Group Report 2006
AMB Generali Group

2006

Security. Peace of mind. Quality of life.

AMB GENERALI

Outline of the AMB Generali Group

Group net profit increased and market share expanded in all lines of insurance

- Group net profit rises to € 346 m – including an extraordinary tax item, the Group net profit amounts to € 451 m
- Net investment income increases by more than 9 percent
- Good business result influenced by improvements in operating business and decrease of total costs by € 39 m
- Total premiums grow by 4.6 percent to € 13.4 bn
- Life/health insurers and property/casualty insurers achieve growth above market level: premiums in life grow by 6.3 percent (market: 4.2 percent), in health by 4.6 percent (market: 4.2 percent) and in property/casualty by 0.1 percent (market: -1.1 percent)
- Market leadership in Riester business with a portfolio of more than 1.2 million policies
- Combined ratio keeps improving markedly by 1.2 percentage points to 95.7 percent
- Dividend raised to € 2.30 (2005: 2.05) per unit share

Strategic orientation

- Excellent basis for the AMB Generali Group: third-largest primary insurer in Germany with a strong market position in business providing for old age and healthcare
- Concentration on profitable business segments with private and small/medium commercial customers
- Financial-service provider with strong innovation capacity, customer orientation and a broad diversification of brands and distribution channels
- Focus in all lines of business on profitable and risk-adjusted growth
- Standard & Poor's again affirms AA rating, currently the best rating assigned to German primary insurers

Profitable expansion of market position in 2007

- Steady growth while profitability is increasing
- Continuation of programmes for optimization of structures and costs to increase corporate value and sustainably strengthen competitiveness
- Further qualification and efficiency increases for sales networks
- Advantages in competition due to integration into the international Generali Group
- Expansion of market shares in all lines of insurance business
- Group net profit targets of € 380 m for 2007 and € 450 m for 2008
- Long-term target: number 1 in profitability and distribution strength in German business with private and small/medium commercial customers

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Key figures of the AMB Generali Group

		2006	Change	2005	For details see page
		€	%	€	
Total premiums[1]	**m**	**13,407.6**	**4.6**	**12,814.9**	**47, 135**
Gross premiums written	**m**	**11,743.2**	**2.5**	**11,457.7**	**47, 135**
of which (fully consolidated figures): life	m	7,085.0	3.0	6,875.5	47, 135
health	m	1,665.6	4.6	1,592.0	47, 135
property/casualty	m	2,992.6	0.1	2,990.2	47, 135
Investment income (net)	m	3,764.1	9.3	3,442.8	47, 136 ff.
Claims and benefits (net)	m	-11,561.0	7.1	-10,797.1	50, 140 f.
Operating expenses (net)	m	-2,386.1	-1.0	-2,409.2	48, 141
Operating result	m	614.5	4.3	589.2	51, 100 f., 118 f.
Finance costs	m	-13.4	83.1	-7.3	50, 118 f.
Tax	m	-150.1	-44.0	-268.3	51, 142 f.
Net profit[2]	**m**	**450.9**	**43.8**	**313.6**	**51**
Net profit before extraordinary item due to corporation tax credit	**m**	**346.2**	**10.4**	**313.6**	**51**
Assets under management	**bn**	**95.4**	**6.1**	**89.9**	**51**
Equity	**bn**	**4.0**	**5.1**	**3.8**	**160 f.**
Number of employees[3]		17,606	-5.4	18,617	63, 178
of which fieldstaff		5,176	-10.0	5,748	63, 178
administrative staff		12,430	-3.4	12,869	63, 178
AMB Generali share					
Earnings per share		**8.36**	**42.3**	**5.87**	**16 f., 143**
Dividend per share		**2.30[4]**	**12.2**	**2.05**	**16 f., 62**
Dividend distribution	m	123.5[4]	12.2	110.0	17, 62
Price of AMB Generali share as at Dec. 31		**109.5**	**30.0**	**84.20**	**16 f.**

1 including the savings portions of the life insurance products concerned and the premiums of investment contracts

2 of which € 448.5 m attributable to the Group and € 2.4 m to minority interests (corresponding to the line items of the Income Statement "of which attributable to the equity holders of the parent" and "minority interests")

3 average number of employees in the enterprises included in the consolidation scope; preceding year's figure adjusted because of companies having entered the consolidation scope in the business year

4 subject to resolution by the General Meeting

Group Report 2006 AMB Generali Group

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Contents

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 Broggini
Attorney

Shirley Drewing-Jeitner*
Insurer

Dr. Alfredo Gysi
Chief Executive Officer of BSI SA

Karl-Rupert Hasenkopf*
Insurance employee

Susanne Hille*
Trade Union Secretary of the
trade union ver.di – Vereinte
Dienstleistungsgewerkschaft

Brigitte Jakob*
Trade Union Secretary of the
trade union ver.di – Vereinte
Dienstleistungsgewerkschaft

Dr. Michael Kalka
Retired Chief Executive

Dr. Helmut Kohl
Former German Chancellor

Thomas Körber*
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

Dr. jur. Dr. h.c. mult. Reinfried Pohl
Chief Executive Officer of
Deutsche Vermögensberatung AG
DVAG

Roland Schwarz*
Banker

Rudolf Winkelmann*
Insurance expert BWV

Dr. Wilhelm Winterstein
Retired banker

* Employees' representative

For the mandates held by the members of the Supervisory Board and the Board of Management see pages 191 ff.

Board of Management

Dr. Walter Thießen
Chief Executive Officer
Group Development
Sales Coordination
Human Resources
Process Optimization
Corporate Communication
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

General Representatives

Dott. Lorenzo Kravina
Manfred Schell

Dear Madam,
Dear Sir,

Your company continues its successful course. In the business year 2006 the AMB Generali Group again experienced a higher growth than the market – for the third time in a row since 2004. Before an extraordinary tax item, the Group net profit grew strongly to € 346 m (2005: 314 m). Including the non-recurring effect from the capitalization of corporation tax credits of € 105 m, the Group net profit thus amounts to € 451 m. I am pleased to inform you that the Board of Management and the Supervisory Board of AMB Generali Holding AG (AMB Generali) will propose to the General Meeting to resolve the distribution of a dividend of € 2.30 per bearer share. Again this represents a substantial increase of our pay-out. You thus benefit directly from the growing success of your enterprise. Over the past four years, the dividend has been raised by an average of more than 14 percent per year.

All business areas – life, health, property and casualty as well as financial services – made a substantial contribution to the good result of the Group. At the same time we were able to keep benefiting markedly from our profitability-based business policy by which we consistently increase the value of your company. I am all the more pleased with this strong performance of the entire Group since competition in the insurance industry is intensifying considerably and the political environment remains challenging.

The excellent features of our Group's success in 2006 are the following:

- With a net profit of € 346 m we increased the preceding year's result by more than 10 percent, thus exceeding our profit target of € 340 m.
- In all segments we achieved a stronger growth than the market. Our total premium income rose by 4.6 percent to € 13,408 m. The market only expects to reach a 2.3 percent average growth.
- We markedly increased our profitability and kept cutting costs. As a result, our combined ratio improved to 95.7 percent.

Again our life and health insurers were the growth engine in insurance business. This positive development is driven by the fact that people are becoming increasingly aware of the necessity to take our private provision. This applies both to retirement savings and healthcare. In 2006 our life insurers experienced a 6.3 percent growth of total premium income. As market leader we benefit to a particular extent from the rising demand for Riester policies with a state incentive, of which we sold more than 350,000 contracts in 2006. Our health insurers operate in a difficult environment. The controversial debate about the healthcare reform in Germany led to uncertainty among the population and in the industry. Nevertheless our companies again stood their ground better than the market in 2006. With a 4.6 percent increase of premium volume we are above the average growth of 4.2 percent expected for the market.

Our property and casualty insurers are facing keen price competition. This applies above all to motor business, the biggest class of insurance. In this field, competition for market shares is fierce. Against this background and taking into account our pruning measures of recent years and our selective underwriting policy, we are satisfied to have achieved overall growth in property and casualty business. While the German Insurance Association expects a 1.1 percent decrease for the market, our companies witnessed a growth of 0.1 percent.

Dr. Walter Thießen, Dietmar Meister

Dietmar Meister, my associate in the Board of Management, and myself are particularly pleased to have achieved noticeable success also in the long term. From 2002 to 2006 we increased our total premiums by nearly € 2 bn by organic growth. During this period we grew more strongly than the market and expanded our position as the third-largest primary insurer in Germany. In life insurance in particular, our premium development was substantially above the market level: since 2002 our market share has steadily grown to more than 11 percent. In new business we have increased our market share both in terms of regular premiums (market share of 15 percent) and single premiums. As a result of the strong growth in health insurance we continuously expanded our market position in this field, too. Until 2004 our development in property and casualty insurance was characterized by the withdrawal from industrial insurance and the pruning of our motor portfolio involving a decrease of premium income. The consistent increase of profitability as a result of these measures is illustrated by the substantial improvement of the combined ratio. Across the Group, we reduced total costs by more than € 130 m in the past five years. During that period, you as shareholders benefited from continuously growing net profits by rising dividends, on the one hand, and by the positive development of the share price, on the other hand.

Key figures of the AMB Generali Group

		2002	2003	2004	2005	2006
Life new business						
APE [1]	**€ m**	**901**	**1,009**	**1,409**	**1,010**	**1,105**
Regular premiums	€ m	859	967	1,370	957	1,020
Single premiums	€ m	417	416	385	532	850
Total premiums, direct business	**€ m**	**11,489**	**11,555**	**12,065**	**12,808**	**13,401**
Life	€ m	6,892	7,086	7,549	8,233	8,749
Health	€ m	1,246	1,368	1,516	1,592	1,666
Property/casualty	€ m	3,351	3,101	3,000	2,983	2,986
Combined ratio	**%**	**110.2**	**99.5**	**99.4**	**96.9**	**95.7**
Total expenses	**€ m**	**1,951**	**1,969**	**1,886**	**1,857**	**1,818**
Dividend per share	**€**	**1.35**	**1.35**	**1.75**	**2.05**	**2.30** [2]
Share price [3]	**€**	**52.02**	**60.88**	**60.16**	**84.20**	**109.50**

1 APE = Annual Premium Equivalent; market standard to define the premium income of new business; equals regular premiums plus 10 percent of single premiums

2 subject to resolution by the General Meeting

3 XETRA year-end price

These figures show: we are growing, earnings are rising, we have costs under control – our strategy and business policy are successful. The excellent AA rating for our Group, which the renowned rating agency Standard & Poor's again assigned to us in 2006, is a clear recognition of this achievement. This quality mark – currently the best rating for primary insurers in Germany – confirms our top position in the market.

Just as important as financial strength, or even a prerequisite for such strength, is the capacity of our Group to further enhance its strategy and structure. Also in this field we made good headway in 2006. We attach importance to strengthening what has proved to be successful while simultaneously raising further potentials. We are aware of the advantages involved in our diversity of brands and distribution channels. This "Unity in Diversity" approach enables us, like no other market player, to address customers through various different sales channels, to position strong brands and to respond flexibly to changes and opportunities in market segments.

Our market environment remains highly competitive. A wait-and-see attitude or stagnation would mean regression. There is still a lot to be done and we want to become the number 1 in profitability and distribution strength in German business with private customers and small/medium commercial clients. For that purpose we plan to keep cutting costs on a sustainable basis and to reach a Group net profit of € 450 m by the year 2008.

In order to achieve these targets we will continue to expand our strong competitiveness by increasing our efficiency while at the same time optimizing our Group structures. By a concentration of internal tasks we want to become even more efficient, effective and customer-friendly in selected fields. For that purpose we will establish two new units in 2007 which will in the future be in charge, across the Group, for accounting, tax, purchasing, administration and facility management, on the one hand, and for the management of special and major claims, on the other hand.

In the year under report we mainly focussed on plans for strategic initiatives to increase our competitiveness. We are now in the implementation stage. We concentrate on optimizing customer contacts and we are reorganizing our traditional fieldstaff networks. The example of Deutsche Vermögensberatung and AachenMünchener proves that we are proceeding swiftly and consistently. Our longstanding and very successful distribution partner will become the exclusive sales channel of AachenMünchener. We will continue the extraordinarily efficient cooperation with Deutsche Vermögensberatung, which ranges from product development to customer service, with a new allocation of roles. In parallel, we keep enhancing the distribution channels of the other companies on an individual basis and in line with specific requirements. Already today CosmosDirekt and Dialog have a specific orientation at one distribution channel. Volksfürsorge, Generali and Central pursue a multi-channel approach while positioning themselves in different business fields and with regard to different target groups.

We have every reason, ladies and gentlemen, to be optimistic about the future. One thing is certain: we will maintain our business policy of improving our operating profitability while increasing our business volumes. We see this as an entrepreneurial core activity. The AMB Generali Group is excellently positioned in the growth market of insurance. We offer a broad and comprehensive product range that we bring on the market with our high-quality sales networks providing expert advice.

All this requires enormous efforts and, in many areas, a high degree of flexibility, especially from our staff. Also in the past business year, within the scope of all necessary changes in the Group, our employees were motivated and committed in performing their individual tasks. They represent the foundations for the success we achieve as an enterprise. For this reason, the children of our employees are in the visual focus of this Report as a symbol for the future and as ambassadors for the AMB Generali Group.

Also on behalf of Dietmar Meister, my associate in the Board of Management, I thank you, our shareholders, for your continued trust in our work. Also in the future we will do everything in our power to keep strengthening and increasing the value of your company.

Yours sincerely,

Dr. Walter Thießen
Chief Executive Officer

Dott. Lorenzo Kravina
General Representative

Property and Casualty Insurance
Legal Expenses Insurance
Health Insurance
Reinsurance
Process Optimization

Manfred Schell
General Representative

Group Press-Relations Manager
Corporate Communication

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 law and by the Articles of Association, 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.

General information

In the business year 2006 there were no changes regarding membership in the Supervisory Board.
The Supervisory Board held five meetings in the year under report. The General Committee of the Supervisory Board met once. The Committee in charge of personnel issues of the Management Board also held one meeting. Furthermore an ad-hoc committee meeting was held on the occasion of the public offer by Generali Beteiligungs-GmbH to acquire shares of the company. The committee under section 27 para. 3 of the Co-Determination Act did not have to be convened.

Major issues of deliberation and resolutions

The Board of Management informed us comprehensively about business policy, corporate planning, business performance, risk situation and risk management as well as about the status 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.

By resolution of the Supervisory Board the mandate of Dietmar Meister as a member of the Board of Management was renewed for a period of five years.

Voluntary public offer of Generali Beteiligungs-GmbH

The Supervisory Board and the Board of Management comprehensively discussed the voluntary public offer of Generali Beteiligungs-GmbH to the shareholders of AMB Generali Holding AG to acquire their shares for a price of € 98.00 per share. In particular, the extraordinary meeting of the Supervisory Board of April 4, 2006 dealt with the issues of the intention of the bidder with regard to AMB Generali, the pricing and financing of the offer, the statement by the Board of Management as well as the fairness opinion of the investment bank in respect of the public offer. After a detailed discussion, the Supervisory Board joined the favourable statement by the Board of Management with regard to the voluntary public offer.

Measures to increase competitiveness

In various meetings of the Supervisory Board, the Board of Management reported about the measures taken to increase the competitiveness of the AMB Generali Group summarized under the project name "*MOVE*". The Board of Management informed the Supervisory Board about the current status of the projects pursued by the individual Group companies which focus on the core activities of gaining customers, retaining customers and providing service to customers, and about the joint business initiatives in 2006.

Reorientation of distribution networks

In the Supervisory Board meeting of November 23, 2006 the Board of Management provided details on the reorientation of sales networks, which includes among others the transfer of the exclusive sales network of AachenMünchener to Deutsche Vermögensberatung AG and the reinforcement of Volksfürsorge's activities in broker business.

Discussion of changes in the legal environment

Furthermore, the new risk management of AMB Generali, especially in the context of the measures to increase the competitiveness of the AMB Generali Group, as well as the changes in the legal environment, in particular the debates about the reform of the Insurance Contract Act (VVG) and the healthcare reform, were presented in detail. The challenges and opportunities of the healthcare reform were discussed in the Supervisory Board.

Major transactions concerning participating interests of AMB Generali

In line with the catalogue of transactions to be submitted for approval as resolved by the Supervisory Board, the latter was involved, among others, in the decisions concerning major transactions of the AMB Generali Group. In particular, in its meeting of November 23, 2006 the General Committee approved the contribution of the shares of AMB Generali Asset Managers Kapitalanlagegesellschaft mbH into Generali Investments S.p.A. planned for the year 2007 and the acquisition of shares in Central Krankenversicherung by AMB Generali Holding AG now directly holding 100 percent of Central.

Corporate Governance and declaration of compliance

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. 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 Supervisory Board and 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. To further optimize the Supervisory Board's activities, both sets of internal rules were slightly modified within the scope of a Group-wide harmonization. In its meeting of November 23, 2006 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 activities in the past business year. That Board member did not take part in the discussions and the voting on the decisions concerned.

Information in compliance with the Act Implementing the Takeovers Directive

In its meeting of March 13, 2007 the Supervisory Board dealt with the information and the report on such information in the Management Report in compliance with sections 289 para. 4 and 315 para. 4 of the German Commercial Code (HGB). Reference is made to the corresponding details indicated in the Management Report (p. 91 ff.). The Supervisory Board verified the information and details given and endorses them. From the Supervisory Board's point of view the information provided is complete.

Audit of the Annual Financial Statements of the company and of the Consolidated Financial Statements

PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf, audited the Annual Financial Statements, the Management Report, the Consolidated Financial Statements established in compliance with International Financial Reporting Standards (IFRS) and the Group Management Report for the business year 2006, 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 (AktG). 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 company's 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 for the business year 2006, 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 relationships with affiliated enterprises.
The Supervisory Board approves the Annual Financial Statements of the company and the Consolidated Financial Statements for the business year 2006. 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.

We wish to express our special thanks to the employees of AMB Generali and our 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 executives and employees of the AMB Generali Group.

Aachen, March 13, 2007

On behalf of the Supervisory Board

Dr. Wolfgang Kaske
Chairman

The AMB Generali Share

With a 33 percent gain, the AMB Generali share experienced an above-average performance compared to German insurance stock.

In the course of 2006, stock markets again experienced a positive development. After substantial corrections in the second quarter, international and national stock markets again resumed the positive development witnessed early in the year. The Dow Jones index in the U.S. gained 19 percent in the year under report. During the same period the European DJ STOXX index and the German DAX standard saw somewhat higher gains of 21 and 22 percent respectively. The MDAX, which reflects the development of medium-sized companies primarily operating in Germany, rose by 29 percent.

Year-end price of AMB Generali share at € 109.50

This positive development was also followed by the 21 percent rise of the Prime Insurance index, which is of relevance for the German insurance industry. The AMB Generali share again exceeded this performance, including the dividend, by reaching a 33 percent gain. At year-end 2006, the share quoted at a closing price of € 109.50 thus experiencing a 30 percent increase compared to the previous year. The development of the share price was materially influenced by the voluntary public offer of Generali Beteiligungs-GmbH, a wholly-owned subsidiary of Assicurazioni Generali S.p.A., of March 2006.

Performance of the AMB Generali share in 2006

Indexed performance development; December 31, 2005 = 100

Market places and indices

The AMB Generali share is admitted to the prime standard segment and is traded on all German stock markets. More than 96 percent of share transactions were handled by the XETRA electronic trading platform. In addition, the AMB Generali share is represented in the MDAX and the Prime Insurance indices.

AMB Generali share at a glance

		2006	2005
Bearer share			
Number of shares (as at Dec. 31)		53,679,994	53,679,994
Number of shares (average)		53,679,881	53,678,181
Highest price	€	113.32	84.36
Lowest price	€	84.04	58.24
Year-end price	€	109.50	84.20
Market capitalization	**€'000**	**5,877,959**	**4,519,855**
Dividend distribution	**€'000**	**123,464***	**110,044**
Key figures per share			
Earnings per share	**€**	**8.36**	**5.87**
Dividend per share	**€**	**2.30***	**2.05**

* subject to resolution by the General Meeting

as at Dec. 31, 2006

Dividend for the business year 2006

Dividend of € 2.30 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 2002 and 2003, which were very difficult years for insurance companies, when 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 3, 2007 to distribute a dividend of € 2.30 for each unit share for the business year 2006, which is € 0.25 above the previous year's dividend level.

Share capital of AMB Generali

The subscribed capital of AMB Generali remains unchanged at the previous 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, 2006

Voluntary public offer of Generali Beteiligungs-GmbH

On March 6, 2006, when presenting is 2006 – 2008 Strategic Plan, Assicurazioni Generali S.p.A., Trieste, announced that its wholly-owned subsidiary Generali Beteiligungs-GmbH would make an offer to the shareholders of AMB Generali Holding AG to acquire their shares at a price of € 98.00 per share.

On March 14, 2006 AMB Generali was informed by Generali Beteiligungs-GmbH that the corresponding offer document had been submitted to the German Financial Services Regulator BaFin for approval.

The term of the offer started on March 25, 2006, immediately after the BaFin approval, and ended on April 24, 2006 at 24.00 h. On March 29, 2006 the Board of Management of AMB Generali published its statement on the offer on the Internet. In that statement the Board of Management of AMB Generali welcomed the planned increase of the stake held by Generali Beteiligungs-GmbH and gave a positive assessment of the intentions and strategies indicated by the bidder in the offer document. At the same time, the purchase price offered was considered to be adequate by the Board of Management of AMB Generali.

By the reference date of April 24, 2006, 24.00 h, the acquisition offer had been accepted for a total of 7,607,203 shares of AMB Generali Holding. This equalled a stake of 14.17 percent of the share capital and the voting rights of AMB Generali Holding AG. The total number of the shares of AMB Generali Holding for which the acquisition offer had been accepted by the reference date, plus the number of shares held on the reference date by the bidder, Assicurazioni Generali S.p.A. and the latter's subsidiaries (including the treasury stock held by AMB Generali Holding AG) was 45,655,568 shares of AMB Generali Holding AG. This represented 85.05 percent of the share capital and the voting rights of AMB Generali Holding AG.

Shareholder structure of AMB Generali

Assicurazioni Generali S.p.A. holds a total stake of 85.05 percent in AMB Generali, directly and indirectly through subsidiaries. The free float comprises the remaining 14.95 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

The target of our Investor Relations activities is an open and trustful communication with institutional and private investors as well as analysts by which we make the economic strength of our Group transparent to the capital market. On our website www.amb-generali.de, “Investor Relations” section, interested investors have access to details about the AMB Generali share. Among other facts, you will find comprehensive information on our annual and interim reports, Investor Relations presentations, key figures and our General Meeting.

The Investor Relations team will be pleased to answer any further questions you may have. Contacts and our financial calendar 2007 are indicated on the back cover pages.

Standard & Poor's AA Rating

Standard & Poor's (S&P) affirmed the outstanding AA rating ("excellent") for the insurance companies of the AMB Generali Group under an interactive rating procedure in 2006. With this financial strength rating, the companies of the AMB Generali Group again achieved the top position for primary insurers in the German market.

In 2006 the AMB Generali Group again had its Group companies rated by the internationally renowned rating agency S&P. The AA ("excellent") insurer financial strength rating was affirmed for our insurance companies

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

Core to Assicurazioni Generali S.p.A.

Once again the companies of the AMB Generali Group achieved the best rating currently assigned by S&P to primary insurers in Germany. Furthermore the rating affirmed our core status to Assicurazioni Generali S.p.A. S&P qualified the outlook as "stable".

At the same time, S&P raised the outlook for Deutsche Bausparkasse Badenia AG to "positive" under its interactive rating procedure. The rating for Badenia thus improved to A/positive. The raised rating reflects the successful restructuring of the building society and its massive cost reductions. At the same time S&P affirms that Badenia has improved its capitalization and recognizes its strategic reorientation which gives reason to expect an adequate profitability.

Interactive ratings are more comprehensive and detailed in their analyses, and are thus more significant than so-called "pi-ratings" based on public information only. In a forward-looking analysis, S&P assesses factors such as market risk, competitive position, management and corporate strategy, profitability, investments, capitalization, liquidity

UNITY IN DIVERSITY AMB Generali Holding AG is the holding company managing the German units of the international Generali Group and is responsible for controlling and further developing the AMB Generali Group. This creates clear structures, a concentration of expertise and the realization of synergies. Insurers and service providers of renown operate under the parent AMB Generali. The Group's diversity covers the full range of financial services: innovative products meeting customers' requirements and qualified advice. This creates **Security. Peace of mind. Quality of life**.


"My dad always says the most important thing
is to talk to each other and keep good contact.
So everybody knows what the other wants.
They call that **communication**."
Johanna Linder, 6 years, and Simon Heinen, 7 years, communication experts
AMB GENERALI
GENERALI
GRUPPE

and, finally, financial flexibility. These assessment criteria are completed by Enterprise Risk Management (ERM) with an analytical focus on risk profiles and adequate capitalization of insurers. ERM calls for a comprehensive risk management that establishes limits and margins for all important risks and determines consistent economic standards.

Strong competitive position, management strength and strong and further improving profitability

According to S&P there are mainly three factors contributing to the good rating for the AMB Generali Group, which is above the average rating for insurers in the market: our strong competitive position, the strength of our management and our strong and further improving profitability. The competitive position of AMB Generali is based on our multi-brand and multi-channel strategy, represented by successful brands in the German insurance market. This competitive strength becomes particularly evident in our life insurers which, thanks to their distribution power combined with a high degree of product innovation, take leading positions in key growth segments, such as term life, Riester and unit-linked products. S&P states that due to an excellent management performance we position ourselves successfully as third-largest primary insurance group while maintaining a sound financial profile. In addition S&P also confirms our strong operating performance and continues to expect significant improvements.

With our strong brands we are reliable and efficient partners for our customers and provide them with innovative products.

Uniqueness of cooperation with Deutsche Vermögensberatung

After an intensive analysis of our strategy and of the orientation of the AMB Generali Group's distribution policy, S&P affirms that our cooperation with Deutsche Vermögenberatung AG is unique. It has materially contributed to our Group's dynamic growth in past years. In the opinion of the rating specialists, the consistent strategic step of tying the traditional sales network of AachenMünchener to our longstanding partner on a mutually exclusive basis opens up the perspective of dynamic future growth to the AMB Generali Group.

Having studied management and strategy, competitive position and financial strength, S&P affirms that the AMB Generali Group is well positioned to "successfully address the strategic risks associated with the changing competitive and regulatory landscape in the German insurance market".

Also in the future the AMB Generali Group will undergo the rating procedure once a year in order to assess its financial strength and to sustainably prove the positive development of its profitability.

Group Management Report

Economic environment in 2006

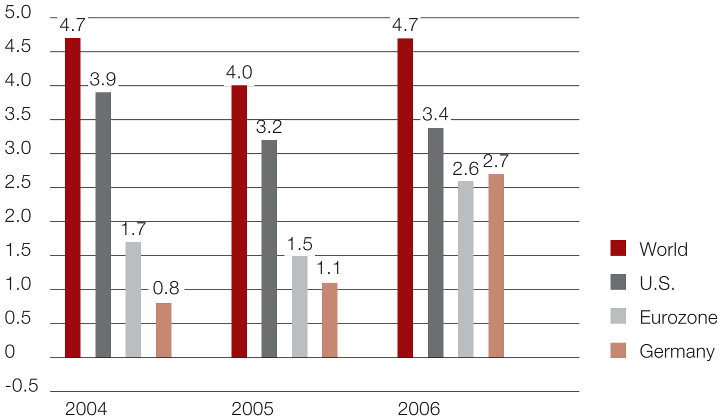
In 2006 the global economy continued to grow. Compared to 2005 global economic activities even invigorated. This was not least attributable to the fact that as a result of the recovery of its domestic economy, the eurozone experienced the highest growth in six years. The development of bond markets was characterized by the end of rate-tightening in the U.S. and the cooling down of the U.S. economy towards year-end as well as by continued increases of bank rates and a positive economic cycle in the eurozone. As a whole, the yields of 10-year government bonds rose compared to the level at the beginning of the year. Stock markets saw soaring prices in Europe and the U.S.

Strong global growth in 2006

In the year under report the global economy gained strength. With a growth of global production by 4.7 percent, the level of the 2004 record year was reached again. One of the reasons for the acceleration of global economic growth was the fact that the cycle in the eurozone rebounded markedly while growth in the U.S. and Japan remained stable. The gross domestic product in the eurozone rose by 2.6 percent which still lags behind U.S. growth.

Production growth in Germany was 2.7 percent. For the first time in more than a decade growth reached eurozone level again. Contrary to previous years, the expansion of the overall economy was also underpinned by a stronger domestic economy. Vigorous investment activities were accompanied by higher consumer spending. Consumption was also favoured by an improvement of the labour market. The average unemployment ratio in 2006 was 10.8 percent, which is 0.9 points below the 2005 level. Furthermore the domestic economy also benefited from the football world cup, accelerated consumer spending ahead of the increase of value-added tax and decreasing crude oil prices in the second half of 2006. This also underpinned the decrease of inflation to 1.7 percent.

Economic growth in selected regions since 2004



Figures in %

Source: datastream

Financial markets

Substantial gains for shares in Europe and the U.S.

Stock markets on either side of the Atlantic witnessed very vigorous, albeit volatile price surges this year. Markets were driven by a persistently good growth of corporate earnings, a level of merger and acquisition activities which continued to be high and by a prosperous economic cycle. For a transitory period worries about persistent rate tightening by the U.S. Federal Reserve made stock markets plummet. Only once the end of the rate-tightening phase became apparent, stock prices started rising again. Compared to the situation at the beginning of the year, an equity investment had a return of 21 percent and 19 percent in Europe and the U.S. respectively. German shares experienced a rise similar to European ones.

Rising yields in U.S. and eurozone

In the first half of the year bond markets got under strong pressure. As a result of good cyclical data, accompanied by speculations about a continuation of bank-rate hikes in the U.S., the yields of 10-year government bonds temporarily increased to above 5.0 percent in the U.S. and more than 4.0 percent in the eurozone. It was not until it turned out in the further course of the year that the U.S. Federal Reserve would not raise its key rate above the level of 5.25 percent and the economic cycle showed signs of a slowdown that bond prices started rising again. In the eurozone the recovery of bond markets was less strong because the European Central Bank went on raising its bank rate towards a normal level and the economic cycle developed better than in the U.S. At year-end the yield level of long-term government bonds was 4.6 and 3.8 percent in the U.S. and the eurozone respectively. Compared to the beginning of the year, yields only rose slightly in the U.S. while the eurozone witnessed a marked increase.

Yield development of selected asset classes[1]

	2006	2005	2004
Bonds[2]			
World except U.S. and eurozone	6.0	-6.5	10.1
U.S.	3.4	2.9	3.7
Eurozone			
Treasuries	0.2	5.3	7.7
Corporate bonds (not including financial instruments)	0.7	3.4	7.5
Shares[3]			
S&P500	19.1	1.7	5.3
DJ STOXX	20.8	26.7	12.2
DAX	22.0	27.1	7.3

Figures in %

1 local currency

2 total yield composed of regular interest and price change

3 performance indices

Insurance industry and financial services sector

The insurance industry is currently undergoing a reorientation phase. An increasingly dynamic competition, a changing legal environment, increasing requirements regarding high-quality insurance cover and a progressing international division of labour represent great challenges for the industry. Insurers respond to the necessary change processes in order to be able to face competition in the future. Though the industry continued to grow in this changing environment, the rhythm of expansion is slightly losing momentum compared to the past.

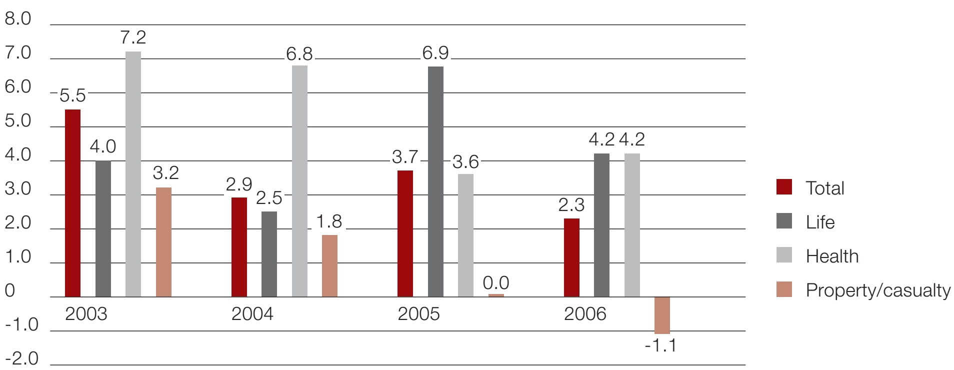
Insurance industry grows by 2.3 percent

In the year under report the insurance industry benefited to a limited extent only from the overall improvement of economic sentiment. On the one hand, supported by the premium development in life and health insurance, the turnover continued to rise in the year 2006. On the other hand, ongoing premium cuts and intensive price competition in property and casualty insurance continued to have a curbing effect on business. According to preliminary calculations, the 454 insurance companies which are members of the German Insurance Association (GDV) experienced a growth of approximately 2.3 percent. This is markedly below the 2005 growth level of 3.7 percent. The total premium income across all lines and classes amounted to about € 161.6 bn (preceding year: 158.0 bn).

Premium growth in life and health companies only

The growth of the industry is exclusively supported by the life and health insurers, which experienced a growth of more than 4 percent each. Especially funded provision for old age saw an increasingly dynamic development and it was thus possible to overcome the dented growth that followed the introduction of the Retirement Income Act. The demand tendency in favour of long-term contracts of old-age provision is increasingly becoming evident in the new business of pension covers of which by far more than 20 million policies have been concluded since the so-called "Riester reform" came into force.

Premium growth by lines of business



Figures in %, incl. pension schemes and funds

Source: GDV

4.2 percent increase of premium income in life

Life insurers, pension schemes and pension funds experienced a total growth of premium income – according to preliminary GDV estimates – by 4.2 percent to € 78.3 bn (preceding year: 75.2 bn). For policies with regular premiums, the annualized premium income under new business rose by 9.9 percent to € 6.8 bn (preceding year: 6.2 bn) while single premium new business increased by 32.8 percent to € 12.3 bn (preceding year: 9.3 bn).

2 m "Riester policies" sold

The sales of so-called "Riester products" continued to experience a highly dynamic development. As a whole about 2.0 m (preceding year: 1.1 m) contracts qualifying for incentives were taken out in the year 2006. The portfolio of "Riester policies" concluded across the market has meanwhile reached approximately 7 million contracts. The demand for the so-called "Rürup pension", however, continued to be weak. As a whole, close to 170,000 basic pension contracts were sold across the market in 2006. This equals an 8.8 percent growth. Most of these contracts, close to 100,000, were taken out as unit-linked pension policies.
In the field of corporate pensions, business was satisfactory. On the basis of preliminary figures the growth of pension-scheme companies reduced to 9.7 percent (preceding

2006 premium income by lines of business

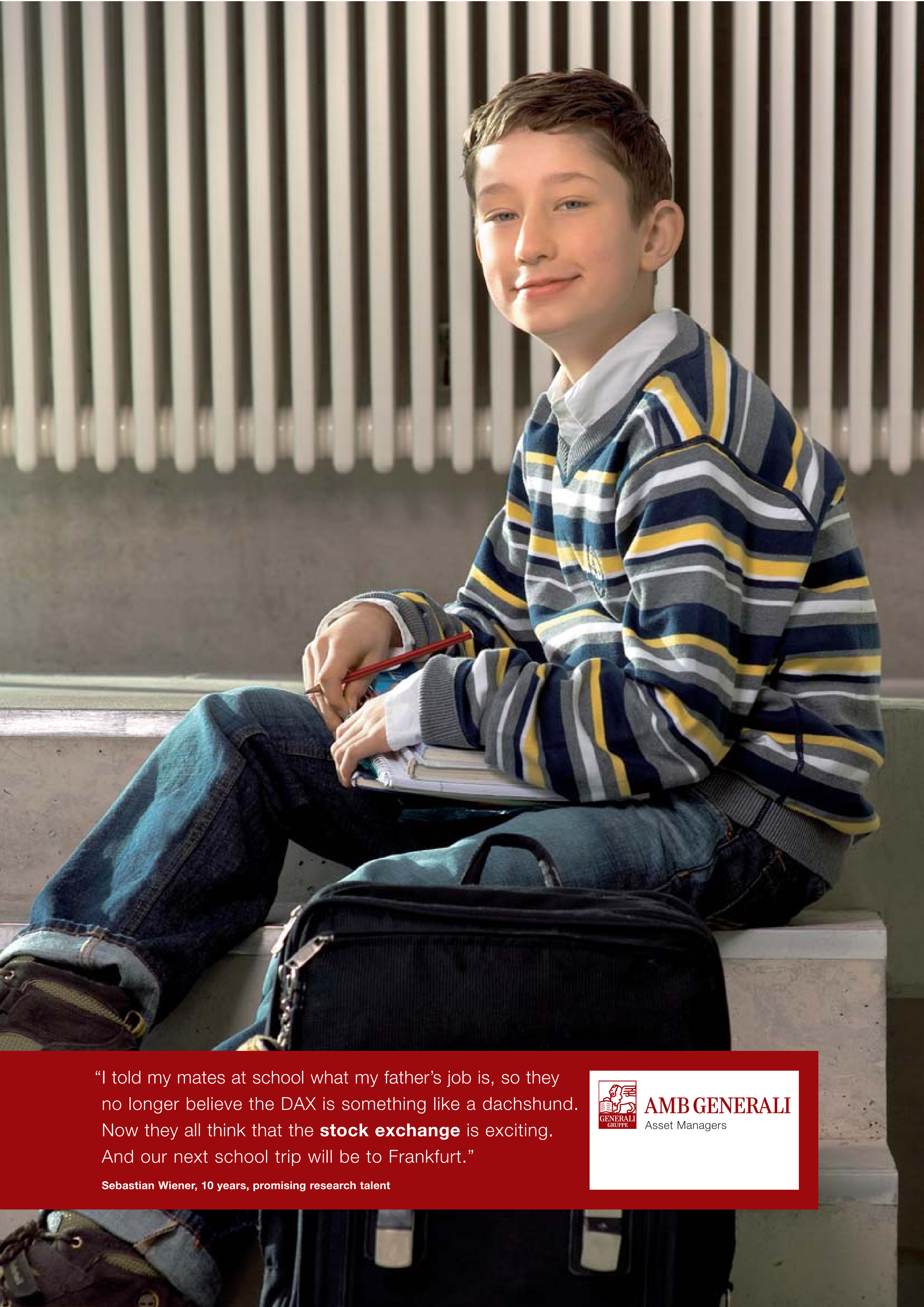
	Premium income € bn	Change over prec. year in %
Life insurance	**78.3**	**4.2**
Private-sector health insurance	**28.5**	**4.2**
Property and casualty insurance*	**54.8**	**-1.1**
Motor insurance	21.1	-4.1
General liability insurance	6.8	0.5
Personal accident insurance	6.2	2.5
Legal expenses insurance	3.1	1.5
Other classes	17.6	-0.5
Total insurance	**161.6**	**2.3**

German market, preliminary figures

* German direct business; not including nuclear, aviation and professional indemnity insurance

Source: GDV (as at January 2007)

STRONG IN FUNDS With investments of € 75.3 bn and more than 122,500 customer deposits, AMB Generali Asset Managers is one of the **biggest asset managers** in Germany. As a competence centre within the international Group, the company is in charge of the areas of economic research and tactical allocation and for the business field of private equity. The portfolio consists mainly of the Group's financial assets. But the asset specialists also manage billions of euros in mutual-fund investments all over the world as well as third-party mandates. This way AMB Generali Asset Managers is extraordinarily successful in completing the Group's traditional insurance business by its investment-fund segment.


"I told my mates at school what my father's job is, so they no longer believe the DAX is something like a dachshund. Now they all think that the **stock exchange** is exciting. And our next school trip will be to Frankfurt."
Sebastian Wiener, 10 years, promising research talent
GENERALI GRUPPE
AMB GENERALI
Asset Managers

year: 37.3 percent) reaching a volume of € 2.7 bn, while the pension funds – which only account for a small business volume of € 0.8 bn – saw a markedly better growth of approximately 650 percent (preceding year: -16.0 percent).

Health insurance grows by 4.2 percent

In the business year 2006 the premium income of private-sector health insurance rose by 4.2 percent (preceding year: 3.6 percent) to € 28.5 bn. Out of that amount, approximately € 26.6 bn (preceding year: 25.5 bn) were attributable to full and complementary health covers. This increase of premium income is both due to new business and to a rise of benefit payments leading to the corresponding premium adjustments. The number of persons insured under full health covers only rose slightly to about 8.5 million. This situation continues to be affected by the dramatic 2003 increase of the income threshold for obligatory membership in public health funds. In addition, there was uncertainty among consumers amid discussions about the healthcare reform.

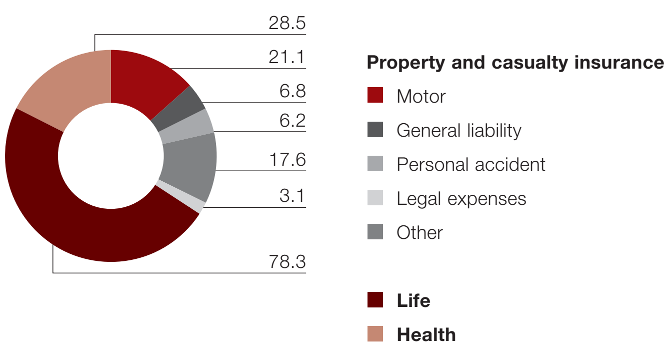
Complementary covers, however, kept on witnessing marked growth rates. By year-end 2006 more than 18 million persons took out complementary private covers in addition to their public health insurance. This above-average development is mainly the result of political debates about the future of the healthcare system and to benefit cuts in public health insurance.

Market environment in property and casualty insurance continues to be difficult

1.1 percent decrease in property and casualty insurance

After the comparatively good years 2003 and 2004 and the stagnation in 2005, property and casualty insurance experienced a marked decrease in 2006. Premium income in the industry dropped by 1.1 percent. This was mainly attributable to the lower premium income in motor insurance. In the light of marginal portfolio growth and sinking average premiums as a result of rising price competition and changeovers to more favourable non-claims and car-type categories, premium income fell by 4.1 percent (preceding year: -2.2 percent). The other classes – with the exception of industrial business – witnessed premium growth. The premium income of personal accident insurance rose by 2.5 percent (preceding year: 1.1 percent), homeowners insurance by 2.0 percent (preceding year: 3.6 percent) and legal expenses insurance by 1.5 percent (preceding year:

2006 premium income by lines of business



Figures in € bn

Source: GDV

3.1 percent). The premium growth in general liability insurance of 0.5 percent (preceding year: 4.2 percent) was slightly weaker.

Divided market in building-society business

Building societies experience growth of new business

In 2006, the general environment for the market of building-society business continued to be divided. The abolition of the home subsidy early in the year and delays with regard to including residential property in the regulations of the Retirement Income Act affected the development in the industry just as much as the persistently low level of interest rates. On the other hand, the improvement of the economic environment, the slow increase of construction activities and the necessity of providing more for retirement and for the future had a stimulating effect on new business. As at December 31, 2006 private-sector building societies experienced an increase of new business by 1 percent to € 61.1 bn in terms of target contract sums. The number of contracts, however, dropped by 5.5 percent to 2,285,860.

German investment industry manages more than € 1.4 trillion

Volume of German investment industry at record level

In 2006 the German investment industry had a net volume of new investments amounting to € 59.6 bn (preceding year: 82.0 bn). The net new investments of special funds amounted to € 48.3 bn (preceding year: 40.4 bn) and were ahead of mutual funds with an inflow of € 11.3 bn (preceding year: 41.6 bn). At year-end 2006 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 to € 1,409 bn. Out of the total assets under management an amount of € 570.7 bn (preceding year: 545.4 bn) was attributable to mutual funds while special funds accounted for € 669.5 bn (preceding year: 614.8 bn).


AREA
Pro Line
Aachen Münchener
“I got my skateboard from daddy, my helmet from grandpa and my mum insured me. She says it’s called **“Junior Future Concept”** and it’s only for kids. And now I can’t wait for my brother to teach me all his tricks.”
Maurice App, 5 years, aspiring skateboarder

Development focus of the AMB Generali Group

The activities of AMB Generali and its subsidiaries aim to strengthen and further expand the excellent market position of the AMB Generali Group in the interest of our customers and our shareholders. The diversity of our brands and distribution channels are the basis for the above-average development of our Group. To increase our competitiveness we initiated further essential measures in the year under report.

The diversity of our distribution channels and our multi-brand strategy are the vital basis for the strong position of the AMB Generali Group in the market. They are the most important features distinguishing ourselves from our competitors. Other key factors for our success are a broad product range oriented at customers, our focus on profitable business with private customers and small/medium commercial clients and the persistent optimization of our organization within the Group.

Sustainable increase of profitability and corporate value

The strategic positioning of the AMB Generali Group is oriented at a sustainable enhancement of profitability and corporate value. In this context we aim to increase the profitability of underwriting business, to expand our market position while simultaneously remaining focussed on risks and returns and to observe the necessary cost discipline.

Advantages of "Unity in Diversity" Group strategy

By our Group strategy of "Unity in Diversity" we ensure that we will reach our ambitious targets. This strategy combines the advantages involved in a big unit with those of a broadly spread diversity of brands and distribution channels. Within the scope of a clearly defined role allocation between AMB Generali and the Group companies, AMB Generali as the management holding company with a strong leadership is in charge of the Group's strategic development, creates synergies and coordinates business activities. The holding company identifies economies of scale and skill and establishes a uniform controlling methodology, a harmonized HR development for executives and a shared culture within the Group.

The subsidiaries have the operating responsibility for gaining customers, retaining customers and providing service to customers, i.e. they are in particular in charge of distribution activities and corporate design. Each of the individual companies of the AMB Generali Group works with specific sales channels and a differentiated range of products. As a result of the diversity of corporate profiles it is possible to respond to a broad variety of customer and market requirements. This means that the individual Group companies use the advantages of a specific and targeted way of addressing customers.

DREAMS NEED SECURITY It is a good thing when young people and a lot of experience come together. For 180 years AachenMünchener has offered optimum solutions for finance and provision – also with regard to **the security and the future** of the little ones. Today, the company with a premium income of € 4.8 bn is the biggest insurer within the AMB Generali Group. AachenMünchener ranks number 2 of life insurers and is among the leading property and casualty insurers in Germany. The success and the size of AachenMünchener are closely linked to more than 32 years of strategic partnership with Deutsche Vermögensberatung, worldwide the number 1 of autonomous sales organizations for financial services.

Number 1 in profitability and distribution strength in private and small/medium commercial business

For the future we have set ourselves ambitious targets. We want to become the number 1 in profitability and distribution strength in the German market of private customers and small/medium commercial clients. In order to increase our competitiveness and to sustainably improve our Group net profit we again took measures and initiatives in 2006 that will bring us a decisive step closer towards achieving these targets. Our activities refer to the four areas of repositioning our distributions channels and brands, a Group-wide concentration of important services, participation of AMB Generali in the international programmes of Assicurazioni Generali and the developments specific to the business segments in our Group companies.

Distribution networks in the Group

Reinforcing diversity of brands and sales channels

The distribution networks of the AMB Generali Group are faced with a challenging competition characterized by changing requirements and wishes of customers, a new legal situation and a transformation of the environment in which we operate. Against this background we pursue a broad range of activities to reinforce the diversity of brands and distribution channels by which we distinguish ourselves and which is key to our successful operations. Also in the future we will focus on the strength and the diversity of our sales networks as the basis of our success.

Improved sales support by "Sales Focus"

With our "Sales Focus" activity programme we improve the support provided to our sales networks. The measures are focussed on a profitability-based expansion of distribution networks and on reinforcing our brands. In addition, the fields of product management and IT support are being consistently aligned in order to ensure that the requirements of distribution are adequately covered.

The regular exchange between product management and sales networks with regard to product requirements and market developments is one of the essential factors for a successful product management. For that purpose, working groups and platforms have been established across the AMB Generali Group for life as well as property and casualty business to ensure adequate coverage of distribution requirements.

Enhancement of sales-channel diversity

Enhancement of existing distribution concepts

With its consistent diversity approach with regard to sales channels and brands, the AMB Generali Group is a pioneer in the financial-services market because we are strongly oriented at our customers' benefit and make use of various different ways of meeting our customers' requirements. Our Group companies pursue comprehensive activities to push this successful model.

We face the challenges of competitive distribution with a new strategic approach. On the one hand, we reinforce the distribution basis of the Group by innovative changes such as the transfer of the management leadership of the traditional sales force of AachenMünchener to Deutsche Vermögensberatung. On the other hand, we also focus on the enhancement of existing distribution approaches such as the direct-selling operation of CosmosDirekt and the multi-channel activities of Generali, Volksfürsorge and Central.

Cooperation with Deutsche Vermögensberatung

Successful partnership with Deutsche Vermögensberatung

With regard to financial-advisor sales activities we have had an extraordinarily successful cooperation with Deutsche Vermögensberatung for more than 30 years. Deutsche Vermögensberatung has for years been the unchallenged number 1 of autonomous sales organizations in the field of integrated financial services. Besides, Deutsche Vermögensberatung with its more than 32,000 financial advisors has made an essential contribution to the successful development of the AMB Generali Group.

AachenMünchener and Deutsche Vermögensberatung are expanding their exclusive partnership and placing it on a new basis. For that purpose AachenMünchener transferred the management leadership of its exclusive agent network to Deutsche Vermögensberatung. The latter thus becomes the sole distribution channel of AachenMünchener. In the future, the two companies will operate on a reinforced basis and with a clear allocation of tasks. AachenMünchener will exclusively concentrate on the development of attractive and state-of-the-art products in life and property and casualty insurance for private customers and small/medium commercial clients, on an excellent quality of sales support and on first-class customer service. Deutsche Vermögensberatung will have the sole distribution competency. We expect that this intensified and reorganized strategic partnership will lead to even more growth and an even better quality in product development and in the services provided to intermediaries and customers.

Within the scope of the repositioning of this partnership, AachenMünchener will found a company to comprise its exclusive distribution networks, which, after a transitory period, will be transferred to Deutsche Vermögensberatung. The current distribution activities of AachenMünchener via brokers and multiple agents are transferred to Volksfürsorge.

Direct selling

CosmosDirekt number 1 in direct selling

CosmosDirekt provides one-stop shopping of all products for private provision. With a premium income of more than € 1 bn, it is the number 1 of German direct-selling insurers. The company, which is by far the biggest term-life insurer in the German market, focuses on products providing cover for surviving dependants and for the risk of occupational disability. The Saarbrücken-based insurer uses all ways of technical communication. The core of customer service is a 24-hour advisory service. Customers have access to CosmosDirekt staff any time. There also is an increasing level of customer contacts established on the Internet. Meanwhile about 35 percent of policies are concluded via this latter sales channel.

Brokers

Consistent broker orientation of Dialog Lebensversicherung

Dialog Lebensversicherung operates with a consistent broker orientation. As a specialist for biometric risks, Dialog offers innovative and flexible products with unique selling propositions to its partners in the German and Austrian markets. Thanks to its efficiency, flexibility, fast response and excellent service the Augsburg-based company achieved an impressive growth in the past few years, which also continued in 2006.

Multi-channel approach

Multi-channel policy of the Volksfürsorge, Generali Versicherungen and Central brands

Another major pillar consists of the multi-channel distribution networks of the brands Volksfürsorge, Generali Versicherungen and Central which operate in different target segments. Hamburg-based Volksfürsorge mainly operates with its traditional field-staff network of 3,800 professional and 53,000 part-time intermediaries. In addition, Volksfürsorge uses the sales-channel of the Commerzbank branches and the cooperation with independent intermediaries. On January 1, 2007 Volksfürsorge assumed the broker-service company and the broker-service activities from AachenMünchener. Volksfürsorge thus substantially reinforces its distribution capacity in business with brokers and multiple agents.

Our cooperation with Commerzbank, which has a long-term perspective, is developing positively. The distribution of our products at the Commerzbank branches is supported by Commerz Partner Beratungsgesellschaft, a joint venture of the AMB Generali Group and Commerzbank.

Munich-based Generali Versicherungen with its sales network comprising 1,700 exclusive agents offers intelligent insurance products meeting the requirements of customers. Furthermore the company operates with a broad network of brokers as well as sales organizations and banks. Generali Lebensversicherung has an excellent reputation in the growth business of corporate pension insurance and is regarded as being especially innovative in the field of private provision.

The health insurer Central Krankenversicherung in Cologne has its own fieldstaff organization, a broker network and Deutsche Vermögensberatung as a strong distribution partner. In addition, Central's insurance products are sold by the traditional sales networks of the companies of the AMB Generali Group.

Brands in the Group

"Brand Campaign 2006" defines autonomous identity of our companies

In the year 2006, the enhancement of our Group's brands was focussed on going on the offensive in all relevant business processes, increasing attention at the customer-contact points and preparing new corporate designs for external communication. On the basis of a shared brand understanding within the Group, an autonomous and holistic brand identity was defined for each Group brand within the scope of our "Brand Campaign 2006".

Concentration of important services within the Group

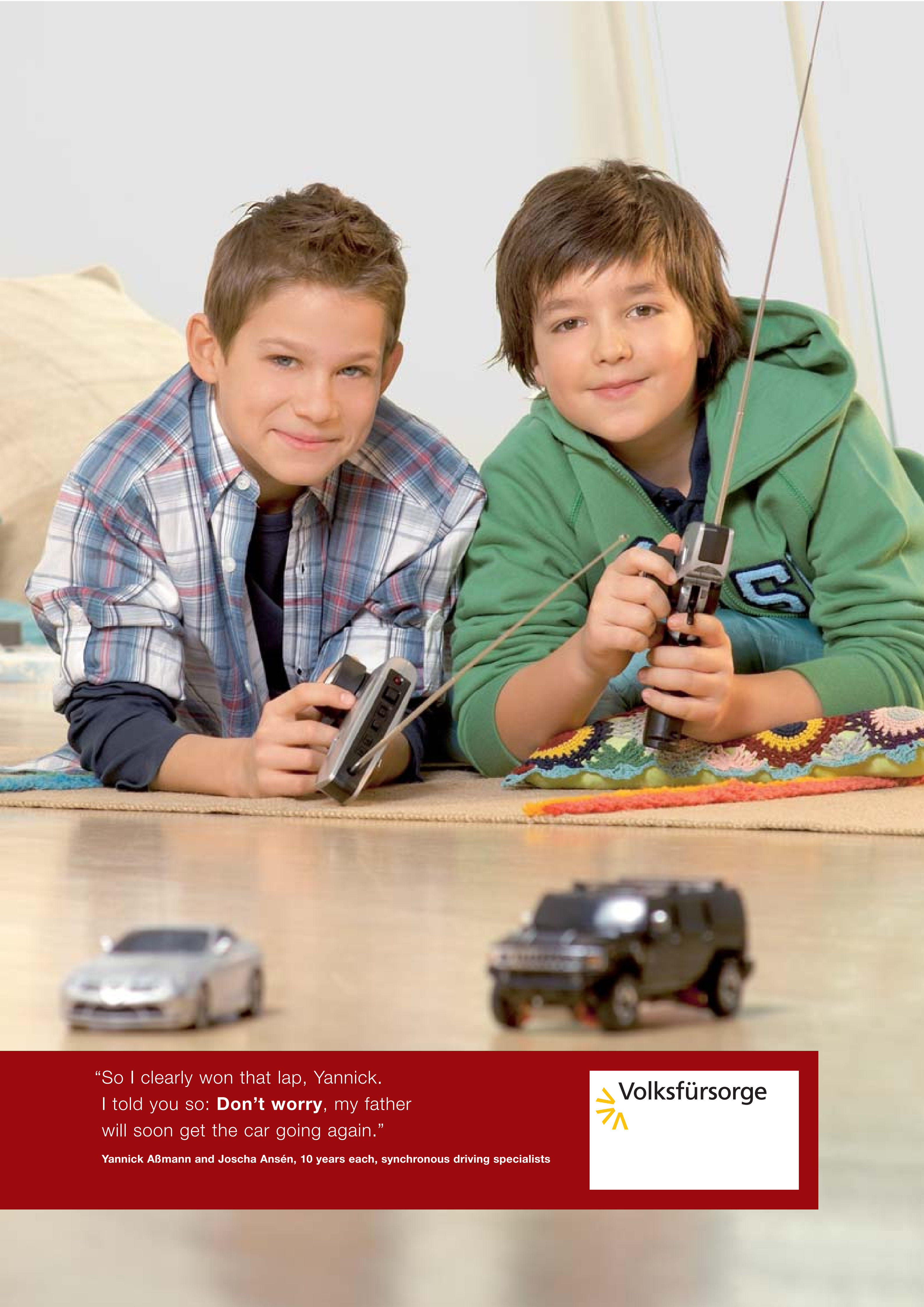
"*MOVE*" increases our competitiveness

In 2006, under its "*MOVE*" programme, the AMB Generali Group initiated targeted structural changes in order to increase competitiveness. The measures aim at a substantial enhancement of efficiency, effectiveness and service quality by 2008. The improvements in the fields of claims management, standard customer services and shared services will be achieved by concentrating expertise and capacities in the Group. The portfolio of measures under the "*MOVE*" programme comprises three areas:

Concentration of AMB Generali service functions

Firstly, in the field of shared services, functions such as accounting, tax, purchasing, administration and facility management, which are currently spread across more than 20 locations, will be concentrated in one company, AMB Generali Services. That company will have a markedly reduced number of locations. The target is to ensure a high and harmonized basic level of the individual service functions and to cut material expenses considerably.

KEINE SORGE, VOLKSFÜRSORGE. There hardly is a brand slogan so fixed in people's minds as this one, meaning: Don't worry, Volksfürsorge. It refers to the brand promise of **"free from worries, fair, understandable and reliable."** About 3,800 professional and 53,000 side-job intermediaries live this philosophy of one of the most successful insurers in the German market with a traditional focus on private customers as well as small and mid-sized commercial clients. This is illustrated by approximately 5 million clients, about 9 million policies, a premium income of approx. € 3 bn, one of the densest customer-service networks in the industry and a leading position in growth fields of the insurance market.


"So I clearly won that lap, Yannick.
I told you so: **Don't worry**, my father
will soon get the car going again."
Yannick Aßmann and Joscha Ansén, 10 years each, synchronous driving specialists
Volksfürsorge

Special and major claims handled by AMB Generali Schadenmanagement

Secondly we founded AMB Generali Schadenmanagement as a separate claims management company. We thereby respond to the fact that claims management has become a key factor for success in competition. The company will mainly handle special and large claims, be in charge of recourses and cases of fraud and generally ensure an active and efficient claims management in line with defined guidelines and processes. The individual Group companies will continue to handle mass claims and be in charge of the important sales-network interface.

Harmonization of operational processes across the Group

Thirdly we intensify the harmonization and enhancement of operational processes across the Group. In line with our Group strategy of “Unity in Diversity” the Group companies are in charge of direct customer contacts. The design of customer services specific to each company in line with the requirements of their customers, sales networks and products, however, follows a harmonized approach. In accordance with the specifications elaborated by a joint Operations Board, the Group companies remain responsible for those business processes characterized by customer proximity within the scope of a uniform controlling and enhancement. The major objective of standardizing customer services is to realize economies of scale across the Group within the scope of the existing responsibilities.

Integration into transnational programmes

Due to its integration into the transnational programmes of the international Generali Group, the AMB Generali Group reinforces its position in the national insurance market. At the same time we make our contribution to the strategy of the international Generali Group by participating in transnational benchmark analyses and in the internationalization of important service functions, such as the consolidation of IT activities and the concentration of asset management.

“3K programme”

The term “3K” stands for the first letter of the German words for gaining customers, retaining customers and providing service to customers (Kundengewinnung, Kundenbindung, Kundenservice). Within the scope of our “Unity in Diversity” strategy, our Group companies are responsible for customer relations in these three areas. The initiative comprises a number of projects and business initiatives at Group-company level which aim to reinforce every individual brand of our Group and thus to strengthen our brand diversity as a whole. The objective pursued is to further increase competitiveness in all companies of the AMB Generali Group. For this purpose, the companies concentrate their activities in particular on reinforcing those areas which are close to customers. The consistent enhancement of the product strategy and a further reduction of costs are the core features of a successful competitive development of the AMB Generali Group also in the future.

Cost impact from Group projects

Cost position markedly improved

In 2006 we successfully pursued the measures to improve our cost position. These measures include a reduction of personnel and material costs across all lines of business involving targeted cuts in administrative jobs. By year-end 2006 we exceeded our capacity-reduction targets. Since 2002 a total of about 2,300 administrative jobs have been cut, of which about 540 in the period under report. Both with the structural changes in the AMB Generali Group and with the activities initiated at the level of our

Group companies we will realize further cost cuts in the coming years. In this context we aim to implement all necessary measures as far as possible in a socially compatible manner and by benefiting from natural fluctuation. As a whole, as a result of our measures we have reduced total costs (personnel and material expenses, without commissions) by about 7.7 percent to € 1,818 m since 2003.

Development focus in the business fields

Life insurance

Successful expansion of product range in old-age provision

In 2006, one of the focus areas of our business activities was the further extension of the range of products for old-age provision. In this context, comprehensive law changes led to a new environment for our life insurers. Early in 2005, the Retirement Income Act came into force and brought about major changes of the taxation rules applicable to life insurance products. Under the basic-pension model, taxation is gradually deferred to the period in which pensions are received. With retroactive effect from January 1, 2006, the 2007 Annual Tax Law amended the tax authorities' procedure of applying the most favourable option for the tax payer in treating the tax-deductibility of contributions to basic-pension policies in such a way that the incentive scheme was enhanced.

"Riester pensions" have developed to become a product of old-age provision that is recommended from all sides. At the beginning of 2006 state incentives were restricted to tariffs with a unisex calculation.

In 2005, the taxable return portion of private pension policies was reduced substantially. Under endowment policies, however, always half of the return portion is taxable. If they become payable before 60 years of age or after an insurance term of less than twelve years, the return portion becomes fully taxable. On the other hand there are no more restrictions with regard to contribution payments. It is now possible to take out single-premium contracts to an unlimited extent without jeopardizing tax deductibility.

The life insurers of the AMB Generali Group benefited from this changed environment and responded to the new challenges with flexible products. The basic-pension covers under the first tier of the "three-tier model" can be taken out as traditional or unit-linked products. Upon request, our customers have the option to include a complementary occupational disability cover and a pension cover for their surviving dependants. The premiums for both complementary covers are tax-deductible, like the premiums for the basic-pension cover.

Against this background, the demand for basic-pension covers was slightly stimulated. Compared to the year 2005 which had initially been marked by a critical reluctance of customers, the number of sold basic-pension policies (so-called "Rürup pension") doubled. Since the launch of this product, about 35,000 customers had opted for a basic-pension cover with one of our life insurers by year-end 2006.

Unabated demand for "Riester products"

After the launch of the so-called unisex tariffs in "Riester business", the demand for these products, which are part of the second tier, continued unabated. Since the launch of this product we meanwhile have more than 1.2 million "Riester policies" in our portfolio representing a regular premium of € 482.3 m. In the period under report more than 350,000 "Riester policies" were sold. This equals a 58 percent growth over the year 2005. As the market leader in "Riester policies" we have benefited to a particular extent from the third "Riester incentive step" in 2006. State incentives are now applicable to as much as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CosmosDirekt.
"I'm always the first to answer the phone. And when I'm grown up I want to be a **Cosmonaut**, like my dad and his fellows at work. Though they don't take off, at least they can be on the phone day and night."
Yannis Meyer, 4 years, call-centre fan

3 percent of the gross income, up from a level of 2 percent. Nearly 80 percent of our "Riester customers" have made use of the possibility to extend the level of incentives. Supported by the third "Riester incentive step", the Riester new business of the AMB Generali Group in terms of annual premiums amounts to € 261 m in the business year 2006.

Innovative and flexible concepts in corporate-pension business

In corporate pensions, the AMB Generali Group is a competent partner for all vehicles of this business. Our insurers continue to focus on innovative concepts involving advantages both for employees and employers. Unit-linked pension covers, which were specially designed for direct-cover business ("Direktversicherungen" under which premiums are directly deducted from the employees' salaries), offer a high earnings potential to employees and provide protection to employers against the possible liability risks resulting from the 2005 court ruling in respect of cost settlements under employee pension schemes. For that purpose we developed flexible commission models specific to the requirements of corporate pension business.

The pension funds of our Group offer pension plans, which mainly have a non-insurance character and became possible under the 7th amendment of the Insurance Regulatory Act. These plans make it easier to commute internal pension obligations and the commitments of public-law pension providers without affecting liquidity.

Simultaneously we intensify our consulting services and our activities in the field of covering and managing time accounts for the accumulation of working hours.

Corporate pension business experienced a contrasting development. While in 2005 the new business of the pension-scheme company had still been marked by the backlogs from the extraordinarily strong year-end business 2004, new business has meanwhile shifted towards the so-called direct covers. As expected, the pension-scheme company Pensionskasse experienced a decrease of its new business compared to 2005. The remaining areas of corporate pension business witnessed a very successful development: the AMB Generali Group's new business in direct covers in terms of regular premiums rose to nearly € 100 m, which equals a 35.4 percent growth compared to 2005.

New options in classical endowment and pension insurance

With classical endowment and pension covers we continue to offer our customers attractive products under the third tier. In this context, flexible options on a modular basis turn out to be increasingly successful. We attach importance to a differentiated pricing which offers customers tailor-made solutions and rewards a healthy lifestyle. The "Best Invest Care Provision" combines unit-linked pension insurance providing for old age with a complementary occupational disability policy or with a complementary cover for the loss of basic capabilities as well as a cover for long-term care. With the "LivingStar Concept" we are taking a totally new direction in unit-linked pension insurance. Only those funds are used which fulfil specific, clearly defined requirements regarding experi-

GERMANY'S BIGGEST DIRECT-SELLING INSURER CosmosDirekt has been writing a success story: it started its direct-selling operations in 1982 with a staff of 62 and today it is Germany's biggest direct-selling insurer with far more than 1,000 employees, a premium income above € 1.2 bn and a life business-in-force of more than € 100 bn in terms of sums insured.

This success was brought about by the company's genuine direct-selling strategy. The idea behind this concept is to use all possible technical means of communicating with customers – from a **24h advice service on the phone** to the Internet – and to have clients benefit from the cost advantage.

ence, stability and quality. Towards the end of the contract term, the customer receives an offer of expiry management which provides for a systematic shift towards funds involving lower risks. The range of unit-linked pension insurance is completed by the possibility of underpinning the cover with the AMB Generali guarantee fund Garant1 launched at the beginning of this year.

The products “Innovative Future Concept” or “Modular policy” already launched at the beginning of 2005, which allow an individual structure and adjustment of premium payments, investment strategy and insurance benefits during the whole contract term, turned out to be a success model. By year-end 2006 nearly 300,000 contracts representing a premium volume of approximately € 270 m had been taken out. Out of these, more than 160,000 new contracts with a regular annual premium of close to € 150 m are attributable to the year under report.

Specific occupational disability covers from our life insurers

We offer occupational disability and term life covers with a differentiated pricing. In occupational disability insurance we are the first providers in the German market making a risk-adjusted distinction between smokers/non-smokers. Furthermore, young customers have the possibility of taking out covers for these vitally important risks already at the beginning of their careers at initially lower premium levels. The increase of the retirement age to 67 years is taken into account by the possibility of covering occupational disability up to the age of 67. Our life insurers respond to the abolition of funeral-cost benefits in public health insurance by offering private funeral-cost covers.

Health insurance

Improved efficiency and service quality in health insurance

In 2006 the activities of our health insurers concentrated on improving efficiency and service quality. With these targets Central Krankenversicherung combined a number of projects for the organization of sales networks and sales-supporting activities as well as for the restructuring of the application process.
On the basis of comprehensive market and consumer studies, Central Krankenversicherung initiated a broad product campaign last year. As a response to changed requirements of customers and intermediaries, this campaign focuses on high-performance products fulfilling customers’ requirements at affordable premiums. In addition, proposal forms were simplified and, under some models, the acceptance of risks is no longer subject to health checks. With its new products, the company confirms its ambition of setting the pace in the market.

Other major features of the company’s reorientation were the successful launch of automated benefit handling and the equipment of fieldstaff with a totally overhauled and state-of-the-art software for preparing offers. In addition, various changes were made in the structure of administrative services. These changes include the expansion of disease-management activities.

Agreement on next healthcare reform

After many months of debates, the German government agreed the next healthcare reform. With that reform, the government confirms the continuity of private-sector full health insurance. Access to private-sector health insurance will, however, become more difficult due to a three-year waiting period for members of the public health scheme. This will intensify competition in this segment. Furthermore a basic tariff will be introduced in private-sector health insurance starting from 2009, which will be available to all voluntary members of the public health scheme and, for the first six months of the year 2009, also to the policyholders of private-sector health insurers. In addition, ageing provisions will become transferable in this basic tariff and for new business starting from 2009. The detailed set-up of the reform still remains to be seen. All in all we are well prepared with our highly performant portfolio in order to respond to the developments in health policy.

Further increase of premium income and number of insured persons

Despite the noticeable reluctance of customers in the light of the uncertainties involved in health policy, the private-sector health insurers of AMB Generali succeeded in further expanding their premium income and achieving growth above the expected market average.

Successful cooperation with Techniker Krankenkasse

Since 2004 public health funds and private-sector health insurers have been allowed to cooperate. AMB Generali has made use of this possibility at an early stage and operates in the cooperation market with its specialized insurer Envivas. The cooperation partner is Techniker Krankenkasse (TK), one of the leading public health funds in Germany, which has for years distinguished itself by a strong growth of membership, good service and high customer satisfaction. Envivas offers complementary covers to the members of TK responding to their requirements and providing an ideal supplement to the public health cover. In the year under report, the cooperation was successfully expanded: the number of policyholders and premium income more than doubled. In its third year of operation, the young company has already reached the profit zone. This success is not least attributable to the fact that in 2006 Envivas launched a new business model which created the structures and measures allowing an optimization of the proposal process and an improvement of customer services. Already today 95 percent of all proposal forms can be conclusively handled within 48 hours.

Growth of profitable property and casualty business in a difficult environment

An underwriting policy oriented at profitability and the selective reinforcement of profitable business fields remain the two supporting pillars of our growth strategy. Despite keener competition in property and casualty insurance we have consistently and successfully maintained this policy in 2006.

Innovative features in motor insurance with risk-adjusted pricing

Fierce competition in motor business represented a particular challenge. The further development of our strategy was substantially supported by the findings of our intensive market and price analysis. As a result, we did not respond to the market development by radical price cuts but by offering attractive products with innovative features. Within the new 2006 motor tariff, for instance, the defence of gross negligence to refuse cover is no longer applied for own-damage claims. Furthermore the period during which the replacement value of a car is based on its new value was extended from six to twelve months from the first registration date. Another innovation is the so-called “GAP” cover. It closes the gap between the book value of a leasing contract and the replacement value in the case of a total loss of the car. Furthermore we benefited from the findings of a cancellation-prognosis model which supported our activities regarding the adjustment of our portfolio. As a result of our customer-oriented improvements of benefits and our balanced pricing policy we succeeded in achieving a further net increase in our portfolio in terms of contract numbers in 2006.

Expansion of product portfolio in property and casualty insurance

The successful development of property and casualty insurance was mainly supported by the "Vermögenssicherungspolice" for private customers which comprises the classes of personal accident, general liability, householders, glass and homeowners insurance. Another focus in 2006 was the extension of the product portfolio to include new benefit modules in personal accident insurance. In this context, for instance, a broad range of comprehensive assistance services was introduced for customers requiring care after an accident. In addition, there are special benefits for the important "50 PLUS" customer segment, such as the extension of the term accident to include heart attacks and strokes. The focus on target groups was also essential for the development of a specific accident product for women.

Besides, in commercial business product innovations were implemented offering comprehensive risk cover especially for small enterprises.

Not least thanks to numerous product innovations in the profitable segment of property and casualty business, the AMB Generali Group was able to achieve overall growth while premiums in the market witnessed stagnation. This development is all the more satisfactory since this growth did not affect profitability.

Deutsche Bausparkasse Badenia

Mortgage business concentrated in Badenia

Deutsche Bausparkasse Badenia modified its product range both for its portfolio of building-society business and outside this portfolio in order to respond even more adequately to the flexibility requirements of customers and of the market, especially in the light of low interest rates. After the concentration of the Group's mortgage business in Badenia, the building society has the function of a competence centre for housing finance across the Group. We are thus in a position to offer customers one-stop property financing which will lead to a sustainable reinforcement of customer relationships.

Reinsurance

Internal reinsurance programme adjusted and retention increased

Within the AMB Generali Group, AMB Generali has the function of an internal reinsurer. It thus assumes the Group companies' treaty reinsurance business and manages 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 slightly increased the retention of our Group. On a consolidated basis, the total retention of the AMB Generali Group is more than 97 percent, while the average market retention in the property and casualty segment is between 75 and 80 percent. The treaties concluded with reinsurers having a sound financial strength protect our Group against the financial consequences of major claims, claim accumulations and natural catastrophes.

Property management

Successful reorientation of AMB Generali Immobilien

Within the scope of focussing our activities on the core competencies of the AMB Generali Group, we successfully completed the realignment of AMB Generali Immobilien to become a genuine asset manager of the property asset class. In this context, the property portfolio of the AMB Generali Group was restructured. By selling property at non-strategic locations and by targeted new investments we ensured a sustainable improvement of the performance of our property investments.

Optimization of IT services

New projects to increase efficiency of AMB Generali Informatik Services

By implementing a new business model in 2006, AMB Generali Informatik Services, the central provider of IT services in the AMB Generali Group, continued the realignment initiated in 2005. This creates a first and important basis enabling the company to keep cutting IT costs while maintaining the same service level. Furthermore AMB Generali Informatik Services made an important contribution to the transnational reorganization of IT activities in the international Generali Group focussing, among others, on the concentration on the two data centres in Mogliano/Italy and Aachen.

Early in 2006 the AMB Generali Group initiated the Group project OPAL (Optimization of Application Development) in order to increase efficiency in system development. Within the scope of this project, a harmonized procedure for the development of IT applications will be developed and introduced across the Group. In this context, there will also be a realignment of the corresponding structures and interface areas in the AMB Generali Group. These new standards and structures will lead to a reduction of the time and total costs required for IT projects and to an improvement of the quality of project results. The OPAL concepts were developed together with experts from all Group companies and tested in individual major projects. The Group-wide implementation of the OPAL concepts was launched at the beginning of 2007. The project is expected to be completed by the end of this year.

Restructuring of locations

Central Group office in Cologne as the hub of the AMB Generali Group

Within the scope of our projects to restructure the locations within the AMB Generali Group we will transfer the Group's central office to Cologne. In the second half of 2008, AMB Generali will move to its new central office in Tunisstrasse. Simultaneously the Group companies AMB Generali Immobilien and AMB Generali Asset Managers, which currently have offices spread across Cologne, will also be concentrated in this building. With this new location in the heart of Cologne we have created the best conditions for an even more efficient communication within our Group. Already today the most important corporate bodies of the Group hold their meetings there. Furthermore many project groups meet in Cologne. Due to the central location of the new office, AMB Generali, as the hub of the Group with business units across Germany, will benefit substantially from the improvement in transport and connections.

Business development of the AMB Generali Group in 2006

Overall business

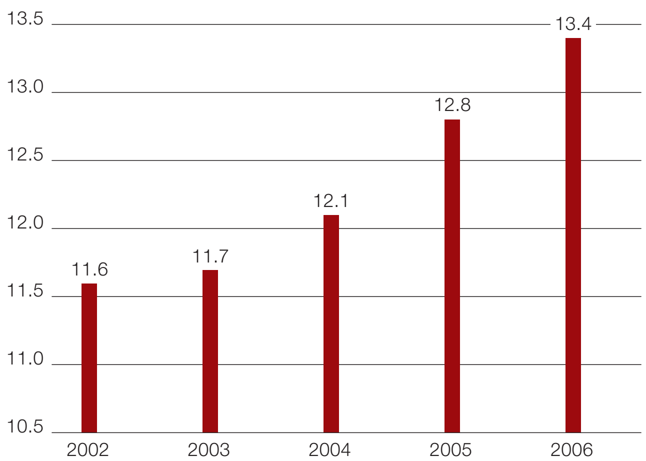
Our report about the business development of the Group is divided into two parts. The chapter "overall business" describes the business performance of the AMB Generali Group as an economic unit on the basis of consolidated figures. This is followed by segment reporting on the development in the segments 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.

Until today, the German insurance industry has benefited from the improved general sentiment in the country to a limited extent only. In particular, keen competition in property and casualty insurance and uncertainties about the consequences of the healthcare reform had a curbing effect on growth. Life insurance, on the other hand, was stimulated by a growing awareness of the need to provide for old age, which was above all reflected in the dynamic development of the so-called "Riester products".

Group net profit before extraordinary item due to corporation tax credit rose from € 314 m to 346 m

In this environment, the AMB Generali Group achieved growth above the market average in all segments. The consolidated net profit as shown in the balance sheet amounted to € 451 m. This figure includes the extraordinary item, which is a purely technical one, of the discounted corporation tax credit carried as an asset, which will be refunded over the coming years. Without this extraordinary item equalling € 105 m, the consolidated net profit rose to € 346 m (preceding year: 314 m). With this increase we exceeded our target of € 340 m, which is mainly attributable to a rise of net investment income and to considerable improvements in operating business. We achieved this despite the restructuring expenditure affecting the fourth quarter 2006 and incurred within the scope of our measures to increase competitiveness.

Growth of the total premium income of the AMB Generali Group



Figures in € bn

A look at the segments shows noticeable differences in the development of results. While the profit contributions of the sub-segments of life and health insurance decreased, the property and casualty segment and the financial services segment again witnessed rising net profits. In this context, the results of the life and health insurers were also affected by a merger within the Group, which led to a decrease of results despite an expansion of business. The significantly higher profit contribution of the property and casualty segment was mainly the result of a markedly improved combined ratio and the lower tax charge due to the refund of corporation tax credits. The increase of the net profit in the financial services segment is also attributable to the extraordinary tax item and to lower provisions in credit business as well as to the positive development of our investment company.
Because of the already mentioned merger of an intermediate holding company into AMB Generali it was necessary to adjust the provisions for deferred premium refunds and deferred tax. These non-operational charges represent special expenditure under the consolidation of a merger into the parent. In such a case all value adjustments made in previous years are regarded as realized even though no asset item has left the Group. This involved charges, exclusively attributable to the life and health sub-segments, for the adjustment of provisions without any corresponding capital gains being realized.

Total premiums grow by 4.6 percent to € 13,408 m

With a 4.6 percent increase to € 13,408 m, the total premium volume experienced a positive development above the expected market growth of 2.3 percent. After deduction of the savings portions of the life products concerned and of the premiums of investment contracts, gross premiums written grew by € 285 m to 11,743 m. This growth was mainly attributable to life insurance with premium income rising to € 7,085 m (preceding year: 6,876 m). The premium income of our health insurers rose to € 1,666 m (preceding year: 1,592 m). Our property and casualty insurers, too, succeeded in slightly increasing their premium income to € 2,992 m (preceding year: 2,990 m) in a market continuing to be characterized by keen competition.

In the business year 2006 our investment policy was again dominated by the target of having an overall portfolio with a relatively small range of profitability fluctuations. Accordingly investments in fixed-income securities with a sound credit quality were in the foreground. Durations in the life and health segment were kept at a constant level and, different to previous years, were not actively extended further. In the property and casualty segment we principally apply an active duration management and we vary the portfolio terms in line with short-term interest expectations. As a whole, we do not regard the interest development in 2006 as a trend reversal but rather as the easing of a previously overbought market. Accordingly we modified our investment policy in bond markets only slightly. With regard to equity investments, there were occasional active portfolio increases.
For the purpose of hedging interest risks, forward purchases were made already in 2005. The gains and losses from the fair-value measurement of these instruments are recognized in investment income and expenditure. While in the preceding year there had still been unrealized capital gains, the market development in the year under report led to unrealized capital losses.

Net investment income of € 3,764 m

This impact, however, could be more than compensated by a higher level of realized capital gains from dividend-bearing securities and by a lower level of write-downs. Including the ordinary investment income, which increased by € 169 m to 3,214 m, the total net investment income amounted to € 3,764 m (preceding year: 3,443 m).

Within the scope of an inter-Group optimization of its shareholding structure, AMB Generali acquired from a subsidiary the 45.9 percent stake in Central Krankenversicherung AG and now directly holds 100 percent of that company. For that purpose, AMB Generali took up a subordinated loan in British pound sterling amounting to a total of £ 207 m (equalling approx. € 301 m). Ahead of taking up the loan an interest-hedging transaction was concluded while a foreign-currency hedging contract was taken out the moment the loan was actually raised. The interest paid in the context of this shareholding transaction is recognized as finance costs.

The financing sources of the AMB Generali Group primarily include the Group equity whose components are indicated and quantified on p. 160 f. Due to the advance payment of premiums and the accumulation of savings in life insurance, however, the underwriting liabilities are also an important capital component. In addition, the capital structure of an insurance company includes the free provision for premium refunds in life insurance, which comprises the profit bonuses not yet allocated and has the function of a cushion equalizing the annual policyholder bonuses. Apart from the loan indicated above for financing the acquisition of the Central stake, debt capital in its classical sense exists in the Group only in Badenia in the form of loans taken up and carried as a liability.

Change of revaluation reserve strongly influenced by bond-market development

The change of the revaluation reserve was primarily marked by the development of bond markets. As a result of rising interest rates the valuation reserves of fixed-income securities decreased. The reserves were also affected by a higher level of realized capital gains while – on the other hand – the positive impact of stock markets remained limited. As a whole and compared to the level as at December 31, 2005 the revaluation reserve decreased from € 861 m to 685 m.

The main driver for the increase of claims and benefits was the life sub-segment which rose by € 694 m to 7,998 m. For our health insurers, the rise of business volume was reflected by an increase of claims to € 1,671 m (preceding year: 1,588 m) while the property and casualty segment witnessed a decrease of claims from € 1,905 m to 1,892 m.

IT'S YOUR FUTURE Those who are wise rely on their strengths. But a company's success is also defined by its fast and targeted way of managing its knowledge potential. Over the decades the expertise of AMB Generali Informatik Services, which today has about 1,200 employees, has steadily grown. For quite some time the company has been one of the **leading developers of IT systems in Germany**. Across Europe, AMB Informatik pursues IT activities for the AMB Generali Group and the international Generali Group. Its core competencies are the reliable and cost-efficient operation of a multi-platform structure for 40,000 users and the development of sustainable high-performance IT solutions for the Group.


"My dad works in a company that connects more than **40,000 people** of many countries in a **network** every day. At home, I'm the one in full control of the net."
Tobias Dresse, 10 years, home networker
GENERALI GRUPPE
AMB GENERALI
Informatik Services

Operating expenses drop to € 2,386 m

Compared to the level as at December 31, 2005, operating expenses reduced from € 2,409 m to 2,386 m. The life sub-segment contributed to this development with a reduction to € 1,291 m (preceding year: 1,319 m) as a result of a lower expenditure resulting from the adjustment of parameters used to calculate deferred acquisition costs (true-up). Mainly due to higher write-downs on deferred acquisition costs and project expenses, the operating expenses of the health insurers rose to € 211 m (preceding year: 185 m). In the property and casualty segment, operating expenses decreased to € 884 m (preceding year: 905 m) as a result of successful cost-cutting measures. Due to the lower level of operating expenses and a higher level of premium income, the expense ratio dropped by 0.9 percentage points to 20.9 percent.

Overall business

	2006 € m	2005 € m
Total premiums[1]	13,408	12,815
Gross premiums written	11,743	11,458
Investment income (net)	3,764	3,443
Ordinary investment income (net)	3,214	3,045
Claims and benefits (net)	-11,561	-10,797
Operating expenses (net)	-2,386	-2,409
Expense ratio in %	20.9	21.8
Operating result	614	589
Finance costs	-13	-7
Tax	-150	-268
Net profit[2]	451	314
of which attributable to the Group[3]	449	315
of which attributable to minority interests	2	-1
Net profit without extraordinary item due to corporation tax credit	346	314

	2006 € m	2005 € m
Investments[4]	83,288	78,847
Assets under management[4,5]	95,368	89,866
Equity	3,989	3,794
Unrealized capital gains not recognized in income[2,6]	685	861
Underwriting provisions[4]	80,072	75,825

1 before deduction of savings portions included in premiums and the premiums of investment contracts
2 including minority interests
3 corresponds to the line item of the Income Statement “of which attributable to the equity holders of the parent”
4 including the amounts attributable to unit-linked insurance
5 including third-party mandates and the managed portfolio of the Austrian, Dutch and Swiss companies of the international Generali Group
6 after deduction of deferred tax and deferred expenditure for premium refunds

Tax charge decreases due to refund of corporation tax credit

As a whole, the AMB Generali Group achieved an operating result of € 614 m (preceding year: 589 m) in the business year 2006. Mainly due to the capitalization of a corporation tax credit to be refunded in the coming years, the tax charge reduced strongly from € 268 m to 150 m. This extraordinary tax item merely represents an accounting effect. The corresponding claim against the tax authorities had already existed previously. It was, however, subject to a distribution condition and therefore it could not be recognized in the balance sheet. Due to a change of tax law in 2006 it is now mandatory to carry this item as an asset. The Group net profit after tax and finance costs amounted to € 451 m, the Group net profit without the extraordinary item due to the corporation tax credit was € 346 m (preceding year: 314 m).

Assets under management

	Carrying amounts 2006 € m	**Fair value** 2006 € m	**Carrying amounts** 2005 € m	**Fair value** 2005 € m
Land and buildings	1,845	1,979	1,353	1,557
Shares in associated enterprises	225	225	172	172
Loans and receivables	30,257	30,138	21,417	22,230
Financial assets available for sale	42,427	42,427	48,869	48,869
Financial assets at fair value through profit or loss	377	377	547	547
Investments	**75,131**	**75,146**	**72,358**	**73,375**
Investments of unit-linked insurance		8,157		6,489
Current-account balances with credit institutions, cheques, cash in hand		1,191		917
Investments for third parties (off consolidated balance sheet)*		10,874		9,085
Assets under management		**95,368**		**89,866**

* including third-party mandates and managed portfolio of the Austrian, Dutch and Swiss companies of the international Generali Group

Life and health insurance segment

Life

Life new business increases to € 1,870 m

As the leading provider of so-called "Riester policies", the AMB Generali Group benefited from the extraordinarily strong demand for this business in 2006. This demand contributed substantially to the 6.6 percent new business growth in terms of regular premiums to an amount of € 1,020 m. Without the backlogs from the "sales season" ahead of the introduction of the Retirement Income Act in 2005 and the increase of new business attributable to the third "Riester step" included in the 2006 figures, percentage growth would have been more than twice as high. In single-premium business, our companies increased new business by 59.8 percent to € 850 m. As a whole, new business thus rose by € 381 m or 25.6 percent to € 1,870 m, while at the same time the portfolio in terms of sums insured increased by 5.1 percent to € 371,583 m.

Total premiums rise above market average

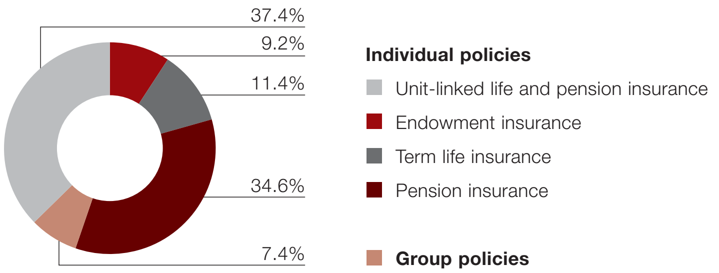
Against the preceding year's level, the total premiums of direct business grew by 6.3 percent to € 8,750 m while the market only achieved a 4.2 percent growth in the same period (according to preliminary figures published by the German Insurance Association GDV). Without the savings portions of the life insurance products concerned and the premiums of investment contracts, gross premiums written rose by 3.1 percent to € 7,086 m.

Investment income was characterized by a marked increase of realized capital gains, in particular from dividend-bearing securities, and a lower level of write-downs. The result was, however, affected by unrealized capital losses from the hedging of interest risks. Including ordinary investment income both from interest-bearing securities and dividend titles, which rose by € 95 m to 2,524 m, the investment income reached a level of € 2,919 m, up from 2,686 m in 2005.

As a result of the persistent rise of interest rates in bond markets the revaluation reserve decreased by € 134 m to 378 m.

A higher expenditure for premium refunds contributed substantially to an increase of the level of claims and benefits by € 695 m to 8,007 m (preceding year: 7,312 m).

New business mix in terms of regular annual premiums



In the preceding year operating expenses had been affected by a high charge for the adjustment of parameters for the calculation of deferred acquisition costs (true-up). Also in the year under report, there was a charge resulting from this regular adjustment which, however, was substantially below the preceding year's level. This is the main reason why operating expenses decreased from € 1,327 m to 1,301 m. The expense ratio thus dropped to 19.1 percent (preceding year: 20.2 percent).

Mainly due to the fact that, different from the preceding year, there were no losses from the deconsolidation of investment funds held in foreign currency, the balance of other income/expenditure improved by € 92 m to -233 m.

Life insurance

	2006 € m	2005 € m
New business in terms of regular annual premiums	1,020	957
New business in terms of single premiums	850	532
Portfolio in terms of sums insured	371,583	353,503
Total premiums [1]	8,751	8,233
Gross premiums written [2]	7,086	6,876
Regular premiums	6,371	6,373
Single premiums	714	503
Investment income (net)	2,919	2,686
Ordinary investment income (net)	2,524	2,429
Claims and benefits (net)	-8,007	-7,312
Operating expenses (net)	-1,301	-1,327
Expense ratio in %	19.1	20.2
Operating result	205	303
Tax	-89	-156
Net profit [3]	116	147

	2006 € m	2005 € m
Investments [4]	66,214	62,793
Unrealized capital gains not recognized in income [3,5]	378	512
Underwriting provisions [4]	69,066	65,486

1 before deduction of savings portions included in premiums and the premiums of investment contracts

2 in the business year this item includes € 1 m of premiums from assumed reinsurance business

3 including minority interests

4 including amounts attributable to unit-linked insurance

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

Net profit of € 116 m in the life sub-segment

As a whole, following the substantial increase of claims and benefits, the operating result reduced by € 98 m to 205 m. After deduction of the tax charge of € 89 m (preceding year: 156 m), which decreased considerably due to the capitalization of the corporation tax credit, the net profit amounted to € 116 m (preceding year: 147 m). Without the adjustments of the provision for deferred premium refunds and deferred taxes caused by a merger within the Group, the net profit would have increased slightly against the preceding year's level.

Health

Both among customers and insurance companies the controversial debate about the forthcoming healthcare reform led to substantial uncertainties which constrained the development in the health sub-segment across the market.

Gross premium income in health rises by 4.6 percent

Our health insurers were nevertheless able to affirm their position in this environment and to reach a premium growth of 4.6 percent thus exceeding the expected market growth of 4.2 percent. The rise of premium volume from € 1,592 m to 1,666 m was due to new business and to premium adjustments.
New business improved compared to the preceding year and it was possible to gain a large number of new customers both for full health policies and for complementary covers.

Ordinary investment income increases to € 268 m

As far as investments are concerned, the continued rise of interest income involved an increase of ordinary investment income by € 29 m to 268 m. This was mainly attributable to the strong portfolio growth of fixed-income securities.
The unrealized capital losses from forward purchases, which were the result of price drops in the bond market, were nearly compensated by a rise of realized capital gains. In total, the net investment income improved by € 28 m to 296 m.
In the year under report the revaluation reserve, which mainly depends on the price development of fixed-income securities, decreased from € 50 m to 35 m despite the positive influence of rising stock markets.

In analogy with premium growth, claims and benefits in the health sub-segment rose by € 83 m to 1,671 m. This was primarily attributable to higher allocations to the provision for future policy benefits and to the provision for premium refunds. The rather moderate rise of claims expenditure becomes evident in the decrease of the claims ratio from 56.6 to 55.3 percent.

HEALTHCARE MOVES US The brand promise which Central Krankenversicherung, one of the leading and fastest growing health insurers in Germany, makes to its customers sounds rather simple: the company responds swiftly, finds an optimum and comprehensible solution for customers and provides them with what they need. The ranking among the best in the industry and a large number of awards illustrate that the more than 1,700 employees actually "live" their brand: **1.6 million customers** rely on Central's solutions and benefits, including the interactive CentralmedGesundheitsservice providing well-founded medical information.


"Healthcare is fun, my mum says. I already know a lot about it. And when the teeth fairy comes she'll be real amazed at what she finds."
Navina Kirchner, 4 years, healthcare expert
central

Combined ratio in health drops to 68.1 percent

Operating expenses increased, mainly due to a higher level of write-downs on deferred acquisition costs as a result of downgrades and cancellations. Furthermore there were expenses for projects of technical and structural reorientation and thus the expense ratio rose by a total of 1.1 percentage points to 12.8 percent.
The combined ratio of claims and expenses amounted to 68.1 percent as at December 31, 2006 (preceding year: 68.3 percent).

In the business year the result was affected by adjustments of the provision for deferred premium refunds and for deferred taxes due to a merger within the Group. Because of the resulting higher level of claims and benefits, the operating result decreased by € 8 m to 61 m.
Within the scope of an optimization of the shareholding structure within the Group, AMB Generali acquired from a subsidiary the 45.9 percent stake in Central Krankenversicherung AG and now directly holds 100 percent. For that purpose, AMB Generali took up a subordinated loan in British pound sterling amounting to a total of £ 207 m (equalling approx. € 301 m). The interest for the loan therefore has to be recognized as finance costs in the health sub-segment. This non-operational impact represents an amount of € 9 m in the business year and will affect the segment result also in the future.

Net profit of € 19 m in the health sub-segment

The additional tax charge caused by the above merger is the main reason for the increase of the tax expenditure by € 7 m to 33 m. After tax, our health insurers thus reached a net profit of € 19 m (preceding year: 43 m) in the business year 2006.

Health insurance

	2006 € m	2005 € m
Gross premiums written	1,666	1,592
Investment income (net)	296	268
Ordinary investment income (net)	268	239
Claims and benefits (net)	-1,671	-1,588
Claims ratio in %	55.3	56.6
Operating expenses (net)	-213	-187
Expense ratio in %	12.8	11.7
Combined ratio in %	68.1	68.3
Operating result	61	69
Finance costs	-9	0
Tax	-33	-26
Net profit [1]	19	43

	2006 € m	2005 € m
Investments	6,520	5,905
Unrealized capital gains not recognized in income [1,2]	35	50
Underwriting provisions	6,837	6,181

1 including minority interests

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

Property and casualty insurance segment

Premium growth in property and casualty insurance

The property and casualty segment is characterized by high market penetration and persistent competition in pricing. Nevertheless we continue to follow an underwriting policy oriented at profitability. The gross premiums written in direct business thus only witnessed a slight increase of 0.1 percent which, however, is considerably above the market development of -1.1 percent expected by the German Insurance Association GDV. Including assumed reinsurance business, gross premiums written rose by € 9 m to 2,993 m. As a result of higher retentions, net premiums earned increased by € 22 m to 2,898 m.

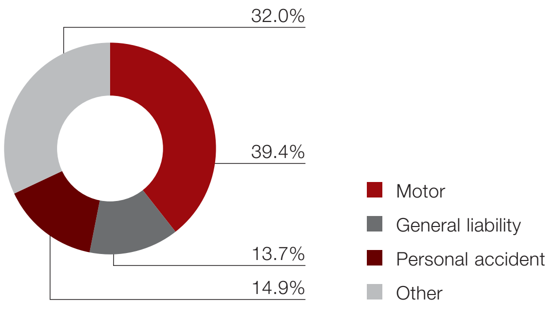
Claims reduced by 0.5 percent to € 1,892 m and as a result the claims ratio dropped to 65.0 percent (preceding year: 65.6 percent).

Combined ratio improves to 95.7 percent

Operating expenses decreased by € 12 m to 889 m. This was mainly due to cost cuts on the basis of rationalization measures implemented in the preceding year. Accordingly the expense ratio fell to 30.7 percent (preceding year: 31.3 percent).
As a whole, the combined ratio reduced to 95.7 percent (preceding year: 96.9 percent). We thus clearly fulfil our 2006 target of a combined ratio below 98 percent.

As a result of extraordinary items in the preceding year – in particular the inter-Group restructuring of the portfolio of participating interests and the transitory disposal of Commerzbank shares – the total net investment income decreased by € 40 m to 384 m. The extraordinary effect mentioned above could not be fully compensated by a markedly higher level of realized capital gains, mainly from shares, and by the increase of ordinary investment income by € 44 m to 250 m.

Mix of insurance portfolio



Figures in % of premium income

Property and casualty insurance segment

	2006 €m	2005 €m
Gross premiums written	2,993	2,984
Investment income (net)	384	424
Ordinary investment income (net)	250	206
Claims and benefits (net)	-1,892	-1,902
Claims ratio in %	65.0	65.6
Operating expenses (net)	-889	-901
Expense ratio in %	30.7	31.3
Combined ratio in %	95.7	96.9
Operating result	331	337
Tax	-3	-70
Net profit [1]	328	267

	2006 €m	2005 €m
Investments	6,173	5,864
Unrealized capital gains not recognized in income [1,2]	356	363
Underwriting provisions	4,243	4,223

1 including minority interests

2 after deduction of deferred tax

The decrease of the revaluation reserve was attributable to rising interest rates in bond markets and to the high level of realized capital gains, in particular from shares. Rising prices in stock markets led to an opposite effect and therefore the revaluation reserve only dropped slightly by 2.1 percent to € 356 m.

Net profit of property and casualty segment rises to € 328 m

The operating result before tax amounted to € 331 m (preceding year: 337 m) as at December 31, 2006. The decrease of net investment income, which was attributable to extraordinary items, could not be fully compensated by the improvement of the combined ratio. Mainly as a result of the capitalization of the corporation tax credit, tax expenditure decreased by € 67 m to 3 m. This led to an increase of the net profit by € 61 m to 328 m.

MORE THAN SAVING FOR A HOME For many people a house of their own ranks at the top of their list of wishes. Deutsche Bausparkasse Badenia helps customers make their dream of a home come true. Thanks to its **integrated financing from one single provider** – by attractive building-society products and the new residential property loans – combined with an excellent service, Badenia is a reliable partner for its approximately 1.2 million customers. Deutsche Bausparkasse Badenia – simple, fast and strongly performing.


"When I first started playing the drums, the neighbours sometimes made a fuss. But lucky enough we will soon live in a **house of our own**. Then I can beat the drums whenever I want."
Felix Fritschi, 10 years, drummer hopeful
Deutsche Bausparkasse
BADENIA

Financial services segment

Number of managed customer deposits increases to more than 122,500

The successful course of AMB Generali Asset Managers Kapitalanlagegesellschaft was again affirmed in the business year 2006. The managed portfolio consisting of mutual funds, third-party mandates and the financial assets of the AMB Generali Group and the international Generali Group reached € 75.3 bn (preceding year: 69.6 bn). This again underlines the company's position as one of the leading asset managers in Germany. Apart from a positive market development this was also attributable to a continuous rise of new fund investments.
The number of customer deposits rose from 108,900 (year-end 2005) to more than 122,500.

Building-society new business grows by 3.1 percent

The development of this segment, however, continues to be primarily marked by Deutsche Bausparkasse Badenia.
New business in terms of target contract sums grew by 3.1 percent. The 3.0 percent decrease of contract numbers was attributable to the building society's financing orientation in favour of contracts with higher average target contract sums. As a whole, Badenia outperformed the market of private-sector building societies which reached a growth of 1.0 percent in terms of target contract sums. In terms of contract numbers the market witnessed a 5.5 percent decrease.
Badenia's portfolio in terms of contract numbers as at December 31, 2006 was 1,464,731 which is below the preceding year's number of 1,548,261 contracts. In terms of target contract sums the contract portfolio decreased from € 28,256 m to 27,405 m.

The building loans included in investments dropped to € 2,932 m from a level of 3,060 m as at December 31, 2005. Apart from the fact that the take-up of new loans decreased as a result of persistently low interest rates, there also was an increasing level of redemption payments on existing loans. On the other hand, the deposits under building-society contracts rose to € 4,361 m, up from a level of € 4,358 m at year-end 2005.

Ordinary investment income amounts to € 232 m

Due to lower interest income on a reduced portfolio of building loans, ordinary investment income (net) dropped from € 238 m to 232 m. Since there was a lower level of risk provision in credit business than in the preceding year, the total investment income (net) remained rather stable and witnessed an 0.3 percent increase to € 224 m.

The revaluation reserve fell from € 15 m to -4 m as a result of lower market values of interest-bearing securities.
The decrease of interest income from the loan portfolio had an adverse effect on the interest surplus which amounted to € 103 m (preceding year: 108 m). The commission result of € 17 m was slightly below the preceding year's figure of € 18 m. The operating expenses of building-society business rose by 3.2 percent to € 71 m. This was mainly due to higher expenditure for the concentration of the Group's mortgage business in Badenia.

Financial services segment

	2006 € m	2005 € m
Building-society new business:		
Target contract sums	2,790	2,705
Number of contracts	136,426	140,602
Contract portfolio of the building society:		
Target contract sums	27,405	28,256
Number of contracts	1,464,731	1,548,261
Investment income (net)	224	224
Ordinary investment income (net)	232	238
Interest surplus of the building society	103	108
Commission result of the building society	17	18
Operating result	61	46
Finance costs	-4	-7
Tax	-17	-17
Net profit [1]	40	22

	2006 € m	2005 € m
Investments	4,905	4,943
Unrealized capital gains not recognized in income [1,2]	-4	15
Building loans	2,932	3,060
Deposits under building-society contracts	4,361	4,358

1 including minority interests
2 after deduction of deferred tax

Primarily due to the successful development of our asset-management company, which is recognized in other income/expenditure, and a lower expenditure for provisions, the operating result increased to € 61 m (preceding year: 46 m). Under the positive impact of the capitalization of the corporation tax credit, the tax charge of € 17 m remained at the preceding year's level despite the marked increase of the operating result. Net of finance costs, the contribution of the financial services segment to the Group net profit increased from € 22 m to 40 m.

Net profit of € 40 m in financial services segment

Report on subsequent events

After the close of the business year, severe storms occurred in January 2007. In this context, reference is made to the "Outlook" section on p. 80 ff. Otherwise 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 2006 AMB Generali Holding AG reached a net income for the year of € 164.2 m (preceding year: 191.4 m). After winding up the profit brought forward from the year 2005 of € 50 thousand (preceding year: 68 thousand), withdrawals from the reserve for treasury stock of € 16 thousand (preceding year: 176 thousand) and from the reserve under the Articles of Association (charitable fund) of € 270 thousand (preceding year: 492 thousand) and an allocation of € 38.8 m (preceding year: 80.1 m) to the other revenue reserves, the balance-sheet profit amounted to € 125.7 m (preceding year: 112.0 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 3, 2007:

Balance-sheet profit and appropriation

	€
1. Distribution to the shareholders	
Payment of a dividend of € 2.30 per unit share entitled to dividends, payable on May 4, 2007	123,463,986.20
2. Allocation to the reserve under the Articles of Association (charitable fund)	2,172,990.15
3. Profit carried forward	51,728.80
Balance-sheet profit	**125,688,705.15**

Human resources

The success of the AMB Generali Group is based on our employees. In 2006, their commitment and dedication were again of vital importance for the successful development of the Group. With their creativeness and competency they work together for our customers and for the enhancement of our Group.

As a group of insurers and providers of financial services with a variety of brands and a broad range of distribution channels we have the ambition to persistently improve our market position. In order to achieve this we need committed and qualified staff. It is thanks to their dedication at all levels that we are able to swiftly keep improving our structures even in a challenging environment.

Employment situation and structure measures

Number of employees drops to about 17,000 in 2006

As at December 31, 2006 the AMB Generali Group had 17,043 employees compared to 18,411 in the previous year. Out of these, 28 percent ensure fieldstaff tasks while 72 percent are employees in administrative services for our customers. In addition to the about 8,600 professional intermediaries, close to 95,000 side-job intermediaries work for our companies and provide advice to our customers. Approximately 13 percent of all employees have part-time contracts. At year-end 685 young people (preceding year: 802) were undergoing professional training as apprentices.

The AMB Generali Group responds to the market challenges thereby ensuring the Group's competitiveness in the interest of all stakeholders – employees, shareholders and customers – in the long term. In the year 2006 we further accelerated the processes of change in order to reinforce the competitiveness of our Group. The objective is to sustainably optimize our business processes. Some of the measures initiated also affect the employment situation. In the year under report, the job-cuts under the cost-reduction programme already initiated in 2003 were realized more swiftly than originally planned. We are, however, aware of the special responsibility we have towards our staff. In those cases where jobs were cut we tried to make use of natural fluctuation and to agree early retirements with employees.

Measures to increase competitiveness

Beyond this, we initiated further structural changes in the year under report which will have a noticeable impact on the employment situation in the course of the next two years. Under the implementation of these projects and by year-end 2008 a number of about 500 jobs will be cut across Germany in addition to the originally announced figure of 1,000 job-cuts. Consultations and negotiations with the works councils – in line with their statutory task – about the planned measures have started. The purpose of the measures taken to strengthen competitiveness is to consolidate important services and back-office functions across the Group and to optimize distribution structures. The concentration of IT capacities at the Aachen location, the head office of the Group's central data centre, makes us even more efficient in providing state-of-the art information technology to our companies and to the European locations of the international Generali Group.

Further changes refer to services such as accounting, purchasing, administration and facility management, which are currently spread across more than 20 locations. In the future, these will be concentrated in one services company. In addition, the management of major and special claims will be transferred from the Group companies to one shared claims management company. The corresponding measures regarding employment will be initiated in 2007.

Human resources development

"We keep qualifying and make active use of our knowledge."

Every company of the AMB Generali Group pursues the development of human resources on the basis of shared values and targets in the Group. We thus give our employees the possibility to keep developing on a professional and personal level, to make active use of their expertise and to participate in shaping the Group. Across the Group, the training programmes are oriented at the requirements of employees and the needs of the Group companies.

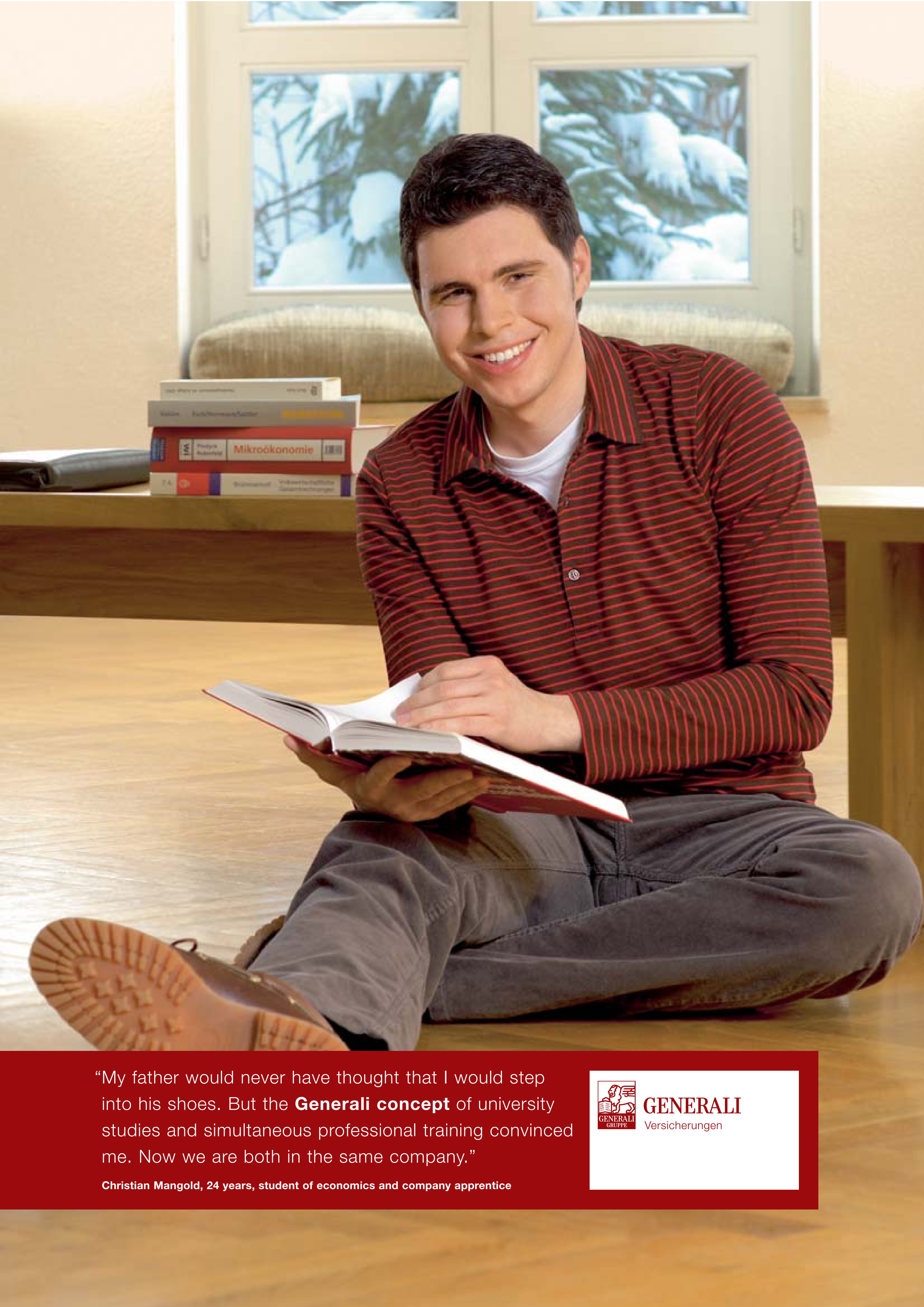
AMB Generali Management Academy

Programme slogan: "Qualification. Leadership. Target achievement."

Under the slogan of "Qualification. Leadership. Target Achievement." the AMB Generali Management Academy ensures state-of-the-art leadership competency for the Group's management. In the business year 2006 more than 250 executives attended workshops and trainings on the issues of shaping strategy, improving performance and strengthening responsibility. The programme of the management academy combines the internal expertise of the Group with the know-how of leading trainers and institutions in Europe. It concentrates on topical issues with a high relevance for the AMB Generali Group and initiates an exchange of experience across the Group. The focus is also on enhancing a leadership based on shared targets and values in the entire Group.

An additional core feature of executive development is systematic performance assessment and the identification of individual potentials. The harmonized structure for the recruitment, assessment and promotion of executives ensures that vacancies can possibly be filled internally, thus keeping specific expertise within the Group.

PROTECTION UNDER THE WINGS OF THE LION Generali Versicherungen provides innovative and comprehensive solutions to private customers in all stages of life as well as covers for small and mid-sized commercial clients. The company enjoys an excellent reputation in corporate pension business, also with big institutional customers. Its multi-channel strategy in distribution distinguishes itself in particular by a highly performant traditional sales network with more than 2,100 exclusive agencies and specialists, its strong competency with regard to brokers and by the specialized sales networks for women and the 50+ generation. With 2.5 million customers and a premium income of € 2.1 bn, Generali Versicherungen is the **third-largest property/casualty and life insurer** in the AMB Generali Group.


Mikroökonomie
"My father would never have thought that I would step into his shoes. But the **Generali concept** of university studies and simultaneous professional training convinced me. Now we are both in the same company."
Christian Mangold, 24 years, student of economics and company apprentice
GENERALI GRUPPE
GENERALI
Versicherungen

Staff recruitment

Win competent, creative and flexible staff

Winning, retaining and enhancing competent and committed staff acting with a customer orientation represents a special challenge. The Group's trainee programme initiated in 2004 is part of the successful measures implemented in order to cope with these tasks. The programme is addressed to university graduates who have finished their studies within a short period of time and have already gained some first professional experience, such as by company placements. During our one-year programme we convey an overall picture of the Group and encourage first special qualifications. Until today it has been possible to win all participants of the programme for various companies in the Group.

Thanks to the employees

The market calls for change. It is the responsibility of management to recognize the necessity of change and to steer the corresponding measures within the company. Actually bringing about this change is the task of every single person in his or her field of activity. Our economic success is the result of a consistent commitment and strong will at all levels and at every location to actively participate in the further enhancement of the Group. The Board of Management and the Supervisory Board express their sincere thanks for this to all employees. We also thank the works councils for a constructive and trustful cooperation marked by esteem.

Internal controlling systems

The internal controlling system of the AMB Generali Group is based on the two essential controlling dimensions of capital management and performance management. Capital management aims to sustainably ensure the risk-bearing capacity and financial strength of the Group of companies. The target of performance management, on the other hand, is to persistently increase the corporate value of AMB Generali.

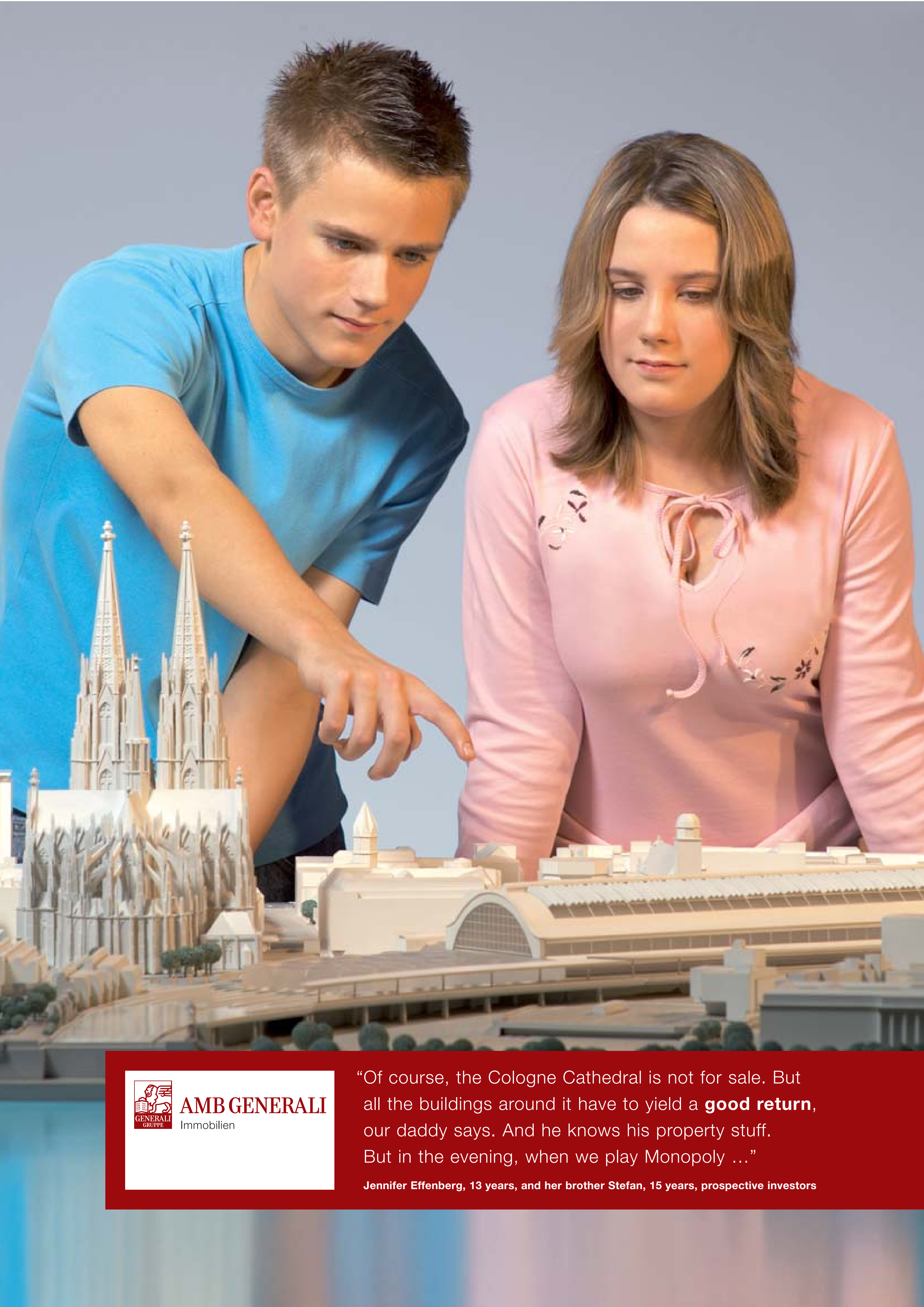
Basic concept

The internal controlling system of the AMB Generali Group links the two essential controlling dimensions of capital management and performance management. Capital management focuses on sustainably ensuring the risk-bearing capacity and financial strength of the Group of companies. For that purpose the economic capital required under risk aspects is calculated at different company and controlling levels and compared to the actual capital available for bearing risks. Capital management therefore is an integrated part of internal risk management.

Performance management, on the other hand, represents the value-based perspective and measures the value increase of the Group over time. For that purpose the economic results of our business activities are derived and then related to the previously determined required and actual capital amounts. By linking these dimensions, key return figures are identified which can be used to assess risk-based profitability.

Capital-management approach

Within the scope of capital management, the economic capital required (target) of AMB Generali is calculated and compared to the capital available (actual). In our external communication we use the terms economic capital (EC) for the required capital and embedded value (EV) for the actual capital attributable to the shareholders. The economic capital is calculated on the basis of a consistent risk philosophy for all segments of the AMB Generali Group and consolidated. For that purpose, internal risk models are used which simulate possible corporate developments on the basis of detailed corporate information in order to identify the value at risk, i.e. the maximum loss which will not be exceeded with a predetermined probability. 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.


AMB GENERALI
Immobilien
GENERALI GRUPPE
"Of course, the Cologne Cathedral is not for sale. But all the buildings around it have to yield a **good return**, our daddy says. And he knows his property stuff. But in the evening, when we play Monopoly …"
Jennifer Effenberg, 13 years, and her brother Stefan, 15 years, prospective investors

Performance-management approach

The derivation of economic results is strongly influenced by the business models used. In property and casualty insurance the economic result is mainly determined by the combined ratio of the business year. In life insurance, due to the long duration of contracts, models are used for an adequate value assessment which take into account the present value of future profits resulting from the business-in-force. The result of this approach is, among others, the new business value which represents the present value of all future profits expected from the insurance contracts newly concluded in the business year.

In addition, performance management also covers extraordinary items due to investment results or tax influences. Since these items may have a significant impact on results but are not attributable to operating business they are not considered to measure operating profitability but are instead shown separately.

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 required capital (target). This figure measures our operating profitability. The RoEV, by contrast, indicates the total 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 2006

In terms of relative figures, the property and casualty segment had an economic capital (EC) of 27.8 percent (preceding year: 26.4 percent) of net premiums earned in 2006. The increase of the EC compared to the preceding year is attributable to a slight increase of underwriting risks which, in turn, are related to the premium mix. The economic capital (EC) in life insurance amounts to 4.3 percent of net underwriting reserves (preceding year: 3.8 percent) and has thus also risen compared to the preceding year. In this context it has to be noted that the value of business-in-force, i.e. the present value of future profits from life insurance contracts, is also treated as tied capital and is accordingly included in the EC. The relative rise of the EC is solely due to the higher value of business-in-force and therefore does not signal a higher risk content in our life insurance business. Given an existing actual capital or embedded value (EV) of € 4,565 m, the Group continues to be adequately capitalized as a whole.

WE'RE PROPERTY ENTHOUSIASTS AMB Generali Immobilien is the central provider of all property services in the AMB Generali Group. The company is in charge of the full value-creation chain ranging from acquisition or construction and portfolio management to the sale of property or property funds. The portfolio of direct and indirect strategic property investments – in Germany and increasingly in international markets – amounts to about € 3.4 bn. Our staff at the Cologne location focuses on three targets: **return orientation**, risk assessment and active portfolio management.

Overview capital management

	2006 € m	2005 € m
EC life	2,885	2,450
EC property/casualty	807	758
EC financial services	277	284
EC health	294	241
EC total	**4,263**	**3,733**
Excess capital	302	409
EV total	**4,565**	**4,142**

Compared to the preceding year, the economic result in the life sub-segment increased by € 62 m to 263 m. The main reason for this increase is the new-business value which improved due to both higher volumes and higher margins.

Performance management life

	2006 € m	2005 € m
New business value (before capital cost)	156	125
New business value (after capital cost)	129	100
Profits from insurance portfolio	121	107
Operational deviations	13	-6
Economic result after tax	**263**	**201**

Since in 2006 the combined ratio across the Group continued to improve substantially from 96.9 to 95.7 percent, the economic result in property and casualty insurance also rose considerably to € 114 m. This is primarily due to the cost-cutting measures taken in the Group.

Performance management property/casualty

	2006 € m	2005 € m
Net underwriting result	124	88
Balance of other expenses/income	-162	-160
Normalized investment income	227	209
Economic result before tax	**189**	**137**
Normalized tax	-75	-55
Economic result after tax	**114**	**82**

Linking the economic results with the previously calculated capital figures (EC and EV) leads to the following key return figures:

Performance management key return figures

	2006 %	2005 %
RoEC life	10.8	10.1
RoEC property/casualty	15.0	10.4
RoEC financial services	14.0	10.6
RoEC health	18.3	17.7
RoEC total	**12.3**	**10.6**
Return on excess capital	2.2	2.1
RoEV normalized	**11.3**	**10.0**
Debt capital cost	-0.4	-0.2
Extraordinary items (mainly investments)	2.1	13.9
RoEV total	**13.1**	**23.7**

The operating profitability increased significantly in all segments. After the successful turnaround of Badenia, the profitability of the financial-services segment improved to 14 percent of the tied capital. The profit contribution of the health sub-segment has stabilized on a high level and shows a return of 18.3 percent (preceding year: 17.7 percent). As a whole, the return on economic capital (RoEC) is 12.3 percent and thus rose substantially against the 2005 level. In addition, the equally favourable development of capital markets in 2006 involved a positive extraordinary impact which contributed to an additional increase of the Group's embedded value by 2.1 percent compared to the preceding year.

The return on embedded value (RoEV) of 13.1 percent reflects the value increase of the entire Group which was achieved in 2006 on the basis of the internal controlling figures. The double-digit key return figures underline the sustainable profitability of AMB Generali. For the years 2007 and 2008 we expect a further rise of risk-adjusted profitability. This is also reflected in our outlook for the main result drivers included 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 continuously enhanced and internal risk-management processes are checked with a view to future requirements.

Risks involved in the future development and risk controlling

Risk management in the AMB Generali Group

As a financial services group focussing on insurance, investments and building-society activities, the AMB Generali Group has to monitor a variety of risks. These risks arise, on the one hand, in our core business by assuming the risks of our customers and, on the other hand, by the general operating activities of our Group. We aim at an early recognition, systematic analysis and monitoring of all risks in order to exclude any kind of hazard for the Group and for the companies and to sustainably ensure the earning capacity of the Group. As a whole, no development can be identified at the moment which could materially affect the assets, financial strength and earnings position of the AMB Generali Group. There are currently no risks recognizable which could jeopardize its existence.

Major elements of risk management within the AMB Generali Group were revised in 2006. In particular, the risk-management processes described in the adopted risk-management code and the models used were modified. The report below covers these new elements while at the same time it tries to resume the presentation followed in previous reports for the sake of continuity in reporting.

Organization of risk management

The organizational framework of the risk-management system comprises the members of the Board of Management, the persons responsible of the operational divisions concerned, the risks managers of the individual Group companies, the Group Risk Manager and the internal audit department of the Group. Furthermore, issues involving risk-management aspects are coordinated across the Group by specific risk-management committees (RMC) for each segment in which all companies concerned are represented.

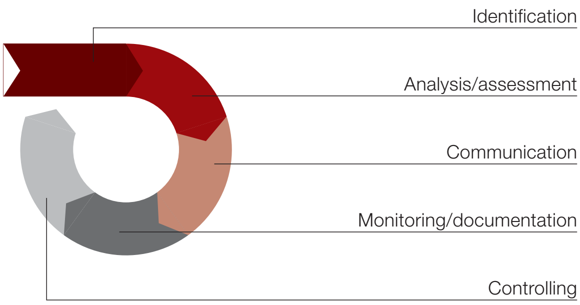
The Group's risk management system is organized both on a centralized and a decentralized level. The decentralized risk management coordinates the activities in the individual Group companies. The Company Risk Manager is also the contact for the Board of Management of the company concerned and for the Group Risk Manager. The centralized group risk management is in charge of 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 of risk management, the tasks of Group Risk Management therefore include the activities of initiating, elaborating and coordinating risk-management measures together with the Company Risk Managers and the RMCs. The Group Risk Manager reports regularly on the risk situation of the whole Group to the Board of Management of AMB Generali.

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

The risk-management system within the AMB Generali Group

The risk-management system of the AMB Generali Group follows the steps of risk-management which are common practice in the market:

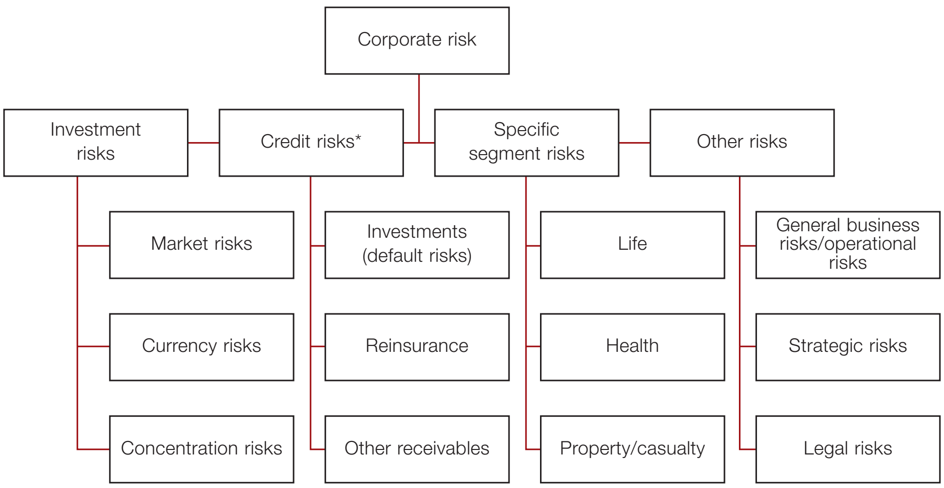
Risk-management process



The first step of the risk-management system consists of the identification of all risks which could jeopardize the Group or hinder the Group in reaching its operating targets. These risks are identified on the basis of a risk inventory established in the individual companies and in AMB Generali at least once a year. For that purpose, the Group companies use an aggregated and consistent risk list. The documents are updated regularly and allow a systematic identification of all risks.

On the basis of the standards applied in the industry and within the scope of a newly defined aggregation logic, the identified risks are allocated to different risk categories which, in turn, are divided into sub-categories and sub-types of risks.

Risk categories



* Within the scope of the Group-wide RMS, credit risks include the default risks under building-society business.

Categories and types of risks

Investment risks:
Investment risks are composed of market, currency and concentration risks which can generate losses as a result of adverse changes of market prices or of factors influencing the price – such as changes of interest rates, share prices or currency fluctuations – or due to an insufficient diversification in the portfolio.

Credit risks:
Credit risks are involved in possible losses attributable to a durable widening of spread or the total or partial default of an issuer or contracting party. Default risks in primary insurance business exist mainly with regard to amounts receivable from policyholders, intermediaries and reinsurers. The default risks involved in building-society business are also included in credit risks.

Specific segment risks (underwriting risks):

- Life and health sub-segments:
  The specific segment risk of life and health insurance is composed of the cost risk, the biometric risk and the lapse risk. Risks may be involved in the fact that the future cost or lapse situation and the occurrence of claims may differ from the assumptions on which the premium calculation was based.
- Property and casualty segment:
  The specific segment risk in property and casualty insurance consists of the pricing risk and the reserving risk. The premiums determined in advance have to be sufficient so that future claims can be paid. Due to their fortuitous character, the extent of claims is not yet known with certainty when premium levels are fixed, which involves a corresponding pricing risk. The reserving risk may be caused by an insufficient level of provisions involving a deterioration of the underwriting result.

Other risks occur in the context of all operational systems and processes, mainly as (operational) risks that may be caused by human or technical failure and by external factors of influence. The other risks therefore comprise general business risks, operational, strategic and litigation risks.

Details of these risks, in particular the approaches and methods for their controlling, are shown in the Notes, section 5, p. 124 ff. in compliance with the rules of IFRS 4.

Risk analysis and measurement

After their classification by specific risk categories, all identified risks are allocated to adequate risk-management processes within the scope of the risk-management system of the AMB Generali Group. These processes take into account the different risk features. This ensures a correct analysis, measurement and monitoring of risks.

The allocation of the risks to four standardized risk-management processes or management routines follows the three criteria indicated below:

1. quantifiability of the risk;
2. time horizon in which the materializing risk may contribute to jeopardizing the company's existence;
3. materiality of the risk.

If the identified risk is quantifiable it enters a **quantity-based management process**. This process comprises risks with experience values being derived on an empirical bases and which may threaten the further existence of the company within one year. The necessary risk quantification is done on the basis of a uniform Group risk model which measures the implicit tying of risk-based capital in the company and it comprises all investment, credit and specific segment risks. The other risks are handled on a global basis within the Group risk model (in analogy with the approaches which are common practice in the industry) since due to an insufficient empirical experience they are difficult to quantify for the time being. In addition to being covered by the risk model, all risks entered and quantified in the Group-risk model are subject to continuous monitoring by the persons in charge of the risk.

The other risks are primarily subject to a **purely quality-based management process**. This process covers those risks which cannot be quantified or not adequately quantified but which nevertheless may lead to a threat for the existence of the company within one year. These risks are allocated to the processes and persons in charge of the management of the risks concerned. This applies, for instance, to the IT risks which are controlled, as a matter of routine, by AMB Generali Informatik Services GmbH. Other operational risks are analysed and controlled, on an optional basis, by Group-wide work and project groups.

The **strategic controlling process** informs the management about non-modelled risks and risks which cannot be adequately modelled and which have the potential of a long-term creeping threat to the existence of the company. These risks (such as the risks resulting from a wrong strategic positioning) are the subject of the annual planning discussions.

Risks not jeopardizing the company's existence are the other risks not reaching a defined threshold value and not representing a significant threat to the existence of the company. The controlling of these risks is part of common corporate prudence and practice and thus takes place within the scope of **regular business processes**.

Communication and monitoring

The regular communication with regard to identified risks is ensured by quarterly risk reporting. In addition, internal ad-hoc reporting has been established in order to inform those in charge of risks about any risks that occur spontaneously. The quarterly risk reports focus on those risks which have been allocated to the quantity-based and quality-based management processes and which could jeopardize the company's existence in the short term. In addition, reporting also covers newly identified and newly registered risks. Furthermore the reporting also includes information about the controlling of measures.

With regard to the quantified risks within the quantity-based risk-management process, detailed statements are made concerning the risk-based capital (economic capital or required capital). The required capital amounts for the risk drivers are shown individually and are then aggregated, taking into consideration risk-compensation effects, to determine the economic capital for the Group. Simultaneously various key figures referring to capital adequacy are shown as the ratio between the existing and the required risk-based capital. The reporting is based on the actual reporting dates of quarterly accounting and on the planning periods. On the basis of the reports referring to the individual companies, the company figures are aggregated and an overall report (Group risk report) is prepared. The addressees of the report are primarily the company management (Board of Management), the operational divisions concerned and the Group's internal audit department. Regular reporting is provided in the RMC meetings where information on issues of relevance for risk management is exchanged between the companies. As a whole, risk reporting thus provides information of risk relevance to decision-makers on a systematic and regular basis.

Risk controlling

Risk controlling is based on standardized risk reporting which provides information on the overall risk situation in the individual companies and in the entire Group. The risk report also documents the initiated measures resolved by the Board of Management or by the competent RMC. The measures are implemented by defined persons in charge and in part also by working groups or project groups established across companies.

In addition, risk controlling is complemented by investment and underwriting guidelines, further instruments of analysis and by existing schemes of limits. These instruments also include additional restrictions to be observed, such as the stress tests required by the regulatory authorities to be carried out on a regular basis. In case it should turn out to be necessary to deviate from the investment, underwriting or other guidelines because the risk situation aggravates in the course of the year, appropriate measures are resolved and monitored by the Board of Management or the RMC in charge.

Reporting on selected 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). Due to the integration of AMB Informatik in the Group's risk-management system, the AMB Generali Group has efficient instruments for recognizing IT risks across the Group. To minimize risks, measures are taken on a continuous basis 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 2006 the procedures used as a protection against computer viruses again prevented major incidents.

By means of the implemented technical and organizational measures of precaution, AMB Informatik is able to ensure the function of the AMB Generali Group's IT operations even in the case of a catastrophe.

Legal risks

In the wake of domination and profit-transfer agreements concluded with subsidiaries and within the scope of the so-called squeeze-out procedure, indemnity offers were made to the minority 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 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 Insurance Contract Act (Versicherungsvertragsgesetz–VVG) comprises the most important rules governing the relationships between insurance companies and policyholders. In March 2006 the German ministry of justice presented an expert draft for a new wording of the VVG and thus started an initiative for a complete overhaul of this act. The VVG reform covers aspects which are assumed to have a material influence on the operations of the various lines of insurance business.
In October 2006 an amended draft was approved and published as government draft by the Federal Government. The draft is currently expected to be passed by parliament in summer 2007. The new rules are planned to come into force on January 1, 2008.
AMB Generali has established a Group-wide project team as well as the corresponding working groups in the different Group companies in order to analyse the impact of the planned VVG amendments. The purpose of these activities is to prepare all necessary steps for the implementation of the requirements of the amended VVG with regard to business structures and product calculations.
The insurance companies of the AMB Generali Group are well on schedule with their preparatory activities ahead of the implementation of the amendments in the business year 2007. The necessary resources for the implementation of the adjustments were estimated and earmarked for activities in the context of the VVG reform. Coordinating these activities with other planned Group projects ensures that the implementation procedure will run as smoothly as possible.

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 customers. Until today, in nearly all litigation cases with a legally binding and final court decision, Deutsche Bausparkasse 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. On May 16, 2006 the Supreme Federal Court (Bundesgerichtshof – BGH) resolved on major legal issues in the context of the revocation of so-called door-to-door dealings in a way favourable to Badenia. Apart from this, however,

the court decisions ease the burden of proof for the plaintiffs. In this context the duration of the court proceedings at courts of instance could become longer as a result of more frequent and more detailed evidence hearings. This would lead to a higher number of appeal procedures. Any higher litigation risks that may exist in special circumstances have been taken into account by the appropriate provisions set up for litigation risks.
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 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 agreements for flats dating back to the early '90s. A final assessment of the litigation risk was 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 would have to reimburse approximately half of the premiums paid to most customers who took out a life insurance policy between 1994 and 2001 and cancelled it prematurely, even after a brief policy duration. The resulting claims are being continuously handled and settled. This will continue to cause additional expenses for the Group's life insurance companies (AachenMünchener Lebensversicherung AG, Volksfürsorge Deutsche Lebensversicherung AG, Generali Lebensversicherung AG and Cosmos Lebensversicherung AG). At least 90 percent of the expenditure resulting from this rule, however, will have to be borne by the collective of policyholders which means that they will reduce the provision for premium refunds. A maximum of 10 percent will affect the net income for the year.

In the business year under report and organized by the consumer organization Verbraucherzentrale Hamburg, 20 policyholders of AachenMünchener Lebensversicherung AG filed a lawsuit with the Regional Court of Aachen in an arbitrary joinder of parties because they were not satisfied with the handling of their claims by the company on the basis of the above-mentioned ruling by the Federal Supreme Court. After the Regional Court had expressed doubts about the admissibility of the action, the latter was initially withdrawn. 15 of these policyholders then ceded their claim to Verbraucherzentrale Hamburg which filed another lawsuit with the Regional Court of Aachen. The current proceeding refers to issues of fundamental importance such as the statute of limitations, the cancellation deduction to be applied and the calculation of the surrender value.

Solvency requirements

All Group companies subject to solvency requirements showed a sufficient solvency in compliance with statutory regulations.
Looking at the solo solvency requirements regarding the major subsidiaries of the AMB Generali Group, the total of the existing equity funds of € 8,151 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 inter-Group financing) is by € 4,990 m or 158 percent in excess of the required level. The solvency ratio calculated on that basis thus amounts to 258 percent.

In 2006 the AMB Generali Group was for the first time identified as a financial conglomerate by BaFin with reference to the business year 2005. On the basis of our forecasts to calculate capitalization as a financial conglomerate, solvency requirements are fulfilled on a conglomerate level during the year and as at the reporting date.

In preparing for the future requirements under Solvency II the AMB Generali Group implemented, as already described, an internal risk model oriented at the standards of the industry. On the basis of this risk model, the Group has a sufficient risk-based capital in order to fulfil the economic capital requirements.

Outlook and further enhancement of risk management

The further enhancement of risk management is a continuous process. At regular intervals, new elements and findings of business administration are included in risk management by appropriate updates. Also in the context of the further development of European insurance regulation (Solvency II) the risk-management in AMB Generali is consistently oriented and enhanced with a view to the requirements of the new regulatory system. In its conception, the Group project is oriented at the three-pillar structure also chosen for the EU project by the regulatory authorities. Observing the three-pillar structure, the further enhancement of internal systems for risk measurement and controlling, the optimization of processes and the framework for transparent reporting are consistently being pushed forward.

As a whole, there is no development emerging at present which could substantially affect the assets, financial strength and earnings position of the AMB Generali Group. There are currently no risks recognizable which could jeopardize its existence.

Outlook

The overall economic development has improved markedly in Germany. Clear cyclical impulses for the German insurance industry, however, are not yet to be expected. For the AMB Generali Group, activities will continue to focus on a sustainable strengthening of profitability and corporate value.

Expectations with regard to the overall economy

Economic slow-down in 2007

Global economic growth will probably slow down somewhat in 2007 while remaining at a high level. Especially in the U.S. we assume that, following a slackening of growth dynamics, expansion will remain below the usual U.S. average. For the eurozone we expect that growth will decrease to 2.0 percent. In Germany, the consequences of the increase of value-added tax and the decrease of global economic growth will probably lead to a markedly lower expansion of production. As a whole, we anticipate a 1.6 percent growth.

Moderate development of financial markets

European shares better than U.S. stock markets

After four good years for equities, positive returns are also expected in 2007. Though valuation ratios continue to be good, returns will presumably be markedly lower than in the year under report. Earnings growth and the rhythm of mergers and acquisitions is expected to slow down as a result of the weaker economic cycle. There should be a positive impact on stock markets due to the presumable end of rate-tightening in the eurozone and the beginning of rate cuts in the U.S. For the total year we expect percentage gains in the one-digit range in the eurozone, which would thus be slightly above the U.S. level.

Long-term yields expected to rise slightly

In bond markets a moderate rise of yields against the year-end 2006 level appears to be probable. The long-term yields of government bonds in the U.S. and in the eurozone are expected to be 4.7 and 4.0 percent respectively at year-end, while experiencing markedly lower levels during the year. In both regions the fact that the global rate tightening of recent years should have an increasing influence on bond markets speaks in favour of slightly rising yields. In addition we assume that the economic cycle will be more robust towards the end of the year. In the light of a moderate inflation, however, a major return setback is not to be expected. Especially in the eurozone the rise of yields is to be seen as a normalization after a historically very low level.

Insurance industry with a lower premium growth

In the year 2007, growth in the German insurance industry will again largely depend on the further development of the economy and on general consumer sentiment. The German Insurance Association (GDV) assumes that premium growth will level off slightly compared to 2006 to approximately 1 percent. The development will, however, vary in the individual lines of business.

Further normalization of life insurance business in 2007

After the introduction of the Retirement Income Act in 2005, life insurance business will keep normalizing in 2007. The rising need for funded individual provision for old age and the increasing general acceptance of retirement products will have a positive influence on business. The further development of income and employment, however, is not expected to provide noticeable impulses for life business. The reduction of the guaranteed interest at the turn of the year is not anticipated to have a negative effect.
In new business, the general trend of an increasing importance of pension covers will continue. Accordingly “Riester business” will expand, too. But contrary to the situation

in 2006 there will not be the positive impact of the third “Riester incentive step” which alone contributed one point to the premium growth of the closed business year. Despite more favourable tax conditions it also remains to be seen whether the demand for basic-pension products will actually rise across the market.

As a whole it is assumed that the premiums of life insurers, pension schemes and pension funds will see are marked reduction of their growth rhythm and make a growth contribution of approximately 2 percentage points.

About 2 percent premium growth in life insurance

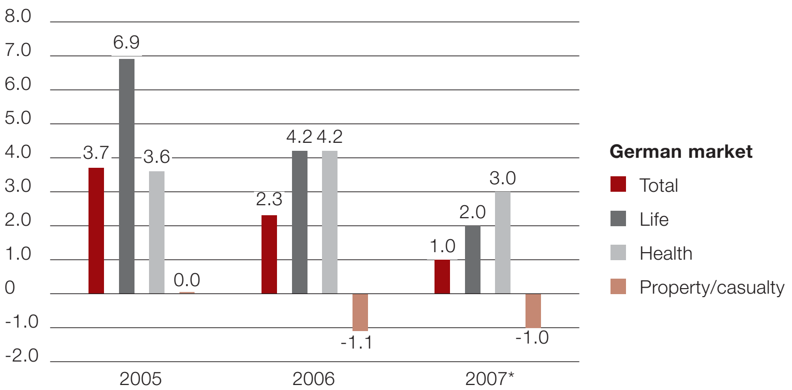
Within the scope of the healthcare reform, important measures under healthcare policy will be initiated in 2007, which could constrain the successful development of private-sector health insurance in the future. Though in principle the existence of private-sector health insurance as a provider of full health covers is not jeopardized, the private model, which has worked well in the past, will become less attractive as a result of the forthcoming changes. For the time being, it is still difficult to assess the possible consequences on premium development. Without taking into consideration the possible impact of the healthcare reform it is to be assumed that private health insurance will be the insurance line with the strongest growth in 2007. As a whole – on the basis of the technical assumptions described – premium growth is assumed to be about 3 percent. Again this will primarily be attributable to premium adjustments to take account of rising healthcare expenses. New business, however, will be at a rather moderate level and at most compensate the cancellations to be expected. Complementary covers, which are increasingly being taken out in cooperation with public health funds, will continue to experience a dynamic growth. These covers, however, have a limited weight in premium growth.

Premium income in private-sector health insurance depends on healthcare reform

The high degree of market penetration and a keener price competition remain the major reasons for the weak development of property and casualty insurance. The moderate level of domestic economic activities does not noticeably stimulate the demand for insurance covers, either. The increase of insurance tax, which came into force at the beginning of 2007, could also have a curbing effect on demand. Besides the intensive

Property and casualty business continues to decrease

Premium growth by lines of business



Figures in %

* estimated

Source: GDV

price competition in motor insurance, premium income is also affected by changeovers to more favourable categories of no-claims discounts and car categories. Against this background it is foreseeable that the premium income of motor insurance will decrease again in 2007.
Despite slight increases to be expected in the other classes, it is to be expected that property and casualty insurers will see a 1.0 percent decrease of premium income in 2007.

Growth opportunities for building-society industry

The construction of residential property continues to be attractive. Reasons for this are the historically low level of interest rates, a slight decrease of construction costs and the fact that in many places property prices are still attractive. In addition, it is increasingly recognized that property is an important component in providing for old age. In this context building-society contracts continue to be of vital importance in stimulating residential housing. Amid a gradually improving environment and slight growth in private housing construction, the industry should experience moderate growth possibilities. The financing of property redevelopments and renovations could increasingly become a business opportunity, too.

Activity focus of the AMB Generali Group in 2007

Increasing corporate value by growth and rising efficiency

Programme to improve competitiveness

In the coming business years the AMB Generali Group will maintain its policy aiming at a sustainable increase of its corporate value. The core elements of its strategy are profitable growth and further rising efficiency both at individual company level and at the level of the Group. The key elements to reach profitable growth are a reinforcement of sales networks, an expansion of our top position in profitable market segments and intelligent pricing, which both fulfils customer needs and our profitability requirements in core business. Efficiency increases are the result of an accelerated automation of operational processes and of synergies realized by enhancing cooperation at Group level. Besides the improvement of structures and processes, our activities are simultaneously focussed on a sustainable increase of the quality of our services for customers and intermediaries. These measures will involve further job-cuts. The programme of measures is completed by international activities within the Generali Group which – apart from additional cost synergies – also include the exchange of best-practice.

Further market-share gains in 2007

Despite increasingly keen competition we again expect to reach above-average premium growth and to gain additional market shares in insurance business in the year 2007. Growth will continue to be supported by our life and health insurers. Our activities will concentrate on the development of innovative products with characteristic features oriented at customer needs and taking into account the specific requirements of the individual distribution channels. In addition, we have taken measures to raise fieldstaff productivity and to keep qualifying our reoriented distribution networks and increasing their efficiency.

Growth in life above the market average

High growth potential in life insurance

With a share of approximately 65 percent in total premium income, life insurance is the most important line of insurance for the AMB Generali Group. Therefore the environment for and the developments in this segment are of particular significance. Due to the demographic situation, structural financing problems of the state-run pension schemes and a growing awareness of the need for complementary private or corporate provision for old age, life insurance clearly is a growth market. For 2007 we expect a further boost of new business within the changed world of products and incentives existing since 2005. Single premiums are no longer excluded from tax allowances. This takes account of the fact that in particular for persons close to retirement it no longer is sufficient to accumulate savings in order to compensate decreasing public-pension levels but that also existing capital should be used for that purpose. Thanks to our broad and comprehensive product range and to the quality of our sales networks we have the best conditions to position ourselves successfully in this field. This applies to all three tiers of old-age provision and to the complementary covers for biometric risks.

Good business perspectives under the "three-tier model"

The improvement of tax allowances for the basic pension as part of the first tier will lead to a substantial rise of the attractiveness of this product. Public debates about improved incentives will increase the awareness level with regard to this product, which is a highly interesting one for the self-employed, high income earners and persons approaching retirement. We have oriented our basic-pension products at the requirements of this customer segment, which opens up attractive distribution opportunities.

Expansion of strong position in "Riester market"

"Riester pensions" with a state incentive are part of the second tier of old-age provision. After having benefited to a particular extent from the third incentive step of "Riester pensions" in 2006 as the market leader in this business – 80 percent of our customers made use of the extended incentive option – we want to further expand our strong position in the "Riester market" in 2007.

We also see corporate pensions, which are equally part of the second tier, as a market of sustainable growth. In this business it is crucial to give comprehensive advice on all aspects of corporate old-age provision to employers and to provide high-quality information to each employee on an individual basis. These are services we can guarantee by means of our sales networks since we offer all vehicles of corporate pension business.

Endowment and private pension policies continue to be attractive

The old-age provision products of the third tier, which comprise endowment life and private pension insurance, continue to be attractive for customers. The advantages involved in these products consist mainly of the long-term guarantees in respect of benefits and the additional covers of biometric risks. The tax treatment of pension insurance was improved by the Retirement Income Act for cases where the customer actually opts for pension payments upon contract maturity. The new tax treatment also allows flexible products giving customers additional options regarding payment modalities for premiums and benefits as well as investment strategy. Already in the past we have proved our expertise for product innovation in this context.

As the market leader in unit-linked life insurance we offer our customers various options for equity investments in line with their risk affinity, while nevertheless benefiting from guaranteed benefits. Furthermore there is the possibility of flexible investments in different funds of excellent quality, which gives customers a greater choice also in this regard.

Growth impetus from covers of biometric risks

Besides, we expect growth impetus from the covers of purely biometric risks, such as term life insurance or occupational disability insurance, since the social-security system no longer covers these risks to a sufficient extent. Our product structure takes account of the fact that young career starters need attractive prices in order to be able to afford covering these risks that might threaten their existence. As the first insurer in the market we distinguish between smokers and non-smokers in occupational disability insurance. With a view to the growing third-age market we are positioning ourselves on a broad basis in long-term care insurance. In the wake of forthcoming debates about the reform of state-run long-term care insurance we expect a strong boost for this segment. Apart from separate insurance contracts we also offer a system of modular complementary covers that can be used to create tailor-made product packages.

Above-average growth in life sub-segment

The growth opportunities involved, among others, in the “three-tier model” make us optimistic to achieve growth above the market average in life insurance in 2007 and the following years. At the same time we have the target to reinforce and expand our market leadership in “Riester policies”, unit-linked life insurance and term-life insurance. Our multi-channel strategy gives us access to an extremely broad consumer segment. For this purpose we provide all sales channels with the product concepts suitable for their specific target groups.

Basic features of the next healthcare reform

Full health covers maintained as business activity

After months of a tug-of-war, the bill of the next healthcare reform was passed early this year. Under the reform, full-health covers will be maintained in private-sector health insurance, but now there is a waiting period for members of public-health funds. Starting from now, they have to exceed the income threshold in three consecutive years before they are allowed to change over to a private health insurer. This rule does not apply to self-employed persons, free-lancers and civil servants.

Starting from 2009 basic tariff with obligation to accept customers

Furthermore the law provides for the introduction of a basic tariff in private-sector health insurance, with insurers being obliged to accept persons submitting a proposal form. This tariff will be available to all persons who are voluntary members of public health funds and to those already having a full health cover with a private-sector health insurer. For the latter, however, the period in which they are allowed to change to the basic tariff will be limited. Furthermore part of the ageing provisions will become transferable in order to enhance the possibility of changing to a different insurer.

Health pool for public health scheme to be established in 2009

Starting from 2009, a health insurance pool will be established for the public health funds. This pool will distribute the health insurance contributions to the health funds. In addition, health funds will be obliged to raise additional contributions from their members if the premiums they receive from the pool are not sufficient. By the end of 2008 public health funds are expected to eliminate their debts. This could lead to further increases of contribution rates. Many public health funds already applied strong rate increases with effect from January 1, 2007.

CONSISTENT BROKER ORIENTATION Dialog Lebensversicherung is the specialist for biometric risks. It focuses on financial covers for the risks of death, occupational disability and on providing for retirement. Dialog is the only company in the Group exclusively operating with brokers. To its distribution partners it offers innovative products which can be individually adjusted and have unique selling propositions regularly obtaining top ratings. **Competency, flexibility, fast response and an excellent service** create a substantial added value for customers.


"My dad doesn't insure my paintings,
but he'll insure me when I'm grown up.
Everybody is **safe** with daddy."
Annemarie Mirgel, 4 years, budding artist
Dialog:
Lebensversicherungs-AG

Structural problems of public health insurance remain unsolved

With the healthcare reform, the coalition parties affirmed the further existence of private full-health covers. Access to private health covers, however, becomes more difficult, which will lead to keener competition in this market segment. Since the structural problems of the public healthcare scheme remain unsolved, the public funds will have to apply benefit cuts and rate increases in order to compensate their deficits, to the detriment of their members. Therefore private initiative is becoming increasingly important for a good health cover. This is an opportunity for private-sector health insurance, which is able to close the gap in healthcare covers. In particular complementary covers should benefit from this situation.

Additional sales opportunities due to planned basic tariff

As a matter of principle, the basic tariff planned to be introduced in the year 2009 offers distribution opportunities with regard to target groups which currently would not consider a "classical" full health cover. It remains, however, to be seen what exactly will be the details ruling the basic tariff and the transfer of ageing provisions. On the one hand opportunities for gaining new customers increase, on the other hand there is the risk of an increasing level of cancellations. In addition it is to be assumed that the transfer of ageing provisions, which reduces the level of ageing provisions available to the contract portfolio, will lead to an increase of the premiums for full health covers for new business and for the portfolio.

Growth in health above market level

According to estimates of the German Insurance Association GDV, private-sector health insurance will achieve a premium growth of 3 percent in 2007. This estimate, however, does not take into consideration the possible impact of the healthcare reform. We proceed from the assumption that in health insurance we will realize a premium growth which will again be above the market average. This growth will be attributable both to new business and to premium adjustments.

Selective approach in property and casualty insurance

Positioning in competition by differentiated products

In 2007, our activities will again be characterized by innovative products, profitability-based underwriting and a persistent enhancement of our customer services. In an increasingly difficult market environment, this focus of our activities, which is consistently oriented at the requirements and possibilities of our individual customers, is becoming more and more important. One central feature will be the enhancement of our strongly performing motor tariffs. Furthermore we will focus on an overhaul of our non-motor classes in business with private customers. These classes continue to be very attractive from a profitability point of view.

Motor insurance, which is by far the biggest class of property and casualty insurance, is subject to relentless price competition. This situation will persist throughout 2007 and a further decrease of average premiums is to be expected across the market. Furthermore no further improvements are to be anticipated with regard to claims. The continuous drop of claims expenditure to be observed in the past few years came to a halt in 2006 and the claims situation will also be affected by the increase of value-added tax.

In the motor renewal season at the turn of the year, the AMB Generali Group concluded about 70,000 new contracts, net of cancellations. It is not our primary target, however, to gain market shares in this segment. We rather concentrate on writing profitable business.

Focus on adequate combined ratio rather than premium growth

Our property and casualty insurers focus on return and on an adequate combined ratio. With regard to premium income this is to be achieved by concentrating on profitable classes and a return-oriented tariff structure. Beyond this, we anticipate further improvements in claims expenditure by a higher efficiency in claims management. Together with further cost-cuts this should lead to a combined ratio below 97 percent in 2007.

Expenditure caused by hurricane "Kyrill"

In January 2007, hurricane "Kyrill" caused substantial damage across Germany. According to first revised estimates the German Insurance Association expects that the German insurance industry will have to bear a claims expenditure of about € 2 bn. This claim will also affect the pre-tax result of AMB Generali with an amount of close to € 60 m. We nevertheless maintain our above-mentioned ambitious target for our combined ratio. This, however, is subject to the condition that there will be no further major claims or natural catastrophes.

Measures in preparation of the reform of the Insurance Contract Act

In October 2006 the German government passed the bill on the reform of the Insurance Contract Act (VVG reform). The VVG reform involves features that are expected to have a material influence on the operation of the various lines of insurance. The bill takes into account rulings of the Federal Constitutional Court, in particular with regard to a more timely participation of life policyholders in hidden reserves, and of the Supreme Federal Court, among others regarding the calculation of minimum surrender values. In property and casualty insurance the consequences of the reform are likely to primarily affect claims expenditure because the rules on the policyholders' disclosure obligation before concluding the contract are to become less strict and more consumer-friendly. Furthermore the maximum contract term is to be reduced to three years.

Project group prepares measures to implement VVG reform

For the time being we proceed from the assumption that the new VVG will be passed in the course of this year and that the amendments will become applicable to new contracts on January 1, 2008. Since the publication of the draft bill in March 2006 a Group-wide project team has studied the major consequences of reform issues and has taken preparatory measures for the implementation of the amendments. Responsibilities and implementation structures have been identified for the necessary changes; the planning of resources for these activities is done in coordination with the other Group projects. As a matter of principle the Group companies have the operational responsibility for implementation. In Group-wide issues, AMB Generali as the holding company has a coordinating and controlling function. Where possible, we also take necessary changes as an opportunity for optimization.

Repositioning of financial-service providers

Focus of building society on return rather than mere volume

The business strategy of Deutsche Bausparkasse Badenia is focussed on achieving growth in new business with a priority on return and profitability rather than volume. In this context, cost management is an entrepreneurial core activity – especially in the light of rising business volumes – in order to ensure the long-term and sustainable profitability of operating business. Thanks to process optimization implemented in recent years and the ensuing automation of work processes, Badenia has already been able to strongly improve its process efficiency. This strategy will be continued in the future.

AMB Generali Asset Managers integrated into international asset-management holding company

In the first quarter 2007, under a Group-wide transnational reorganization of the asset-management activities of the Generali Group, the asset-management companies in Italy, France and Germany will be contributed into the joint asset-management holding company Generali Investments S.p.A. having its head office in Trieste/Italy. The purpose of these contributions is to further enhance the quality of asset management by establishing international competence centres at the locations of Trieste, Cologne and Paris. In this context it is also planned to harmonize the administration of the asset-management companies and to establish Group-wide fund products in order to realize additional synergies and generate economies of scale.

Sustainable increase of efficiency and productivity

Comprehensive activity programme defined

In 2007 and subsequent years, defined strategic measures and projects will continue to be the basis for achieving our ambitious goals. Starting from a clear allocation of roles within our Group following our Group strategy of "Unity in Diversity" we focus on an activity programme in four areas: reinforcement of our distribution networks, realization of synergies across the Group, optimization at the level of the individual companies and intensification of the international cooperation within the Generali Group.

Within the scope of the repositioning of distribution channels and brands we focus on a consistent orientation of our Group companies at the requirements of customers. In this context, we decided in favour of innovative measures of change, such as the transfer of the traditional sales network of AachenMünchener to Deutsche Vermögensberatung. On the other hand, we pursue an evolutionary enhancement of existing distribution concepts like the expansion of internet business within the direct-selling activities of CosmosDirekt or the consistent extension of the multi-channel approach in Generali Versicherungen, Volksfürsorge and Central.

We continue to implement the measures initiated in 2006 with regard to a targeted structural adjustment in the fields of claims management, central service functions and standard customer services. The newly founded companies for claims management and central service functions are expected to become operative in the middle of 2007. Thanks to these measures we will not only cut costs but will also keep improving the services rendered to internal and external customers.

Competitive situation requires further job-cuts

The persistent optimization of processes in distribution and operation within our Group companies remain the essential basis for improving the competitive position of the entire Group. This also includes the continuation of our cost-cutting projects in the Group companies. In this context, we will shed another 500 jobs in addition to the already mentioned fig-

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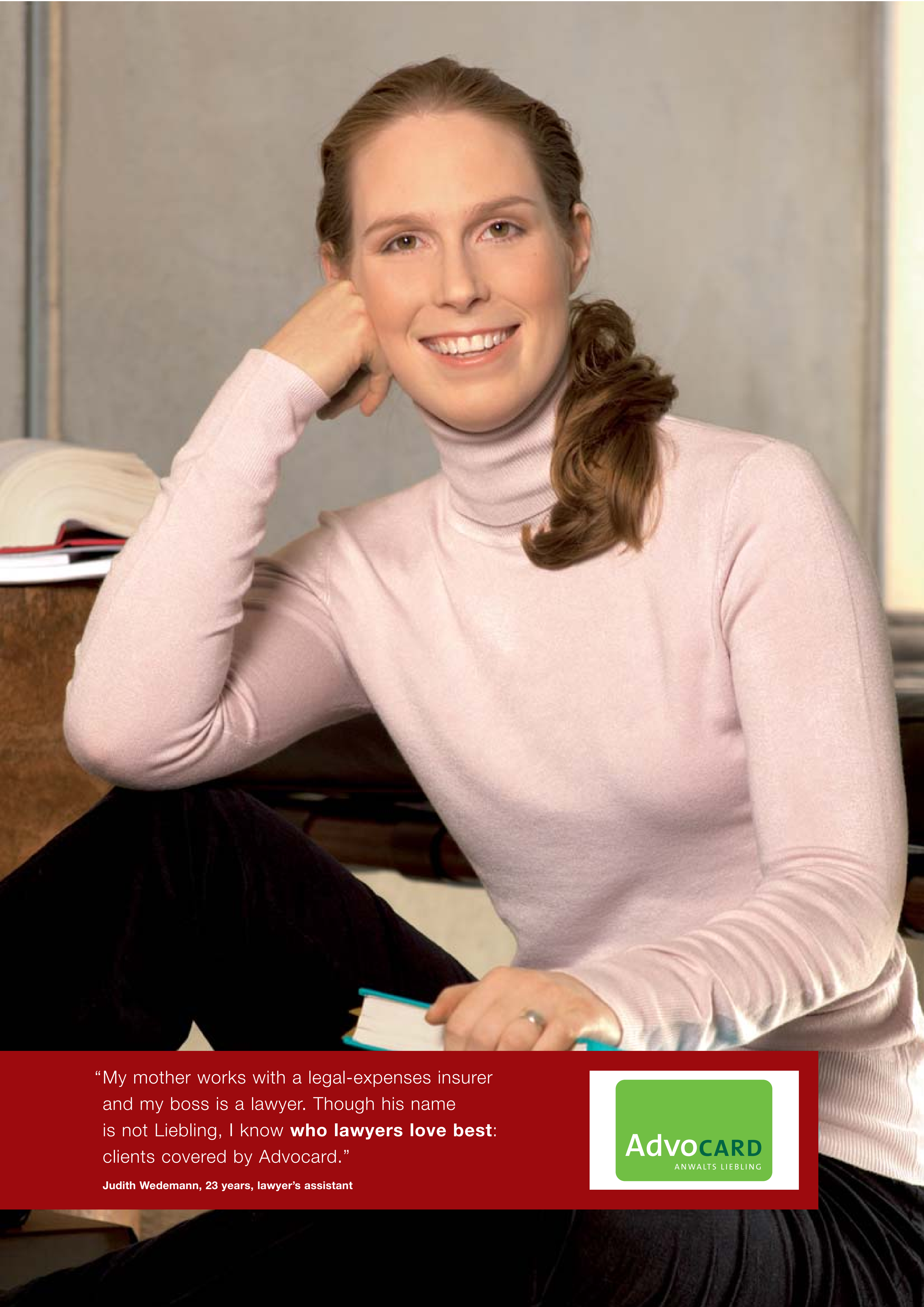
ANWALTS LIEBLING Almost everybody knows the slogan "Advocard ist Anwalts Liebling" – a pun referring to the name of Liebling, a lawyer in a popular German TV-series, and meaning that lawyers love Advocard. With this message Advocard has become one of the **leading legal expenses insurers in Germany** with a market share of approximately 6 percent.

About 1.4 million clients rely on Advocard's fast service without red tape. The company stands for consistent customer orientation, expertise, state-of-the-art covers and real partnership – together with lawyers.


"My mother works with a legal-expenses insurer and my boss is a lawyer. Though his name is not Liebling, I know **who lawyers love best**: clients covered by Advocard."
Judith Wedemann, 23 years, lawyer's assistant
AdvoCARD
ANWALTS LIEBLING

ure of 1,000 job-cuts. This does not include the impact of the announced reorientation of sales networks on employment. We aim to take the necessary measures, if possible, in a socially compatible manner and by making use of natural fluctuation. As a whole, we will sustainably strengthen the AMB Generali Group's competitiveness by the initiated measures.

Prudent investment approach

Weighing of risks and opportunities in the market

Our investment policy will continue to be oriented at the risk-bearing capacity of our Group companies. The primary objective remains being able to guarantee the benefits promised to our customers while at the same time earning an adequate and stable return for policyholders and shareholders. For this reason we will keep acting prudently. The percentage of equity investments will only increase slightly, at the most, and these increases will mainly be attributable to market movements. With a view to structuring the duration of securities we will maintain our compromise approach of limiting the risks involved in long-term interest guarantees by extending durations and by derivative hedging while at the same time taking advantage of short-term market opportunities if interest rates should rise.

Further improvement of results expected

Group net profit to rise steadily

On the basis of the developments planned in the individual business fields and in the light of our development focus we anticipate a further increase of results. This will be driven by above-average premium growth and by improvements in operating business aiming primarily at an optimization of the cost situation. Provided that the current business year will not be affected by further extraordinary claims or negative capital-market developments we aim to reach a Group net profit of at least € 380 m in the business year 2007. For the following year 2008 we expect that the Group net profit will further improve to € 450 m.

Group targets 2007 through 2009 on the basis of internal management parameters

The following gives an outline of the concrete Group targets for the period 2007 through 2009. We refer to parameters on which our internal management and planning is based. These parameters are growth targets, new business value, combined ratio, a cost target and the Group net profit under IFRS.

Group targets 2007–2009

	2006	2007	Outlook 2008/2009
Premium development life	+6.3%	growth above market level	growth above market level
Premium development health	+4.6%	growth above market level	growth above market level
Premium development property/casualty	+0.1%	growth at market level	growth at market level
New business value [1]	€ 156 m	steady rise in subsequent years	
Combined ratio [2]	95.7%	<97% against market cycle	<96% against market cycle
Total expenses [3]	€ 1,818 m	< € 1,800 m	further reduction below € 1,700 m by 2009 (despite over-proportionate growth)
Group net profit under IFRS [4]	€ 346 m	€ 380 m	2008: € 450 m and further increase in 2009

1 life insurance; before capital cost (preliminary figure for 2006)

2 combined ratio of claims and expenses in property and casualty insurance; without consideration of extraordinary claims

3 without commissions and non-recurring restructuring costs

4 2006 without extraordinary item due to corporation tax credit, 2007–2009 targets before goodwill amortization

Information and report in compliance with the Act implementing the Takeovers Directive (section 315 para. 4 of the German Commercial Code)

The subscribed capital of the company amounts to € 137,420,784.64 and is divided into 53,679,994 unit shares to the bearer (bearer shares). All shares grant the same rights, i.e. there are no different categories of shares.

Under the Articles of Association there are no restrictions referring to voting rights or to the transfer of shares. The Board of Management is not aware of any such restrictions based on agreements between shareholders. No shares have been issued with special rights conferring powers of control.

On the reporting date Assicurazioni Generali S.p.A., Trieste, indirectly held a stake of 85.05 percent in AMB Generali. Out of this percentage a direct stake of 76.73 percent in AMB Generali is held by Generali Beteiligungs-GmbH.

The company has not been informed of other direct or indirect shareholdings in its capital exceeding 10 percent of the voting rights.

The Supervisory Board is responsible for appointing and removing members of the Board of Management according to the legal provisions in sections 30 ff. of the Co-determination Act (MitbestG) in conjunction with sections 84, 85 of the Companies Act (AktG) and the rules of art. 7 para. 1 of the Articles of Association. The Supervisory Board also determines the number of members in the Board of Management. The Board of Management is composed of two members. According to section 119 para. 1 no. 5 AktG the authority for amending the Articles of Association lies with the General Meeting, which takes its resolutions in compliance with section 179 AktG. The authority to resolve amendments of the Articles of Association which merely refer to the wording has been transferred to the company's Supervisory Board in line with article 19 of the Articles of Association.

The Board of Management manages the company in its own responsibility (section 76 AktG) and represents the company in court and out of court (section 78 AktG). Pursuant to article 7 para. 3 of the Articles of Association, the company is represented by two members of the Board of Management or by one member of the Board of Management acting together with a "Prokurist" (authorized representative). The Board of Management is supervised by the Supervisory Board, to which management tasks cannot be transferred but which may resolve that specific transactions can only be carried out by the Board of Management with the approval of the Supervisory Board.

Pursuant to article 5 para. 4 of the Articles of Association the Board of Management is authorized until May 18, 2009 to increase the share capital, with the approval of the Supervisory Board, by up to € 68,710,392.32 by issuing, in one single or several partial amounts, a total number of up to 26,839,997 new unit shares to the bearer against contribution in cash or in kind (authorized capital). In the case of a capital increase against a contribution in kind the Board of Management is authorized to exclude the subscription right of shareholders with the approval of the Supervisory Board. In the case of a capital increase against a contribution in cash a subscription right is to be granted to shareholders. The Board of Management is authorized, however, to exclude the subscription right of shareholders with the approval of the Supervisory Board, if at the moment when the issue price is determined, which should be as close as possible to the moment the shares are placed, the issue price is not materially below the stock-market price. This authorization to exclude subscription rights is subject to the condition that the total shares issued with the exclusion of subscription rights pursuant to section 186 para. 3 sent. 4 AktG within the five-year authorization period do not exceed 10 percent of the share capital, neither at the time the authorization becomes effective nor at the time it is exercised. The disposal of treasury stock is to be taken into account when calculating the 10 percent limit of the share capital if this disposal is based on an authorization pursuant to section 186 para. 3 sent. 4 AktG, which is applicable at the moment this authorization becomes effective or on an authorization replacing such latter authorization, and the subscription right is excluded. Furthermore the Board of Management is authorized to exempt residual amounts from the statutory subscription right of shareholders with the approval of the Supervisory Board. In addition, the subscription right of shareholders may also be excluded on the basis of a resolution taken by the Board of Management with the approval of the Supervisory Board in order to be able to issue to employees of the company and its Group companies a total of up to 400,000 bearer shares from authorized capital representing a corresponding amount of the share capital of up to € 1,024,000. The Board of Management is authorized to determine, with the approval of the Supervisory Board, all further conditions for the issue of new shares, in particular the issue price (share premium). Finally the Supervisory Board is authorized to change the wording of the Articles of Association to reflect the extent of the capital increase from authorized capital.

The Board of Management has the possibility of acquiring company shares as treasury stock within the scope of the legal provisions of section 71 AktG. In particular, by resolution of May 18, 2006 the General Meeting authorized the Board of Management pursuant to section 71 para. 1 item 8 AktG to acquire shares of the company, with the approval of the Supervisory Board, until October 31, 2007. This authorization is restricted to the acquisition of shares representing a share of € 13,742,077.44 of the company's share capital; this equals close to 10 percent of the existing share capital of € 137,420,784.64. The authorization shall not be used for the purpose of trading with company shares. The authorization may be exercised, directly by the company or by third parties commissioned by the company, in one single or several partial amounts or in pursuing one or several purposes. The acquisition may be done, as decided by the Board of Management, on the stock exchange or by a public offer to the company's shareholders or by a public invitation addressed to the company's shareholders to make sales offers.

If the shares are acquired on the stock exchange, the consideration per share paid by the company (without ancillary acquisition costs) shall not exceed or fall short of the opening price on the three stock market trading days before assuming the obligation to acquire company shares by more than 10 percent. The opening price is determined by the opening auction in Xetra trading (or a similar system replacing the latter).

If the acquisition is made by a public offer to all shareholders of the company or by a public invitation to the shareholders of the company to make sales offers, the purchase or sales price offered or the upper and lower limits of the range of the purchase or sales price per share (without ancillary acquisition costs) shall not exceed or fall short of the average closing price in XETRA trading (or a similar system replacing the latter) which is applicable on the three stock market trading days preceding the publication of the offer or the invitation to make sales offers and which has been determined by the closing auction by more than 20 percent. The volume of the offer or of the invitation to make sales offers can be limited. To the extent the total acceptance of the offer or the offers made upon an invitation to submit sales offers exceeds or falls short of this limitation, the acquisition or acceptance has to be done in proportion to the shares offered. It is possible to provide for a preferential acquisition or preferential acceptance of quantities up to 100 shares of the company offered for acquisition per shareholder of the company. The purchase offer or the invitation to submit sales offers may be subject to further conditions. The provisions of the Securities Acquisition Act and the Securities Takeover Act have to be observed to the extent they are applicable.

The Board of Management is authorized, with the approval of the Supervisory Board, to use the shares of the company acquired on the basis of this authorization for all legally admissible purposes in particular for the following:

1. The shares acquired may be withdrawn without the withdrawal or the withdrawal procedure requiring a further resolution by the General Meeting. The withdrawal may be limited to part of the shares acquired. The authorization for withdrawal can be made use of several times. The withdrawal may be made in such a way that the share capital is not changed but that instead the percentage of the remaining shares in the share capital is increased pursuant to section 8 para. 3 AktG (section 237 para. 3 no. 3 AktG). The Board of Management is authorized to amend the number of shares indicated in the Articles of Association in line with the extent to which the capital is reduced as a result of the withdrawal.
2. The acquired shares may be sold against a consideration in kind, in particular in the context of mergers or of the acquisition of companies, stakes in companies or in parts of companies.
3. The acquired shares may be disposed of other than on the stock exchange or by an offer to the shareholders at a price not falling materially short of the stock-market price of the company's shares at the time of the disposal. In that case, the total of the number of the shares to be sold and of the new shares issued since the granting of the authorization, with exclusion of the subscription right pursuant to section 186 para. 3 sent. 4 AktG, shall not exceed 10 percent of the company's share capital at the time the resolution was taken by the General Meeting.

The authorizations under 1. through 3. may be used in one single or various partial amounts.

The shareholders' right to subscribe the company's own shares is excluded to the extent these shares are used within the scope of the authorizations indicated under 2. and 3.

Finally there is a conditional capital set up because of the domination agreements concluded with subsidiary companies in 1997 for the purpose of compensating minority shareholders. In this context reference is made to the information in the Notes on p. 161.

No agreements have been concluded by AMB Generali which are subject to the condition of a change of control as a result of a takeover bid. No agreements have been concluded by the company with members of the Board of Management or with employees providing for compensation in the case of a takeover bid.

Corporate Governance

AMB Generali is committed to a good and responsible Corporate Governance. It implements the essential elements of the standards of the German Corporate Governance Code. In addition, AMB Generali complies with the rules of the Ethical Code of the international Generali Group which refers to correctness, honesty, impartiality and professionalism.

In compliance with section 3.10 of the German Corporate Governance Code, the Board of Management and the Supervisory Board report every year about the reliable and efficient governance of the company, including its organization, business philosophy and guiding principles as well as the internal and external mechanisms of controlling and monitoring.

AMB Generali fulfils all 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 listed in the prime standard segment of Deutsche Börse.

To safeguard this high standard, Corporate Governance is also under the permanent scrutiny of the 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. 12 ff.) in compliance with section 171 of the German Companies Act (Aktiengesetz).

Corporate Governance is ensured by additional organizational measures such as keeping a list of persons having 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.

Material information on our Corporate Governance is provided for our shareholders on the Internet at www.amb-generali.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 and the latest and previous versions of the German Corporate Governance Code.

In line with their statutory obligation defined in 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 23, 2006.

Explanations in respect of 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 follows the applicable legal standards. The deviations refer to the following recommendations:

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 Holding AG does not have a stock-option plan 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 performance and a performance-related element. Furthermore a stock-option plan of the international Generali Group exists for selected executives of the Group. The plan is described on p. 178 f. AMB Generali does not consider a stock-option plan of its own to be necessary in addition to these remuneration elements.

The total 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 sections 4.2.4 and 4.2.5 of the Code). Besides, the ordinary general meeting of May 18, 2006 resolved in compliance with section 314, para. 2 sent. 2 of the German Commercial Code not to publish the information to be provided in compliance with section 314 para. 1 no. 6 letter a) sent. 5–9 of the German Commercial Code on the remuneration of the Board of Management. For privacy reasons, the company does not provide detailed figures and instead refers to the collective figures disclosed in this Report (see the details below in this section and the information on p. 180 f.), on the Internet and in the General Meeting. The structure of the remuneration with its performance-related elements and elements not related to performance is also explained in these information sources.

Neither is there an individualized disclosure of the remuneration of the members of the Supervisory Board or of the payments made to them on the basis of other business 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 and in this Report (see the details below in this section and the information on p. 180 f.). The collective amount paid as remuneration is also indicated in this Report.

The Supervisory Board of AMB Generali does not have an audit committee concerned with issues of accounting or 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 on 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 monitoring 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.

Basic structure of the remuneration of members of the Board of Management and of the Supervisory Board

Remuneration of the Board of Management

The remuneration of the members of the Board of Management of AMB Generali Holding AG is composed of three elements, i.e. a fixed annual salary, a guaranteed bonus and a performance bonus. The fixed annual salary also includes remuneration in kind and perquisites, such as the use of a company car or the payment of telecommunication costs by the company.

The performance bonus is based on targets which are newly defined every year. 80 percent of these targets are operating targets of the AMB Generali Group (so-called company-related targets) and 20 percent of these targets are other individually determined performance yardsticks. The performance bonus is payable on the basis of the target-compliance ratio fixed by the Committee for Matters of the Managing Board after closing the business year.

Assuming that the members of the Board of Management of AMB Generali reach all their performance targets, the various remuneration elements would represent the following shares of the remuneration for the business year 2006:

- fixed annual salary: approx. 38 percent
- guaranteed bonus: approx. 25 percent
- performance bonus: approx. 37 percent.

Beyond this and as already explained above, AMB Generali does not have a share-based remuneration plan of its own. Instead, selected executives are included in the stock-option plan of Assicurazioni Generali S.p.A.

Upon retirement, the members of the Board of Management of AMB Generali are entitled to receive life-long retirement pay. The amount of the annual retirement pay corresponds to a specific percentage of the basic annual salary. For every completed year of service until retirement the amount increases up to a maximum limit. As a general rule, any additional income from self-employed and employed activities have to be charged against the retirement income. Upon death, any surviving spouse or dependants are entitled to receive a certain percentage of the retirement pay of the member of the Board of Management.

For more detailed information on the stock-option plan and the individual remuneration elements reference is made to the Notes, p. 178 f. and 180 f. respectively.

Remuneration of the Supervisory Board

Similar to the remuneration of the Board of Management, the remuneration for members of the Supervisory Board is composed of fixed and variable elements. On the one hand, the members of the Supervisory Board receive a fixed annual remuneration of € 5,000 in addition to compensation for their cash outlay. The Chairman of the Supervisory Board receives twice that sum, the Deputy Chairman one and a half times this amount. In addition, the members of the committees of the Supervisory Board obtain an additional fixed annual remuneration of € 5,000. The Chairman of each Committee receives twice this sum, the Deputy Chairman one and a half times this amount.

As a performance-related element, the Articles of Association provide for the following: each member of the Supervisory Board receives every year an amount of € 1,000 for each percentage of dividend distributed to the shareholders exceeding 4 percent of the share capital, the maximum limit however being a dividend of 34 percent. The Chairman of the Supervisory Board receives twice this sum, the deputy chairman one and a half times this amount.

The information on the structure of the remuneration of the Supervisory Board is published in the Articles of Association. The amounts of the Supervisory Board remuneration are indicated in the Notes on p. 180 f.

Directors' Dealings

In the context of the period of the voluntary public offer by Generali Beteiligungs-GmbH to acquire shares of the company, four persons made security transactions which had to be declared in compliance with section 15a para. 1 sent. 5 of the Securities Trading Act or section 6.6 of the German Corporate Governance Code. These transactions were made public as provided for by law.

Compliance system

The companies of the AMB Generali Group conduct their business activities in a responsible manner and in compliance with legal provisions. A sustainable compliance in the AMB Generali Group creates trust on the part of the capital market and customers. 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 employees in their task of fulfilling increasingly demanding legal requirements.

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 Group-wide 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 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 Code of Conduct of AMB Generali Holding AG. The Code of Conduct comprises rules referring in particular to issues such as confidentiality, acceptance of gifts, awarding of contracts, business transactions with employees, the four-eye principle and conflicts of interest. This strengthens the trust of customers, partners, employees and the public in a fair and ethical conduct of the company and of all staff.

Consolidated Financial Statements 2006

Consolidated Income Statement for the period Jan. 1 – Dec. 31, 2006

	Note			2006	2005
		€'000	€'000	€'000	€'000
1. Gross premiums written				**11,743,192**	**11,457,700**
2. Net premiums earned	6		11,390,134		11,048,795
3. Investment income (net)	7				
a) Income from shares in enterprises measured at equity		34,101			22,086
b) Other investment income		3,729,980			3,420,678
			3,764,081		3,442,764
4. Other income	8		342,355		345,755
				15,496,570	**14,837,314**
5. Net claims and benefits	9				
a) Life/health		-9,669,336			-8,892,042
b) Property/casualty		-1,891,689			-1,905,092
			-11.561,025		-10,797,134
6. Net operating expenses	10		-2,386,063		-2,409,214
7. Other expenditure	11		-933,586		-1,041,724
				-14,880,674	**-14,248,072**
8. Result before goodwill amortization				**615,896**	**589,242**
9. Goodwill amortization	15			**-1,433**	**–**
10. Operating result				**614,463**	**589,242**
11. Finance costs				**-13,417**	**-7,329**
12. Tax	12			**-150,132**	**-268,280**
13. Net profit				**450,914**	**313,633**
a) of which attributable to the equity holders of the parent				448,534	314,837
b) of which minority interests				2,380	-1,204

	Note	2006	2005
		€	€
14. Earnings per share	13		
a) diluted		8.36	5.87
b) undiluted		8.36	5.87

Consolidated Income Statement for the period Oct. 1 – Dec. 31, 2006

	€'000	€'000	2006 €'000	2005 €'000
1. Gross premiums written			**2,971,875**	**2,976,357**
2. Net premiums earned		3,113,255		3,138,940
3. Investment income (net)				
a) Income from shares in enterprises measured at equity	12,861			5,336
b) Other investment income	876,199			767,260
		889,060		772,596
4. Other income		119,440		120,299
			4,121,755	**4,031,835**
5. Net claims and benefits				
a) Life/health	-2,514,947			-2,344,725
b) Property/casualty	-477,463			-533,374
		-2,992,410		-2,878,099
6. Net operating expenses		-733,890		-728,741
7. Other expenditure		-350,004		-332,499
			-4,076,304	**-3,939,339**
8. Result before goodwill amortization			**45,451**	**92,496**
9. Goodwill amortization			**-1,433**	**–**
10. Operating result			**44,018**	**92,496**
11. Finance costs			**-5,239**	**-1,664**
12. Tax			**118,028**	**-5,198**
13. Net profit			**156,807**	**85,634**
a) of which attributable to the equity holders of the parent			155,491	89,242
b) of which minority interests			1,316	-3,608

	2006 €	2005 €
14. Earnings per share		
a) diluted	2.87	1.67
b) undiluted	2.87	1.67

Consolidated Balance Sheet as at December 31, 2006

Assets

	Note		2006	2005
		€'000	€'000	€'000
A. Owner-occupied property/tangible assets	14		**1,051,740**	**1,070,431**
B. Intangible assets	15			
I. Goodwill		270,189		268,200
II. PVFP of insurance contracts		97,239		121,864
III. Other intangible assets		110,764		143,050
			478,192	**533,114**
C. Deferred acquisition costs	16		**7,367,288**	**7,318,536**
D. Investments				
I. Investment property	17	1,844,909		1,353,050
II. Shares in enterprises measured at equity	18	224,524		171,963
III. Financial assets				
1. loans and receivables	19	30,257,881		21,416,929
2. available for sale	20	42,427,177		48,868,927
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)		352,772		472,794
b) held for trading		23,884		74,284
		73,061,714		70,832,934
			75,131,147	**72,357,947**
E. Investments for the account and at the risk of life insurance policyholders	22		**8,156,808**	**6,488,778**
F. Receivables	23		**2,096,093**	**2,193,313**
G. Tax assets				
I. for current tax		360,684		268,731
II. for deferred tax	34	104,505		71,618
			465,189	**340,349**
H. Reinsurers' shares in underwriting provisions			**1,746,446**	**1,634,982**
I. Other assets	24		**140,061**	**207,800**
J. Inventories	25		**34,040**	**54,761**
K. Non-current assets held for sale and disposal groups				
I. Non-current assets held for sale		175,798		186,571
II. Disposal groups	35	33,313		–
			209,111	**186,571**
L. Current-account balances with credit institutions, cheques and cash in hand			**1,191,266**	**916,462**
Total assets			**98,067,381**	**93,303,044**

Consolidated Balance Sheet as at December 31, 2006

Liabilities

	Note		2006	2005
		€'000	€'000	€'000
A. Group equity	26			
I. Subscribed capital		137,421		137,421
II. Capital reserve		1,285,750		1,282,446
III. Revaluation reserve		603,697		778,779
IV. Profit carried forward		1,282,980		1,070,496
V. Reserve from foreign-currency translation		-1,230		1,048
VI. Net profit attributable to the equity holders of the parent		448,534		314,837
VII. Minority interests		231,368		209,414
			3,988,520	**3,794,441**
B. Underwriting provisions				
I. Unearned premiums	27	480,242		476,269
II. Provision for future policy benefits	28	59,755,638		57,111,355
III. Provision for outstanding claims	29	4,561,143		4,514,391
IV. Provision for premium refunds	30	7,093,734		7,200,420
V. Other underwriting provisions		30,370		33,634
			71,921,127	**69,336,069**
C. Underwriting provisions concerning unit-linked life insurance			**8,150,860**	**6,488,997**
D. Other provisions				
I. Provisions for pensions and similar commitments	31	1,807,573		1,734,130
II. Tax provisions		402,983		425,046
III. Other provisions	32	366,121		314,314
			2,576,677	**2,473,490**
E. Payables	33			
I. Subordinated liabilities		378,325		70,558
II. Bonds and loans		301,894		229,565
III. Other payables		9,854,297		9,931,546
			10,534,516	**10,231,669**
F. Tax liabilities				
I. for current tax		56,728		47,027
II. for deferred tax	34	828,876		931,188
			885,604	**978,215**
G. Other liabilities			**848**	**163**
H. Liabilities of disposal groups	35		**9,229**	**–**
Total liabilities			**98,067,381**	**93,303,044**

Equity development

	Subscribed capital	Capital reserve	Revaluation reserve[1]	Reserve from foreign-currency translation	Profit carried fw. and net profit[2]	Minority interests	Equity
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Balance at Dec. 31, 2005	**137,421**	**1,282,446**	**778,779**	**1,048**	**1,385,333**	**209,414**	**3,794,441**
Change for:							
Foreign-currency translation	–	–	3	-2,278	-5	-517	-2,797
Change of consolidation scope	–	–	15,892	–	7,696	24,072	47,660
Dividend to shareholders	–	–	–	–	-110,044	-4,178	-114,222
Unrealized capital gains and losses							
withdrawal recognized in income	–	–	-436,538	–	–	–	-436,538
allocation recognized in income	–	–	245,561	–	–	197	245,758
Net profit	–	–	–	–	448,534	2,380	450,914
Treasury stock	–	17	–	–	–	–	17
Other	–	3,287[3]	–	–	–	–	3,287
Balance at Dec. 31, 2006	**137,421**	**1,285,750**	**603,697**	**-1,230**	**1,731,514**	**231,368**	**3,988,520**
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**

1 The revaluation reserve includes unrealized capital gains of € 6,575 thousand (preceding year: –) and unrealized capital losses of € 3,912 thousand (preceding year: –) under hedge accounting.

2 Group net profit attributable to the equity holders of the parent

3 expenditure under stock options

Cash-flow statement

	2006 €'000	2005 €'000
Net profit	450,914	313,633
Change of underwriting provisions (net)	4,899,182	4,732,042
Change of deferred acquisition costs	-48,753	-13,705
Change of reinsurance deposits receivable and payable as well as current accounts receivable and payable	125,341	121,716
Change of financial assets held for trading	104,508	60,309
Change of other amounts receivable and payable	-258,309	-5,024
Realized capital gains/losses from the disposal of investments and of plant and equipment	-679,763	-519,549
Change of deferred tax assets/liabilities	-23,061	-9,929
Change of other balance-sheet items	145,752	193,784
Profits/losses due to deconsolidation	-15,672	107,696
Adjustment for investment income and expenditure not involving cash movements	-523,401	-931,826
Cash flow due to operating activities	**4,176,738**	**4,049,147**
Receipts due to the disposal of affiliated and associated enterprises	6,800	222,331
Payments due to the acquisition of affiliated and associated enterprises	-31,276	-87,306
Receipts due to the disposal of other investments	20,984,043	23,945,044
Payments due to the acquisition of other investments	-24,180,963	-27,443,554
Receipts due to the disposal of investments under unit-linked life insurance	300,444	704,198
Payments due to the acquisition of investments under unit-linked life insurance	-1,171,749	-1,519,335
Other receipts	112,897	162,760
Other payments	-185,632	-183,106
Cash flow due to investing activities	**-4,165,436**	**-4,198,968**
Change of bonds, loans and subordinated liabilities	359,662	-102,382
Receipts due to capital increase	5,482	20,350
Dividend payment	-114,222	-95,348
Cash flow due to financing activities	**250,922**	**-177,380**
Effect of currency translation on cash position	-358	1,788
Change of the cash position due to the acquisition/disposal of consolidated subsidiaries	12,938	850
Cash position at the beginning of the business year	916,462	1,241,025
Change of the cash position	262,224	-327,201
Cash position at the end of the period under report	**1,191,266**	**916,462**

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, € 774,012 thousand (preceding year: 507,518 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.
P. 178 of this Report shows the cash-flow statement for a disposal group. The cash-flow statement is determined by means of the indirect method.

Cash flows

	2006 €'000	2005 €'000
Premiums written	11,496,842	11.204,543
Ordinary investment income	3,377,413	3,222,835
Claims payments	7,683,766	7,261,028
Commission payments	1,445,512	1,407,347
Tax payments	281,411	189,661

Notes

Notes to the Consolidated Financial Statements 2006

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 IFRS 7 "Financial Instruments: Disclosures" and the resulting amendments of IFRS 4: "Insurance Contracts". Furthermore IFRS 8 dealing with changes in segment reporting was not applied early. For IFRS 7 application will be mandatory starting from the business year 2007 and for IFRS 8 starting from the business year 2009. IFRS 7 requires detailed disclosures in the Notes on financial instruments and on the financial risk exposures of an enterprise. This involves changes regarding the disclosures made in the Notes in compliance with IFRS 4 "Insurance Contracts".

IFRIC 10 "Interim Financial Reporting and Impairment" was applied for the first time in the 2006 Consolidated Financial Statements of the AMB Generali Group. Under that standard, impairment losses recognized in respect of goodwill, equity instruments or financial assets measured at cost cannot be reversed. This interpretation has to be applied on a prospective basis starting from the moment of the first application of IAS 36 "Impairment of Assets" and IAS 39 "Financial Instruments". In the second quarter, the fact that impairment losses in respect of equity instruments cannot be reversed led to additional write-downs of € 1,558 thousand and an additional amount of realized capital gains of € 137 thousand. In addition, the revaluation reserve increased by € 1,421 thousand. For the third quarter, the application of IFRIC 10 involves additional write-downs of € 20,985 thousand and an additional amount of realized capital gains of € 7,981 thousand. The revaluation reserve increased by € 13,004 thousand.

In the Consolidated Financial Statements of AMB Generali, IFRIC 11 was applied to the stock-option plan of Assicurazioni Generali S.p.A., in which selected executives of the Group participate.

IAS 19 "Employee Benefits" as amended in 2004 was applied for the first time in the 2006 Consolidated Financial Statements of the AMB Generali Group. With regard to measurement, IAS 19 was amended to the extent that actuarial gains and losses under defined benefit obligations can either be directly taken to equity without recognition in income or the corridor method can continue to be applied. The AMB Generali Group opted for continuing to apply the corridor method. Therefore the first application of the revised standard IAS 19 does not affect the methods of recognition and measurement. Instead more detailed disclosures are required in the Notes.

The indication of standards in the Consolidated Financial Statements always refers to the version of the standard applied in preparing the Consolidated Financial Statements.

Consolidation

2 Consolidation scope

In compliance with IAS 27 the Consolidated Financial Statements as at December 31, 2006 comprise AMB Generali as well as 66 subsidiaries and 25 investment funds. In addition, the stakes in three companies on which the AMB Generali Group can exercise a material influence, are measured at equity. On p. 151 of this Report, a table showing major subsidiaries and companies measured at equity provides information on the consolidation scope. A complete list of the shareholdings under section 313 para. 2 no. 4 Commercial Code is disclosed in compliance with statutory rules.

Consolidation principles

Subsidiaries and investment funds are consolidated if the AMB Generali Group, directly or indirectly, holds a majority of votes. A business combination exists if the AMB Generali Group obtains control of another enterprise. In compliance with IFRS 3 "Business Combinations", a business combination is accounted for by the purchase method. Under that method all identifiable assets, liabilities and contingent liabilities of the acquired company are measured at their fair value at the moment of acquisition. The acquisition costs of a company purchase result from the fair value of the consideration plus all costs directly attributable to the business combination. If the acquisition costs exceed the Group's interest in the fair value of the subsidiary's net assets, the difference is capitalized as goodwill. Negative goodwill is reassessed and recognized in profit or loss in the period of acquisition. Non-Group interests in the net assets of the subsidiary are shown separately in the balance sheet.

Interests in associated enterprises are, as a matter of principle, measured at equity. The annual financial statements of the enterprises measured at equity are adjusted to comply with consistent measurement criteria. Upon acquisition of an interest, any difference between the acquisition cost of the interest and the interest attributable to the Group in the net assets of enterprises measured at equity has to be recognized in the balance sheet in line with IFRS 3. Any resulting goodwill is included 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.

Inter-Group 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 subsidiaries and 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 balance-sheet date. Expenditure and income are translated at the annual average rates. The exchange differences resulting from foreign-currency translations are taken to equity without recognition in income.

Foreign-currency differences from investments in foreign government bonds are recognized in income. The exchange rate on December 30, 2006 for the US dollar is € 0.7579 (December 30, 2005: 0.8445) and € 1.4842 (December 30, 2005: 1.4512) for the British pound sterling.

Estimates and assumptions

The preparation of the Consolidated Financial Statements requires estimates and assumptions, which have an impact on the 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 financial instruments and other specific balance-sheet items, goodwill, deferred acquisition costs, the present value of future profits (PVFP) of insurance contracts, deferred taxes and the provisions for pensions and similar commitments. Estimates are principally based on reasonable premises

which are updated annually. Nevertheless, due to their very nature estimates involve uncertainties that may have the corresponding impact on results.
In life insurance, assumptions regarding mortality, interest and costs are fixed at the inception of the contract. They apply during the full duration of the contract. In subsequent years, the assumptions are verified at every balance-sheet date and adjusted, if necessary. The resulting impact is reflected in the true-up figures regarding the balance-sheet line items of the present value of the future profits (PVFP value) of insurance contracts, deferred acquisition costs and provision for future policy benefits.

3 Methods of accounting and measurement

The annual financial statements covered by the Consolidated Financial Statements are established as at the balance-sheet date of AMB Generali, i.e. December 31. Special funds with a different balance-sheet 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 consistent basis in line with the accounting and measurement principles of IFRS and, as far as underwriting provisions and acquisition costs are concerned, on the basis of specific individual rules under US-GAAP.
If there is no standard or interpretation that explicitly applies to a business transaction, the AMB Generali Group, in compliance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, applies standards referring to similar transactions.

Owner-occupied property and **tangible assets** are recognized at acquisition costs reduced by write-downs.
Owner-occupied property only comprises property mainly used by its owner. Buildings are written down on a straight-line basis over their useful life. For residential buildings the useful life is between 80 and 100 years, for commercial buildings 25 to 60 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 value) of insurance contracts and of other intangible assets. The goodwill shown is the positive difference between the purchase price of the acquired enterprise and the Group’s share in the fair value of the net assets of the subsidiary after the disclosure of unrealized capital gains and losses at the moment of the purchase. Under IFRS 3, goodwill from acquisitions is no longer amortized on a scheduled basis but it is recognized in the balance sheet at acquisition costs less accumulated impairment amortization. At least once a year, goodwill is subject to an impairment review on the basis of cash-generating units. AMB Generali identifies the legal units as cash-generating units.

In order to determine any impairment, the realizable amount of the cash-generating unit concerned is compared to its carrying amount (including goodwill). If the carrying amount (including goodwill) of the cash-generating unit exceeds its realizable value, the goodwill is reduced accordingly. Impairment losses are not reversed. Impairment amortization on goodwill is shown as a separate line item in the income statement. Negative goodwill from first-time consolidation has to be immediately recognized in profit or loss in line with IFRS 3 after a reassessment.
The PVFP value of insurance contracts, which has to be recognized in the balance sheet upon the first-time consolidation of insurance companies, is amortized on the same basis as the profits, on which its calculation is based, are earned.
Intangible assets with a finite useful life are written down over their useful life and recognized at cost less accumulated scheduled write-downs. In compliance with IAS 38, intangible assets with an indefinite useful life are not written down on a scheduled basis but are subject to an impairment test at least annually. The other intangible assets include purchased and self-developed software as well as other intangible assets acquired. These include, among others, a right for the exclusive use of a sales channel and a preemption right on interests in this sales channel. After an analysis of all relevant factors, the useful life was qualified as indefinite. Any impairments are identified by tests carried out annually to compare the realizable amount and the carrying amount. 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 net investment income, claims and benefits, operating expenses and other expenditure.

The **deferred acquisition costs** include commissions and other expenses directly incurred when acquiring 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 is recognized at acquisition or construction costs less accumulated scheduled and impairment write-downs. The write-down modalities and measurement principles for investment property are the same as those applied for owner-occupied property. Investment property only includes the property mainly occupied by third parties.

Shares in enterprises measured at equity refer to associated enterprises on which the AMB Generali Group may exercise a material influence. A material influence is assumed to exist if at least 20 percent but no more than 50 percent of the voting rights are attributable to the AMB Generali Group.

Financial assets are recognized in the balance sheet once the AMB Generali Group becomes a party to the contractual rules 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.
When interest and currency swaps are taken out, hedge accounting is applied if the corresponding criteria are fulfilled.
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. A market is assumed to be an active market if prices are available any time and can be put on an objective basis by transactions taking place regularly, i.e. in an organized market as defined by the Securities Trading Act.
Impairments are recognized in income. Impairment losses are recognized if there is objective evidence of impairment. This includes, for instance, substantial financial distress of the issuing company or breach of contract. To the extent there is no evidence of an impairment of individual financial assets tested, these are classified within groups of similar credit-risk features. The assessment is then made on a portfolio basis. As a matter of principle the necessary information on the market values of loans and receivables is determined on the basis 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 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 deferred premium refunds, where applicable. In the case of impairments, the impairment loss is recognized 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. Furthermore, under IFRIC 10, impairment losses recognized in interim financial statements for equity instruments are not reversed in the annual financial statements. Write-ups of equity instruments recognized in income are not admissible. If there is objective evidence of an impairment of debt instruments as defined by IAS 39, the impairment losses are recognized. Write-ups through profit or loss are made for debt instruments only if the market value has risen 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**. They are recognized at their fair value. For listed financial assets the fair value 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)** include hybrid instruments, in particular. Among others these com-

prise annual-call zero bonds, swaptions as well as credit-linked notes. Because of the application of the fair-value option, hybrid instruments are not separated for recognition in the balance sheet.
As a matter of principle, the financial assets **held for trading** are stand-alone derivatives.

Investments for the account and at the risk of life insurance policyholders are measured at market value as at the balance-sheet 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. Write-downs are made if there is objective evidence of impairment. This includes, for instance, an imminent insolvency or other financial distress of the debtor. The impairment loss is recognized in income.

Tax assets/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. They are shown as actual tax assets. Taxes not yet paid are shown as actual 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 on the balance-sheet 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 reinsurance treaties. The conclusion of reinsurance treaties is not recognized in income at the moment the treaty is taken out. In the business year 2006 no retrospective reinsurance treaties were concluded. On the basis of FAS 113 no profits had to be set up as a liability item to be amortized over the treaty term.

The **other assets** mainly comprise accrued and deferred items as well as anticipated insurance benefits. They are recognized at amortized cost. In addition, the other assets include interest and currency swaps for which **hedge accounting** is applied, if the criteria to do so are fulfilled. For the time being, only cash flows are hedged in the Consolidated Financial Statements of the AMB Generali Group. In the case of effective hedging, changes in the fair value of the derivative hedging instruments are shown in the cash-flow hedge reserve as a part of the revaluation reserve under equity. The changes are only recognized in income once the offsetting profit or loss of the underlying is realized and recognized. In cases of partially ineffective hedging the proportional change in the fair value of the hedging instrument is immediately recognized in income.

The **inventories** mainly include property acquired by Group companies for the purpose of resale at short notice. Pursuant to IAS 2 these are, as a matter of principle, measured at cost. In addition, non-scheduled write-downs are made as necessary if the expected realizable amount falls short of the carrying amount as at the balance-sheet date.

The balance-sheet line item of **non-current assets held for sale and disposal groups** can be divided in two sub-items. The sub-item of **non-current assets held for sale** includes property planned to be sold within the next twelve months. The disposals take place for strategic reasons. They are recognized at the lower of their carrying amount or fair value less costs to sell.
The sub-items of **assets and liabilities of disposal groups** refer to an operation held for disposal within the next twelve months. Within the scope of a Group-wide and transnational reorganization of the asset-management activities of the international Generali Group, the asset-management companies of Assicurazioni Generali S.p.A., AMB Generali Holding AG and Generali France will be contributed into the joint asset-management holding company Generali Investments S.p.A. having its head office in Trieste, Italy. The assets and liabilities of the disposal group are recognized at the lower of their carrying amount or 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. Most of the contracts in the portfolio have a significant risk as defined by IFRS 4. For a small part of the contracts within the portfolio this is not the case. These are contracts under which no significant insurance risk has been assumed and no discretionary participation features are granted (so-called investment contracts). Pursuant to the provisions of IAS 39 “Financial Instruments” these contracts are recognized at amortized cost. To the extent the AMB Generali Group holds a co-insurance interest, the measurement of underwriting items is based on the information provided by the leading co-insurer.

Unearned premiums are, as a matter of principle, determined for each individual insurance contract on a daily pro-rata basis.

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 profits in proportion to the profit 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).
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, 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.

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 measurement 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 participation feature 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, current best-estimate calculation bases are applied to determine the present value of future benefits, settlement and administration costs on the one hand and the present value of future premiums on the other hand. 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 entitlements 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 and was raised from 4.00 to 4.25 percent.

The amount of the **other provisions** mainly includes provisions for restructuring and litigation. They are set up at the amount that will probably be required. Provisions for restructuring are set up if the AMB Generali Group has a detailed official plan of the restructuring measures and has already started to implement the plan or has published material details of the restructuring.

Payables are mainly recognized at amortized cost. The payables also include derivatives carried as a liability which are recognized at fair value. Furthermore changes of the fair value are recognized in income.

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 such products 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 enterprises measured at equity and other investment income. The income from enterprises measured at equity 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 all 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.

Share-based payment

The fair value of the stock options granted by Assicurazioni Generali S.p.A. to selected executives of our Group is determined on the basis of an option-price model which at the moment of granting does not only take into account factors such as the exercise price, the life of the options, the current price of the underlying shares, the expected volatility of the share price, the dividends expected on the shares and the risk-free interest rate, but also the specific characteristics of the option plan itself. Another factor taken into consideration is the possibility of early exercise. The binomial pricing model separately estimates the option value and the exercise probability. Therefore the fair value of the granted equity instruments reflects market conditions. During the vesting period, the cost of the options is recognized in income and in equity.

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, 2006

	Life/health		Property/casualty	
	2006	2005	2006	2005
	€'000	€'000	€'000	€'000
1. Gross premiums written				
from insurance business with other segments	1,476	–	–	-5,810
from insurance business with external third parties	8,750,641	8,467,456	2,992,551	2,990,244
	8,752,117	**8,467,456**	**2,992,551**	**2,984,434**
2. Net premiums earned	8,493,171	8,172,806	2,898,439	2,875,989
3. Investment income (net)	3,215,215	2,953,506	384,325	424,011
4. Other income	455,777	466,658	353,432	330,199
5. Net claims and benefits	-9,678,943	-8,900,430	-1,891,689	-1,901,949
6. Net operating expenses	-1,514,665	-1,514,244	-889,335	-901,181
7. Other expenditure	-703,664	-806,558	-523,779	-490,150
8. Result before goodwill amortization	266,891	371,738	331,393	336,919
9. Goodwill amortization	-973	–	–	–
10. Operating result	265,918	371,738	331,393	336,919
11. Finance costs	-8,911	–	–	–
12. Tax	-122,396	-182,276	-3,089	-69,718
13. Net profit	**134,611**	**189,462**	**328,304**	**267,201**
of which attributable to disposal group				

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 among others AMB Generali Informatik Services GmbH and AMB Generali Immobilien GmbH. Intermediate holding companies are allocated to the segment of the activity of their most important participating interest.

Financial services		Other/consolidation			Group
2006	2005	2006	2005	2006	2005
€'000	€'000	€'000	€'000	€'000	€'000
—	—	-1,476	5,810	—	—
—	—	—	—	11,743,192	11,457,700
—	**—**	**-1,476**	**5,810**	**11,743,192**	**11,457,700**
—	—	-1,476	—	11,390,134	11,048,795
224,301	223,608	-59,760	-158,361	3,764,081	3,442,764
149,447	128,873	-616,301	-579,975	342,355	345,755
—	—	9,607	5,245	-11,561,025	-10,797,134
—	—	17,937	6,211	-2,386,063	-2,409,214
-312,018	-306,055	605,875	561,039	-933,586	-1,041,724
61,730	46,426	-44,118	-165,841	615,896	589,242
-460	—	—	—	-1,433	—
61,270	46,426	-44,118	-165,841	614,463	589,242
-4,506	-7,329	—	—	-13,417	-7,329
-16,933	-16,601	-7,714	315	-150,132	-268,280
39,831	**22,496**	**-51,832**	**-165,526**	**450,914**	**313,633**
11,323	5,187	-7,827	-3,886	3,496	1,301

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, 2006

	Life/health		Property/casualty	
	2006	2005	2006	2005
	€'000	€'000	€'000	€'000
Assets				
A. Owner-occupied property/tangible assets	569,496	600,330	354,326	346,439
B. Intangible assets	347,295	400,492	105,269	109,582
C. Deferred acquisition costs	7,127,599	7,067,671	239,689	250,865
D. Investments	64,576,537	62,208,583	6,173,228	5,863,677
E. Investments for the account and at the risk of life insurance policyholders	8,156,808	6,488,778	—	—
F. Receivables	1,763,296	1,842,295	525,029	580,550
G. Tax assets	160,716	117,636	285,712	216,491
H. Reinsurers' shares in underwriting provisions	1,325,466	1,172,236	420,980	462,746
I. Other assets	120,910	182,853	15,992	20,018
J. Inventories	31,837	53,112	745	607
K. Non-current assets held for sale and disposal groups	160,605	149,090	15,193	37,481
L. Current-account balances with credit institutions, cheques and cash in hand	1,086,303	768,060	90,042	115,408
Total segment assets	**85,426,868**	**81,051,136**	**8,226,205**	**8,003,864**

	Financial services		Other/consolidation			Group
	2006	2005	2006	2005	2006	2005
	€'000	€'000	€'000	€'000	€'000	€'000
	39,743	40,564	88,175	83,098	1,051,740	1,070,431
	2,620	1,153	23,008	21,887	478,192	533,114
	—	—	—	—	7,367,288	7,318,536
	4,905,380	4,943,345	-523,998	-657,658	75,131,147	72,357,947
	—	—	—	—	8,156,808	6,488,778
	66,718	75,285	-258,950	-304,817	2,096,093	2,193,313
	16,926	6,222	1,835	—	465,189	340,349
	—	—	—	—	1,746,446	1,634,982
	427	290	2,732	4,639	140,061	207,800
	95	192	1,363	850	34,040	54,761
	33,313	—	—	—	209,111	186,571
	12,893	32,854	2,028	140	1,191,266	916,462
	5,078,115	**5,099,905**	**-663,807**	**-851,861**	**98,067,381**	**93,303,044**

Segment reporting
Consolidated Balance Sheet as at Dec. 31, 2006

	Life/health		Property/casualty	
	2006	2005	2006	2005
	€'000	€'000	€'000	€'000
Liabilities				
B. Underwriting provisions	67,752,538	65,178,104	4,242,841	4,222,610
C. Underwriting provisions concerning unit-linked life insurance	8,150,860	6,488,997	–	–
D. Other provisions	1,505,133	1,463,621	853,038	801,325
E. Payables	5,669,430	5,238,565	409,468	526,033
F. Tax liabilities	518,147	582,769	382,876	374,268
G. Other liabilities	613	165	235	-2
H. Liabilities of disposal groups	–	–	–	–
Total segment liabilities	**83,596,721**	**78,952,221**	**5,888,458**	**5,924,234**

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**
	2006	2005	2006	2005	2006	2005
	€'000	€'000	€'000	€'000	€'000	€'000
	—	—	-74,252	-64,645	71,921,127	69,336,069
	—	—	—	—	8,150,860	6,488,997
	117,506	125,529	101,000	83,015	2,576,677	2,473,490
	4,603,658	4,643,265	-148,040	-176,194	10,534,516	10,231,669
	8,861	8,190	-24,280	12,988	885,604	978,215
	—	—	—	—	848	163
	9,229	—	—	—	9,229	—
	4,739,254	**4,776,984**	**-145,572**	**-144,836**	**94,078,861**	**89,508,603**

Equity	3,988,520	3,794,441
Total liabilities	**98,067,381**	**93,303,044**

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 and 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 investment risks. The Group encounters these risks with a variety of measures.

The underwriting risk lies in the possibility that payment flows which are material for insurance business may differ from the level expected. While premiums are collected at the beginning of an insurance term, the claims and benefits contractually agreed, which often – such as in life insurance – have to be paid over a long period of time, are of a stochastic nature and thus involve risks. These risks include the risks of change, error and fortuity:

- The risk of change consists in future changes of risk factors. It involves the danger of a difference between the actual experience of claims frequency and claims amounts from the expected level calculated.
- The risk of error exists above all for new types of insurance cover when established findings about the exposure involved are not yet available.
- The fortuity risk describes the possible deviations of claims and benefits from the estimated amount expected because fortuitously there may be a particularly high/low number of insurance claims and/or because fortuitously there may be individual claims and benefits of a particularly high/low amount (fortuitous fluctuations). The smaller the insurance portfolio, the higher the fortuity risk.

The building-society risks 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.

The investment risks are composed of market, currency and concentration risks which may generate losses as a result of adverse changes of market prices or factors influencing the price – such as changes of interest rates, share prices or currency fluctuations – or due to an insufficient diversification in the portfolio. In addition, credit risks and liquidity risks have to be observed. Interest-bearing investments are both subject to the risk of interest change and to the cash-flow risk.

Risks of property and casualty insurance business and sensitivity analysis

The underwriting risk consists in 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. Examples for this are events leading to a large amount of claims expenditure as a result of adverse natural events, such as storms or floods.

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. In addition, 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. Furthermore the portfolio of insured risks is influenced by the wording of insurance terms and conditions and by the agreement of specific clauses.

The Group's nation-wide presence in Germany and across the various locations of the 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 commercial clients) in order to reach an overall risk balance. Finally the risks assumed are further limited by the way we structure our outward 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. 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 and fulfil all regulatory requirements in this regard.

During the period from 2000 through 2006 our claims ratios developed as follows:

Claims ratios (net)*

2006	2005	2004	2003	2002	2001	2000
65.0	**65.6**	**66.9**	**68.0**	**78.0**	**70.0**	**68.0**

Figures in %

* net claims expenditure as a percentage of net premiums earned

The continuous improvement of claims ratios in the past few years reflects our prudent underwriting policy and our success in active claims management.

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*

2006	2005	2004	2003	2002	2001	2000
8.4	**8.7**	**8.7**	**8.4**	**6.4**	**8.8**	**8.9**

Figures in %

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

The positive and rather stable run-off results reflect our prudent and adequate reserving policy in this line of business.

Sensitivity analysis

In property and casualty insurance the monitoring and controlling of the reserve risk is principally 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 also observe the development of interest rates since a decrease of the expected investment result below the guaranteed interest rate may lead to allocations to provisions. A sensitivity analysis at year-end 2006 shows that a rise of interest rates by 75 bp would lead to a positive result development of € 6.47 m and to an impact before tax of € 10.79 m. If, however, interests are assumed to decrease by 75 bp, the result is expected to be affected by € 8.22 m or by an impact before tax of € 13.7 m. The calculation of annuity reserves is based on up-to-date annuity tables.

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 participation feature, term life insurance and unit-linked insurance products. In pension insurance, also 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 portfolio 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 biometric 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 guaranteed interest. In addition there are interest risks 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 these risks.

- 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 a discretionary participation feature. 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 the largest part is allocated to the policyholders in compliance with legal rules. 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.

The measures referring to investments are described in the investment 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 allocations to provisions. For unit-linked policies, changes of risk and cost assumptions may also 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 2006 a change of interest and mortality assumptions would lead to an impact on deferred acquisition costs, the reassessed terminal bonus reserve and the provision for future policy benefits. These amounts are determined by modelling also applied for the amounts actually carried in the balance sheet. If interest assumptions rose by 75 bp, the total positive result impact on the indicated balance-sheet line items would be € 69.6 m or, before allocation to the provision for premium refunds and taxes, € 743.1 m. If, however, interest assumptions decreased by 75 bp, the negative result impact on the indicated balance-sheet line items would be € 126.5 m or, before allocation to the provision for premium refunds and taxes, € 1,349.9 m. A deterioration of mortality by 10 percent leads to an improvement of the result by € 4.2 m or, before allocation to the provision for premium refunds and taxes, of € 45.1 m. The positive result from the decrease of mortality is due to the fact that the share of death risks is higher than the share of longevity risks.

Insurance products may include the following major 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 (lump-sum option);
- in the case of unit-linked products the policyholder may choose a transfer of the fund interests upon termination of the contract instead of receiving the counter value of the fund interests (option to receive benefit in kind).

A separate recognition in the balance sheet is only done if this is required by IFRS 4 “Insurance Contracts”.

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 difference 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 difference 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 on a timely basis.

The possibility of premium adjustment also concerns 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.

Provisions 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 balance-sheet 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 building-society contracts and quotas 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 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 were made.

Investment risks and sensitivity analysis

Investment risks are composed of market, currency and concentration risks which can generate losses as a result of adverse changes of market prices or of factors influencing the price – such as changes of interest rates, share prices or currency fluctuations – or due to an insufficient diversification in the portfolio.

For all classes of insurance investment 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.

To reduce the portfolio risk, a broad mix and spread of the individual asset classes is observed. In addition, investments in assets with a higher risk exposure are allowed to a limited extent only. In individual cases we apply hedge accounting in the Consolidated Financial Statements for the recognition of hedging transactions. Under hedge accounting financial instruments with an offsetting risk structure are recognized as one connected measurement unit.

The risk of interest-rate changes specific to 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. Against the background of guaranteed benefits and a persistently low level of interest for reinvestment, this risk has to be seen as a particularly crucial one. Risk controlling in this respect consists of a mix of instruments applied as appropriate:

1. prolongation of the duration of new investments;
2. advance purchases of fixed-income securities;
3. use of hybrid instruments;
4. hedging transactions/hedge accounting.

At the same time, however, risk controlling also has to take into account the possibility of rising interest rates in order to avoid negative consequences for our Group under such scenarios.

Furthermore, the new business of our companies is focussed on unit-linked products, which represent an increasing share of our premium mix. In the case of these products the investment risk is borne by the policyholder.

Sensitivity analysis

In addition to regular risk monitoring within the scope of risk-management activities, sensitivity calculations (stress tests) are applied for an early recognition of the possible consequences of market-price fluctuations. The sensitivity analysis indicated below was 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.

The analysis was based on the investment portfolios held at year-end 2006. 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 35%	8,854.9
Increase by 10%	7,153.4
Decrease by 10%	5,792.3
Decrease by 35%	4,090.7

Investments with an interest-rate sensitivity include fixed-income securities of the direct and indirect portfolios 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	47,148.4
Increase by 100 bp	50,103.0
Decrease by 100 bp	57,046.2
Decrease by 200 bp	61,034.7

Base points (bp)

Currency risks

Currency risks are in particular the result of international equity investments. We mainly invest in securities of the European Economic Area which has a relatively low exchange volatility against the euro. As a whole, the cumulative currency risk is limited by investment guidelines. As a matter of principle, currency hedging is applied for investments outside Europe by the instrument of forward positions. In order to hedge a subordinated loan in British pound sterling, a cross-currency swap with a long duration was agreed.

Credit risks

Credit risks (also called credit-standing risks) are risks that may generate losses due to a durable widening of spread, the (partial) default of an issuer and/or contracting partner.

In order to limit credit risks we pay attention to a good credit standing of the debtor which is verified by means of the rating classes that are common practice in the market. The composition of financial instruments by rating classes is shown under no. 19 “Loans and receivables” and no. 20 “Available for sale”. In the case of corporate portfolios with a low credit quality we attach importance to a broad diversification in order to minimize any default risk.

The credit risk involved in receivables from policyholders and intermediaries is also regularly monitored within the scope of risk management. Receivables under insurance business from policyholders and insurance intermediaries due for more than 90 days amounted to € 123.4 m as at the balance-sheet date. As a measure of risk provision, there were write-downs of € 93.0 m on receivables from policyholders as at the balance-sheet date. In the period from 2004 through 2006 the average default ratio for receivables from policyholders and intermediaries was 1.0 percent.

In primary insurance credit risks are also involved in the receivables from reinsurers. In outward reinsurance, especially in business relationships with a long run-off, we attach importance to good financial soundness. 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 of 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	141.1
AA	1,018.8
A	568.9
BBB	1.6
BB	0.0
Not rated	16.0

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

The receivables from reinsurers amounted to € 106.3 m as at the balance-sheet date.

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

	€ m
AAA	6.1
AA	13.9
A	79.0
BBB	0.1
Not rated	7.2

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

Credit risks are also involved in property financing. In this field we limit risk positions by an underwriting policy restricted to loans with a small volume for the financing of owner-occupied residential property. The portfolio of commercial loans was mostly disposed of in previous years.

The default risks of Deutsche Bausparkasse Badenia with regard to financial and capital investments is limited because of the investment possibilities provided for by section 4 of the Building-Society Act and due to internal limitations. On an individual-case basis, credit risks are controlled, among others, by

- a scoring of loan applications integrated into hierarchical competencies for taking decisions on loan applications;
- a risk classification of the loan portfolio and
- analyses regarding the development of payments in arrears and write-downs.

Any investments showing negative features are subject to intensive management.

For all areas of loan business, risk precautions are taken in Deutsche Bausparkasse Badenia depending on the development of payments in arrears and the value development of collateral. Taking into account probability ratios and expected default rates, increasing write-down rates are applied 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.

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.

Supplementary information on the Consolidated Income Statement 2006

6 Earned premiums (net)*

	Life/health		Property/casualty	
	2006	2005	2006	2005
	€'000	€'000	€'000	€'000
Total premiums	10,415,006	9,824,671	2,992,551	2,990,244
less: savings portions (in acc. with FAS 97)	-1,620,388	-1,357,215	—	—
less: premiums of investment contracts (in acc. with IAS 39)	-43,977	—	—	—
Gross premiums written (under Income Statement)	**8,750,641**	**8,467,456**	**2,992,551**	**2,990,244**
Reinsurance premiums ceded	-160,504	-148,202	-85,845	-104,955
Net premiums written	**8,590,137**	**8,319,254**	**2,906,706**	**2,885,289**
Change of gross unearned premiums	-338	-4,221	-7,578	1,202
Change of premium components carried as a liability	-98,104	-145,771	—	—
Change of the reinsurers' share in gross unearned premiums	—	160	-689	-7,118
Earned premiums (net)	**8,491,695**	**8,169,422**	**2,898,439**	**2,879,373**

* fully consolidated figures

Gross premiums written of direct insurance business

	2006	2005
	€'000	€'000
Life insurance business	**7,084,407**	**6,875,381**
Health insurance business	**1,665,505**	**1,591,817**
Property/casualty insurance business		
Motor insurance	1,176,220	1,209,166
General liability insurance	408,547	404,870
Personal accident insurance	445,021	431,084
Householders insurance	228,402	224,756
Fire insurance	48,984	51,686
Homeowners insurance	227,709	221,697
Legal expenses insurance	180,895	177,660
Other classes	270,937	262,685
Total property/casualty	**2,986,715**	**2,983,604**
Gross premiums written, direct business	**11,736,627**	**11,450,802**

Out of the directly written gross premiums, 0.4 percent (preceding year: 0.3 percent) are attributable to foreign countries. The gross premiums written of assumed reinsurance business amount to € 6,565 thousand (preceding year: 6,898 thousand). Unit-linked products where the policyholder bears the investment risk are recognized in compliance with the standard FAS 97.
Contracts under which no significant insurance risk is assumed and no discretionary participation features are paid are recognized in compliance with the rules of IAS 39.

7 Investment income (net, by segments)*

	Life/health		Property/casualty	
	2006	2005	2006	2005
	€'000	€'000	€'000	€'000
I. Investment property	80,459	2,111	22,906	11,986
II. Shares in associated enterprises	1,582	-13	32,519	22,099
III. Financial assets				
1. loans and receivables	917,517	633,874	78,769	42,353
2. available for sale				
a) variable yield	680,005	498,278	143,522	165,409
b) fixed interest	1,524,315	1,630,567	113,701	110,179
3. financial assets at fair value through profit or loss				
a) financial assets at fair value through profit or loss (not held for trading)	-28,479	52,852	656	-4,388
b) held for trading	-54,052	54,362	2,753	-5,587
IV. Investments for the account and at the risk of life insurance policyholders	187,002	164,655	—	—
Expenditure for the management of investments, interest expenditure and other investment expenditure	-144,646	-141,638	-18,993	-17,977
Total	**3,163,703**	**2,895,048**	**375,833**	**324,074**

* fully consolidated figures

Financial services/other			**Group**
2006	2005	2006	2005
€'000	€'000	€'000	€'000
-30	-12	103,335	14,085
—	—	34,101	22,086
187,519	183,088	1,183,805	859,315
210	87	823,737	663,774
37,276	43,490	1,675,292	1,784,236
—	—	-27,823	48,464
-36	-2,327	-51,335	46,448
—	—	187,002	164,655
-394	-684	-164,033	-160,299
224,545	**223,642**	**3,764,081**	**3,442,764**

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

	Ordinary income		Write-ups and unrealized capital gains[6]	
	2006	2005	2006	2005
	€'000	€'000	€'000	€'000
I. Investment property[2,5]	119,012	125,511	20,443	7,679
II. Shares in associated enterprises	33,727	23,199	—	—
III. Financial assets				
1. loans and receivables[3]	1,206,343	1,012,861	32,473	38,610
2. available for sale				
a) variable yield	276,601	191,140	—	—
b) fixed interest[3]	1,633,028	1,760,410	11	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)	15,144	40,220	7,344	34,211
b) held for trading	—	—	1,909	83,936
IV. Investments for the account and at the risk of life insurance policyholders	116,705	82,854	71,982	79,511
Expenditure for the management of investments, interest expenditure and other investment expenditure[4]	-164,033	-160,299	—	—
Total	**3,236,527**	**3,075,896**	**134,162**	**243,982**

1 fully consolidated figures

2 The rental income from investment property amounts to € 119,012 thousand (preceding year: 125,511 thousand).

3 The interest income is € 2,839,371 thousand (preceding year: 2,773,271 thousand).

4 The expenditure for let property is € -50,177 thousand (preceding year: -45.489 thousand), for unlet property it amounts to € -9,901 thousand (preceding year: -9,586 thousand).

5 The write-downs include impairment losses as defined by IFRS 5 of an amount of € -36,229 thousand (preceding year: -83,577 thousand).

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

Realized capital gains		**Write-downs and unrealized capital losses**[6]		**Realized capital losses**		**Group**	
2006	2005	2006	2005	2006	2005	2006	2005
€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
61,419	92,611	-94,741	-181,912	-2,798	-29,804	103,335	14,085
374	—	—	-1,113	—	—	34,101	22,086
27,364	75,147	-42,387	-104,888	-39,988	-162,415	1,183,805	859,315
712,837	543,336	-86,520	-31,694	-79,181	-39,008	823,737	663,774
111,127	82,098	—	-24,170	-68,874	-34,137	1,675,292	1,784,236
—	—	-7,767	-18,005	-42,544	-7,962	-27,823	48,464
100,842	42,831	-115,189	-12,752	-38,897	-67,567	-51,335	46,448
7,148	5,934	-1,686	-1,056	-7,147	-2,588	187,002	164,655
—	—	—	—	—	—	-164,033	-160,299
1,021,111	**841,957**	**-348,290**	**-375,590**	**-279,429**	**-343,481**	**3,764,081**	**3,442,764**

8 Other income*

	2006 €'000	2005 €'000
Other net underwriting income of life and health insurance	28,119	51,666
Other net underwriting income of property and casualty insurance	16,666	14,086
Income from investment contracts	787	—
Income of building-society business	85,211	76,977
Income from capital consolidation	15,675	754
Other income		
from services rendered	52,318	68,859
from winding-up non-underwriting provisions	25,779	16,121
interest and similar income	28,906	29,037
foreign-exchange profits	776	48
other	88,118	88,207
Total	**342,355**	**345,755**

* fully consolidated figures

9 Net claims and benefits*

Claims and benefits under life and health insurance

	Gross		Reinsurers' share		Net	
	2006 €'000	2005 €'000	2006 €'000	2005 €'000	2006 €'000	2005 €'000
Claims expenditure						
Claims paid	-5,957,052	-5,593,102	105,300	91,285	-5,851,752	-5,501,817
Change of the provision for outstanding claims	-35,938	-63,087	233	-1,029	-35,705	-64,116
Total	**-5,992,990**	**-5,656,189**	**105,533**	**90,256**	**-5,887,457**	**-5,565,933**
Change of the provision for future policy benefits	-1,925,816	-2,071,732	89,909	-22,288	-1,835,907	-2,094,020
Expenditure for profit-related, not profit-related and deferred premium refunds	-1,359,096	-665,930	—	—	-1,359,096	-665,930
Other profit participation	-586,876	-566,159	—	—	-586,876	-566,159
Total amount of claims and benefits	**-9,864,778**	**-8,960,010**	**195,442**	**67,968**	**-9,669,336**	**-8,892,042**

* fully consolidated figures

Net claims and benefits*

Claims and benefits under property and casualty insurance

	Gross		Reinsurers' share		Net	
	2006	2005	2006	2005	2006	2005
	€'000	€'000	€'000	€'000	€'000	€'000
Claims expenditure						
Claims paid	-1,896,483	-1,820,512	64,469	61,301	-1,832,014	-1,759,211
Change of the outstanding claims provision	-11,050	-94,994	-40,928	-32,624	-51,978	-127,618
Total	**-1,907,533**	**-1,915,506**	**23,541**	**28,677**	**-1,883,992**	**-1,886,829**
Change of the provision for future policy benefits	-5,119	-16,209	—	1	-5,119	-16,208
Expenditure for premium refunds	-2,578	-2,055	—	—	-2,578	-2,055
Total amount of claims and benefits	**-1,915,230**	**-1,933,770**	**23,541**	**28,678**	**-1,891,689**	**-1,905,092**

* fully consolidated figures

10 Net operating expenses*

	2006	2005
	€'000	€'000
Life and health insurance		
Acquisition costs		
Payments	-1,310,546	-1,280,302
Change of deferred acquisition costs	59,928	19,545
Administrative expenses	-286,070	-275,915
less		
commissions and profit shares received under reinsurance business ceded	35,049	32,715
Total life and health insurance	**-1,501,639**	**-1,503,957**
Property and casualty insurance		
Acquisition costs		
Payments	-283,670	-318,708
Change of deferred acquisition costs	-11,176	-5,840
Administrative expenses	-609,713	-603,307
less		
commissions and profit shares received under reinsurance business ceded	20,135	22,598
Total property and casualty insurance	**-884,424**	**-905,257**
Total	**-2,386,063**	**-2,409,214**

* fully consolidated figures

11 Other expenditure*

	2006 €'000	2005 €'000
Other net underwriting expenditure of life and health insurance	-66,061	-68,547
Other net underwriting expenditure of property and casualty insurance	-10,869	-16,620
Expenditure from investment contracts	-3,240	—
Expenditure for building-society business	-261,339	-257,861
Other expenditure:		
Expenditure that cannot be allocated to functional areas	-185,767	-175,216
Interest and similar expenditure	-133,485	-138,428
Services, agency, leading and coinsurance business	-54,025	-57,486
Write-downs and portfolio-based value adjustments	-58,160	-15,229
Capital consolidation	-23,688	-128,416
Foreign-exchange losses	-104	-486
Other	-136,848	-183,435
Total	**-933,586**	**-1,041,724**

* fully consolidated figures

12 Tax

Tax expenditure

	2006 €'000	2005 €'000
Income tax		
Actual tax		
Corporation tax and solidarity charge	-160,124	-162,978
Trade income tax	-117,217	-109,944
Corporation tax credit*	114,983	—
Deferred tax		
due to temporary differences	20,873	20,460
due to change of tax losses carried forward	2,783	-10,966
Total	**-138,702**	**-263,428**
Other tax	-11,430	-4,852
Aggregate tax amount	**-150,132**	**-268,280**

* The income from the corporation tax credit is based on an amendment of the pay-out rule in the Corporation Tax Act by the "Act on accompanying tax measures regarding the introduction of the Societas Europaea and the change of other tax rules" (SEStEG) as published on December 12, 2006 in the Official Gazette. For the AMB Generali Group this leads to a claim for a refund of its corporation tax credit for the years 2008 through 2017. Until 2017 the corporation tax credit is discounted at an interest rate of 4 percent. Starting from the year 2008 a total of € 142,411 thousand will be paid out in ten equal annual amounts. The tax expenditure was reduced by the discounted amount of € 114,983 thousand. Furthermore, for part of the tax losses carried forward (corporation tax of € 145,865 thousand; trade tax of € 154,708 thousand) no deferred taxes are set up since it is not probable that they will be utilized in the near future.

Reconciliation

	2006 €'000	2005 €'000
Result before tax (under Commercial Code balance sheet)	601,046	581,913
Expected tax expenditure*	-240,418	-232,765
Corrected for tax effects:		
non-deductible operating expenses	-14,872	-22,681
tax-free income	66,954	67,878
taxes of preceding years	-15,932	-59,745
corporation tax credit	114,983	—
deductible taxes	22,718	3,795
difference between tax balance sheet and Commercial Code balance sheet	-4,596	-34,913
other effects	-67,539	15,003
Income tax expenditure	**-138,702**	**-263,428**

* 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 53,679,881 (preceding year: 53,678,181). This leads to undiluted earnings per share of approx. € 8.36 and, before extraordinary items due to corporation tax credits of € 6.40 (preceding year: 5.87).
The conclusion of the pending court procedures in respect of the domination 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 2006 – Assets

14 Owner-occupied property

	2006 €'000	2005 €'000
Gross carrying amount Jan. 1	1,243,765	1,254,484
Accumulated write-downs by Jan. 1	-334,792	-353,686
Net carrying amount Jan. 1	**908,973**	**900,798**
Additions	72,270	55,759
Change of consolidation scope	370	—
Non-current assets held for sale and other retirements	-83,883	-27,759
Reallocations	9,799	8,469
Write-ups	—	—
Scheduled write-downs	-19,551	-19,112
Impairment losses	-4,096	-9,182
Net carrying amount Dec. 31	**883,882**	**908,973**
Accumulated write-downs by Dec. 31	-353,547	-334,792
Gross carrying amount Dec. 31	1,237,429	1,243,765

Tangible assets*

	Life/health €'000	Property/ casualty €'000	Financial services/ other €'000	2006 €'000	2005 €'000
Gross carrying amount Jan. 1	146,985	126,969	242,298	516,252	512,226
Accumulated write-downs by Jan. 1	-102,911	-98,571	-153,312	-354,794	-349,858
Net carrying amount Jan. 1	**44,074**	**28,398**	**88,986**	**161,458**	**162,368**
Additions	20,011	10,564	50,192	80,767	156,762
Change of the consolidation scope	4,816	51	407	5,274	—
Write-ups	195	—	—	195	—
Disposal groups and other retirements	-11,169	-2,952	-5,385	-19,506	-101,873
Write-downs	-13,375	-6,701	-40,254	-60,330	-55,799
Net carrying amount Dec. 31	**44,552**	**29,360**	**93,946**	**167,858**	**161,458**
Accumulated write-downs by Dec. 31	-100,519	-91,641	-140,989	-333,149	-354,794
Gross carrying amount Dec. 31	145,071	121,001	234,935	501,007	516,252

* fully consolidated figures

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

15 Intangible assets

Composition of intangible assets

	2006 €'000	2005 €'000
Goodwill	270,189	268,200
PVFP of insurance contracts	97,239	121,864
Self-developed software	6,293	11,293
Other intangible assets acquired	104,471	131,757
Total	**478,192**	**533,114**

Goodwill allocation to segments[1]

	Life/health €'000	Property/ casualty €'000	Financial services/other €'000	2006 €'000	2005 €'000
Carrying amount before impairment amortization Jan. 1[2]	165,400	102,000	800	268,200	268,200
Accumulated impairment loss Jan. 1	—	—	—	—	—
Balance-sheet amount Jan. 1[2]	**165,400**	**102,000**	**800**	**268,200**	**268,200**
Additions	2,140	—	1,282	3,422	—
Impairment loss	-973	—	-460	-1,433	—
Balance-sheet amount Dec. 31	**166,567**	**102,000**	**1,622**	**270,189**	**268,200**
Accumulated impairment loss Dec. 31	-973	—	-460	-1,433	—
Carrying amount before impairment amortization Dec. 31	167,540	102,000	2,082	271,622	268,200

1 fully consolidated figures

2 Pursuant to IFRS 3.79 b the gross carrying amount of goodwill is reduced by accumulated amortization.

Under the annual impairment test for goodwill, an impairment loss was identified and recognized in income.

Goodwill allocation to cash-generating units

	2006 €'000	2005 €'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	14,889	12,900
Total	**270,189**	**268,200**

Impairment test for goodwill

On the basis of IFRS 3 "Business Combinations" goodwill is no longer amortized on a scheduled basis starting from January 1, 2005. Instead goodwill is tested annually for impairment in compliance with the rules of IAS 36 on the basis of cash-generating units. In the AMB Generali Group, the subsidiaries are identified as the cash-generating units for the purpose of goodwill allocation and impairment testing.

An impairment may become evident by comparing the carrying amount of the cash-generating unit, including allocated goodwill, with the realizable amount of the unit. In the AMB Generali Group, the carrying amount is the equity capital under IFRS of the subsidiary concerned. As realizable amount, the AMB Generali Group applies the fair value as at December 31, 2006 of the subsidiary concerned, which is determined in compliance with the accounting standard IDW RS HFA 10 by applying the capitalized earnings method. In a two-phase model, the earnings surpluses of the subsidiary are derived from the planning statement (detailed planning phase) and an estimate is made of the sustainable results achievable by this cash-generating unit on a long-term basis ("perpetual annuity"). The assumptions of the forecast of cash flows are based on the corporate planning of the AMB Generali Group for the period from 2007 through 2009. The extrapolation of cash-flow projections within the scope of a perpetual annuity is performed by applying a growth rate that is regarded as probable against the background of the individual environment in which the company operates. The growth rates applied are within a range of 0.5 to 1.0 percent.

The value of capitalized earnings for each subsidiary results from the discounting of future earnings surpluses by applying a capitalization interest reflecting the cost of equity capital taking into account the individual risk structure of the subsidiary. The capitalization interest is determined by the capital-asset pricing model (CAPM). It is composed of a risk-free basic interest and a risk charge determined on an individual basis for the company. The applied rates of capitalization interest are within a range of 6.05 to 9.20 percent.

PVFP of insurance contracts*

	Life/health	Property/ casualty	2006	2005
			€'000	€'000
Gross carrying amount Jan. 1	176,461	6,976	183,437	183,437
Accumulated amortization by Jan. 1	-57,213	-4,360	-61,573	-40,666
Net carrying amount Jan. 1	**119,248**	**2,616**	**121,864**	**142,771**
Scheduled amortization	-11,431	-872	-12,303	-11,311
Impairment loss	-12,322	—	-12,322	-9,596
Net carrying amount Dec. 31	**95,495**	**1,744**	**97,239**	**121,864**
Accumulated amortization by Dec. 31	-80,966	-5,232	-86,198	-61,573
Gross carrying amount Dec. 31	176,461	6,976	183,437	183,437

* fully consolidated figures

The negative true-up effect for the PVFP of life insurance contracts is € 8,784 thousand (preceding year: 9,596 thousand).

Self-developed software*

	Life/Health	Property/ casualty	Financial services	2006	2005
	€'000	€'000	€'000	€'000	€'000
Gross carrying amount Jan. 1	66,612	89,521	6,587	162,720	209,671
Accumulated amortization by Jan. 1	-59,400	-85,440	-6,587	-151,427	-189,818
Net carrying amount Jan. 1	**7,212**	**4,081**	**—**	**11,293**	**19,853**
Scheduled amortization	-1,694	-3,306	—	-5,000	-8,560
Net carrying amount Dec. 31	**5,518**	**775**	**—**	**6,293**	**11,293**
Accumulated amortization by Dec. 31	-61,094	-88,746	-6,587	-156,427	-151,427
Gross carrying amount Dec. 31	66,612	89,521	6,587	162,720	162,720

* fully consolidated figures

Other acquired intangible assets*

	Life/health	Property/ casualty	Financial services	Other	2006	2005
	€'000	€'000	€'000	€'000	€'000	€'000
Gross carrying amount Jan. 1	139,512	43,702	6,580	120,719	310,513	321,778
Accumulated amortization by Jan. 1	-30,881	-42,816	-6,226	-98,833	-178,756	-201,457
Net carrying amount Jan. 1	**108,631**	**886**	**354**	**21,886**	**131,757**	**120,321**
Additions	23,883	145	1,014	17,289	42,331	74,069
Retirements	-1,836	-20	-14	-456	-2,326	-38,659
Change of consolidation scope	4,111	5	—	—	4,116	—
Scheduled amortization	-15,733	-266	-356	-15,711	-32,066	-23,974
Impairment loss	-39,341	—	—	—	-39,341	—
Net carrying amount Dec. 31	**79,715**	**750**	**998**	**23,008**	**104,471**	**131,757**
Accumulated amortization by Dec. 31	-93,153	-42,467	-5,684	-112,543	-253,847	-178,756
Gross carrying amount Dec. 31	172,868	43,217	6,682	135,551	358,318	310,513

* fully consolidated figures

The other acquired intangible assets include an amount of € 7.4 m of such assets with an indefinite useful life. With regard to measurement reference is made to the information on the methods of accounting and measurement on p. 110 f.

Within the scope of the reorientation of the distribution activities of Aachen Münchener Versicherungen resolved in November 2006, the benefits from existing rights were extended to include a larger number of distribution companies/partners. This involved a change of the underlying assumptions for testing the impairment of the right recognized in the balance sheet regarding the exclusive use of a sales channel and the preemption right to acquire interests in this sales channel to the extent that new margin considerations were reflected in the impairment test. The impairment test made in the context of the financial statements 2006 led to an impairment loss of € 39.3 m.

16 Deferred acquisition costs*

	2006 €'000	2005 €'000
Life and health insurance		
As at Jan. 1	7,069,286	7,048,933
Amount deferred	960,081	927,964
Interest charge	297,550	294,808
Write-downs	-1,197,703	-1,202,419
As at Dec. 31	**7,129,214**	**7,069,286**
Property and casualty insurance		
As at Jan. 1	249,250	255,897
Amount deferred	72,846	88,109
Write-downs	-84,022	-94,756
As at Dec. 31	**238,074**	**249,250**

* fully consolidated figures

In health insurance an interest rate of 4.5 percent (preceding year: 4.5 percent) is applied. 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, 2006 there is a negative true-up effect of € 115,535 thousand on deferred acquisition costs (preceding year: 224,921 thousand).

17 Investments

Investment property*

	Life/health	Property/ casualty	Financial services	2006	2005
	€'000	€'000	€'000	€'000	€'000
Gross carrying amount Jan. 1	1,656,815	273,888	542	1,931,245	2,831,960
Accumulated write-downs by Jan. 1	-500,374	-77,440	-381	-578,195	-829,764
Net carrying amount Jan. 1	**1,156,441**	**196,448**	**161**	**1,353,050**	**2,002,196**
Additions by purchase	625,036	309	—	625,345	118,571
Additions by capitalized supplementary acquisition costs	492	282	—	774	11,290
Change of consolidation scope	41,870	3,781	—	45,651	—
Non-current assets available for sale and other retirements	-106,115	-9,328	-46	-115,489	-679,881
Reallocations	-15,690	5,891	—	-9,799	-8,469
Write-ups	11,413	1,410	—	12,823	7,679
Write-downs	-18,865	-3,765	—	-22,630	-30,803
Impairment loss	-35,745	-107	-30	-35,882	-67,533
Change due to currency translation	-8,934	—	—	-8,934	—
Net carrying amount Dec. 31	**1,649,903**	**194,921**	**85**	**1,844,909**	**1,353,050**
Accumulated write-downs by Dec. 31	-508,115	-82,250	-392	-590,757	-578,195
Gross carrying amount Dec. 31	2,158,018	277,171	477	2,435,666	1,931,245
Market value	**1,747,131**	**231,673**	**85**	**1,978,889**	**1,557,330**

* fully consolidated figures

18 Shares in enterprises measured at equity

	2006	2005
	€'000	€'000
Balance-sheet values Jan. 1	**171,963**	**154,418**
Additions	37,285	—
Change of share in equity	22,543	13,360
Retirements	-8,433	—
Write-downs	—	-1,112
Unrealized gains and losses	1,166	5,297
Balance-sheet values as at Dec. 31	**224,524**	**171,963**

Major subsidiaries and associated enterprises

(interests held directly and indirectly)		**Country**	**Percentage share in equity**
December 31, 2006			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[1]	D	100.0000
5	AMB Generali Immobilien 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	AMB Generali Schadenmanagement GmbH	D	100.0000
11	AMB Generali Services GmbH	D	100.0000
12	Central Krankenversicherung AG	D	100.0000
13	Cosmos Lebensversicherungs-AG	D	100.0000
14	Cosmos Versicherung AG	D	49.9998
15	Deutsche Bausparkasse Badenia AG	D	100.0000
16	Deutsche Vermögensberatung Aktiengesellschaft DVAG[2]	D	100.0000
17	Dialog Lebensversicherungs-AG	D	98.5807
18	Envivas Krankenversicherung AG	D	85.1459
19	Generali Lebensversicherung AG	D	100.0000
20	Generali Lloyd AG	D	100.0000
21	Generali Versicherung AG	D	100.0000
22	PENSOR Pensionsfonds AG	D	100.0000
23	Volksfürsorge Deutsche Lebensversicherung AG	D	100.0000
24	Volksfürsorge Deutsche Sachversicherung AG	D	100.0000
25	Volksfürsorge Holding AG	D	100.0000
26	Volksfürsorge Krankenversicherung AG	D	100.0000
27	Volksfürsorge Pensionskasse AG	D	100.0000

1 enterprise to be sold; for details see p. 174 ff. of this Report

2 associated enterprise

19 Financial assets
Loans and receivables

	Amortized cost 2006 €'000	Amortized cost 2005 €'000	Market values 2006 €'000	Market values 2005 €'000
Mortgage loans	3,505,660	4,274,047	3,605,909	4,517,556
Building loans	2,931,770	3,059,816	2,931,770	3,059,816
Loans and advance payments on policies	714,937	716,349	714,937	716,349
Debt securities and loans	11,488,948	8,386,042	11,345,360	8,799,004
Registered bonds	8,035,119	2,551,777	7,931,492	2,638,592
Other loans	905,862	905,854	933,205	975,719
Deposits with credit institutions	2,658,047	1,505,674	2,658,047	1,505,674
Receivables under reinsurance deposits	17,538	17,370	17,538	17,370
Total	**30,257,881**	**21,416,929**	**30,138,258**	**22,230,080**

Loans and receivables

	Mortgage loans €'000	Building loans €'000	Loans and advance payments on policies €'000	Debt securities and loans €'000
Balance-sheet values as at Dec. 31, 2005	**4,274,047**	**3,059,816**	**716,349**	**8,386,042**
Additions	93,271	692,634	137,547	3,170,609
Change of consolidation scope	—	—	—	—
Disposal groups and other retirements	-860,021	-813,011	-138,959	-70,029
Redemption	608	—	—	2,326
Write-ups	19,206	13,267	—	—
Impairments	-21,451	-20,936	—	—
Change due to currency translation	—	—	—	—
Balance-sheet values as at Dec. 31, 2006	**3,505,660**	**2,931,770**	**714,937**	**11,488,948**

The mortgage loans, registered bonds and debt securities and loans under the line item "loans and receivables" bear interest rates between 1.99 and 8.65 percent.

Market values of loans and receivables by rating classes

	AAA	AA	A	BBB	BB	B and lower	Not rated	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Debt securities and loans	8,138,282	739,245	2,467,833	—	—	—	—	**11,345,360**
Registered bonds	6,986,172	593,153	352,167	—	—	—	—	**7,931,492**
Other lendings	—	—	914,712	—	—	—	18,493	**933,205**
Total	**15,124,454**	**1,332,398**	**3,734,712**	**—**	**—**	**—**	**18,493**	**20,210,057**

In the wake of a concentration on core business, our life insurance companies sold major loans for commercial financing of a total amount of € 0.4 bn (preceding year: 1.0 bn) to investors.

Registered bonds	Other loans	Deposits with credit institutions	Receivables under reinsurance deposits	Total
€'000	€'000	€'000	€'000	€'000
2,551,777	**905,854**	**1,505,674**	**17,370**	**21,416,929**
5,462,577	—	1,425,974	209	10,982,821
—	—	24,762	—	24,762
-26,745	—	-297,995	-41	-2,206,801
47,510	8	—	—	50,452
—	—	—	—	32,473
—	—	—	—	-42,387
—	—	-368	—	-368
8,035,119	**905,862**	**2,658,047**	**17,538**	**30,257,881**

Remaining terms to maturity of loans and receivables

	Amortized cost		Market values	
	2006	2005	2006	2005
	€'000	€'000	€'000	€'000
up to 1 year	4,273,036	3,571,004	4,273,977	3,621,196
between 1 and 2 years	1,487,169	1,475,640	1,486,387	1,502,078
between 2 and 3 years	1,736,508	1,246,307	1,742,121	1,274,362
between 3 and 4 years	1,717,195	1,591,489	1,719,197	1,621,701
between 4 and 5 years	1,892,649	1,520,713	1,891,466	1,586,040
between 5 and 10 years	9,163,442	7,097,769	9,154,434	7,402,730
more than 10 years	9,987,882	4,914,007	9,870,676	5,221,973
Total	**30,257,881**	**21,416,929**	**30,138,258**	**22,230,080**

20 Financial assets
Available for sale

	Balance-sheet values 31.12.2005	Additions	Change of consolidation scope	Redemption
	€'000	€'000	€'000	€'000
Variable-yield securities				
Shares and other equity instruments	6,846,343	5,568,429	101,610	—
Fund units				
Equity funds	626,678	991,608	2,283	—
Bond funds	401,884	194,724	7,189	—
Property funds	247,838	156,377	—	—
Other variable-yield securities	169,606	34,361	—	-2,580
Fixed-income securities				
Government bonds	27,727,102	3,078,977	18,860	-6,425
Other bonds	12,825,613	3,209,912	9,768	63,507
Other securities	23,863	—	—	—
Total	**48,868,927**	**13,234,388**	**139,710**	**54,502**

Available for sale

	Amortized cost		Unrealized gains/losses		Market values	
	2006	2005	2006	2005	2006	2005
	€'000	€'000	€'000	€'000	€'000	€'000
Variable-yield securities						
Shares and other equity instruments	5,828,539	5,096,109	2,316,144	1,750,234	8,144,683	6,846,343
Fund units						
Equity funds	454,150	525,114	107,791	101,564	561,941	626,678
Bond funds	421,822	384,222	14,343	17,662	436,165	401,884
Property funds	215,890	239,719	3,052	8,119	218,942	247,838
Other variable-yield securities	159,567	164,255	3,509	5,351	163,076	169,606
Fixed-income securities						
Government bonds	21,065,821	26,235,819	240,028	1,491,283	21,305,849	27,727,102
Other bonds	11,352,123	12,148,619	220,535	676,994	11,572,658	12,825,613
Other securities	23,863	23,863	—	—	23,863	23,863
Total	**39,521,775**	**44,817,720**	**2,905,402**	**4,051,207**	**42,427,177**	**48,868,927**

The interest rates of the fixed-income securities included in the line item "available for sale" are between 1.4 and 9.0 percent.

Disposal groups and other retirements	Write-ups	Impairments	Unrealized gains and losses	Changes due to currency translation	Balance-sheet values 31.12.2006
€'000	€'000	€'000	€'000	€'000	€'000
-5,083,970	—	-66,690	778,961	—	8,144,683
-1,097,103	—	—	38,475	—	561,941
-149,439	—	-13,482	-4,711	—	436,165
-180,168	—	-6,348	1,243	—	218,942
-34,935	—	—	-3,376	—	163,076
-8,385,013	—	—	-1,127,652	—	21,305,849
-4,194,524	11	—	-332,711	-8,918	11,572,658
—	—	—	—	—	23,863
-19,125,152	**11**	**-86,520**	**-649,771**	**-8,918**	**42,427,177**

Market values of securities available for sale by rating classes

	AAA	AA	A	BBB	BB	B and lower	Not rated	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Government bonds	15,013,028	3,339,889	2,951,190	—	—	—	1,742	**21,305,849**
Other bonds	5,863,454	1,136,755	4,322,351	145,454	25,575	75,378	3,691	**11,572,658**
Total	**20,876,482**	**4,476,644**	**7,273,541**	**145,454**	**25,575**	**75,378**	**5,433**	**32,878,507**

Remaining terms to maturity of securities available for sale

	Amortized cost		Market values	
	2006	2005	2006	2005
	€'000	€'000	€'000	€'000
up to 1 year	3,294,615	5,042,660	3,265,541	5,109,586
between 1 and 2 years	2,761,139	2,992,103	2,784,186	3,081,160
between 2 and 3 years	2,616,068	3,118,571	2,642,579	3,236,138
between 3 and 4 years	2,656,654	4,482,589	2,686,180	4,585,354
between 4 and 5 years	2,180,982	2,545,731	2,257,475	2,682,482
between 5 and 10 years	8,543,187	9,122,425	8,636,183	9,815,247
more than 10 years	10,365,299	11,080,359	10,606,363	12,042,748
Total	**32,417,944**	**38,384,438**	**32,878,507**	**40,552,715**

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

Financial assets

21 Financial assets at fair value through profit or loss

The sub-item of **financial assets at fair value through profit or loss (not held for trading)** mainly includes hybrid instruments. Furthermore the item includes loans of an amount of € 92,792 thousand (preceding year: 97,774 thousand).
The following table 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, 2006 they amount to € 216,982 thousand (preceding year: 319,012 thousand).

Market values and contractual terms to maturity of hybrid instruments

Instruments with	interest risk	equity exposure	currency risk	credit risk	2006	2005
	€'000	€'000	€'000	€'000	€'000	€'000
up to 1 year	–	–	26,725	5,303	32,028	128,653
between 1 and 2 years	–	–	–	–	–	34,089
between 2 and 3 years	–	–	–	10,969	10,969	–
between 3 and 4 years	–	–	–	–	–	11,693
between 4 and 5 years	–	–	–	–	–	–
between 5 and 10 years	–	–	–	–	–	3,343
more than 10 years	309,775	–	–	–	309,775	295,016
Total	**309,775**	**–**	**26,725**	**16,272**	**352,772**	**472,794**

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 2007–2011 with regard to annual-call zero bonds at the end of the closed business year

		2007	2008	2009	2010	2011
Volume	€ m	3,491.9	53.7	–	144.0	–
Nominally weighted strike	%	6.47	5.74	–	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 futures, forward purchases and stock options. Futures are used for hedging foreign-currency risks and the bond portfolio, forward purchases are employed for hedging the risk of interest-rate changes. In addition, stock-option transactions are made to increase earnings and to prepare purchases. The following table shows the composition of open derivative positions as at the reporting date:

Nominal and market values of open derivative positions

		Nominal values		Positive market values		Negative market values
	2006	2005	2006	2005	2006	2005
	€'000	€'000	€'000	€'000	€'000	€'000
Hedging of foreign-currency risks						
Futures	235,504	288,465	194	2,171	2,109	359
Hedging of interest risks						
Forward purchases	2,949,000	1,924,000	20,084	71,718	49,780	4,217
Increasing earnings and preparing purchases						
Stock options	637,326	87,144	3,606	395	6,858	—
Hedging of bond portfolio						
Futures	—	11,852	—	—	—	94

As at the reporting date the maximum remaining term to maturity of open derivative positions is 4 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.

23 Receivables

	2006	2005
	€'000	€'000
Receivables under insurance business		
from policyholders	341,485	318,906
from insurance intermediaries	142,840	121,527
Accounts receivable under reinsurance operations	88,763	127,206
Other receivables under insurance business	31,785	34,567
Total receivables under insurance business	**604,873**	**602,206**
Other receivables		
Accrued interest and rent	1,268,174	1,266,204
Receivables under investments	97,225	123,400
Other receivables	125,821	201,503
Total of other receivables	**1,491,220**	**1,591,107**
Total	**2,096,093**	**2,193,313**

Remaining terms to maturity of receivables

	Amortized	cost
	2006	2005
	€'000	€'000
up to 1 year	1,823,492	2,014,263
between 1 and 5 years	268,607	165,508
between 5 and 10 years	2,674	1,019
more than 10 years	1,320	12,523
Total	**2,096,093**	**2,193,313**

24 Other assets

The other assets include, among others, a currency swap taken out to hedge a foreign-currency loan. Since the required criteria are fulfilled, the AMB Generali Group applies the rules of hedge accounting for recognition. The changes of the fair value resulting from the currency swap are recognized in the result for the period every year. In 2006 the result of the cash-flow hedge is € 3,556 thousand. The fair value of the currency swap is € 2,526 thousand. The change in the present value of the expected future cash flows from the subordinated loan attributable to foreign-exchange fluctuations equals the change attributable to the swap component in British pound sterling. The change of the fair value of the currency swap that is no longer required to compensate foreign-exchange fluctuations of the loan in the income statement is recognized in equity.

Ahead of taking up the subordinated foreign-currency loan, an interest hedging transaction (cash-flow hedge) was concluded to which hedge accounting is also applied. The profit from this transaction is included in equity in the cash-flow hedge reserve as part of the revaluation reserve and is recognized as income over the term of the loan. In the reporting year an amount of € 356 thousand was redeemed.

25 Inventories

Inventories amount to € 34,040 thousand (preceding year: 54,761 thousand). The inventories mainly include property acquired with the objective of a redisposal and which are thus measured in compliance with the rules of IAS 2 applicable to inventories. The carrying amount of this property is € 25,538 thousand (preceding year: 50,137 thousand). Within the scope of a loss-free measurement, no write-downs (preceding year: 46,474 thousand) were made.

No inventories (preceding year: € 50,137 thousand) were pledged as collateral for liabilities.

Supplementary information on the Consolidated Balance Sheet 2006 – Liabilities

26 Group equity

Equity composition

	2006 €'000	2005 €'000
Subscribed capital	137,421	137,421
Capital reserve	1,285,750	1,282,463
Treasury stock	–	-17
Revaluation reserve*	603,697	778,779
Profit carried forward	1,282,980	1,070,496
Reserve from foreign-currency translation	-1,230	1,048
Net profit attributable to the equity holders of the parent	448,534	314,837
Minority interests	231,368	209,414
Total	**3,988,520**	**3,794,441**

* The revaluation reserve includes unrealized gains of € 6,575 thousand (preceding year: –) and unrealized losses of € 3,912 thousand (preceding year: –) resulting from hedge accounting.

The **subscribed capital** equals the share capital of AMB Generali and the **capital reserve** includes the premiums from share issues and an amount attributable to share-based payment recognized in income. 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. 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. The revaluation reserve also includes the cash-flow hedge reserve.
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, 2006 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 domination 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

	2006 €'000	2005 €'000
in the revaluation reserve	81,312	81,952
in the Group net profit	2,380	-1,204
in the other equity	147,676	128,666
Total	**231,368**	**209,414**

27 Unearned premiums*

	Life/health		Property/casualty		Group	
	2006	2005	2006	2005	2006	2005
	€'000	€'000	€'000	€'000	€'000	€'000
Gross	**3,085**	**6,689**	**477,157**	**469,580**	**480,242**	**476,269**
Reinsurers' share	—	—	-6,376	-7,065	-6,376	-7,065
Net	**3,085**	**6,689**	**470,781**	**462,515**	**473,866**	**469,204**

* fully consolidated figures

Development of unearned premiums

	Gross	Reinsurers' share	Net	Net
			2006	2005
	€'000	€'000	€'000	€'000
Unearned premiums Jan. 1	**476,269**	**-7,065**	**469,204**	**462,039**
Foreign-currency translation	-1	—	-1	2
Total	**476,268**	**-7,065**	**469,203**	**462,041**
Portfolio changes	1	403	404	1,879
Other changes	3,973	286	4,259	5,284
Unearned premiums Dec. 31	**480,242**	**-6,376**	**473,866**	**469,204**

28 Provision for future policy benefits*

	Life/health		Property/casualty		Group	
	2006	2005	2006	2005	2006	2005
	€'000	€'000	€'000	€'000	€'000	€'000
Gross	**59,671,054**	**57,031,890**	**84,584**	**79,465**	**59,755,638**	**57,111,355**
Reinsurers' share	-1,312,523	-1,159,525	—	—	-1,312,523	-1,159,525
Net	**58,358,531**	**55,872,365**	**84,584**	**79,465**	**58,443,115**	**55,951,830**

* fully consolidated figures

In health insurance an interest rate of 4.5 percent (preceding year: 4.5 percent) is applied.
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 4.3 percent (preceding year: between 4.1 and 5.0 percent). The positive true-up effect for the premium components carried as a liability (unearned revenue reserve) is € 6,466 thousand (preceding year: -9,000 thousand) and for the adjusted terminal bonus reserve it is € -34,924 thousand (preceding year: -175,506 thousand).

Development of the provision for future policy benefits

	2006 €'000	2005 €'000
Gross provision for future policy benefits Jan. 1	**57,111,355**	**54,305,618**
Payments for traditional life insurance policies	4,607,356	-4,337,540
Other changes	-1,963,073	7,143,277
Gross provision for future policy benefits Dec. 31	**59,755,638**	**57,111,355**
Reinsurers' share	-1,312,523	-1,159,525
Net	**58,443,115**	**55,951,830**

In **life insurance**, the assumptions with regard to mortality, interest and costs are fixed on the inception of the contract for the full contract term.
- In individual business, the mortality tables by the German Actuary Association (DAV) are used to determine mortality. In Group business different tables are used, where appropriate. These tables are determined on the basis of internal statistics and statistical analyses of reinsurers.
- The interest rate applied is the guaranteed interest rate contractually agreed.
- The costs are determined on the basis of past experience by recognized actuarial procedures.

In subsequent years the assumptions made are verified as at each reporting date and adjusted, where appropriate, in order to measure the contracts. The resulting effects are reflected in the true-up figures.

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

	2006 €'000	2005 €'000
up to 1 year	3,792,758	6,463,912
between 1 and 5 years	10,166,355	9,523,921
between 5 and 10 years	11,162,455	10,875,687
between 10 and 15 years	9,867,351	9,207,130
between 15 and 20 years	12,356,219	6,814,696
more than 20 years	12,410,500	14,226,009

29 Provision for outstanding claims*

	Life/health		Property/casualty		Group	
	2006 €'000	2005 €'000	2006 €'000	2005 €'000	2006 €'000	2005 €'000
Gross	**927,907**	**891,932**	**3,633,236**	**3,622,459**	**4,561,143**	**4,514,391**
Reinsurers' share	-12,944	-12,711	-414,153	-455,035	-427,097	-467,746
Net	**914,963**	**879,221**	**3,219,083**	**3,167,424**	**4,134,046**	**4,046,645**

* 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 € 22,885 thousand (preceding year: € 9,783 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 € 146,716 thousand (preceding year: 118,378 thousand).

Development of the provision for outstanding claims (net)

	Gross	Reinsurers' share	Net	Net
			2006	2005
	€'000	€'000	€'000	€'000
Outstanding claims provision Jan. 1	**4,514,391**	**-467,746**	**4,046,645**	**3,854,311**
Foreign-currency translation	-241	-46	-287	576
Total	**4,514,150**	**-467,792**	**4,046,358**	**3,854,887**
Use of provision for payments	-1,163,068	57,911	-1,105,157	-1,031,678
Winding-up of provision for preceding year's claims*	-569,209	9,880	-559,329	-529,951
Allocation to provision for claims of the business year	1,779,270	-27,096	1,752,174	1,753,387
Total	**46,993**	**40,695**	**87,688**	**191,758**
Outstanding claims provision as at Dec. 31	**4,561,143**	**-427,097**	**4,134,046**	**4,046,645**

* 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.

The provision for outstanding claims is determined by means of mathematical and statistical procedures on the basis of FAS 60. For that purpose, it is necessary to calculate future payments on the basis of past figures and to make an assessment of trends (such as inflation) that have an influence on the adequacy of these figures.

Claims expenditure in property and casualty insurance (direct business)

The following **gross and net claims triangles** include 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

	1st year	2nd year	3rd year	4th year	5th year	6th year	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
2001	2,256	2,230	2,165	2,165	2,159	2,157	
2002	2,444	2,334	2,275	2,257	2,251		
2003	2,149	2,052	1,983	1,964	–		
2004	2,017	1,884	1,806	–	–		
2005	1,966	1,828	–	–	–		
2006	1,969	–	–	–	–		
Claims expenditure	1,969	1,828	1,806	1,964	2,251	2,157	**11,975**
Accumulated payments	1,017	1,395	1,525	1,737	2,058	1,984	**9,715**
Provisions for outstanding claims	952	433	281	227	193	174	**2,260**
Before the period under review							**741**
From remaining classes							**244**
Annuity provision and other provisions							**147**
Gross direct business acc. to balance sheet							**3,392**

Net claims triangle

	1st year	2nd year	3rd year	4th year	5th year	6th year	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
2001	2,061	2,036	1,960	1,959	1,952	1,949	
2002	2,242	2,094	2,039	2,020	2,013	–	
2003	1,965	1,880	1,814	1,797	–	–	
2004	1,942	1,817	1,742	–	–	–	
2005	1,944	1,806	–	–	–	–	
2006	1,959	–	–	–	–	–	
Claims expenditure	1,959	1,806	1,742	1,797	2,013	1,949	**11,266**
Accumulated payments	1,012	1,377	1,473	1,591	1,840	1,795	**9,088**
Net provision for outstanding claims	947	429	269	206	173	154	**2,178**
Before the period under review; from remaining classes							**850**
Net direct business acc. to balance sheet							**3,028**

30 Provision for premium refunds*

	Life/health		Property/casualty		Group	
	2006	2005	2006	2005	2006	2005
	€'000	€'000	€'000	€'000	€'000	€'000
Gross	**7,075,285**	**7,181,848**	**18,449**	**18,572**	**7,093,734**	**7,200,420**
Reinsurers' share	—	—	—	—	—	—
Net	**7,075,285**	**7,181,848**	**18,449**	**18,572**	**7,093,734**	**7,200,420**

* fully consolidated figures

Provision for premium refunds (gross)

	2006	2005
	€'000	€'000
Provision for profit-related and not profit-related premium refunds		
profit-related	2,801,828	2,441,378
not profit-related	501,886	427,903
Provision for deferred premium refunds	3,790,020	4,331,139
Total	**7,093,734**	**7,200,420**

Provision for premium refunds (net)

	2006 €'000	2005 €'000
Provision for profit-related and not profit-related premium refunds		
As at Jan. 1	2,869,281	2,509,251
Change of consolidation scope	331	—
Allocation	1,308,353	1,200,835
Wind-up	-439,308	-418,887
Payments	-362,488	-331,636
Other changes	-72,455	-90,282
As at Dec. 31	**3,303,714**	**2,869,281**
Provision for deferred premium refunds		
As at Jan. 1	4,331,139	3,597,497
Foreign-currency translation	-308	3,687
Total	**4,330,831**	**3,601,184**
Change of consolidation scope	2,716	-1,388
Fair-value fluctuations	-738,046	1,106,936
Revaluations recognized in income	194,519	-375,593
As at Dec. 31	**3,790,020**	**4,331,139**

31 Provisions for pensions and similar commitments

	2006 €'000	2005 €'000
Pension commitments	1,637,791	1,570,795
Provisions for commitments similar to pensions	169,782	163,335
Total	**1,807,573**	**1,734,130**

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

	2006 €'000	2005 €'000
Balance-sheet value as at Jan. 1	**1,570,795**	**1,518,030**
Change of consolidation scope	18,097	—
Disposal group	-2,283	—
Paid benefits	-89,370	-70,182
Expenditure of the business year	126,599	90,047
Other	13,953	32,900
Balance-sheet value as at Dec. 31	**1,637,791**	**1,570,795**

Out of the balance-sheet value, € 94.0 m are due as benefits in the business year 2007.

Development of the extent of obligations and of the plan assets of defined-benefit pension commitments

	2006 €'000	2005 €'000
Present value of promised pension benefits Jan. 1	**2,193,773**	**2,012,321**
Change of consolidation scope	18,097	—
Disposal group	-3,605	—
Current service cost	44,941	38,607
Interest cost	87,285	76,702
Employee contributions	753	—
Actuarial gains and losses*	-85,991	136,325
Paid benefits	-89,370	-70,182
Present value of promised pension benefits Dec. 31	**2,165,883**	**2,193,773**
Fair value of plan assets Jan. 1	**-363,974**	**-32,979**
Transferred assets	—	-344,345
Expected income from plan assets	-14,280	—
Actuarial gains and losses	2,806	272
Employer contributions	-2,910	—
Employee contributions	-754	—
Paid benefits	17,617	13,078
Fair value of plan assets Dec. 31	**-361,495**	**-363,974**
Sub-total	**1,804,388**	**1,829,799**
Unrecognized actuarial profits and losses	-166,597	-258,663
Unrecognized past service cost	—	-341
Balance-sheet value as at Dec. 31	**1,637,791**	**1,570,795**

* including past service cost in 2006

The necessity of taking into account actuarial gains or losses is verified by the corridor procedure.

Funding status

	2006 €'000	2005 €'000	2004 €'000	2003 €'000	2002 €'000
Present value of promised pension benefits	2,165,883	2,193,773	1,648,425	1,434,768	1,347,693
Plan assets	-361,495	-363,974	-32,979	-24,395	-13,255
Total	**1,804,388**	**1,829,799**	**1,615,446**	**1,410,373**	**1,334,438**

The present values of promised pension benefits that are covered fully or in part by external carriers amount to € 1,421,412 thousand (preceding year: 1,468,583 thousand). Those not covered by external providers amount to € 744,471 thousand (preceding year: 725,190 thousand).

Development of actuarial gains and losses

	2006 €'000	2005 €'000
Actuarial gains and losses of the business year (pension obligations)*	**-85,991**	**167,259**
of which due to adjustments based on experience	-18,567	13,673
of which due to the impact of changes of the actuarial assumptions	-67,424	153,586
Actuarial gains and losses of the business year (net plan assets)*	**2,806**	**272**
of which due to adjustments based on experience	2,806	17,106
of which due to the impact of changes of the actuarial assumptions	—	-16,834

* including past service cost

Expenditure of the business year

	2006 €'000	2005 €'000
Current service cost	45,694	38,607
Interest cost	87,285	76,702
Expected return on plan assets	-14,280	—
Recognition of actuarial gains or losses	6,343	4,454
Past service cost	1,557	-29,716
Total	**126,599**	**90,047**

The necessity of taking into account actuarial gains or losses is verified by the corridor procedure.

Calculation factors applied

	2006 %	2005 %
Interest rate	4.25	4.00
Expected return on plan assets	4.00	4.00
Rate of salary growth (including career development)	2.50–3.00	2.50
Pension growth rate	1.50–1.75	1.50–1.75
Maximum salary limit for calculation of contributions	1.50	1.50

Classes of plan assets

		Composition of plan assets	**Expected long-term return**
	2006 %	2005 %	2006 %
Shares, fund units and other variable-yield securities	7.10	5.90	1.00
Fixed-income securities/debt titles	81.30	78.60	4.90
Property	5.50	6.20	2.50
Other	6.10	9.30	1.10
Total	**100.00**	**100.00**	**4.00**

The actual return on plan assets amounts to € 11,473.5 thousand.

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 € 11,046 thousand (preceding year: 9,585 thousand).

The **benefits upon termination of the employment relationship** amount to € 158,121 thousand (preceding year: 108,912 thousand).

32 Other provisions

	Restructuring provisions	Other provisions	2006	2005
	€'000	€'000	€'000	€'000
As at Jan. 1	**47,020**	**267,294**	**314,314**	**265,906**
Change of consolidation scope	600	9,318	9,918	-217
Use of provisions	-10,052	-115,901	-125,953	-120,058
Wind-ups	-12,425	-32,408	-44,833	-28,446
Allocation of the business year	90,497	131,115	221,612	197,129
Other changes	-8,906	-31	-8,937	—
As at Dec. 31	**106,734**	**259,387**	**366,121**	**314,314**

Out of the restructuring provisions an amount of € 49,180 thousand and out of the other provisions an amount of € 108,104 thousand is due within one year.

33 Liabilities

	2006	2005
	€'000	€'000
Subordinated liabilities	378,325	70,558
Bonds and loans	301,894	229,565
Liabilities under building-society business	4,395,584	4,404,747
Liabilities under insurance business		
Deposits held under reinsurance business ceded	1,398,380	1,330,847
Liabilities under direct insurance business		
to policyholders	3,339,591	3,676,338
to insurance intermediaries	145,736	136,367
Accounts payable under reinsurance business	25,746	6,167
Other insurance liabilities	33,421	27,248
Investment contracts	59,422	—
Liabilities to credit institutions	1,807	1,613
Liabilities under instruments held for trading	58,747	4,639
Salary-related liabilities	78,893	76,528
Other liabilities	316,970	267,052
of which:		
for social security	247	22,229
under investments	187,531	119,520
Total	**10,534,516**	**10,231,669**

In the wake of an optimization of the shareholding structure within the Group, AMB Generali Holding AG acquired a 45.9 percent stake in Central Krankenversicherung AG from a subsidiary. For that purpose, AMB Generali AG has taken up a subordinated loan in British pound sterling amounting to a total of £ 207 m (equalling approx. € 301 m). Ahead of taking up the loan an interest hedging transaction was concluded while at the moment of taking up the loan a foreign-currency hedging contract was taken out.
The effective interest rates of the subordinated debt are between 5.35 and 6.71 percent.

The investment contracts without discretionary participation features are hybrid instruments. The fair value of these investment contracts equals amortized cost.

Remaining terms to maturity

	Amortized cost	
	2006	2005
	€'000	€'000
up to 1 year	4,464,951	4,178,227
between 1 and 5 years	2,605,977	3,332,090
between 5 and 10 years	1,806,912	906,418
more than 10 years	1,656,676	1,814,934
Total	**10,534,516**	**10,231,669**

As collateral for obligations under reinsurance business there are security deposits in favour of other insurance companies of an amount of € 33,497 thousand (preceding year: 33,622 thousand).

34 Deferred taxes

	Deferred tax assets		Deferred tax liabilities	
	2006	2005	2006	2005
	€'000	€'000	€'000	€'000
Investments	-50,011	-81,822	697,407	717,566
Underwriting items	165,328	171,010	127,461	142,920
Tax losses carried forward	2,871	4,247	-5,879	–
Other	-13,683	-21,817	9,887	70,702
Total	**104,505**	**71,618**	**828,876**	**931,188**

Out of these amounts a total of € -22,226 thousand (preceding year: -63,335 thousand) of deferred tax assets and an amount of € 166,325 thousand (preceding year: 231,929 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.

35 Disposal groups

In the first quarter 2007, under a Group-wide transnational reorganization of the asset-management activities of the international Generali Group, the asset management companies of Assicurazioni Generali S.p.A., AMB Generali Holding AG and Generali France will be contributed into the joint asset-management holding company Generali Investments S.p.A. having its head office in Trieste/Italy. The purpose of these contributions is to further enhance customer service by establishing international competence centres at the locations of Trieste, Cologne and Paris. In this context it is planned, among others, to harmonize the management of positions of the asset-management companies and to concentrate the Group-wide fund products in order to realize synergies and to generate economies of scale. In compliance with regulatory rules the transaction planned for 2007 was filed with the German financial-services regulator BaFin which raised no objections.

Under this transaction the assets and liabilities of AMB Generali Asset Managers will be reallocated to the separate balance-sheet line items of **assets of disposal groups** and **liabilities of disposal groups**, taking into account the measurement rules of IFRS 5. The impact described below will exclusively be reflected in the financial services segment.

After the completion of the disposal, no further revenues or expenditure with regard to non-Group parties are to be expected.

Assets and liabilities of the disposal group

	2006 €'000
Assets	
Tangible assets	523
Intangible assets	14
Investments	
Loans and receivables	12,700
Financial assets available for sale	13,611
Receivables	4,935
Tax assets	594
Other assets	113
Current-account balances with credit institutions	328
Total	**32,818**
Liabilities	
Other provisions	5,820
Payables	2,510
Tax liabilities	404
Total	**8,734**

The revaluation reserve of the disposal group amounts to € 171 thousand.

Financial assets of the disposal group

Loans and receivables

The loans and receivables exclusively include deposits with credit institutions of an amount of € 12,700 thousand. The amount of amortized cost equals the fair value. The deposits with credit institutions have a remaining term to maturity of less than one year.

Available for sale

	Amortized cost 2006 €'000	Unrealized gains/losses 2006 €'000	Market values 2006 €'000
Variable-yield securities			
Fund units			
Equity funds	31	-7	24
Bond funds	4	17	21
Fixed-income securities			
Government bonds	13,861	-295	13,566
Total	**13,896**	**-285**	**13,611**

Available for sale

	Balance-sheet values 31.12.2005 €'000	Additions €'000	Redemption €'000	Retirements €'000	Unrealized gains and losses €'000	Balance-sheet values 31.12.2006 €'000
Variable-yield securities						
Fund units						
Equity funds	525	30	—	-537	6	24
Bond funds	2	22	—	-3	—	21
Fixed-income securities	9,946	5,896	28	-2,024	-280	13,566
Total	**10,473**	**5,948**	**28**	**-2,564**	**-274**	**13,611**

Remaining terms to maturity

	Amortized cost 2006 €'000	Market values 2006 €'000
up to 1 year	2,004	1,993
between 1 and 2 years	1,989	1,974
between 2 and 3 years	1,971	1,901
between 3 and 4 years	1,992	1,925
between 4 and 5 years	1,998	1,983
between 5 and 10 years	3,907	3,790
Total	**13,861**	**13,566**

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

Provision for defined-benefit pension commitments of the disposal group
The provisions for pensions and similar provisions of the disposal group amount to € 2,950 thousand. In the business year 2007 no benefits are due from this provision.

Investment income (net) for the disposal group

	Ordinary income		Realized capital gains	
	2006 €'000	2005 €'000	2006 €'000	2005 €'000
III. Financial assets				
1. loans and receivables	273	220	–	–
2. available for sale				
a) variable yield	4	4	132	54
b) fixed income	426	265	–	6
Expenditure for the management of investments, interest expenditure and other investment expenditure	–	-20	–	–
Total	**703**	**469**	**132**	**60**

Payables of the disposal group

The payables of the disposal group amount to € 2,510 thousand. This amount becomes payable as benefits in the business year 2007.

Income statement of the disposal group

	2006 €'000	2005 €'000
Investment income	835	525
Other income	25,929	19,893
Other expenditure	-16,435	-14,643
Tax expenditure	-6,833	-4,474
Net income for the year	**3,496**	**1,301**

Following the sale of the disposal group the undiluted earnings per share of the AMB Generali Group will change from € 8.36 to 8.29.

Realized capital losses		Total	
2006 €'000	2005 €'000	2006 €'000	2005 €'000
—	—	273	220
—	-4	136	54
—	—	426	271
—	—	—	-20
—	**-4**	**835**	**525**

Cash-flow statement of the disposal group

	2006 €'000
Cash position at the beginning of the business year	332
Cash flow due to operating activities	23,043
Cash flow due to investing activities	-6,047
Cash flow due to financing activities	-17,000
Cash position at the end of the business year	328

36 Additional information

Staff

In the business year 2006, the companies included in the Consolidated Financial Statements have 17,606 (preceding year: 18,617) employees on an annual average. Equally on an annual average basis, 14,534 of these persons (preceding year: 15,510) are employed with insurance companies, 728 (preceding year: 695) with the building society and 2,344 (preceding year: 2,412) with other service providers. The number of those employed in administrative services of the Group companies is 12,430 (preceding year: 12,869), while the fieldstaff comprises 5,176 (preceding year: 5,748) 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 2006 there are 7,202 women (preceding year: 7,554) and 10,404 men (preceding year: 11,063) employed with the AMB Generali Group.

The Consolidated Income Statement includes a personnel expenditure of € 1,099,652 thousand (preceding year: 1,185,265 thousand).

Share-based payment

Selected executives of our group are involved in a stock option plan of our parent. Top managers of the AMB Generali Group in Germany are beneficiaries of this plan. The purpose of the plan is to grant options for the acquisition of ordinary shares of Assicurazioni Generali.

The options cannot be exercised until expiry of a vesting period of three years after the granting of the options by the Board of Assicurazioni Generali S.p.A. The period during which the options may be exercised is three years.

In the year 2006, 290,000 stock options were granted for the acquisition of shares of Assicurazioni Generali S.p.A. at a price of € 31.37. The options may be exercised between 2009 and 2012. As at the balance-sheet date, there were still options outstanding from the stock-option plans of previous years.

The personnel expenditure of € 3,287 thousand resulting from the stock options granted is spread across the vesting period of three years each and recognized in income. This also includes the expenditure resulting from previous years' plans.

The average fair value of € 8.27 per option for the stock options granted in 2006 was determined by Assicurazioni Generali S.p.A. by means of a recognized financial and mathematical option-price model.

The table below shows the number and the weighted average exercise prises of the stock options:

Stock options

	Number of options	Weighted average exercise price €
Outstanding as at Jan. 1, 2006	1,677,050	24.91
Allocated options	290,000	31.37
Forfeited options	12,250	22.33
Exercised options	307,700	24.55
Outstanding as at Dec. 31, 2006	1,647,100	26.13
Exercisable as at Dec. 31, 2006	787,975	27.22

The range of the exercise prices of all options still outstanding at the end of the reporting period is between € 20.24 and 36.66. The average weighted expiry date of the options outstanding at year-end is December 1, 2009.

Other financial commitments and contingent liabilities

Within the scope of domination and profit-transfer agreements concluded with subsidiaries as well as the squeeze-out procedures, indemnities were offered to outside shareholders. On the basis of the domination and profit-transfer agreements, 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 € 4,212 m (December 31, 2005: 3,353 m). These include payment commitments of a maximum amount of € 695 m (December 31, 2005: 473 m) that might arise from the interest in Protektor Lebensversicherungs-AG. In compliance with section 124 ff. of the Insurance Regulatory Act (VAG), the safety-net fund established for life and health insurers charges annual contributions to life insurers of a maximum of 0.2 per mil of the total net underwriting pro-

visions until a volume of guarantee assets representing 1 per mil of the total net underwriting provisions has been built up. The future commitments for this purpose amount to € 29 m for all life insurers of the AMB Generali Group. In addition, the safety-net fund may charge extraordinary contributions amounting to another 1 per mil of the total of net underwriting provisions, which equals a commitment of € 48 m. Furthermore the life insurers have undertaken to make financial means available to the safety-net fund or, alternatively, to Protektor Lebensversicherungs-AG if the means of the safety-net fund turn out not to be sufficient in the case of a company default. This commitment amounts to 1 percent of the total net underwriting provisions, taking into account the amount of contributions already paid to the safety-net fund. Including the payment commitments indicated above under the contribution payments to the safety-net fund, the total commitment as at the balance-sheet date is € 463 m.
For the health insurers, payment obligations may arise up to a maximum of 2 per mil of the total net underwriting provisions. Furthermore there are commitments under guarantees and warranties of € 347 m (preceding year: 432 m) and other financial commitments of € 154 m (preceding year: 256 m).

Auditor's fees

In the business year an expenditure of € 4,012 thousand (preceding year: 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 € 1,739 thousand (preceding year: 3,655 thousand). Furthermore an expenditure of € 124 thousand (preceding year: 41 thousand) was recognized for consultancy services rendered by the auditor the same as an amount of € 353 thousand (preceding year: 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 S.p.A. holds 85.05 percent of the shares of AMB Generali. The remaining 14.95 percent are in the market as free float.

Remuneration of the Board of Management and the Supervisory Board

In the year 2006 the members of the Board of Management of AMB Generali received a total remuneration of € 3,130 thousand (preceding year: 2,566 thousand) for their activities in the parent company and in the subsidiary companies. As resolved by the General Meeting of May 18, 2006, the remuneration of the Board of Management is not disclosed on an individualized basis.
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 perform-

ance-related remuneration includes a guaranteed bonus and a performance bonus. 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 € 424 thousand (preceding year: 657 thousand) was paid.

Remuneration of the Board of Management

	2006 €'000	2005 €'000
Salaries and other payments due at short term	1,119	992
Not performance-related remuneration elements	13	11
Performance-related remuneration elements	1,998	1,563
Total	**3,130**	**2,566**

The remuneration paid to the members of the Supervisory Board in 2006 is € 1,785 thousand (preceding year: 1,786 thousand).
An amount of € 2,887 thousand (preceding year: 3,703 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 € 28,493 thousand (preceding year: 27,590 thousand).
Neither as at December 31, 2006 nor in the preceding year loans were granted to members of the Board of Management. For an amount of € 1,111 thousand (preceding year: 1,199 thousand) loans were granted to members of the Supervisory Board of AMB Generali (redemption in 2006: 40 thousand (preceding year: 44 thousand)). The interest rates on these loans are between 4.24 and 6.20 percent.

Development of the loans granted to the Supervisory Board

	2006 €'000	2005 €'000
As at Jan. 1	**1,199**	**860**
Loans granted	–	–
Redemption	-40	-44
Other	-48	383
As at Dec. 31	**1,111**	**1,199**

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-generali.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. 191 ff. shows the mandates held by these persons.

37 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 enterprises measured at equity only Deutsche Vermögensberatung AG (DVAG) makes a material contribution to the new business production and to the premium income under the existing insurance portfolio. Within the scope of the reorientation of the distribution activities of AachenMünchener Versicherungen resolved in November 2006, the products of AachenMünchener Versicherungen will in the future be exclusively sold by the DVAG Group. The distribution competency of AachenMünchener Versicherungen will thus be with the DVAG Group in the future, while AachenMünchener Versicherungen will exclusively concentrate on the development of products of private provision in the fields of life and property/casualty insurance, commercial business and customer service.

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 € 98,123 thousand (preceding year: 82,181 thousand) was paid as reinsurance premiums. The transactions were done at arm’s length conditions.

Remuneration for managers in key positions

	2006 €'000	2005 €'000
Salaries and other payments due in the short term	27,505	20,219
Expenditure for pension benefits	4,791	6,812
Other payments due in the long term	771	941
Payments due to termination of the employment contract	127	160
Total	**33,194**	**28,132**

The expenditure for executives in key positions resulting from share-based payment transactions amounts to € 3,287 thousand.

Turnover from material service and cooperation agreements as well as other agreements with closely related enterprises

	2006 €'000	2005 €'000
Service and cooperation agreements with		
Assicurazioni Generali	8,050	8,524
enterprises measured at equity	588,945	681,579
related persons	—	3,194
Other agreements and transactions with		
Assicurazioni Generali	—	—
enterprises measured at equity	8,906	5,746
related persons	5	10
Total	**605,906**	**699,053**

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

Insurance contracts with related enterprises and persons

	2006 €'000	2005 €'000
Sums insured under life insurance contracts	86,450	81,878
12 times the annual pension under pension contracts	6,293	2,078
Target contract sums under building-society contracts	643	682

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

Receivables and liabilities with related enterprises

		2006 €'000	2005 €'000
D. III. 1.	**Investments, loans and receivables**	**436**	**57,268**
	of which with Assicurazioni Generali	436	—
	of which with enterprises measured at equity	—	57,268
D. III. 2.	**Investments, available for sale**	**—**	**10,647**
	of which with Assicurazioni Generali	—	—
	of which with enterprises measured at equity	—	10,647
F.	**Receivables:**		
	Receivables under insurance business	**9,168**	**9,266**
	of which with Assicurazioni Generali	1,498	1,099
	of which with enterprises measured at equity	7,670	8,167
	Other receivables	**665**	**1,200**
	of which with Assicurazioni Generali	665	796
	of which with enterprises measured at equity	—	404
E. III.	**Other liabilities:**		
	Liabilities under insurance business	**606,996**	**597,983**
	of which with Assicurazioni Generali	578,265	571,764
	of which with enterprises measured at equity	28,731	26,219
	Other	**2,814**	**2,382**
	of which with Assicurazioni Generali	2,806	2,160
	of which with enterprises measured at equity	8	222

Loans granted to related enterprises and persons
Development of loans to managers in key positions
(and their close relatives)

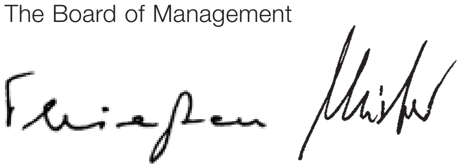
	2006 €'000	2005 €'000
As at Jan. 1	**2,599**	**2,657**
Loans granted	3	25
Redemption	-219	-83
As at Dec. 31	**2,383**	**2,599**

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 16, 2007

AMB Generali Holding AG

The Board of Management



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, 2006, to December 31, 2006. 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 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, 2007

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Hölzl	Hofmann
Wirtschaftsprüfer	Wirtschaftsprüfer
German Public Auditor	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
- Deutsche Vermögensberatung AG DVAG, Frankfurt-on-Main (since February 16, 2006)
- 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
- Generali Investments S.p.A., Trieste/Italy (since March 22, 2006)
- 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
- Banca Intesa S.p.A., Milano/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
- Graafschap Holland Participatie Maatschappij N.V., Diemen/Netherlands
- 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
- Heidelberger Druckmaschinen AG, Heidelberg
- ThyssenKrupp Services AG, Düsseldorf
- BRE Bank SA, Warsaw/Poland

Prof. Gerardo Broggini

- Assicurazioni Generali S.p.A., Trieste/Italy
- Buechi Italia S.r.l., Milano/Italy
- Danieli e C. Officine Meccaniche S.p.A., Buttrio/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

- 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 until May 31, 2006)
- AachenMünchener Versicherung AG, Aachen (Chairman until May 31, 2006)
- 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

Michael Kuß

- Generali Versicherung AG, Munich

Martin Lemcke

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

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

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

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 (since June 1, 2006 Chairman)
- AachenMünchener Versicherung AG, Aachen (since June 1, 2006 Chairman)
- 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 until March 31, 2006)
- Generali Versicherung AG, Munich (Chairman)
- Volksfürsorge Deutsche Lebensversicherung AG, Hamburg (Chairman)
- Volksfürsorge Deutsche Sachversicherung AG, Hamburg (Chairman)
- Volksfürsorge Holding AG, Hamburg (Chairman)
- Generali Investments S.p.A., Trieste/Italy (since May 25, 2006)
- Thales Information Systems GmbH, Siegburg

Dietmar Meister
Chief Financial Officer

- AachenMünchener Lebensversicherung AG, Aachen
- Advocard Rechtsschutz-versicherung AG, Hamburg (Chairman until February 12, 2007)
- AMB Generali Asset Managers Kapitalanlagegesellschaft mbH, Cologne (Chairman)
- AMB Generali Pensionskasse AG, Aachen (until March 31, 2006)
- 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 (until December 19, 2006)
- 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)
- AMB Generali Services GmbH, Aachen (since December 22, 2006)
- AM Prudence S.A., Neuilly-sur-Seine/France (until June 6, 2006)
- GLL Real Estate Partners GmbH, Munich

Glossary

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 withdraw members of the managing board, of the supervisory board or of other controlling bodies of the subsidiary or if domination 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.

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. they are measured in the consolidated financial statements with the corresponding share in the equity. The major criterion for doing so is the Group's ability to exercise a decisive influence on the operation and financial policy of the associated enterprise, regardless of whether the Group actually makes use of that influence.

Binomial model

Model for modelling the price development of securities and shares in order to determine a fair option price.

Capital adequacy model

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

Capital asset pricing model (CAPM)

Under the portfolio theory, in an efficiently working market a higher return can only be achieved at a higher risk. CAPM shows what part of the total risk involved in an investment cannot be eliminated by diversification and how investment opportunities in the capital market involving a risk exposure can be measured.

Cash flow

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

Cash-flow hedge

This is a type of hedge accounting. A cash-flow hedge reduces the risk of the fluctuation of future cash flows. Other types of hedge accounting are fair-value hedges and hedges of a net investment in a business operation abroad. Under a fair-value hedge, assets or liabilities are hedged against the risk of value changes.

Cash-flow hedge reserve

The cash-flow hedge reserve is part of the revaluation reserve. It comprises the effective part of the hedging transaction.

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).

Corridor method
Actuarial gains and losses of pension provisions can be identified by the so-called corridor method. A corridor of values is determined and actuarial gains and losses are not recognized in the balance sheet and, in particular, in income if they remain within that corridor.

Credit-linked notes
Bonds whose redemption amount depends on specific, contractually agreed credit events. They are part of credit derivatives and allow the transfer of credit risks from the seller to the purchaser. The credit risks may be combined at discretion.

Cross-currency swap
A cross-currency swap is an agreement between two parties about the exchange of different specific interest payments in different currencies within a period defined in the agreement. Cross-currency swaps are applied, among others, for the hedging of interest and currency risks.

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 pension commitments
Pension commitments made by the employer to its employees whereby the employees have a direct claim against the employer for this commitment.

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).

Disagio
Reduction of the nominal amount which may be agreed when a credit is granted or a security or currency is issued.

Duration
The duration is the average term of an interest-sensitive investment. It is a risk yardstick to measure 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 method
Method used for recognizing the interests in associated enterprises. As a matter of principle, they are measured at the Group's share in the equity of these companies. In the case of interests in enterprises which also establish consolidated financial statements, measurement is based on the share in the Group equity. The measurement of interests is regularly adjusted for changes in the equity, with the interest in the net profit for the year being allocated to the Group net profit.

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 transactions under which delivery and acceptance take place at a previously agreed date and price.

Forward purchase
A forward purchase is a binding transaction under which the interest rate is definitely agreed when the contract is concluded and only the value date is postponed.

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.

Hedge accounting
Presentation of the offsetting value developments of a hedging transaction (e.g. an interest swap) and its underlying (e.g. a loan). The target of hedge accounting is to minimize the impact of the recognition and measurement of derivative transactions on the income statement.

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

Hybrid instruments with an equity exposure
Hybrid instruments where the result depends on the development of a share index.

IAS
International Accounting Standards

IDW RS HFA 10
Statement by the Institute of Auditors: Statement on Accounting by the Main Expert Committee.

IFRIC
International Financial Reporting Interpretation Committee – Interpretations on existing International Financial Reporting Standards (IFRS)

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 test
Test for determining the lower of cost or market – procedure for identifying an impairment loss.

Interest-hedging transaction
→ cross-currency swap

Interest swap
Exchange of fixed and variable interest liabilities, as a general rule of identical capital amounts and of congruent currencies, during a determined period. An interest swap allows an active management of the risks of changing interest rates.

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.

Present value of promised pension benefits
This is the present value of all defined-benefit obligations, taking into account assumed growth of salaries and pensions. Only the portion promised as at the reporting date is taken into consideration.

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.

Purchase method
Method of international common practice for capital consolidation.

PVFP (present value of future profits) of acquired insurance contracts
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
Ceding/assuming a risk/portfolio accepted by an insurer to/by another insurer/reinsurer.

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.

Share-based payment
Arrangements on share-based payment are an instrument of employee remuneration. The fair value of share-based payment plans is determined at the grant date and recognition in income is spread across the vesting period.

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.

Spread
Difference at the reporting date between the market values of different, as a general rule two, asset items.

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.

Swaption
Option contracts which allow the purchaser, against payment of a one-off premium, to enter an interest swap. The duration and the interest level of the swap are fixed and the swap can be acquired against payment of a premium.

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

AMB GENERALI

Multi-line insurers and strong sales partners for our single-line providers

- Aachen Münchener
- Volksfürsorge
- GENERALI Versicherungen
- CosmosDirekt.

Single-line providers

Life and health

- central
- ENVIVAS Krankenversicherung AG
- AMB GENERALI Pensionsfonds
- AMB GENERALI Pensionskasse
- Dialog: Lebensversicherungs-AG

Legal expenses

- AdvoCARD ANWALTS LIEBLING

Financial services

- Deutsche Bausparkasse BADENIA
- AMB GENERALI Asset Managers
- AMB GENERALI SicherungsManagement

Service companies

- AMB GENERALI Informatik Services
- AMB GENERALI Immobilien
- AMB GENERALI Services *
- AMB GENERALI Schadenmanagement **

* start of operations on March 1, 2007

** start of operations on July 1, 2007

Financial calendar

March	
March 14, 2007	Accounts Press Conference in Bensberg
May	
May 3, 2007	General Meeting in Aachen
May 4, 2007	Dividend payment*
May 10, 2007	Group Report 1st Quarter 2007
August	
August 8, 2007	Group Report 1st – 2nd Quarters 2007
November	
November 8, 2007	Group Report 1st – 3rd Quarters 2007

The updated financial calendar of AMB Generali is published on the Internet at: www.amb-generali.de

* subject to resolution by the General Meeting

Imprint

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Forward-looking statements

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