclosure of the payments made to them on the basis of other relationships with the company or with Group companies (deviation from section 5.4.7 of the Code). The structure of the remuneration of the Supervisory Board is disclosed in the Articles of Association. The collective amount paid as remuneration is also indicated in this Report (see p. 162).

— The Supervisory Board of AMB Generali does not have an audit committee concerned with issues of accounting or of the risk management of the company (deviation from section 5.3.2 of the Code). There is no necessity to establish such committee since the audit reports of the auditor concerning the financial statements of the company and of the Group are regularly explained in the accounts meeting of the Supervisory Board and are discussed in detail by the Supervisory Board. Furthermore the auditor also answers the questions raised in the meeting of the full Supervisory Board. AMB Generali is of the opinion that these tasks represent the central area of the controlling activities of the Supervisory Board and would therefore like to leave these tasks with the full Board.

— There is no age limit for members of the Supervisory Board (deviation from section 5.4.1 of the Code). The members of the Supervisory Board of AMB Generali are elected because of their qualification and experience. The company wishes to appoint highly qualified and experienced members to the Supervisory Board, regardless of age limits.

— There is no limitation, beyond the limitation provided for by law, of the number of mandates held in the Supervisory Boards of listed non-Group companies (deviation from section 5.4.5 of the Code). It often is useful if members of the Supervisory Board can bring in their experience from non-Group companies. For the time being, AMB Generali regards the statutory provision under section 100 para. 2 of the Companies Act as being sufficient.

— The Report by the Supervisory Board does not provide information about the attendance at meetings of the Supervisory Board (deviation from section 5.4.8 of the Code). Until today the efficiency of the Supervisory Board's activities has not been affected by the non-attendance of members. Therefore the disclosure of such information is not regarded as necessary.

Directors' Dealings

— In the business year 2005 there were no security transactions subject to notification as defined by section 15a para. 1 sentence 5 of the Securities Trading Act or section 6.6 of the German Corporate Governance Code.

Compliance system

— The companies of the AMB Generali Group conduct their business activities in a responsible manner and in compliance with legal provisions. For that purpose the Board of Management of AMB Generali maintains binding compliance programmes for all companies of the AMB Generali Group. These guidelines support the employees in their task of fulfilling increasingly demanding legal requirements. A sustainable compliance in the AMB Generali Group thus creates trust on the part of the capital market and customers.

— With regard to the observance of anti-trust rules there is a programme with precise guidelines for all employees of the AMB Generali Group. On the basis of a network of compliance officials and by regular training courses for employees in sensitive areas it is ensured that the guidelines are implemented equally across the Group and that infringements of anti-trust law are avoided. Furthermore the Board of Management of AMB Generali ensures that the rules of the Securities Trading Act (Wertpapierhandelsgesetz) are observed in the AMB Generali Group by the distribution of up-to-date guidelines for security compliance across the Group and by the appointment of a compliance official.

Ethical Code and Code of Conduct

— Beyond its compliance programmes, the AMB Generali Group has adopted the Ethical Code of the international Generali Group. With the Ethical Code the AMB Generali Group gives itself a general guideline for its relationships with customers, shareholders, employees, contractual partners as well as public institutions and the press. In this context, the Ethical Code is committed to essential principles such as correctness, honesty, impartiality and professionalism.

— For some areas, the framework provided by the Ethical Code is defined in more detail by the Codes of Conduct of AMB Generali and its Group companies. The Codes of Conduct comprise rules referring in particular to issues such as confidentiality, acceptance of gifts, awarding of contracts, business transactions with employees, the dual-control principle and conflicts of interest. This strengthens the trust on the part of customers, partners, employees and the public in a fair and ethical conduct of the Group.



Consolidated Financial Statements 2005

Consolidated Income Statement for the period Jan. 1 – Dec. 31, 2005

	Note	€'000	€'000	2005 €'000	2004* €'000
1. Gross premiums written				11,457,700	10,937,007
2. Net premiums earned	6		11,048,795		10,485,287
3. Investment income (net)	7				
a) Income from shares in associated enterprises		22,086			20,605
b) Other investment income		3,420,678			3,247,738
			3,442,764		3,268,343
4. Other income	8		345,755		363,644
				14,837,314	14,117,274
5. Net claims and benefits	9				
a) Life/health		-8,892,042			-8,754,541
b) Property/casualty		-1,905,092			-1,884,821
			-10,797,134		-10,639,362
6. Net operating expenses	10		-2,409,214		-2,128,449
7. Other expenditure	11		-1,041,724		-866,893
				-14,248,072	-13,634,704
8. Result before goodwill amortization				589,242	482,570
9. Goodwill amortization				—	-58,958
10. Operating result				589,242	423,612
11. Finance costs				-7,329	-8,562
12. Tax	12			-268,280	-204,016
13. Net profit				313,633	211,034
a) of which attributable to the equity holders of the parent				314,837	207,201
b) of which minority interests				-1,204	3,833
	Note			2005 €	2004* €
14. Earnings per share	13				
a) diluted				5.87	3.86
b) undiluted				5.87	3.86

* preceding year's figures adjusted in all following presentations due to the first-time application in the business year 2005 of various revised and new accounting standards (for details see p. 94 f.)

Consolidated Income Statement for the period Oct. 1 – Dec. 31, 2005

	€'000	€'000	2005 €'000	2004 €'000
1. Gross premiums written			2,976,357	2,746,832
2. Net premiums earned		3,138,940		2,886,146
3. Investment income (net)				
a) Income from shares in associated enterprises	5,336			3,080
b) Other investment income	767,260			876,589
		772,596		879,669
4. Other income		120,299		108,118
			4,031,835	3,873,933
5. Net claims and benefits				
a) Life/health	-2,344,725			-2,528,603
b) Property/casualty	-533,374			-463,487
		-2,878,099		-2,992,090
6. Net operating expenses		-728,741		-514,326
7. Other expenditure		-332,499		-205,992
			-3,939,339	-3,712,408
8. Result before goodwill amortization			92,496	161,525
9. Goodwill amortization			–	-35,608
10. Operating result			92,496	125,917
11. Finance costs			-1,664	-2,067
12. Tax			-5,198	-48,397
13. Net profit			85,634	75,453
a) of which attributable to the equity holders of the parent			89,242	73,246
b) of which minority interests			-3,608	2,207
14. Earnings per share			2005 €	2004 €
a) diluted			1.67	1.37
b) undiluted			1.67	1.37

Consolidated Balance Sheet as at December 31, 2005

Assets

	Note	€'000	2005 €'000	2004 €'000
A. Owner-occupied property/tangible assets	14		1,070,431	1,063,166
B. Intangible assets	15			
I. Goodwill		268,200		268,200
II. PVFP of insurance contracts		121,864		142,771
III. Other intangible assets		143,050		140,174
			533,114	551,145
C. Deferred acquisition costs	16		7,318,536	7,304,830
D. Investments				
I. Investment property	17	1,353,050		2,002,196
II. Shares in associated enterprises	18	171,963		154,418
III. Financial assets				
1. loans and receivables	19	21,416,929		19,027,317
2. available for sale	20	48,868,927		45,608,553
3. financial assets at fair value through profit or loss	21			
a) financial assets at fair value through profit or loss (not held for trading)		472,794		475,139
b) held for trading		74,284		13,975
		70,832,934		65,124,984
			72,357,947	67,281,598
E. Investments for the account and at the risk of life insurance policyholders	22		6,488,778	4,713,154
F. Receivables	23		2,193,313	2,407,658
G. Tax assets				
I. for current tax		268,731		426,592
II. for deferred tax	33	71,618		48,108
			340,349	474,700
H. Reinsurers' shares in underwriting provisions			1,634,982	1,639,298
I. Other assets	24		262,561	396,101
J. Non-current assets held for sale			186,571	—
K. Current-account balances with credit institutions, cheques and cash in hand			916,462	1,241,025
Total assets			93,303,044	87,072,675

Consolidated Balance Sheet as at December 31, 2005

Liabilities

	Note	€'000	2005 €'000	2004 €'000
A. Group equity	25			
I. Subscribed capital		137,421		137,421
II. Capital reserve		1,282,446		1,282,270
III. Revaluation reserve		778,779		569,553
IV. Profit carried forward		1,070,496		950,286
V. Reserve from foreign-currency translation		1,048		-140,742
VI. Net profit attributable to the equity holders of the parent		314,837		207,201
VII. Minority interests		209,414		193,577
			3,794,441	3,199,566
B. Underwriting provisions				
I. Unearned premiums	26	476,269		473,609
II. Provision for future policy benefits	27	57,111,355		54,305,618
III. Provision for outstanding claims	28	4,514,391		4,354,972
IV. Provision for premium refunds	29	7,200,420		6,106,748
V. Other underwriting provisions		33,634		33,512
			69,336,069	65,274,459
C. Underwriting provisions concerning unit-linked life insurance			6,488,997	4,713,154
D. Other provisions				
I. Provisions for pensions and similar commitments	30	1,734,130		1,673,470
II. Tax provisions		425,046		497,076
III. Other provisions	31	314,314		265,907
			2,473,490	2,436,453
E. Payables	32			
I. Subordinated liabilities		70,558		70,558
II. Bonds and loans		229,565		332,926
III. Other payables		9,931,546		10,154,973
			10,231,669	10,558,457
F. Tax liabilities				
I. for current tax		47,027		48,448
II. for deferred tax	33	931,188		842,080
			978,215	890,528
G. Other liabilities			163	58
Total liabilities			93,303,044	87,072,675

Equity development

	Subscribed capital	Capital reserve	Revaluation reserve	Reserve from foreign- currency translation	Profit carried fw. and net profit*	Minority interests	Equity
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Balance at Dec. 31, 2004	137,421	1,282,270	569,553	-140,742	1,157,487	193,577	3,199,566
Change for:							
Foreign-currency translation	—	—	376	45,839	47	—	46,262
Change of consolidation scope	—	—	31	95,951	6,896	17,692	120,570
Dividend to shareholders	—	—	—	—	-93,934	-1,414	-95,348
Unrealized capital gains and losses							
withdrawal recognized in income	—	—	-120,042	—	—	—	-120,042
allocation recognized in income	—	—	328,861	—	—	763	329,624
Net profit	—	—	—	—	314,837	-1,204	313,633
Treasury stock	—	176	—	—	—	—	176
Other	—	—	—	—	—	—	—
Balance at Dec. 31, 2005	137,421	1,282,446	778,779	1,048	1,385,333	209,414	3,794,441
Balance at Dec. 31, 2003	137,421	1,282,445	467,873	-132,440	1,031,664	129,018	2,915,981
Change for:							
Foreign-currency translation	—	—	-210	-22,930	-1,815	—	-24,955
Change of consolidation scope	—	—	498	14,628	-7,095	63,697	71,728
Dividend to shareholders	—	—	—	—	-72,468	-2,871	-75,339
Unrealized capital gains and losses							
withdrawal recognized in income	—	—	-97,320	—	—	—	-97,320
allocation recognized in income	—	—	198,712	—	—	-100	198,612
Net profit	—	—	—	—	207,201	3,833	211,034
Treasury stock	—	-175	—	—	—	—	-175
Other	—	—	—	—	—	—	—
Balance at Dec. 31, 2004	137,421	1,282,270	569,553	-140,742	1,157,487	193,577	3,199,566

* net profit attributable to the equity holders of the parent

Cash-flow statement

	2005	2004
	€'000	€'000
Net profit	313,633	211,034
Change of underwriting provisions (net)	4,732,042	3,058,160
Change of deferred acquisition costs	-13,705	-627,212
Change of reinsurance deposits receivable and payable as well as current accounts receivable and payable	121,716	90,192
Change of financial assets held for trading	60,309	-33,138
Change of other amounts receivable and payable	-5,024	107,784
Realized capital gains/losses from the disposal of investments and of plant and equipment	-519,549	-585,389
Change of deferred tax assets/liabilities	-9,929	-64,105
Change of other balance-sheet items	193,784	253,611
Profits/losses due to deconsolidation	107,696	-14,691
Adjustment for investment income and expenditure not involving cash movements	-931,826	439,415
Cash flow due to operating activities	4,049,147	2,835,661
Receipts due to the disposal of affiliated and associated enterprises	222,331	38,656
Payments due to the acquisition of affiliated and associated enterprises	-87,306	-11,580
Receipts due to the disposal of other investments	23,945,044	34,869,001
Payments due to the acquisition of other investments	-27,443,554	-36,376,545
Receipts due to the disposal of investments under unit-linked life insurance	704,198	166,319
Payments due to the acquisition of investments under unit-linked life insurance	-1,519,335	-850,090
Other receipts	162,760	8,775
Other payments	-183,106	-116,384
Cash flow due to investing activities	-4,198,968	-2,271,848
Change of bonds, loans and subordinated liabilities	-102,382	-26,464
Receipts due to capital increase	20,350	3,883
Dividend payment	-95,348	-76,039
Cash flow due to financing activities	-177,380	-98,620
Effect of currency translation on cash position	1,788	-551
Change of the cash position due to the acquisition/disposal of consolidated subsidiaries	850	30,762
Cash position at the beginning of the business year	1,241,025	745,621
Change of the cash position	-327,201	465,193
Cash position at the end of the period under report	916,462	1,241,025

The cash position corresponds to the balance-sheet line item of "Current account balances with credit institutions, cheques and cash in hand". As at the reporting date, out of the amount of liquid resources included in the cash position, € 507,518 thousand (preceding year: 684,800 thousand) are part of the tied funds and therefore that part of the cash position can only be disposed of with the approval of a trustee. The cash-flow statement is determined by means of the indirect method.

Cash flows

	2005	2004
	€'000	€'000
Premiums written	11,204,543	10,609,606
Ordinary investment income	3,222,835	3,262,126
Claims payments	7,261,028	7,794,224
Commission payments	1,407,347	1,738,511



Notes

Notes to the Consolidated Financial Statements 2005

1 Accounting regulations

— The Consolidated Financial Statements have been established on the basis of section 315a of the German Commercial Code (HGB) in compliance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

No early application was made of new standards such as IAS 19 (revised 2004) Employee Benefits and IFRS 7 Financial Instruments: Disclosures. Application will be mandatory starting from the business year 2006 for IAS 19 as revised and starting from 2007 for IFRS 7. Neither of the two standards has an effect on accounting. They only refer to the disclosure of comprehensive information in the Notes.

In 2003, 2004 and 2005 a large number of standards were revised, amended or newly issued of which application is mandatory for business years beginning on or after January 1, 2005. The first-time application of these standards involves substantial changes of the accounting and measurement policy. The following standards are applied for the first time by AMB Generali for the business year 2005:

- IAS 1 (revised 2003) Presentation of the Financial Statements
- IAS 2 (revised 2003) Inventories
- IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 (revised 2003) Events after the Balance-Sheet Date
- IAS 16 (revised 2003) Property, Plant and Equipment
- IAS 21 (revised 2003) Effects of Changes in Foreign-Exchange Rates
- IAS 24 (revised 2003) Related-Party Disclosures
- IAS 27 (revised 2003) Consolidated and Separate Financial Statements in compliance with IFRS
- IAS 28 (revised 2003) Investments in Associates
- IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation
- IAS 33 (revised 2003) Earnings per Share
- IAS 36 (revised 2004) Impairment of Assets
- IAS 38 (revised 2004) Intangible Assets
- IAS 39 (amended 2005) Financial Instruments: Recognition and Measurement
- IFRS 2 Share-based Payment
- IFRS 4 Insurance Contracts
- IFRS 5 Non-current Assets held for Sale and Discontinued Operations

— The transitional provisions of IFRS 3 Business Combinations were already applied in the Consolidated Financial Statements for the year 2004. For the business year 2005, IFRS 3 is fully applied. In the following, the indication of standards always refers to the version applied in preparing these Consolidated Financial Statements.

— The application of the above standards leads to the following changes, among others, in the accounting and measurement policy:

- IAS 1 has an impact on the structure of the balance sheet. Furthermore the standard requires minority interests to be presented within equity.
- IAS 24 has an impact on the identification of related parties and on some additional information provided in the Notes.
- IAS 39 has an impact on the modalities of write-ups and write-downs and on the classification of financial assets.

- IAS 2, 8, 10, 16, 21, 27, 28, 32, 33 and 38 as well as IFRS 2 have no material impact on the accounting and measurement policy. The application of IAS 32, however, involves major amendments of the information in the Notes.
- IFRS 3 and IAS 36 do not allow the recognition of scheduled amortization of goodwill and of intangible assets with an unlimited useful life. Any amortization amount for goodwill and intangible assets with an unlimited useful life has to be determined on the basis of impairment tests. If necessary, the corresponding asset is amortized accordingly.
- IFRS 4 applies to insurance contracts. Before the publication of IFRS 4 there were no IFRS regulations regarding the accounting for and measurement of elements specific to insurance business. The underwriting items were therefore measured and recognized in compliance with US-GAAP (United States Generally Accepted Accounting Principles). Under IFRS 4 the previous accounting policy can basically continue to be applied for insurance contracts if the contracts contain a significant insurance risk and the provisions are regularly checked with regard to their adequacy. For the underwriting items of life insurers FAS 97 and FAS 120 are applied. For health and property/casualty insurers recognition is based on FAS 60 and for reinsurance on FAS 113. Under IFRS 4 comprehensive disclosures are required in the Notes. These requirements are fulfilled in the Consolidated Financial Statements.
- IFRS 5 refers to non-current assets held for sale. They are shown separately in the balance sheet. They are measured at the lower of their carrying amount or their fair value less costs to sell.

— IFRS 3, IFRS 5, IAS 36 and IAS 38 have to be applied in their latest version on a prospective basis. All other standards have to be applied retrospectively, i.e. as if they had always been applicable. Therefore the previous year's figures had to be adjusted. This mainly concerns investment income. These changes also have an impact on claims and benefits, tax expenditure, net profit and on the balance-sheet line items of investments, revaluation reserve, profit carried forward, provision for premium refunds, tax assets and tax liabilities.

Consolidation

2 Consolidation scope

— In addition to AMB Generali, the consolidation scope as at December 31, 2005 comprises 43 subsidiaries as well as 28 investment funds. In 2005 three Hamburg-based property companies are included for the first time in the Consolidated Financial Statements. On the other hand, three other Aachen-based property companies are deconsolidated due to liquidation. The number of investment funds included in the consolidation scope has decreased by five in comparison to the last Consolidated Financial Statements. While there were two additions, seven funds left the consolidation scope. The seven associated enterprises are recognized at equity, as a matter of principle. A table of shareholdings is deposited with the Commercial Register in Aachen under HRB 93. A list of the major subsidiaries and associated enterprises is shown on page 138 of this report.

Consolidation principles

— The acquisition of enterprises is recognized in line with the purchase method. This means that all identifiable assets, liabilities and contingent liabilities of the acquiree are recognized at the fair value existing at the moment of the purchase. The acquisition cost for the acquisition of an enterprise is equal to the fair value of the consideration plus all expenses that can be directly allocated to the business combination. If the acquisition cost exceeds the Group's interest in the net fair value of the acquiree, goodwill is recognized as an asset. Negative goodwill is reassessed and recognized in profit or loss in the period of acquisition. Non-Group interests in the net fair value of the subsidiary are shown separately in the balance sheet.

Interests in associated enterprises are, as a matter of principle, measured at equity. Upon acquisition of the interest any difference between the acquisition cost of the interest and the interest attributable to the Group in the net assets of the associated enterprise has to be recognized in the balance sheet in line with IFRS 3 Business Combinations. Any resulting goodwill is recognized in the carrying amount of the interest but, pursuant to the provisions of IFRS 3, it is not amortized on a scheduled basis. Negative goodwill is recognized in income in the period of acquisition. The annual financial statements of the associated enterprises are adjusted to uniform measurement yardsticks applied in the Group.

Group-internal amounts receivable and payable, expenditure and income as well as inter-Group results are eliminated.

Foreign-currency translation

— The Consolidated Financial Statements of AMB Generali are established in the euro currency. The assets and liabilities of consolidated investment funds, whose investments are in foreign currency, are translated under the modified reporting-date method. In line with that method, assets and liabilities are translated at the rates applicable at the reporting date. Expenditure and income are translated at the annual average rates. The exchange differences resulting from foreign-currency translations are dealt with under equity without recognition in income.

Foreign-currency differences from investments in foreign government bonds are recognized in income. The exchange rate on December 30, 2005 for the US dollar is € 0.8445 (preceding year: 0.7340) and € 1.4512 for the British pound sterling.

Estimates and assumptions

— The preparation of the Consolidated Financial Statements requires estimates and assumptions having an impact on line items of the balance sheet and of the income statement as well as on the other financial commitments and contingent liabilities of the AMB Generali Group. Estimates and assumptions are taken into account especially in determining the provisions for outstanding claims, the provision for future policy benefits, the fair value and the impairment of investments, goodwill, deferred acquisition costs, the present value of future profits (PVFP) of insurance contracts, deferred taxes and the provisions for pensions and similar commitments.

3 Methods of accounting and measurement

— The annual financial statements covered by the Consolidated Financial Statements are established as at the reporting date of AMB Generali, i.e. December 31. Special funds with a different reporting date are consolidated on the basis of interim statements prepared as at December 31. The annual financial statements of AMB Generali and of the subsidiaries included in the Consolidated Financial Statements are modified on a uniform basis in conformity with the accounting and measurement principles of IFRS and, as far as underwriting provisions and acquisition costs are concerned, according to US-GAAP.

— **Owner-occupied property** and **tangible assets** are recognized at acquisition costs reduced by write-downs.

Buildings are written down on a straight-line basis over their useful life, the maximum period being 100 years. If the realizable value of land and buildings falls below the carrying amount, impairment write-downs are made regardless of the duration of the impairment. As a matter of principle the realizable value is regarded as being equal to the market value determined by recognized methods, such as the earnings value or comparative value procedure. The property of the Group is measured within a period of five years by external experts (appointed by official authorities) under a multi-year plan.

The tangible assets mainly comprise plant and equipment. The write-downs on tangible assets are made on a straight-line basis over their useful life. For the insurance companies of the Group they are allocated to the income statement line items of investment income, claims and benefits, operating expenses and other expenditure.

— The **intangible assets** are composed of goodwill, the present value of the future profits (PVFP) of insurance contracts and of other intangible assets. The goodwill shown is the difference amount between the purchase price for the subsidiary and the Group's share in the equity after the disclosure of unrealized capital gains and losses at the moment of the purchase. Goodwill from purchases on or after March 31, 2004 is no longer allowed to be amortized on a scheduled basis. Recognition in the balance sheet is based on acquisition costs less accumulated impairment amortization. The impairment expenditure is determined by means of impairment tests to be made at least once a year on the basis of cash-generating units. AMB Generali considers the legal units as cash-generating units. The goodwill of company purchases before March 31, 2004 is recognized after the deduction of accumulated scheduled and non-scheduled amortization.

Within the scope of an impairment test the current fair value of each cash generating unit is compared with the total of its attributable goodwill and the restated share in the equity in the consolidated balance sheet. If the latter falls short of the current fair value, goodwill is amortized accordingly. Write-downs made are not reversed. Negative goodwill from first-time consolidation has to be immediately recognized in profit or loss in line with IFRS 3 after a reassessment. Goodwill amortization is shown as a separate line item in the income statement.

The present value of future profits (PVFP) of insurance contracts, which has to be recognized in the balance sheet upon the first-time consolidation of insurance companies, is written down as the profits, on which its calculation is based, are realized.

The other intangible assets include purchased and self-developed software as well as other intangible assets acquired. The software is written down on a straight-line basis

over its useful life of a maximum of five years. For the insurance companies, the write-downs are allocated to the income statement line items of investment result, claims and benefits, operating expenses and other expenditure.

— The **deferred acquisition costs** include commissions and other expenses directly incurred when acquiring or renewing insurance policies. The acquisition costs of life insurance policies are spread over the term of the contracts, taking into account the interest yield, at the same proportion as the profit margin in each individual year bears to the total profit margin to be expected from the contracts. In long-term health insurance, acquisition costs are written down over the total average contract term in proportion to premium income. The calculation parameters are regularly adjusted to the current situation. For property and casualty insurance the write-downs are also made in proportion to premium income over the contract term, the maximum period being five years.

— **Investment property** held as non-current assets is shown at acquisition or construction costs less accumulated scheduled and impairment write-downs. The write-down modalities for investment property are the same as those applied for owner-occupied property.

— **Shares in associated enterprises** are measured at equity, as a matter of principle.

— **Financial assets** are recognized in the balance sheet if the AMB Generali Group is a party to the contractual provisions of the financial asset. Financial assets are derecognized, as a matter of principle, if the requirement of a transfer of the risks and rewards of ownership is fulfilled. The transfer of the risks and rewards is regarded on a consolidated basis. Furthermore financial assets are derecognized if the control of a financial asset is transferred to the contracting party. As a matter of principle the measurement of financial assets is determined on the basis of the settlement date. Financial assets are categorized by the classes of “loans and receivables”, “available for sale” and “financial assets at fair value through profit or loss”.

— **Loans and receivables** are recognized at amortized cost; agios and disagios are, as a matter of principle, amortized on a pro-rata basis by applying the effective interest method. This class only includes financial assets not quoted in an active market. In the case of impairment, write-downs are made and recognized in income. The market values for mortgages are determined by means of discounted cash flows.

— **Financial assets available for sale** are, as a matter of principle, recognized in the Consolidated Financial Statements at their fair value as at the balance-sheet date. For listed financial assets that value is the stock-market value. For financial assets not listed the fair value is determined on the basis of discounted cash flows. Difference amounts between the fair value and amortized cost are directly taken to equity without recognition in income, after deduction of deferred tax and, where applicable, deferred premium refunds. In the case of impairments write-downs are made with recognition in income. In the AMB Generali Group equity instruments are regarded as impaired if the fair value is below historical acquisition costs for a period of more than six months or falls at least 20 percent short of such costs. Under IAS 39 it is not allowed to adjust the

acquisition-cost basis and therefore impairment tests are always based on historical costs. Under the previously applied methods of recognition and measurement, the amortized cost was adjusted in the case of an impairment of equity instruments. Write-ups recognized in income are not admissible for equity instruments. If in respect of debt instruments there is objective evidence of impairment as defined by IAS 39 they are written down. Write-ups through profit or loss are made for debt instruments if the market value goes up sustainably. This is regularly tested by adequate analyses.

— The line item of **financial assets at fair value through profit or loss** has two sub-items. These are the **financial assets at fair value through profit or loss (not held for trading)** and those **held for trading**. For listed financial assets the fair value at which they are recognized is the stock-market value. For non-listed financial assets the fair value is determined by recognized valuation methods (in particular the PVFP method or the option-price model). Any changes of the fair value are recognized through profit or loss. The **financial assets at fair value through profit or loss (not held for trading)** includes hybrid instruments, in particular.

The financial assets **held for trading** are exclusively composed of stand-alone derivatives.

— **Investments for the account and at the risk of life insurance policyholders** are measured at market value as at the reporting date. Unrealized gains and losses from determining the fair value lead directly to an increase or reduction of the corresponding provision for future policy benefits.

— **Receivables**, including receivables under reinsurance business, are recognized at amortized cost taking into account any redemptions and adequate value adjustments. The write-down expenditure is recognized through profit or loss.

— **Tax assets (tax liabilities)** comprise both the tax assets (liabilities) for current tax and the tax assets (liabilities) for deferred tax. Deferred taxes are set up in the case of temporary measurement differences between the tax balance sheet and the IFRS balance sheet.

Tax assets are measured at the amount of the expected refund for taxes paid in excess. Taxes not yet paid are shown as current tax liabilities.

Deferred tax assets (deferred tax liabilities) have to be determined at those tax rates that will be applicable upon the realization of the future tax asset (tax liability). Due to the uncertainties involved in the future tax development the tax rates applicable at the reporting date are used to determine deferred tax. The calculation takes into account uniform tax rates for the Group.

— The **reinsurers' shares in underwriting provisions** are determined on the basis of the gross underwriting provisions, taking into account the reinsurance treaties.

— The balance-sheet line item of **other assets** comprises **inventories** and **other asset items**. The inventories mainly include property acquired by Group companies for the purpose of resale at short notice. In line with the provisions of IAS 2 applicable to inventories these are, as a matter of principle, measured at cost. In addition non-scheduled write-downs are made as necessary if the foreseeable realization amount falls short

of the carrying amount as at the balance-sheet date. The other asset items mainly include accruals and deferrals as well as anticipated insurance benefits. They are recognized at amortized cost.

— The **non-current assets held for sale** include property planned to be sold within the next twelve months. They are sold for strategic reasons. They are recognized at the lower of their carrying amount or their fair value less costs to sell.

— **Current-account balances with credit institutions, cheques and cash in hand** are measured at amortized cost.

— Under IFRS 4 the previous accounting policy in respect of **underwriting provisions** can largely be maintained if the insurance contracts include a significant insurance risk and the adequacy of provisions is regularly verified. The AMB Generali Group checked the contracts of its insurance portfolio as to whether they include a significant risk and stated that all contracts in the portfolio are insurance contracts as defined by IFRS 4.

— **Unearned premiums** are, as a matter of principle, determined for each individual insurance contract and exactly to the date.

— The recognition of **provisions for future policy benefits** in the balance sheet is determined in accordance with actuarial principles on the basis of the present value of future benefits to be paid by the insurer less the present value of future net premiums. If policyholders participate in the surplus in proportion to the surplus contribution of their contracts (natural profit participation) the provision for future policy benefits is determined in line with prudent calculation bases contractually agreed and in compliance with FAS 120. If policyholders themselves bear the investment risk (such as in the case of unit-linked products) the underwriting provision of unit-linked life insurance reflects the current investment position as at the balance-sheet date (FAS 97).

On the basis of the Federal Supreme Court's ruling of October 12, 2005 the provision for future policy benefits was replenished on an individual-contract basis to the extent it referred to contracts exempted from premium payment and covered by the ruling of the Supreme Federal Court. In addition it was ensured that for those contracts taken out within the relevant period of time the minimum surrender values now applicable are covered by the existing provision funds.

For determining the provision for future policy benefits in health insurance FAS 60 is applied. In doing so, application is made of calculation bases with security margins. Under the prospective unlocking principle applied here, the calculation bases stipulated at the beginning of the contract are maintained until premiums for the contract are adjusted. The new calculation bases then remain applicable until the next adjustment date.

— The **provision for outstanding claims** comprises the future payment obligations for claims where the amount of the insurance claim and/or the due date for payment have not yet been determined. The provision takes into account both claims already

known at the balance-sheet date and claims incurred but not yet reported to the insurer as well as claims settlement expenses. With the exception of the annuity provision, provisions for outstanding claims are not discounted.

The provision for outstanding claims is fixed at the amount of the realistic estimate of the settlement amount. For determining the provision use is made of statistical estimation procedures. Because of the Supreme Federal Court's ruling of October 12, 2005 a provision was made for lapsed insurance contracts at the amount of the increased surrender values to the extent they refer to contracts covered by the ruling of the Federal Supreme Court. The expected supplementary payments for lapses occurred before the court ruling was pronounced were determined by taking into consideration the observations made in respect of claims raised in the past. For contracts lapsed after October 12, 2005 for which the changed surrender values could not yet be paid out, a provision was set up on individual-contract basis for the settlement amount.

— The **provision for premium refunds** includes amounts of profit-related and not profit-related policyholder bonuses allocated to policyholders on the basis of statutory or contractual regulations. In addition, it includes the amounts attributable to policyholders from the accumulated valuation differences between accounting under the German Commercial Code and IFRS (so-called deferred premium refunds). For the life insurers the allocation to deferred premium refunds is 90 percent after tax, for the health insurers 80 percent after tax. The remaining share not attributable to policyholders is recognized in equity. The discretionary policyholder bonus as defined by IFRS 4 for insurance contracts is represented by the profit-related and the deferred provision for premium refunds. The determination of this provision is based on the rules of the decree on minimum premium refunds in life insurance (ZRQuotenV).

— IFRS 4 provides for a **liability adequacy test for liabilities under insurance contracts**. This adequacy test gives an assessment as to whether it is necessary to increase the carrying amount of underwriting provisions on the basis of a verification of future cash flows or whether the carrying amount of the corresponding deferred acquisition costs has to be decreased. The adequacy of the liabilities in respect of the underwriting provisions of the life insurers is verified by means of the loss recognition test and in respect of the underwriting provisions of the property and casualty insurers by means of the premium deficiency test. As far as the underwriting provisions of the health insurers are concerned the sufficiently high safety margins are taken into account in the calculation. The adequacy of these margins is verified on a regular basis. If adequacy is no longer ensured it is possible to adjust premiums (prospective unlocking principle).

— **Provisions for pensions and similar commitments** as well as for **early retirements, part-time schemes for employees close to retirement age and provisions for anniversary payments** are determined on the basis of current mortality and disability probabilities. The new 2005 guiding tables by Prof. Dr. Heubeck are taken into consideration for calculating the provisions for pension and anniversary payments and for determining the commitments for early retirements and for part-time schemes for employees close to retirement age. In addition we take into account fluctuation probabilities specific to the enterprise and the expected increases of salaries, pension entitle-

ments and pension payments. The interest rate, which is determined in conformity with the market and on the basis of the balance-sheet date, is oriented at the market yield of long-term corporate bonds of issuers having an excellent credit standing.

— The amount of the **other provisions** is, as a matter of principle, determined by the extent to which the provisions will probably be used.

— **Payables** and **other liabilities** are recognized at amortized cost.

— The **gross premiums written** include all regular and single premiums as well as premium instalments plus instalment charges having become due in the business year under direct business and assumed reinsurance business. For life insurance contracts for which the benefit amount at maturity is not guaranteed or for which no biometric risk is assumed during the period of deferment (unit-linked products recognized in accordance with FAS 97), only that part of the premium paid by customers which covers the assumption of the risk and current expenses is recognized under gross premiums written. Furthermore for products under FAS 97 any changes of the unearned revenue reserves are recognized in earned premiums. Payments received in respect of receivables for premiums written off or cancelled in previous business years as well as income from winding up or reducing lump-sum write-downs are added to premiums written. Individual and lump-sum write-downs of receivables for premiums and insurance tax, however, are deducted from premiums written. The change of unearned premiums reflects the periodical delimitation of the premium income.

— In respect of **investment income** a distinction is made between income from interests in associated enterprises and other investment income. The income from interests in associated enterprises includes the attributable share in the net profit. The other investment income includes ordinary investment income and expenditure, capital gains and losses as well as gains and losses due to write-ups and write-downs. Interest income and expenditure are recognized on an accrual basis by applying the effective-interest method. Ordinary investment income also includes the dividends from shares. In respect of dividends the cash-method basis is applied.

— **Claims and benefits** include the payments (including terminal bonuses in life insurance) for claims settled in the business year which occurred both in the business year and in previous years. In addition, claims and benefits comprise the change of the provision for outstanding claims, including the annuity provision. The change of the provision for future policy benefits (including unearned premiums) and the terminal bonus reserve are also comprised in net claims and benefits. The expenditure for profit-related and not profit-related premium refunds as well as for deferred premium refunds also includes the directly allocated policyholder bonus, the allocation to the provision for premium refunds under commercial-code accounting and the change of deferred premium refunds, which is recognized in income.

The other profit participations in the life segment include interest on the accumulated savings amount and the change of the investment position financed by profit bonuses.

Classes of insurance

— The AMB Generali Group operates in direct business and assumes reinsurance business in the classes of insurance indicated below:

- life insurance
- health insurance
- personal accident insurance
- general liability insurance
- motor insurance
- aviation insurance
- legal expenses insurance
- fire insurance
- housebreaking, burglary and robbery insurance
- burst pipe insurance
- glass insurance
- storm insurance
- householders insurance
- homeowners insurance
- hailstorm insurance (only assumed reinsurance business)
- livestock insurance
- engineering insurance
- transit insurance
- marine insurance
- credit and fidelity insurance (only assumed reinsurance business)
- extended coverage (EC) insurance
- business interruption insurance
- travel assistance insurance
- aircraft and spacecraft liability insurance
- other property and casualty insurance

4 Segment reporting**Consolidated Income Statement for the period Jan. 1 – Dec. 31, 2005**

	Life/health		Property/casualty	
	2005	2004	2005	2004
	€'000	€'000	€'000	€'000
1. Gross premiums written				
from insurance business with other segments	—	—	-5,810	7,336
from insurance business with external third parties	8,467,456	7,923,840	2,990,244	3,013,167
	8,467,456	7,923,840	2,984,434	3,020,503
2. Net premiums earned	8,172,806	7,675,542	2,875,989	2,809,745
3. Investment income (net)	2,953,506	2,862,579	424,011	305,363
4. Other income	466,658	449,780	330,199	370,019
5. Net claims and benefits	-8,900,430	-8,752,568	-1,901,949	-1,886,318
6. Net operating expenses	-1,514,244	-1,218,621	-901,181	-911,406
7. Other expenditure	-806,558	-656,934	-490,150	-498,222
8. Result before goodwill amortization	371,738	359,778	336,919	189,181
9. Goodwill amortization	—	-12,459	—	-46,282
10. Operating result	371,738	347,319	336,919	142,899
11. Finance costs	—	—	—	—
12. Tax	-182,276	-177,682	-69,718	-35,084
13. Net profit	189,462	169,637	267,201	107,815

— The segment reporting of the AMB Generali Group complies with IAS 14. We made a primary segmentation by the business fields of life/health, property/casualty and financial services. The segment “other” includes those companies that cannot be allocated to any other segment. This concerns AMB Generali Informatik Services GmbH. Intermediate holding companies are allocated to the segment of the activity of their most important participating interest.

Financial services		Other/consolidation		Group	
2005	2004	2005	2004	2005	2004
€'000	€'000	€'000	€'000	€'000	€'000
—	—	5,810	-7,336	—	—
—	—	—	—	11,457,700	10,937,007
—	—	5,810	-7,336	11,457,700	10,937,007
—	—	—	—	11,048,795	10,485,287
223,608	202,616	-158,361	-102,215	3,442,764	3,268,343
128,873	146,086	-579,975	-602,241	345,755	363,644
—	—	5,245	-476	-10,797,134	-10,639,362
—	—	6,211	1,578	-2,409,214	-2,128,449
-306,055	-324,892	561,039	613,155	-1,041,724	-866,893
46,426	23,810	-165,841	-90,199	589,242	482,570
—	-217	—	—	—	-58,958
46,426	23,593	-165,841	-90,199	589,242	423,612
-7,329	-8,562	—	—	-7,329	-8,562
-16,601	-2,617	315	11,367	-268,280	-204,016
22,496	12,414	-165,526	-78,832	313,633	211,034

We have not broken down segment reporting by geographical regions because the major part of premiums is earned in Germany. Segment reporting on a geographical basis would not provide any significant additional information.

There are profit-transfer agreements existing between AMB Generali and its major subsidiaries. In segment reporting, the expenditure under profit transfers is regarded as appropriation of results, which means that the segments are adjusted for this expenditure. The elimination is done in the consolidation column.

Segment reporting
Consolidated Balance Sheet as at Dec. 31, 2005

	Life/health		Property/casualty	
	2005	2004	2005	2004
	€'000	€'000	€'000	€'000
Assets				
A. Owner-occupied property/tangible assets	600,330	595,462	346,439	345,502
B. Intangible assets	400,492	401,544	109,582	116,898
C. Deferred acquisition costs	7,067,671	7,048,125	250,865	256,705
D. Investments	62,208,583	57,518,094	5,863,677	5,741,338
E. Investments for the account and at the risk of life insurance policyholders	6,488,778	4,713,154	—	—
F. Receivables	1,842,295	2,034,095	580,550	546,958
G. Tax assets	117,636	155,296	216,491	313,512
H. Reinsurers' shares in underwriting provisions	1,172,236	1,155,156	462,746	544,619
I. Other assets	235,965	364,151	20,625	25,953
J. Non-current assets held for sale	149,090	—	37,481	—
K. Current-account balances with credit institutions, cheques and cash in hand	768,060	1,097,301	115,408	69,276
Total segment assets	81,051,136	75,082,378	8,003,864	7,960,761

	Financial services		Other/consolidation		Group	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000	2005 €'000	2004 €'000
	40,564	41,897	83,098	80,305	1,070,431	1,063,166
	1,153	1,849	21,887	30,854	533,114	551,145
	—	—	—	—	7,318,536	7,304,830
	4,943,345	4,864,946	-657,658	-842,780	72,357,947	67,281,598
	—	—	—	—	6,488,778	4,713,154
	75,285	95,667	-304,817	-269,062	2,193,313	2,407,658
	6,222	5,892	—	—	340,349	474,700
	—	—	—	-60,477	1,634,982	1,639,298
	482	525	5,489	5,472	262,561	396,101
	—	—	—	—	186,571	—
	32,854	74,278	140	170	916,462	1,241,025
	5,099,905	5,085,054	-851,861	-1,055,518	93,303,044	87,072,675

Segment reporting
Consolidated Balance Sheet as at Dec. 31, 2005

	Life/health		Property/casualty	
	2005	2004	2005	2004
	€'000	€'000	€'000	€'000
Liabilities				
B. Underwriting provisions	65,178,104	61,215,427	4,222,610	4,178,922
C. Underwriting provisions concerning unit-linked life insurance	6,488,997	4,713,154	—	—
D. Other provisions	1,463,621	1,468,311	801,325	776,987
E. Payables	5,238,565	5,557,577	526,033	579,752
F. Tax liabilities	582,769	421,487	374,268	435,936
G. Other liabilities	165	159	-2	-101
Total segment liabilities	78,952,221	73,376,115	5,924,234	5,971,496

— The individual segments are shown after consolidation of the internal transactions within the segment, but before consolidation across segments. Therefore the balance between segment assets and segment liabilities does not allow conclusions with regard to the equity allocated to the activity.

Financial services		Other/consolidation		Group	
2005	2004	2005	2004	2005	2004
€'000	€'000	€'000	€'000	€'000	€'000
—	—	-64,645	-119,890	69,336,069	65,274,459
—	—	—	—	6,488,997	4,713,154
125,529	126,536	83,015	64,619	2,473,490	2,436,453
4,643,265	4,641,851	-176,194	-220,723	10,231,669	10,558,457
8,190	7,300	12,988	25,805	978,215	890,528
—	—	—	—	163	58
4,776,984	4,775,687	-144,836	-250,189	89,508,603	83,873,109

Equity	3,794,441	3,199,566
Total liabilities	93,303,044	87,072,675

5 Management of underwriting and building-society risks as well as financial risks

— The focus of the business activities of the AMB Generali Group is the distribution of insurance products in all established classes of life and health insurance as well as property/casualty insurance. In addition, our Group operates in building-society business and as provider of financial services. Within the scope of these activities the Group assumes in particular underwriting and financial risks in order to grant cover to its customers. The Group encounters these risks by various measures.

— The Group's nation-wide presence all over Germany and across the various locations of our Group companies minimizes the geographical concentration of insurance risks. Furthermore the AMB Generali Group offers its products in all established classes of insurance and customer segments (private and small/medium-sized commercial clients) in order to reach an overall risk balance.

— The underwriting risk lies in the possibility that payment flows which are material for insurance business may deviate from their expected level. The risk situation of insurance companies is in particular characterized by the fact that premiums are collected at the beginning of an insurance term while the contractual benefits promised are of a stochastic nature.

— In property and casualty insurance the premiums/claims risk is involved in the fact that from an amount of previously determined premiums it will be necessary to pay future claims whose amount is not known with certainty at the moment the premiums are fixed because of the uncertainties involved in respect of the amount and the number of future claims. In life and health insurance the premiums/benefits risk is the risk involved in having to pay, from a previously fixed level of premiums, benefits remaining at a constant level over a period of many years, with the benefits being subject to future developments. This includes risks of change, fortuity and error.

- The risk of change consists in future changes of risk factors. This involves, both in life and in property/casualty insurance, the danger of a deviation of the actual experience of claims frequency and claims amount from the expected level calculated.
- The risk of error exists above all for new types of insurance cover when established findings do not yet exist about the exposure involved. In these cases the biometric probabilities include particularly high safety margins.
- The fortuity risk describes the possible deviations of the collective effective value of claims and benefits from the expected estimate as a result of there being a particularly high/low number of claims and/or there being individual claims and benefits of a particularly high/low amount (fortuitous fluctuations). The smaller the collective, the higher the fortuity risk.

— Within the scope of risk management, these risks are encountered by appropriate reinsurance covers, adequate underwriting guidelines and by including safety margins in premium calculation.

— In addition there is an interest guarantee risk for insurance contracts with a guaranteed interest level.

— The reserve risk consists in having to pay future benefits, which are subject to the future development, from underwriting provisions set up.

— The risks of the building society business of Deutsche Bausparkasse Badenia comprise the risks resulting from an erroneous assessment of future developments and the tariff-structure risk. These refer in particular to the consequential risks of negative developments of new business and to the risks of a customer behaviour deviating significantly from expectations and the resulting negative developments of portfolios.

Risks of property/casualty insurance business and sensitivity analysis

— The underwriting risk consists in there being a transfer of probability spreads with regard to the time of occurrence and the amount of claims. In addition, the insurer may experience an unfavourable concentration of claims at one location. That situation may even be aggravated by the amount of insured claims. The flood of the Oder river in 2002 or the storms of the recent past are good examples for this. The property and casualty insurers of our Group encounter these risks by making active use of the instruments of premium differentiation and underwriting policy. Basically this means that for risks with a tendency of a higher risk exposure a correspondingly higher premium is calculated. Within the scope of the underwriting policy such risks are assumed to a limited extent only (e.g. by agreeing deductibles) or the risk is refused. Underwriting may be prohibited for specific risks or on a local basis. Finally the collective of insured risks is influenced by the wording of insurance terms and conditions and by the agreement of specific clauses. By means of a targeted underwriting policy, risk selection is also controlled in legal expenses insurance. Another element used for counteracting erroneous trends is the pricing policy.

Finally a larger diversification of risks is also achieved by the way we organize our reinsurance programme.

— To ensure that the benefits promised can be paid any time, appropriate provisions are set up which are continuously checked with regard to their adequacy by lines of business and by means of actuarial methods. This also allows conclusions concerning the quality of the risks written, their spread across individual classes with a different risk exposure and the assumptions of future claims payments to be expected. In addition, our portfolios are handled by active claims management. Findings about claims amounts and claims frequencies allow a more targeted controlling of risks.

— Furthermore our Group companies have a sufficient level of equity capital as required, among others, by the regulatory provisions.

During the period from 1999 through 2005 our claims ratios developed as follows:

Claims ratios (net)*

2005	2004	2003	2002	2001	2000	1999
65.6	66.9	68.0	78.0	70.0	68.0	65.2

Figures in %

* Net claims expenditure as a percentage of net premiums earned

The run-off result of our provision for outstanding claims developed as follows over the period indicated:

Run-off ratio of the provision for outstanding claims on Jan. 1 of each year*

2005	2004	2003	2002	2001	2000	1999
8.7	8.7	8.4	6.4	8.8	8.9	9.2

Figures in %

* Net run-off result as a percentage of the original net provision for outstanding claims

Sensitivity analysis

— In property and casualty insurance the monitoring and controlling of the reserve risk is as a matter of principle done by an analysis of the claims reserves on the basis of actuarial methods.

— In respect of the annuity provision, which is part of the provision for outstanding claims, we observe in particular the development of interest rates since a decrease of the expected investment result below the guaranteed interest rate may lead to an increase of provisions.

**Impact on income of changes of the interest variables
as at Dec. 31, 2005**

		Interest -25 bp	Interest +25 bp
Impact on income before tax	€ m	-1.46	1.59
Impact on income after tax	€ m	-0.88	0.95

To determine the annuity provision annuity tables are used as a calculation basis. In 2006 the German Actuary Association (DAV) will publish new annuity tables for general liability and personal accident insurance. On the basis of a procedure suggested by the DAV we have already set up a supplementary provision of € 5.0 m in the business year 2005.

Risks of life insurance business and sensitivity analysis

— The AMB Generali Group mainly distributes endowment life and pension insurance with a guaranteed interest and a discretionary policyholder bonus, term life insurance and unit-linked insurance products. In particular in pension insurance products are distributed which give policyholders the option to choose lump-sum capital payments instead of pensions.

Life insurance business is based on assuming the individual risks from policyholders and on balancing these risks within the collective and over time. For the life insurers the risk assumed consists in having to pay at an undetermined due date an undetermined amount of insurance benefits from an unchangeable level of premiums calculated in advance.

— The calculation of premiums is based on assumptions regarding future mortalities and other biometric probabilities, future interest levels and future expenses. Thereafter the risk is divided into a biometrical risk, an interest risk and a cost risk.

- The moment of payment in the case of term or endowment life insurance or the frequency of payments in the case of pension insurance is triggered by biometric factors. Depending on the type of cover concerned the risk is called mortality, longevity or disability risk.
- Provisions are set up from the collected premiums. As a general rule, the interest on the provisions is calculated at the technical interest rate, which has to be earned in the capital market. An interest risk exists in respect of insurance contracts with a minimum interest. In addition there is an interest risk due to the fact that for contracts with dynamic index-based increases, the interest payable on these increases is at the originally agreed guaranteed rate. In the case of unit-linked policies the investment risk is borne by the policyholder. Therefore they are only subject to the impact of changed risk and/or cost expectations.
- A cost risk exists in respect of all life insurance contracts for which the expenses calculated for the administration of the contracts may have a different development than expected.

— As a result of the above risks the calculation bases may turn out to be insufficient. The life insurers of the AMB Generali Group make use of various instruments to counteract this risk.

Depending on the type of risk there are various possibilities for balancing.

- Prudent choice of all calculation bases: To calculate the premium and the underwriting provisions, the Group companies make use of prudently determined biometric calculation bases. They are regarded as adequate both by the regulatory authority and the German Actuary Association (DAV). The adequacy of the calculation bases is ensured by continuous comparisons between the claims expected under the mortality tables and the claims actually occurred. In addition, prudently determined and adequate safety margins are applied in all calculation bases to take account of the risks of error, fortuity and change.
- Profit bonus of policyholders: The life insurance portfolios of the AMB Generali Group consist mainly of long-term contracts with biometric risks, a guaranteed interest (technical interest) and an adequate profit bonus. Minor modifications of the assumptions regarding biometrics, interest and costs, on which calculation is based, are absorbed by the safety margins existing in the calculation bases. If these safety margins are not required they generate a profit of which a part is passed on to the policyholders. Therefore, in the case of changes of risk, cost or interest assumptions, the impact on income is limited as a result of the adjustment of the future profit bonus of policyholders.
- Reinsurance contracts are taken out to encounter specific risks.
- In order to keep the cost-change risk as small as possible we apply an active cost management.

The measures referring to investments are described in the financial-risks section.

Sensitivity analysis

— In the case of policies with a death risk, a lower mortality than assumed in the calculation bases leads to an increase of profits while for pension covers with a longevity risk profits decrease, in particular during the period of pension payment. A decrease of the expected investment result to a level below the interest rate guaranteed could lead to an increase of provisions. For unit-linked policies, changes of risk and cost assumptions may have an impact on income, after the adjustment of the profit declaration. The deferred and free provision for premium refunds have the purpose of a short-term compensation of the impact on income. In the case of a change of future acquisition costs mainly incurred upon the conclusion of contracts, the part of the premium calculated for that purpose would be adjusted accordingly which means that no impact on income is to be expected. A change of future administrative expenses would lead to an adjustment of the bonus from cost profits. A modification of future claims settlement expenses cannot lead to basically different results because of the relatively brief period of claims settlement. In this context it is not material whether the change of expected future costs is due to inflation or other factors.

— A change of future lapse behaviour may be of relevance for products in the portfolio with regard to deferred acquisition costs and the outflow of policyholder capital and also for the future lapse structure (early lapses vs. late lapses). This impact is already anticipated in the result of the business year within the scope of the annual true-up. At year-end 2005 the impact on deferred acquisition costs and the adjusted terminal bonus reserve would be as follows:

Impact on deferred acquisition costs and adjusted terminal bonus reserve as at Dec. 31, 2005

		Interest +10 bp	Interest -10 bp	Interest +25 bp	Interest -25 bp	Mortality -10%
Gross	€ m	142.4	-161.3	347.1	-428.3	19.4
after provision for premium refunds and tax	€ m	13.3	-15.1	32.5	-40.1	1.8

The positive result from the decrease of mortality is attributable to the fact that the percentage of death risks is higher than that of longevity risks.

The amounts were determined by modelling analogous to the appropriate US-GAAP adjustments.

— Insurance products may include the following material options for the policyholder to the extent these were agreed when the contract was concluded:

- possibility to surrender the contract or to have it exempted from premium payments;
- increase of the insurance benefit without an additional health check – mainly at the calculation basis then applicable in respect of biometrics and guaranteed interest (dynamic increases, guaranteed possibility of taking out additional cover in the case of specific changes in the life situation);
- in the case of deferred annuity covers the policyholder may choose the payment of a lump-sum instead of starting to receive a pension;
- in the case of unit-linked products the policyholder may choose to transfer the fund interests upon termination of the contract instead of receiving the counter value of the fund interest (option to receive benefit in kind).

Risks from health insurance business and sensitivity analysis

— The health insurance contracts of the AMB Generali Group are mainly long-term contracts covering sickness costs, daily hospitalization allowance, daily sickness cost allowance and long-term care. This business is almost exclusively operated similarly to life insurance business as defined by the Insurance Regulatory Act. For health insurance contracts operated similarly to life insurance business, a regular cancellation of the contract by the insurer is excluded in order to protect the policyholder (at the latest starting from the fourth year of insurance). Therefore contracts may continue during a lifetime. On the other hand, the insurer has the legal right and obligation to annually check the devi-

ation between the required benefits and the calculated benefits in respect of the individual monitoring units consisting of groups of tariffs and persons. If these verifications show a deviation above a limit defined for the tariff (in our portfolios 5 percent as a general rule) the premiums and all calculation bases are checked by the insurer and are adjusted to the necessary extent with the approval of an independent trustee and with an effect for portfolio and new business.

— This adjustment possibility refers to all calculation bases. As a result, change requirements in respect of claims amounts and claims frequencies (with the exception of increases due to ageing which are already covered by calculation) and also in respect of the age- and gender-sensitivity of risks, the mortality and lapse probabilities and the expenses of the individual tariffs and groups of persons, lead to the necessary premium adjustments within a relatively short period of time.

— The possibility of premium adjustment also refers to the interest rate as a calculation basis. Taking into account past experience and future expectations, a technical interest rate of 4.5 percent is applied. Calculations proved that even with a lower investment yield between 3.5 and 4.5 percent, which can be earned in the market, the future benefits and expenses can be covered by the provision for future policy benefits and by future premium payments.

— The provisions under FAS 60 are taken into account by applying the prospective-unlocking principle when premium adjustments are made, i.e. they are maintained despite the change in assumptions, and thus the provision as at the reporting date is adequate. Experience shows that changes already having an impact before the next adjustment can be absorbed by earnings from safety margins, other margins and variations of the policyholder bonus.

Risks of building-society business

— To control the risks of building-society business, the major parameters of the collective and the contingents are regularly monitored in compliance with the Building-Society Decree (BSpkV). In addition, simulations are made in order to recognize risks early and be able to take counter-measures.

— Across the market and in Deutsche Bausparkasse Badenia, which is part of the AMB Generali Group, the persistent situation of very low interest rates has led to a further decrease of the investment ratio as a result of the lower level of loan allocations under building-society contracts and a higher level of redemption payments. In addition, loan new business is developing at an unsatisfactory level since the attractiveness of building-society loans has decreased due to the very low interest level in the recent past. To counteract this development, tariff modifications are planned for the future.

Financial risks and sensitivity analysis

— For all classes of insurance financial risks are a major source of result volatility, and for life insurance companies they can even be regarded as dominant risks. Therefore a special controlling and monitoring of these risks is a central task of overall risk management. The target is to define a portfolio structure which, on the one hand, lies within the scope of the risk-bearing capacity of each company as determined on a model basis

and which, subject to this constraint, has an optimized earnings potential, on the other hand.

— The controlling of financial risks is also based on an internal capital-adequacy model which is (still) oriented at the model structures of the standard model of the German Insurance Association (GDV) and the Financial Services Regulator (BaFin). The most serious risks for all companies are the market risks; especially for life insurers there also is the risk of interest-rate change which has to be interpreted under aspects of asset-liability management.

— The market risk is the potential loss as a result of unfavourable changes of market prices or parameters having an influence on price. The market risk comprises interest risks, risks from shares and other equity positions as well as currency risks.

— As a systematic risk it cannot be diversified. To reduce the portfolio risk, however, a broad mix and spread of the individual asset classes is observed. In addition, investments in assets with a stronger risk exposure are allowed to a limited extent only.

— The risk of interest-rate changes is specific to life insurers since in addition to nominal-value assets they also have interest-sensitive liabilities. Against the background of guaranteed benefits and a persistently low level of interest rates for reinvestments, this risk has to be seen as a particularly crucial one. Risk controlling in this respect consists of a mix of instruments:

1. prolongation of the duration of new investments;
2. advance purchases of fixed-income securities;
3. use of hybrid instruments.

Furthermore new business is focussed on unit-linked products.

We encounter the interest risk in health insurance by the purchase of investments with sure cash flows to increase the yield on investments.

— The already mentioned risk of interest-rate changes in life insurance is the consequence of the different length of the periods in which capital is tied as an asset or a liability. In the final analysis, liability positions are more interest-sensitive and accordingly the value changes in the case of a change of interest rates are greater. In order to reduce the risk of decreasing interest rates, the above measures were applied. But risk controlling also has to take into account the risk of rising interest rates in order to avoid negative consequences for our Group in such a scenario.

Sensitivity analysis

— In addition to asset-liability analyses and a regular monitoring of risks, stress tests were made for an early recognition of the possible consequences of market-price fluctuations based on the following assumptions

- index fluctuations of +/-10 percent and +/-35 percent for our share portfolios
- a change of the interest structure curve by +/-100 and +/-200 base points (bp) for our portfolios of fixed-income securities.

At year-end 2005 the scenarios as indicated above led to the market values shown in the following table. The investments with a share-price sensitivity include all shares of the direct and indirect portfolios of the asset class “available for sale”:

Change of share price

Market value of investments with a share-price sensitivity _____

	€ m
Increase by 20%	6,549.8
Increase by 10%	5,949.5
Decrease by 10%	4,749.2
Decrease by 20%	4,148.5

Investments with an interest-rate sensitivity include fixed-income securities of the asset classes “available for sale”, “loans and receivables” and “financial assets at fair value through profit or loss (not held for trading)”.

Change of interest rate

Market value of investments with an interest-rate sensitivity _____

	€ m
Increase by 200 bp	46,068.5
Increase by 100 bp	49,108.2
Decrease by 100 bp	56,161.2
Decrease by 200 bp	60,194.5

Credit risk

— The credit risk or debtor risk is the risk of a loss or of a loss of profits due to debtor default.

— To limit credit risks we pay attention to a good credit standing of the debtor which is checked by means of the rating classes which are common practice in the market. The credit risk from receivables from policyholders and intermediaries is not classified by means of ratings.

— Default risks exist mainly in respect of interest-bearing securities and property financing. In the case of the latter we reduce the risk position by an assumption policy exclusively limited to small-volume loans for owner-occupied residential property. A still existing portfolio of large commercial loans was sold in 2005. In respect of interest-bearing securities we concentrate on the segment with a high credit standing and high liquidity. There only is a small share of fixed-income investments with a rating below A.

— Also in the portfolios of corporate titles with a lower credit quality we attach importance to a deliberately broad diversification.

As at the balance-sheet date, the market-value totals of the AMB Generali Group for the direct and indirect portfolio are as follows:

Market values 2005 for the direct and indirect portfolio

Groups of issuers	AAA	AA	A	BBB	BB	B	Not rated	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Banks	9,408.9	3,310.7	7,418.7	—	5.2	—	—	20,143.5
Corporates	802.7	76.3	307.9	165.7	—	33.6	3.6	1,389.8
Government bonds	22,465.4	8,052.7	406.5	—	5.2	—	—	30,929.8
Total	32,677.0	11,439.7	8,133.1	165.7	10.4	33.6	3.6	52,463.1

— Credit risks involved in receivables under insurance business arise mainly from receivables due from reinsurers and, in addition, from receivables due from policyholders and intermediaries.

As at the reporting date there were receivables of € 112.8 m from policyholders and intermediaries under insurance business which had been due for more than 90 days.

As a measure of risk provision there were write-downs of € 69.4 m on receivables from policyholders as at the reporting date. In the period from 2003 through 2005 the average default ratio for receivables from policyholders and intermediaries was 1.1 percent.

Credit risks involved in reinsurance

— In outward reinsurance we attach importance to the financial soundness of our reinsurers, above all in long-tail business. The assessment of the quality of reinsurers is oriented at the requirements of the 4th Act on Financial Market Promotion and at the recommendations regarding the efficiency and solvency of reinsurers in line with the circular letter R 1/97 by the insurance regulator. In addition, use is made of the assessments of internationally recognized rating agencies and our own analyses based on our expertise in the market.

**Shares of reinsurers in the underwriting provisions
by rating classes***

	€ m
AAA	82.1
AA	1,006.9
A	540.0
BBB	0.2
BB	0.0
Not rated	5.7

* rating classes comparable to those used by Standard & Poor's

The receivables from reinsurers amounted to € 144.6 m as at the reporting date.

**Receivables under reinsurance business due from business partners
by rating classes***

	€ m
AAA	11.3
AA	54.1
A	70.9
BBB	0.0
Not rated	8.3

* rating classes comparable to those used by Standard & Poor's

— The default risk of debtors of Deutsche Bausparkasse Badenia in respect of monetary and capital investments is very small due to the investment rules of section 4 of the Building-Society Act and as a result of internal limitations.

The debtor default risks under housing finance are controlled separately by Deutsche Bausparkasse Badenia.

The individual controlling of the debtor default risk is, among others, done by means of

- a proposal-form scoring integrated into the competency regulation with a view to the decision about proposal forms for loans,
- a risk classification of the loan portfolio and
- analyses regarding the development of payments in arrears and value adjustments.

— Commitments involving negative features are subject to observation. Within the scope of the process of handling problematic loans, regular analyses are carried out to identify causes and weak points.

— For all areas of loan business, the risk provision of Deutsche Bausparkasse Badenia is done on the basis of the development of payments in arrears and the value development of collateral with the support of automated procedures. Taking into account probability ratios and expected default rates, increasing write-down rates were used, depending on the length of the period in arrears. In respect of deferred default risks included in the volume of loans not yet affected by defaults we have set up provisions supported by empirical probability ratios.

— For loans of Deutsche Bausparkasse Badenia involving credit risks, provision in the form of write-downs was made in the year under report.

Liquidity risks

— The liquidity risk is the risk of not being able any time to fulfil payment obligations, in particular those under insurance contracts.

By means of a systematic liquidity controlling in our Group companies it is ensured that payment obligations can be fulfilled any time. In particular this requirement is observed with a view to investment policy.

Currency risks

— Currency risks are mainly the result of share investments on an international scale. In this context we primarily invest in shares of the European Economic Area where the currency volatility against the euro is relatively low.

As a whole, we limit the currency accumulation for each currency within the scope of our investment guidelines. As a matter of principle, for investments outside Europe the currency risk must be hedged. Currency risks in Europe are managed through forward positions in line with market assessment.

Supplementary information on the Consolidated Income Statement 2005

6 Earned premiums (net)*

	Life/health		Property/casualty	
	2005	2004	2005	2004
	€'000	€'000	€'000	€'000
Total premiums	9,824,671	9,065,633	2,990,244	3,013,167
less: savings portions (in acc. with FAS 97)	-1,357,215	-1,141,793	—	—
Gross premiums written (under Income Statement)	8,467,456	7,923,840	2,990,244	3,013,167
Reinsurance premiums ceded	-148,202	-153,679	-104,955	-173,721
Net premiums written	8,319,254	7,770,161	2,885,289	2,839,446
Change of gross unearned premiums	-149,992	-91,638	1,202	4,807
Change of the reinsurers' share in gross unearned premiums	160	309	-7,118	-37,798
Earned premiums (net)	8,169,422	7,678,832	2,879,373	2,806,455

* fully consolidated figures

Gross premiums written of direct insurance business

	2005	2004
	€'000	€'000
Life insurance business	6,875,381	6,407,658
Health insurance business	1,591,817	1,515,540
Property/casualty insurance business		
Motor insurance	1,209,166	1,282,871
General liability insurance	404,870	387,290
Personal accident insurance	431,084	415,065
Householders insurance	224,756	220,853
Fire insurance	51,686	52,659
Homeowners insurance	221,697	212,217
Legal expenses insurance	177,660	167,614
Other classes	262,685	261,496
Total property/casualty	2,983,604	3,000,065
Gross premiums written, direct business	11,450,802	10,923,263

— Out of the directly written gross premiums, 0.3 percent (preceding year: 0.4 percent) are attributable to foreign countries. The gross premiums written of assumed reinsurance business amount to € 6,898 thousand (preceding year: 13,744 thousand). Unit-linked products where the policyholder bears the investment risk are recognized in compliance with the standard FAS 97.

7 Investment income (net, by segments)*

	Life/health		Property/casualty	
	2005	2004	2005	2004
	€'000	€'000	€'000	€'000
I. Investment property	2,111	45,682	11,986	16,678
II. Shares in associated enterprises	-13	—	22,099	20,605
III. Financial assets				
1. loans originated by the entity	633,874	544,390	42,353	43,737
2. available for sale				
a) variable yield	498,278	18,577	165,409	32,217
b) fixed interest	1,630,567	2,230,832	110,179	162,874
3. financial assets at fair value through profit or loss				
a) financial assets at fair value through profit or loss (not held for trading)	52,852	36,515	-4,388	—
b) held for trading	54,362	20,518	-5,587	-287
IV. Investments for the account and at the risk of life insurance policyholders	164,655	84,846	—	—
Expenditure for the management of investments, interest expenditure and other investment expenditure	-141,638	-165,762	-17,977	-25,732
Total	2,895,048	2,815,598	324,074	250,092

* fully consolidated figures

	Financial services/other		Group	
	2005	2004	2005	2004
	€'000	€'000	€'000	€'000
	-12	-91	14,085	62,269
	—	—	22,086	20,605
	183,088	160,072	859,315	748,199
	87	6,479	663,774	57,273
	43,490	39,811	1,784,236	2,433,517
	—	—	48,464	36,515
	-2,327	-2,714	46,448	17,517
	—	—	164,655	84,846
	-684	-904	-160,299	-192,398
	223,642	202,653	3,442,764	3,268,343

Investment income (net, by types of income and expenditure)¹

	Ordinary income		Write-ups and unrealized capital gains ⁸	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000
I. Investment property ^{2,7}	125,511	149,029	7,679	3,688
II. Shares in associated enterprises	23,199	20,605	—	—
III. Financial assets				
1. loans originated by the entity ³	1,012,861	859,122	38,610	56,853
2. available for sale				
a) variable yield	191,140	169,728	—	—
b) fixed interest ³	1,760,410	1,978,784	35	—
3. financial assets at fair value through profit or loss				
a) financial assets at fair value through profit or loss (not held for trading)	40,220	23,196	34,211	23,537
b) held for trading	—	—	83,936	17,517
IV. Investments for the account and at the risk of life insurance policyholders	82,854	73,039	79,511	13,922
Expenditure for the management of investments, interest expenditure and other investment expenditure ^{4,5}	-160,299	-192,398	—	—
Total	3,075,896	3,081,105	243,982	115,517

1 fully consolidated figures

2 The rental income from investment property amounts to € 125,111 thousand (preceding year: 149,029 thousand).

3 The interest income is € 2,773,271 thousand (preceding year: 2,837,906 thousand).

4 The interest expenditure is € 298 thousand (preceding year: 333 thousand).

5 The expenditure for let property is € 45,489 thousand (preceding year: 65,021 thousand), for unlet property it amounts to € 9,586 thousand (preceding year: 11,773 thousand).

6 Before the retrospective adjustment of IAS 39, the investment result as at Dec. 31, 2004 was € 43,364 thousand higher.

7 The write-downs include non-scheduled write-downs under IFRS 5 of an amount of € 83,577.

8 including profits and losses from foreign-currency translation recognized in income

Realized capital gains		Write-downs and unrealized capital losses ⁸		Realized capital losses		Group ⁶	
2005	2004	2005	2004	2005	2004	2005	2004
€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
92,611	27,555	-181,912	-112,295	-29,804	-5,708	14,085	62,269
—	—	-1,113	—	—	—	22,086	20,605
75,147	—	-104,888	-167,776	-162,415	—	859,315	748,199
543,336	197,373	-31,694	-225,027	-39,008	-84,801	663,774	57,273
82,098	496,958	-24,170	—	-34,137	-42,225	1,784,236	2,433,517
—	—	—	—	—	—	—	—
—	44,947	-18,005	-24,174	-7,962	-30,991	48,464	36,515
42,831	—	-12,752	—	-67,567	—	46,448	17,517
5,934	1,547	-1,056	-1,007	-2,588	-2,655	164,655	84,846
—	—	—	—	—	—	-160,299	-192,398
841,957	768,380	-375,590	-530,279	-343,481	-166,380	3,442,764	3,268,343

— Against the background of persistently low interest rates we further expanded our active investment management in order to achieve the highest possible yield with an adequate risk. In this context we realized capital gains by regrouping and disposals, in particular of Commerzbank shares. At a later point in time the stake in Commerzbank was increased again by the advantageous exercise of purchase options. Furthermore we took hedging measures against a further decrease of interest rates by making targeted use of advance purchases. From advance purchases we obtained earnings of € 71.7 m. In addition we acquired hybrid instruments for hedging which are shown under loans and receivables.

8 Other income*

	2005	2004
	€'000	€'000
Other net underwriting income of life and health insurance	51,666	19,595
Other net underwriting income of property and casualty insurance	14,086	12,829
Income of building-society business	76,977	88,674
Income from capital consolidation	754	14,680
Other income		
from services rendered	68,859	62,186
from winding-up non-underwriting provisions	16,121	49,876
interest and similar income	29,037	21,693
foreign exchange profits	48	1,335
other	88,207	92,776
Total	345,755	363,644

* fully consolidated figures

9 Net claims and benefits¹

Claims and benefits under property and casualty insurance

	Gross		Reinsurers' share		Net	
	2005	2004	2005	2004	2005	2004
	€'000	€'000	€'000	€'000	€'000	€'000
Claims expenditure						
Claims paid	-5,593,102	-6,087,902	91,285	120,909	-5,501,817	-5,966,993
Change of the provision for outstanding claims	-63,087	-76,992	-1,029	5,283	-64,116	-71,709
Total	-5,656,189	-6,164,894	90,256	126,192	-5,565,933	-6,038,702
Change of the provision for future policy benefits	-2,071,732	-920,939	-22,288	5,532	-2,094,020	-915,407
Expenditure for profit-related, not profit-related and deferred premium refunds ²	-665,930	-1,303,386	—	—	-665,930	-1,303,386
Other profit participation	-566,159	-497,046	—	—	-566,159	-497,046
Total amount of claims and benefits	-8,960,010	-8,886,265	67,968	131,724	-8,892,042	-8,754,541

1 fully consolidated figures

2 In 2004 the retrospective application of IAS 39 leads to a reduction of expenditure for deferred premium refunds by € 50,255 thousand.

The ruling of the Federal Supreme Court of October 12, 2005 caused an expenditure of € 73.8 m which is allocated to the provision for outstanding claims and the provision for future policy benefits.

Net claims and benefits*

Claims and benefits under property and casualty insurance

	Gross		Reinsurers' share		Net	
	2005	2004	2005	2004	2005	2004
	€'000	€'000	€'000	€'000	€'000	€'000
Claims expenditure						
Claims paid	-1,820,512	-2,014,349	61,301	187,118	-1,759,211	-1,827,231
Change of the outstanding claims provision	-94,994	54,181	-32,624	-102,362	-127,618	-48,181
Total	-1,915,506	-1,960,168	28,677	84,756	-1,886,829	-1,875,412
Change of the provision for future policy benefits	-16,209	-5,079	1	—	-16,208	-5,079
Expenditure for premium refunds	-2,055	-4,324	—	-6	-2,055	-4,330
Total amount of claims and benefits	-1,933,770	-1,969,571	28,678	84,750	-1,905,092	-1,884,821

* fully consolidated figures

10 Net operating expenses*

	2005	2004
	€'000	€'000
Life and health insurance		
Acquisition costs		
Payments	-1,280,302	-1,678,369
Change of deferred acquisition costs	19,545	634,945
Administrative expenses	-275,915	-273,385
less		
commissions and profit shares received under reinsurance business ceded	32,715	88,879
Total life and health insurance	-1,503,957	-1,227,930
Property and casualty insurance		
Acquisition costs		
Payments	-318,708	-326,682
Change of deferred acquisition costs	-5,840	-17,285
Administrative expenses	-603,307	-603,615
less		
commissions and profit shares received under reinsurance business ceded	22,598	47,063
Total property and casualty insurance	-905,257	-900,519
Total	-2,409,214	-2,128,449

* fully consolidated figures

11 Other expenditure*

	2005 €'000	2004 €'000
Other net underwriting expenditure of life and health insurance	-68,547	-49,783
Other net underwriting expenditure of property and casualty insurance	-16,620	-14,995
Expenditure for building-society business	-257,861	-276,275
Other expenditure:		
Expenditure that cannot be allocated to functional areas	-175,216	-154,733
Interest and similar expenditure	-138,428	-136,485
Services, agency, leading and coinsurance business	-57,486	-56,391
Write-downs and lump-sum value adjustments	-15,229	-17,412
Capital consolidation	-128,416	-23,116
Foreign-exchange losses	-486	-1,829
Other	-183,435	-135,874
Total	-1,041,724	-866,893

* fully consolidated figures

12 Tax

Tax expenditure

	2005 €'000	2004 €'000
Income tax		
Actual tax	-272,922	-262,431
Deferred tax	9,494	64,399
Total	-263,428	-198,032
Other tax	-4,852	-5,984
Aggregate tax amount	-268,280	-204,016

Reconciliation

	2005	2004
	€'000	€'000
Result before tax (under Commercial Code balance sheet)	571,778	474,007
Expected tax expenditure*	-228,711	-189,603
Corrected for tax effects:		
non-deductible operating expenses	-22,681	-7,414
tax-free income	67,878	42,836
taxes of preceding years	-59,745	-30,245
deductible taxes	3,795	1,752
deviations of tax balance sheet from Commercial Code balance sheet	-34,913	-26,945
other effects	10,949	11,587
Income tax expenditure	-263,428	-198,032

* result before tax, taking into account the Group tax rate

— The Group tax rate corresponds to the average income-tax charge of all Group companies. That charge is determined by corporation tax plus solidarity charge and trade income tax.

13 Earnings per share

— For determining the earnings per share, the (adjusted) net profit of the Group attributable to the equity holders of the parent is divided by the average number of shares of AMB Generali that was issued and outstanding during the period. The weighted average of the number of shares is 53,678,181 (preceding year: 53,678,124). This leads to undiluted earnings per share of € 5.87 (preceding year: 3.86). Before the retrospective adjustment of IAS 39 it amounted to € 4.07 as at Dec. 31, 2004.

The conclusion of the pending court procedures in respect of the control agreements between AMB Generali and AachenMünchener Versicherung, AachenMünchener Lebensversicherung and Volksfürsorge Holding could lead to a dilution of the earnings per share in the future. It is, however, not yet possible to make a statement as to when these procedures will be concluded.

Supplementary information on the Consolidated Balance Sheet 2005 – Assets

14 Owner-occupied property

	2005 €'000	2004 €'000
Gross carrying amount Jan. 1	1,254,484	1,266,541
Accumulated write-downs by Jan. 1	-353,686	-324,937
Net carrying amount Jan. 1	900,798	941,604
Additions	55,759	61,314
Non-current assets held for sale and other retirements	-27,759	–
Reallocations	8,469	-74,745
Write-ups	–	3,994
Scheduled write-downs	-19,112	-18,209
Non-scheduled write-downs	-9,182	-13,160
Net carrying amount Dec. 31	908,973	900,798
Accumulated write-downs by Dec. 31	-334,792	-353,686
Gross carrying amount Dec. 31	1,243,765	1,254,484

Tangible assets

	Life/health €'000	Property/ casualty €'000	Financial services/ other €'000	2005 €'000	2004 €'000
Gross carrying amount Jan. 1	160,682	102,257	249,287	512,226	292,862
Accumulated write-downs by Jan. 1	-113,441	-73,956	-162,461	-349,858	-201,168
Net carrying amount Jan. 1	47,241	28,301	86,826	162,368	91,694
Additions	30,002	31,745	95,015	156,762	72,884
Change of the consolidation scope	–	–	–	–	80,998
Retirements	-22,262	-22,865	-56,746	-101,873	-11,365
Write-downs	-10,907	-8,783	-36,109	-55,799	-71,843
Net carrying amount Dec. 31	44,074	28,398	88,986	161,458	162,368
Accumulated write-downs by Dec. 31	-102,911	-98,571	-153,312	-354,794	-349,858
Gross carrying amount Dec. 31	146,985	126,969	242,298	516,252	512,226

The column "Financial services/other" includes, among others, the tangible assets of AMB Generali Informatik Services GmbH.

15 Intangible assets

Composition of intangible assets as at Dec. 31

	2005 €'000	2004 €'000
Goodwill	268,200	268,200
PVFP of insurance contracts	121,864	142,771
Other intangible assets	143,050	140,174
Total	533,114	551,145

Goodwill and PVFP of insurance contracts

	Goodwill		PVFP of insurance contracts	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000
Gross carrying amount Jan. 1	517,761	517,886	183,437	183,437
Accumulated amortization by Jan. 1	-249,561	-190,728	-40,666	-17,551
Net carrying amount Jan. 1	268,200	327,158	142,771	165,886
Scheduled amortization	—	-31,458	-11,311	-15,666
Non-scheduled amortization	—	-27,500	-9,596	-7,449
Net carrying amount Dec. 31	268,200	268,200	121,864	142,771
Accumulated amortization by Dec. 31	-247,269	-249,561	-61,573	-40,666
Gross carrying amount Dec. 31	515,469	517,761	183,437	183,437

The negative true-up effect for the PVFP of life insurance contracts is € 9,596 thousand (preceding year: 7,449 thousand).

The goodwill was tested for impairment pursuant to IFRS 3. No impairments were stated that would require amortization.

Goodwill allocation to cash generating units

	2005	2004
	€'000	€'000
AachenMünchener Lebensversicherung AG	90,200	90,200
Volksfürsorge Holding AG	67,300	67,300
Generali Lloyd AG	63,700	63,700
AachenMünchener Versicherung AG	34,100	34,100
Other	12,900	12,900
Total	268,200	268,200

Other intangible assets

	Self-developed software	Purchased intangible assets	2005	2004
	€'000	€'000	€'000	€'000
Gross carrying amount Jan. 1	209,671	321,778	531,449	375,303
Accumulated write-downs by Jan. 1	-189,818	-201,457	-391,275	-271,602
Net carrying amount Jan. 1	19,853	120,321	140,174	103,701
Additions	—	74,069	74,069	45,818
Retirements	—	-38,659	-38,659	-2,382
Change of consolidation scope	—	—	—	38,709
Scheduled amortization	-8,560	-23,974	-32,534	-45,672
Net carrying amount Dec. 31	11,293	131,757	143,050	140,174
Accumulated amortization by Dec. 31	-151,427	-178,756	-330,183	-391,275
Gross carrying amount Dec. 31	162,720	310,513	473,233	531,449

16 Deferred acquisition costs*

	2005 €'000	2004 €'000
Life and health insurance		
As at Jan. 1	7,048,933	6,404,436
Amount deferred	927,964	1,264,688
Interest charge	294,808	286,793
Write-downs	-1,202,419	-906,984
As at Dec. 31	7,069,286	7,048,933
Property and casualty insurance		
As at Jan. 1	255,897	273,182
Amount deferred	88,109	91,109
Write-downs	-94,756	-108,394
As at Dec. 31	249,250	255,897

* fully consolidated figures

In health insurance an interest rate of 4.5 percent (preceding year: 4.5 percent) is applied in accordance with FAS 60. For life insurers, as a matter of principle, the interest yield on the policyholder funds and the margin remaining for the insurer are taken into account.

As at December 31, 2005 there is a negative true-up effect of € 224,921 thousand on deferred acquisition costs. In 2004 the true-up resulted in a positive effect of € 3,724 thousand. The high negative true-up effect in the year under report is due to the decrease of interest assumptions for the future as a consequence of the current phase of low interest rates.

17 Investments

Investment property*

	Life/health	Property/ casualty	Financial services	2005	2004
	€'000	€'000	€'000	€'000	€'000
Gross carrying amount Jan. 1	2,472,043	359,210	707	2,831,960	2,867,618
Accumulated write-downs by Jan. 1	-719,644	-109,617	-503	-829,764	-778,595
Net carrying amount Jan. 1	1,752,399	249,593	204	2,002,196	2,089,023
Additions by purchase	118,405	156	10	118,571	54,430
Additions by capitalized supplementary acquisition costs	11,272	18	—	11,290	5,767
Change of consolidation scope	—	—	—	—	114,065
Non-current assets held for sale and other retirements	-628,168	-51,703	-10	-679,881	-227,226
Reallocations	-10,039	1,570	—	-8,469	74,745
Write-ups	1,642	6,037	—	7,679	3,688
Write-downs	-26,048	-4,755	—	-30,803	-31,490
Non-scheduled write-downs	-63,022	-4,468	-43	-67,533	-80,806
Net carrying amount Dec. 31	1,156,441	196,448	161	1,353,050	2,002,196
Accumulated write-downs by Dec. 31	-500,374	-77,440	-381	-578,195	-829,764
Gross carrying amount Dec. 31	1,656,815	273,888	542	1,931,245	2,831,960
Market value	1,307,784	249,385	161	1,557,330	2,365,934

* fully consolidated figures

18 Shares in associated enterprises

	2005	2004
	€'000	€'000
Balance-sheet values Jan. 1	154,418	141,544
Additions	—	1,497
Change of share in equity	13,360	11,377
Write-downs	-1,112	—
Unrealized gains and losses	5,297	—
Balance-sheet values as at Dec. 31	171,963	154,418

The determination of the equity value of Deutsche Vermögensberatung Aktiengesellschaft DVAG takes into account the agreements described in the Management Report.

Major subsidiaries and associated enterprises

(interests held directly and indirectly)

	Country	Percentage share in equity
December 31, 2005		in %
1 AachenMünchener Lebensversicherung AG	D	100.0000
2 AachenMünchener Versicherung AG	D	100.0000
3 Advocard Rechtsschutzversicherung AG	D	100.0000
4 AMB Generali Asset Managers Kapitalanlagegesellschaft mbH	D	100.0000
5 AMB Beteiligungs-GmbH	D	100.0000
6 AMB Generali Informatik Services GmbH	D	100.0000
7 AMB Generali Lloyd GmbH	D	88.5942
8 AMB Generali Pensionsfonds AG	D	100.0000
9 AMB Generali Pensionskasse AG	D	100.0000
10 Central Krankenversicherung AG	D	100.0000
11 Cosmos Lebensversicherungs-AG	D	100.0000
12 Cosmos Versicherung AG	D	100.0000
13 Deutsche Bausparkasse Badenia AG	D	100.0000
14 Deutsche Vermögensberatung Aktiengesellschaft DVAG*	D	49.9998
15 Dialog Lebensversicherungs-AG	D	100.0000
16 Envivas Krankenversicherung AG	D	100.0000
17 Generali Lebensversicherung	D	98.5807
18 Generali Lloyd AG	D	85.1459
19 Generali Versicherung AG	D	100.0000
20 Volksfürsorge Deutsche Lebensversicherung AG	D	100.0000
21 Volksfürsorge Deutsche Sachversicherung AG	D	100.0000
22 Volksfürsorge Holding AG	D	100.0000
23 Volksfürsorge Krankenversicherung AG	D	100.0000
24 Volksfürsorge Pensionsfonds AG	D	100.0000
25 Volksfürsorge Pensionskasse AG	D	100.0000

* associated enterprise

Financial assets**19** Loans and receivables

	Amortized cost		Market values	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000
Mortgage loans	4,274,047	5,419,953	4,517,556	5,810,427
Building loans	3,059,816	3,326,737	3,059,816	3,326,737
Loans and advance payments on policies	716,349	713,330	716,349	713,059
Debt securities and loans	8,386,042	4,494,339	8,799,004	4,728,223
Registered bonds	2,551,777	1,692,741	2,638,592	1,764,493
Other loans	905,854	946,654	975,719	1,036,786
Deposits with credit institutions	1,505,674	2,404,290	1,505,674	2,404,290
Receivables under reinsurance deposits	17,370	29,273	17,370	29,273
Total	21,416,929	19,027,317	22,230,080	19,813,288

— The application of the revised standard IAS 39 allows a reallocation of part of the portfolios of registered bonds as well as debt securities and loans from the line item “available for sale” to the line item “loans and receivables”. These assets are not quoted in an active market. Under the previously applicable version of IAS 39, the definition did not allow an allocation of these assets to the line item “loans originated by the entity”.

— In the wake of the concentration on core business, one life insurance company sold large-volume loans for commercial financing totalling about € 1 bn to various investment banks.

Loans and receivables

	Mortgage loans	Building loans	Loans and advance payments on policies	Debt securities and loans
	€'000	€'000	€'000	€'000
Balance-sheet values as at Dec. 31, 2004	5,419,953	3,326,737	713,330	4,494,339
Additions	177,721	679,354	367,664	4,180,291
Redemption	8,697	—	—	-932
Reallocations	—	—	—	-3,068
Retirements	-1,315,931	-929,596	-364,645	-284,588
Write-ups	13,257	25,353	—	—
Non-scheduled write-downs	-29,650	-42,032	—	—
Balance-sheet values as at Dec. 31, 2005	4,274,047	3,059,816	716,349	8,386,042

The mortgage loans, registered bonds and debt securities and loans under the line item "loans and receivables" bear interest rates between 1.85 and 8.65 percent.

Remaining terms to maturity as at Dec. 31

	Amortized cost		Market values	
	2005	2004	2005	2004
	€'000	€'000	€'000	€'000
up to 1 year	3,571,004	4,776,187	3,621,196	4,888,954
between 1 and 2 years	1,475,640	1,010,165	1,502,078	1,042,538
between 2 and 3 years	1,246,307	1,272,655	1,274,362	1,328,937
between 3 and 4 years	1,591,489	1,294,331	1,621,701	1,353,964
between 4 and 5 years	1,520,713	1,800,282	1,586,040	1,880,797
between 5 and 10 years	7,097,769	5,873,913	7,402,730	6,214,339
more than 10 years	4,914,007	2,999,784	5,221,973	3,103,759
Total	21,416,929	19,027,317	22,230,080	19,813,288

Registered bonds	Other loans	Deposits with credit institutions	Receivables under reinsurance deposits	Total
€'000	€'000	€'000	€'000	€'000
1,692,741	946,654	2,404,290	29,273	19,027,317
880,766	3	381,485	6,515	6,673,799
10,249	14	—	—	18,028
—	3,068	—	—	—
-31,979	-10,679	-1,280,101	-18,418	-4,235,937
—	—	—	—	38,610
—	-33,206	—	—	-104,888
2,551,777	905,854	1,505,674	17,370	21,416,929

Financial assets
20 Available for sale

	Balance- sheet values 31.12.2004 €'000	Additions €'000	Redemption €'000	Transfers €'000
Variable-yield securities				
Shares and other equity instruments	5,517,827	4,846,777	—	—
Fund units				
Equity funds	422,535	951,341	—	—
Bond funds	200,311	341,442	—	—
Property funds	195,780	294,635	—	—
Other variable-yield securities	213,100	2,526	-4,377	—
Fixed-income securities				
Government bonds	24,346,047	8,152,900	-6,736	—
Other bonds	14,689,090	6,739,210	62,326	—
Other securities	23,863	—	—	—
Total	45,608,553	21,328,831	51,213	—

Asset classes as at Dec. 31

	Amortized cost		Unrealized gains/losses		Market values	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000	2005 €'000	2004 €'000
Variable-yield securities						
Shares and other equity instruments	5,096,109	4,817,332	1,750,234	700,495	6,846,343	5,517,827
Fund units						
Equity funds	525,114	402,882	101,564	19,653	626,678	422,535
Bond funds	384,222	183,523	17,662	16,788	401,884	200,311
Property funds	239,719	184,422	8,119	11,358	247,838	195,780
Other variable-yield securities	164,255	196,612	5,351	16,488	169,606	213,100
Fixed-income securities						
Government bonds	26,235,819	23,113,675	1,491,283	1,232,372	27,727,102	24,346,047
Other bonds	12,148,619	14,036,433	676,994	652,657	12,825,613	14,689,090
Other securities	23,863	23,863	—	—	23,863	23,863
Total	44,817,720	42,958,742	4,051,207	2,649,811	48,868,927	45,608,553

The interest rates of the fixed-income securities included in the line item "available for sale" are between 1.38 and 11.88 percent.

Retirements	Write-ups	Non-scheduled depreciation	Unrealized gains and losses	Changes due to currency translation	Balance-sheet values 31.12.2005
€'000	€'000	€'000	€'000	€'000	€'000
-4,695,555	—	-25,239	1,202,533	—	6,846,343
-819,482	—	-36	72,320	—	626,678
-144,841	—	-1,138	6,110	—	401,884
-241,831	—	-5,281	4,535	—	247,838
-31,622	—	—	-10,021	—	169,606
-5,342,989	—	—	577,880	—	27,727,102
-8,537,458	35	-24,170	-149,567	46,147	12,825,613
—	—	—	—	—	23,863
-19,813,778	35	-55,864	1,703,790	46,147	48,868,927

Remaining terms to maturity as at Dec. 31

	Amortized cost		Market values	
	2005	2004	2005	2004
	€'000	€'000	€'000	€'000
up to 1 year	5,042,660	5,241,693	5,109,586	5,315,296
between 1 and 2 years	2,992,103	3,812,174	3,081,160	3,945,406
between 2 and 3 years	3,118,571	2,761,251	3,236,138	2,902,240
between 3 and 4 years	4,482,589	3,287,535	4,585,354	3,460,172
between 4 and 5 years	2,545,731	2,600,644	2,682,482	2,734,735
between 5 and 10 years	9,122,425	8,885,992	9,815,247	9,480,071
more than 10 years	11,080,359	10,560,819	12,042,748	11,197,217
Total	38,384,438	37,150,108	40,552,715	39,035,137

The remaining terms to maturity refer to fixed-interest securities.

Financial assets

21 Financial assets at fair value through profit or loss

The sub-item of **financial asset at fair value through profit or loss (not held for trading)** mainly includes hybrid instruments. Furthermore the item includes loans of an amount of € 97,774 thousand (preceding year: 93,504 thousand).

The table below shows the market values of the hybrid instruments included in financial assets at fair value through profit or loss (not held for trading) as at the balance-sheet date and their maturities. The indicated terms to maturity refer to the underlyings. The hybrid instruments involving an interest risk are mainly annual-call zero bonds. As at December 31, 2005 they amount to € 319,012 thousand (preceding year: 285,383 thousand).

Market value of hybrid instruments as well as remaining contractual terms to maturity

Instruments with	interest	equity	currency	credit	2005	2004
	risk	exposure	risk	risk	€'000	€'000
	€'000	€'000	€'000	€'000		
up to 1 year	118,427	10,226	—	—	128,653	—
between 1 and 2 years	—	—	28,470	5,619	34,089	50,667
between 2 and 3 years	—	—	—	—	—	33,968
between 3 and 4 years	—	—	—	11,693	11,693	—
between 4 and 5 years	—	—	—	—	—	11,617
between 5 and 10 years	3,343	—	—	—	3,343	—
more than 10 years	295,016	—	—	—	295,016	378,887
Total	416,786	10,226	28,470	17,312	472,794	475,139

The interest rates of the hybrid instruments included in the item "financial assets at fair value through profit or loss (not held for trading)" are between 2.7 and 8.6 percent.

Cancellation rights 2006 – 2010 with regard to annual-call zero bonds at the end of the closed business year

		2006	2007	2010
Volume	€ m	155.0	735.6	75.4
Nominally weighted strike	%	3.77	6.62	4.41

— The **trading** sub-item comprises the stand-alone derivatives. In compliance with IAS 39 derivative financial instruments are shown under assets or liabilities. The profits and losses resulting from fair-value measurement are recognized in investment income or expenditure. Within the AMB Generali Group, use is made of derivatives to efficiently control financial investments in line with general investment targets. They serve the purpose of compensating adverse market fluctuations. In particular the instruments employed are forwards, futures and share options. Forwards are used for hedging foreign-currency risks, futures are employed for hedging the equity portfolios and the risk of interest-rate changes. In addition, share-option transactions are made to increase earnings and to prepare purchases. The table below shows the composition of open derivative positions as at the reporting date:

Nominal and market values of open derivative positions as at Dec. 31

	Nominal values		Positive market values		Negative market values	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000	2005 €'000	2004 €'000
Hedging of foreign-currency risks						
Foreign-exchange forwards	288,465	217,457	2,171	5,873	359	—
Hedging of interest risks						
Forward purchases	1,924,000	—	71,718	—	4,217	—
Increasing earnings and preparing purchases						
Share options	87,144	37,078	395	8,102	—	4,056
Hedging of bond portfolio						
Futures	11,852	45,602	—	—	94	5,606

As at the reporting date the maximum remaining term to maturity of open derivative positions is six years.

22 Investments for the account and at the risk of life insurance policyholders

— This item includes the investments of unit-linked products. The investments are kept and shown separately by the insurance companies. The policyholders are entitled to receive all income, i.e. the total amount of the investments shown under these items. Any losses also have to be borne by the policyholders. Therefore the liabilities line item of “Underwriting provisions concerning unit-linked life insurance” develops concurrently. Following the suspension of redemption purchases of units of the property fund “grundbesitz-invest” by the investment company DB Real Estate Investment GmbH, Eschborn, no redemption prices were available on the reporting date for these fund units. To measure the units the price communicated by DB Real Estate as at December 30, 2005 was used. Any lower fair value of these investments after a reopening or after the announced revaluation of the property included in the fund would lead to the corresponding reduction of the provision for future policy benefits.

23 Receivables as at Dec. 31

	2005	2004
	€'000	€'000
Receivables under insurance business		
from policyholders	318,906	348,904
from intermediaries	121,527	140,097
accounts receivable under reinsurance operations	127,206	157,919
other receivables under insurance business	34,567	32,319
Total receivables under insurance business	602,206	679,239
Other receivables		
Accrued interest and rent	1,266,204	1,272,812
Receivables under investments	123,400	266,641
Other receivables	201,503	188,966
Total of other receivables	1,591,107	1,728,419
Total	2,193,313	2,407,658

Remaining terms to maturity as at Dec. 31

	Amortized cost	
	2005	2004
	€'000	€'000
up to 1 year	2,014,263	2,322,521
between 1 and 5 years	165,508	78,423
between 5 and 10 years	1,019	3,814
more than 10 years	12,523	2,900
Total	2,193,313	2,407,658

24 Other assets as at Dec. 31

	2005	2004
	€'000	€'000
Inventories*	54,761	196,117
Other assets	207,800	199,984
Total	262,561	396,101

* This includes inventories pledged as collateral for liabilities at an amount of € 50,137 thousand (preceding year: 190,612 thousand).

The carrying amount of investment property, which under IAS 2 is measured in compliance with the rules applicable to inventories, is € 50,137 thousand (preceding year: 190,612 thousand). The property under inventories is held for sale. For the purpose of loss-free measurements write-downs of € 46,474 thousand were made.

Supplementary information on the Consolidated Balance Sheet 2005 – Liabilities

25 Group equity

Equity composition as at Dec. 31

	2005	2004
	€'000	€'000
Subscribed capital	137,421	137,421
Capital reserve	1,282,463	1,282,463
Treasury stock	-17	-193
Revaluation reserve	778,779	569,553
Profit carried forward	1,070,496	950,286
Reserve from foreign-currency translation	1,048	-140,742
Net profit attributable to the equity holders of the parent	314,837	207,201
Minority interests	209,414	193,577
Total	3,794,441	3,199,566

— The **subscribed capital** equals the share capital of AMB Generali and the **capital reserve** corresponds to the premiums from share issues. The **treasury stock** held by AMB Generali is measured at cost and deducted from equity in line with the provisions of IAS 32. The legal reserves and the reserves under the Articles of Association (charitable fund) of AMB Generali are included in the **profit carried forward**. The latter also comprises the retained profits of the Group companies included in the Consolidated Financial Statements and the allocations from the Group net profit. As a result of the retrospective application of IAS 39 the profit carried forward as at December 31, 2004 decreased by € 73,423 thousand. Unrealized capital gains and losses from the revaluation of financial assets available for sale are reflected in the **revaluation reserve** after taking into consideration deferred taxes and any deferred premium refunds. As a result of the retrospective application of IAS 39 the revaluation reserve as at December 31, 2004 increased by € 48,973 thousand.

The subscribed capital remains unchanged at the preceding year's level of € 137,420,784. This amount corresponds to 53,679,994 fully paid unit shares to the bearer. Assicurazioni Generali S.p.A., Trieste/Italy, have informed us under sections 21, 22 Securities Trading Act (WpHG) and section 20 Companies Act that they indirectly hold a majority interest in AMB Generali Holding AG.

— As at December 31, 2005 the **authorized capital** amounted to € 68,710 thousand. Out of that amount up to € 1,024 thousand may be used to issue employee shares to the employees of the company and its Group companies. The authorization for the Board of Management is valid until May 18, 2009.

— As at the reporting date there is a **conditional capital**, which due to the control agreements concluded with subsidiary companies in the business year 1997, is earmarked as a compensation for minority shareholders. Due to the squeeze-out transactions meanwhile carried out for a cash indemnity in the individual subsidiaries concerned, no use was made of the conditional capital in the closed business year. The following table shows the conditional capital.

Conditional capital

for the acquisition of shares of		Aachen Münchener Lebens- versicherung AG	Aachen Münchener Versicherung AG	Volksfürsorge Holding AG	Total
AMB Generali shares	Number	247,214	145,207	183,625	576,046
Nominal value	€	632,867.84	371,729.92	470,080.00	1,474,677.76

Minority interests as at Dec. 31

	2005 €'000	2004 €'000
in the revaluation reserve	81,952	81,013
in the Group net profit	-1,204	3,833
in the other equity	128,666	108,731
Total	209,414	193,577

Underwriting provisions

— We have not received any profits from the conclusion of reinsurance contracts at the moment of conclusion. In the business year 2005 no retrospective reinsurance contracts were taken out. In compliance with FAS 113 no profits had to be carried as a liability nor did they have to be amortized over their duration.

26 Unearned premiums as at Dec. 31*

	Life/health		Property/casualty		Group	
	2005	2004	2005	2004	2005	2004
	€'000	€'000	€'000	€'000	€'000	€'000
Gross	6,689	2,468	469,580	471,141	476,269	473,609
Reinsurers' share	—	—	-7,065	-11,570	-7,065	-11,570
Net	6,689	2,468	462,515	459,571	469,204	462,039

* fully consolidated figures

Development of unearned premiums

	Gross	Reinsurers' share	Net	Net
			2005	2004
	€'000	€'000	€'000	€'000
Unearned premiums Jan. 1	473,609	-11,570	462,039	428,846
Foreign-currency translation	2	—	2	-4
Total	473,611	-11,570	462,041	428,842
Portfolio changes	-264	2,143	1,879	-22,352
Other changes	2,922	2,362	5,284	55,549
Unearned premiums Dec. 31	476,269	-7,065	469,204	462,039

27 Provision for future policy benefits as at Dec. 31*

	Life/health		Property/casualty		Group	
	2005	2004	2005	2004	2005	2004
	€'000	€'000	€'000	€'000	€'000	€'000
Gross	57,031,890	54,236,320	79,465	69,298	57,111,355	54,305,618
Reinsurers' share	-1,159,525	-1,126,866	—	3,464	-1,159,525	-1,123,402
Net	55,872,365	53,109,454	79,465	72,762	55,951,830	53,182,216

* fully consolidated figures

— In health insurance an interest rate of 4.5 percent (preceding year: 4.5 percent) is applied in accordance with FAS 60.

For life insurers, as a matter of principle, we use the interest rate applied to the policyholder funds – without terminal bonuses – which is between 4.1 and 5.0 percent (preceding year: between 4.1 and 5.0 percent). The negative true-up effect for the premium elements carried as a liability (unearned revenue reserve) is € 9,000 thousand (preceding year: 2,490 thousand) and for the adjusted terminal bonus reserve it is € 175,506 thousand (preceding year: 62,672 thousand). The high true-up effect is due to the adjustment of interest assumptions for the future.

Development of the provision for future policy benefits

	2005 €'000	2004 €'000
Gross provision for future policy benefits Jan. 1	54,305,618	52,809,802
Payments for traditional life insurance policies	-4,337,540	-4,822,658
Other changes	7,143,277	6,318,474
Gross provision for future policy benefits Dec. 31	57,111,355	54,305,618
Reinsurers' share	-1,159,525	-1,123,402
Net	55,951,830	53,182,216

— In **life insurance** the assumptions regarding mortality, interest and costs are fixed at the beginning of the contract. They apply for the entire duration of the contract. In the following years the assumptions are checked as at every reporting date. The effects therefrom are reflected in the true-up figures.

- In individual business the mortality tables published by the German Actuary Association (DAV) are used. The mortality tables used in group business partly deviate from these tables.
- The interest applied is the guaranteed interest rate contractually agreed.
- The costs are determined on the basis of past experience by means of a procedure established by the DAV.

— In **health insurance** assumptions are made regarding per-capita claims, mortality, lapse probability, interest and costs. The assumptions are tested annually on the basis of rules provided by law. If these tests show deviations, premium adjustments have to be made.

- The per-capita claim is the average annual claims expenditure for an insured person of a specific age. The per-capita claim is determined by gender and individual policy models.
- With regard to mortality, the mortality tables published by the German insurance regulator BaFin for private-sector health insurance are applied.
- The lapse probabilities are determined on the basis of past experience and future expectations by each individual company.
- The technical interest rate is based on past experience and future expectations.
- Costs are determined on the basis of past experience.

Remaining terms to maturity of the provision for future policy benefits as at Dec. 31

	2005 €'000	2004 €'000
up to 1 year	6,463,912	8,013,862
between 1 and 5 years	9,523,921	9,765,603
between 5 and 10 years	10,875,687	9,249,298
between 10 and 15 years	9,207,130	11,090,267
between 15 and 20 years	6,814,696	6,832,362
more than 20 years	14,226,009	9,354,226

28 Provision for outstanding claims as at Dec. 31*

	Life/health		Property/casualty		Group	
	2005 €'000	2004 €'000	2005 €'000	2004 €'000	2005 €'000	2004 €'000
Gross	891,932	828,843	3,622,459	3,526,129	4,514,391	4,354,972
Reinsurers' share	-12,711	-14,682	-455,035	-485,979	-467,746	-500,661
Net	879,221	814,161	3,167,424	3,040,150	4,046,645	3,854,311

* fully consolidated figures

— The provisions are determined at a sufficiently high level at their settlement amounts. After the reporting date no extraordinary claims occurred that would materially affect the Group's assets, financial position and income.

For the purpose of taking into account receivables for recourses, salvages and knock-for-knock agreements an amount of € 9,783 thousand (preceding year: € 9,364 thousand) is deducted from the provision for outstanding claims.

The annuity provision set aside for agreed annuity payments of the property/casualty insurers amounts to € 118,378 thousand (preceding year: 108,866 thousand).

Development of the provision for outstanding claims (net)

	Gross	Reinsurers' share	Net	Net
	€'000	€'000	2005 €'000	2004 €'000
Outstanding claims provision Jan. 1	4,354,972	-500,661	3,854,311	3,734,629
Foreign-currency translation	975	-399	576	-208
Total	4,355,947	-501,060	3,854,887	3,734,421
Use of provision for payments	-1,118,416	86,738	-1,031,678	-1,057,552
Winding-up of provision for preceding year's claims*	-542,175	12,224	-529,951	-490,539
Allocation to provision for claims of the business year	1,819,035	-65,648	1,753,387	1,667,981
Total	158,444	33,314	191,758	119,890
Outstanding claims provision as at Dec. 31	4,514,391	-467,746	4,046,645	3,854,311

* This includes the run-off profit for complementary occupational disability insurance for which, on the other hand, there is an allocation to the provision for future policy benefits for the pensions recognized.

Under IFRS the provision for outstanding claims is determined by means of mathematical and statistical procedures. For that purpose, future payments are calculated on the basis of past figures and an assessment of trends (such as inflation), which have an influence on their adequacy, is made.

Claims expenditure in property and casualty insurance (direct business)

The following gross claims triangle includes those major classes where the run-off, as a general rule, is longer than one year. Both claims payments and provisions for outstanding claims are taken into consideration.

Gross claims triangle

	1 st year	2 nd year	3 rd year	4 th year	5 th year	Total
	€'000	€'000	€'000	€'000	€'000	€'000
2001	2,342,342	2,313,496	2,252,179	2,251,141	2,243,534	
2002	2,516,016	2,405,964	2,345,369	2,331,821	—	
2003	2,149,037	2,045,788	1,981,405	—	—	
2004	2,015,060	1,886,074	—	—	—	
2005	1,961,515	—	—	—	—	
Claims expenditure	1,961,515	1,886,074	1,981,405	2,331,821	2,243,543	10,404,358
Accumulated payments	1,015,904	1,427,169	1,678,487	2,096,516	2,041,266	8,259,342
Provisions for outstanding claims	945,611	458,905	302,918	235,305	202,277	2,145,016
Before the period under review						808,513
From remaining classes						264,554
Gross direct business acc. to balance sheet						3,218,083

— The development of the claims expenditure net of reinsurance is to a large extent in parallel to the gross development. This applies in particular to the years of occurrence 2001 through 2003, when the share of proportional reinsurance, also on a quota-share basis, was still relatively high. The net claims expenditure for the years of occurrence 2001 through 2003 is about 10 percent below the gross expenditure.

As a result of the change in the reinsurance programme starting from 2004, the net figures for 2004 and the following years are about 4–5 percent below the gross figures.

In the years of occurrence 2004 and 2005 there were hardly any major claims or accumulation claims, for which reinsurance protection is higher as a general rule.

29 Provision for premium refunds as at Dec. 31*

	Life/health		Property/casualty		Group	
	2005	2004	2005	2004	2005	2004
	€'000	€'000	€'000	€'000	€'000	€'000
Gross	7,181,848	6,087,339	18,572	19,409	7,200,420	6,106,748
Reinsurers' share	—	—	—	—	—	—
Net	7,181,848	6,087,339	18,572	19,409	7,200,420	6,106,748

* fully consolidated figures

Gross as at Dec. 31

	2005	2004
	€'000	€'000
Provision for profit-related and not profit-related premium refunds		
profit-related	2,441,378	2,110,497
not profit-related	427,903	398,754
Provision for deferred premium refunds	4,331,139	3,597,497
Total	7,200,420	6,106,748

Net

	2005	2004
	€'000	€'000
Provision for profit-related and not profit-related premium refunds		
As at Jan. 1	2,509,251	2,873,156
Allocation	1,200,835	812,622
Wind-up	-418,887	-390,978
Payments	-331,636	-371,415
Other changes	-90,282	-414,134
As at Dec. 31	2,869,281	2,509,251
Provision for deferred premium refunds		
As at Jan. 1	3,597,497	1,829,147
Foreign-currency translation	3,687	-2,068
Total	3,601,184	1,827,079
Change of consolidation scope	-1,388	-48,542
Fair-value fluctuations	1,106,936	750,298
Revaluations recognized in income	-76,305	960,722
Other changes	-299,288	107,940
As at Dec. 31	4,331,139	3,597,497

**30 Provisions for pensions and similar commitments
as at Dec. 31.**

	2005 €'000	2004 €'000
Pension commitments	1,570,795	1,518,030
Provisions for commitments similar to pensions	163,335	155,440
Total	1,734,130	1,673,470

Enterprises of the AMB Generali Group grant defined-benefit pension commitments to their staff. The commitments are taken into account by pension provisions whose measurement also considers the development of future benefit claims of the beneficiaries and whose present balance-sheet value is determined on the basis of the interest rate to be expected on a long-term basis. In addition to the company committed to paying the benefit, the pension guarantee association Pensionssicherungs-Verein a.G. is liable under its articles of association for the fulfilment of the pension commitments granted.

Provision for defined-benefit pension commitments

	€'000
Balance-sheet value as at Jan. 1, 2005	1,518,030
Withdrawal for pension payments	-70,182
Expenditure of the business year	90,047
Other	32,900
Balance-sheet value as at Dec. 31, 2005	1,570,795

Calculation factors applied

	2005 %	2004 %
Interest rate	4.00	4.75
Rate of salary growth (including career development)	2.50	3.00
Pension growth rate	1.50–1.75	1.50–1.75
Maximum salary limit for calculation of contributions	1.50	2.00

Specifications regarding pension provisions

	2005 €'000
Line items of the income statement:	
Current service cost	-38,607
Interest cost	-76,702
Recognition of underwriting profits or losses	-4,454
Past service cost	29,716
Expenditure of the business year	-90,047
Line items of the balance sheet:	
Defined benefit obligation not covered by external providers	725,190
Defined benefit obligation covered fully or in part by external providers	1,468,583
Plan assets	-363,974
Past service cost not recognized in income	-341
Sub-total	1,829,458
Underwriting profits or losses not recognized in income	-258,663
Balance-sheet value Dec. 31	1,570,795

The necessity of taking into account actuarial profits or losses is checked by applying the corridor procedure.

— In the case of **defined-contribution plans** the employer pays a defined contribution amount to a pension scheme company or directly to an insurance company for a policy. The employer's obligation is fulfilled by payment of the contributions. The resulting expenditure in the business year was € 9,585 thousand.

The increase of the volume of obligations and of the plan assets is due to the fact that the pension-scheme company was included for the first time. With reference to the fair value of the plan assets the current asset allocation is as follows:

Asset class

	2005 %
Shares, fund units and other variable-yield securities	5.9
Fixed-income securities/debt instruments	78.6
Property	6.2
Other	9.3
Total	100.0

The **benefits upon termination of the employment relationship** amount to € 108,912 thousand.

31 Other provisions as at Dec. 31

	Restructuring provisions	Other provisions	2005 €'000	2004 €'000
	€'000	€'000	€'000	€'000
As at Jan. 1	16,015	249,891	265,906	214,778
Change of consolidation scope	—	-217	-217	17,151
Use of provision	-16,203	-103,855	-120,058	-98,273
Wind-ups	-4,831	-23,615	-28,446	-34,946
Allocation of the business year	52,039	145,090	197,129	167,197
As at Dec. 31	47,020	267,294	314,314	265,907

32 Liabilities as at Dec. 31

	2005 €'000	2004 €'000
Subordinated liabilities	70,558	70,558
Bonds and loans	229,565	332,926
Liabilities under building-society business	4,404,747	4,314,982
Liabilities under insurance business		
Deposits held under reinsurance business ceded	1,330,847	1,240,986
Liabilities under direct insurance business	3,676,338	3,919,623
to policyholders	136,367	170,992
to insurance intermediaries	6,167	16,928
Accounts payable under reinsurance business	27,248	22,975
Other insurance liabilities	1,613	634
Liabilities to credit institutions	4,639	9,662
Derivatives carried as liability	76,528	79,983
Other liabilities	267,052	378,208
of which:		
for social security	22,229	23,781
under investments	119,520	98,742
Total	10,231,669	10,558,457

Remaining terms to maturity as at Dec. 31

	Amortized cost	
	2005	2004
	€'000	€'000
up to 1 year	4,178,227	6,418,662
between 1 and 5 years	3,332,090	378,298
between 5 and 10 years	906,418	2,689,028
more than 10 years	1,814,934	1,072,469
Total	10,231,669	10,558,457

As collateral for obligations under reinsurance business there are security deposits in favour of other insurance companies of an amount of € 33,622 thousand (preceding year: 36,763 thousand).

33 Deferred taxes as at Dec. 31

	Deferred tax assets		Deferred tax liabilities	
	2005	2004	2005	2004
	€'000	€'000	€'000	€'000
Investments	-81,822	-81,451	717,566	721,896
Underwriting items	171,010	173,935	142,920	90,007
Tax losses carried forward	4,247	15,209	—	-3
Other	-21,817	-59,585	70,702	30,180
Total	71,618	48,108	931,188	842,080

Out of these amounts a total of € -63,335 thousand (preceding year: -52,447 thousand) of deferred tax assets and an amount of € 231,929 thousand (preceding year: 169,000 thousand) of deferred tax liabilities has no effect on income. Deferred tax assets and liabilities are as a matter of principle set off against each other in the balance sheet if they refer to income tax occurring within the same fiscal-unity scope.

34 Additional information

Staff

— In the business year 2005, the companies included in the Consolidated Financial Statements have 17,540 (preceding year: 18,564) employees on an annual average. Equally on an annual average basis, 15,510 of these persons (preceding year: 16,500) are employed with insurance companies, 695 (preceding year: 707) with the building society and 1,335 (preceding year: 1,357) with other service providers. The number of those employed in administrative services of the Group companies is 11,933 (preceding year: 12,666), while the field-staff comprises 5,607 (preceding year: 5,898) employees. With regard to the fieldstaff figure it is to be taken into consideration that business is acquired in part by direct selling, but mainly produced by self-employed agents. In the year 2005 there are 7,068 women (preceding year: 7,607) and 10,472 men (preceding year: 10,957) employed with the AMB Generali Group. The Consolidated Income Statement includes a personnel expenditure of € 1,133,578 thousand (preceding year: 1,142,495 thousand).

Share-based payment

— Selected managers of our Group participate in a stock-option programme of our parent. In the year 2005, under that programme 260,000 options were granted allowing the purchase of shares of Assicurazioni Generali S.p.A. at a price of € 24.00. The options can be exercised between 2008 and 2011.

From the options granted in previous years none have been exercised yet.

Shares of AMB Generali Holding AG are offered to employees of the AMB Generali Group qualifying for subscription within a specified period at favourable conditions. The issue of employee shares has in particular the target of strengthening identification with the Group and of encouraging the accumulation of capital by employees. In order to qualify, employees must have an employment or apprenticeship contract not under notice. After expiry of the blocking period the shares are freely marketable.

For the purpose of issuing employee shares, 44,370 shares of AMB Generali Holding AG were acquired in the market. On the basis of a stock market price of € 62.60 on May 3, 2005 (date of the resolution taken by the Board of Management of AMB Generali Holding AG), the employees of the AMB Generali Group were able to purchase four shares at a reduced purchase price of € 125.20. In the business year, the number of the shares issued within the scope of this programme amounts to 44,144 (preceding year: 44,244). After subscription by the employees and taking into account a residual portfolio under the employee share programme 2004, there is a remaining number of 226 shares. The difference between exercise and the market price is € 1,883 thousand (preceding year: 1,168 thousand).

Other financial commitments and contingent liabilities

— Within the scope of agreements on control and profit transfer concluded with subsidiaries as well as the squeeze-out procedures, indemnities were offered to outside shareholders. On the basis of the agreements on control and profit transfer, shareholders of the subsidiaries concerned were also offered compensation for no longer receiving a dividend from the companies concerned. Former shareholders of subsidiaries filed court applications for an arbitration procedure verifying the adequacy of our indemnity and compensation offers. In most cases, legally binding court decisions are still pending.

— For the purpose of strengthening business relations with our strongest distribution partner Deutsche Vermögensberatung AG DVAG (associated enterprise) it has been undertaken to acquire shares in Deutsche Vermögensberatung AG DVAG upon request or to act as an intermediary for the acquisition of such shares by third parties. The amount of this commitment is unknown because it is currently not assumed that such request will be made and there are no comparison standards available.

— In the Group there are investment obligations of € 3,353 m (preceding year: 996 m). These include payment commitments of a maximum amount of € 473 m (preceding year: 462 m) that might arise from the interest in Protektor Lebensversicherungs-AG. In line with section 129 of the Insurance Regulatory Act (VAG), under the safety-net fund established for the life and health insurers payment liabilities may arise for the life and health insurers of a maximum of 1 per mil and 2 per mil respectively of the total net underwriting provisions. The annual contribution not yet called for payment from the life insurers is 0.2 per mil of the total net underwriting provisions. Furthermore there are commitments under guarantees and warranties of € 432 m (preceding year: 429 m) and other financial commitments of € 256 m (preceding year: 222 m). Currently negotiations are held for taking over part of the portfolio of the MetallRente old-age provision scheme of the metalworking industry. The studies for determining the purchase price and for checking the adequacy of provisions have not yet been completed.

Auditor's fees

— In the business year an expenditure of € 3,886 thousand was recognized for the audit of the Consolidated Financial Statements and for the annual financial statements of the subsidiaries. For other audit services the auditor received a fee of € 3,655 thousand. Furthermore an expenditure of € 41 thousand was recognized for consultancy services rendered by the auditor the same as an amount of € 1,799 thousand for other services rendered. The auditor did not make valuations.

Group holding company

— The parent company of the AMB Generali Group is AMB Generali Holding AG (AMB Generali). It was founded in Aachen/Federal Republic of Germany and entered into the Aachen commercial register under HRB 93. Its address is: Aachener und Münchener Allee 9, 52074 Aachen, P.O. Box 100251, 52002 Aachen. In addition to its functions as the holding company of the Group, AMB also operates as the Group reinsurer. Furthermore it is an affiliated enterprise of the Generali Group, for which consolidated financial statements are established by Assicurazioni Generali S.p.A., deposited at its registered office in Trieste/Italy and filed with the Italian regulatory authorities. Assicurazioni Generali holds 70.88 percent of the shares of AMB Generali. The remaining 29.12 percent are available to the market as free float.

Remuneration for the Board of Management and the Supervisory Board

— In the year 2005 the members of the Board of Management of AMB Generali receive a total remuneration of € 2,566 thousand (preceding year: 2,304 thousand) for their activities in the parent company and in the subsidiary companies.

In addition to the fixed salary, the part of the remuneration which is not performance-related also includes remuneration in kind and perquisites, such as the use of a company car or the payment of telecommunication expenses by the company. The performance-related remuneration includes a dividend bonus and a performance bonus. The dividend bonus is a specific amount for each percentage point of dividend distributed in relation to the share capital of AMB Generali. An amount of € 906 thousand (preceding year: 808 thousand) is paid as dividend bonus in 2005. The performance bonus is based on the fulfilment of targets newly determined every year. Part of these targets are operating targets of AMB Generali which are applied to the whole Board of Management, while another part consists of targets fixed for the individual members of the Board of Management. As performance bonus an amount of € 657 thousand (preceding year: 341 thousand) is paid.

Remuneration of the Board of Management

	2005	2004
	€'000	€'000
Salaries and other payments due at short term	992	1,144
Not performance-related remuneration elements	11	11
Performance-related remuneration elements	1,563	1,149
Total	2,566	2,304

— The remuneration paid to the members of the Supervisory Board in 2005 is € 1,786 thousand (preceding year: 1,711 thousand).

— An amount of € 3,703 thousand (preceding year: 2,753 thousand) is paid to former members of the Board of Management of AMB Generali and their surviving dependants. The provisions for pension commitments towards this group of persons amounts to € 27,590 thousand (preceding year: 27,255 thousand).

— Neither as at December 31, 2005 nor in the preceding year were there loans granted to members of the Board of Management. For an amount of € 1,199 thousand (preceding year: 860 thousand) loans were granted to members of the Supervisory Board of AMB Generali (redemption in 2005: 44 thousand (preceding year: 26 thousand)). The interest rates on these loans are between 4.25 and 6.20 percent.

Development of the loans granted to the Supervisory Board

	2005	2004
	€'000	€'000
As at Jan. 1	860	880
Loans granted	—	—
Redemption	-44	-26
Other	383	6
As at Dec. 31	1,199	860

German Corporate Governance Code

For AMB Generali Holding AG a declaration in respect of the German Corporate Governance Code was published in compliance with section 161 of the Companies Act. The declaration is published on the Internet at www.amb.de or www.amb-general.de.

Members of the Supervisory Board and the Board of Management

The composition of the Supervisory Board and the Board of Management is indicated on p. 4 f. of this Report. The list on p. 171 ff. shows the mandates held by these persons.

35 Information on related companies and persons

Companies of the AMB Generali Group have various business relationships with related companies and persons. In the AMB Generali Group the related persons include managers in key positions as well as their close relatives. The managers in key positions comprise the members of the Boards of Management and the Supervisory Boards of all subsidiaries of the AMB Generali Group. Furthermore the group of closely related persons comprises all department heads of AMB Generali Holding AG. With regard to business relationships with associated enterprises Deutsche Vermögensberatung AG DVAG makes a material contribution to the new business production and to the premium income under the existing insurance portfolio. In addition there are intermediary and reinsurance relationships with related companies at conditions which are common practice in the market. The reinsurance partners are only companies of the Generali Group. An amount of € 82,181 thousand (preceding year: 136,694 thousand) was paid as reinsurance premiums. The transactions were done at arm's length conditions.

**Remuneration for managers in key positions
as at Dec. 31**

	2005	2004
	€'000	€'000
Salaries and other payments due in the short term	20,898	19,942
Expenditure for pension benefits	6,902	3,034
Other payments due in the long term	628	698
Payments due to termination of the employment contract	385	—
Total	28,813	23,674

**Turnover from material service and cooperation agreements
as well as other agreements with closely related enterprises
and persons as at Dec. 31**

	2005	2004
	€'000	€'000
Service and cooperation agreements with		
Assicurazioni Generali	8,524	11,228
associated enterprises	671,419	826,594
related persons	3,194	3,152
Other agreements and transactions with		
Assicurazioni Generali	—	—
associated enterprises	15,906	17,343
related persons	41	36
Total	699,084	858,353

The relationships with related enterprises mainly consist of service and cooperation agreements at arm's length conditions.

**Sums insured under life insurance contracts with related enterprises
and persons as at Dec. 31**

	2005	2004
	€'000	€'000
Sums insured under contracts with		
related persons	84,616	79,527

The insurance contracts existing with related persons and enterprises are based on the customary conditions as applicable to employees.

Receivables and liabilities with related enterprises as at Dec. 31

	2005	2004
	€'000	€'000
D. III. 1. Investments, loans and receivables	57,268	6,968
of which with Assicurazioni Generali	—	—
of which with associated enterprises	57,268	6,968
D. III. 2. Investments, available for sale	10,647	10,647
of which with Assicurazioni Generali	—	—
of which with associated enterprises	10,647	10,647
F. Receivables:		
Receivables under insurance business	9,266	9,568
of which with Assicurazioni Generali	1,099	864
of which with associated enterprises	8,167	8,704
Other receivables	1,200	1,809
of which with Assicurazioni Generali	796	626
of which with associated enterprises	404	1,183
E. III. Other liabilities:		
Liabilities under insurance business	597,983	575,754
of which with Assicurazioni Generali	571,764	555,048
of which with associated enterprises	26,219	20,706
Other	2,382	19,851
of which with Assicurazioni Generali	2,160	1,855
of which with associated enterprises	222	17,996

Loans granted to related enterprises and persons as at Dec. 31

Development of loans to managers in key positions
(and their close relatives)

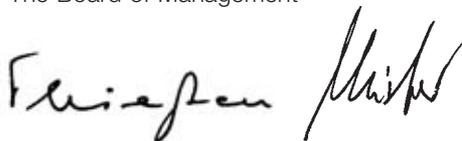
	2005	2004
	€'000	€'000
As at Jan. 1	5,457	6,066
Loans granted	95	67
Redemption	-310	-676
As at Dec. 31	5,242	5,457

— Related enterprises and persons of the AMB Generali Group as well as their relatives obtain loans from Group companies at conditions customary in the market. The interest rates applied vary between 3.37 and 6.85 percent.

Aachen, February 17, 2006

AMB Generali Holding AG

The Board of Management

The image shows two handwritten signatures in black ink. The signature on the left is 'Thießen' and the signature on the right is 'Meister'. Both are written in a cursive, flowing style.

Dr. Walter Thießen

Dietmar Meister



Auditor's Report

Auditor's Report*

We have audited the consolidated financial statements – consisting of balance sheet, income statement, statement of changes in equity, cash flow statements and notes – and the group management report of AMB Generali Holding AG, Aachen, for the business year from January 1, 2005, to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with the IFRS, as adopted by the EU, and the additional provisions stated in § 315a Abs. 1 HGB as well as supplementary provisions in the articles of incorporation are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB (German Commercial Law) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the results of our audit the consolidated financial statements are in compliance with the IFRS, as adopted by the EU, and the additional provisions stated in § 315a Abs. 1 HGB as well as the supplementary provisions in the articles of incorporation and give a true and fair view of the net assets, financial position and results of

Auditor's Report

operations of the Group in accordance with these provisions. The group management report is in accordance with the consolidated financial statements and provides on the whole a suitable understanding of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, February 20, 2006

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



Hölzl
Wirtschaftsprüfer
German Public Auditor



Hofmann
Wirtschaftsprüfer
German Public Auditor

* Voluntary translation. It should be noted that only the German auditor's report, which is based on the audit of the German version of the company's consolidated financial statements, is authoritative.

Supervisory Board

Mandates in other Supervisory Boards having to be established under legal provisions in German companies
Memberships in comparable control bodies of companies in Germany and abroad

Prof. h.c. Dr. h.c. (RUS)

Dr. iur. Wolfgang Kaske

Chairman

- AachenMünchener Versicherung AG, Aachen
- Central Krankenversicherung AG, Cologne (Chairman)
- Deutsche Bausparkasse Badenia AG, Karlsruhe
- Deutsche Vermögensberatung AG DVAG, Frankfurt-on-Main
- Generali Versicherung AG, Munich
- Volksfürsorge Deutsche Lebensversicherung AG, Hamburg
- Volksfürsorge Deutsche Sachversicherung AG, Hamburg

Monika Hendricks

Deputy Chairwoman

- AachenMünchener Versicherung AG, Aachen

Dott. Sergio Balbinot

- AachenMünchener Lebensversicherung AG, Aachen
- AachenMünchener Versicherung AG, Aachen
- Commerzbank AG, Frankfurt-on-Main
- Assicurazioni Generali S.p.A., Trieste/Italy
- Banco Vitalicio de España S.A., Barcelona/Spain
- Europ Assistance Holding S.A., Paris/France
- Generali Asia N.V., Diemen/Netherlands

- Generali China Life Insurance Co. Ltd., Canton/China
- Generali España, Holding de Entidades de Seguros, S.A., Madrid/Spain
- Generali Finance B.V., Diemen/Netherlands
- Generali France S.A., Paris/France
- Generali (Schweiz) Holding, Adliswil/Switzerland
- Generali Holding Vienna AG, Vienna/Austria
- Graafschap Holland Participatie Maatschappij N.V., Diemen/Netherlands
- La Estrella S.A. de Seguros y Reaseguros, Madrid/Spain
- Migdal Insurance Company Ltd., Tel Aviv/Israel
- Migdal Insurance Holdings Ltd., Tel Aviv/Israel
- Transocean Holding Corporation, New York/USA

Antoine Bernheim

- Alleanza Assicurazioni S.p.A., Milano/Italy
- Assicurazioni Generali S.p.A., Trieste/Italy
- Bolloré, Ergué Bugéric, Odet/France
- Bolloré Investissement, Ergué-Gabéric, Odet/France
- BSI S.A., Lugano/Switzerland
- Christian Dior Couture, Paris/France
- Christian Dior S.A., Paris/France
- Eurazeo, Paris/France
- Generali España, Holding de Entidades de Seguros, S.A., Madrid/Spain
- Generali France S.A., Paris/France
- Generali Holding Vienna AG, Vienna/Austria

Mandates

- Graafschap Holland Participatie Maatschappij N.V., Diemen/Netherlands
- Intesa S.p.A., Milano/Italy
- Lazard L.L.C., Wilmington/Delaware/USA
- LVMH Moët Hennessy Louis Vuitton, Paris/France
- Mediobanca S.p.A., Milano/Italy
- Partena, Paris/France
- SFGI Société Française Générale Immobilière, Paris/France

Martin Blessing

- Commerzbank Inlandsbanken Holding AG, Frankfurt-on-Main
- CommerzLeasing und Immobilien AG, Düsseldorf (Chairman)
- Heidelberger Druckmaschinen AG, Heidelberg
- ThyssenKrupp Services AG, Düsseldorf
- BRE Bank SA, Warsaw/Poland

Prof. Gerardo Brogini

- Assicurazioni Generali S.p.A., Trieste/Italy
- Berco S.p.A., Copparo/Italy
- Buechi Italia S.r.l., Milano/Italy
- Danieli e C. Officine Meccaniche S.p.A., Buttrio/Italy
- Fondazione dell'Istituto Europeo di Oncologia, Milano/Italy
- INA Vita S.p.A., Rome/Italy
- Rosenthal Italia S.r.l., Milano/Italy
- SMS Demag Italia S.r.l., Milano/Italy
- SMS (Italia) S.r.l., Milano/Italy
- Swarovski Internazionale d'Italia S.p.A., Milano/Italy
- Tyrolit-Vincent S.p.A., Thiene/Italy
- UBS Securities (Italia) Finanziaria S.p.A., Milano/Italy

Shirley Drewing-Jeitner

- Volksfürsorge Deutsche Sachversicherung AG, Hamburg

Dr. Alfredo Gysi

- B-Source SA, Lugano/Switzerland

Karl-Rupert Hasenkopf

(since June 1, 2005)

- AachenMünchener Lebensversicherung AG, Aachen

Susanne Hille

- AachenMünchener Lebensversicherung AG, Aachen
- Volksfürsorge Deutsche Lebensversicherung AG, Hamburg

Brigitte Jakob

- AachenMünchener Versicherung AG, Aachen

Dr. Michael Kalka

- AachenMünchener Lebensversicherung AG, Aachen (Chairman)
- AachenMünchener Versicherung AG, Aachen (Chairman)
- Deutsche Bausparkasse Badenia AG, Karlsruhe
- Deutsche Vermögensberatung AG DVAG, Frankfurt-on-Main
- Generali Versicherung AG, Munich
- Volksfürsorge Deutsche Lebensversicherung AG, Hamburg

Dr. Helmut Kohl

Thomas Körber

(since August 1, 2005)

- AachenMünchener
Lebensversicherung AG, Aachen
(until December 31, 2005)

Michael Kuß

- Generali Versicherung AG, Munich

Martin Lemcke

- DeTe Immobilien, Deutsche Telekom
Immobilien und Service GmbH,
Münster

Ulrich Peters

(until July 31, 2005)

Dr. jur. Dr. h.c. mult. Reinfried Pohl

- AachenMünchener
Lebensversicherung AG, Aachen
- Allfinanz AG, Frankfurt-on-Main
- Assicurazioni Generali S.p.A,
Trieste/Italy
- Atlas Dienstleistungen für
Vermögensberatung GmbH,
Frankfurt-on-Main

Gerhard Preckel

(until June 1, 2005)

- Central Krankenversicherung AG,
Cologne

Roland Schwarz

- Deutsche Bausparkasse Badenia AG,
Karlsruhe

Rudolf Winkelmann

- Versorgungskasse der Volksfürsorge
VVaG, Hamburg
- Volksfürsorge Deutsche
Lebensversicherung AG, Hamburg

Dr. Wilhelm Winterstein

Board of Management

Mandates in other Supervisory Boards having to be established under legal provisions in German companies

Memberships in comparable control bodies of companies in Germany and abroad

Dr. Walter Thießen

Chief Executive Officer

- AachenMünchener Lebensversicherung AG, Aachen
- AachenMünchener Versicherung AG, Aachen
- AMB Generali Informatik Services GmbH, Aachen (Chairman)
- Central Krankenversicherung AG, Cologne
- Cosmos Lebensversicherungs-AG, Saarbrücken
- Envivas Krankenversicherung AG, Cologne
- Generali Lebensversicherung AG, Munich (Chairman)
- Generali Lloyd AG, Munich (Chairman)
- Generali Versicherung AG, Munich (Chairman)
- Volksfürsorge Deutsche Lebensversicherung AG, Hamburg (Chairman)
- Volksfürsorge Deutsche Sachversicherung AG, Hamburg (Chairman)
- Volksfürsorge Holding AG, Hamburg (Chairman)
- CommerzPartner Beratungsgesellschaft für Vorsorge- und Finanzprodukte mbH, Frankfurt-on-Main (until December 31, 2005)
- Thales Information Systems GmbH, Siegburg

Dietmar Meister

Chief Financial Officer

- AachenMünchener Lebensversicherung AG, Aachen
- Advocard Rechtsschutzversicherung AG, Hamburg (Chairman)
- AMB Generali Asset Managers Kapitalanlagegesellschaft mbH, Cologne (Chairman)
- AMB Generali Pensionskasse AG, Aachen
- Cosmos Lebensversicherungs-AG, Saarbrücken (Chairman)
- Cosmos Versicherung AG, Saarbrücken (Chairman)
- Deutsche Bausparkasse Badenia AG, Karlsruhe (Chairman)
- Dialog Lebensversicherungs-AG, Augsburg (Chairman)
- Generali Lebensversicherung AG, Munich
- Generali Lloyd AG, Munich
- Generali Versicherung AG, Munich
- Volksfürsorge Deutsche Lebensversicherung AG, Hamburg
- Volksfürsorge Deutsche Sachversicherung AG, Hamburg
- Volksfürsorge Holding AG, Hamburg
- Protektor Lebensversicherung-AG, Munich
- AMB Generali Immobilien GmbH, Cologne (Chairman)
- AM Prudence S.A., Neuilly-sur-Seine/France
- GLL Real Estate Partners GmbH, Munich

Glossary

Adjusted new business

This term refers to all new business policies for which the first premium after the issue of the policy has already been paid.

Affiliated enterprises

Affiliated enterprises are the parent and all its subsidiaries. Subsidiaries are companies in which the parent may exercise a controlling influence on business policy. This is the case, for instance, if the parent directly or indirectly holds the majority of voting rights, has the right to appoint or recall members of the managing board, of the supervisory board or of other controlling bodies of the subsidiary or if control agreements have been concluded.

Agio

Amount by which the price exceeds the nominal value of a security or the par value of a foreign currency. In most cases the agio is expressed as a percentage of the nominal value.

Allocation

Declaration that obligations of building societies have become due for payment. It refers both to the deposit under a building-society contract (accumulated savings) and to the building loan.

Amortized cost

The original cost is reduced by durable depreciation.

Asset-liability management

Asset-liability management analyses the effect which specific decisions regarding investment planning and the contents of products may have on the development of a life insurer's balance sheet. For that purpose prognoses are made regarding the development of the asset and liability sides of the balance sheet and the possible future risks and opportunities involved in this development are identified. The focus

is on the interdependencies of assets and liabilities.

Assets under management

All assets managed by the Group under its responsibility. They are recognized at fair value. They include the investments owned by the Group, the investments under unit-linked life insurance and receivables under banking and building-society business.

Associated enterprises

These are participating interests consolidated at equity, i.e. by including them in the consolidated financial statements with the corresponding share in the equity. The major prerequisite for doing so is the Group's capability of exercising a decisive influence on the operation and financial policy of the associated enterprise, independent of the Group actually making use of that influence.

Capital adequacy model

A model used to maintain an adequate capital equipment, especially in life insurance companies.

Cash flow

Flow of cash from operating, investing and financing activities created by the company during a specific period (source and application of funds).

Cessionaire

Reinsurer of the primary insurer

Claims and benefits, net

Expenditure (net of reinsurers' shares) for insurance claims, for premium refunds and for the change of the provision for future policy benefits and/or of underwriting provisions.

Combined ratio

Total ratio of claims and expenses

Contingent liabilities

Liabilities that do not have to be recognized in the balance sheet and where the probability of materialization appears to be uncertain (e.g. contingent liabilities under guarantee commitments).

Deferred acquisition costs

These comprise the expenses incurred by an insurance company for concluding new insurance policies or renewing existing policies. Among other costs they include acquisition commissions and expenses for handling proposal forms and risk assessment.

Deferred taxes

The calculation of deferred taxes under IFRS aims at giving a fair view of net assets. The amount of deferred taxes results from a comparison of asset values in the tax-based balance sheet and the IFRS balance sheet. Deferred taxes have to be set up for deviations in value if these differences have an effect on taxes in the future. Deferred tax liabilities arise if the IFRS value of assets exceeds the value under the tax-based balance sheet. Similarly deferred tax assets have to be set up if the value of assets under the tax-based balance sheet is higher than under IFRS.

Defined benefit obligation (DBO)

DBO means the present value of all defined-benefit obligations, taking into account assumed salary increases and the expected pension tendency, with only the portion attributable to past services being recognized.

Deposits receivable/payable under reinsurance business

Amount receivable by the reinsurance company from the ceding company on the basis of the reinsurance business assumed by the reinsurer and which for the latter is similar to an investment. The amount equals the amount provided to the ceding

company as a collateral. Analogously: deposits payable

Derivatives

Financial contracts whose value depends on the price development of an underlying asset. Examples: options, futures, forwards, interest and currency swaps.

Direct business

Insurance contract taken out by a primary (direct) insurance company with a private person or enterprise (while reinsurance business assumed, i.e. indirect business, refers to the business assumed from another primary insurer or a reinsurance company).

Duration

The duration is the average term of an interest-sensitive investment. It is a risk yardstick for the sensitivity to a change of interest rates.

Earnings per share

Key figure determined by dividing the consolidated net income for the year by the average number of shares issued and outstanding. The diluted earnings per share are determined by including the options exercised or to be exercised in the number of shares and in the net income. Options are created by the issue of convertible bonds or by subscription rights for shares.

Equity consolidation

Method used for recognizing the interests in associated enterprises. As a matter of principle, they are valued at the Group's share in the equity of these companies. In the case of interests in enterprises which also establish consolidated financial statements, the valuation is based on the share in the Group equity. Under current valuation this measurement is to be adjusted for the interest in equity changes, with the interest in the net income for the year being allocated to the consolidated result.

Fair value

As a general rule the fair value is equal to the market value in an active market. If there is no such market value, the latter is replaced by auxiliary values.

FAS

Financial Accounting Standards – Regulations defining details with regard to US-GAAP

Forwards

Financial forward transaction under which delivery and acceptance take place at a previously agreed date and price.

Free float

Refers to the percentage of shares actually tradable in the market and not tied by long-term strategic investors.

Futures

Standardized forward transactions which are traded at an exchange. Frequently at the agreed date a compensation payment is made instead of the actual delivery or acceptance.

Goodwill

Amount by which the purchase price for a subsidiary exceeds the interest in net assets on the date of acquisition, after winding up the unrealized capital gains/losses attributable to the purchaser.

Hybrid instruments

Instruments of the capital and derivatives market in the form of investments specifically designed to suit determined yield and risk preferences.

IAS

International Accounting Standards

IFRS

International Financial Reporting Standards. Since 2002 this term has been applied to

the whole framework of standards approved by the International Accounting Standards Board. Standards previously approved are still called International Accounting Standards (IAS).

Impairment rules

Test for determining the lower of cost or market – procedure for identifying a need for non-scheduled write-downs.

Loss recognition test

The loss recognition test is used to verify the adequacy of the provision for future policy benefits.

Market value

Amount that can be obtained in an active market by selling a financial investment.

Mutual funds

Separate funds managed by investment companies and offered to the general public for acquisition. Since they are mainly sold to private persons, legislation is considerably more restrictive than for → special funds.

Nominally weighted strike

This rate indicates the strike interest rate for the option writer weighted on the basis of the nominal values of the individual positions.

Operating expenses, net

This item includes the expenses for premium collection, expenses for the handling of the policy portfolio and reinsurance expenses. After deduction of commissions and profit shares received under reinsurance business ceded, the remaining expenses are the net operating expenses.

Options

In an option transaction, the buyer or seller acquires or sells the right, but not the obligation, to buy or sell a specific asset (→ underlying) during a specific term or at a specific date at an agreed price.

Portfolio changes

Portfolio changes comprise both portfolio entries and withdrawals. They occur when an insurance portfolio is accepted or ceded. This increases or reduces, as the case may be, the amount of the provision for future obligations in the balance sheet.

Premium deficiency test

By means of the premium deficiency test it is verified whether the provision for outstanding claims is adequate.

Premiums/premium income

Gross premiums written. All premiums received in the business year under direct (primary) insurance business and reinsurance business assumed.

Reinsurance premiums ceded. Share of the premiums paid to the reinsurer as a consideration for reinsuring certain risks.

Earned premiums. The premiums referring to the business year which determine the income for the business year. For calculating the amount of earned premiums, the preceding year's → unearned premiums referring to the reporting year are added to the → gross premiums written and the premium shares referring to future business years are deducted.

Property and casualty insurers

Due to the legal rule providing for a separation of insurance lines, property and casualty insurance, life insurance and health insurance have to be operated by legally independent enterprises. For credit and fidelity insurance and for legal-expenses insurance, the separation of insurance lines is no longer applicable, which means that these lines may also be operated by a property and casualty insurer.

Prospective unlocking principle

This principle applied to long-term health insurance contracts gives insurers the possibility to adjust premiums. The calculation

bases with a safety margin applicable at the beginning of the contract are maintained until premiums are adjusted for the contract. The new calculation bases are applicable until the next date of premium adjustment.

Provision for future policy benefits

Provision at the amount of the existing obligation to pay insurance claims and premium refunds, mainly in life and health insurance. The provision is calculated in line with actuarial methods as the balance of the present value of future obligations less the present value of future premiums.

Provision for outstanding claims

This provision includes the payment obligations for insurance claims which occurred before the reporting date but which have not yet been (completely) settled.

Provision for premium refunds

The part of the profit to be distributed to the policyholders is appropriated to a provision for premium refunds. These refunds may be made in line with statutory provisions or the Articles of Association or on a contractual or voluntary basis. The provision also includes deferred amounts.

PVFP (present value of future profits)

The value to be recognized in the balance sheet as the counter-value of insurance contracts upon the first-time consolidation of an insurance company.

Reinsurance

The acceptance of a risk written by another insurance company.

Retained profits

Profits which are not distributed but used for reinvestment.

Retrospective application

Part of the accounting standards are

applied on a retrospective basis, i.e. they are applied as if they had always been applicable. Within the scope of the application of the new standard, the preceding year's figures are adjusted accordingly.

Salvages

Recoveries from a damaged object which the insurer is entitled to receive after having paid the full indemnity. The term is mainly used in marine insurance. The term salvages is also used in a non-technical sense for the scrap value of a damaged object or the amounts obtained under recourses.

Solvency II

EU project for developing and introducing an EU-wide regulatory system for the insurance industry.

Special funds

Special funds are investment funds in which units can exclusively be acquired by institutional investors.

Stress test

Scenario-based method for measuring the effect of scenario variables that may occur in the case of extreme changes of parameters, such as changes of the market value of investments in the case of extreme market fluctuations.

True-up

True-up means the updating of parameters having a direct influence on margins. These include interest-rate assumptions, assumptions regarding lapse and mortality probabilities, developments of expenses and of claims and benefits

Underlying

An underlying is a security or another reference value on which a derivative financial instrument is based.

Unearned premiums

That part of the premium income of the year which refers to periods of insurance that lie after the reporting date, i.e. which are not yet earned as at the reporting date. In the balance sheet unearned premiums have to be shown as a separate line item under underwriting provisions.

US-GAAP

United States – Generally Accepted Accounting Principles

Zero bonds

Zero bonds, also called zero-coupon bonds, are discounted bonds whose yield is not paid at specific dates during the bond term but only once at the end of the term.

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Diversity of brands in the AMB Generali Group



Multi-line insurers and strong sales partners for our single-line providers



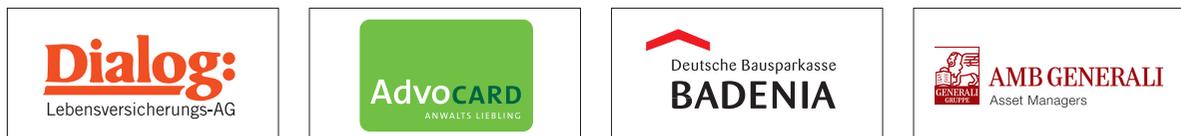
Single-line providers

Life and health



Legal expenses

Financial services



Service companies



Financial calendar

March

- March 8, 2006 Accounts Press Conference in Bensberg
- March 9, 2006 Analysts' Conference in Frankfurt-on-Main
- March 10, 2006 Analysts' Conference in London
- March 13, 2006 Analysts' Conference in Milano

May

- May 10, 2006 Group Report 1st Quarter 2006
- May 18, 2006 General Meeting in Aachen
- May 19, 2006 Dividend payment*

August

- August 10, 2006 Group Report 1st – 2nd Quarters 2006

November

- November 9, 2006 Group Report 1st – 3rd Quarters 2006

The updated financial calendar of AMB Generali is published on the Internet at:
www.amb.de
www.amb-general.de

* subject to resolution by the General Meeting

Imprint

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