

AETHLON MEDICAL INC  
Form S-1  
July 24, 2015

**As filed with the Securities and Exchange Commission on July 24, 2015**

**Registration No. 333-\_\_\_\_\_**

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM S-1**

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

AETHLON MEDICAL, INC.  
(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of incorporation or organization)

3826  
(Primary Standard Industrial Classification Code Number)

13-3632859  
(I.R.S. Employer Identification Number)

9635 Granite Ridge Drive, Suite 100

San Diego, California 92123

(858) 459-7800  
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

James A. Joyce

9635 Granite Ridge Drive, Suite 100

San Diego, California 92123

(858) 459-7800  
(Name, address, including zip code, and telephone number, including area code, of agent for service)

With copies of all correspondence to:

Jennifer A. Post, Esq.

Raines Feldman LLP

9720 Wilshire Boulevard, Fifth Floor

Beverly Hills, California 90212

(310) 440-4100

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)



**CALCULATION OF REGISTRATION FEE**

Title of each class of securities to be registered	Amount to be registered (1)	Proposed maximum offering price per unit	Proposed maximum aggregate offering price	Amount of registration fee
Common Stock, par value \$0.001	952,383 shares	\$9.53 (2)	\$9,076,209.99	\$1,054.66
Common Stock, par value \$0.001, underlying warrants held by current stockholders subject to this offering	746,657 shares	\$6.30 (3)	\$4,703,939.10	\$546.60
Total	1,699,040 shares		\$13,780,149.09	\$1,601.26

(1) Pursuant to Rule 416 of the Securities Act of 1933, as amended, this registration statement also shall cover any additional shares of common stock that shall become issuable by reason of any stock dividend, stock split, recapitalization, or other similar transaction by the registrant.

(2) Estimated pursuant to Rule 457(c) of the Securities Act of 1933, as amended, solely for purposes of calculating amount of the registration fee, based upon the average of the high and low prices reported on July 20, 2015, as reported on the Nasdaq Capital Market.

(3) Estimated pursuant to Rule 457(g) of the Securities Act of 1933, as amended, solely for purposes of calculating amount of the registration fee, based upon an exercise price of \$6.30 per share.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission acting pursuant to said section 8(a), may determine.**

**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**Subject to completion, dated July 24, 2015**

## **PROSPECTUS**

### **Aethlon Medical, Inc.**

1,699,040 Shares of Common Stock

This prospectus relates to the following common stock that may be sold from time to time by the selling stockholders identified in this prospectus:

- 952,383 shares of common stock; and
- 746,657 shares of common stock underlying common stock purchase warrants at an exercise price of \$6.30 per share.

All of the common stock covered by this prospectus is being sold by the selling stockholders for their own account. We will not receive any proceeds from the sale of these shares other than proceeds, if any, from the exercise of warrants to purchase shares of our common stock. If all of the warrants are exercised for cash, we will receive a total of \$4,703,939 in gross proceeds, which we expect to use for general corporate purposes. We cannot assure you that any warrants will be exercised for cash. The selling stockholders may offer and sell the shares covered by this prospectus at prevailing prices quoted on the Nasdaq Capital Market or at privately negotiated prices. The selling stockholders may sell the shares directly or through underwriters, brokers or dealers. The selling stockholders will bear any applicable sales commissions, transfer taxes and similar expenses. We will pay all other expenses incident to the registration of the shares. See “Plan of Distribution” on page 26 for more information on this topic.

Our common stock is traded on the Nasdaq Capital Market under the symbol “AEMD.” On July 23, 2015, the last reported sale price of our common stock on the Nasdaq Capital Market was \$11.10.

**Investing in our securities involves significant risks, including those set forth in the “Risk Factors” section of this prospectus beginning at page 4.**

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is \_\_\_\_\_, 2015.

**AETHLON MEDICAL, INC.**

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## **ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission for the selling stockholders referred to in this prospectus. Under the registration statement, once effective, the selling stockholders may offer and sell from time to time up to 1,699,040 shares of our common stock. This prospectus does not contain all of the information included in the registration statement. The registration statement filed with the Securities and Exchange Commission includes exhibits that provide more details about the matters discussed in this prospectus.

**You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus is accurate only as of the date of this document, regardless of the time of delivery of this prospectus or the time of issuance or sale of any securities. Our business, financial condition, results of operations and prospects may have changed since that date. You should read this prospectus in its entirety before making an investment decision. You should also read and consider the information in the documents to which we have referred you in the section of this prospectus entitled “Where You Can Find More Information.”**

**For investors outside the United States, we have not done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus outside of the United States.**

### **Cautionary Note Regarding Forward-Looking Information**

This prospectus, in particular the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing herein, contains certain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements represent our expectations, beliefs, intentions or strategies concerning future events, including, but not limited to, any statements regarding our assumptions about financial performance; the continuation of historical trends; the sufficiency of our cash balances for future liquidity and capital resource needs; the expected impact of changes in accounting policies on our results of operations, financial condition or cash flows; anticipated problems and our plans for future operations; and the economy in general or the future of the medical device industry, all of which are subject to various risks and uncertainties.

When used in this prospectus as well as in reports, statements, and information we have filed with the Securities and Exchange Commission, in our press releases, in presentations to securities analysts or investors, or in oral statements



made by or with the approval of an executive officer, the words or phrases “believes,” “may,” “will,” “expects,” “should,” “continue,” “anticipates,” “intends,” “will likely result,” “estimates,” “projects” or similar expressions and variations thereof are intended to identify such forward-looking statements. However, any statements contained in this prospectus that are not statements of historical fact may be deemed to be forward-looking statements. We caution that these statements by their nature involve risks and uncertainties, certain of which are beyond our control, and actual results may differ materially depending on a variety of important factors.

## **PROSPECTUS SUMMARY**

*This summary highlights important information about us and our business, this offering and selected other information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before deciding whether to invest in our securities. You should carefully read the entire prospectus, including the information set forth in the section entitled “Risk Factors.”*

### **Company Overview**

Our mission is to create innovative medical devices that address unmet medical needs in cancer, infectious disease, and other life-threatening conditions. Our Aethlon ADAPT™ system provides a platform to develop medical devices that target the selective removal of disease-promoting particles from the circulatory system. At present, the Aethlon ADAPT product pipeline includes the Aethlon Hemopurifier® to address infectious disease and cancer, and a medical device being developed under a five-year contract with the Defense Advanced Research Projects Agency, or DARPA, to reduce the incidence of sepsis in combat-injured soldiers.

In the treatment of infectious diseases, the Hemopurifier is designed for the single-use removal of viruses and shed glycoproteins from circulation. In cancer-related therapy situations, we are exploring the potential use of the Hemopurifier to remove tumor-secreted exosomes, which promote cancer progression. *In vitro* studies have demonstrated that our Hemopurifier can capture exosomes underlying a broad-spectrum of cancer indications. To support our endeavors, we applied for and have received patent protection for the capture of tumor-secreted exosomes.

In June 2013, the U.S. Food and Drug Administration, or FDA, approved an investigational device exemption that allows us to initiate human feasibility studies of the Aethlon Hemopurifier in the U.S. Under our approved feasibility study protocol, we will study ten end-stage renal disease patients who are infected with the Hepatitis C virus to demonstrate the safety of Hemopurifier therapy. Assuming successful completion of this study, we will be able to initiate further stage studies required for market clearance to treat Hepatitis C and other viral pathogens.

We began enrolling patients for the study at the DaVita Dialysis Medical Center in Houston, Texas in February 2015 and have completed the treatment protocol on one patient. The expected duration of the study is one year.

On September 30, 2011, we entered into a \$6.8 million multi-year contract with DARPA, which will terminate on September 30, 2016 unless further extended by DARPA. Under this contract, our tasks include the development of a dialysis-like device to prevent sepsis, a fatal bloodstream infection that is often the cause of death in combat-injured soldiers. To date, we have billed and collected \$4,871,726 for achieving 25 milestones under this contract.

Through our majority-owned subsidiary, Exosome Sciences, Inc., we are also developing exosome-based products to diagnose and monitor neurological disorders and cancer. To date, we are still in the product development stage.

Since inception, we have primarily financed our operations through net proceeds obtained from the private placement of our debt and equity securities. At March 31, 2015, we had a cash balance of \$855,596 and working capital of \$630,420. In June 2015, we raised \$5,591,988 in net proceeds from a financing, which, coupled with previously existing funds on hand and expected revenues from our government contracts, should finance our operations for the fiscal year ending March 31, 2016, including the cost of our current clinical trials. However, we will require significant additional financing to complete additional future clinical trials in the U.S., as well as fund all of our continued research and development activities for the Hemopurifier and products on the Aethlon ADAPT platform beyond the fiscal year ending March 31, 2016.

### **Risks Associated with our Business**

We have experienced substantial operating losses since inception. As of March 31, 2015, we had an accumulated deficit of \$81,629,714, which included losses of approximately \$6,797,157 and \$13,357,232 for the fiscal years ended March 31, 2015 and 2014, respectively. Historically, our losses have resulted principally from costs incurred in the research and development of our medical devices, and general and administrative expenses, which together were approximately \$3,992,853 and \$3,055,928 for the fiscal years ended March 31, 2015 and 2014, respectively. We may continue to incur losses in the future.

Although we have made substantial progress in the development and testing of our devices, and have begun to generate revenue under our contract with DARPA as we meet billable milestones under such contract, we are not yet able to commercialize our devices and may never obtain the approvals necessary to commercialize our products or technologies in the U.S. or elsewhere. Our contract with DARPA is time limited. DARPA may determine to terminate our contract, and we cannot assure you that we will enter into any new government contracts with the Department of Defense or otherwise. We compete with U.S. and foreign companies that have greater scientific and organizational resources, market presence and financial backing than we have. We may be unable to obtain FDA or international clearance of the Hemopurifier. Even if we do achieve such regulatory clearances, we may be unable to successfully manufacture, market and sell our devices in the U.S. or elsewhere. These risks and others are discussed more fully in the section of this prospectus entitled “Risk Factors” immediately following this prospectus summary. You should read these risks before you invest in our common stock.

## **Corporate History**

On March 10, 1999, Aethlon, Inc., a California corporation, Hemex, Inc., a Delaware corporation and the accounting predecessor to Aethlon, Inc., and Bishop Equities, Inc., a publicly traded Nevada corporation, completed an Agreement and Plan of Reorganization structured to result in Bishop Equities, Inc.'s acquisition of all of the outstanding common shares of Aethlon, Inc. and Hemex, Inc. Under the plan's terms, Bishop Equities, Inc. issued shares of its common stock to the stockholders of Aethlon, Inc. and Hemex, Inc. such that Bishop Equities, Inc. then owned 100% of each company. Upon completion of the transaction, Bishop Equities, Inc. was renamed Aethlon Medical, Inc. In 2009, we formed Exosome, which today is a majority-owned subsidiary focused on identifying and monitoring neurological conditions and cancer. We commenced formal operations of Exosome in 2013.

Our executive offices are located at 9635 Granite Ridge Drive, Suite 100, San Diego, California 92123. Our telephone number is (858) 459-7800. Exosome maintains offices and laboratories at 11 Deer Park Drive, South Brunswick, New Jersey 08810. Our website address is [www.aethlonmedical.com](http://www.aethlonmedical.com). Our website and the information contained on our website are not incorporated by reference into this prospectus or the registration statement of which it forms a part.

### **Private Placement of Common Stock and Warrants**

On June 25, 2015, we completed a private placement of units, each unit being comprised of one share of common stock, \$0.001 par value per share, and a warrant to purchase 0.75 shares of our common stock at an exercise price per share of \$6.30, with a term of five years from the date of issuance. We sold a total of 952,383 units, consisting of 952,383 shares of common stock and warrants to purchase 714,286 shares of common stock for gross proceeds of \$6,000,000 and net proceeds of \$5,591,988. We are using the proceeds from the private placement for general corporate purposes. At the closing of the private placement, we issued to Roth Capital Partners, LLC, the placement agent for the transaction, a five-year warrant to purchase up to 32,371 shares of our common stock at an exercise price of \$6.30 per share. The common stock sold in the private placement, the shares underlying the warrants sold in the private placement and the shares underlying the warrants issued to Roth Capital Partners are the shares covered by this registration statement.

As part of the private placement, we entered into a registration rights agreement with the purchasers pursuant to which we agreed to file a registration statement to register for resale the shares of common stock sold in the private placement, including the shares underlying the warrants sold in the private placement, within 30 calendar days following the closing of the private placement. We agreed to use our best efforts to keep the registration statement effective under the Securities Act of 1933, as amended, until the earlier of (i) the date that is two and one-half years after the closing of the private placement or (ii) the date on which the purchasers have sold all of the shares covered by the registration statement. We are filing this registration statement in order to fulfill our obligation under this registration rights agreement.

On December 2, 2014, we consummated a prior private placement of units, each comprised of one share of common stock and 1.2 of a five-year warrant to purchase one share of common stock at an exercise price of \$15.00 per share, for gross proceeds of \$3,300,000 and net proceeds of \$3,001,000. In that private placement, we issued 220,000 shares of common stock and warrants to purchase 264,000 shares of common stock to purchasers and warrants to purchase 11,000 shares of common stock to Roth Capital Partners as placement agent in the transaction. The securities sold in the December 2014 financing have been registered for resale on a Registration Statement on Form S-1 (File No. 333-201334) originally filed on December 31, 2014, as amended by prospectus supplements filed on February 10, 2015, March 16, 2015, April 7, 2015, April 10, 2015, April 14, 2015 and April 15, 2015, and a post-effective amendment thereto filed on July 14, 2015, pursuant to which we are seeking to register the remaining 275,000 shares underlying the warrants, which has not yet been declared effective by the Securities and Exchange Commission. The securities sold in the December 2014 financing are not being offered in this prospectus.

In both private placement transactions, the issuance of the shares of common stock and the warrants was exempt from registration under the Securities Act of 1933, as amended, pursuant to the exemption for transactions by an issuer not involving a public offering under Section 4(a)(2) of the Securities Act of 1933, as amended, and Regulation D promulgated thereunder.

## The Offering

Common stock offered by the selling stockholders Up to 1,699,040 shares

Common stock outstanding 7,610,344 shares as of July 23, 2015

Terms of the offering The selling stockholders will determine when and how they sell the common stock offered in this prospectus, as described in “Plan of Distribution.”

Use of proceeds We will not receive any of the proceeds from the sale of the shares of common stock being offered under this prospectus. To the extent that we receive proceeds upon the exercise of the warrants by the selling stockholders, we intend to use any such proceeds for general corporate purposes. If all of the warrants are exercised in full for cash, we would receive \$4,703,939. See “Use of Proceeds.”

Market symbol and trading Our common stock is traded on the Nasdaq Capital Market under the symbol “AEMD.”

Risk factors You should read the “Risk Factors” section of this prospectus for a discussion of factors to consider carefully before deciding to invest in shares of our common stock.

## **RISK FACTORS**

*An investment in our securities involves a high degree of risk. You should carefully consider the risks described below as well as the other information in this prospectus before deciding to invest in or maintain your investment in our company. The risks described below are not intended to be an all-inclusive list of the potential risks relating to an investment in our securities. Any of the risk factors described below could significantly and adversely affect our business, prospects, financial condition and results of operations. Additional risks and uncertainties not currently known or that are currently considered to be immaterial may also materially and adversely affect our business. As a result, the trading price or value of our securities could be materially adversely affected and you may lose all or part of your investment.*

### **Risks Relating to Our Financial Position and Need for Additional Capital**

*We have incurred significant losses and expect to continue to incur losses for the foreseeable future.*

We have never been profitable. We have generated revenues during the fiscal years ended March 31, 2015 and March 31, 2014, in the amounts of \$762,417, and \$1,623,769, respectively, primarily from our contract with DARPA. However, our revenues continue to be insufficient to cover our cost of operations. Future profitability, if any, will require the successful commercialization of our Hemopurifier technology, other products that may emerge from our Aethlon ADAPT platform or from additional government contract or grant income. We cannot assure you when or if we will be able to successfully commercialize one or more of our products, or if commercialization is successful, whether we will ever be profitable.

*Our internal control over financial reporting does not currently meet the standards required by Section 404 of the Sarbanes-Oxley Act of 2002, as amended, and failure to achieve and maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could result in material misstatements of our annual or interim financial statements and have a material adverse effect on our business and share price.*

We are not currently required to make a formal assessment of the effectiveness of our internal control over financial reporting for purposes of compliance with the Securities and Exchange Commission's rules that implement Section 404 of the Sarbanes-Oxley Act of 2002. We are, however, required to comply with certain of these rules, which require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of our internal control over financial reporting. This assessment

must include the disclosure of any material weaknesses or significant deficiencies in our internal control over financial reporting identified by our management or our independent registered public accounting firm. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

In connection with our audits for the years ended March 31, 2015 and 2014, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such periods, due to the material weaknesses in our internal controls over financial reporting identified in our Annual Report on Form 10-K for the year ended March 31, 2015, our disclosure controls and procedures are not effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, and are not effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our management identified material weaknesses related to a lack of segregation of duties and a lack of sufficient staffing in our accounting department.

We are in the process of developing and implementing remediation plans to address these material weaknesses. We cannot assure you that our plans will sufficiently address these issues, nor can we assure you that there will not be material weaknesses or significant deficiencies in our internal control over financial reporting in the future. A failure to remediate these issues may lead to significant year-end audit adjustments to our consolidated financial statements and related disclosures or to material misstatement of our annual or interim financial statements. Additionally, in the event that our internal control over financial reporting is perceived as inadequate, or that we are unable to produce timely or accurate financial statements, investors may lose confidence in our operating results, we may be unable to raise capital and the trading price of our common stock could decline.

***We will require additional financing to sustain our operations, and without it, we will not be able to continue operations.***

We recently raised \$5,591,988 in net proceeds from a financing. That amount, coupled with previously existing funds on hand and expected revenues from our government contracts, should finance our operations for the fiscal year ending March 31, 2016, including the cost of our current clinical trials. However, we will require significant additional financing to complete additional future clinical trials in the U.S., as well as fund all of our continued research and development activities for the Hemopurifier and products on our Aethlon ADAPT platform beyond the fiscal year ending March 31, 2016. In addition, as we expand our activities, our overhead costs to support personnel, laboratory materials and infrastructure will increase. The financing we require to sustain our working capital needs may not be available to us on reasonable terms, if at all, when we require it; therefore, we may be unable to support our research and FDA clearance activities including our planned clinical trials. The failure to implement our research and clearance activities would have a material adverse effect on our ability to commercialize our products.





*We will need to raise additional funds through debt or equity financings in the future to achieve our business objectives and to satisfy our cash obligations, which would dilute the ownership of our existing stockholders.*

We will need to raise additional funds through debt or equity financings in order to complete our ultimate business objectives, including funding working capital to support development and regulatory clearance of our products. We also may choose to raise additional funds in debt or equity financings if they are available to us on reasonable terms to increase our working capital and to strengthen our financial position. Any sales of additional equity or convertible debt securities would result in dilution of the equity interests of our existing stockholders, which could be substantial. Also, new investors may require that we and certain of our stockholders enter into voting arrangements that give them additional voting control or representation on our Board of Directors.

*We have a limited number of shares of common stock that we may issue, or reserve for issuance, under our Articles of Incorporation; as a result we will need to increase the number of shares of authorized common stock in order to raise any significant amount of capital in the future or issue stock options, or pursue acquisitions using our common stock as consideration.*

We are currently unable to raise any significant amount of working capital through the issuance of common stock or securities, including debt securities, convertible into or exercisable for, common stock. Under our Articles of Incorporation, we are authorized to issue 10,000,000 shares of common stock. As of July 23, 2015, we have either issued, or reserved for issuance, nearly all of the 10,000,000 authorized shares. As a result, we cannot raise any significant amount of working capital through the issuance of common stock or securities, including debt securities, that are convertible into, or exercisable for, common stock until we increase the number of shares of common stock available for issuance. Upon increasing our authorized common stock to a number greater than 10,000,000, we will be able to use such newly authorized shares for issuance in capital-raising transactions, or in connection with acquisitions, or for the granting of incentive equity including stock options. However, we cannot assure you that we will be able to increase our authorized shares prior to the need to raise additional capital or utilize our common stock for strategic or incentive purposes, if at all. If we are unable to raise additional working capital when needed, we may be unable to support our research and FDA clearance activities including our planned clinical trials. The failure to implement our research and clearance activities would have a material adverse effect on our ability to commercialize our products. If we are unable to utilize our common stock for strategic purposes, we may not be able to take advantage of acquisition opportunities when they arise. If we are unable to utilize our common stock for incentive purposes, we may not be able to retain key persons or we may be unable to attract new employees if the need should arise.

## **Risks Related to Our Business Operations**

*We face intense competition in the medical device industry.*

We compete with numerous U.S. and foreign companies in the medical device industry, and many of our competitors have greater financial, personnel and research and development resources than we have. Our competitors are developing vaccine candidates, which could compete with the Hemopurifier medical device candidates we are developing. Our commercial opportunities will be reduced or eliminated if our competitors develop and market products for any of the diseases we target that:

- are more effective;
  
- have fewer or less severe adverse side effects;
  
- are better tolerated;
  
- are more adaptable to various modes of dosing;
  
- are easier to administer; or
  
- are less expensive than the products or product candidates we are developing.

Even if we are successful in developing the Hemopurifier and other Aethlon ADAPT-based products, and obtain FDA and other regulatory approvals necessary for commercializing them, our products may not compete effectively with other successful products. Researchers are continually learning more about diseases, which may lead to new technologies for treatment. Our competitors may succeed in developing and marketing products either that are more effective than those that we may develop, alone or with our collaborators, or that are marketed before any products we develop are marketed. Our competitors include fully integrated pharmaceutical companies and biotechnology companies as well as universities and public and private research institutions. Many of the organizations competing with us have substantially greater capital resources, larger research and development staffs and facilities, greater experience in product development and in obtaining regulatory approvals, and greater marketing capabilities than we have. If our competitors develop more effective pharmaceutical treatments for infectious disease or cancer, or bring those treatments to market before we can commercialize the Hemopurifier for such uses, we may be unable to obtain any market traction for our products, or the diseases we seek to treat may be substantially addressed by competing treatments. If we are unable to successfully compete against larger companies in the pharmaceutical industry, we may never generate significant revenue or be profitable.

***We have limited experience in identifying and working with large scale contracts with medical device manufacturers. Manufacture of our devices must comply with good manufacturing practices in the U.S.***

To achieve the levels of production necessary to commercialize our Hemopurifier and other future Aethlon ADAPT-based products, we will need to secure large-scale manufacturing agreements with contract manufacturers that comply with good manufacturing practice standards and other standards prescribed by various federal, state and local regulatory agencies in the U.S. and any other country of use. We have limited experience coordinating and overseeing the manufacture of medical device products on a large scale. We cannot assure you that manufacturing and control problems will not arise as we attempt to commercialize our products or that such manufacturing can be completed in a timely manner or at a commercially reasonable cost. In addition, we cannot assure you that we will be able to adequately finance the manufacture and distribution of our products on terms acceptable to us, if at all. If we cannot successfully oversee and finance the manufacture of our products when they have obtained regulatory clearances, we may never generate revenue from product sales and we may never be profitable.

***Our Aethlon ADAPT technology may become obsolete.***

Our Aethlon ADAPT products may be made unmarketable by new scientific or technological developments where new treatment modalities are introduced that are more efficacious and/or more economical than our Aethlon ADAPT products. The homeland security industry is growing rapidly with many competitors that are trying to develop products or vaccines to protect against infectious disease. Any one of our competitors could develop a more effective product that would render our technology obsolete. Further, our ability to achieve significant and sustained penetration of our key target markets will depend upon our success in developing or acquiring technologies developed by other companies, either independently, through joint ventures or through acquisitions. If we fail to develop or acquire, and

manufacture and sell, products that satisfy our customers' demands, or we fail to respond effectively to new product announcements by our competitors by quickly introducing competitive products, then market acceptance of our products could be reduced and our business could be adversely affected. We cannot assure you that our products will remain competitive with products based on new technologies.

***Our use of hazardous materials, chemicals and viruses exposes us to potential liabilities for which we may not have adequate insurance.***

Our research and development involves the controlled use of hazardous materials, chemicals and viruses. The primary hazardous materials include chemicals needed to construct the Hemopurifier cartridges and the infected plasma samples used in pre-clinical testing of the Hemopurifier. All other chemicals are fully inventoried and reported to the appropriate authorities, such as the fire department, who inspect our facilities on a regular basis. We are subject to federal, state, local and foreign laws governing the use, manufacture, storage, handling and disposal of such materials. Although we believe that our safety procedures for the use, manufacture, storage, handling and disposal of such materials comply with the standards prescribed by federal, state, local and foreign regulations, we cannot completely eliminate the risk of accidental contamination or injury from these materials. We have had no incidents or problems involving hazardous chemicals or biological samples. In the event of such an accident, we could be held liable for significant damages and/or fines.

We currently carry a limited amount of insurance to protect us from damages arising from hazardous materials. Our product liability policy has a \$3,000,000 limit of liability that would cover certain releases of hazardous substances away from our facilities. For our facilities, our property policy provides \$25,000 in coverage for contaminant clean-up or removal and \$50,000 in coverage for damages to the premises resulting from contamination. Should we violate any regulations concerning the handling or use of hazardous materials, or should any injuries or death result from our use or handling of hazardous materials, we could be the subject of substantial lawsuits by governmental agencies or individuals. We may not have adequate insurance to cover all or any of such claims, if any. If we were responsible to pay significant damages for violations or injuries, if any, we might be forced to cease operations since such payments could deplete our available resources.

***Our success is dependent in part on a few key executive officers.***

Our success depends to a critical extent on the continued services of our Chief Executive Officer, James A. Joyce, our Chief Science Officer, Richard H. Tullis, and our President, Rodney S. Kenley. If one or more of these key executive officers were to leave us, we would be forced to expend significant time and money in the pursuit of a replacement, which would result in both a delay in the implementation of our business plan and the diversion of limited working capital. The unique knowledge and expertise of these individuals would be difficult to replace within the biotechnology field. We can give you no assurances that we can find satisfactory replacements for these key executive officers at all, or on terms that are not unduly expensive or burdensome to us. Although Mr. Joyce and Dr. Tullis have signed employment agreements providing for their continued service to us, these agreements will not preclude them from leaving us should we be unable to compete with offers for employment they may receive from other companies. We do not currently carry key man life insurance policies on any of our key executive officers, which would assist us in recouping our costs in the event of the loss of those officers. If any of our key officers were to leave us, it could make it impossible, if not cause substantial delays and costs, to implement our long-term business objectives and growth.

***Our inability to attract and retain qualified personnel could impede our ability to achieve our business objectives.***

We have five full-time employees consisting of our Chief Executive Officer, our President, our Chief Science Officer, our Chief Financial Officer, and an executive assistant. Exosome has three additional full-time employees, consisting of its Chief Science Officer, its Clinical Research Director, and a research scientist. We utilize consultants, whenever appropriate, in order to conserve cash and resources.

Although we believe that these employees and consultants will be able to handle most of our additional administrative, research and development and business development in the near term, we will nevertheless be required over the longer term to hire highly skilled managerial, scientific and administrative personnel to fully implement our business plan and growth strategies, including to mitigate the material weakness in our internal control over financial reporting described above. Due to the specialized scientific nature of our business, we are highly dependent upon our ability to attract and retain qualified scientific, technical and managerial personnel. Competition for these individuals, especially in San Diego, California, where many biotechnology companies are located, is intense, and we may not be able to attract, assimilate or retain additional highly qualified personnel in the future. We cannot assure you that we will be able to engage the services of such qualified personnel at competitive prices or at all, particularly given the risks of employment attributable to our limited financial resources and lack of an established track record. Also, if we are required to attract personnel from other parts of the U.S. or abroad, we may have significant difficulty doing so due to the high cost of living in the Southern California area and due to the costs incurred with transferring personnel to the area. If we cannot attract and retain qualified staff and executives, we will be unable to develop our products and achieve regulatory clearance, and our business could fail.

***We plan to grow rapidly which will strain our resources. Our inability to manage our growth could delay or derail implementation of our business objectives.***

We will need to significantly expand our operations to implement our longer-term business plan and growth strategies. We also will be required to manage multiple relationships with various strategic partners, technology licensors, customers, manufacturers and suppliers, consultants and other third parties. This expansion and these expanded relationships will require us to significantly improve or replace our existing managerial, operational and financial systems, procedures and controls; to improve the coordination between our various corporate functions; and to manage, train, motivate and maintain a growing employee base. The time and costs to effectuate these steps may place a significant strain on our management personnel, systems and resources, particularly given the limited amount of financial resources and skilled employees that may be available at the time. We cannot assure you that we will institute, in a timely manner or at all, the improvements to our managerial, operational and financial systems, procedures and controls necessary to support our anticipated increased levels of operations and to coordinate our various corporate functions, or that we will be able to properly manage, train, motivate and retain our anticipated increased employee base. If we cannot manage our growth initiatives, we will be unable to commercialize our products on a large scale in a timely manner, if at all, and our business could fail.

***As a public company with limited financial resources undertaking the launch of new medical technologies, we may have difficulty attracting and retaining executive management and directors.***

The directors and management of publicly traded corporations are increasingly concerned with the extent of their personal exposure to lawsuits and stockholder claims, as well as governmental and creditor claims that may be made against them, particularly in view of recent changes in securities laws imposing additional duties, obligations and liabilities on management and directors. Due to these perceived risks, directors and management are also becoming increasingly concerned with the availability of directors' and officers' liability insurance to pay on a timely basis the costs incurred in defending such claims. While we currently carry directors' and officers' liability insurance, such insurance is expensive and difficult to obtain. If we are unable to continue to provide directors' and officers' liability insurance at affordable rates or at all, it may become increasingly more difficult to attract and retain qualified outside directors to serve on our Board of Directors. We may lose potential independent board members and management candidates to other companies in the biotechnology field that have greater directors' and officers' liability insurance to insure them from liability or to biotechnology companies that have revenues or have received greater funding to date that can offer greater compensation packages. The fees of directors are also rising in response to their increased duties, obligations and liabilities. In addition, our products could potentially be harmful to users, and we are exposed to claims of product liability including for injury or death. We have limited insurance and may not be able to afford robust coverage even as our products are introduced into the market. As a company with limited resources and potential exposures to management, we will have a more difficult time attracting and retaining management and outside independent directors than a more established public or private company due to these enhanced duties, obligations and potential liabilities.

***If we fail to comply with extensive regulations of U.S. and foreign regulatory agencies, the commercialization of our products could be delayed or prevented entirely.***

Our Hemopurifier products are subject to extensive government regulations related to development, testing, manufacturing and commercialization in the U.S. and other countries. The determination of when and whether a product is ready for large-scale purchase and potential use will be made by the U.S. Government through consultation with a number of governmental agencies, including the FDA, the National Institutes of Health, the Centers for Disease Control and Prevention and the Department of Homeland Security. Our product candidates are in the pre-clinical and clinical stages of development and have not received required regulatory approval from the FDA, or any foreign regulatory agencies, to be commercially marketed and sold. The process of obtaining and complying with FDA and other governmental regulatory approvals and regulations in the U.S. and in foreign countries is costly, time consuming, uncertain and subject to unanticipated delays. Obtaining such regulatory approvals, if any, can take several years. Despite the time and expense exerted, regulatory approval is never guaranteed. We also are subject to the following risks and obligations, among others:

- the FDA may refuse to approve an application if it believes that applicable regulatory criteria are not satisfied;
- the FDA may require additional testing for safety and effectiveness;
- the FDA may interpret data from pre-clinical testing and clinical trials in different ways than we interpret them;
- if regulatory approval of a product is granted, the approval may be limited to specific indications or limited with respect to its distribution; and
- the FDA may change its approval policies and/or adopt new regulations.

Failure to comply with these or other regulatory requirements of the FDA may subject us to administrative or judicially imposed sanctions, including:

- warning letters;
- civil penalties;
- criminal penalties;
- injunctions;
- product seizure or detention;
- product recalls; and
- total or partial suspension of productions.

***Delays in successfully completing our planned clinical trials could jeopardize our ability to obtain regulatory approval.***

Our business prospects will depend on our ability to complete studies and clinical trials, obtain satisfactory results, obtain required regulatory approvals and successfully commercialize our Hemopurifier product candidates.

Completion of our clinical trials, announcement of results of the trials and our ability to obtain regulatory approvals could be delayed for a variety of reasons, including:

- serious adverse events related to our medical device candidates;
- unsatisfactory results of any clinical trial;
- the failure of our principal third-party investigators to perform our clinical trials on our anticipated schedules; and
- different interpretations of our pre-clinical and clinical data, which could initially lead to inconclusive results.



Our development costs will increase if we have material delays in any clinical trial or if we need to perform more or larger clinical trials than planned. If the delays are significant, or if any of our product candidates do not prove to be safe or effective or do not receive required regulatory approvals, our financial results and the commercial prospects for our product candidates will be harmed. Furthermore, our inability to complete our clinical trials in a timely manner could jeopardize our ability to obtain regulatory approval.

***If we or our suppliers fail to comply with ongoing FDA or other foreign regulatory authority requirements, or if we experience unanticipated problems with our products, these products could be subject to restrictions or withdrawal from the market.***

Any product for which we obtain clearance or approval, and the manufacturing processes, reporting requirements, post-approval clinical data and promotional activities for such product, will be subject to continued regulatory review, oversight and periodic inspections by the FDA and other domestic and foreign regulatory bodies. In particular, we and our third-party suppliers may be required to comply with the FDA's Quality System Regulation. These FDA regulations cover the methods and documentation of the design, testing, production, control, quality assurance, labeling, packaging, sterilization, storage and shipping of our products. Compliance with applicable regulatory requirements is subject to continual review and is monitored rigorously through periodic inspections by the FDA. If we, or our manufacturers, fail to adhere to Quality System Regulation requirements in the U.S., this could delay production of our products and lead to fines, difficulties in obtaining regulatory clearances, recalls, enforcement actions, including injunctive relief or consent decrees, or other consequences, which could, in turn, have a material adverse effect on our financial condition or results of operations.

In addition, the FDA assesses compliance with the Quality System Regulation through periodic announced and unannounced inspections of manufacturing and other facilities. The failure by us or one of our suppliers to comply with applicable statutes and regulations administered by the FDA, or the failure to timely and adequately respond to any adverse inspectional observations or product safety issues, could result in any of the following enforcement actions:

- untitled letters, warning letters, fines, injunctions, consent decrees and civil penalties;
- unanticipated expenditures to address or defend such actions;
- customer notifications or repair, replacement, refunds, recall, detention or seizure of our products;
- operating restrictions or partial suspension or total shutdown of production;
- refusing or delaying our requests for 510(k) clearance or premarket approval of new products or modified products;
- withdrawing 510(k) clearances or premarket approvals that have already been granted;
- refusal to grant export approval for our products; or
- criminal prosecution.

Any of these sanctions could have a material adverse effect on our reputation, business, results of operations and financial condition. Furthermore, our key component suppliers may not currently be or may not continue to be in compliance with all applicable regulatory requirements, which could result in our failure to produce our products on a timely basis and in the required quantities, if at all.

***If our products, or malfunctions of our products, cause or contribute to a death or a serious injury, we will be subject to medical device reporting regulations, which can result in voluntary corrective actions or agency enforcement actions.***

Under the FDA medical device reporting regulations, medical device manufacturers are required to report to the FDA information that a device has or may have caused or contributed to a death or serious injury or has malfunctioned in a way that would likely cause or contribute to death or serious injury if the malfunction of the device or one of our similar devices were to recur. If we fail to report these events to the FDA within the required timeframes, or at all, the FDA could take enforcement action against us. Any such adverse event involving our products also could result in future voluntary corrective actions, such as recalls or customer notifications, or agency action, such as inspection or enforcement action. Any corrective action, whether voluntary or involuntary, as well as defending ourselves in a lawsuit, will require the dedication of our time and capital, will distract management from operating our business, and may harm our reputation and financial results.

***In the future, our products may be subject to product recalls. A recall of our products, either voluntarily or at the direction of the FDA or another governmental authority, including a third-country authority, or the discovery of serious safety issues with our products, could have a significant adverse impact on us.***

The FDA and similar foreign governmental authorities have the authority to require the recall of commercialized products in the event of material deficiencies or defects in design or manufacture. In the case of the FDA, the authority to require a recall must be based on an FDA finding that there is reasonable probability that the device would cause serious injury or death. In addition, foreign governmental bodies have the authority to require the recall of our products in the event of material deficiencies or defects in design or manufacture. Manufacturers may, under their own initiative, recall a product if any material deficiency in a device is found. The FDA requires that certain classifications of recalls be reported to the FDA within 10 working days after the recall is initiated. A government-mandated or voluntary recall by us or one of our international distributors could occur as a result of an unacceptable risk to health, component failures, malfunctions, manufacturing errors, design or labeling defects or other deficiencies and issues. Recalls of any of our products would divert managerial and financial resources and have an adverse effect on our reputation, results of operations and financial condition, which could impair our ability to produce our products in a cost-effective and timely manner in order to meet our customers' demands. We may also be subject to liability claims, be required to bear other costs, or take other actions that may have a negative impact on our future sales and our ability to generate profits. Companies are required to maintain certain records of recalls, even if they are not reportable to the FDA or another third-country competent authority. We may initiate voluntary recalls involving our products in the future that we determine do not require notification of the FDA or another third-country competent authority. If the FDA disagrees with our determinations, they could require us to report those actions as recalls. A future recall announcement could harm our reputation with customers and negatively affect our sales. In addition, the FDA could take enforcement action for failing to report the recalls when they occurred.

We are also required to follow detailed recordkeeping requirements for all company-initiated medical device corrections and removals. In addition, in December 2012, the FDA issued a draft guidance intended to assist the FDA and industry in distinguishing medical device recalls from product enhancements. Per the guidance, if any change or group of changes to a device addresses a violation of the Federal Food, Drug, and Cosmetic Act, as amended, 21 U.S.C. § 301 et seq., that change would generally constitute a medical device recall and require submission of a recall report to the FDA.

***We outsource almost all of our operational and development activities, and if any party to which we have outsourced certain essential functions fails to perform its obligations under agreements with us, the development and commercialization of our lead product candidate and any future product candidates that we may develop could be delayed or terminated.***

We generally rely on third-party consultants or other vendors to manage and implement the day-to-day conduct of our operations, including conducting clinical trials and manufacturing our current product candidates and any future product candidates that we may develop. Accordingly, we are and will continue to be dependent on the timeliness and effectiveness of their efforts. Our dependence on third parties includes key suppliers and third-party service providers

supporting the development, manufacture and regulatory approval of our products as well as support for our information technology systems and other infrastructure. While our management team oversees these vendors, failure of any of these third parties to meet their contractual, regulatory and other obligations or the development of factors that materially disrupt the performance of these third parties could have a material adverse effect on our business. For example, all of the key oversight responsibilities for the development and manufacture of our lead product candidate are conducted by our management team but all activities are the responsibility of third-party vendors.

If a clinical research organization that we utilize is unable to allocate sufficient qualified personnel to our studies in a timely manner or if the work performed by it does not fully satisfy the requirements of the FDA or other regulatory agencies, we may encounter substantial delays and increased costs in completing our development efforts. Any manufacturer that we select may encounter difficulties in the manufacture of new products in commercial quantities, including problems involving product yields, product stability or shelf life, quality control, adequacy of control procedures and policies, compliance with FDA regulations and the need for further FDA approval of any new manufacturing processes and facilities. If any of these occur, the development and commercialization of our product candidates could be delayed, curtailed or terminated because we may not have sufficient financial resources or capabilities to continue such development and commercialization on our own. If we rely on only one source for the manufacture of the clinical or commercial supplies of any of our product candidates or products, any production problems or supply constraints with that manufacturer could adversely impact the development or commercialization of that product candidate or product.

***If we or our contractors or service providers fail to comply with regulatory laws and regulations, we or they could be subject to regulatory actions, which could affect our ability to develop, market and sell our product candidates and any future product candidates that we may develop and may harm our reputation.***

If we or our manufacturers or other third-party contractors fail to comply with applicable federal, state or foreign laws or regulations, we could be subject to regulatory actions, which could affect our ability to develop, market and sell our current product candidates or any future product candidates under development successfully and could harm our reputation and lead to reduced acceptance or non-acceptance of our proposed product candidates by the market. Even technical recommendations or evidence by the FDA through letters, site visits, and overall recommendations to academia or biotechnology companies may make the manufacturing of a clinical product extremely labor intensive or expensive, making the product candidate no longer viable to manufacture in a cost-efficient manner. The mode of administration may make the product candidate not commercially viable. The required testing of the product candidate may make that candidate no longer commercially viable. The conduct of clinical trials may be critiqued by the FDA, or a clinical trial site's institutional review board or institutional biosafety committee, which may delay or make impossible clinical testing of a product candidate. The institutional review board for a clinical trial may stop a trial or deem a product candidate unsafe to continue testing. This may have a material adverse effect on the value of the product candidate and our business prospects.

***We will need to outsource and rely on third parties for the clinical development and manufacture, sales and marketing of our current product candidates or any future product candidates that we may develop, and our future success will be dependent on the timeliness and effectiveness of the efforts of these third parties.***

We do not have the required financial and human resources to carry out on our own all the pre-clinical and clinical development for our current product candidates or any future product candidates that we may develop, and we do not have the capability and resources to manufacture, market or sell our current product candidates or any future product candidates that we may develop. Our business model calls for the partial or full outsourcing of the clinical and other development and manufacturing, sales and marketing of our product candidates in order to reduce our capital and infrastructure costs as a means of potentially improving our financial position. Our success will depend on the performance of these outsourced providers. If such providers fail to perform adequately, our development of product candidates may be delayed and any delay in the development of our product candidates would have a material and adverse effect on our business prospects.

***We are and will be exposed to product liability risks, and clinical and pre-clinical liability risks, which could place a substantial financial burden upon us should we be sued.***

Our business exposes us to potential product liability and other liability risks that are inherent in the testing, manufacturing and marketing of medical devices. We cannot be sure that claims will not be asserted against us. A successful liability claim or series of claims brought against us could have a material adverse effect on our business, financial condition and results of operations.

We cannot give assurances that we will be able to continue to obtain or maintain adequate product liability insurance on acceptable terms, if at all, or that such insurance will provide adequate coverage against potential liabilities. Claims or losses in excess of any product liability insurance coverage that we may obtain could have a material adverse effect on our business, financial condition and results of operations.

Our Hemopurifier products may be used in connection with medical procedures in which it is important that those products function with precision and accuracy. If our products do not function as designed, or are designed improperly, we may be forced by regulatory agencies to withdraw such products from the market. In addition, if medical personnel or their patients suffer injury as a result of any failure of our products to function as designed, or our products are designed inappropriately, we may be subject to lawsuits seeking significant compensatory and punitive damages. The risk of product liability claims, product recalls and associated adverse publicity is inherent in the testing, manufacturing, marketing and sale of medical products. We have recently obtained general clinical trial liability insurance coverage. We cannot give assurances that our insurance coverage will be adequate or available. We may not be able to secure product liability insurance coverage on acceptable terms or at reasonable costs when needed. Any product recall or lawsuit seeking significant monetary damages may have a material adverse effect on our business and financial condition. Any liability for mandatory damages could exceed the amount of our coverage.

Moreover, a product recall could generate substantial negative publicity about our products and business and inhibit or prevent commercialization of other future product candidates.

***We have not received, and may never receive, approval from the FDA to market a medical device in the United States.***

Before a new medical device can be marketed in the U.S., it must first receive either premarket approval or 510(k) clearance from the FDA, unless an exemption exists. A premarket approval submission, which is a higher standard than a 510(k) clearance, is used to demonstrate to the FDA that a new or modified device is safe and effective. A 510(k) submission is used to demonstrate that a device is “substantially equivalent” to a predicate device (one that has been cleared by the FDA). A 510(k) submission is cleared when the FDA issues an order finding the device to be substantially equivalent to the predicate device and stating that the device can be marketed in the U.S. We expect that any product we seek regulatory approval for will require a premarket approval. The FDA approval process involves, among other things, successfully completing clinical trials and filing for and obtaining a premarket approval. The premarket approval process requires us to prove the safety and effectiveness of our products to the FDA’s satisfaction. This process, which includes pre-clinical studies and clinical trials, can take many years and requires the expenditure of substantial resources and may include post-marketing surveillance to establish the safety and efficacy of the product. Notwithstanding the effort and expense incurred, the process may never result in the FDA granting a premarket approval. Data obtained from pre-clinical studies and clinical trials are subject to varying interpretations that could delay, limit or prevent regulatory approval. Delays or rejections may also be encountered based upon changes in governmental policies for medical devices during the period of product development. The FDA can delay, limit or deny approval of a premarket approval application for many reasons, including:

- our inability to demonstrate safety or effectiveness to the FDA’s satisfaction;
- insufficient data from our pre-clinical studies and clinical trials to support approval;
- failure of the facilities of our third-party manufacturer or suppliers to meet applicable requirements;
- inadequate compliance with pre-clinical, clinical or other regulations;
- our failure to meet the FDA’s statistical requirements for approval; and
- changes in the FDA’s approval policies, or the adoption of new regulations that require additional data or additional clinical studies.

Modifications to products that are approved through a premarket approval application generally need FDA approval. Similarly, some modifications made to products cleared through a 510(k) may require a new 510(k). The FDA's 510(k) clearance process usually takes from three to 12 months, but may last longer. The process of obtaining a premarket approval is much more costly and uncertain than the 510(k) clearance process and generally takes from one to three years, or even longer, from the time the application is submitted to the FDA until an approval is obtained. Any of our products considered to be a class III device, which are considered to pose the greatest risk and the approval of which is governed by the strictest guidelines, will require the submission and approval of a premarket approval in order for us to market them in the U.S. We also may design new products in the future that could require the clearance of a 510(k).

Although we have received approval to proceed with clinical trials in the U.S. under the investigational device exemption, we cannot assure you that the current approval from the FDA to proceed will not be revoked, that the study will be successful, or that the FDA premarket approval will eventually be obtained and not revoked. Even if we obtain approval, the FDA or other regulatory authorities may require expensive or burdensome post-market testing or controls. Any delay in, or failure to receive or maintain, clearance or approval for our future products could prevent us from generating revenue from these products or achieving profitability. Additionally, the FDA and other regulatory authorities have broad enforcement powers. Regulatory enforcement or inquiries, or other increased scrutiny on us, could dissuade some physicians from using our products and adversely affect our reputation and the perceived safety and efficacy of our products.

***The approval requirements for medical products used to fight bioterrorism are still evolving, and we cannot be certain any products we develop for such uses would meet these requirements.***

We are advancing product candidates under governmental policies that regulate the development and commercialization of medical treatment countermeasures against bioterror and pandemic threats. While we intend to pursue FDA market clearance to treat infectious bioterror and pandemic threats, it is often not feasible to conduct human studies against these deadly high threat pathogens. Thus, we may not be able to demonstrate the effectiveness of our treatment countermeasures through controlled human efficacy studies. Additionally, a change in government policies could impair our ability to obtain regulatory approval, and we cannot be certain that the FDA will approve any of our product candidates.

***The Hemopurifier was used to treat one patient suffering from Ebola, and we have received a supplement to our investigational device exemption to establish protocols to treat Ebola patients in the U.S.; however, you should not construe these events as demonstrating that the device is effective in treating Ebola.***

In October 2014, physicians at the Frankfurt University Hospital in Frankfurt, Germany administered Hemopurifier therapy in a 6.5-hour treatment session to a patient infected with Ebola. This treatment was made on an emergency basis. The patient was administered Hemopurifier therapy through special approval from The Federal Institute for Drugs and Medical Devices (Bundesinstitut für Arzneimittel und Medizinprodukte, BfArM), an independent federal

higher authority within the portfolio of the Federal Ministry of Health of Germany. While we believe the results of the treatment of the Ebola patient in Germany to be positive with respect to the usage of the Hemopurifier to combat Ebola, no medical organization or regulatory organization, inside or outside the U.S., has cleared the use of the device for Ebola treatment on a commercial basis.

In addition, although the FDA approved a supplement to our investigational device exemption to establish a protocol for the treatment of Ebola patients in the U.S., this approval is very limited and we cannot predict the results of such protocol and potential treatments, if any. The usefulness of the Hemopurifier in treating Ebola is still unproven in any clinical or regulatory process in the U.S. or elsewhere. Even if we enroll patients in the Ebola protocol, the results of such treatments may not demonstrate the safety and efficacy of the device, may be equivocal or may otherwise not be sufficient to obtain approval of the Hemopurifier for any uses associated with Ebola. In addition, the approval of the supplement to our investigational device exemption does not in any way ensure clearance or approval of the Hemopurifier device for any purpose. In April 2015, we submitted a Humanitarian Use Device submission to the FDA to support market clearance of the Hemopurifier as a treatment for Ebola virus. If the application is designated by the FDA, we then may submit a Humanitarian Device Exemption marketing application to the Center for Devices and Radiological Health for marketing review. We cannot assure you that the Hemopurifier will prove to be useful in the treatment of Ebola, that U.S. or foreign regulatory agencies will ever approve it for such use, or if approved, that we will successfully commercialize it for such use. We may never commercialize the Hemopurifier specifically for use in treating Ebola.



***The results of our clinical trials may not support our product candidate claims or may result in the discovery of adverse side effects.***

Any research and development, pre-clinical testing and clinical trial activities involving any products that we are developing or may develop will be subject to extensive regulation and review by numerous governmental authorities both in the U.S. and abroad. In the future, we may conduct clinical trials to support approval of new products. We must conduct clinical studies in compliance with FDA regulations, or the FDA may take enforcement action. Ultimately, we may use the data collected from these clinical studies to support market clearance for these products. Even if our clinical trials are completed as planned, we cannot be certain that their results will support our product candidate claims or that the FDA will agree with our conclusions regarding them. Success in pre-clinical studies and early clinical trials does not ensure that later clinical trials will be successful, and we cannot be sure that the later trials will replicate the results of prior trials and pre-clinical studies. The clinical trial process may fail to demonstrate that our product candidates are safe and effective for the proposed indicated uses, which could cause us to abandon a product candidate and may delay development of others. Any delay or termination of our clinical trials will delay the filing of our product submissions and, ultimately, our ability to commercialize our product candidates and generate revenues. It is also possible that patients enrolled in clinical trials will experience adverse side effects that are not currently part of the product candidate's profile.

***U.S. legislative or FDA regulatory reforms may make it more difficult and costly for us to obtain regulatory approval of our product candidates and to manufacture, market and distribute our products after approval is obtained.***

From time to time, legislation is drafted and introduced in Congress that could significantly change the statutory provisions governing the regulatory approval, manufacture and marketing of regulated products or the reimbursement thereof. In addition, FDA regulations and guidance are often revised or reinterpreted by the FDA in ways that may significantly affect our business and our products. Any new regulations or revisions or reinterpretations of existing regulations may impose additional costs or lengthen review times of future products. In addition, FDA regulations and guidance are often revised or reinterpreted by the agency in ways that may significantly affect our business and our products. We cannot predict whether legislative changes will be enacted or FDA regulations, guidance or interpretations changed, and what the impact of such changes, if any, may be.

***Should our products be approved for commercialization, lack of third-party coverage and reimbursement for our devices could delay or limit their adoption.***

In both the U.S. and international markets, the use of medical devices is dependent in part on the availability of reimbursement from third-party payors, such as government and private insurance plans. Healthcare providers that use medical devices generally rely on third-party payors to pay for all or part of the costs and fees associated with the medical procedures being performed or to compensate them for their patient care services. Should the FDA approve

our products for commercialization, we cannot assure you that our future products will be considered cost-effective, that reimbursement will be available in other sites or in other countries, including the U.S., if approved, or that reimbursement will be sufficient to allow sales of our future products on a profitable basis. The assessment of our future products by health technology assessment bodies will significantly influence coverage decisions of third-party payors. Such assessments are outside our control, and we cannot assure you that such evaluations will be conducted or that they will have a favorable outcome.

If approved for use in the U.S., we expect that any products that we develop will be purchased primarily by medical institutions, which will in turn bill various third-party payors for the health care services provided to patients at their facility. Payors may include the Centers for Medicare & Medicaid Services, which administers the Medicare program and works in partnership with state governments to administer Medicaid, other government programs and private insurance plans. The process involved in applying for coverage and incremental reimbursement from the Centers for Medicare & Medicaid Services is lengthy and expensive. Further, Medicare coverage is based on our ability to demonstrate the treatment is “reasonable and necessary” for Medicare beneficiaries. Even if products utilizing our Aethlon ADAPT system receive FDA and other regulatory clearance or approval, they may not be granted coverage and reimbursement by any payor, including by the Centers for Medicare & Medicaid Services. For some governmental programs, such as Medicaid, coverage and reimbursement differ from state to state and some state Medicaid programs may not pay adequate amounts for the procedure necessary to utilize products utilizing our Aethlon ADAPT system, or any payment at all. Moreover, many private payors use coverage decisions and payment amounts determined by the Centers for Medicare & Medicaid Services as guidelines in setting their coverage and reimbursement policies and amounts. If the Centers for Medicare & Medicaid Services or other agencies limit coverage or decrease or limit reimbursement payments for doctors and hospitals, this may affect coverage and reimbursement determinations by many private payors.

***Should our products be approved for commercialization, adverse changes in reimbursement policies and procedures by payors may impact our ability to market and sell our products.***

Healthcare costs have risen significantly over the past decade, and there have been and continue to be proposals by legislators, regulators and third-party payors to decrease costs. Third-party payors are increasingly challenging the prices charged for medical products and services and instituting cost containment measures to control or significantly influence the purchase of medical products and services.

For example, in the U.S., the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, as amended, 42 U.S.C. § 18001 et seq., among other things, reduced and/or limited Medicare reimbursement to certain providers. The Budget Control Act of 2011, Pub. L. 112-25, as amended by subsequent legislation, further reduces Medicare's payments to providers by two percent through fiscal year 2024. These reductions may reduce providers' revenues or profits, which could affect their ability to purchase new technologies. Furthermore, the healthcare industry in the U.S. has experienced a trend toward cost containment as government and private insurers seek to control healthcare costs by imposing lower payment rates and negotiating reduced contract rates with service providers. Legislation could be adopted in the future that limits payments for our products from governmental payors. In addition, commercial payors such as insurance companies, could adopt similar policies that limit reimbursement for medical device manufacturers' products. Therefore, we cannot be certain that payors will reimburse our product or the procedures or patient care performed using our product at a cost-effective level. We face similar risks relating to adverse changes in reimbursement procedures and policies in other countries where we may market our products. Reimbursement and healthcare payment systems vary significantly among international markets. Our inability to obtain international reimbursement approval, or any adverse changes in the reimbursement policies of foreign payors, could negatively affect our ability to sell our products and have a material adverse effect on our business and financial condition.

***Should our products be approved for commercialization, our financial performance may be adversely affected by medical device tax provisions in the healthcare reform laws.***

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, as amended, 42 U.S.C. §18001 et seq., currently imposes, among other things, an excise tax of 2.3% on any entity that manufactures or imports medical devices offered for sale in the U.S. Under these provisions, the Congressional Research Service predicts that the total cost to the medical device industry may be up to \$20 billion over the next decade. The Internal Revenue Service issued final regulations implementing the tax in December 2012, which requires, among other things, bi-monthly payments and quarterly reporting. Once we market products, we will be subject to this or any future excise tax on our sales of certain medical devices in the U.S. We anticipate that primarily all of our future sales of medical devices in the U.S. will be subject to this 2.3% excise tax.

## **Risks Related to Our Intellectual Property and Related Litigation**

***We rely upon licenses and patent rights from third parties, which are subject to termination or expiration.***

We rely upon third party licenses and ownership rights assigned from third parties for the development of specific uses for our Hemopurifier devices. For example, we are researching, developing and testing cancer-related applications for our devices under patents assigned from the London Health Science Center Research, Inc. Should any of our licenses be prematurely terminated for any reason, or if the patents and intellectual property assigned to us or owned by such entities that we have licensed should be challenged or defeated by third parties, our research efforts

could be materially and adversely affected. We cannot assure you that any of our licenses or patents assigned to us will continue in force for as long as we require for our research, development and testing of cancer treatments. We cannot assure you that, should our licenses terminate, should third parties challenge or defeat the underlying patents and intellectual property, or should third parties challenge or defeat patents and intellectual property assigned to us, we can obtain suitable replacements or develop suitable replacements on terms acceptable to us, if at all. There is also the related risk that we may not be able to make the required payments under any patent license or assignment agreement, in which case we may lose our ability to use one or more of the licensed or assigned patents.

***We could become subject to intellectual property litigation that could be costly, result in the diversion of management's time and efforts, require us to pay damages, prevent us from selling our commercially available products and/or reduce the margins we may realize from our products.***

The medical devices industry is characterized by extensive litigation and administrative proceedings over patent and other intellectual property rights. Whether a product infringes a patent involves complex legal and factual issues, and the determination is often uncertain. We may be unaware of existing third-party patents that our products under development may inadvertently infringe. The likelihood that patent infringement claims may be brought against us increases as the number of participants in the infectious disease market increases and as we achieve more visibility in the market place and introduce products to market.

Any infringement claim against us, even if without merit, may cause us to incur substantial costs and would place a significant strain on our financial resources, divert the attention of management from our core business, and harm our reputation. In some cases, a patent holding company or other adverse patent owner that has no relevant product revenues and against which our patents may provide little or no deterrence may threaten or bring litigation. If a court were to find that we infringed any of these patents, it could require us to pay substantial damages, including triple damages if it were to find a willful infringement. A court could require us to pay royalties and could prevent us from selling our products unless we obtain a license or are able to redesign our products to avoid infringement. We may not be able to obtain a license enabling us to sell our products on reasonable terms, or at all, and we cannot assure you that we would be able to redesign our products in a way that would not infringe those patents. If we fail to obtain any required licenses or make any necessary changes to our technologies or the products that incorporate them, we may be unable to commercialize one or more of our products or may have to withdraw products from the market, all of which would have a material adverse effect on our business, financial condition and results of operations.

***If the combination of patents, trade secrets and contractual provisions upon which we rely to protect our intellectual property is inadequate, our ability to commercialize our products successfully will be harmed.***

Our success depends significantly on our ability to protect our proprietary rights to the technologies incorporated in our products. We currently have three issued U.S. patents and nine pending U.S. patent applications. We also have fourteen issued foreign patents and have applied for five additional foreign patents. Our issued patents begin to expire in 2019, with the last of these patents expiring in 2029, although terminal disclaimers, patent term extension or patent term adjustment can shorten or lengthen the patent term. We rely on a combination of patent protection, trade secret laws and nondisclosure, confidentiality and other contractual restrictions to protect our proprietary technology. However, these may not adequately protect our rights or permit us to gain or keep any competitive advantage.

The issuance of a patent is not conclusive as to its scope, validity or enforceability. Third parties can challenge the scope, validity or enforceability of our issued patents in litigation or proceedings before the U.S. Patent and Trademark Office or foreign patent offices where our applications are pending. The U.S. Patent and Trademark Office or foreign offices may deny or require significant narrowing of claims in our pending patent applications. Patents issued as a result of the pending patent applications, if any, may not provide us with significant commercial protection or be issued in a form that is advantageous to us. Proceedings before the U.S. Patent and Trademark Office or foreign offices could result in adverse decisions as to the priority of our inventions and the narrowing or invalidation of claims in issued patents. The laws of some foreign countries may not protect our intellectual property rights to the same extent as the laws of the U.S., if at all. Some of our patents may expire before we receive FDA approval to market our products in the U.S. or we receive approval to market our products in a foreign country. Although we believe that certain patent applications and/or other patents issued more recently will help protect the proprietary nature of the Hemopurifier treatment technology, we cannot assure you that this protection will be sufficient to protect us during the development of that technology.

Our competitors may successfully challenge and invalidate or render unenforceable our issued patents, including any patents that may issue in the future, which could prevent or limit our ability to market our products and could limit our ability to stop competitors from marketing products that are substantially equivalent to ours. In addition, competitors may be able to design around our patents or develop products that provide outcomes that are comparable to our products but that are not covered by our patents.

We have also entered into confidentiality and assignment of intellectual property agreements with all of our employees, consultants and advisors directly involved in the development of our technology as one of the ways we seek to protect our intellectual property and other proprietary technology. However, we may not be able to enforce these agreements, or they may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure or other breaches of the agreements.

In the event a competitor infringes upon any of our patents or other intellectual property rights, enforcing our rights may be difficult, time consuming and expensive, and would divert management's attention from managing our business. We cannot assure you that we will be successful on the merits in any enforcement effort. In addition, we may not have sufficient resources to litigate, enforce or defend our intellectual property rights.

***We may need to rely on licenses for new technology, and any inability to obtain licenses or integrate those licenses could have a material adverse effect on our continued operations.***

As we develop our technology, we may need to license additional technologies to optimize the performance of our products and/or to develop new products. We may not be able to license these technologies on commercially reasonable terms or at all. In addition, we may fail to successfully integrate any licensed technology into our proposed products. Our inability to obtain any necessary licenses could delay our product development and testing until alternative technologies can be identified, licensed and integrated. The inability to obtain any necessary third-party licenses could cause us to abandon a particular development path, which could seriously harm our business, financial position and results of our operations.

***New technology may lead to our competitors developing superior products, which would reduce demand for our products.***

Research into technologies similar to ours is proceeding at a rapid pace, and many private and public companies and research institutions are actively engaged in the development of products similar to ours. These new technologies may, if successfully developed, offer significant performance or price advantages when compared with our technologies. We cannot provide assurances that our existing patents or our pending and proposed patent applications will offer meaningful protection if a competitor develops a novel product based on a new technology. If our competitors develop new technology that is competitive with our products, the demand for our products could decline and adversely affect the results of our operations.

***If we are unable to protect our proprietary technology and preserve our trade secrets, we will increase our vulnerability to competitors, which could materially adversely impact our ability to remain in business.***

Our ability to successfully commercialize our products will depend on our ability to protect those products and our technology with domestic and foreign patents. We will also need to continue to preserve our trade secrets. The issuance of a patent is not conclusive as to its validity or as to the enforceable scope of the claims of the patent. The patent positions of technology companies, including us, are uncertain and involve complex legal and factual issues. We cannot assure you that our patents will prevent other companies from developing similar products or products that produce benefits substantially the same as our products, or that other companies will not be issued patents that may prevent the sale of our products or require us to pay significant licensing fees in order to market our products.

From time to time, we may need to obtain licenses to patents and other proprietary rights held by third parties in order to develop, manufacture and market our products. If we are unable to timely obtain these licenses on commercially reasonable terms, our ability to commercially exploit such products may be inhibited or prevented. Additionally, we cannot assure investors that any of our products or technology will be patentable or that any future patents we obtain will give us an exclusive position in the subject matter claimed by those patents. Furthermore, we cannot assure investors that our pending patent applications will result in issued patents, that patent protection will be secured for any particular technology, or that our issued patents will be valid or enforceable or provide us with meaningful protection.

***If we are required to engage in expensive and lengthy litigation to enforce our intellectual property rights, such litigation could be very costly and the results of such litigation may not be satisfactory.***

Although we have entered into invention assignment agreements with our employees and with certain advisors, and we routinely enter into confidentiality agreements with our contract partners, if those employees, advisors or contract partners develop inventions or processes independently that may relate to products or technology under development by us, disputes may arise about the ownership of those inventions or processes. We may be required to engage in time-consuming and costly litigation to enforce and determine the scope of our rights under these agreements. In addition, we may be required to commence litigation to enforce such agreements if they are violated, and it is certainly possible that we will not have adequate remedies for breaches of our confidentiality agreements as monetary damages may not be sufficient to compensate us. In addition, we may be unable to fund the costs of such litigation to a satisfactory conclusion, which could leave us without recourse to enforce contracts that protect our intellectual property rights.

***Other companies may claim that our technology infringes on their intellectual property or proprietary rights and commence legal proceedings against us, which could be time-consuming and expensive and could result in our being prohibited from developing, marketing, selling or distributing our products.***

Because of the complex and difficult legal and factual questions that relate to patent positions in our industry, we cannot assure you that a court will not find our products or technology to infringe upon the intellectual property or proprietary rights of others. Third parties may claim that our products or technology infringe on their patents, copyrights, trademarks or other proprietary rights and demand that we cease development or marketing of those products or technology or pay license fees. We may not be able to avoid costly patent infringement litigation, which will divert the attention of management away from the development of new products and the operation of our business. We cannot assure investors that we would prevail in any such litigation. If a court finds us to have infringed on a third party's intellectual property rights, we may be liable for money damages, encounter significant delays in bringing products to market or be precluded from manufacturing particular products or using particular technology.

Other parties may challenge certain of our foreign patent applications. If such parties are successful in opposing our foreign patent applications, we may not gain the protection afforded by those patent applications in particular jurisdictions and may face additional proceedings with respect to similar patents in other jurisdictions, as well as related patents. The loss of patent protection in one jurisdiction may influence our ability to maintain patent protection for the same technology in other jurisdictions.

#### **Risks Related to U.S. Government Contracts**

*Our revenues are almost entirely derived from one U.S. Government contract.*

We have derived and expect for the near future to continue to derive substantially all of our revenue under our DARPA contract. If DARPA chooses not to continue our contract in year five (commencing October 1, 2015 through September 30, 2016) of the contract, our revenues could be substantially reduced. In addition, if we are unable to meet any of the DARPA contract milestones to the satisfaction of DARPA, if at all, we may not earn payments under the contract. Any reduction in our revenues, or the termination of the DARPA contract for any reason, could have a material and adverse effect on our business and operations. In addition, DARPA has the right to unilaterally cancel the contract at any time.



***We may not obtain additional U.S. Government contracts to further develop our technology.***

We can give no assurances that we will be successful in obtaining additional government grants or contracts. The process of applying for government contracts is lengthy, and we cannot be certain that we will be successful in obtaining announced grants or contracts for therapeutics as a medical device technology. Accordingly, we cannot be certain that we will be awarded any additional U.S. Government grants or contracts utilizing our Hemopurifier platform technology.

***U.S. Government agencies have special contracting requirements, including a right to audit us, which create additional risks. A negative audit would be detrimental to us.***

Our business plan to utilize the Aethlon ADAPT system is likely to involve contracts with the U.S. Government. Such contracts typically contain unfavorable termination provisions and are subject to audit and modification by the government at its sole discretion, which subjects us to additional risks. These risks include the ability of the U.S. Government to unilaterally:

- suspend or prevent us for a period of time from receiving new contracts or extending existing contracts based on violations or suspected violations of laws or regulations;
- audit and object to our contract-related costs and fees, including allocated indirect costs;
- control and potentially prohibit the export of our products; and
- change certain terms and conditions in our contracts.

As a U.S. Government contractor, we are required to comply with applicable laws, regulations and standards relating to our accounting practices and would be subject to periodic audits and reviews. As part of any such audit or review, the U.S. Government may review the adequacy of, and our compliance with, our internal control systems and policies, including those relating to our purchasing, property, estimating, compensation and management information systems. Based on the results of its audits, the U.S. Government may adjust our contract-related costs and fees, including allocated indirect costs. In addition, if an audit or review uncovers any improper or illegal activity, we would possibly be subject to civil and criminal penalties and administrative sanctions, including termination of our contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. Government. We could also suffer serious harm to our reputation if anyone were to make allegations of impropriety against us. Although we have not had any government audits and reviews to date, future audits and reviews could cause adverse effects. In addition, under U.S. Government purchasing regulations, some of our costs, including most financing costs, amortization of intangible assets, portions of our research and development costs, and some marketing expenses, would possibly not be reimbursable or allowed under such contracts. Further, as a U.S. Government contractor, we would be subject to an increased risk of investigations, criminal prosecution, civil fraud, whistleblower lawsuits and other legal actions and liabilities to which purely private sector companies are not.

***Our DARPA contract is a fixed price contract, which may not adequately cover our costs in performance should those costs increase.***

Our contract with DARPA is on a firm fixed price basis, which means that we are required to deliver our products at a fixed price regardless of the actual costs we incur and to absorb any costs in excess of the fixed price. If we have not accurately estimated the costs of expenses to perform the contract, we may not have positive revenue and we may incur losses to cover our costs. We expect that our future contracts, if any, with the U.S. Government also may be fixed price contracts. Estimating costs that are related to performance in accordance with contract specifications is difficult, particularly where the period of performance is over several years. Our failure to anticipate technical problems, estimate costs accurately or control costs during performance of a fixed price contract could reduce the profitability of a fixed price contract or cause a loss, which could in turn harm our operating results.

***As a U.S. Government contractor, we are subject to a number of procurement rules and regulations.***

Government contractors must comply with numerous procurement regulations. These regulations, although customary in government contracts, impact our performance and compliance costs. In addition, current U.S. Government budgetary constraints could lead to changes in the procurement environment, including the Department of Defense's recent initiative focused on efficiencies, affordability and cost growth and other changes to its procurement practices. If and to the extent such changes occur, they could impact our results of operations and liquidity, and could affect whether and, if so, how we pursue certain opportunities and the terms under which we are able to do so.

In addition, failure to comply with these regulations could result in reductions of the value of contracts, contract modifications or termination, and the assessment of penalties and fines, which could negatively impact our results of operations and financial condition. Our failure to comply with these regulations could also lead to suspension or debarment, for cause, from government contracting or subcontracting for a period of time. Among the causes for debarment are violations of various statutes, including those related to procurement integrity, export control, government security regulations, employment practices, protection of the environment, accuracy of records and the recording of costs, and foreign corruption. The termination of our government contract as a result of any of these acts could have a negative impact on our results of operations and financial condition and could have a negative impact on our reputation and ability to procure other government contracts in the future.

***In fulfilling our DARPA contract, we depend on a predictable supply of raw materials and components.***

We are dependent upon the delivery by suppliers of materials and the assembly by subcontractors of major components and subsystems used in our products in a timely and satisfactory manner and in full compliance with applicable terms and conditions. Some products require relatively scarce raw materials. We are generally subject to specific procurement requirements, which may, in effect, limit the suppliers and subcontractors we may utilize. In some instances, we are dependent on sole-source suppliers. If any of these suppliers or subcontractors fails to meet our needs, we may not have readily available alternatives. In addition, the recent global financial crisis may impact some of our suppliers or subcontractors, which could impair their ability to meet their obligations to us. If we experience a material supplier or subcontractor problem, our ability to satisfactorily and timely complete our clinical trial or delivery obligations could be negatively impacted which could result in reduced sales, termination of contracts and damage to our reputation and relationships with clinical trial providers and if applicable, the U.S. Government. We could also incur additional costs in addressing such a problem. Any of these events could have a negative impact on our results of operations and financial condition.

#### **Risks Relating to Our Common Stock, This Offering and Our Corporate Governance**

***Historically we have not paid dividends on our common stock, and we do not anticipate paying any cash dividends in the foreseeable future.***

We have never paid cash dividends on our common stock. We intend to retain our future earnings, if any, to fund operational and capital expenditure needs of our business, and we do not anticipate paying any cash dividends in the foreseeable future. Furthermore, future financing instruments may do the same. As a result, capital appreciation, if any, of our common stock will be the sole source of gain for our common stockholders in the foreseeable future.

***Our stock price is speculative, and there is a risk of litigation.***

The trading price of our common stock in the past has been and in the future may be subject to wide fluctuations in response to factors such as the following:

- revenue or results of operations in any quarter failing to meet the expectations, published or otherwise, of the investment community;
- reduced investor confidence in equity markets, due in part to corporate collapses in recent years;
- speculation in the press or analyst community;

- wide fluctuations in stock prices, particularly with respect to the stock prices for other medical device companies;
- announcements of technological innovations by us or our competitors;
- new products or the acquisition of significant customers by us or our competitors;
- changes in interest rates;
- changes in investors' beliefs as to the appropriate price-earnings ratios for us and our competitors;
- changes in recommendations or financial estimates by securities analysts who track our common stock or the stock of other medical device companies;
- changes in management;
- sales of common stock by directors and executive officers;
- rumors or dissemination of false or misleading information, particularly through Internet chat rooms, instant messaging, and other rapid-dissemination methods;
- conditions and trends in the medical device industry generally;
- the announcement of acquisitions or other significant transactions by us or our competitors;
- adoption of new accounting standards affecting our industry;
- general market conditions;
- domestic or international terrorism and other factors; and
- the other factors described in this section.

Fluctuations in the price of our common stock may expose us to the risk of securities class action lawsuits. Although no such lawsuits are currently pending against us and we are not aware that any such lawsuit is threatened to be filed in the future, third parties could sue us based on fluctuations in the price of our common stock. Defending against such suits could result in substantial cost and divert management's attention and resources. In addition, any settlement or adverse determination of such lawsuits could subject us to significant liability.

***If at any time our common stock is subject to the Securities and Exchange Commission's penny stock rules, broker-dealers may experience difficulty in completing customer transactions and trading activity in our securities may be adversely affected.***

If at any time our common stock is not listed on a national securities exchange or we have net tangible assets of \$5,000,000 or less and our common stock has a market price per share of less than \$5.00, transactions in our common stock will be subject to the Securities and Exchange Commission's "penny stock" rules. If our common stock is subject to the "penny stock" rules promulgated under the Securities Exchange Act of 1934, as amended, broker-dealers may find it difficult to effectuate customer transactions and trading activity in our securities may be adversely affected. For any transaction involving a penny stock, unless exempt, the rules require:

- that a broker or dealer approve a person's account for transactions in penny stocks; and
- that the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- obtain financial information and investment experience objectives of the person; and
- make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Securities and Exchange Commission relating to the penny stock market, which, in highlight form sets forth:

- the basis on which the broker or dealer made the suitability determination; and
- that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the “penny stock” rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

***Our common stock has had an unpredictable trading volume, which means you may not be able to sell our shares at or near asking prices or at all.***

Trading in our common shares historically has been volatile and often has been thin, meaning that the number of persons interested in purchasing our common shares at or near ask prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal, as compared to a seasoned issuer that has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot give you any assurance that a broader or more active public trading market for our common shares will develop or be sustained, or that current trading levels will be sustained.

***The market price for our common stock is volatile; you may not be able to sell our common stock at or above the price you have paid for it, which may result in losses to you.***

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. In fact, during the 52-week period ended March 31, 2015, the high and low closing sale prices of a share of our common stock were \$36.00 and \$5.00, respectively. The volatility in our share price is attributable to a number of factors. First, as noted above, trading in our common shares often has been thin. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our stockholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without adverse impact on its share price. Secondly, we are a speculative investment due to our limited operating history, limited amount of revenue, lack of profit to date, and the uncertainty of future market acceptance for our potential products. As a consequence of this enhanced risk, more risk-averse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. The following factors may add to the volatility in the price of our common shares: actual or anticipated variations in our quarterly or annual operating results; acceptance of our proprietary technology as a viable method of augmenting the immune response of clearing viruses and toxins from human blood; government regulations; announcements of significant acquisitions, strategic partnerships or joint ventures; our capital commitments; and additions or departures of our key personnel. Many of these factors are beyond our control and may decrease the market price of our common shares regardless of our operating performance. We cannot predict or project the prevailing market price for our common shares at any time, including whether our common shares will sustain their current market prices, or what effect the sale of shares or the availability of common shares for sale at any time will have on the prevailing market price.

***Although our common stock trades on the Nasdaq Capital Market, we cannot assure you that we will be able to comply with the continued listing standards of the Nasdaq Capital Market.***

Although our common stock trades on the Nasdaq Capital Market, we cannot assure you that we will be able to comply with the continued listing standards that we are required to meet in order to maintain that listing. Our failure to meet the listing maintenance requirements may result in our common stock being delisted from the Nasdaq Capital Market. If the Nasdaq Capital Market were to delist our common stock, we could face significant material adverse consequences, including:

- a limited availability of market quotations for our securities;
- reduced liquidity with respect to our securities;
- a limited amount of news and analyst coverage for our company; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

The National Securities Markets Improvement Act of 1996, which is a federal statute, prevents or preempts the states from regulating the sale of certain securities, which are referred to as “covered securities.” While our common stock is listed on the Nasdaq Capital Market, such securities will be covered securities. Although the states would be preempted from regulating the sale of our securities, in that event, the federal statute does allow the states to investigate companies if there is a suspicion of fraud, and, if there is a finding of fraudulent activity, then the states can regulate or bar the sale of covered securities in a particular case. Further, if the Nasdaq Capital Market were to delist our common stock, our common stock would not be a covered security and we would be subject to regulation in each state in which we offer our securities.

***The Depository Trust Company imposed restrictions upon electronic trading of our common stock, which negatively affected liquidity of the stock and our ability to raise capital.***

In September 2011, The Depository Trust Company placed a "chill" on the electronic clearing of trades in our shares, which led to some brokerage firms being unwilling to accept certificates and/or electronic deposits of our stock. We have since been successful in lifting the restrictions and our shares now clear electronically, making more brokers willing to trade in our common stock. We cannot assure you that The Depository Trust Company will not again place a chill on our common stock. A chill, if placed on our common stock, would affect the liquidity of our shares, which may make it difficult to purchase or sell shares in the open market. It may also have an adverse effect on our ability to raise capital since investors may be unable to resell shares into the market. Our inability to raise capital on terms acceptable to us, if at all, could have a material and adverse effect on our business and operations.



***Our directors and officers own or control approximately 7% of our outstanding common shares, which may limit your ability to propose new management or influence the overall direction of the business. This concentration of control may also discourage potential takeovers that could otherwise provide a premium to you.***

As of July 23, 2015, our officers and directors beneficially own or control approximately 7% of our outstanding common shares (assuming the exercise of all outstanding options and warrants held by our officers and directors). These persons will have the ability to substantially influence all matters submitted to our stockholders for approval and to control our management and affairs, including extraordinary transactions such as mergers and other changes of corporate control, and going private transactions.

***A large number of our common shares are issuable upon exercise of outstanding convertible securities, which, if exercised or converted, would be dilutive to your holdings.***

As of March 31, 2015, there are outstanding purchase options and warrants entitling the holders to purchase 1,932,405 common shares at a weighted average exercise price of \$7.92 per share. This includes 26,105 warrants that are conditional upon the exercise of other warrants. As of March 31, 2015, there are 98,043 shares underlying promissory notes convertible into common stock at a weighted average exercise price of \$5.60.

As a result of our June 2015 financing, and as of July 23, 2015, there are outstanding purchase options and warrants entitling the holders to purchase 2,771,127 common shares at a weighted average exercise price of \$7.44 per share. This includes 26,105 warrants that are conditional upon the exercise of other warrants and includes the 402,318 purchase options and warrants that were suspended by certain of our officers and directors in June 2015.

The exercise price for all of our outstanding options and warrants, or the conversion price of our convertible notes, may be less than your cost to acquire our common shares. If holders exercise or convert these securities, you could suffer substantial dilution of your investment in terms of your percentage ownership in us as well as the book value of your common shares. In addition, the holders of the convertible notes, common share purchase options or warrants may sell common shares in tandem with their exercise or conversion of those securities to finance that exercise or conversion, or may resell the shares purchased in order to cover any income tax liabilities that may arise from their exercise of the options or warrants or conversion of the notes.

***Our issuance of additional common shares, or convertible securities, would be dilutive to your holdings.***

We are entitled under our Articles of Incorporation to issue up to 10,000,000 shares of common stock. We have reserved for issuance 2,030,448 shares of common stock for existing options, warrants and convertible notes. As of March 31, 2015, we had issued and outstanding 6,657,046 shares of common stock. As a result, as of March 31, 2015, we had 1,312,506 common shares available for issuance to new investors or for use to satisfy indebtedness or pay service providers.

Our Board of Directors may generally issue shares of common stock, or options or warrants to purchase those shares, without further approval by our stockholders based upon such factors as our Board of Directors may deem relevant at that time. It is likely that we will be required to issue a large amount of additional securities to raise capital to further our development. It is also likely that we will be required to issue a large amount of additional securities to directors, officers, employees and consultants as compensatory grants in connection with their services, both in the form of stand-alone grants or under our stock plans. We cannot give you any assurance that we will not issue additional shares of common stock, or options or warrants to purchase those shares, under circumstances we may deem appropriate at the time.

However, as of July 23, 2015, and as a result of our June 2015 financing, substantially all 10,000,000 shares of common stock are either issued or reserved for issuance upon the conversion or exercise of outstanding securities including options, warrants and convertible notes, and we cannot issue any meaningful amount of shares of common stock, or options or warrants, or convertible notes until we increase the number of authorized shares to a number above 10,000,000, or unless outstanding warrants, options or convertible notes expire or are surrendered back to us before they are exercised or converted.

***Our issuance of additional shares of common stock in satisfaction of services, or to repay indebtedness, would be dilutive to your holdings.***

Our Board of Directors may generally issue shares of common stock to pay for debt or services, without further approval by our stockholders based upon such factors that our Board of Directors may deem relevant at that time. For the past four fiscal years (ending March 31, 2015), we issued a total of 2,602,909 shares for debt to reduce our obligations. The average price discount of common stock issued for debt in this period, weighted by the number of shares issued for debt in such period, was 76% and 43% for the years ended March 31, 2015 and 2014, respectively.

For the past four fiscal years (ending March 31, 2015), we issued a total of 216,032 shares as payment for services. The average price discount (premium) of common stock issued for services during this period, weighted by the number of shares issued, was (6.6)% and 16.0% for the years ended March 31, 2015 and 2014, respectively. It is likely that we will issue additional securities to pay for services and reduce debt in the future, after we increase our authorized shares. We cannot give you any assurance that we will not issue additional shares of common stock at various discounts under circumstances we may deem appropriate at the time. However, as of July 23, 2015, and as a result of our June 2015 financing, substantially all 10,000,000 shares of common stock are either issued or reserved for issuance upon the conversion or exercise of outstanding securities including options, warrants and convertible notes, and we cannot issue any meaningful amount of shares of common stock, or options or warrants, or convertible notes until we increase the number of authorized shares to a number above 10,000,000, or unless outstanding warrants, options or convertible notes expire or are surrendered back to us before they are exercised or converted.

***Our officers and directors are entitled to indemnification from us for liabilities under our Articles of Incorporation, which could be costly to us and may discourage the exercise of stockholder rights.***

Our Articles of Incorporation contain provisions that eliminate the liability of our directors for monetary damages to our company and stockholders. Our by-laws also require us to indemnify our officers and directors. We may also have contractual indemnification obligations under our agreements with our directors, officers and employees. As a result of these obligations, we could incur substantial expenditures to cover settlement or damage awards against directors, officers and employees that we may be unable to recoup. These provisions and resultant costs may also discourage us from bringing a lawsuit against directors, officers and employees for breaches of their fiduciary duties, and may similarly discourage stockholders from filing derivative litigation against our directors, officers and employees even though such actions, if successful, might otherwise benefit our company and stockholders.

***Our by-laws and Nevada law may discourage, delay or prevent a change of control of our company or changes in our management, which may depress the trading price of our common stock.***

Provisions of Nevada anti-takeover law (NRS 78.378 *et seq.*) could delay or prevent a third party from acquiring us, even if the acquisition arguably could benefit our stockholders. Our by-laws may be adopted, amended or repealed by the affirmative vote of the holders of at least a majority of our outstanding shares of capital stock entitled to vote for the election of directors, and except as provided by Nevada law, our Board of Directors has the power to adopt, amend or repeal the by-laws by a vote of not less than a majority of our directors. The interests of these stockholders and directors may not be consistent with your interests, and they may make changes to the by-laws that are not in line with your concerns.

Our authorized but unissued shares of common stock are available for our Board or Directors to issue without stockholder approval. We may use these additional shares for a variety of corporate purposes; however, faced with an attempt to obtain control of us by means of a proxy contest, tender offer, merger or other transaction, our Board of

Directors acting alone and without approval of our stockholders can issue large amounts of capital stock as part of a defense to a take-over challenge.

The foregoing provisions and other potential anti-takeover measures could limit the price that investors might be willing to pay in the future for shares of our common stock. They could also deter potential acquirers of our company, thereby reducing the likelihood that you could receive a premium for your common stock in an acquisition.

***We incur substantial costs as a result of being a public company, and our management expects to devote substantial time to public company compliance programs.***

As a public company, we incur significant legal, insurance, accounting and other expenses, including costs associated with public company reporting. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment will result in increased general and administrative expenses and may divert management's time and attention from product development and commercialization activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us, and our business may be harmed. These laws and regulations could make it more difficult and costly for us to obtain director and officer liability insurance for our directors and officers, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified executive officers and qualified members of our Board of Directors, particularly to serve on our audit and compensation committees. In addition, if we are unable to continue to meet the legal, regulatory and other requirements related to being a public company, we may not be able to maintain the listing of our common stock on the Nasdaq Capital Market, which would likely have a material adverse effect on the trading price of our common stock.

*If securities or industry analysts do not publish research or reports about our business, or if they change their recommendations regarding our stock adversely, our stock price and trading volume could decline.*

The research and reports that industry or securities analysts publish about us or our business will influence the trading market for our common stock. Our research coverage by industry and financial analysts is currently limited. Even if our analyst coverage increases, if one or more of the analysts who cover us downgrade our stock, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

## **USE OF PROCEEDS**

This prospectus relates to shares of our common stock that may be offered and sold from time to time by the selling stockholders identified in this prospectus. We will not receive any of the proceeds resulting from the sale of the shares held by the selling stockholders, including shares obtained by the selling stockholders upon exercise of the warrants. If any of the selling stockholders were to exercise warrants to acquire the common stock to be sold pursuant to this prospectus, we would receive the cash exercise price, if any. As of the date of this prospectus, 746,657 shares of our common stock are issuable upon exercise of warrants owned by the selling stockholders and covered by this prospectus at an exercise price of \$6.30 per share of common stock. Accordingly, we would receive up to \$4,703,939 in gross proceeds if all of the warrants were exercised for cash. We expect to use the proceeds received from the cash exercise of warrants, if any, for general working capital purposes. However, the selling stockholders may not exercise the warrants at all, or for cash. If the selling stockholders exercise the warrants on a cashless basis, we will not receive any proceeds from such exercise.

## **SELLING STOCKHOLDERS**

The shares of common stock being offered by the selling stockholders include those issued to the selling stockholders pursuant to the securities purchase agreement we entered into with certain of the selling stockholders and shares of common stock issuable upon exercise of the warrants purchased pursuant to the securities purchase agreement. The shares of common stock being offered by the selling stockholders also include common stock underlying warrants issued to the placement agent in connection with the securities purchase agreement. For additional information regarding the issuance of the common stock and warrants, see "Private Placement of Common Stock and Warrants" above. We are registering the shares of common stock in order to permit the selling stockholders to offer the shares for resale from time to time. Except for the ownership of shares of common stock, warrants and convertible promissory notes by certain of the selling stockholders acquired in various transactions, and Roth Capital Partners, LLC having acted as placement agent in connection with the private placement of securities effected pursuant to the securities purchase agreement and in connection with the December 2014 financing, the selling stockholders have not had any material relationship with us within the past three years.

The table below lists the selling stockholders and other information regarding the beneficial ownership of shares of our common stock by each of the selling stockholders. The second column lists the number of shares of common stock beneficially owned by each selling stockholder, based on its ownership of our common stock and warrants, as of July 10, 2015, assuming exercise of all warrants held by the selling stockholders on that date, without regard to any limitations on exercise.

The third column lists the shares of common stock being offered by this prospectus by the selling stockholders.

In accordance with the terms of a registration rights agreement with the selling stockholders, this prospectus generally covers the resale of at least the sum of (i) the number of shares of common stock issued pursuant to the securities purchase agreement as of the trading day immediately preceding the date the registration statement is initially filed with the Securities and Exchange Commission, and (ii) the maximum number of shares of common stock issued and issuable upon exercise of the warrants as of the trading day immediately preceding the date the registration statement is initially filed with the Securities and Exchange Commission.

Under the terms of the warrants, a selling stockholder may not exercise the warrants to the extent such exercise would cause such selling stockholder, together with its affiliates, to beneficially own a number of shares of common stock which would exceed 4.99% of the then-outstanding shares of our common stock following such exercise, excluding for purposes of such determination shares of common stock issuable upon exercise of the warrants which have not been exercised. The number of shares in the second column does not reflect this limitation. The selling stockholders may sell in this offering all, some or none of the shares they acquired, or may acquire upon exercise of warrants acquired, pursuant to the securities purchase agreement. See "Plan of Distribution."

<b>Name of Selling Stockholder</b>	<b>Number of Shares of Common Stock Owned Prior to Offering</b>	<b>Maximum Number of Shares of Common Stock to be Sold Pursuant to this Prospectus</b>	<b>Number of Shares of Common Stock Owned After Offering (1)</b>
<b>Alpha Capital Anstalt (2)</b>	806,008	694,444	111,564
<b>Empery Asset Master, Ltd. (3)</b>	285,902	201,712	84,190
<b>Empery Tax Efficient, LP (4)</b>	185,829	164,128	21,701
<b>Empery Tax Efficient II, LP (5)</b>	347,825	189,716	158,109
<b>Frontier Ventures LLC (6)</b>	99,188	5,556	93,632
<b>Lincoln Park Capital Fund, LLC (7)</b>	43,750	43,750	0
<b>Osher Capital Partners LLC (8)</b>	57,585	27,778	29,807
<b>Joshua S. Brodtkin (9)</b>	9,465	8,333	1,132
<b>Rajendra P. Gupta (10)</b>	13,889	13,889	0
<b>Gary Karlin and Jane Zamost (11)</b>	54,058	13,889	40,169
<b>Kevin L. Kunkle (12)</b>	96,128	55,556	40,572
<b>Jay K. Patel (13)</b>	41,894	19,444	22,450
<b>Adam Sackstein (14)</b>	367,086	91,667	275,419
<b>Chirag S. Shah (15)</b>	222,773	67,251	155,522
<b>Nirav K. Shah (16)</b>	27,778	27,778	0
<b>Sydney Tyson (17)</b>	17,889	13,889	4,000
<b>Christopher Wetzel (18)</b>	87,187	13,889	73,298
<b>Marshall Wolf (19)</b>	17,501	14,000	3,501
<b>Roth Capital Partners, LLC (20)</b>	43,371	32,371	11,000

(1) Represents the number of shares of common stock that will be beneficially owned by the selling stockholder after completion of this offering based on the assumptions that (i) all of the shares of common stock registered for resale by the registration statement of which this prospectus is a part will be sold and (ii) no other shares of common stock will be acquired or sold by the selling stockholder before completion of this offering. However, the selling stockholder may sell all, part or none of its shares of common stock offered pursuant to this prospectus and may sell all, part or none of its common stock pursuant to one or more exemptions from the registration provisions of the Securities Act of 1933, as amended.

(2) Includes 297,619 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.30 per share, subject to customary adjustments, which expires on June 25, 2020, 37,188 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$8.40 per share, subject to customary adjustments, which expires on November 6, 2019, and 74,376 shares of common stock issuable upon the conversion of a convertible promissory note with a conversion price of \$5.60 per share, subject to customary adjustments. Konrad Ackermann and Dr. Nicola Feuerstein have discretionary authority to vote and dispose of the shares held by Alpha Capital Anstalt, and each may be deemed to be the beneficial owner of these shares.

(3) Includes 84,190 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$15.00 per share, subject to customary adjustments, which expires on December 2, 2019, and 86,448 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.30 per share, subject to customary adjustments, which expires on June 25, 2020. Empery Asset Management LP, the authorized agent of Empery Asset Master Ltd., has discretionary authority to vote and dispose of the shares held by Empery Asset Master Ltd. and may be deemed to be the beneficial owner of these shares. Martin Hoe and Ryan Lane, in their capacity as investment managers of Empery Asset Management LP, may also be deemed to have investment discretion and voting power over the shares held by Empery Asset Master Ltd. Empery Asset Management LP, Mr. Hoe and Mr. Lane each disclaim any beneficial ownership of these shares.

(4) Includes 21,701 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$15.00 per share, subject to customary adjustments, which expires on December 2, 2019, and 70,341 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.30 per share, subject to customary adjustments, which expires on June 25, 2020. Empery Asset Management LP, the authorized agent of Empery Tax Efficient, LP, has discretionary authority to vote and dispose of the shares held by Empery Tax Efficient, LP and may be deemed to be the beneficial owner of these shares. Martin Hoe and Ryan Lane, in their capacity as investment managers of Empery Asset Management LP, may also be deemed to have investment discretion and voting power over the shares held by Empery Tax Efficient, LP. Empery Asset Management LP, Mr. Hoe and Mr. Lane each disclaim any beneficial ownership of these shares.

(5) Includes 158,109 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$15.00 per share, subject to customary adjustments, which expires on December 2, 2019, and 81,307 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.30 per share, subject to customary adjustments, which expires on June 25, 2020. Empery Asset Management LP, the authorized agent of Empery Tax Efficient II, LP, has discretionary authority to vote and dispose of the shares held by Empery Tax Efficient II, LP and may be deemed to be the beneficial owner of these shares. Martin Hoe and Ryan Lane, in their capacity as investment managers of Empery Asset Management LP, may also be deemed to have investment discretion and voting power over the shares held by Empery Tax Efficient II, LP. Empery Asset Management LP, Mr. Hoe and Mr. Lane each disclaim any beneficial ownership of these shares.



(6) Includes 2,381 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.30 per share, subject to customary adjustments, which expires on June 25, 2020, 13,333 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$5.65 per share, subject to customary adjustments, which expires on October 15, 2019, 15,625 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$4.80 per share, subject to customary adjustments, which expires on February 11, 2020, and 2,252 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$8.35 per share, subject to customary adjustments, which expires on August 5, 2020. Munish Sood has discretionary authority to vote and dispose of the shares held by Frontier Ventures LLC and may be deemed to be the beneficial owner of these shares.

(7) Includes 18,750 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.30 per share, subject to customary adjustments, which expires on June 25, 2020. Joshua Scheinfeld and Jonathan Cope have discretionary authority to vote and dispose of the shares held by Lincoln Park Capital Fund, LLC and may be deemed to be the beneficial owner of these shares.

(8) Includes 11,905 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.30 per share, subject to customary adjustments, which expires on June 25, 2020, 9,936 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$8.40 per share, subject to customary adjustments, which expires on November 6, 2019, and 19,871 shares of common stock issuable upon the conversion of a convertible promissory note with a conversion price of \$5.60 per share, subject to customary adjustments. Ari Kluger has discretionary authority to vote and dispose of the shares held by Osher Capital Partners LLC and may be deemed to be the beneficial owner of these shares.

(9) Includes 3,571 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.30 per share, subject to customary adjustments, which expires on June 25, 2020.

(10) Includes 5,952 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.30 per share, subject to customary adjustments, which expires on June 25, 2020.

(11) Includes 5,952 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.30 per share, subject to customary adjustments, which expires on June 25, 2020, 10,000 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.25 per share, subject to customary adjustments, which expires on March 29, 2019, and 3,390 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$4.40 per share, subject to customary adjustments, which expires on December 14, 2019.

(12) Includes 23,810 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.30 per share, subject to customary adjustments, which expires on June 25, 2020, 3,125 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$4.80 per share, subject to customary adjustments, which expires on August 12, 2021, and 7,018 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$4.30 per share, subject to customary adjustments, which expires on August 12, 2021.

(13) Includes 8,333 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.30 per share, subject to customary adjustments, which expires on June 25, 2020.

(14) Includes 39,286 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.30 per share, subject to customary adjustments, which expires on June 25, 2020, 20,000 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.25 per share, subject to customary adjustments, which expires on April 5, 2019, 6,250 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.00 per share, subject to customary adjustments, which expires on August 29, 2019, 7,752 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$9.65 per share, subject to customary adjustments, which expires on June 26, 2019, 12,281 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$4.30 per share, subject to customary adjustments, which expires on October 17, 2021, and 13,889 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$5.40 per share, subject to customary adjustments, which expires on October 17, 2021. Also includes 45,162 shares of common stock and 11,290 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$4.65 per share, subject to customary adjustments, which expires on October 17, 2021, which are held by the Judith Sackstein Irrevocable Trust. Dr. Adam Sackstein has discretionary authority to vote and dispose of the shares held by the Judith Sackstein Irrevocable Trust and may be deemed to be the beneficial owner of these shares.

(15) Includes 28,822 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.30 per share, subject to customary adjustments, which expires on June 25, 2020, 6,173 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.10 per share, subject to customary adjustments, which expires on July 29, 2021, 6,250 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.25 per share, subject to customary adjustments, which expires on October 17, 2021, 6,944 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$5.40 per share, subject to customary adjustments, which expires on October 17, 2021, 3,125 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.00 per share, subject to customary adjustments, which expires on October 17, 2021, and 3,509 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$4.30 per share, subject to customary adjustments, which expires on October 17, 2021.

(16) Includes 11,905 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.30 per share, subject to customary adjustments, which expires on June 25, 2020.

(17) Includes 5,952 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.30 per share, subject to customary adjustments, which expires on June 25, 2020.

(18) Includes 5,952 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.30 per share, subject to customary adjustments, which expires on June 25, 2020, 5,000 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.25 per share, subject to customary adjustments, which expires on April 5, 2019, 2,778 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$5.40 per share, subject to customary adjustments, which expires on June 19, 2019, 1,306 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.00 per share, subject to customary adjustments, which expires on August 29, 2019, 2,660 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$7.10 per share, subject to customary adjustments, which expires on August 29, 2019, 1,667 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$4.65 per share, subject to customary adjustments, which expires on October 20, 2021, and 2,709 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$4.80 per share, subject to customary adjustments, which expires on October 20, 2021.

(19) Includes 6,000 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.30 per share, subject to customary adjustments, which expires on June 25, 2020.

(20) Represents 11,000 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$15.00 per share, subject to customary adjustments, which expires on December 2, 2019, and 32,371 shares of common stock issuable upon the exercise of a warrant to purchase shares of common stock with an exercise price of \$6.30 per share, subject to customary adjustments, which expires on June 25, 2020. Roth Capital Partners, LLC is a Financial Industry Regulatory Authority-registered broker-dealer and received the warrants as compensation for investment banking services in connection with the private placements of securities referenced herein that were consummated in December 2014 and June 2015. The individual persons who share the power to vote and/or dispose of these securities are Byron Roth and Gordon Roth.

## **PLAN OF DISTRIBUTION**

We are registering the shares of common stock issued pursuant to the terms of the securities purchase agreement and upon exercise of the warrants to permit the resale of these shares of common stock by the holders of such shares and warrants from time to time after the date of this prospectus. We will not receive any of the proceeds from the sale by the selling stockholders of the shares of common stock. We will bear all fees and expenses incident to our obligation to register the shares of common stock.

The selling stockholders may sell all or a portion of the shares of common stock beneficially owned by them and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the shares of common stock are sold through underwriters or broker-dealers, the selling stockholders will be responsible for underwriting discounts or commissions or agent's commissions. The shares of common stock may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale, or at negotiated prices. These sales may be effected in transactions, which may involve crosses or block transactions,

- on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale;
- in the over-the-counter market;
- in transactions otherwise than on these exchanges or systems or in the over-the-counter market;
- through the writing of options, whether such options are listed on an options exchange or otherwise;
- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales;
- sales pursuant to Rule 144;
- broker-dealers may agree with the selling security holders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

If the selling stockholders effect such transactions by selling shares of common stock to or through underwriters, broker-dealers or agents, such underwriters, broker-dealers or agents may receive commissions in the form of discounts, concessions or commissions from the selling stockholders or commissions from purchasers of the shares of common stock for whom they may act as agent or to whom they may sell as principal (which discounts, concessions or commissions as to particular underwriters, broker-dealers or agents may be in excess of those customary in the types of transactions involved). In connection with sales of the shares of common stock or otherwise, the selling stockholders may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the shares of common stock in the course of hedging in positions they assume. The selling stockholders may also sell shares of common stock short and deliver shares of common stock covered by this prospectus to close out short positions and to return borrowed shares in connection with such short sales. The selling stockholders may also loan or pledge shares of common stock to broker-dealers that in turn may sell such shares.

The selling stockholders may pledge or grant a security interest in some or all of the shares of common stock or warrants owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time pursuant to this prospectus or any amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933, as amended, amending, if necessary, the list of selling stockholders to include the pledgee, transferee or other successors in interest

as selling stockholders under this prospectus. The selling stockholders also may transfer and donate the shares of common stock in other circumstances, in which case the transferees, donees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The selling stockholders and any broker-dealer participating in the distribution of the shares of common stock may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, as amended, and any commission paid, or any discounts or concessions allowed to, any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act of 1933, as amended. At the time a particular offering of the shares of common stock is made, a prospectus supplement, if required, will be distributed which will set forth the aggregate amount of shares of common stock being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling stockholders and any discounts, commissions or concessions allowed or reallocated or paid to broker-dealers.

Under the securities laws of some states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the shares of common stock may not be sold unless such shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

We cannot assure you that any selling stockholder will sell any or all of the shares of common stock registered pursuant to the registration statement, of which this prospectus forms a part.

The selling stockholders and any other person participating in such distribution will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including, without limitation, Regulation M of the Securities Exchange Act of 1934, as amended, which may limit the timing of purchases and sales of any of the shares of common stock by the selling stockholders and any other participating person. Regulation M may also restrict the ability of any person engaged in the distribution of the shares of common stock to engage in market-making activities with respect to the shares of common stock. All of the foregoing may affect the marketability of the shares of common stock and the ability of any person or entity to engage in market-making activities with respect to the shares of common stock.

We will pay all expenses of the registration of the shares of common stock pursuant to the registration rights agreement, estimated to be approximately \$38,351 in total, including, without limitation, Securities and Exchange Commission filing fees and expenses of compliance with state securities or blue sky laws; provided, however, that a selling stockholder will pay all underwriting discounts and selling commissions, if any. We will indemnify the selling stockholders against liabilities, including some liabilities under the Securities Act of 1933, as amended, in accordance with the registration rights agreement, or the selling stockholders will be entitled to contribution. We may be indemnified by the selling stockholders against civil liabilities, including liabilities under the Securities Act of 1933, as amended, that may arise from any written information furnished to us by the selling stockholder specifically for use in this prospectus, in accordance with the related registration rights agreement, or we may be entitled to contribution.

Once sold under the registration statement, of which this prospectus forms a part, the shares of common stock will be freely tradable in the hands of persons other than our affiliates.

## **DESCRIPTION OF BUSINESS**

### **Overview and Corporate History**

We create medical devices to address unmet therapeutic needs in infectious disease, cancer and other life-threatening conditions. Our lead product is the Aethlon Hemopurifier®, a device that selectively targets the rapid elimination of circulating viruses and tumor-secreted exosomes that promote cancer progression. Through our majority-owned subsidiary, Exosome Sciences, Inc., we are also developing exosome-based products to diagnose and monitor neurological disorders and cancer. In addition, we operate under a Department of Defense contract through DARPA related to the development of a sepsis treatment device. We also operate under a second Department of Defense contract as a subcontractor.

On March 10, 1999, Aethlon, Inc., a California corporation, Hemex, Inc., a Delaware corporation and the accounting predecessor to Aethlon, Inc., and Bishop Equities, Inc., a publicly traded Nevada corporation, completed an Agreement and Plan of Reorganization structured to result in Bishop Equities, Inc.'s acquisition of all of the outstanding common shares of Aethlon, Inc. and Hemex, Inc. Under the plan's terms, Bishop Equities, Inc. issued shares of its common stock to the stockholders of Aethlon, Inc. and Hemex, Inc. such that Bishop Equities, Inc. then owned 100% of each company. Upon completion of the transaction, Bishop Equities, Inc. was renamed Aethlon Medical, Inc. Our executive offices are located at 9635 Granite Ridge Drive, Suite 100, San Diego, California 92123. Our telephone number is (858) 459-7800. All references to “us” or “we” are references to Aethlon Medical, Inc., combined with our subsidiary, Exosome.

### **Target Market and Strategy**

Our business is divided into three areas. First, we are advancing our lead product, the Aethlon Hemopurifier, which targets the removal of circulating viruses and shed glycoproteins to treat infectious viral pathogens. In oncology indications, the Hemopurifier targets the removal of circulating exosomes, which are secreted by tumors to prevent the immune system from rejecting the tumors.

The second focus is government contracting. We operate under two Department of Defense contracts related to a program entitled “Dialysis-Like Therapeutics.” One is a contract with DARPA, and the other is a subcontract with Battelle Memorial Institute. Under these contracts, our tasks include the development of a dialysis-like device to prevent sepsis, a fatal bloodstream infection that is often the cause of death in combat-injured soldiers.

The third facet is conducted through Exosome, which is developing exosome-based products to diagnose and monitor neurological disorders and cancer.

We have developed the Hemopurifier primarily for use as an adjunct therapy to improve the benefit of infectious disease and cancer therapies marketed by pharmaceutical organizations. For example, a clinical trial protocol administered at the Medanta Medicity Institute in India was designed to treat Hepatitis C patients as they began their standard of care drug regimen as a means to reduce the time it normally takes for the virus to become undetectable in the patient’s blood. At completion of the Medanta Medicity study, we reported that patients who received the Hemopurifier therapy protocol had higher rapid virologic response and sustained virologic response rates as compared to what would normally be expected for Hepatitis C virus infected individuals who receive standard of care interferon-ribavirin drug therapy alone. We are also studying the use of our Hemopurifier as a first-line therapeutic solution against viral pathogens that are not treatable with antiviral drugs as well as viral pathogens that have evolved to become drug resistant.





## **Our Lead Device: The Aethlon Hemopurifier**

The Aethlon Hemopurifier is a device that selectively targets the rapid elimination of circulating viruses and tumor-secreted exosomes that promote cancer progression. More specifically, the Hemopurifier addresses antiviral drug-resistance in Hepatitis C virus and Human Immunodeficiency Virus-infected individuals; serves as a countermeasure against viral pathogens not addressed by drug or vaccine therapies; and, we believe, represents the first therapeutic strategy to address cancer promoting exosomes. In clinical studies conducted in India, safety and efficacy observations of Hemopurifier therapy have been observed in both Hepatitis C virus and Human Immunodeficiency Virus-infected individuals. We have recently initiated patient recruitment for the first FDA-approved studies of Hemopurifier therapy in the U.S.

## **The Scientific Mechanism of the Hemopurifier**

The Hemopurifier is an extracorporeal device designed for the single-use removal of viruses, viral toxins, and deleterious exosomes from the circulatory system of treated patients. Delivery of Hemopurifier therapy can occur through the established infrastructure of continuous renal replacement therapy and dialysis instruments routinely found in hospitals and clinics worldwide. Many extracorporeal techniques, such as dialysis or plasmapheresis, are designed to remove circulating particles solely by molecule size. However, the Hemopurifier incorporates a lectin affinity agent that is designed to bind to a unique high mannose signature that is abundant on the surface of tumor-derived exosomes and glycoproteins that reside on the outer membrane of infectious viruses. The Hemopurifier is designed to provide a broad-spectrum mechanism to inhibit the presence of certain cancer and infectious disease related particles. A single treatment with the Hemopurifier can last from three to six and one-half hours in duration.

## **The Hemopurifier - Antiviral Drug-Resistance; Planned U.S. Clinical Trials**

The Hemopurifier provides a novel methodology to target mutant viral strains that trigger antiviral drug resistance in both Human Immunodeficiency Virus and Hepatitis C virus infections. In Hepatitis C virus care, we believe the Hemopurifier is positioned to address drug resistance associated with emerging all-antiviral therapies and also to accelerate Hepatitis C virus depletion at the outset of peginterferon+ribavirin therapy.

Based on previous studies we conducted in India, safety and efficacy observations of Hemopurifier therapy have been observed in both disease conditions. As a result of these outcomes, we have received an opportunity to initiate the first FDA-approved feasibility study of Hemopurifier therapy in the U.S. The feasibility study is now enrolling Hepatitis C virus-infected patients to be treated at DaVita MedCenter Dialysis in Houston, Texas. We enrolled one patient in the study in February 2015 and have completed the treatment protocol on that patient. The principal investigator for the study is Dr. Stephen Z. Fadem, who is co-medical director of DaVita MedCenter Dialysis.

Successful completion of this study will permit us to initiate further stage studies that are required for market clearance to treat Hepatitis C virus and other viral pathogens in the U.S. Our feasibility study protocol calls for the enrollment of ten Hepatitis C virus-infected end stage renal disease patients who have not received any pharmaceutical therapy for their Hepatitis C virus infection for at least 30 days. The protocol will consist of a control phase of three consecutive standard dialysis treatments during week one followed by the inclusion of our Hemopurifier during a total of six dialysis sessions conducted during weeks two and three. The rate of adverse events observed during the Hemopurifier therapy phase will be compared to the rate experienced during the control phase. Per-treatment changes of viral load will be observed through quantitative polymerase chain reaction analysis. Additionally, we plan to measure the number of viral copies of Hepatitis C virus captured within the Hemopurifier during each treatment session.

On February 14, 2014, we entered into an agreement with Total Renal Research, Inc. (dba DaVita Clinical Research). Pursuant to the agreement, Da Vita Clinical Research is conducting site management administrative services for a study. The agreement with DaVita Clinical Research requires us to pay certain expenses related to the study protocol projected to be less than \$200,000, including certain start-up and close-out costs, patient compensation and project management fees. Additional activities and completion of this clinical trial will require us to pay additional costs estimated to be \$650,000. We will also be responsible for the fees for any third-party consulting physicians, including Dr. Fadem, utilized in connection with the study and other pass-through expenses if incurred. The work order under this agreement was effective as of May 16, 2014 and will continue in effect until completion of the services being provided by DaVita Clinical Research.

## **The Hemopurifier - Antiviral Studies in India**

Previously, we conducted Hepatitis C virus treatment studies at the Apollo Hospital, Fortis Hospital, and most recently the Medanta Medicity Institute in India.

In the Medanta Medicity Institute study, twelve Hepatitis C virus-infected individuals were enrolled to receive three six-hour Hemopurifier treatments during the first three days of a 48-week peginterferon+ribavirin treatment regimen. The study was conducted under the leadership of Dr. Vijay Kher at the Medanta Medicity Institute, a multi-specialty medical institute established to be a premier center for medical tourism in India. Dr. Kher's staff reported that Hemopurifier therapy was well tolerated and without device-related adverse events in the twelve treated patients.

Of these twelve patients, ten completed the Hemopurifier-peginterferon+ribavirin treatment protocol, including eight genotype-1 patients and two genotype-3 patients. Eight of the ten patients achieved a sustained virologic response, which is the clinical definition of treatment cure and is defined as undetectable Hepatitis C virus in the blood 24 weeks after the completion of the 48-week peginterferon+ribavirin drug regimen. Both genotype-3 patients achieved a sustained virologic response, while six of the eight genotype-1 patients achieved a sustained virologic response.

Of the ten patients who completed the full treatment protocol, five also achieved a rapid virologic response, defined as undetectable Hepatitis C virus in the blood at day 30 of therapy. Rapid virologic response represents the clinical endpoint that best predicts sustained virologic response cure rates resulting from peginterferon+ribavirin therapy. As a point of reference, the landmark Individualized Dosing Efficacy vs Flat Dosing to Assess Optimal Pegylated Interferon Therapy study of 3,070 Hepatitis C virus genotype-1 patients documented that 10.35% (n=318/3070) of peginterferon+ribavirin-treated patients achieved a rapid virologic response. Patients who achieved a rapid virologic response had sustained virologic response rates of 86.2% (n=274/318) versus sustained virologic response rates of 32.5% (n=897/2752) in non-rapid virologic response patients. Two of the genotype-1 patients who achieved a rapid virologic response also achieved an immediate virologic response, defined as undetectable Hepatitis C virus in the blood seven days after initiation of Hemopurifier-peginterferon+ribavirin treatment protocol. The earliest measured report of undetectable Hepatitis C virus in blood in the Individualized Dosing Efficacy vs Flat Dosing to Assess Optimal Pegylated Interferon Therapy study was on day 14 of the study.

Data from two patients was not included in the reported Hemopurifier-peginterferon+ribavirin dataset. One of these patients was a genotype-5 patient who discontinued peginterferon+ribavirin therapy at day 180, yet still achieved a sustained virologic response. The second patient was a genotype-3 patient who also achieved a sustained virologic response, yet was unable to tolerate peginterferon+ribavirin therapy and discontinued therapy at day 90. Overall, ten of the twelve patients who enrolled in the study achieved a sustained virologic response and seven of the twelve patients achieved a rapid virologic response.

### **Hemopurifier - Human Immunodeficiency Virus; Single Proof Study**

In addition to treating Hepatitis C virus-infected individuals, we have conducted a single proof-of-principle treatment study related to the treatment of Human Immunodeficiency Virus. In the study, Hemopurifier therapy reduced viral load by 93% in a Human Immunodeficiency Virus-Acquired Immunodeficiency Syndrome-infected individual without the administration of antiviral drug therapy. The study protocol provided for 12 Hemopurifier treatments, each four hours in duration, which were administered over the course of one month.

Researchers at the Morehouse School of Medicine have since discovered that the Hemopurifier is able to capture exosomes that transport negative regulatory factor protein, which is reported to suppress the immune response in Human Immunodeficiency Virus-infected individuals.

### **The Hemopurifier - Viral Pathogens Not Addressed by Drug Therapies**

The protocol design of our forthcoming FDA-approved study was originally designed as a human safety challenge and model for addressing drug and vaccine resistant bioterror and emerging pandemic threats. *In vitro* studies conducted by leading government and non-government researchers have demonstrated that the Hemopurifier is able to capture a broad spectrum of some of the world's deadliest viral pathogens. These include: Dengue hemorrhagic fever, Ebola hemorrhagic fever, Lassa hemorrhagic fever, H5N1 avian influenza, H1N1 swine flu virus, the reconstructed 1918 influenza virus, West Nile virus and Vaccinia and Monkeypox, which serve as models for human smallpox infection. Human efficacy studies are not permissible against high-threat bioterror and pandemic threats.

The following table lists some of the key viral pathogens captured during *in vitro* studies and the name of the research institute that ran the study.

<u>Virus Type</u>	<u>Collaborator</u>
Ebola Virus	United States Army Medical Research Institute of Infectious Diseases/Centers for Disease Control
Dengue Fever	National Institute of Virology/World Health Organization
Lassa Hemorrhagic Fever	Southwest Foundation for Biomedical Research
West Nile Virus	Battelle
H5N1 Avian Flu	Battelle
1918-r Spanish Flu	Battelle
2009 H1N1 Swine Flu	Battelle

### **The Hemopurifier - Candidate to Treat Cancer**

In “Extracellular Vesicles: Emerging Targets for Cancer Therapy,” a review article sponsored by the National Cancer Institute and published in the July 2014 issue of *Trends in Molecular Medicine*, we were the sole organization referenced to have a therapeutic candidate to address tumor-secreted exosomes, which have been discovered to suppress the immune system of cancer patients, seed the creation and spread of metastasis, promote angiogenesis, trigger resistance to chemotherapy, and transport primary cancer therapeutic targets of the biopharmaceutical industry. To date, we have received an issued patent that protects the use of our Hemopurifier to remove immunosuppressive extracellular vesicles or exosomes from the blood of cancer patients. Through internal research and external research collaborations, we have demonstrated that the affinity lectin immobilized in our Hemopurifier is able to bind exosomes underlying a broad spectrum of disease indications including cancer.

We believe that Hemopurifier therapy could play a role in the emerging immuno-oncology industry as an adjunct that can combine with established and emerging cancer therapies without adding drug toxicity. More specifically, we believe that a mechanism to inhibit exosome immune suppression should be clinically tested in combination with drugs designed to stimulate the immune response.

On April 9, 2015, we entered into an investigator-initiated clinical trial agreement with the University of California, Irvine, or UCI, pursuant to which UCI will conduct a five-year clinical study protocol entitled “Plasma Exosome Concentration in Cancer Patients Undergoing Treatment.” The protocol will seek to enroll five individuals in each of nine defined tumor types for a total study population of up to 45 subjects. The tumor types include the following forms of cancer: breast adenocarcinoma, colorectal, gastric and gastroesophageal, pancreatic, cholangiocarcinoma, lung, head and neck, melanoma and ovarian adenocarcinoma. The principal investigator of the study is Edward Nelson, M.D. The budget for the protocol provides for (i) \$19,032 in startup charges; (ii) \$8,039 in protocol-related variable pass-through charges; and (iii) visit charges of \$3,359 per subject, for a total subject visit charge of \$151,155

for 45 subjects. We will bear these costs. UCI may disseminate the results of the clinical trial through presentation and publication but may not disclose any of our confidential information.

### **Exosome Sciences, Inc. - Diagnostic Candidates**

Through our majority-owned subsidiary, Exosome, we are developing exosome-based product candidates to diagnose and monitor neurological disorders and cancer. Since it began operations in 2013, Exosome researchers have disclosed that they have isolated brain-specific biomarkers associated with Alzheimer's Disease and Chronic Traumatic Encephalopathy. Specific to Chronic Traumatic Encephalopathy, Exosome is participating in a research collaboration with The Boston University CTE Center to study the correlation of a biomarker known as tauosome with Chronic Traumatic Encephalopathy. On April 16, 2015, Boston University School of Medicine announced preliminary, unpublished findings related to the study, which showed that researchers were able to isolate and quantify the presence of tauosomes in the blood. The results are preliminary and additional research is required. Researchers at Exosome are also studying lectin-based affinity techniques to isolate cancer-related exosomes.

Exosome researchers have demonstrated the ability to identify, quantify, and characterize circulating Glioblastoma multiforme exosomes, which hold promise as a disease biomarker to identify the early detection of this aggressive form of cancer and monitor response to therapy. We believe that the discovery of circulating glioblastoma multiforme exosomes may offer a potential new paradigm in glioblastoma multiforme exosomes clinical management through a platform technology to predict tumor regression or progression.

### **U.S. Government Contract with the Defense Advanced Research Projects Agency**

On September 30, 2011, we entered into a \$6.8 million multi-year contract with DARPA, resulting from our response to a program entitled "Dialysis-Like Therapeutics." Under this contract, our tasks include the development of a dialysis-like device to prevent sepsis, a fatal bloodstream infection that is often the cause of death in combat-injured soldiers.

The initial award from DARPA was a fixed-price contract with potential total payments to us of \$6,794,389 over the course of five years. As noted below, such contract was subsequently reduced by \$858,469. Fixed-price contracts require the achievement of multiple, incremental milestones to receive the full award during each year of the contract. Under the terms of the contract, we are required to perform certain incremental work towards the achievement of specific milestones against which we will invoice the government for fixed payment amounts.

Originally, only the base year (year one of the contract) was effective for the parties, however, DARPA subsequently exercised the option on the second, third and fourth years of the contract. DARPA has the option to enter into the contract for year five. The milestones are comprised of planning, engineering and clinical targets, the achievement of which in some cases will require the participation and contribution of third-party participants under the contract. We cannot assure you that we alone, or with third-party participants, will meet such milestones to the satisfaction of the government and in compliance with the terms of the contract or that we will be paid the full amount of the contract revenues during any year of the remaining contract term. We cannot assure you that DARPA will exercise its option to continue the contract for year five. We commenced work under the contract in October 2011.

In February 2014, DARPA reduced the scope of our contract in years three through five of the contract. The reduction in scope focused our research on exosomes, viruses and blood processing instrumentation. This scope reduction will reduce the possible payments under the contract by \$858,469 over years three through five.

The DARPA contract requires us to perform certain scientific research and development activities geared toward the achievement of specific milestones set forth in the contract. During the fiscal years ended March 31, 2014 and March 31, 2015, we recognized revenue of \$1,466,482 and \$630,887, respectively, under the DARPA contract. Based on the DARPA contract, as now in force, we may achieve up to an additional \$1,154,293 in revenue under the DARPA contract during the fiscal years ending March 31, 2016 and March 31, 2017.

### **Subcontract with Battelle Memorial Institute**

We entered into a subcontract agreement with Battelle in March 2013. Battelle was chosen by DARPA to be the prime contractor on the systems integration portion of the DARPA contract, and we are one of several subcontractors on that systems integration project. We began generating revenues under the subcontract in the three months ended September 30, 2013. During the fiscal years ended March 31, 2014 and March 31, 2015, we recognized revenue of \$157,287 and \$131,530, respectively, under the Battelle subcontract. Our expected future revenue from the subcontract will be at the discretion of Battelle. The Battelle subcontract is our first cost-reimbursable contract.

Our revenue under this contract is a function of cost reimbursement plus an overhead mark-up for hours devoted to the project by specific employees (with specific hourly rates for those employees), for travel expenses related to the project, for any equipment purchased for the project and for the cost of any consultants hired by us to perform work on the project. Each payment will require approval by the program manager at Battelle.

### **Research and Development Costs**



A substantial portion of our operating budget is used for research and development activities. The cost of research and development, all of which has been charged to operations, amounted to approximately \$1,028,000 and \$1,509,000 in the fiscal years ended March 31, 2015 and 2014, respectively.

## **Intellectual Property**

We currently own or have license rights to a number of U.S. and foreign patents and patent applications and endeavor to continually improve our intellectual property position. We consider the protection of our technology, whether owned or licensed, to the exclusion of use by others, to be vital to our business. While we intend to focus primarily on patented or patentable technology, we may also rely on trade secrets, unpatented property, know-how, regulatory exclusivity, patent extensions and continuing technological innovation to develop our competitive position. We also own certain trademarks.

### ***Patents***

We have been exclusively assigned all rights and title to and interest in an invention and related worldwide patent rights for a method to treat cancer under an assignment agreement with the London Health Science Center Research, Inc. The invention provides for the "Depression of anticancer immunity through extracorporeal removal of microvesicular particles" (including exosomes) for which the U.S. Patent and Trademark Office issued a patent in 2012 (patent #8,288,172) and for which we have filed additional patent applications domestically and abroad (patent applications #US13/623662, #US14/180093, #US14/185033, #EP7,752,778.6, #HK9,104,740.6, #IN8139/DELNP/2008 and #CA2644855). Please see the tables below for more information regarding these patents and patent applications.

The agreement provides for an upfront payment of 800 shares of restricted common stock and a 2% royalty on any future net sales. We are also responsible for paying certain patent application and filing costs. Under the assignment agreement, the London Health Science Center Research, Inc. sold and assigned all of its rights, title and interest in the worldwide patents to us.

The following table lists all of our issued patents and patent applications, including their ownership status:

### Patents Issued in the United States

PATENT #	PATENT NAME	ISSUANCE	OWNED OR	EXPIRATION
		DATE	LICENSED	DATE
8,288,172	Extracorporeal removal of microvesicular particles (exosomes) (method patent)	10/16/12	Owned	3/30/29
7,226,429	Method for removal of viruses from blood by lectin affinity hemodialysis	6/5/07	Owned	1/20/25
6,528,057	Method for removal of HIV and other viruses from blood	3/4/03	Licensed	8/30/19

### Patent Applications in the United States

APPLICATION #	APPLICATION NAME	FILING	OWNED OR
		DATE	LICENSED
14/490,418	Method for removal of viruses from blood by lectin affinity hemodialysis	9/18/14	Owned
12/600236	Device and method for purifying virally infected blood	5/12/11	Owned
14/512129	Affinity capture of circulating biomarkers	10/10/14	Owned
13/623662	Extracorporeal removal of microvesicular particles	9/20/12	Owned
13/808561	Methods and compositions for quantifying exosomes	8/14/13	Owned
14/180093	Extracorporeal removal of microvesicular particles	2/13/14	Owned
14/185033	Extracorporeal removal of microvesicular particles	2/20/14	Owned
61/982190	Methods for delivering regional citrate anticoagulation during extracorporeal blood treatments	4/21/14	Owned
PCT/US2015/017800	Brain specific exosome based diagnostics and extracorporeal therapies	2/26/15	Owned

### Foreign Patents

PATENT #	PATENT NAME	ISSUANCE	OWNED OR	EXPIRATION
		DATE	LICENSED	DATE
2,353,399		4/27/09	Owned	1/20/24

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	Method for removal of viruses from blood by lectin affinity hemodialysis (Russia)			
770,344	Method for removal of HIV and other viruses from blood (Australia)	6/3/04	Licensed	8/30/19
DE69929986	Method for removal of HIV and other viruses from blood (Germany)	2/22/06	Licensed	8/30/19
1,109,564	Method for removal of HIV and other viruses from blood (France)	2/22/06	Licensed	8/30/19
1,109,564	Method for removal of HIV and other viruses from blood (Great Britain)	2/22/06	Licensed	8/30/19
1,109,564	Method for removal of HIV and other viruses from blood (Italy)	2/22/06	Licensed	8/30/19
2342203	Method for removal of HIV and other viruses from blood (Canada)	3/1/11	Licensed	8/30/19
1624785	Method for removal of viruses from blood by lectin affinity hemodialysis (Belgium)	7/17/13	Owned	1/20/24
1624785	Method for removal of viruses from blood by lectin affinity hemodialysis (Ireland)	7/17/13	Owned	1/20/24
1624785	Method for removal of viruses from blood by lectin affinity hemodialysis (Italy)	7/17/13	Owned	1/20/24
1624785	Method for removal of viruses from blood by lectin affinity hemodialysis (Great Britain)	7/17/13	Owned	1/20/24
1624785	Method for removal of viruses from blood by lectin affinity hemodialysis (France)	7/17/13	Owned	1/20/24
1624785	Method for removal of viruses from blood by lectin affinity hemodialysis (Germany)	7/17/13	Owned	1/20/24
2,516,403	Method for removal of viruses from blood by lectin affinity hemodialysis (Canada)	8/12/14	Owned	1/20/24

**Foreign Patent Applications**

APPLICATION #	APPLICATION NAME	FILING DATE	OWNED OR LICENSED
EP20070752778	Extracorporeal removal of microvesicular particles (exosomes) (Europe)	3/9/07	Owned
9,104,740.6	Extracorporeal removal of microvesicular particles (exosomes) (Hong Kong)	3/9/07	Owned
8139/DELNP/2008	Extracorporeal removal of microvesicular particles (exosomes) (India)	3/9/07	Owned
2644855	Extracorporeal removal of microvesicular particles (Canada)	3/9/07	Owned
EP20110804372	Methods and compositions for quantifying exosomes (Europe)	7/7/11	Owned

We expect that our ability to enforce our patents and proprietary rights in many countries will be adversely impacted due to possible changes in law, our lack of familiarity with foreign law, or our lack of professional resources in jurisdictions outside the U.S. We cannot guarantee that any patents issued or licensed to us, including within the U.S., will provide us with competitive advantages or will not be challenged by others, or will not expire prior to our successful commercialization of our products. Furthermore, we cannot be certain that others will not independently develop similar products or will not design around patents issued or licensed to us. We cannot guarantee that patents that are issued will not be challenged, invalidated or infringed upon or designed around by others, or that the claims contained in such patents will not infringe the patent claims of others, or provide us with significant protection against competitive products, or otherwise be commercially valuable. We may need to acquire licenses under patents belonging to others for technology potentially useful or necessary to us. If any such licenses are required, we cannot be certain that they will be available on terms acceptable to us, if at all. To the extent that we are unable to obtain patent protection for our products or technology, our business may be materially adversely affected by competitors who develop substantially equivalent technology.

### ***Trademarks***

We have obtained registered trademarks in the U.S. for the marks Exosome Sciences®, Hemopurifier and Aethlon Medical, Inc. and have applied for the Tausome trademark in the U.S., which application is currently pending. We have applied for trademark protection on Hemopurifier in India and that application is currently pending. We also have common law trademark rights in Aethlon ADAPT and ELLSA™.

### ***Licensing and Assignment Agreements***

Effective January 1, 2000, we entered into an agreement with a related party under which an invention and related patent rights for a method of removing Human Immunodeficiency and other viruses from the blood using the Hemopurifier were assigned to us by the inventors in exchange for an 8.75% royalty to be paid on future net sales of the patented product or process and shares of our common stock. On March 4, 2003, the related patent (patent #6,528,057) was issued and we issued 3,922 shares of restricted common stock to that related party. The license runs for the life of the patent, which expires in August 2019.

On November 7, 2006, we entered into an exclusive assignment agreement with the London Health Science Center Research, Inc. under which an invention and related patent rights for a method to treat cancer were assigned to us. The invention provides for the "Extracorporeal removal of microvesicular particles" for which the U.S. Patent and Trademark Office allowed a patent (patent #8,288,172) in the U.S. as of October 2012. The agreement provides for an upfront payment of 800 shares of restricted common stock and a 2% royalty on any future net sales. We are also responsible for paying certain patent application and filing costs. Under the assignment agreement, we own the patents outright for the life of the patent, which expires in March 2029. Under certain circumstances, ownership of the patents may revert back to the London Health Science Center Research, Inc. if there is an uncured substantial breach of the assignment agreement.

## **Industry**

The industry for treating infectious disease and cancer is extremely competitive, and companies developing new treatment procedures face significant capital and regulatory challenges. Additionally, as the Hemopurifier is a new device, we have the additional challenge of establishing medical industry support, which will be driven by treatment data resulting from clinical studies of each disease condition that we pursue. The industry includes pharmaceutical companies and medical device companies competing to treat illnesses on a worldwide basis.

## **Competition**

We are advancing our Hemopurifier as a treatment strategy to enhance and prolong current drug therapies by removing the viral strains that cause drug resistance. We are also advancing the Hemopurifier as a tool for cancer treatment in conjunction with existing, and to be developed, cancer therapies. The Hemopurifier also may prolong life for infected patients who have become drug resistant or have been infected with a viral pathogen for which there is no drug or vaccine therapy. We believe our Hemopurifier augments the benefit of drug therapies and should not be considered a competitor to such treatments. However, if the industry considered the Hemopurifier to be a potential replacement for drug therapy, or a device that limited the need or volume of existing drug therapies, then the marketplace for the Hemopurifier would be extremely competitive. We believe our Hemopurifier is the sole therapeutic device able to selectively remove viruses and immunosuppressive proteins from circulation. However, we are aware that Asahi Kasei Kurary Medical based in Japan has created a double filtration plasmapheresis system that indiscriminately removes particles from blood in a certain molecule range that includes Hepatitis C virus. Asahi Kasei Kurary Medical is now marketing this device in Japan as an adjunct therapy for Hepatitis C virus. We may also face competition from producers of antiviral drugs and vaccines.

## **Government Regulation of Medical Devices**

The Hemopurifier is subject to regulation by numerous regulatory bodies, primarily the FDA, and comparable international regulatory agencies. These agencies require manufacturers of medical devices to comply with applicable laws and regulations governing the development, testing, manufacturing, labeling, marketing, storage, distribution, advertising and promotion, and post-marketing surveillance reporting of medical devices. Devices are generally subject to varying levels of regulatory control, the most comprehensive of which requires that a clinical evaluation program be conducted before a device receives approval for commercial distribution. Failure to obtain approval or clearance to market our product and products under development and to meet the ongoing requirements of these regulatory authorities could prevent us from commercializing the Hemopurifier and future products in the U.S. and elsewhere.

### ***Hemopurifier Investigational Device Exemption and Supplement***

In June 2013, the FDA approved our investigational device exemption to initiate human clinical studies in the U.S. as a feasibility study. We were required to reach agreement with the internal review board of DaVita MedCenter Dialysis prior to beginning our U.S. clinical trial. We are also required to obtain patients' informed consent that complies with both FDA requirements and state and federal privacy regulations. We, the FDA or the internal review board at each site at which a clinical trial is being performed may suspend a clinical trial at any time for various reasons, including a belief that the risks to study subjects outweigh the benefits. Even if a trial is completed, the results of clinical testing may not demonstrate the safety and efficacy of the device, may be equivocal or may otherwise not be sufficient to obtain approval of the product. The investigational device exemption is part of the FDA's clearance process. This process is discussed in detail in the "Pre-Marketing Regulations in the U.S." section below.

In December 2014, the FDA approved our request for a supplement to our investigational device exemption to establish a protocol to clinically investigate the use of the Hemopurifier for the treatment of Ebola-infected patients in the U.S. Under the supplement, we may treat up to 20 Ebola-infected persons, at no more than 10 institutions in the U.S., using the supplement protocol; however, this is not a clinical trial. We must clearly distinguish data collected in the supplement protocol from data collected in our chronic Hepatitis C virus clinical trial (discussed above). Prior to treating Ebola-infected patients, we must comply with specified patient protection procedures established by the applicable institution including its institutional review board. Also, we must report any unanticipated adverse events resulting from the supplement protocol to the FDA within ten working days. Even if the protocol is established, and patients are treated, the results of such treatments may not demonstrate the safety and efficacy of the device. In addition, we cannot assure you that any Ebola-infected individuals will be treated under this protocol.

### ***Pre-Marketing Regulations in the U.S.***

Unless an exemption applies, each medical device distributed commercially in the U.S. requires either prior 510(k) clearance or premarket approval from the FDA. The FDA classifies medical devices into one of three classes. Class I devices are subject to only general controls, such as establishment registration and device listing, labeling, medical device reporting, and prohibitions against adulteration and misbranding. Class II medical devices generally require prior 510(k) clearance before they may be commercially marketed in the U.S. Devices deemed by the FDA to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices, or devices deemed not substantially equivalent to a predicate device, are placed in Class III, generally requiring submission of a premarket approval supported by clinical trial data. Our Hemopurifier is a Class III product, and we believe that products utilizing our Aethlon ADAPT system will be considered to be Class III products and thus will require submission and approval of a premarket approval. In the future, we may develop new products that are considered to be Class II and require the clearance of a 510(k).

#### *510(k) Clearance Pathway*

To obtain 510(k) clearance, a premarket notification must be submitted to FDA demonstrating that the proposed device is substantially equivalent to a previously cleared 510(k) device or a device that was in commercial distribution before May 28, 1976 for which the FDA has not yet called for the submission of premarket approval applications. FDA's 510(k) clearance pathway usually takes from three to twelve months, but it can take significantly longer. The FDA may require additional information, including clinical data, to make a determination regarding substantial equivalence.

After a device receives 510(k) clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a new or major change in its intended use, will require a new 510(k) clearance or, depending on the modification, require premarket approval. The FDA requires each manufacturer to determine whether the proposed change requires submission of a 510(k), or a premarket approval, but the FDA can review any such decision and can disagree with a manufacturer's determination. If the FDA disagrees with a manufacturer's determination, the FDA can require the manufacturer to cease marketing and/or recall the modified device until 510(k) clearance or premarket approval is obtained. If the FDA requires a 510(k) holder to seek 510(k) clearance or premarket approval for any modifications to a previously cleared product, the 510(k) holder also may be required to cease marketing or recall the modified device until this clearance or approval is obtained.

### *Premarket Approval Pathway*

A premarket approval must be supported by extensive data, including but not limited to data obtained from technical, pre-clinical and clinical studies and relating to manufacturing and labeling to demonstrate to the FDA's satisfaction the safety and effectiveness of the device.

After a premarket approval submission is sufficiently complete, the FDA will accept the application and begin an in-depth review, which generally takes between one and three years, but may take significantly longer. During this review period, the FDA will typically request additional information or clarification of the information already provided. Also, an advisory panel of experts from outside the FDA may be convened to review and evaluate the application and provide recommendations to the FDA as to the approvability of the device. The FDA may or may not accept the panel's recommendation. In addition, the FDA will conduct a pre-approval inspection of the manufacturing facility to ensure compliance with Quality System Regulation. New premarket approval applications or premarket approval supplements are required for modifications that affect the safety or effectiveness of the device, including, for example, certain types of modifications to the device's indication for use, manufacturing process, labeling and design. Premarket approval supplements often require submission of the same type of information as a premarket approval application, except that the supplement is limited to information needed to support any changes from the device covered by the original premarket approval application and may not require as extensive clinical data or the convening of an advisory panel.

### *Clinical Trials*

Clinical trials are almost always required to support a premarket approval. To perform a clinical trial in the U.S. for a significant risk device, the FDA requires the device sponsor to file an Investigational Device Exemption application with the FDA and obtain Investigational Device Exemption approval prior to commencing the human clinical trial. An Investigational Device Exemption amendment or supplement must also be submitted before initiating a significant change to the clinical protocol or device under an existing Investigational Device Exemption. The Investigational Device Exemption application must be supported by appropriate data, such as animal and laboratory testing results, and any available data on human clinical experience, showing that it is safe to test the device in humans and that the testing protocol is scientifically sound.

The Investigational Device Exemption must be approved in advance by the FDA for a specific number of patients. Clinical trials conducted in the U.S. for significant risk devices may begin once the Investigational Device Exemption application is approved by the FDA and the appropriate institutional review boards overseeing the welfare of the research subjects and responsible for that particular clinical trial. Under its regulations, the FDA responds to an Investigational Device Exemption or an Investigational Device Exemption amendment within 30 days. The FDA may approve the Investigational Device Exemption or amendment, grant an approval with certain conditions, or identify deficiencies and request additional information. It is common for the FDA to require additional information before



approving an Investigational Device Exemption or amendment for a new trial, and thus final FDA approval on a submission may require more than the initial 30 days. The FDA may also require that a small-scale feasibility study be conducted before a pivotal trial may commence. In a feasibility trial, the FDA limits the number of patients, sites and investigators that may participate. Feasibility trials are typically structured to obtain information on safety and to help determine how large a pivotal trial should be to obtain statistically significant results.

Clinical trials are subject to extensive recordkeeping and reporting requirements. Our clinical trials must be conducted under the oversight of an institutional review board for the relevant clinical trial sites and must comply with FDA regulations, including but not limited to those relating to good clinical practices. We are also required to obtain the patients' informed consent in form and substance that complies with both FDA requirements and state and federal privacy and human subject protection regulations. We, the FDA or the institutional review board may suspend a clinical trial at any time for various reasons, including a belief that the risks to study subjects outweigh the anticipated benefits. Even if a trial is completed, the results of clinical testing may not adequately demonstrate the safety and effectiveness of the device or may otherwise not be sufficient to obtain FDA approval to market the product in the U.S.

***Post-Marketing Regulations in the U.S.***

Should our Hemopurifier device be cleared for market use in the U.S. by the FDA, numerous regulatory requirements continue to apply. These include:

- the FDA's Quality System Regulation which requires manufacturers, including third-party manufacturers, to follow stringent design, testing, control, documentation and other quality assurance procedures during all aspects of the manufacturing process;
- labeling regulations and FDA prohibitions against the promotion of products for un-cleared, unapproved or off-label uses;
- clearance or approval of product modifications that could significantly affect safety or efficacy or that would constitute a major change in intended use;
- medical device reporting regulations, which require that manufacturers report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if the malfunction were to recur;
- product listing and establishment registration, which helps facilitate FDA inspections and other regulatory action;
- and
- post-market surveillance regulations, which apply when necessary to protect the public health or to provide additional safety and effectiveness data for the device.

The regulations also require that we report to the FDA any incident in which our product may have caused or contributed to a death or serious injury or in which our product malfunctioned and, if the malfunction were to recur, would likely cause or contribute to death or serious injury.

We will also be required to register with the FDA as a medical device manufacturer within 30 days of commercial distribution of our products and must obtain all necessary state permits or licenses to operate our business. As a manufacturer, we are subject to announced and unannounced inspections by the FDA to determine our compliance with quality system regulation and other regulations, and these inspections may include the manufacturing facilities of our suppliers. Failure by us or by our suppliers to comply with applicable regulatory requirements can result in enforcement action by the FDA or state authorities, which may include any of the following sanctions:

- untitled letters, warning letters, fines, injunctions, consent decrees and civil penalties;
- unanticipated expenditures to address or defend such actions;
- customer notifications for repair, replacement, refunds;
- recall, detention or seizure of our products;
- operating restrictions or partial suspension or total shutdown of production;
- refusing or delaying our requests for premarket approval of new products or modified products;
- operating restrictions;
- withdrawing premarket approval approvals that have already been granted;
- refusal to grant export approval for our products; or
- criminal prosecution.

### **Compliance with U.S. Health Care Laws**

Should our Hemopurifier device be cleared for market use in the U.S. by the FDA, we must comply with various U.S. federal and state laws, rules and regulations pertaining to healthcare fraud and abuse, including anti-kickback regulations, as well as other healthcare laws in connection with the commercialization of our products. Fraud and abuse laws are interpreted broadly and enforced aggressively by various state and federal agencies, including the U.S. Department of Justice, the U.S. Office of Inspector General for the Department of Health and Human Services and various state agencies. Among other laws, we may become subject to the U.S. federal Anti-Kickback Statute, as amended, 42 U.S.C. §1320a-7b, and the Physician Payment Sunshine Act, as amended, 42 U.S.C. §1320a-7h, which are discussed below.

The U.S. federal Anti-Kickback Statute, prohibits persons, including a medical device manufacturer (or a party acting on its behalf), from knowingly or willfully soliciting, receiving, offering or paying remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual for a service or product or the purchasing, ordering, arranging for, or recommending the ordering of, any service or product for which payment may be made by Medicare, Medicaid or any other federal healthcare program. This statute has been interpreted to apply to arrangements between medical device manufacturers on one hand and healthcare providers on the other. The term

“remuneration” is not defined in the federal Anti-Kickback Statute and has been broadly interpreted to include anything of value, such as cash payments, gifts or gift certificates, discounts, waiver of payments, credit arrangements, ownership interests, the furnishing of services, supplies or equipment, and the provision of anything at less than its fair market value. Courts have broadly interpreted the scope of the law, holding that it may be violated if merely one purpose of an arrangement is to induce referrals, irrespective of the existence of other legitimate purposes. The Anti-Kickback Statute prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. Although there are a number of statutory exemptions and regulatory safe harbors protecting certain business arrangements from prosecution, the exemptions and safe harbors are drawn narrowly, and practices that involve remuneration intended to induce prescribing, purchasing or recommending may be subject to scrutiny if they do not qualify for an exemption or safe harbor. Our practices may not in all cases meet all of the criteria for safe harbor protection from federal Anti-Kickback Statute liability. The reach of the Anti-Kickback Statute was broadened by the recently enacted Patient Protection and Affordable Care Act of 2010 and the Health Care and Education Affordability Reconciliation Act of 2010, 42 U.S.C. § 18001 et seq., collectively, the Affordable Care Act, which, among other things, amends the intent requirement of the federal Anti-Kickback Statute such that a person or entity no longer needs to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation. In addition, the Affordable Care Act provides that the government may assert that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the federal False Claims Act (discussed below) or the civil monetary penalties statute, which imposes fines against any person who is determined to have presented or caused to be presented claims to a federal healthcare program that the person knows or should know is for an item or service that was not provided as claimed or is false or fraudulent. In addition to the federal Anti-Kickback Statute, many states have their own anti-kickback laws. Often, these laws closely follow the language of the federal law, although they do not always have the same scope, exceptions, safe harbors or sanctions. In some states, these anti-kickback laws apply not only to payments made by government healthcare programs but also to payments made by other third-party payors, including commercial insurance companies.

The U.S. federal Physician Payment Sunshine Act, which generally requires certain types of expenditures in the U.S. and the particular states to be tracked and reported. The federal Physician Payment Sunshine Act, being implemented as the Open Payments Program, requires certain pharmaceutical and medical device manufacturers to engage in extensive tracking of payments or transfers of value to physicians and teaching hospitals, maintenance of a payments database, and public reporting of the payment data. Device manufacturers with products for which payment is available under Medicare, Medicaid or the State Children's Health Insurance Program are required to track and report such payments. Moreover, several states have enacted legislation requiring pharmaceutical and medical device companies to establish marketing compliance programs or even prohibit providing meals to prescribers or other marketing related activities. Compliance with such requirements may require investment in infrastructure to ensure that tracking and reporting is performed properly. Although compliance programs can mitigate the risk of investigation and prosecution for violations of these laws, the risks cannot be entirely eliminated.

In addition to the regulations discussed above, we may become subject to other regulations in the future.

### **International Regulation**

International development and sales of medical devices are subject to foreign government regulations, which vary substantially from country to country. The time required to obtain approval by a foreign country may be longer or shorter than that required for FDA approval, and the requirements may differ. For example, the primary regulatory authority with respect to medical devices in Europe is that of the European Union. The unification of these countries into a common market has resulted in the unification of laws, standards and procedures across these countries, which may expedite the introduction of medical devices like those we are offering and developing.

The European Union has adopted numerous directives and standards regulating the design, manufacture, clinical trials, labeling and adverse event reporting for medical devices. Devices that comply with the requirements of relevant directives will be entitled to bear CE Conformity Marking, indicating that the device conforms to the essential requirements of the applicable directives and, accordingly, can be commercially distributed throughout the European Union. Actual implementation of these directives, however, may vary on a country-by-country basis.

To date, we have not begun any process to obtain the CE Mark and have no immediate plans to test or commercialize the Hemopurifier in any European Union countries.

### **Manufacturing**

Manufacturing of our Hemopurifier occurs in collaboration with a contract manufacturer based in San Diego, California that is compliant with the Good Manufacturing Practice regulations promulgated by the FDA. Our contract manufacturer is registered with the FDA. We also have received an export license from the FDA that allows the export our Hemopurifier for commercial purposes to India. To date, our manufacture of the Hemopurifier has been limited to quantities necessary to support our clinical studies.

### **Sources and Suppliers**

We are not dependent on any specific vendors for the materials used in our Hemopurifier. The key raw materials in the Hemopurifier include the affinity lectin *Galanthus nivalis* agglutinin, pharmaceutical grade diatomaceous earth, plasmapheresis cartridges and certain chemical binding agents. The affinity lectin is available from several life science supply companies in the U.S. Diatomaceous earth is available from several life science supply companies in the U.S. To date, we have purchased plasmapheresis cartridges from one vendor in Europe; however similar cartridges are commercially available from vendors on a worldwide basis should that European vendor cease to be available for any reason, including prohibitive pricing. The chemical binding agents are available from a number of life science supply companies on a worldwide basis. We typically purchase our raw materials on a purchase order basis. Therefore, we remain subject to risks of supply shortages and price increases that potentially could materially adversely affect our financial condition and operating results if and when we begin large scale manufacture of the Hemopurifier.

The key raw materials used by Exosome in its research are blood samples supplied by research partners and a number of chemical and lab products commercially available from vendors on a worldwide basis. Exosome is not dependent on any specific vendors for the materials used in its research activities.

### **Sales and Marketing**

We do not currently have any sales and marketing capability. With respect to commercialization efforts in the future, we intend to build or contract for distribution, sales and marketing capabilities for any product candidate that is approved. From time to time, we have had and are having strategic discussions with potential collaboration partners for our product candidates, although we cannot be certain that we will be able to enter into one or more collaboration agreements for our product candidates on acceptable terms, if at all.

### **Product Liability**

The risk of product liability claims, product recalls and associated adverse publicity is inherent in the testing, manufacturing, marketing and sale of medical products. We have limited clinical trial liability insurance coverage. We cannot assure you that future insurance coverage will be adequate or available. We may not be able to secure product liability insurance coverage on acceptable terms or at reasonable costs when needed. Any liability for mandatory damages could exceed the amount of our coverage. A successful product liability claim against us could require us to pay a substantial monetary award. Moreover, a product recall could generate substantial negative publicity about our products and business and inhibit or prevent commercialization of other future product candidates.

### **Employees**

We have five full-time employees consisting of our Chief Executive Officer, our President, our Chief Science Officer, our Chief Financial Officer, and an executive assistant. Exosome has three additional full-time employees, consisting of its Chief Science Officer, its Clinical Research Director, and a research scientist. We utilize consultants, whenever appropriate, in order to conserve cash and resources.

We believe our employee relations are good. None of our employees are represented by a labor union or are subject to collective-bargaining agreements.

## **DESCRIPTION OF PROPERTIES**

We currently lease approximately 2,576 square feet of executive office space at 9635 Granite Ridge Drive, Suite 100, San Diego, CA 92123 under a 39-month gross plus utilities lease that commenced on December 1, 2014 with an initial rental rate of \$6,054 per month. Such lease expires in March 2018. We believe this new leased facility will be satisfactory for our office needs over the term of the lease.

We also lease approximately 1,667 square feet of laboratory space at 11585 Sorrento Valley Road, Suite 109, San Diego, California 92121 at the rate of \$3,917 per month under a one-year gross plus utilities lease that previously was scheduled to expire in October 2014 and was recently extended to expire in October 2015. We believe this leased facility will be satisfactory for our laboratory needs over the term of the lease

Our Exosome subsidiary leases approximately 2,055 square feet of office and laboratory space at 11 Deer Park Drive, South Brunswick, NJ at the rate of \$3,596 per month under a one-year gross plus utilities lease that previously was scheduled to expire in October 2014 and was recently extended to expire in October 2015. We believe this leased facility will be satisfactory for Exosome's operational needs over the term of the lease.

## **LEGAL PROCEEDINGS**

We may be involved from time to time in various claims, lawsuits, and/or disputes with third parties or breach of contract actions incidental to the normal course of our business operations. We are currently not involved in any litigation or any pending legal proceedings.

**MARKET PRICE FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

Our common stock is traded on the Nasdaq Capital Market under the trading symbol “AEMD.” Trading in our common stock historically has been volatile and often has been thin. On July 7, 2015, The NASDAQ Stock Market LLC approved our application for listing our common stock on the Nasdaq Capital Market under the symbol “AEMD,” and we commenced trading on the Nasdaq Capital Market on July 13, 2015. Previously, our common stock was quoted on the OTCQB Marketplace under the trading symbol “AEMD.”

The following table sets forth for the calendar periods indicated the quarterly high and low bid prices for our common stock as reported by the OTCQB Marketplace. The prices represent quotations between dealers, without adjustment for retail markup, mark down or commission, and do not necessarily represent actual transactions. The prices set forth below represent the price of our common stock as adjusted for the reverse stock split we effected on April 14, 2015.

PERIOD	BID PRICE	
	HIGH	LOW
Calendar 2015:		
Second Quarter	\$ 15.25	\$ 6.00
First Quarter	19.50	8.50
Calendar 2014:		
Fourth Quarter	36.00	5.50
Third Quarter	9.50	5.00
Second Quarter	11.50	7.00
First Quarter	13.50	8.00
Calendar 2013:		
Fourth Quarter	9.00	6.50
Third Quarter	14.50	5.00
Second Quarter	7.00	4.00
First Quarter	7.50	3.00

There were approximately 186 record holders of our common stock at July 23, 2015. The number of registered stockholders includes any beneficial owners of common shares held in street name.

The transfer agent and registrar for our common stock is Computershare Investor Services, located at 350 Indiana Street, Suite 800, Golden, Colorado 80401.



We have not paid any dividends on our common stock to date and do not anticipate that we will pay dividends in the foreseeable future. Any payment of cash dividends on our common stock in the future will be dependent upon the amount of funds legally available, our earnings, if any, our financial condition, our anticipated capital requirements and other factors that our Board of Directors may think are relevant. However, we currently intend for the foreseeable future to follow a policy of retaining all of our earnings, if any, to finance the development and expansion of our business and, therefore, do not expect to pay any dividends on our common stock in the foreseeable future.

## EQUITY COMPENSATION PLANS

## SUMMARY EQUITY COMPENSATION PLAN DATA

**Equity Compensation Plans***Summary equity compensation plan data*

The following table sets forth information, as of March 31, 2015, about our equity compensation plans (including the potential effect of debt instruments convertible into common stock) in effect as of that date:

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)(2)	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	–	\$ –	9,800
Equity compensation plans not approved by security holders (1)(3)(4)	501,690	\$ 11.00	28,845
Totals	501,690	\$ 11.00	38,645

(1) The description of the material terms of non-plan issuances of equity instruments is discussed in Note 6 to the accompanying consolidated financial statements.

(2) Net of equity instruments forfeited, exercised or expired.

(3) On June 8, 2009, our Board of Directors approved the grant to Mr. James A. Joyce, our Chief Executive Officer, of 80,000 shares of restricted common stock. The market price of our stock on the grant date was \$12.00 per share and the shares vested in equal installments over a thirty-six-month period that commenced on June 30, 2010.

(4) On March 31, 2015 we had 28,845 shares available under our 2010 Stock Incentive Plan.

### ***2000 Stock Option Plan***

Our 2000 Stock Option Plan provides for the grant of incentive stock options to our full-time employees (who may also be directors) and nonstatutory stock options to non-employee directors, consultants, customers, vendors or providers of significant services. The exercise price of any incentive stock option may not be less than the fair market value of the common stock on the date of grant or, in the case of an optionee who owns more than 10% of the total combined voting power of all classes of our outstanding stock, not be less than 110% of the fair market value on the date of grant. The exercise price, in the case of any nonstatutory stock option, must not be less than 75% of the fair market value of the common stock on the date of grant. The amount reserved under the 2000 Stock Option Plan is 10,000 options.

At March 31, 2015, all of the grants previously made under the 2000 Stock Option Plan had expired and 200 restricted shares had been issued under the plan, with 9,800 available for future issuance.

### ***2003 Consultant Stock Plan***

Our 2003 Consultant Stock Plan advances our interests by helping us obtain and retain the services of persons providing consulting services upon whose judgment, initiative, efforts and/or services we are substantially dependent, by offering to or providing those persons with incentives or inducements affording such persons an opportunity to become owners of our capital stock. Consultants or advisors are eligible to receive grants under the plan only if they are natural persons providing bona fide consulting services to us, with the exception of any services they may render in connection with the offer and sale of our securities in a capital-raising transaction, or which may directly or indirectly promote or maintain a market for our securities. The plan provides for the grant of common stock. No awards may be issued after the ten-year anniversary of the date we adopted the plan, the termination date for the plan. We have periodically amended the plan to increase the number of shares available for issuance under the plan with the approval of our Board of Directors.



We filed registration statements on Form S-8 with the Securities and Exchange Commission to register under the Securities Act the common shares issuable under this plan as follows:

<u>Date of Filing</u>	<u>Number of Shares Registered</u>
March 29, 2004	20,000
August 29, 2005	40,000
August 9, 2007	40,000
July 10, 2009	20,000
February 17, 2010	30,000

We discontinued using this plan in October 2012.

#### ***2010 Stock Incentive Plan***

In August 2010, we adopted the 2010 Stock Incentive Plan, which provides incentives to attract, retain and motivate employees and directors whose present and potential contributions are important to our success by offering them an opportunity to participate in our future performance through awards of options, the right to purchase common stock, stock bonuses and stock appreciation rights and other awards. A total of 70,000 common shares were initially reserved for issuance under the 2010 Stock Incentive Plan.

In August 2010, we filed a registration statement on Form S-8 for the purpose of registering 70,000 common shares issuable under this plan under the Securities Act, and in July 2012, we filed a registration statement on Form S-8 for the purpose of registering 100,000 common shares issuable under this plan under the Securities Act.

At March 31, 2015, we had 28,845 shares available under this plan.

#### ***2012 Directors Compensation Program***

In July 2012, our Board of Directors approved a board compensation program that modifies and supersedes the 2005 Directors Compensation Program, which was previously in effect. Under the 2012 program, in which only non-employee directors may participate, an eligible director will receive a grant of \$35,000 worth of ten-year options to acquire shares of common stock, with such grant being valued at the exercise price based on the average of the closing bid prices of the common stock for the five trading days preceding the first day of the fiscal year. In addition,

under this program, eligible directors will receive cash compensation equal to \$500 for each committee meeting attended and \$1,000 for each formal board meeting attended.

In the fiscal year ended March 31, 2013, our Board of Directors granted ten-year options to acquire an aggregate of 33,342 shares of our common stock, all with an exercise price of \$3.80 per share, to our four outside directors under the 2012 program.

In the fiscal year ended March 31, 2014, our Board of Directors granted ten-year options to acquire an aggregate of 31,911 shares of our common stock, all with an exercise price of \$4.10 per share, to our five outside directors under the 2012 program.

In the fiscal year ended March 31, 2015, our Board of Directors granted ten-year options to acquire an aggregate of 11,053 shares of our common stock, all with an exercise price of \$9.50 per share, to our three outside directors under the 2012 program.

At March 31, 2015 we had issued 26,757 options under the old 2005 program to outside directors and 79,309 options to employee-directors, 21,756 outside directors' options had been forfeited, 5,000 outside directors' options had been exercised, 79,309 employee-directors' options had been forfeited and no options under the old 2005 program remained outstanding.

On June 6, 2014, our Board of Directors approved certain changes to the 2012 program. Under this modified program, a new eligible director will receive an initial grant of \$50,000 worth of options to acquire shares of common stock, with such grant being valued at the exercise price based on the average of the closing bid prices of the common stock for the five trading days preceding the first day of the fiscal year. These options will have a term of ten years and will vest 1/3 upon grant and 1/3 upon each of the first two anniversaries of the date of grant. In addition, at the beginning of each fiscal year, each existing director eligible to participate in the modified 2012 program also will receive a grant of \$35,000 worth of options valued at the exercise price based on the average of the closing bid prices of the common stock for the five trading days preceding the first day of the fiscal year. Such options will vest on the first anniversary of the date of grant. In lieu of per meeting fees, eligible directors will receive an annual board retainer fee of \$30,000. The modified 2012 program also provides for the following annual retainer fees: Audit Committee Chair - \$5,000, Compensation Committee chair - \$5,000, Audit Committee member - \$4,000, Compensation Committee member - \$4,000 and lead independent director - \$15,000.

*Stand-alone grants*

From time to time our Board of Directors grants restricted stock or common share purchase options or warrants to selected directors, officers, employees and consultants as equity compensation to such persons on a stand-alone basis outside of any of our formal stock plans. The terms of these grants are individually negotiated.

On June 8, 2009, our Board of Directors approved the grant to Mr. Joyce of 80,000 shares of restricted common stock at a price per share of \$12.00, the vesting and issuance of which occurred in equal installments over a thirty-six-month period that commenced on June 30, 2010.

As of March 31, 2015, we had issued 499,763 options (of which 146,810 have been exercised or cancelled) and authorized the issuance of 80,000 shares of restricted stock outside of the 2005 Directors Compensation Plan, the 2012 Directors Compensation Plan, the 2000 Stock Option Plan, the 2003 Consultant Stock Plan and the 2010 Incentive Stock Plan.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this prospectus.

### **Overview**

We are a medical device company focused on creating innovative devices that address unmet medical needs in cancer, infectious disease and other life-threatening conditions. At the core of our developments is the Aethlon ADAPT system, a medical device platform that converges single or multiple affinity drug agents with advanced plasma membrane technology to create therapeutic filtration devices that selectively remove harmful particles from the entire circulatory system without loss of essential blood components.

In June 2013, the FDA approved our investigational device exemption application to initiate a ten-patient human clinical trial in one location in the U.S. to treat dialysis patients who are infected with the Hepatitis C virus. The principal investigator of that clinical trial recently began recruiting patients. Successful outcomes of that human trial as well as at least one follow-on human trial will be required by the FDA in order to commercialize our products in the U.S. The regulatory agencies of certain foreign countries where we intend to sell this device will also require one or more human clinical trials.

Some of our patents may expire before we receive FDA approval to market our products in the U.S. or we receive approval to market our products in a foreign country. However, we believe that certain patent applications and/or other patents issued more recently will help protect the proprietary nature of the Hemopurifier treatment technology.

Through Exosome, we are also studying potential diagnostic techniques for identifying and monitoring neurological conditions and cancer. We consolidate Exosome's activities in our consolidated financial statements.

### **Fiscal Years Ended March 31, 2015 and 2014**

#### ***Results of Operations***



## Revenues

We recorded government contract revenue in the fiscal years ended March 31, 2015 and 2014. This revenue arose from work performed under our government contract with DARPA and our subcontract with Battelle, as follows:

	Fiscal Year Ended 3/31/15	Fiscal year Ended 3/31/14	Change in Dollars
DARPA contract	\$630,887	\$1,466,482	\$(835,595)
Battelle subcontract	131,530	157,287	(25,757 )
Total government contract revenue	\$762,417	\$1,623,769	\$(861,352)

*DARPA Contract*

We entered into a contract with DARPA on September 30, 2011. Under the DARPA award, we have been engaged to develop a therapeutic device to reduce the incidence of sepsis, a fatal bloodstream infection that often results in the death of combat-injured soldiers. The award from DARPA was a fixed-price contract with potential total payments to us of \$6,794,389 over the course of five years. Fixed price contracts require the achievement of multiple, incremental milestones to receive the full award during each year of the contract. Under the terms of the contract, we will perform certain incremental work towards the achievement of specific milestones against which we will invoice the government for fixed payment amounts.

Originally, only the base year (year one of the contract) was effective for the parties; however, DARPA subsequently exercised the option on the second, third and fourth years of the contract. DARPA has the option to enter into the contract for year five. The milestones are comprised of planning, engineering and clinical targets, the achievement of which in some cases will require the participation and contribution of third party participants under the contract. We cannot assure you that we alone, or with third party participants, will meet such milestones to the satisfaction of the government and in compliance with the terms of the contract or that we will be paid the full amount of the contract revenues during any year of the contract term. We commenced work under the contract in October 2011.

In February 2014, DARPA reduced the scope of our contract in years three through five of the contract. The reduction in scope focused our research on exosomes, viruses and blood processing instrumentation. This scope reduction will reduce the possible payments under the contract by \$858,469 over years three through five.

In the fiscal year ended March 31, 2015, we reported \$630,887 in contract revenue for that fiscal year and in the fiscal year ended March 31, 2014, we reported \$1,466,482 in contract revenue for that fiscal year.

As of March 31, 2015, we had invoiced DARPA for contract payments totaling \$4,685,562 over the course of the contract.

#### *Battelle Subcontract*

We entered into a subcontract agreement with Battelle in March 2013. Battelle was chosen by DARPA to be the prime contractor on the systems integration portion of the original DARPA contract, and we are one of several subcontractors on that systems integration project. The Battelle subcontract is under a time and materials basis and we began generating revenues under the subcontract in the three months ended September 30, 2013. Our expected future revenue from the subcontract will be at the discretion of Battelle. The Battelle subcontract is our first cost-reimbursable contract.

Our revenue under this contract is a function of cost reimbursement plus an overhead mark-up for hours devoted to the project by specific employees (with specific hourly rates for those employees), for travel expenses related to the project, for any equipment purchased for the project and for the cost of any consultants hired by us to perform work on the project. Each payment will require approval by the program manager at Battelle.

#### Operating Expenses

Consolidated operating expenses were \$4,755,270 for the fiscal year ended March 31, 2015 compared to \$4,679,697 in the fiscal year ended March 31, 2014, an increase of \$75,573. The net increase of \$75,573 was due to increases in professional fees of \$50,799 and in payroll and related expenses of \$48,765, which were partially offset by a decrease in general and administrative expense of \$23,991.

The \$50,799 increase in our professional fees primarily arose from \$303,170 in expenses related to our U.S. clinical trial and a \$103,888 increase in professional fees of Exosome due to the commencement of its operations. Those increases were largely offset by a decrease in DARPA-related professional fees of \$292,106 due to decreased use of consultants and a decrease in non-DARPA-related professional fees of \$64,153.

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The \$48,765 increase in payroll and related expenses was principally driven by a \$305,167 increase in the payroll and related expenses of Exosome due to the commencement of its operations. That increase was partially offset by a \$191,465 reduction in our stock-based compensation and a \$64,937 decrease in payroll and related expenses of Aethlon Medical due to headcount reductions.

The \$23,991 decrease in general and administrative expenses primarily arose from a \$157,782 decrease in general and administrative expenses related to our government contracts, which was partially offset by a \$98,574 increase in general and administrative expenses at Exosome due to the commencement of its operations. We also had a \$35,217 increase in our other, non-DARPA-related general and administrative expenses.

Other Expense

In the fiscal year ended March 31, 2015, we recognized other expenses of \$2,986,641 compared to \$10,383,034 of other expense in the fiscal year ended March 31, 2014. The following table breaks out the various components of our other expense over the fiscal years ended March 31, 2015 and 2014:

	Components of Other Expense in Fiscal Year Ended		
	March 31, 2015	March 31, 2014	Change
Loss on debt conversion	\$2,753,989	\$40,256	\$2,713,732
Change in fair value of derivative liability	–	8,547,015	(8,547,015)
Interest and other debt expenses	452,276	1,287,221	(834,945 )
Loss on litigation settlement	–	583,601	(583,601 )
Other (income)	(219,624 )	(75,059 )	(144,564 )
Total other expense	\$2,986,641	\$10,383,034	\$(7,396,393)

We recorded a loss on debt conversions of \$2,753,989 and \$40,257 in the fiscal years ended March 31, 2015 and 2014, respectively. In the both fiscal years, those losses arose from the conversion to equity of principal and accrued interest on certain notes payable.

For the fiscal year ended March 31, 2014, we recorded a change in the estimated fair value of derivative liability as a loss of \$8,547,015. For the fiscal year ended March 31, 2015, we did not record any change in the estimated fair value of derivative liability as it was extinguished during that fiscal year.

We also recorded litigation settlement expense of \$583,601 in the fiscal year ended March 31, 2014 with no comparable expense in the fiscal year ended March 31, 2015.

Other income for the fiscal year ended March 31, 2015 included a gain of \$362,800 related to a reduction in our accrued damages due to various debt settlements over the fiscal year and a charge of \$143,176 for the change in fair value related to the extension of the warrants of a note holder in exchange for a postponement in the agreed payment date of his notes. For the fiscal year ended March 31, 2014, other income included a gain of \$75,000 related to the extinguishment of accrued damages as a result of the litigation settlement in that fiscal year.

Our interest and other debt expense decreased by \$834,945 from the fiscal year ended March 31, 2014 to the fiscal year ended March 31, 2015. The following table breaks out the various components of our interest expense over the fiscal years ended March 31, 2015 and 2014:

	Components of Interest Expense and Other Debt Expenses in Fiscal Year Ended		
	March 31, 2015	March 31, 2014	Change
Interest expense	\$ 166,899	\$ 425,725	\$(258,826)
Amortization of deferred financing costs	118,147	863	117,284
Amortization of note discounts	155,230	4,284	150,946
Note restructuring expense	12,000	856,349	(844,349)
Total interest and other debt expenses	\$ 452,276	\$ 1,287,221	\$(834,945)

As a result of the above factors, our net loss before noncontrolling interests decreased from \$13,438,962 for the fiscal year ended March 31, 2014 to \$6,979,494 for the fiscal year ended March 31, 2015.

### *Liquidity and Capital Resources*

At March 31, 2015, we had a cash balance of \$855,596 and working capital of \$630,420. This compares to a cash balance of \$1,250,279 and a working capital deficit of \$14,169,471 at March 31, 2014. This \$14,799,891 increase in our working capital position over the course of the fiscal year ended March 31, 2015 is primarily due to the elimination of \$10,679,067 in derivative liabilities, a \$1,769,643 reduction in other current liabilities and the repayment or conversion to equity of \$1,757,655 in the current portion of convertible notes payable and notes payable.

Between April 1, 2015 and July 8, 2015, we billed \$192,508 and collected \$384,882 under our government contracts.

In June 2015, we raised \$5,591,988 in net proceeds from a financing, which, coupled with previously existing funds on hand and expected revenues from our government contracts, should finance our operations for the fiscal year ending March 31, 2016 including the cost of our current clinical trials.

However, we will require significant additional financing to complete additional future clinical trials in the U.S., as well as fund all of our continued research and development activities for the Hemopurifier and products on our Aethlon ADAPT platform beyond the fiscal year ending March 31, 2016.

Future capital requirements will depend upon many factors, including progress with pre-clinical testing and clinical trials, the number and breadth of our clinical programs, the time and costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and other proprietary rights, the time and costs involved in obtaining regulatory approvals, competing technological and market developments, as well as our ability to establish collaborative arrangements, effective commercialization, marketing activities and other arrangements. We expect to continue to incur increasing negative cash flows and net losses for the foreseeable future.

**Cash Flows**

Cash flows from operating, investing and financing activities, as reflected in the accompanying Consolidated Statements of Cash Flows, are summarized as follows (in thousands):

	(In thousands)	
	For the year ended	
	March 31, 2015	March 31, 2014
Cash (used in) provided by:		
Operating activities	\$(5,049)	\$(2,139)
Investing activities	–	(96 )
Financing activities	4,655	3,360
Net increase (decrease) in cash	\$(394 )	\$1,125

**Net Cash from Operating Activities.**

We used cash in our operating activities due to our losses from operations. Net cash used in operating activities was approximately \$5,049,000 in fiscal 2015 compared to net cash used in operating activities of approximately \$2,139,000 in fiscal 2014, an increase of approximately \$2,910,000. The \$2,910,000 increase was primarily due to the use of approximately \$1,802,000 to pay down accounts payable, related party payables and other current liabilities and an increase in our net cash used in operating activities of approximately \$1,108,000 primarily due to the commencement of Exosome's operations.

**Net Cash from Investing Activities.**

During the fiscal year ended March 31, 2015, we did not use any cash for purchases of equipment while in the fiscal year ended March 31, 2014 we used approximately \$96,000 in cash for purchases of equipment.

**Net Cash from Financing Activities.**

Net cash generated from financing activities increased from approximately \$3,360,000 in the fiscal year ended March 31, 2014 to approximately \$4,655,000 in the fiscal year ended March 31, 2015. Included in net cash provided by financing activities in fiscal 2015 were approximately \$4,763,000 from the issuance of common stock and \$415,000 from the issuance of notes payable, which was partially offset by approximately \$523,000 in repayments of notes payable in cash. Included in net cash provided by financing activities in fiscal 2014 were approximately \$3,177,000 from the issuance of common stock and \$400,000 from the issuance of notes payable, which was partially offset by approximately \$217,000 in repayments of notes payable in cash.

At the date of this filing, we plan to invest significantly into purchases of our raw materials and into our contract manufacturing arrangement.

### ***Critical Accounting Policies***

#### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates and assumptions affect the reported amounts of expenses during the reporting period. On an ongoing basis, we evaluate estimates and assumptions based upon historical experience and various other factors and circumstances. We believe our estimates and assumptions are reasonable in the circumstances; however, actual results may differ from these estimates under different future conditions. We believe that the estimates and assumptions that are most important to the portrayal of our financial condition and results of operations, in that they require the most difficult, subjective or complex judgments, form the basis for the accounting policies deemed to be most critical to us. These critical accounting estimates relate to revenue recognition, stock purchase warrants issued with notes payable, beneficial conversion feature of convertible notes payable, impairment of intangible assets and long lived assets, stock compensation, deferred tax asset valuation allowance, and contingencies.

## Fair Value Measurements

We measure the fair value of applicable financial and non-financial instruments based on the following fair value hierarchy:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

The hierarchy noted above requires us to minimize the use of unobservable inputs and to use observable market data, if available, when determining fair value.

The fair value of derivative liabilities was determined based on unobservable inputs that are not corroborated by market data, which is a Level 3 classification. We recorded derivative liabilities on our balance sheet at fair value with changes in fair value recorded in our consolidated statements of operations. At March 31, 2015, we had no derivative liabilities.

## Revenue Recognition

With respect to revenue recognition, we entered into a government contract with DARPA and have recognized revenue during the fiscal years ended March 31, 2015 and 2014 of \$630,887 and \$1,466,482, respectively, under such contract. We adopted the Milestone method of revenue recognition for the DARPA contract under ASC 605-28 “Revenue Recognition – Milestone Method” and we believe we meet the requirements under ASC 605-28 for reporting contract revenue under the Milestone Method for the fiscal years ended March 31, 2015 and 2014.

We also recognize revenue under for a secondary smaller contract under a time and materials non-fixed price basis where we recognize revenue as the services are performed.

## Stock Purchase Warrants



We grant warrants in connection with the issuance of certain notes payable and other financing transactions. When such warrants are classified as equity, we measure the relative estimated fair value of such warrants which represents a discount from the face amount of the notes payable. Such discounts are amortized to interest expense over the term of the notes. We analyze such warrants for classification as either equity or derivative liabilities and value them based on binomial lattice models.

#### Beneficial Conversion Feature of Notes Payable

The convertible feature of certain notes payable provides for a rate of conversion that is below market value. Such feature is normally characterized as a "beneficial conversion feature" of which we measure the estimated fair value in circumstances in which the conversion feature is not required to be separated from the host instrument and accounted for separately, and record that value in the consolidated financial statements as a discount from the face amount of the notes. Such discounts are amortized to interest expense over the term of the notes.

#### Share-based Compensation

We account for share-based compensation awards using the fair-value method and record such expense based on the grant date fair value in the consolidated financial statements over the requisite service period.

#### Derivative Instruments

We evaluate free-standing derivative instruments (or embedded derivatives) to properly classify such instruments within equity or as liabilities in our financial statements. Our policy is to settle instruments indexed to our common shares on a first-in-first-out basis.

The classification of a derivative instrument is reassessed at each reporting date. If the classification changes as a result of events during a reporting period, the instrument is reclassified as of the date of the event that caused the reclassification. There is no limit on the number of times a contract may be reclassified.

Instruments classified as derivative liabilities are remeasured each reporting period (or upon reclassification) and the change in fair value is recorded on our consolidated statement of operations in other expense (income).



#### Deferred Tax Asset Valuation Allowance

Deferred tax assets are recognized for the future tax consequences attributable to the difference between the consolidated financial statements and their respective tax basis. Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts reported for income tax purposes, and (b) tax credit carryforwards. We record a valuation allowance for deferred tax assets when, based on our best estimate of taxable income (if any) in the foreseeable future, it is more likely than not that some portion of the deferred tax assets may not be realized.

#### Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

#### *Convertible Notes Payable and Warrants*

##### NOVEMBER 2014 10% CONVERTIBLE NOTES

In November 2014, we entered into a subscription agreement with two accredited investors providing for the issuance and sale of (i) convertible promissory notes in the aggregate principal amount of \$527,780 and (ii) five year warrants to purchase up to 47,123 shares of common stock at a fixed exercise price of \$8.40 per share. These notes bear interest at the annual rate of 10% and mature on April 1, 2016.

The aggregate gross cash proceeds to us were \$415,000 after subtracting legal fees of \$35,000; the balance of the principal amount of the notes represents a \$27,780 due diligence fee and an original issuance discount. We recorded deferred financing costs of \$112,780 to reflect the legal fees, due diligence fee and original issuance discount and will amortize those costs over the life of the notes using the effective interest method.

The estimated relative fair value of warrants issued in connection with the November 2014 10% Convertible Notes was recorded as a debt discount and is amortized as additional interest expense over the term of the underlying debt. We recorded debt discount of \$240,133 based on the relative fair value of these warrants. In addition, as the effective

conversion price of the debt was less than market price of the underlying common stock on the date of issuance, we recorded an additional debt discount of \$287,647 related to the beneficial conversion feature. As of March 31, 2014, the \$527,780 principal amount outstanding under this agreement is presented net of unamortized debt discount of \$372,551.

These notes are convertible at the option of the holders into shares of our common stock at a fixed price of \$5.60 per share, for up to an aggregate of 94,246 shares of common stock. There are no registration requirements with respect to the shares of common stock underlying the notes or the warrants.

The pricing on both the conversion price and on the warrant exercise price reflected a negotiation that began in September 2014 and continued through funding in November 2014. During that period of time the price of our common stock rose significantly, which complicated the pricing negotiations. We ended up with pricing the notes and warrants at levels consistent with our prior equity unit issuances in October 2014.

#### AMENDED AND RESTATED SERIES A 12% CONVERTIBLE NOTES

In June 2010, we entered into Amended and Restated Series A 12% Convertible Promissory Notes with the holders of certain promissory notes previously issued by us, extending the due date to December 31, 2010 on the aggregate principal balance of \$900,000. During the fiscal year ended March 31, 2013, the holders of \$15,000 of these notes converted their principal and related accrued interest into common stock. During the fiscal year ended March 31, 2015, the holders of the remaining \$885,000 of these notes converted their principal and related accrued interest into common stock. There was no balance remaining at March 31, 2015.

#### Weiner Note Conversion

On June 24, 2014, we entered into an agreement with the Ellen R. Weiner Family Revocable Trust, a holder of a Series A 12% Convertible Note (the "Note"), which previously was classified as being in default. As per the agreement, the trust converted past due principal of \$660,000 and accrued interest balance of \$343,200 into restricted common stock.

Additionally, the trust agreed to waive anti-dilution price protection underlying warrants previously issued to the trust. On June 26, 2014, three other parties who held similar warrants also agreed to waive their anti-dilution price protection.

Under its agreement, the trust converted the entire \$1,003,200 past due principal and interest balance on the note, which previously was in default, into an aggregate of 466,365 restricted shares of our common stock and five-year warrants to acquire up to 136,190 shares of our common stock at an exercise price of \$2.10 per share (which exercise price was the result of certain contractual price adjustments previously made during 2011) and up to 7,944 shares of our common stock at an exercise price of \$5.40 per share.

In exchange for the trust's conversion in full of the note and accrued interest and for the waivers of anti-dilution price protection in the previously issued warrants, we also issued to the trust 1,500 restricted shares of common stock as a service fee, changed the exercise price of all of the previously issued warrants to \$2.10 per share and extended the expiration date of all of the previously issued warrants to July 1, 2018. We valued the 1,500 share service fee at \$12,000 based on our closing price on the date of the agreement and recorded that value as interest expense during the June 2014 period.

#### Bird Estate Extension and Subsequent Conversion

On July 8, 2014, we executed a written restructuring agreement with the Estate of Allan Bird, another holder of a Series A 12% Convertible Note, which previously was classified as being in default. In the agreement, the Estate agreed to extend the expiration date of the note to April 1, 2016, to convert approximately \$116,970 of accrued interest to equity, and to waive anti-dilution price protection underlying the note and warrants previously issued to the Estate.

Under the Agreement, the Estate converted the entire \$116,970 past due interest balance on the note, which previously was in default, into an aggregate of 51,837 restricted shares of our common stock. The Estate received five-year warrants to acquire up to 46,429 shares of our common stock at an exercise price of \$2.10 per share (which exercise price was the result of certain contractual price adjustments previously made during 2011). Based on our common stock prices during a period of negotiation with the Estate including during calendar year 2013, the Estate also received five-year warrants to acquire up to 2,708 shares of our common stock at an exercise price of \$5.40 (collectively known as the "Conversion Securities").

In exchange for the Estate's extension of the note, conversion of accrued interest and for the waivers of anti-dilution price protection in the previously issued warrants, in addition to the Conversion Securities, we also issued to the Estate 500 restricted shares of common stock as an extension fee and extended the expiration date of all of the previously issued warrants to July 1, 2018. We valued the 500 share extension fee at \$4,500 based on our closing price and recorded that value as a deferred financing cost, which we will amortize over the extended two year life of the note.

On November 18, 2014, we issued an aggregate of 112,500 shares of common stock to the Estate upon the conversion of an aggregate of \$236,250 representing all \$225,000 of unpaid principal and \$11,250 of unpaid accrued interest due under the note. The conversion price per share was \$2.10.

#### 2008 10% CONVERTIBLE NOTES

In September 2014, we issued to the holder of the remaining 2008 10% Convertible Note units consisting of an aggregate of 9,564 shares of restricted common stock and unit warrants to acquire up to an aggregate of 4,782 shares of common stock at an exercise price of \$4.80 per share. The units were issued to the noteholder upon the conversion of an aggregate of \$45,906 of entire remaining unpaid principal and accrued interest due under the note, and the note was retired.

#### OCTOBER & NOVEMBER 2009 10% CONVERTIBLE NOTES

In October and November 2009, we raised \$430,000 from the sale to accredited investors of 10% convertible notes. These convertible notes originally matured at various dates between April 2011 and May 2011 and were convertible into our common stock at a fixed conversion price of \$12.50 per share. The investors also received matching three year warrants to purchase unregistered shares of our common stock at an exercise price of \$12.50 per share.

In July 2012, we issued 9,228 shares of common stock and 4,614 warrants to purchase common stock to the holder of a \$25,000 note in this grouping in exchange for the conversion of such note and related accrued interest of \$8,000 (for a total of \$33,000). The warrants are exercisable at \$5.35 per share.

The following table shows the conversions into principal of the October and November 2009 10% notes by fiscal year:

Activity in October & November 2009 10% Convertible Notes	
Initial principal balance	\$450,250
Conversions during the fiscal year ended March 31, 2010	(70,000 )
Conversions during the fiscal year ended March 31, 2011	(175,000)
Conversions during the fiscal year ended March 31, 2012	(130,250)
Conversions during the fiscal year ended March 31, 2013	(25,000 )
Conversions during the fiscal year ended March 31, 2014	—
Conversions into equity unit structure during the fiscal year ended March 31, 2015	(50,000 )
Balance as of March 31, 2015	\$—

As noted in the above table, the balance of the September 2011 Convertible Notes was converted into equity during the fiscal year ended March 31, 2015 and there is no remaining balance.

On March 31, 2012, we agreed to extend the expiration date and to change the exercise price of certain warrants of one of the note holders by two years in exchange for the extension of \$50,000 principal amount of these notes and a \$75,000 principal amount 10% convertible note issued in April 2010 by that same two year period.

In September 2013, we agreed to extend the expiration date of certain warrants of one of the note holders by two years in exchange for the extension of \$50,000 principal amount of these notes and the same \$75,000 principal amount 10% convertible note issued in April 2010 by that same two year period. Management assessed the change in the value of the notes and related warrants before and after that extension and determined that the change in value related to the change in terms was not significant.

In October 2014, we issued to the holder of the remaining of these notes and the same 10% convertible notes issued in April 2010 consisting of an aggregate of 36,716 shares of common stock and unit warrants to acquire up to an aggregate of 18,358 shares of common stock at an exercise price of \$7.70 per share. The units were issued to the note holder upon the conversion of an aggregate of \$189,087 of unpaid principal and accrued interest due under the two promissory notes referenced in this paragraph. The amounts converted represented the entire principal and interest outstanding under the notes and the notes held by that holder were retired.

#### APRIL 2010 10% CONVERTIBLE NOTE

In April 2010, we raised \$75,000 from the sale to an accredited investor of a 10% convertible note. The convertible note was originally scheduled to mature in October 2011 and was convertible into our common stock at a fixed conversion price of \$0.25 per share prior to maturity. The investor also received three year warrants to purchase 300,000 unregistered shares of our common stock at a price of \$0.25 per share.

This note was extended on March 31, 2012 and September 2013 and converted into common stock and warrants in October 2014 as described above under "October & November 2009 10% Convertible Notes".

#### SEPTEMBER 2010 12% CONVERTIBLE NOTES

On September 3, 2010, we entered into a subscription agreement with three accredited investors providing for the issuance and sale of convertible promissory notes and corresponding warrants in the aggregate principal amount of \$1,430,000. The initial closing resulted in the issuance and sale of (i) convertible promissory notes in the aggregate principal amount of \$743,600, (ii) five-year warrants to purchase an aggregate of 74,360 shares of our common stock at an exercise price of \$15.56 per share, and (iii) five-year warrants to purchase an aggregate of 74,360 shares of our common stock at an exercise price of \$21.79 per share. The convertible promissory notes bear interest compounded monthly at the annual rate of ten percent (10%) and mature on April 1, 2016 (see below). The aggregate gross cash proceeds were \$650,000, the balance of the principal amount representing a due diligence fee and an original issuance discount. The convertible promissory notes are convertible at the option of the holders into shares of our common stock at a price per share equal to eighty percent (80%) of the average of the three lowest closing bid prices of the common stock as reported by Bloomberg L.P. for the principal market on which the common stock trades or is quoted for the ten (10) trading days preceding the proposed conversion date. Subject to adjustment as described in the notes, the conversion price may not be more than \$15.00 nor less than \$10.00. There are no registration requirements with respect to the shares of common stock underlying the notes or the warrants.

On March 31, 2014, we entered into separate amendments to these notes with three accredited investors and warrants previously issued by us on various dates between December 5, 2007 and September 23, 2011.

Prior to the Amendments, the notes were past maturity and were in default, resulting in the accrual of interest at the applicable default interest rate. The amendments extended the maturity date of each of the notes to April 1, 2016. As a result of the amendments, the notes are no longer in default and the non-default interest rate for all of the notes was set at 12% per annum, which represents a reduction from the default interest rates of fifteen percent at which interest had been accruing. By entering into the amendments, we also agreed to increase the currently outstanding principal amount of the Notes by 12% from a total of \$693,260 to a total of \$776,451.



During the period from October 2011 to February 2014, the investors had converted, at conversion prices between \$2.73 and \$3.50 per share, portions of principal and interest outstanding under the notes and certain other convertible promissory notes previously issued to them by us. Certain antidilution provisions applicable to such notes should have resulted in such conversions being effected at a conversion price of \$2.10 per share. Accordingly, we issued to the investors an aggregate of 90,142 shares of our common stock, which represents the additional shares of common stock that would have been issued to these investors had such conversions been effected at \$2.10 per share.

The amendments also set the conversion price of the notes, as well as the exercise price at which shares of our common stock can be purchased under the warrants, at \$2.10 per share, and the expiration dates of the warrants also were extended from dates between September 3, 2015 and September 23, 2016 to January 1, 2017.

The following table shows the activity in the September 12% Convertible notes by fiscal year:

Activity in the September 2010 10% Convertible Notes

Initial principal balance	\$743,600
Conversions during the fiscal year ended March 31, 2012	(405,500)
Conversions during the fiscal year ended March 31, 2013	(30,000 )
Conversions during the fiscal year ended March 31, 2014	(25,000 )
Increase in principal balance due to 12% extension fee	33,972
Conversions during the fiscal year ended March 31, 2015	(317,072)
Balance as of March 31, 2015	\$-

As noted in the above table, the balance of the notes was converted into equity during the fiscal year ended March 31, 2015 and there is no remaining balance.

JULY & AUGUST 2011 10% CONVERTIBLE NOTES

During the three months ended September 30, 2011, we raised \$357,656 in five separate 10% convertible notes. Those notes had a fixed conversion price of \$4.50 per share and carried an interest rate of 10%. The convertible notes matured in July and August 2012. We also issued those investors five year warrants to purchase 79,479 shares of common stock at \$6.25 per share.

Effective March 31, 2014, the holders of three of the five notes totaling \$100,000 converted all of their principal and accrued interest into 28,774 shares of our common stock at the contractual conversion price of \$4.50 per share.

In September 2014, we entered into a forbearance agreement with the holder of the remaining two notes in which we agreed to repay his notes by October 31, 2014 and in which we also agreed to extend his warrants by two years.

In October 2014, we paid off in full the remaining outstanding principal balance and interest balances on the two remaining notes with cash payments of \$382,748.

#### APRIL 2011 12% CONVERTIBLE NOTES

In April 2011, we entered into a subscription agreement with two accredited investors providing for the issuance and sale of convertible promissory notes and corresponding warrants in the aggregate principal amount of \$385,000. The closing under the subscription agreement resulted in the issuance and sale by us of (i) convertible promissory notes in the aggregate principal amount of \$385,000, (ii) five-year warrants to purchase an aggregate of 80,080 shares of our common stock at an exercise price of \$6.25 per share, and (iii) five-year warrants to purchase an aggregate of 80,080 shares of our common stock at an exercise price of \$8.75 per share. The convertible promissory notes bear interest compounded monthly at the annual rate of 10% and mature on April 1, 2016 (see below). The aggregate gross cash proceeds to us were \$350,000, the balance of the principal amount representing a due diligence fee and an original issuance discount. The convertible promissory notes are convertible at the option of the holders into shares of our common stock at a price per share equal to eighty percent (80%) of the average of the three lowest closing bid prices of the common stock as reported by Bloomberg L.P. for the principal market on which the common stock trades or is quoted for the ten (10) trading days preceding the proposed conversion date. Subject to adjustment as described in the notes, the conversion price may not be more than \$10.00 nor less than \$5.00. There are no registration requirements with respect to the shares of common stock underlying the notes or the warrants.

In addition, we issued (i) five-year warrants to purchase an aggregate of 16,250 shares of our common stock at an exercise price of \$6.25 per share, and (ii) five-year warrants to purchase an aggregate of 16,250 shares of our common stock at an exercise price of \$8.75 per share to the purchasers. These warrants were issued as an antidilution adjustment under certain common stock purchase warrants held by the purchasers that were acquired from us in September 2010.

On March 31, 2014, we entered into separate amendments to these convertible notes and the warrants with three accredited investors who own certain convertible promissory notes and warrants previously issued by us on various dates between December 5, 2007 and September 23, 2011.

Prior to these amendments, the notes were past maturity and were in default, resulting in the accrual of interest at the applicable default interest rate. The amendments extended the maturity date of each of the notes to April 1, 2016. As a result of these amendments, the notes are no longer in default and the non-default interest rate for all of the notes was set at 12% per annum, which represents a reduction from the default interest rates of 15% at which interest had been accruing. By entering into the amendments, we also agreed to increase the currently outstanding principal amount of the notes by 12% from a total of \$693,260 to a total of \$776,451.

During the period from October 2011 to February 2014, these investors had converted, at conversion prices between \$2.73 and \$3.50 per share, portions of principal and interest outstanding under these notes and certain other convertible promissory notes previously issued to them by us. Certain antidilution provisions applicable to such notes should have resulted in such conversions being effected at a conversion price of \$2.10 per share. Accordingly, pursuant to the amendments, we issued to the investors an aggregate of 90,142 shares of our common stock, which represents the additional shares of common stock that would have been issued to the investors had such conversions been effected at \$2.10 per share.

The amendments also set the conversion price of these notes, as well as the exercise price at which shares of our common stock can be purchased under the warrants, at \$2.10 per share, and the expiration dates of the warrants also were extended from dates between September 3, 2015 and September 23, 2016 to January 1, 2017.

The following table shows the conversions into principal of the April 2011 12% Convertible notes by fiscal year:

Activity in the April 2011 12% Convertible Notes	
Initial principal balance	\$400,400
Increase in principal balance due to extension fee	48,048
Conversions during the fiscal year ended March 31, 2015	(448,448)
Balance as of March 31, 2015	\$-

As noted in the above table, the balance of these convertible notes was converted into equity during the fiscal year ended March 31, 2015 and there is no remaining balance.

#### SEPTEMBER 2011 CONVERTIBLE NOTES

In September 2011, we issued \$253,760 principal amount of convertible notes, convertible at \$3.50 per share. Such notes originally matured in September 2012. Together with these notes, we issued warrants to purchase 72,503 shares of common stock with a five year term. The original exercise price of the warrants was \$5.00 per share.

On March 31, 2014, we entered into separate amendments to these convertible notes and warrants issued in conjunction therewith with three accredited who owned certain of these convertible promissory notes and warrants (previously issued by us to those investors on various dates between December 5, 2007 and September 23, 2011).

These amendments extended the maturity date of each of the notes to April 1, 2016 and as a result the notes are no longer in default and the non-default interest rate for all of these notes was set at 12% per annum, which represents a reduction from the default interest rates of 15% at which interest had been accruing. By entering into the Amendments, we also agreed to increase the currently outstanding principal amount of the notes by 12%, which in the case of the September 2011 notes, increased from \$9,760 to \$10,931.

During the period from October 2011 to February 2014, the investors had converted, at conversion prices between \$2.73 and \$3.50 per share, portions of principal and interest outstanding under these notes and certain other convertible promissory notes previously issued to them by us. Certain antidilution provisions applicable to such notes should have resulted in such conversions being effected at a conversion price of \$2.10 per share. Accordingly, pursuant to these amendments, we issued to the investors an aggregate of 90,142 shares of our common stock, which represents the additional shares of common stock that would have been issued to these investors had such conversions been effected at \$2.10 per share.

The amendments to these notes also set the conversion price, as well as the exercise price at which shares of our common stock can be purchased under the warrants issued with these notes, at \$2.10 per share. By virtue of the amendments, the expiration dates of the warrants also were extended to January 1, 2017.

The following table shows the conversions into principal of the September 2011 Convertible notes by fiscal year:

Activity in the September 2011 Convertible Notes	
Initial principal balance	\$253,760
Conversions during the fiscal year ended March 31, 2012	(15,000 )
Conversions during the fiscal year ended March 31, 2013	(60,000 )
Conversions during the fiscal year ended March 31, 2014	(169,000)
Increase in principal balance due to extension fee	1,171
Conversions during the fiscal year ended March 31, 2015	(10,931 )
Balance as of March 31, 2015	\$-

As noted in the above table, the balance of the convertible notes issued in September 2011 was converted into equity during the fiscal year ended March 31, 2015 and there is no remaining balance.

#### LAW FIRM NOTE

On March 22, 2012, we entered into a promissory note with our corporate law firm for the amount of \$75,000, which represented the majority of the amount we owed to that firm at that time. The note originally had a maturity date of December 31, 2012 and bore interest at 5% per annum. The note was convertible at the option of the holder into shares of our common stock at a 10% discount to the market price of the common stock on the date prior to conversion with a floor price on such conversions of \$4.00 per share. The holder subsequently agreed to extend the maturity date of the note first to October 1, 2013, then to September 30, 2013, and then the expiration date of this note was again extended to October 1, 2014.

In November 2014, we paid off in full the note with a cash payment of \$50,000 and an issuance of 3,400 common shares.

#### *Securities Issued for Services*

We have issued securities in payment of services to reduce our obligations and to avoid using our cash resources. In the fiscal year ended March 31, 2015, we issued 27,654 common shares for services, of which 8,587 were restricted and were for investor relations services and corporate communications services. Included in the 27,654 common shares issued for services are 19,068 shares, registered under Form S-8 registration statements, which were issued as follows: 693 for financial consulting, 6,425 for scientific consulting and 11,950 for legal services. The average price (premium) discount of common shares issued for these services, weighted by the number of shares issued for services

in this period, was approximately (6.6)%.

### *Securities Issued for Debt*

We have also issued securities for debt to reduce our obligations to avoid using our cash resources. In the fiscal year ended March 31, 2015, we issued 948,728 restricted common shares for repayment in full of notes, including accrued interest, in the aggregate amount of \$2,273,032. The average price discount of the common stock issued for debt was approximately 75.6%.

### *Subsequent Events*

#### Reverse Split

On April 14, 2015, we completed a 1-for-50 reverse stock split. Accordingly, our authorized common stock was reduced from 500,000,000 shares to 10,000,000 shares, and each 50 shares of outstanding common stock held by stockholders were combined into one share of common stock. The accompanying consolidated financial statements and accompanying notes have been retroactively revised to reflect such reverse stock split as if it had occurred on April 1, 2013. All share and per share amounts have been revised accordingly.

#### Government Contracts

Between March 31, 2015 and July 14, 2015, we billed \$186,164 under our DARPA contract and billed \$6,344 under the Battelle subcontract and we collected \$384,882 under both contracts.

#### Common Stock Issuances

Subsequent to March 31, 2015, we issued 951 shares of common stock as the result of rounding up of fractional shares that arose due to our reverse stock split.



## June 2015 Financing

In June 2015, we sold \$6,000,000 of units, comprised of common stock and warrants, at a price of \$6.30 per unit. Each unit consisted of one share of common stock and .75 of a five-year warrant to purchase one share of common stock at an exercise price of \$6.30 per share. Accordingly, we issued a total of 952,383 shares of restricted common stock and warrants to purchase 714,286 shares of common stock. We raised \$5,591,988 in net proceeds from the financing, which coupled with previously existing funds on hand and expected revenues from our government contracts, should finance our operations for the fiscal year ending March 31, 2016 and the cost of our current clinical trials.

The June 2015 financing consumed substantially all of our available authorized shares. In order to complete that financing, two of our officers and one of our directors agreed to waive their rights to exercise certain stock options and warrants held by them representing the right to acquire 402,318 shares of common stock in the aggregate. Those waivers were required in order to make a sufficient number of shares of common stock available for completion of that financing. The waivers will expire when we amend our Articles of Incorporation to increase sufficiently the number of authorized shares of common stock available for issuance.

**DIRECTORS AND EXECUTIVE OFFICERS**

The names, ages and positions of our directors and executive officers as of July 23, 2015 are listed below:

NAMES	TITLE OR POSITION (5)	AGE
James A. Joyce (1)	Chairman, Chief Executive Officer and Secretary	53
Richard H. Tullis, PhD (2)	Vice President and Chief Science Officer	70
Rodney S. Kenley (3)	President and Director	65
James B. Frakes (4)	Chief Financial Officer and Senior Vice President – Finance	58
Franklyn S. Barry, Jr.	Director	75
Edward G. Broenniman	Director	79
Chetan S. Shah, MD	Director	46



(1) Effective June 1, 2001, Mr. Joyce was appointed our President and Chief Executive Officer, replacing Mr. Barry, who continues as a member of the Board of Directors. Mr. Joyce resigned from the position of President upon the appointment of Mr. Kenley to such position on October 27, 2010.

(2) Effective June 1, 2001, Dr. Tullis was appointed as our Chief Science Officer. Dr. Tullis resigned from the Board of Directors effective June 5, 2015.

(3) Effective October 27, 2010, Mr. Kenley was appointed as our President.

(4) Effective September 27, 2010, Mr. Frakes was appointed as our Chief Financial Officer.

(5) The Board has determined that Messrs. Barry, Broenniman and Shah meet the requirements to be determined as “independent directors” for all purposes, including compensation committee and audit committee purposes, under the NASDAQ rules and for federal securities law purposes. Messrs. Joyce and Kenley are not independent as they also function as our executive officers.

Certain additional information concerning the individuals named above is set forth below. This information is based on information furnished us by each individual noted.

***James A. Joyce, Chairman, CEO and Secretary.***

Mr. Joyce is the founder of Aethlon Medical, Inc. and has been the Chairman of the Board and Secretary since March 1999. On June 1, 2001, our Board of Directors appointed Mr. Joyce to the additional role of CEO. Mr. Joyce also serves as the Executive Chairman of Exosome Sciences, Inc. In 1992, Mr. Joyce founded and was the sole stockholder of James Joyce & Associates, an organization that provided management consulting and corporate finance advisory services to CEOs and CFOs of publicly traded companies. Previously, from 1989 to 1991, Mr. Joyce was Chairman and Chief Executive Officer of Mission Labs, Inc. Prior to that Mr. Joyce was a principal in charge of U.S. operations for London Zurich Securities, Inc. Mr. Joyce is a graduate of the University of Maryland. We believe that Mr. Joyce is qualified to serve as our director because of his role in founding our company and his prior experience, including his experience in the extracorporeal industry and in the financial markets.

***Richard H. Tullis, Ph.D., Vice President and Chief Science Officer***

Dr. Tullis has been Vice President of our company since January 2000 and Chief Science Officer since June 2001. Dr. Tullis was a director of our company from January 2000 until June 2015. Dr. Tullis has extensive biotechnology management and research experience, and is the founder of Syngen Research, formerly a wholly owned subsidiary of Aethlon Medical, Inc. Previously, Dr. Tullis co-founded Molecular Biosystems, Inc., a former NYSE company. At Molecular Biosystems, Dr. Tullis was Director of Oligonucleotide Hybridization, Senior Research Scientist and Member of the Board of Directors. In research, Dr. Tullis developed and patented the first application of oligonucleotides to antisense antibiotics and developed new methods for the chemical synthesis of DNA via methoxy-hosphorochloridites. Dr. Tullis also co-developed the first applications of covalently coupled DNA-enzyme conjugates using synthetic oligonucleotides during his tenure at Molecular Biosystems. In 1985, Dr. Tullis founded, and served as President and CEO of Synthetic Genetics, Inc., a pioneer in custom DNA synthesis, which was sold to Molecular Biology Resources in 1991. Dr. Tullis also served as interim-CEO of Genetic Vectors, Inc., which completed its IPO under his management, and was co-founder of DNA Sciences, Inc., a company that was eventually acquired by Genetic Vectors. Dr. Tullis received his Ph.D. in Biochemistry and Cell Biology from the University of California at San Diego, and has done extensive post-doctoral work at UCSD, USC, and the University of Hawaii.

***Rodney S. Kenley, President and Director***

Mr. Kenley has been President and a Director since October 2010. He has 38 years of experience in healthcare, most of which have been spent in the extracorporeal blood purification arena. Mr. Kenley held several positions at Baxter Healthcare (Travenol) from 1977 through 1990 including International Marketing Manager, Business Unit Manager for Peritoneal and Hemodialysis products, Manager of New Business Development, Director of Worldwide Product Planning, Director of Advanced Product Development, and VP of Electronic Drug Infusion. Mr. Kenley founded Aksys Ltd. in January 1991 to develop and commercialize his concept of a daily home hemodialysis system which was commercially launched in 2002 as the PHD system. In 2004, Mr. Kenley initiated the development of a second-generation home hemodialysis system in partnership with DEKA Research & Development Corporation in Manchester, New Hampshire. In 2007, the assets of Aksys Ltd. were acquired by DEKA, where Mr. Kenley was employed prior to joining Aethlon Medical, Inc. Mr. Kenley received his Bachelor of Arts degree in Biology and Chemistry from Wabash College, a Master's of Science degree in Molecular Biology from Northwestern University and a Masters of Management from the Kellogg School of Management, also at Northwestern University. We believe that Mr. Kenley is qualified to serve as our director as a result of his experience in developing extracorporeal blood purification products.

***James B. Frakes, Chief Financial Officer and Senior Vice President – Finance***

Mr. Frakes joined Aethlon Medical, Inc. in January 2008 and brought 16 consecutive years of financial responsibility for publicly traded companies, as well as specific knowledge and experience in equity and debt transactions,

acquisitions, public reporting and Sarbanes-Oxley Section 404 internal control requirements. Mr. Frakes also serves as the Chief Financial Officer of Exosome Sciences, Inc. He previously served as the CFO for Left Behind Games Inc., a start-up video game company. Prior to 2006, he served as CFO of NTN Buzztime, Inc., an interactive entertainment company. Mr. Frakes received an MBA from the University of Southern California and completed his BA with Honors at Stanford University.

***Franklyn S. Barry, Jr., Director***

Mr. Barry was President and Chief Executive Officer of Hemex, Inc. from April 1997 through May 31, 2001 and our President and CEO from March 10, 1999 to May 31, 2001, when he returned to consulting until he retired in 2013. He became a director of Aethlon Medical, Inc. on March 10, 1999. From 1994 to April 1997, Mr. Barry was a private consultant. Included among his prior experiences are tenures as President of Fisher-Price and as co-founder and CEO of Software Distribution Services, which today operates as Ingram Micro-D, an international distributor of personal computer products. Mr. Barry serves on the Board of Directors of Merchants Mutual Insurance Company. We believe that Mr. Barry is qualified to serve as our director because of his extensive management experience.

***Edward G. Broenniman, Director***

Mr. Broenniman became a director of Aethlon Medical, Inc. in March 1999. He has been the Managing Director of The Piedmont Group, LLC, a venture advisory firm, since 1978. Mr. Broenniman recently served on the Board of Directors of publicly traded QuesTech (acquired by CACI International), and currently serves on the Boards of two privately held firms. His nonprofit Boards are the Dingman Center for Entrepreneurship's Board of Advisors at the University of Maryland, the National Association of Corporate Directors, National Capital Chapter and the Board of the Association for Corporate Growth, National Capital Chapter. We believe that Mr. Broenniman is qualified to serve as our director because of his extensive management experience.

*Chetan S. Shah, MD, Director*

Dr. Shah became a director of Aethlon Medical, Inc. in June 2013. Dr. Shah is a board certified Otolaryngologist. He is an Advisory Board Member at The Bank of Princeton, and a partner and Board member of the Surgery Center at Hamilton as well as Physician Management Systems and Princeton Eye & Ear, which he founded in 2009. Dr. Shah serves on the board of two other private companies. He holds teaching positions and serves on multiple hospital committees in the area and is on the Audiology and Speech Language Pathology Committee for the State of New Jersey. He also is a member of the Board of Medical Examiners for the State of New Jersey. Dr. Shah received his Bachelor's degree and Medical Degree from Rutgers University and Robert Wood Johnson Medical School. We believe that Dr. Shah is qualified to serve as our director because of his medical background as both a board certified Otolaryngologist and a member of various medical boards and hospital committees in New Jersey.

**Board of Directors**

Our Board of Directors has the responsibility for establishing broad corporate policies and for overseeing our overall performance. Members of the Board of Directors are kept informed of our business activities through discussions with the Chief Executive Officer, President and other officers, by reviewing analyses and reports sent to them, and by participating in Board and committee meetings. We believe that having the offices of Chairman of the Board and Chief Executive Officer consolidated with one person is appropriate for a company of our size and stage of development in order to maximize efficiencies of our limited available personnel resources. The Board of Directors may reevaluate this consolidation in the future if we grow to a size where it determines that such reevaluation is appropriate. Our bylaws provide that each of the directors serves for a term that extends to our next annual meeting of stockholders. Our Board of Directors presently has an Audit Committee and a Compensation Committee, on each of which Messrs. Barry and Broenniman and Dr. Shah serve as independent directors. Mr. Barry is Chairman of the Audit Committee, and Dr. Shah is Chairman of the Compensation Committee.

Our Board of Directors believes that sound governance practices and policies provide an important framework to assist them in fulfilling their duty to stockholders. Our Board of Directors has implemented separate committees for the areas of audit and compensation, annual review of the independence of our Audit and Compensation Committee members, maintenance of a majority of independent directors, and written expectations of management and directors, among other best practices.

Our Board of Directors has adopted a Code of Business Conduct and Ethics, which has been distributed to all directors, officers, and employees. The Code of Business Conduct and Ethics contains a number of provisions that apply principally to our Chief Executive Officer, Chief Financial Officer and other key personnel. A copy of our Code of Business Conduct and Ethics can be found under the "Investor Relations – Corporate Governance" section of our website at [www.aethlonmedical.com](http://www.aethlonmedical.com). We intend to disclose future amendments to certain provisions of our Code of Business Conduct and Ethics, or waivers of such provisions, applicable to our directors and executive officers, at the

same location on our website identified above. The inclusion of our website address in this prospectus does not include or incorporate by reference the information on our website into this prospectus.

Our Board of Directors has determined that three of our current directors meet the independence requirements of the Nasdaq Capital Market, on which our common stock is listed. In the judgment of the Board of Directors, Mr. Joyce and Mr. Kenley do not meet such independence standards. In reaching its conclusions, the Board of Directors considered all relevant facts and circumstances with respect to any direct or indirect relationships between our company and each of the directors, including those discussed under the caption “Certain Relationships and Related Transactions” below. Our Board of Directors determined that any relationships that exist or existed in the past between our company and each of the independent directors were immaterial on the basis of the information set forth in the above-referenced sections.

The Board of Directors currently has three standing committees: the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee. These committees are responsible to the full board.

#### *Audit Committee*

Our Board of Directors has created an audit committee that presently consists of the directors stated above. Each of the members has a basic understanding of finance and accounting, and is able to read and understand fundamental financial statements. The Board of Directors has determined that each of the members of the Audit Committee meets the independence requirements applicable to Nasdaq Capital Market companies. Our Board of Directors has also determined that Franklyn Barry, due to his professional experience, meets the definition of an “Audit Committee Financial Expert” as defined in Item 407(d)(5)(ii) under Regulation S-K, promulgated under the Securities Exchange Act of 1934, as amended. The Audit Committee has the authority to appoint, review and discharge our independent registered public accounting firm. The Audit Committee reviews the results and scope of the audit and other services provided by our independent registered public accounting firm, as well as our accounting principles and our system of internal controls, reports the results of their review to the full Board of Directors and to management, and recommends to the full Board of Directors that our audited consolidated financial statements be included in our Annual Report on Form 10-K.

The Audit Committee charter can be found on our website under “Investor Relations – Corporate Governance.” The inclusion of our website address in this prospectus does not include or incorporate by reference the information on our website into this prospectus.

### *Compensation Committee*

Our Board of Directors has created a compensation committee consisting of the members stated above. The Compensation Committee makes recommendations concerning compensation of the executive management team and non-employee directors and administers our stock-based incentive compensation plans. The Chairman establishes meeting agendas after consultation with other committee members. Our Chief Executive Officer and other members of management regularly discuss our compensation issues with Compensation Committee members. Subject to Compensation Committee review, modification and approval, our Chief Executive Officer typically makes recommendations respecting bonuses and equity incentive awards for the other members of the executive management team. The Compensation Committee establishes all bonus and equity incentive awards for all executive members of the management team. Our Board of Directors has determined that all members of the Compensation Committee meet the independence requirements applicable to Nasdaq Capital Market companies.

The Compensation Committee charter can be found on our website at “Investor Relations – Corporate Governance.” The inclusion of our website address in this prospectus does not include or incorporate by reference the information on our website into this prospectus.

### *Directors Compensation Program*

In July 2012, our Board of Directors approved a board compensation program that modifies and supersedes the 2005 Directors Compensation Program, which was previously in effect. Under the 2012 program, in which only non-employee directors may participate, an eligible director will receive a grant of \$35,000 worth of ten-year options to acquire shares of common stock, with such grant being valued at the exercise price based on the average of the closing bid prices of the common stock for the five trading days preceding the first day of the fiscal year. In addition, under this program, eligible directors will receive cash compensation equal to \$500 for each committee meeting attended and \$1,000 for each formal board meeting attended.

In the fiscal year ended March 31, 2013, our Board of Directors granted ten-year options to acquire an aggregate of 33,342 shares of our common stock, all with an exercise price of \$3.80 per share, to our four outside directors under the 2012 program.

In the fiscal year ended March 31, 2014, our Board of Directors granted ten-year options to acquire an aggregate of 31,911 shares of our common stock, all with an exercise price of \$4.10 per share, to our five outside directors under the 2012 program.

In the fiscal year ended March 31, 2015, our Board of Directors granted ten-year options to acquire an aggregate of 11,053 shares of our common stock, all with an exercise price of \$9.50 per share, to our three outside directors under the 2012 program.

At March 31, 2015 we had issued 26,757 options under the old 2005 program to outside directors and 79,309 options to employee-directors, 21,756 outside directors' options had been forfeited, 5,000 outside directors' options had been exercised, 79,309 employee-directors' options had been forfeited and no options under the old 2005 program remained outstanding.

On June 6, 2014, our Board of Directors approved certain changes to the 2012 program. Under this modified program, a new eligible director will receive an initial grant of \$50,000 worth of options to acquire shares of common stock, with such grant being valued at the exercise price based on the average of the closing bid prices of the common stock for the five trading days preceding the first day of the fiscal year. These options will have a term of ten years and will vest 1/3 upon grant and 1/3 upon each of the first two anniversaries of the date of grant. In addition, at the beginning of each fiscal year, each existing director eligible to participate in the modified 2012 program also will receive a grant of \$35,000 worth of options valued at the exercise price based on the average of the closing bid prices of the common stock for the five trading days preceding the first day of the fiscal year. Such options will vest on the first anniversary of the date of grant. In lieu of per meeting fees, eligible directors will receive an annual board retainer fee of \$30,000. The modified 2012 program also provides for the following annual retainer fees: Audit Committee Chair - \$5,000, Compensation Committee chair - \$5,000, Audit Committee member - \$4,000, Compensation Committee member - \$4,000 and lead independent director - \$15,000.

### **Family Relationships**

There are no family relationships between or among the directors, executive officers or persons nominated or chosen by us to become directors or executive officers.

There are no arrangements or understandings between any two or more of our directors or executive officers or between any of our directors or executive officers and any other person pursuant to which any director or officer was or is to be selected as a director or officer, and there is no arrangement, plan or understanding as to whether non-management stockholders will exercise their voting rights to continue to elect the current Board of Directors. There are also no arrangements, agreements or understandings between non-management stockholders that may directly or indirectly participate in or influence the management of our affairs.

**Involvement in Legal Proceedings**

To the best of our knowledge, during the past ten years, none of the following occurred with respect to a present or former director or executive officer of our company: (1) any bankruptcy petition filed by or against such person or any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of any competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; (4) being found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated; and (5) being the subject of, or a party to, any federal or state judicial or administrative order, judgment, decree or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of any federal or state securities or commodities law or regulation, law or regulation respecting financial institutions or insurance companies or law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or (6) being the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Securities Exchange Act of 1934, as amended), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act, as amended), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or associated persons.

**EXECUTIVE COMPENSATION**

The following executive compensation disclosure reflects all compensation awarded to, earned by or paid to the executive officers below for the fiscal years ended March 31, 2015 and March 31, 2014. The following table summarizes all compensation for fiscal years 2015 and 2014 received by our Chief Executive Officer, and our three most highly compensated executive officers who earned more than \$100,000 in fiscal year 2015.

**SUMMARY COMPENSATION TABLE FOR 2015 AND 2014 FISCAL YEARS**

NAMED EXECUTIVE OFFICER AND PRINCIPAL POSITION	YEAR	SALARY (\$)	BONUS (\$)	STOCK AWARDS (\$)	OPTION AWARDS (\$)(5)	NON-EQUITY INCENTIVE PLAN	NON-QUALIFIED DEFERRED COMPENSATION EARNINGS	ALL OTHER COMP. (\$)	TOTAL (\$)
						(\$)	(\$)	(\$)	(\$)



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James A. Joyce (1) CHIEF EXECUTIVE OFFICER	2015	\$347,500	\$95,000	\$ –	\$246,000	\$ –	\$ –	\$ –	\$688,500
	2014	\$330,000	\$70,000	\$ –	\$180,000	\$ –	\$ –	\$ –	\$580,000
Richard H. Tullis, PhD (2) VICE PRESIDENT AND CHIEF SCIENCE OFFICER	2015	\$195,000	\$5,000	\$ –	\$8,200	\$ –	\$ –	\$ –	\$208,200
	2014	\$195,000	\$–	\$ –	\$45,000	\$ –	\$ –	\$ –	\$240,000
James B. Frakes (3) CHIEF FINANCIAL OFFICER AND SVP-FINANCE	2015	\$206,250	\$31,500	\$ –	\$41,000	\$ –	\$ –	\$ –	\$278,750
	2014	\$180,000	\$3,000	\$ –	\$45,000	\$ –	\$ –	\$ –	\$228,000
Rodney S. Kenley (4) PRESIDENT	2015	\$257,500	\$15,000	\$ –	\$41,000	\$ –	\$ –	\$ –	\$313,500
	2014	\$240,000	\$–	\$ –	\$45,000	\$ –	\$ –	\$ –	\$285,000

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(1) The aggregate number of stock awards and stock option awards issued to Mr. Joyce and outstanding as of March 31, 2015 is 68,000 (see share restricted stock grant below) and 217,143, respectively. Mr. Joyce received a \$5,000 salary increase from \$325,000 to \$330,000 effective July 1, 2013. In June 2014, Mr. Joyce received a \$20,000 salary increase from \$330,000 to \$350,000. Mr. Joyce was granted 80,000 shares of restricted common stock, at a price per share of \$12.00, which vested in equal installments over a thirty-six month period that commenced on June 30, 2010. Mr. Joyce has accepted all 80,000 shares of the grant and all such shares have vested. Of these shares, Mr. Joyce currently owns 68,000 shares.

(2) The aggregate number of stock awards and stock option awards issued to Dr. Tullis and outstanding as of March 31, 2015 is zero and 46,000, respectively. On November 7, 2014, we paid Dr. Tullis \$5,000 for accrued expenses reimbursable to him. In January 2015, we paid Dr. Tullis \$93,377 in payment of accrued salary.

(3) Mr. Frakes was appointed as Chief Financial Officer on September 27, 2010 after previously serving as Senior Vice President-Finance on a part-time basis. The aggregate number of stock awards and stock option awards issued to Mr. Frakes and outstanding as of March 31, 2015 is zero and 25,000, respectively. In June 2014, Mr. Frakes received a \$30,000 salary increase from \$180,000 to \$210,000.

(4) Mr. Kenley was appointed President on October 27, 2011. The aggregate number of stock awards and stock option awards issued to Mr. Kenley and outstanding as of March 31, 2015 is zero and 35,000, respectively. In June, 2014, Mr. Kenley received a \$20,000 salary increase from \$240,000 to \$260,000.

(5) As noted in note 6 to our financial statements for the years ended March 31, 2015 and March 31, 2014, the following outlines the significant weighted average assumptions used to estimate the fair value with respect to stock options utilizing the Binomial Lattice option pricing model for the years ended March 31, 2015 and March 31, 2014:

	Year Ended March 31,	
	2015	2014
Risk free interest rate	2.60%	0.38% to 2.65%
Average expected life	10 years	3 to 10 years
Expected volatility	90.23%	91.05% to 102.67%
Expected dividends	None	None

### Employment Agreements

We entered into an employment agreement with Mr. Joyce effective April 1, 1999. Effective June 1, 2001, Mr. Joyce was appointed President and Chief Executive Officer and his base annual salary was increased from \$120,000 to \$180,000. Effective January 1, 2005, Mr. Joyce's salary was increased from \$180,000 to \$205,000 per year. Under the terms of the agreement, his employment continues at a salary of \$205,000 per year for successive one-year periods, unless given notice of termination 60 days prior to the anniversary of his employment agreement. Effective April 1, 2006, Mr. Joyce's salary was increased from \$205,000 to \$240,000. His salary was subsequently increased to \$265,000 per year and effective May 1, 2008, his salary was increased from \$265,000 to \$290,000 per year. Effective April 1, 2010, his salary was increased from \$290,000 to \$325,000 per year. Effective July 2013, his salary was increased from \$325,000 to \$330,000 per year. In June 2014, his salary was increased from \$330,000 to \$350,000 per year.

During the fiscal year ended March 31, 2015, Mr. Joyce earned bonuses totaling \$50,000 from us and bonuses totaling \$45,000 from Exosome. All of those bonuses were based upon targets established by our compensation committee.

We entered into an employment agreement with Dr. Tullis effective January 10, 2000. Effective June 1, 2001, Dr. Tullis was appointed our Chief Science Officer. His compensation under the agreement was modified in June 2001 from \$80,000 to \$150,000 per year. Effective January 1, 2005, Dr. Tullis' salary was increased from \$150,000 to \$165,000 per year. Under the terms of the agreement, his employment continues at a salary of \$165,000 per year for successive one-year periods, unless given notice of termination 60 days prior to the anniversary of his employment agreement. Dr. Tullis was granted 5,000 stock options to purchase our common stock in connection the completing certain milestones, such as the initiation and completion of certain clinical trials, the submission of proposals to the FDA and the filing of a patent application. Effective April 1, 2006, Dr. Tullis' salary was increased to \$180,000 per year. Effective April 1, 2010, his salary was increased from \$180,000 to \$195,000 per year.

During the fiscal year ended March 31, 2015, Dr. Tullis earned a bonus of \$5,000 from us. The bonus was based upon targets established by our compensation committee.

Both Mr. Joyce's and Dr. Tullis' agreements provide for medical insurance and disability benefits, and one year of severance pay if their employment is terminated by us without cause or due to change in our control before the expiration of their agreements, and allow for bonus compensation and stock option grants as determined by our Board of Directors. Both agreements also contain restrictive covenants preventing competition with us and the use of confidential business information, except in connection with the performance of their duties for us, for a period of two years following the termination of their employment with us.

On September 27, 2010, Mr. Frakes was appointed our Chief Financial Officer. We have not entered into a written employment agreement with Mr. Frakes. As Chief Financial Officer, Mr. Frakes receives an annual salary initially set at \$180,000 and medical insurance benefits. In June 2014, his salary was increased from \$180,000 to \$210,000 per year. During the fiscal year ended March 31, 2015, Mr. Frakes earned bonuses totaling \$30,000 from us and a bonus of \$1,500 from Exosome. All of those bonuses were based upon targets established by our compensation committee.

Mr. Kenley was appointed our President on October 27, 2010. Pursuant to a written offer of employment executed by us and Mr. Kenley, he receives an annual salary initially set at \$240,000 and medical insurance benefits. In June 2014, his salary was increased from \$240,000 to \$260,000 per year. During the fiscal year ended March 31, 2015, Mr. Kenley earned bonuses totaling \$15,000 from us. All of those bonuses were based upon targets established by our compensation committee.

### Outstanding Equity Awards at 2015 Fiscal Year-End

The following table sets forth certain information concerning stock option awards granted to our named executive officers.

#### OUTSTANDING EQUITY AWARDS AT 2015 FISCAL YEAR END

NAME	OPTIONS AWARDS		EQUITY INCENTIVE PLAN AWARDS NUMBER OF SECURITIES UNDERLYING UNEXERCISED UNEARNED OPTIONS UNEXERCISABLE (#)	OPTION EXERCISE PRICE (\$)	DATE OF OPTION EXPIRATION
	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS EXERCISABLE (#)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS UNEXERCISABLE (#)			
James A. Joyce	57,143(1)	—	—	\$10.50	12/18/15

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

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

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

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

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

### *France*

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

Favorable developments in France included:

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

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

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

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

Unfavorable developments in France included:

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

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

### *Italy*

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

Favorable developments in Italy included:

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

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

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

### *United Kingdom*

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

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

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

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

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

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

*Switzerland*

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

*Spain*

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

*Rest of Europe*

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

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

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

36 million in aggregate on other business lines.

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

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

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



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

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

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

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

## ***NAFTA Region***

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

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

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

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

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

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

## ***Asia-Pacific***

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

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

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

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

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

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

***Credit Insurance***

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

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

### ***Allianz Global Corporate and Specialty***

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

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

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

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

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

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

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

### **Changes in Historical Loss and LAE Reserves**

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

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

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

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

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

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

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

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

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

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

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

**Discounting of Loss and LAE Reserves**

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

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

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

**Asbestos and Environmental ( A&E ) Loss Reserves**

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

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

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



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

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

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

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

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

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

**Selected Statistical Information Relating to our Banking Operations**

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

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

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

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

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

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

## **Average Balance Sheet and Interest Rate Data**

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

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

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

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

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

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

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

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

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

**Table of Contents****Net Interest Margin**

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

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

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

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

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

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

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

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



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

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

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

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

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

- (1) Return on assets is defined as net income/(loss) of our banking operations divided by average total assets of our banking operations.  
(2) Return on equity is defined as net income/(loss) of our banking operations divided by average shareholders' equity of our banking operations.  
(3) Equity to assets ratio is defined as average shareholders' equity of our banking operations divided by average total assets of our banking operations.  
(4) Certain prior year figures have been revised to conform to current year presentation.

**Financial Assets Carried At Fair Value Through Income and Investment Securities**

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

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

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

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Equity securities	33,298	32,626	28,105
Non-German total	80,203	97,977	107,580
Total financial assets carried at fair value through income	94,637	117,033	141,534
<b>Securities available-for-sale</b>			
<b>German<sup>(3)</sup>:</b>			
Federal and state government and government agency debt securities	280	345	305
Local government debt securities	547	1,347	1,777
Corporate debt securities	4,246	4,068	5,195
Equity securities	1,043	1,261	1,573
German total	6,116	7,021	8,850
<b>Non-German:</b>			
U.S. Treasury and other U.S. government agency debt securities	4	79	5
Other government and official institution debt securities	1,315	1,401	1,245
Corporate debt securities	5,490	5,536	3,180
Mortgage-backed securities	13	11	266
Other debt securities		100	455
Equity securities	2,234	1,931	1,649
Non-German total	9,056	9,058	6,800
Total securities available-for-sale	15,172	16,079	15,650
<b>Securities held-to-maturity</b>			
<b>Non-German:</b>			
Other government and official institution debt securities			41
Non-German total			41
Total securities held-to-maturity			41

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

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

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

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

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

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

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

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

**Maturity Analysis of Debt Investment Securities**

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

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

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

**Table of Contents****Loan Portfolio**

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

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

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

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

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

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

**Loan Concentrations**

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

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

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

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

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

<sup>(1)</sup> Other services providers include media, utilities, natural resources and other services.



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Loans Past Due 90 Days and Still Accruing Interest***

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

***Troubled Debt Restructurings***

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

***Interest Income on Non-performing Loans***

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

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

***Potential Problem Loans***

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

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

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

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

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

	<b>As of December 31, 2007 Percent of Total Potential Problem Loans</b>
Asia / Pacific	67%
Latin America	16%

**Table of Contents****Foreign Outstandings**

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

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

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

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

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



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

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

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

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

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

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

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

**Summary of Loan Loss Experience**

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

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

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

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

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

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

An allowance for transfer risk, or country risk allowances.

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

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

### ***Specific Loan Loss Allowance***

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

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

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

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

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

### ***Portfolio Loan Loss Allowance***

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

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

### ***General Loan Loss Allowance***

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

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

### *Country Risk Allowance*

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

### *Self-Correcting Mechanisms*

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

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

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

## **Movements in Loan Loss Allowance**

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

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

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

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

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

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

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



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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

<sup>(1)</sup> Certain prior year figures have been revised to conform to current year presentation.

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

**Time Deposits**

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

As of December 31, 2007

	<b>Time Deposits of 100,000 or more mn</b>
Maturing in three months or less	66,345
Maturing in over three months through six months	6,798
Maturing in over six months through twelve months	3,628
Maturing in over twelve months	2,795
<b>Total</b>	<b>79,566</b>

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

### **Short-term Borrowings**

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

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

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

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

(1) Excludes collateral received for securities lending transactions.

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

**Regulation and Supervision****General**

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

**Allianz SE**

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

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

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

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

### **Regulations for Financial Conglomerates**

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



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

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

## **Regulation by Sector**

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

## **Insurance**

### ***European Union***

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

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

### ***Germany***

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

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

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

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

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

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

### *Other European Countries*

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

### *United States*

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

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

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

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

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

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

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

### ***Other Countries***

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

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

### **Banking, Asset Management and Other Investment Services**

#### ***European Union***

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

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

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

### ***Germany***

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

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

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

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

### ***Other European Countries***

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

### ***United States***

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



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

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

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

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

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

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

### ***Other Countries***

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

### **ITEM 4A. Unresolved Staff Comments**

None

**Table of Contents****ITEM 5. Operating and Financial Review and Prospects**

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

**Critical Accounting Policies and Estimates****Goodwill**

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

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

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

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

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

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

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

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

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

## **Fair Value of Financial Instruments**

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

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

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

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

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

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

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

## **Impairments of Investments**

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

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

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

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

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

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

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

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

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

#### **Loan impairments and provisions**

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



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

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

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

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

The loan loss allowance comprises the following four categories:

### *Specific allowances*

For all individually significant loans, counterparty relationships are periodically reviewed

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

### *General allowances*

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

*Country risk allowances*

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

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

*Portfolio allowances*

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

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

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

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

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

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

## **Deferred Policy Acquisition Costs**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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





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

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

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

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

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

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



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

Country	Base	Percentage
<b>Germany</b>		
Life	All sources of Profit	90%
Health	All sources of Profit	80%
<b>France</b>		
Life	All sources of Profit	80%
<b>Italy</b>		
Life	Investments	85%
<b>Switzerland</b>		
Group Life	All sources of Profit	90%
Individual Life	All sources of Profit	100%

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

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

**Reserves for loss and loss adjustment expenses**

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

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

Minimum standards for actuarial loss reserving;

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

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

Quarterly quantitative and qualitative reserve monitoring.

Each of these components is described further below.

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

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

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

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

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

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

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

## **Variability of Reserve Estimates**

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

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

German motor liability and

Asbestos claims reserves.

**German Motor Liability**

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

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

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

### **Asbestos claims reserves**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Deferred Taxes**

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



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

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

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

## **Pension and Similar Obligations**

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

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

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

## **Changes to Accounting and Valuation Policies**

See Note 3 to our consolidated financial statements.

## **Introduction**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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**Executive Summary<sup>1)</sup>**

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

Strong earnings with net income of \$8.0 billion.

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

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

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

2006 was a year of success.

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

Operating profit in Life/Health grew by 23%.

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

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

Net income grew by 60% to \$7.0 billion.

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

*Total revenues*

*in \$ bn*

*Net income*

*in mn*

*Shareholders equity*

*in mn*

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



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**Allianz Group's Consolidated Results of Operations**

*Total revenues<sup>(1)</sup>*

*Total revenues Segments*

*in mn*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## ***Operating profit***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Net income*

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

Net income grew by 13.5% to almost 8.0 billion.

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

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

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

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

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

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

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

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

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

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

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

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

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

<sup>(1)</sup> Please see Note 49 to our consolidated financial statements for further information on our restructuring plans. reflects the reorganization of our German insurance operations and the New Dresdner Plus reorganization program<sup>(2)</sup>.

Net expenses from financial assets and liabilities held for trading was down significantly, as, in 2005, heavy negative impacts stemmed from derivatives from an equity-linked loan which was issued as a component of financing the cash tender offer for the outstanding RAS shares.

Income tax expenses of 2.0 billion benefited from the tax-exemption of the significant capital gains and the capitalization of the Allianz Group's total corporate tax credits as a consequence of the new German Reorganization Tax Act (SEStEG) which entered into force in December 2006. Following this tax law change, current income tax expenses were reduced by 571 million. Please see Note 41 to our consolidated financial statements for further information. As a result of the above, our effective tax rate declined to 19.5% from 26.3%.

Minority interests in earnings were down 97 million to 1.3 billion. This was primarily a result of the acquisition of the minority interest in RAS.

*Earnings per share*

Our net income growth translates into continuously increasing earnings per share. The following graph presents our basic and diluted earnings per share for the years ended December 31, 2007, 2006 and 2005.

*Earnings per share*<sup>(1)</sup>

*in*

(1) See Note 50 to our consolidated financial statements for further details.

(2) Please see Note 49 to our consolidated financial statements for further information on our restructuring plans.



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The following table summarizes the total revenues, operating profit and net income for each of our segments for the years ended December 31, 2007, 2006 and 2005, as well as the IFRS consolidated net income of the Allianz Group.

	Property-Casualty mn	Life/Health mn	Banking mn	Asset Management mn	Corporate mn	Consolidation mn	Group mn
<b>2007</b>							
<b>Total revenues<sup>(1)</sup></b>	<b>44,289</b>	<b>49,367</b>	<b>5,721</b>	<b>3,259</b>		<b>(38)</b>	<b>102,598</b>
<b>Operating profit (loss)</b>	<b>6,299</b>	<b>2,995</b>	<b>773</b>	<b>1,359</b>	<b>(325)</b>		
Non-operating items	962	107	(59)	(494)	(29)		
<b>Income (loss) before income taxes and minority interests in earnings</b>	<b>7,261</b>	<b>3,102</b>	<b>714</b>	<b>865</b>	<b>(354)</b>	<b>(20)</b>	<b>11,568</b>
Income taxes	(1,656)	(897)	(266)	(342)	217	90	(2,854)
Minority interests in earnings	(431)	(214)	(71)	(25)	(21)	14	(748)
<b>Net income (loss)</b>	<b>5,174</b>	<b>1,991</b>	<b>377</b>	<b>498</b>	<b>(158)</b>	<b>84</b>	<b>7,966</b>
<b>2006</b>							
<b>Total revenues<sup>(1)</sup></b>	<b>43,674</b>	<b>47,421</b>	<b>7,088</b>	<b>3,044</b>		<b>(98)</b>	<b>101,129</b>
<b>Operating profit (loss)</b>	<b>6,269</b>	<b>2,565</b>	<b>1,422</b>	<b>1,290</b>	<b>(831)</b>		
Non-operating items	1,291	135	(147)	(555)	(156)		
<b>Income (loss) before income taxes and minority interests in earnings</b>	<b>7,560</b>	<b>2,700</b>	<b>1,275</b>	<b>735</b>	<b>(987)</b>	<b>(960)</b>	<b>10,323</b>
Income taxes	(2,075)	(641)	(263)	(278)	824	420	(2,013)
Minority interests in earnings	(739)	(416)	(94)	(53)	(16)	29	(1,289)
<b>Net income (loss)</b>	<b>4,746</b>	<b>1,643</b>	<b>918</b>	<b>404</b>	<b>(179)</b>	<b>(511)</b>	<b>7,021</b>
<b>2005</b>							
<b>Total revenues<sup>(1)</sup></b>	<b>43,699</b>	<b>48,272</b>	<b>6,318</b>	<b>2,722</b>		<b>(44)</b>	<b>100,967</b>
<b>Operating profit (loss)</b>	<b>5,142</b>	<b>2,094</b>	<b>704</b>	<b>1,132</b>	<b>(881)</b>		
Non-operating items	1,024	177	822	(707)	(1,118)		
<b>Income (loss) before income taxes and minority interests in earnings</b>	<b>6,166</b>	<b>2,271</b>	<b>1,526</b>	<b>425</b>	<b>(1,999)</b>	<b>(560)</b>	<b>7,829</b>
Income taxes	(1,804)	(488)	(387)	(129)	741	4	(2,063)
Minority interests in earnings	(827)	(425)	(102)	(52)	(10)	30	(1,386)
<b>Net income (loss)</b>	<b>3,535</b>	<b>1,358</b>	<b>1,037</b>	<b>244</b>	<b>(1,268)</b>	<b>(526)</b>	<b>4,380</b>

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

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### **Impact of the financial markets turbulence**

In the second half of 2007, the crisis in the mortgage market in the United States, triggered by serious disruption of credit quality, led to a revaluation of credit risks. As a result, prices for various asset-backed securities ( ABS ), even for those with a high rating, were devalued significantly. Primarily, this affected collateralized debt obligations ( CDO ), and residential mortgage-backed securities especially those originating in the United States ( U.S. RMBS ). Furthermore, this turbulence in the financial markets resulted in illiquidity in the primary markets where the placement of structured products e.g. asset-backed commercial papers ( ABCP ) almost came to a near stop. The liquidity shortage prompted central banks to provide the capital markets with additional liquidity.

The turbulences on the financial markets also impacted our business development. However, the impact varied depending on the different business segments.

Most of our insurance operations were not affected by these developments. The investment activities of the insurance segments were only impacted to a very limited extent, reflecting the high quality of the asset bases with no material CDO and subprime exposure. Similarly, the impact on our Asset Management segment was marginal. In contrast, we had to record a significant impact of this crisis within the Banking segment, with the substantial portion being attributable to some business units of Dresdner Bank 's investment banking activities.

#### *Impact on insurance operations*

Of our average Property-Casualty asset base, ABS made up 4.9 billion, as of December 31, 2007, which is around 5%. CDOs accounted for 0.2 billion of this amount, of which 8 million are subprime-related. Losses on CDOs of 2 million were recorded in our equity. Realized losses of 12 million were reflected in the segment 's income.

Within our Life/Health asset base, ABS amounted to 13.8 billion, as of December 31, 2007, less than 4% of total average Life/Health assets. Of these, 0.3 billion are CDOs of which none are subprime-related. No unrealized losses on CDOs were recorded in our equity. Realized losses of 7 million were reflected in the segment 's income.

#### *Impact on investment banking activities of Dresdner Bank*

Dresdner Bank is engaged in various business activities involving structured products. These comprise asset-backed securities of the trading book, credit enhancements, conduits, leveraged buy-out commitments and structured investment vehicles. Furthermore, Dresdner Bank has sold credit protection for third party ABS and has re-insured these positions with monoline insurers ( monoliners ).

#### *Asset-backed securities of the trading book*

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The underlying collateral of asset-backed securities is a pool of assets.

As of December 31, 2007, Dresdner Bank carried ABS within trading assets on the balance sheet of 15.1 billion and was, due to short derivative positions, economically exposed by 10.5 billion (comprising only drawn liquidity facilities) as of December 31, 2007. The majority of these ABS is of a high quality, as 89% of them were rated A or better. Only 1.6 billion of the net exposure is subprime.

### *Breakdown of exposure by rating class*

*in %*

After write-downs of 1.3 billion the net exposure amounts to 9.2 billion as of December 31, 2007. It contains 1.5 billion CDOs, 1.4 billion U.S. RMBS and 6.3 billion other ABS. Because the financial markets turbulence mainly affected CDOs and U.S. RMBS, these net exposures are classified as critical ABS. We took substantial write-downs on CDOs and U.S. RMBS, recognizing the different quality and characteristics of the assets. The following table summarizes the write-downs on CDOs and U.S. RMBS.

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Exposure type	Exposure as of 31/12/2007 mn	Write- downs 2007 mn	in % of exposure
<b>U.S. RMBS</b>			
Prime	713	71	10%
Midprime	336	50	15%
Subprime	617	206	33%
<b>Total U.S. RMBS</b>	<b>1,666</b>	<b>327</b>	<b>20%</b>
<b>CDO</b>			
High grade	1,615	225	14%
Mezzanine	667	534	80%
CDO-squared <sup>1)</sup>			
<b>Total CDO</b>	<b>2,282</b>	<b>759</b>	<b>33%</b>

<sup>1)</sup> CDO-squared: CDO that is predominantly composed of other CDOs

*Credit enhancements*

Credit enhancements are one or more initiatives taken by the originator in a securitization structure to enhance the security, credit or the rating of the securitized instrument. In this context, Dresdner Bank offers protection against the risk of sharp and sudden decline of ratings of assets (so called risk gap protection) for conduit asset financing entities ( CAFE ) and second loss protection for credit investment related conduits ( CIRC ). Both structures primarily contain ABS.

The CAFE structures, primarily contain certain assets for which the Bank provides protection. Furthermore, the Bank is entitled to take assets that run the risk of being downgraded out of the portfolio. Thus, the Bank can only be drawn on if significant rating deteriorations occur. During the second half of 2007, the exposure was reduced significantly to 0.1 billion.

Under the CIRC structures, Dresdner Bank provides second loss protection, whereas the first loss stays with the client. Additionally, the Bank is entitled to sell the portfolio to the market, if the value of this portfolio falls below a pre-defined threshold. Here as well, the exposure was reduced and, at December 31, 2007 was a notional amount of 2.8 billion.

*Conduits*

A conduit is a special purpose entity that securitizes its financial assets, e.g. receivables, by means of commercial papers.

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Since the late nineties, Dresdner Bank arranges the securitization of third party and own asset portfolios through asset-backed commercial paper programmes ( ABCP ) via several conduits. The underlying pool of assets exhibits a good quality, with 74% having at least an A rating. Furthermore, none of the underlying assets are CDOs or subprime-related. Dresdner Bank has provided liquidity back-up lines of 12.4 billion of which 8.4 billion were undrawn at December 31, 2007.

### *Leveraged buy-out*

A leveraged buy-out is a financing transaction involving a significant amount of debt.

Dresdner Bank provides credit lines for these transactions, the bulk of which are typically syndicated. As of December 31, 2007, Dresdner Bank has reduced its LBO exposure to 4.5 billion containing drawn and undrawn amounts, which includes 1.1 billion of loans held within Dresdner Bank's loan portfolio. In 2007, provisions were recorded for this business of 30 million.

### *Monoliner*

Dresdner Bank has entered into business relations with monoliners companies that guarantee the repayment of a security and the corresponding interest in the event that the issuer defaults in order to hedge the exposure from credit protection sold for third party ABS.

Dresdner Bank has provided credit protection via Credit Default Swaps ( CDS ) for ABS exposures. According to our risk policies, these CDS positions are re-insured with monoliners; only in case of a default of payment from the underlying assets and a breach of contractual duties of the monoliners will an ultimate loss occur. This loss amounts to the difference between the guaranteed amount from the monoliner and the value of the underlying assets. Dresdner Bank bought credit protection for counterparty risks on monoliners of notional 0.4 billion, reducing the net counterparty risk to 0.8 billion as of December 31, 2007. Considering both, the quality of the underlying assets as well as the credit risk of the monoline coverage bought, we believe our monoline related critical assets amount to approximately 1.1 billion.

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### *Structured Investment Vehicles ( SIV )*

A structured investment vehicle is an entity that primarily invests in long-term, high quality securities. The investments are refinanced by medium term notes ( MTN ) or commercial papers ( CP ).

For the structured, not consolidated SIV K2 , in which Dresdner Bank holds a share of 3.5%, the Bank serves as an asset manager and provides liquidity back-up lines and repurchase agreements on an arms-length basis. This SIV is refinanced by CPs, MTNs, repos and capital notes. Since September 2007, the volume of K2 has been reduced by almost 30% to 16.4 billion.

On March 18, 2008, Dresdner Bank and K2 Corporation entered into an agreement through which Dresdner Bank will provide a support facility to the Structured Investment Vehicle, K2. The agreement, which consists of a U.S.\$1,500,000,000 committed revolving mezzanine credit facility and a backstop facility, follows the announcement by Dresdner Bank on **February 21, 2008** that it intended to offer support to K2.

The mezzanine credit facility provides K2 with immediate additional liquidity, allowing K2 to draw-down funds for terms up to the maturity date of its longest dated senior debt obligations. Under the terms of the backstop facility, Dresdner Bank has undertaken to provide to K2 firm prices at which it will purchase assets from K2 in the event that K2 is unable to obtain better prices for such assets on the open market. The aggregate of such prices provided by Dresdner Bank will at all times equate to an amount that ensures K2 has sufficient funds to repay its senior debt in full.

### *Valuation methods*

Due to the worldwide financial market crisis, some markets faced a significant shortage of liquidity, which affected the valuation techniques used by the Allianz Group to measure fair value. For certain financial instruments, the market has been completely illiquid and market prices were no longer available. In addition, the market prices of other ABS-based products declined significantly. Although the steep decline of certain market prices might not always have been rational from an economic perspective (e.g. due to forced sales), the Allianz Group has adhered to strict principles in measuring the affected financial instruments at fair value.

Whenever possible the fair value is determined using the market prices available in active markets. If there is no quoted market price available, valuation techniques are used which are based on market prices of comparable instruments or parameters from comparable active markets (market observable inputs). If no observable market inputs are available valuation models are used (non-market observable inputs).

As a benchmark for the ABS of the trading book, the ABX index was applied. Because the ABX.HE (Home Equity) index represents a standardized basket of Home Equity ABS reference obligations, the Allianz Group believes that it provides an adequate valuation standard. The ABS portfolio was divided into sub-portfolios based on certain criteria, such as the underlying product category, the rating or the vintage. The valuation was based on the respective ABX-prices. For a large part of the RMBS portfolio, market quotes were available and used for valuation purposes. For the so-called prime assets (only certain RMBS), the Allianz Group has not used the ABX index, because the index only represents the subprime market. In this case, the Allianz Group took the midpoint of prices provided by other market participants for prime assets and used them as a valuation input.

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Because there are no generally valid market standards existing in these areas, the valuation methods are naturally limited, so that alternative assumptions and input parameters would generate different results.

### **Recently Adopted and Issued Accounting Pronouncements and Changes in the Presentation of the Consolidated Financial Statements**

For information on recently adopted and issued accounting pronouncements please see Note 3 to our consolidated financial statements.

### **Events After the Balance Sheet Date**

See Recent and Expected Developments Economic Outlook and Note 52 to the consolidated financial statements.

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**Property-Casualty Insurance Operations**

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

Emerging markets contributed more than 4 billion to steadily growing premiums.

Profitability sustained throughout the cycle.

Combined ratio of 93.6%.

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

Underwriting performance drove operating profitability.

Very competitive combined ratio of 92.9%.

Further operating profit growth of 22% to 6.3 billion after an already strong year in 2005.

We sustained our successful strategy of selective use of market opportunities.

Net income increased 34.3% to 4.7 billion.

**Earnings Summary**

***Gross premiums written***

*Gross premiums written by region<sup>(1)</sup>*

*in %*



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<sup>(1)</sup> After elimination of transactions between Allianz Group companies in different geographic regions and different segments. Gross premiums written from our specialty lines have been allocated to the respective geographic regions.

*Gross premiums written Growth rates<sup>(1)</sup>*

*in %*

<sup>(1)</sup> Before elimination of transactions between Allianz Group companies in different geographic regions and different segments.

<sup>(2)</sup> Together with our property-casualty assumed reinsurance business, primarily attributable to Allianz SE, the decline within Germany was (6.0)% (2006: (1.9)%).

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

Gross premiums written were 1.4% ahead of previous year at 44,289 million. Our acquisitions in Russia and Kazakhstan contributed significantly to premium volume, while large foreign currency translation effects of 448 million almost offset this increase. Therefore, on an internal basis, premiums grew by 1.1%. Furthermore, in 2007, our strategy of selective underwriting proved to be again successful as we were able to limit pricing impacts while at the same time achieving slight organic growth.

The revenue development remained mixed across our different regions. We recorded strong premium growth of 962 million in our emerging markets<sup>(1)</sup> which compensated for flat or even negative revenue trends in the more mature markets. This shows that our strategy of expansion into emerging markets is paying off. Together, these markets contributed 4,286 million (2006: 3,324 million) or 9.2% (2006: 7.2%) to total gross premiums written.

Increases in gross premiums written were primarily achieved in New Europe and Spain as well as in the global travel and assistance business at Mondial and credit insurance at Euler Hermes. In contrast, as we intentionally forewent premium growth in order to protect our underwriting profitability, revenues were down in the United States and in Italy.

With 838 million additional premium volume, New Europe contributed the highest portion to revenue growth. The first time consolidation of ROSNO and Progress Garant in Russia and ATF-Polis in Kazakhstan were the main drivers for this development. Additionally, motor insurance business in Poland and Romania added to the increase in gross premiums.

In Spain, revenues increased by 123 million. Here, our operations outperformed the market in all lines of business despite the weakness situation in the motor market. Main contributions came from industrial and personal lines.

<sup>(1)</sup> New Europe, Asia-Pacific, South America, Mexico, Middle East and Northern Africa.

Increase in gross premiums written in our Travel and Assistance business by 95 million was driven by growth in most regions coming mainly from e-commerce partnerships in travel insurance.

Premium growth within the credit insurance business was due to higher business volume. Despite the weak U.S. Dollar compared to the Euro and price declines which are due to high competition and very low claims ratios in the market, total revenues were up by 90 million.

At Allianz Sach within Germany, we closely monitored pricing development in order to maintain profitability. Due to a weak market environment and higher no claims bonuses in motor insurance, revenues declined by 114 million. Furthermore, internal reinsurance business at Allianz SE, which we also show within Germany, was significantly reduced as we optimized internal reinsurance arrangements in the year under

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review. Overall premiums in Germany were down by 681 million.

In the United States we recorded revenues of 4,306 million. At Fireman's Fund Insurance Company ( Fireman's Fund ) we saw a decline of 206 million from the prior year, primarily reflecting the decline in the U.S. Dollar compared to the Euro. On a U.S. Dollar basis, growth amounted to 3.8% and we saw a satisfying business performance, coming predominantly from crop insurance business and personal lines.

Our operations in Italy showed a decline in gross premiums written of 167 million mainly due to stagnation in the motor market and the impact from a new regulation, the so-called Bersani law, which resulted in an overall price reduction.

In the United Kingdom the decrease of 160 million in revenues was due to the internal transfer of large risk business to Allianz Global Corporate & Specialty ( AGCS ). Otherwise, premium volume increased by 185 million mainly coming from personal motor and commercial lines.

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

In 2006, our underwriting strategy of putting profitability ahead of volume was again successful. Gross premiums written were flat at 43,674 million

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reflecting average constant prices and a slightly increased sales volume, with considerably varying developments across our different markets. Increases in gross premiums written were primarily achieved within Spain (+ 140 million) and the United States (+ 115 million), as well as our emerging markets of New Europe (+ 117 million) and South America (+ 153 million). Lower gross premiums written were recorded within Germany, in Switzerland at Allianz Risk Transfer (or ART ) and within our specialty lines at Allianz Global Corporate & Specialty. On an internal growth basis, gross premiums written grew marginally by 0.3%.

We continued to benefit from our global diversification and the measures implemented as part of our Sustainability Program which allow us to take selective advantage of market opportunities and to perform local market cycle management.

At Allianz Sach within Germany, we closely monitored pricing development in order to maintain profitability. Premiums in our motor business were down, reflecting largely lower prices. The development in our casualty lines primarily due to increased sales of accident insurance products with premium refunds, however, compensated partially for the decline in motor. An additional factor contributing to the lower premiums within Germany was that the Allianz Group's Property-Casualty subsidiaries outside of Germany reduced their internal reinsurance cessions to Allianz SE.

In some markets, such as the United States and Spain, we recorded increasing volumes while being able to maintain stable, profitable prices. Two lines of business contributing to the increased business volume at Fireman's Fund in the United States were the crop insurance business and specialty casualty lines. The positive development in Spain was attributable to higher sales across all lines of business.

The decrease of 207 million in Switzerland reflected an increase in gross premiums written at Allianz Suisse due to a favorable development in our motor business and lower premium volume at ART. At ART, in 2005, we benefited from a large single premium multi-year contract.

Within New Europe, the increase in gross premiums written took place in a well-performing economy. Our distribution network captured a significant part of the growing market potential. The expanded sales capacity in Poland was the key driver for the growth of our property-casualty portfolio. In contrast, in Hungary, we were willing to forego volume for better prices and thereby protected our profitability.

In South America, our operations benefited predominantly from growth in our Brazilian motor business driven by a continued good performance of the fleet business and an increase of new car sales.

At AGCS gross premiums written were down 142 million to 2,802 million. This development was to a large extent brought about by foregoing business volume as a result of declining prices mainly in Europe.

### ***Operating profit***

*Operating profit*

*in mn*

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

At 6,299 million operating profit was above the targeted level. Compared to 2006, a year that was characterized by exceptionally low losses from natural catastrophes, operating profit growth was relatively flat at 0.5%.

Claims and insurance benefits incurred were up by 3.3% to 25,485 million and the calendar year loss ratio was up by 1.1 percentage points to 66.1%. Of the total claims 774 million (2006: 211 million), or 2.0 percentage points of the loss ratio, were attributable to severe losses from natural catastrophes such as windstorm Kyrill, the floods in the United Kingdom and storms in several parts of the world. Also contributing to the increase were

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higher large claims incurred at AGCS as well as our newly consolidated entities in Russia and Kazakhstan.

The accident year loss ratio increased by 2.0 percentage points to 69.6%. Furthermore, previous year's loss ratio was on a generally lower level.

Acquisition and administrative expenses were almost stable, up 0.2% to 10,616 million. These expenses also contain significant investments in group initiatives. Our administrative costs came down, showing that our tight cost control and efficiency measures have started to pay-off. Slightly higher acquisition costs stem from an increase in profitable, higher-commission business and the acquisition of our Russian subsidiaries. In total, our expense ratio of 27.5% was down 0.4% on the previous year.

Our combined ratio increased by 0.7 percentage points to 93.6%.

Interest and similar income was up by 9.2% to 4,473 million, as the higher asset base resulted in a rise in dividends received and increased interest income.

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

Operating profit showed a strong increase of 21.9% to 6,269 million. The top three contributing operations to our operating profit growth were AGCS at 658 million, the United States at 328 million and France at 193 million. In Italy and Switzerland we also experienced strong increases of 75 million each. The decrease within Germany by 286 million stemmed from declines of a similar magnitude at both Allianz Sach and Allianz SE. Lower gross premiums written, previously described, were the primary factor for the decline in operating profit at Allianz Sach. At Allianz SE, operating profit was down mainly due to lower premium income as a result of decreased internal cessions from Allianz Group companies outside of Germany, as well as increased loss estimates for Hurricane Katrina in the United States in 2005.

Our significantly improved underwriting profitability was the main driver behind these strong developments, with excellent combined ratios across

all markets. Driven by the improvement of our loss ratio, our combined ratio was down to 92.9%, 1.4 percentage points better than in 2005. Thereby, we surpassed our target of 95% and further solidified our competitive position within the property-casualty market.

In 2006, we recorded both lower severity and frequency of claims. The exceptionally high losses from natural catastrophes in the prior year were not repeated. In addition, our motor business experienced severity increases which were clearly lower than inflation. Accordingly, our accident year loss ratio improved by 2.8 percentage points to 67.6%.

Overall, claims and insurance benefits incurred (net), at 24,672 million in 2006, were down 2.6% from a year ago. As a result, our calendar year loss ratio improved by 2.2 percentage points to 65.0%. The difference between the improvement of our loss ratio based on accident year compared to that based on calendar year is due to lower run-offs in 2006 compared to 2005. We continued to deliver positive net development on prior years' loss reserves primarily in Italy, France, the United Kingdom and within our credit insurance business. Partially, we attribute this

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positive development to the measures we undertook in the context of our Sustainability Program, such as improved claims management processes in many companies.

Acquisition and administrative expenses (net), at 10,590 million in 2006, were 374 million higher than last year. This drove our expense ratio up by 80 basis points to 27.9%.

However, in the amount of 109 million, these developments resulted from the inclusion of additional net expenses in acquisition and administrative expenses, previously not included in this item. Further important factors were strategic project-related expenses associated with our initiatives for future profit growth, such as our Sustainability Program, as well as increased accruals for retirements in Germany and additional pension accruals. Increased accruals for retirements arose, among other factors, from the facilitation of the use of early retirement schemes due to pension law changes in Germany, of which many employees at Allianz Sach took advantage.

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Interest and similar income rose by 349 million to 4,096 million, reflecting higher dividends received, improved yields from debt securities due to slightly higher coupon payments, and our growing asset base. Realized gains/losses (net) from investments, shared with policyholders, declined by 227 million to 46 million. In 2005, realizations from available-for-sale equity investments in connection with accident insurance products with premium refunds in Germany were exceptionally high due to a strategy change at the fund managing these assets. This had an impact of a similar, but opposite, magnitude on changes in reserves for insurance and investment contracts (net), which amounted to a net expense of 425 million in 2006 compared to a net expense of 707 million a year earlier.

### ***Non-operating result***

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

In total, non-operating items decreased by 25.5% to 962 million mainly coming from lower net realized gains, a negative trading result and higher impairments of investments. These effects could not be balanced by lower restructuring charges.

Net realized gains from investments decreased significantly by 17.9% to 1,433 million from a year earlier largely as a result of the sale of our participation in Schering AG and the disposal of a real estate portfolio in Austria at that time. Conversely, no major single sales transactions were recorded in 2007.

Non-operating net impairments of investments increased to 276 million, reflecting impairments of available-for-sale equity securities.

Restructuring charges were down by two thirds to 122 million as the prior year's figure reflected the impact from the reorganization of our German insurance operations that was not repeated in 2007.

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

Non-operating items, in aggregate, resulted in a gain of 1,291 million, up 267 million from a year ago. This improvement is principally the result of increased realized gains which were only partially offset by higher impacts from impairments of investments and restructuring charges.

Realized gains/losses (net) from investments, not shared with policyholders, amounted to 1,746 million, 598 million higher than last year. The transactions contributing most to this increase were the sale of Allianz Sach's participation in Schering AG and the disposal of our real estate portfolio in Austria in June 2006, as well as the sale of Lloyd Adriatico's shareholding in Banca Antoniana Popolare Veneta S.p.A. in April 2006, which together accounted for 726 million of the increase.

Non-operating impairments of investments (net) rose by 98 million to 175 million, to a large extent brought about by impairments of available-for-sale equity securities in the second quarter of 2006 at Allianz Sach following at that time the downward trend in the equity capital



markets.

Restructuring charges were up 294 million to 362 million, stemming primarily from the reorganization of our German insurance operations.

***Net income***

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

Net income increased by 9.0% to 5,174 million. Our effective tax rate further declined from 27.4% to 22.8%. Income tax expenses were down significantly to 1,656 million. This development benefited particularly from the German tax reform. Additionally lower minority interests in earnings contributed 308 million to income growth. This resulted primarily from the minority buy-out at RAS in Italy and at AGF in France.

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

Net income increased 34.3% to 4,746 million, driven both by our significantly improved operating profitability and the higher gain from non-operating items.

Income tax expenses rose by 15.0% and amounted to 2,075 million. Our effective tax rate declined from 29.3% to 27.4%, largely due to the capitalization of corporate tax credits in Germany.

Minority interests in earnings decreased by 10.6% to 739 million primarily as a result of the minority buyout at RAS in Italy.

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The following table sets forth our Property-Casualty insurance segment's income statement, loss ratio, expense ratio and combined ratio for the years ended December 31, 2007, 2006 and 2005.

as of and for the years ended December 31,	2007	2006	2005
	mn	mn	mn
<b>Gross premiums written<sup>(1)</sup></b>	<b>44,289</b>	<b>43,674</b>	<b>43,699</b>
Ceded premiums written	(5,320)	(5,415)	(5,529)
Change in unearned premiums	(416)	(309)	(485)
<b>Premiums earned (net)</b>	<b>38,553</b>	<b>37,950</b>	<b>37,685</b>
Interest and similar income	4,473	4,096	3,747
Income from financial assets and liabilities designated at fair value through income (net) <sup>(2)</sup>	136	106	132
Income from financial assets and liabilities held for trading (net), shared with policyholder <sup>(2)</sup>	8		
Realized gains/losses (net) from investments, shared with policyholders <sup>(3)</sup>	46	46	273
Fee and commission income	1,178	1,014	989
Other income	122	69	53
<b>Operating revenues</b>	<b>44,516</b>	<b>43,281</b>	<b>42,879</b>
Claims and insurance benefits incurred (net)	(25,485)	(24,672)	(25,331)
Changes in reserves for insurance and investment contracts (net)	(339)	(425)	(707)
Interest expense	(402)	(273)	(339)
Loan loss provisions	(6)	(2)	(1)
Impairments of investments (net), shared with policyholders <sup>(4)</sup>	(67)	(25)	(18)
Investment expenses	(322)	(300)	(333)
Acquisition and administrative expenses (net)	(10,616)	(10,590)	(10,216)
Fee and commission expenses	(967)	(721)	(775)
Other expenses	(13)	(4)	(17)
<b>Operating expenses</b>	<b>(38,217)</b>	<b>(37,012)</b>	<b>(37,737)</b>
<b>Operating profit</b>	<b>6,299</b>	<b>6,269</b>	<b>5,142</b>
Income from financial assets and liabilities held for trading (net), not shared with policyholders <sup>(2)</sup>	(59)	83	32
Realized gains/losses (net) from investments, not shared with policyholders <sup>(3)</sup>	1,433	1,746	1,148
Impairments of investments (net), not shared with policyholders <sup>(4)</sup>	(276)	(175)	(77)
Amortization of intangible assets	(14)	(1)	(11)
Restructuring charges	(122)	(362)	(68)
<b>Non-operating items</b>	<b>962</b>	<b>1,291</b>	<b>1,024</b>
<b>Income before income taxes and minority interests in earnings</b>	<b>7,261</b>	<b>7,560</b>	<b>6,166</b>
Income taxes	(1,656)	(2,075)	(1,804)
Minority interests in earnings	(431)	(739)	(827)
<b>Net income</b>	<b>5,174</b>	<b>4,746</b>	<b>3,535</b>
Loss ratio <sup>(5)</sup> in %	66.1	65.0	67.2
Expense ratio <sup>(6)</sup> in %	27.5	27.9	27.1
<b>Combined ratio<sup>(7)</sup> in %</b>	<b>93.6</b>	<b>92.9</b>	<b>94.3</b>

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- (1) For the Property-Casualty segment, total revenues are measured based upon gross premiums written.
- (2) The total of these items equals income from financial assets and liabilities carried at fair value through income (net) in the segment income statement included in Note 5 to the consolidated financial statements.
- (3) The total of these items equals realized gains/losses (net) in the segment income statement included in Note 5 to the consolidated financial statements.
- (4) The total of these items equals impairments of investments (net) in the segment income statement included in Note 5 to the consolidated financial statements.
- (5) Represents claims and insurance benefits incurred (net) divided by premiums earned (net).
- (6) Represents acquisition and administrative expenses (net) divided by premiums earned (net).
- (7) Represents the total of acquisition and administrative expenses (net) and claims and insurance benefits incurred (net) divided by premiums earned (net).

**Table of Contents****Property-Casualty Operations by Geographic Region**

The following table sets forth our Property-Casualty gross premiums written, premiums earned (net), combined ratio, loss ratio, expense ratio and operating profit by geographic region for the years ended December 31, 2007, 2006 and 2005. Consistent with our general practice, these figures are presented before consolidation adjustments, representing the elimination of transactions between Allianz Group companies in different geographic regions and different segments.

	Gross premiums written			Premiums earned (net)			Operating profit		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
		mn			mn			mn	
<b>Germany</b>	<b>10,746</b>	<b>11,427</b>	<b>11,647</b>	<b>9,245</b>	<b>9,844</b>	<b>10,048</b>	<b>1,628</b>	<b>1,479</b>	<b>1,765</b>
<b>Italy</b>	<b>5,229</b>	<b>5,396</b>	<b>5,369</b>	<b>4,902</b>	<b>4,935</b>	<b>4,964</b>	<b>719</b>	<b>816</b>	<b>741</b>
<b>France</b>	<b>5,086</b>	<b>5,110</b>	<b>5,104</b>	<b>4,422</b>	<b>4,429</b>	<b>4,375</b>	<b>486</b>	<b>420</b>	<b>227</b>
<b>United Kingdom</b>	<b>2,236</b>	<b>2,396</b>	<b>2,449</b>	<b>1,989</b>	<b>1,874</b>	<b>1,913</b>	<b>208</b>	<b>281</b>	<b>268</b>
<b>Spain</b>	<b>2,136</b>	<b>2,013</b>	<b>1,873</b>	<b>1,820</b>	<b>1,675</b>	<b>1,551</b>	<b>253</b>	<b>252</b>	<b>217</b>
<b>Switzerland</b>	<b>1,804</b>	<b>1,805</b>	<b>2,012</b>	<b>1,595</b>	<b>1,706</b>	<b>1,708</b>	<b>218</b>	<b>228</b>	<b>153</b>
Netherlands	927	926	930	809	813	823	108	150	135
Austria	915	922	935	748	782	773	86	82	92
Ireland	691	704	733	614	622	653	180	222	204
Belgium	374	356	352	301	298	293	40	30	24
Portugal	283	287	304	246	258	275	38	36	32
Greece	79	74	71	50	46	46	9	10	11
<b>Western and Southern Europe<sup>1)</sup></b>	<b>3,269</b>	<b>3,269</b>	<b>3,325</b>	<b>2,768</b>	<b>2,819</b>	<b>2,863</b>	<b>482</b>	<b>550</b>	<b>494</b>
Russia <sup>2)</sup>	678	30	24	574	4	12	7	1	2
Hungary	580	575	598	502	499	523	73	68	63
Poland	367	283	235	246	200	160	24	20	12
Romania	341	291	219	155	132	125	11	11	11
Slovakia	319	288	300	273	251	251	112	52	82
Czech Republic	249	253	242	183	179	160	41	29	27
Bulgaria	103	95	91	70	70	37	16	16	14
Croatia	86	70	60	63	53	45	2	4	2
<b>New Europe<sup>3)</sup></b>	<b>2,723</b>	<b>1,885</b>	<b>1,769</b>	<b>2,067</b>	<b>1,388</b>	<b>1,313</b>	<b>256</b>	<b>184</b>	<b>213</b>
<b>Other Europe</b>	<b>5,992</b>	<b>5,154</b>	<b>5,094</b>	<b>4,835</b>	<b>4,207</b>	<b>4,176</b>	<b>738</b>	<b>734</b>	<b>709</b>
United States	4,306	4,510	4,395	3,341	3,523	3,478	651	810	482
Mexico <sup>4)</sup>	201	192	175	86	100	88	12	15	13
<b>NAFTA</b>	<b>4,507</b>	<b>4,702</b>	<b>4,570</b>	<b>3,427</b>	<b>3,623</b>	<b>3,566</b>	<b>663</b>	<b>825</b>	<b>495</b>
Australia	1,543	1,452	1,469	1,245	1,195	1,159	296	225	235
Other	349	310	280	170	141	121	16	19	17
<b>Asia-Pacific</b>	<b>1,892</b>	<b>1,762</b>	<b>1,749</b>	<b>1,415</b>	<b>1,336</b>	<b>1,280</b>	<b>312</b>	<b>244</b>	<b>252</b>
<b>South America</b>	<b>918</b>	<b>869</b>	<b>716</b>	<b>692</b>	<b>623</b>	<b>510</b>	<b>55</b>	<b>47</b>	<b>61</b>
<b>Other</b>	<b>95</b>	<b>68</b>	<b>58</b>	<b>50</b>	<b>32</b>	<b>30</b>	<b>9</b>	<b>9</b>	<b>7</b>

Specialty lines

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<b>Allianz Global Corporate &amp; Specialty</b>	<b>2,811</b>	<b>2,802</b>	<b>2,944</b>	<b>1,800</b>	<b>1,545</b>	<b>1,633</b>	<b>414</b>	<b>404</b>	<b>(254)</b>
<b>Credit Insurance</b>	<b>1,762</b>	<b>1,672</b>	<b>1,725</b>	<b>1,268</b>	<b>1,113</b>	<b>997</b>	<b>496</b>	<b>442</b>	<b>420</b>
<b>Travel Insurance and Assistance Services</b>	<b>1,139</b>	<b>1,044</b>	<b>991</b>	<b>1,093</b>	<b>1,008</b>	<b>934</b>	<b>97</b>	<b>90</b>	<b>77</b>
<b>Subtotal</b>	<b>46,353</b>	<b>46,220</b>	<b>46,301</b>	<b>38,553</b>	<b>37,950</b>	<b>37,685</b>	<b>6,296</b>	<b>6,271</b>	<b>5,138</b>
<b>Consolidation<sup>6)</sup></b>	<b>(2,064)</b>	<b>(2,546)</b>	<b>(2,602)</b>				<b>3</b>	<b>(2)</b>	<b>6</b>
<b>Total</b>	<b>44,289</b>	<b>43,674</b>	<b>43,699</b>	<b>38,553</b>	<b>37,950</b>	<b>37,685</b>	<b>6,299</b>	<b>6,269</b>	<b>5,142</b>

- 1) Contains run-off of 21 mn, 20 mn and (4) mn in 2007, 2006 and 2005 respectively from a former operating entity located in Luxembourg.
- 2) Effective February 21, 2007, Russian People's Insurance Society Rosno was consolidated following the acquisition of approximately 49.2% of the shares in ROSNO by the Allianz Group, increasing our holding to approximately 97%. Effective May 21, 2007, we consolidated Progress Garant for the first time.
- 3) Contains income and expense items from a management holding in both 2007 and 2006.
- 4) Effective 1Q 2007, life business in Mexico is shown within the Life/Health segment.
- 5) Presentation not meaningful.
- 6) Represents elimination of transactions between Allianz Group companies in different geographic regions.

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	Combined ratio			Loss ratio			Expense ratio		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
<b>Germany</b>	<b>91.6</b>	<b>92.9</b>	<b>89.4</b>	<b>64.8</b>	<b>65.1</b>	<b>63.0</b>	<b>26.8</b>	<b>27.8</b>	<b>26.4</b>
<b>Italy</b>	<b>94.8</b>	<b>91.8</b>	<b>93.6</b>	<b>71.2</b>	<b>68.8</b>	<b>69.3</b>	<b>23.6</b>	<b>23.0</b>	<b>24.3</b>
<b>France</b>	<b>97.3</b>	<b>99.2</b>	<b>102.0</b>	<b>70.9</b>	<b>71.0</b>	<b>74.0</b>	<b>26.4</b>	<b>28.2</b>	<b>28.0</b>
<b>United Kingdom</b>	<b>99.6</b>	<b>95.7</b>	<b>96.2</b>	<b>66.3</b>	<b>64.1</b>	<b>65.4</b>	<b>33.3</b>	<b>31.6</b>	<b>30.8</b>
<b>Spain</b>	<b>91.4</b>	<b>90.3</b>	<b>91.4</b>	<b>71.6</b>	<b>71.0</b>	<b>71.4</b>	<b>19.8</b>	<b>19.3</b>	<b>20.0</b>
<b>Switzerland</b>	<b>95.1</b>	<b>92.8</b>	<b>97.8</b>	<b>69.5</b>	<b>69.3</b>	<b>74.9</b>	<b>25.6</b>	<b>23.5</b>	<b>22.9</b>
Netherlands	94.1	88.7	91.3	62.0	57.1	60.5	32.1	31.6	30.8
Austria	95.8	98.4	98.3	73.1	73.1	72.4	22.7	25.3	25.9
Ireland	95.1	74.4	76.9	69.6	50.2	53.8	25.5	24.2	23.1
Belgium	102.3	104.5	104.1	65.7	66.9	66.1	36.6	37.6	38.0
Portugal	91.6	91.2	92.8	65.9	64.4	67.0	25.7	26.8	25.8
Greece	88.7	92.4	82.0	58.2	57.7	49.7	30.5	34.7	32.3
<b>Western and Southern Europe<sup>(1)</sup></b>	<b>95.4</b>	<b>90.2</b>	<b>91.2</b>	<b>67.4</b>	<b>61.7</b>	<b>63.2</b>	<b>28.0</b>	<b>28.5</b>	<b>28.0</b>
Russia <sup>(2)</sup>	104.2	88.5	22.9	64.7	34.7	5.8	39.5	53.8	17.1
Hungary	96.7	97.0	101.6	67.1	64.8	70.7	29.6	32.2	30.9
Poland	94.4	92.8	93.3	58.6	57.4	59.7	35.8	35.4	33.6
Romania	101.2	92.0	94.8	79.7	72.4	75.8	21.5	19.6	19.0
Slovakia	66.8	86.4	74.5	38.2	55.4	43.2	28.6	31.0	31.3
Czech Republic	79.5	82.6	85.7	56.7	61.4	63.8	22.8	21.2	21.9
Bulgaria	85.5	80.2	66.6	43.6	41.7	27.0	41.9	38.5	39.6
Croatia	100.1	95.6	97.7	65.1	63.8	63.0	35.0	31.8	34.7
<b>New Europe<sup>(3)</sup></b>	<b>94.3</b>	<b>92.0</b>	<b>91.0</b>	<b>60.8</b>	<b>61.1</b>	<b>61.7</b>	<b>33.5</b>	<b>30.9</b>	<b>29.3</b>
<b>Other Europe</b>	<b>94.4</b>	<b>90.5</b>	<b>91.1</b>	<b>64.5</b>	<b>61.5</b>	<b>62.7</b>	<b>29.9</b>	<b>29.0</b>	<b>28.4</b>
United States	91.1	88.6	96.0	61.3	57.9	66.8	29.8	30.7	29.2
Mexico <sup>(4)</sup>	95.0	102.5	104.8	71.6	78.8	81.2	23.4	23.7	23.6
<b>NAFTA</b>	<b>91.2</b>	<b>88.9</b>	<b>96.2</b>	<b>61.6</b>	<b>58.4</b>	<b>67.1</b>	<b>29.6</b>	<b>30.5</b>	<b>29.1</b>
Australia	95.7	96.2	95.2	70.8	70.3	69.1	24.9	25.9	26.1
Other	98.6	93.8	94.5	60.2	55.7	57.2	38.4	38.1	37.3
<b>Asia-Pacific</b>	<b>96.0</b>	<b>95.9</b>	<b>95.2</b>	<b>69.5</b>	<b>68.7</b>	<b>68.0</b>	<b>26.5</b>	<b>27.2</b>	<b>27.2</b>
<b>South America</b>	<b>99.0</b>	<b>101.2</b>	<b>100.8</b>	<b>62.9</b>	<b>64.8</b>	<b>64.5</b>	<b>36.1</b>	<b>36.4</b>	<b>36.3</b>
<b>Other</b>									
	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
<b>Specialty lines</b>									
<b>Allianz Global Corporate &amp; Specialty</b>	<b>96.0</b>	<b>92.2</b>	<b>122.4</b>	<b>67.9</b>	<b>62.5</b>	<b>91.1</b>	<b>28.1</b>	<b>29.7</b>	<b>31.3</b>
<b>Credit Insurance</b>	<b>76.5</b>	<b>77.6</b>	<b>67.0</b>	<b>47.9</b>	<b>49.7</b>	<b>41.3</b>	<b>28.6</b>	<b>27.9</b>	<b>25.7</b>
<b>Travel Insurance and Assistance Services</b>	<b>93.7</b>	<b>101.8</b>	<b>93.3</b>	<b>58.1</b>	<b>58.7</b>	<b>60.3</b>	<b>35.6</b>	<b>43.1</b>	<b>33.0</b>
<b>Subtotal</b>									
Consolidation <sup>(6)</sup>									
<b>Total</b>	<b>93.6</b>	<b>92.9</b>	<b>94.3</b>	<b>66.1</b>	<b>65.0</b>	<b>67.2</b>	<b>27.5</b>	<b>27.9</b>	<b>27.1</b>

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- (1) Contains run-off of 21 mn, 20 mn and (4) mn in 2007, 2006 and 2005 respectively from a former operating entity located in Luxemburg.
- (2) Effective February 21, 2007, Russian People's Insurance Society Rosno was consolidated following the acquisition of approximately 49.2% of the shares in ROSNO by the Allianz Group, increasing our holding to approximately 97%. Effective May 21, 2007, we consolidated Progress Garant for the first time.
- (3) Contains income and expense items from a management holding in both 2007 and 2006.
- (4) Effective 1Q 2007, life business in Mexico is shown within the Life/Health segment.
- (5) Presentation not meaningful.
- (6) Represents elimination of transactions between Allianz Group companies in different geographic regions.

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**Life/Health Insurance Operations**

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

Strong statutory premium development showing double-digit growth rates in many countries.

Strong operating profit growth continued resulting in almost 3 billion.

Operating asset base increased to 350.0 billion.

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

Strong operating profit growth sustained, while revenues were nearly flat.

Statutory premium growth held back by Italy and the United States.

Dynamic operating profit growth continued.

Higher investment, expense and technical margins drive operating profit.

Driven by the higher operating profit, net income rose by 21.0% to 1.6 billion.

**Earnings Summary**

*Statutory premiums<sup>(1)</sup>*

*Statutory premiums by region<sup>(1)</sup>*

*in %*



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

(1) A reconciliation of premiums written to statutory premiums for the years ended December 31, 2007, 2006 and 2005 can be found within the total revenues table on page 82.

*Statutory premiums Growth rates<sup>(1)</sup>*

*in %*

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

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

At 49,367 million statutory premiums increased by 4.1% over the prior year, despite impacts from unfavorable foreign currency movements of 1,062 million. On an internal basis, statutory premiums were up by 6.3%.

Most of our operating entities worldwide, especially our emerging markets <sup>(2)</sup> but also some of the more mature markets, showed high double-digit growth rates. For the emerging markets growth came to 22.6%. Asia-Pacific and New Europe contributed 5,677 million or 11.4% to total statutory premiums.

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

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The highest absolute growth was achieved in Italy, where revenues increased from 8,555 million to 9,765 million in spite of poor market conditions. This resulted mainly from a sound sales performance of our bancassurance channel at CreditRAS. Additionally, we successfully launched new products during the year.

In Asia-Pacific, premiums increased by 905 million or 24.2%. We recorded dynamic growth all over the region. In Taiwan, which, with 476 million, contributed the most to premium growth in this region, we recorded dynamic sales of unit-linked products. Furthermore, our local bancassurance channel continued to perform well. Within South Korea, we saw a further strong increase in single premium business, adding to the rise of 134 million. In China, revenue increase amounted to 168 million. Furthermore, we expanded our sales network in China, benefiting from our strategic partnership with Industrial and Commercial Bank of China Limited ( ICBC ).

Total revenues in France were up 13.1% or 758 million mostly driven by group insurance business and increased sales of individual life insurance policies. Unlike in the past, the highest share of new business now comes from proprietary sales channels.

Statutory premium volume in our German life insurance business grew by 3.9% or 503 million mainly coming from a significant increase in single premium business. While growth during the first quarters of 2007 was weak due to a difficult market environment, we experienced a very strong fourth quarter growing by more than 20% through a pick-up in single premium business.

In the United States, statutory premium development still reflected the legal and regulatory environment limiting our sale of indexed annuity products. However, during the last months we made progress in closing pending litigations. Year over year, revenues declined by 20.9% or 1,827 million. In addition, business was affected by the weakening of the U.S. Dollar compared to the Euro. On a local currency basis, the decline amounted to 13.2% or USD 1,445 million.

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

Many of our operating entities worldwide, especially in the growth markets of Asia-Pacific and

New Europe, increased their statutory premiums with high double-digit growth rates. In 2006, these two markets, in aggregate, contributed 9.6% of our total statutory premiums, compared to 7.8% in 2005. But also most of our established markets continued to grow dynamically, such as Germany Life at 6.4% and France at 9.6%. However, these increases were offset by marked declines particularly in the United States and Italy of 21.2% and 8.1%, respectively. Overall, our statutory premiums, at 47,421 million in 2006, were slightly down 1.8% on a nominal basis and 1.6% on an internal basis compared to 2005. Our new business mix showed an increase in recurring premium products and a decrease in single premium business compared to last year. Given that in the year of sale, a recurring premium contract only contributes a fraction of a single premium contract to annual premiums, this change in new business mix had a negative impact on statutory premium growth year-on-year in 2006. The new recurring premium contracts will however increase premiums in subsequent years.

Within Germany Life, statutory premiums excelled to 13,009 million, primarily a result of strong new business production in both our individual and group life business.

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At our life operating entities of AGF Group in France, we generated statutory premium growth to 5,792 million. This positive development was brought about by strong sales of unit-linked contracts, particularly related to several newly-launched products. Growth was achieved both through our proprietary financial advisors network and partnerships with independent advisors.

Within Asia-Pacific, statutory premiums in South Korea increased to 2,054 million as we recorded strong sales of equity-indexed annuity products and in our variable annuity business. In China, growth was also significant, albeit starting from a low base. Here, we began to benefit from our strategic partnership with Industrial and Commercial Bank of China Ltd. We have received further sales licenses and expanded our branch network.

Within New Europe our Polish operations recorded a strong increase in statutory premiums from a very successful sales campaign for unit-linked contracts with a bank partner. In addition, in

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Slovakia, we generated considerable new business production through our tied agents network. In the fourth quarter of 2006, our companies in the region launched a limited-edition index-linked life insurance product across six markets. Overall, our operations within New Europe recorded statutory premiums of \$828 million in 2006, 72.9% up from a year earlier.

Conversely, in the United States, statutory premiums declined significantly by 21.2% to \$8,758 million. This development is primarily attributable to challenges faced by our sales channels in response to the NASD's notice in late 2005 to members regarding the sale of equity-indexed annuities. However, despite the decrease in statutory premiums, our Life/Health asset base in the United States grew. In Italy, statutory premiums were down considerably by 8.1% to \$8,555 million, principally negatively influenced by a difficult market environment which was characterized by, among other factors, decreased overall private demand for life insurance products in the bancassurance channel. In addition, at RAS Group, our share in the total life production of our joint venture partner UniCredit Group decreased.

***Operating profit***

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

Year over year, operating profit increased by 16.8% to \$2,995 million benefiting from top-line growth and improvements in all sources of profit. Most of our life insurance companies, with the notable exception of the U.S. business, worldwide contributed to this development.

***Operating profit***

*in \$ mn*

Our income from investments again provided the largest absolute contributor to operating profit growth. It improved based on a higher asset base

resulting from inflows of funds. These inflows more than compensated the impact from unfavorable foreign currency movements, higher interest rates and a stock market that weakened towards the end of the year. Thus, interest and similar income increased by 3.4% due to higher interest payments on debt securities as well as higher dividend payments on equity securities.

*Asset base<sup>(1)</sup>*

*fair values<sup>(2)</sup> in \$ bn*

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- <sup>1)</sup>For further information on the composition of our Life/Health asset base please refer to Balance Sheet Review Assets and Liabilities of the Life/Health Segment .
- <sup>2)</sup>Loans and advances to banks and customers, held-to-maturity investments, and real estate held for investment are stated at amortized cost. Investments in associates and joint ventures are stated at either amortized cost or equity, depending upon, among other factors, our ownership percentage. For further information see note 2 to the consolidated financial statements.

Net realized gains on investments improved by 492 million coming from an already high level in the prior year that was marked by a major single transaction namely the disposal of our participation in Schering AG. In the current year, gains stemmed from several transactions that mostly generated higher realized gains on equities and real estate. However, these gains were offset by net impairments on investments due to write-downs on public stock shares. The considerably increased net loss from financial assets and liabilities carried at fair value through income of 584 million stemmed largely from freestanding derivatives in connection with our German life insurance business.

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Furthermore, we benefited from an extraordinary reserve release of 170 million in South Korea. In the past we had formed a reserve due to uncertainty in respect of data accuracy in our old actuarial systems. The introduction of a new system did not reveal any issues. Hence, the reserve had to be released.

Acquisition and administrative expenses increased by 3.4% or 151 million and thus slightly less than growth of statutory premiums. Administrative expense included integration costs in Italy and further investments in operations in Asia-Pacific (China and Japan). Our statutory expense ratio improved slightly by 0.2 percentage points to 9.4%.

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

We again delivered growth in operating profit which increased to 2,565 million, up 22.5% from a year ago. Key factors in this strong development were the growth of our Life/Health asset base, our improved margins both from our new and in-force business, as well as efficiency gains in many operating entities following the implementation of our Sustainability Program and other initiatives. Furthermore, in 2006, we increased the shareholders' share in our gross earnings while at the same time we credited a higher amount to our policyholders.

Most of our life operating companies exhibited operating profit growth, with the highest absolute increases at our operations in Germany, the United States, South Korea, France and Spain. In addition, we experienced a solid increase in aggregate operating profit within New Europe.

Our improved investment margin was brought about by significantly higher interest and similar income, and the growth in aggregate realized gains/losses and impairments of investments (net). Interest and similar income increased primarily due to higher dividends received from available-for-sale equity investments in Germany and France. In addition, our U.S. operations benefited from higher yields on bonds and growth in asset base. Significant realized gains resulted from the sale of our shareholdings in Schering AG and the disposal of Four Seasons Health Care Ltd. Partially offsetting was the unfavorable net development in our income from financial assets and liabilities carried at fair value through income mainly as Germany Life exhibited significant negative effects from the accounting treatment for certain derivative instruments. In the United States, an increase in market interest rates had an additional

negative impact. Furthermore, increased investment expenses stemmed predominantly from the weaker U.S. Dollar compared to the Euro.

Acquisition and administrative expenses (net) rose by 464 million to 4,437 million, partly triggered by adjustments recorded for the unlocking of deferred acquisition costs at various operating entities after the regular review of assumptions for the calculation of our deferred acquisition costs asset. In addition, higher commissions due to the strong new business production within Germany Life, previously mentioned, also contributed to increased acquisition and administrative expenses (net).

Consequently, together with the decline in statutory premiums (net), our statutory expense ratio increased to 9.6% from 8.4% a year ago. Excluding the adjustments described above, our statutory expense ratio would only have increased 70 basis points from 8.7% in 2005 to 9.4% in 2006.

Claims and insurance benefits incurred (net), and changes in reserves for insurance and investment contracts (net), in aggregate, resulted in charges of 28,150 million, up 1.0% over 2005. While premiums were lower than in 2005, this development in particular reflects the investment income on our assets which benefits our policyholders.

Overall charges of 140 million were recorded for operating restructuring charges in 2006. These charges were incurred in connection with the reorganization of our German insurance operations.<sup>(1)</sup>

***Non-operating result***

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

In aggregate non-operating items were down by 28 million driven by lower net realized gains not to be shared with policyholders in the United States.

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

Non-operating items, in aggregate, resulted in a gain of 135 million after a gain of 177 million in 2005. This development largely mirrors higher

<sup>(1)</sup> Please see Information on the Company Important Group Organizational Changes Reorganization of German Insurance Operations and Note 49 to our consolidated financial statements for further information.

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non-operating restructuring charges, at 34 million in 2006, mainly in connection with the reorganization of our German insurance operation<sup>(1)</sup>

*Net income*

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

Net income increased by 21.2% to 1,991 million driven by the higher operating profit. Income tax expenses of 897 million, were up 256 million year on year. The higher tax expense in 2007 is a result of the higher pre-tax income. Additionally, the benefit from tax-exempt income was lower than in 2006, leading to a higher effective tax rate of 28.9% (2006: 23.7%).

Minority interests in earnings were almost halved to 214 million reflecting the minority buy outs at RAS in Italy and at AGF in France.

<sup>(1)</sup> Please see Information on the Company Important Group Organizational Changes Reorganization of German Insurance Operations and Note 49 to our consolidated financial statements for further information.

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

Driven by the higher operating profit, net income rose by 21.0% to 1,643 million.

With income tax expenses of 641 million in 2006, up 153 million from a year ago, our effective tax rate increased to 23.7% (2005: 21.5%). Both in 2006 and 2005, our effective tax rate benefited from significant tax-exempt income. However, based on a higher income before income taxes, the tax-exempt income in 2006 had a lower impact on our effective tax rate than in 2005. Additional significant one-time factors contributing to the relatively low effective tax rates in both years were the capitalization of corporate tax credits in Germany in 2006 and a beneficial tax settlement in the United States in 2005.

Minority interests in earnings remained stable at 416 million. Higher minority interests in earnings at AGF Group in France, reflecting its increased earnings after income taxes, were offset by lower minority interests in earnings at RAS Group in Italy, stemming from its decreased earnings after income taxes and the acquisition of the minority interest in RAS.



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The following table sets forth our Life/Health insurance segment's income statements and statutory expense ratios for the years ended December 31, 2007, 2006 and 2005.

	2007	2006	2005
	mn	mn	mn
<b>Statutory premiums<sup>(1)</sup></b>	<b>49,367</b>	<b>47,421</b>	<b>48,272</b>
Ceded premiums written	(644)	(840)	(942)
Change in unearned premiums	(61)	(221)	(168)
Statutory premiums (net)	48,662	46,360	47,162
Deposits from SFAS 97 insurance and investment contracts	(27,853)	(25,786)	(27,165)
<b>Premiums earned (net)</b>	<b>20,809</b>	<b>20,574</b>	<b>19,997</b>
Interest and similar income	13,417	12,972	12,057
Income from financial assets and liabilities carried at fair value through income (net), shared with policyholders <sup>(2)</sup>	(945)	(361)	258
Realized gains/losses (net) from investments, shared with policyholders <sup>(3)</sup>	3,579	3,087	2,523
Fee and commission income	701	630	507
Other income	182	43	45
<b>Operating revenues</b>	<b>37,743</b>	<b>36,945</b>	<b>35,387</b>
Claims and insurance benefits incurred (net)	(17,637)	(17,625)	(17,439)
Changes in reserves for insurance and investment contracts (net)	(10,268)	(10,525)	(10,443)
Interest expense	(374)	(280)	(452)
Loan loss provisions	3	(1)	
Impairments of investments (net), shared with policyholders <sup>(4)</sup>	(824)	(390)	(199)
Investment expenses	(833)	(750)	(567)
Acquisition and administrative expenses (net)	(4,588)	(4,437)	(3,973)
Fee and commission expenses	(209)	(223)	(219)
Operating restructuring charges <sup>(5)</sup>	(16)	(140)	
Other expenses	(2)	(9)	(1)
<b>Operating expenses</b>	<b>(34,748)</b>	<b>(34,380)</b>	<b>(33,293)</b>
<b>Operating profit</b>	<b>2,995</b>	<b>2,565</b>	<b>2,094</b>
Income from financial assets and liabilities carried at fair value through income (net), not shared with policyholders <sup>(2)</sup>	5		
Realized gains/losses (net) from investments, not shared with policyholders <sup>(3)</sup>	137	195	208
Impairments of investments (net), not shared with policyholders <sup>(4)</sup>	(3)		
Amortization of intangible assets	(3)	(26)	(13)
Non-operating restructuring charges <sup>(5)</sup>	(29)	(34)	(18)
<b>Non-operating items</b>	<b>107</b>	<b>135</b>	<b>177</b>
<b>Income before income taxes and minority interests in earnings</b>	<b>3,102</b>	<b>2,700</b>	<b>2,271</b>
Income taxes	(897)	(641)	(488)
Minority interests in earnings	(214)	(416)	(425)
<b>Net income</b>	<b>1,991</b>	<b>1,643</b>	<b>1,358</b>

<b>Statutory expense ratio<sup>(6)</sup> in %</b>	<b>9.4</b>	<b>9.6</b>	<b>8.4</b>
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- (1) For the Life/Health segment, total revenues are measured based upon statutory premiums. Statutory premiums are gross premiums written from sales of life insurance policies, as well as gross receipts from sales of unit linked and other investment-oriented products, in accordance with the statutory accounting practices applicable in the insurer's home jurisdiction.
- (2) The total of these items equals income from financial assets and liabilities carried at fair value through income (net) in the segment income statement included in Note 5 to the consolidated financial statements.
- (3) The total of these items equals realized gains/losses (net) in the segment income statement included in Note 5 to the consolidated financial statements.
- (4) The total of these items equals impairments of investments (net) in the segment income statement included in Note 5 to the consolidated financial statements.
- (5) The total of these items equals restructuring charges in the segment income statement included in Note 5 to the consolidated financial statements.
- (6) Represents acquisition and administrative expenses (net) divided by statutory premiums (net).

**Table of Contents****Life/Health Operations by Geographic Region**

The following table sets forth our Life/Health statutory premiums, premiums earned (net), operating profit and statutory expense ratio by geographic region for the years ended December 31, 2007, 2006 and 2005. Consistent with our general practice, these figures are presented before consolidation adjustments, representing the elimination of transactions between Allianz Group companies in different geographic regions and different segments.

	Statutory premiums <sup>(1)</sup>			Premiums earned (net)		
	mn			mn		
	2007	2006	2005	2007	2006	2005
<b>Germany Life</b>	<b>13,512</b>	<b>13,009</b>	<b>12,231</b>	<b>10,381</b>	<b>10,543</b>	<b>10,205</b>
<b>Germany Health<sup>(2)</sup></b>	<b>3,123</b>	<b>3,091</b>	<b>3,042</b>	<b>3,123</b>	<b>3,091</b>	<b>3,042</b>
<b>Italy</b>	<b>9,765</b>	<b>8,555</b>	<b>9,313</b>	<b>1,006</b>	<b>1,098</b>	<b>1,104</b>
<b>France</b>	<b>6,550</b>	<b>5,792</b>	<b>5,286</b>	<b>1,760</b>	<b>1,436</b>	<b>1,420</b>
<b>Switzerland</b>	<b>992</b>	<b>1,005</b>	<b>1,058</b>	<b>432</b>	<b>455</b>	<b>470</b>
<b>Spain</b>	<b>738</b>	<b>629</b>	<b>547</b>	<b>399</b>	<b>400</b>	<b>350</b>
Belgium	664	597	601	310	302	327
Netherlands	399	424	381	137	146	144
Austria	396	380	343	288	283	262
Portugal	115	98	83	73	66	60
Greece	105	98	91	65	62	54
Luxembourg	83	58	47	26	30	25
<b>Western and Southern Europe<sup>(3)</sup></b>	<b>1,762</b>	<b>1,655</b>	<b>1,546</b>	<b>899</b>	<b>889</b>	<b>872</b>
Poland	431	367	99	121	96	53
Slovakia	235	183	149	157	135	129
Hungary	141	96	89	80	75	73
Czech Republic	96	76	64	56	54	50
Croatia	58	48	41	40	36	33
Bulgaria	35	25	19	28	23	19
Romania	30	25	18	12	12	7
Russia	13	8		12	7	
<b>New Europe</b>	<b>1,039</b>	<b>828</b>	<b>479</b>	<b>506</b>	<b>438</b>	<b>364</b>
<b>Other Europe</b>	<b>2,801</b>	<b>2,483</b>	<b>2,025</b>	<b>1,405</b>	<b>1,327</b>	<b>1,236</b>
Mexico <sup>(4)</sup>	37			36		
United States	6,931	8,758	11,115	636	533	522
<b>NAFTA</b>	<b>6,968</b>	<b>8,758</b>	<b>11,115</b>	<b>672</b>	<b>533</b>	<b>522</b>
South Korea	2,188	2,054	1,752	975	986	972
Taiwan	1,812	1,336	1,347	72	107	136
Indonesia	224	115	69	49	38	31
Malaysia	126	107	106	104	88	73
Other	288	121	35	18	37	10
<b>Asia-Pacific</b>	<b>4,638</b>	<b>3,733</b>	<b>3,309</b>	<b>1,218</b>	<b>1,256</b>	<b>1,222</b>
<b>South America</b>	<b>78</b>	<b>147</b>	<b>141</b>	<b>40</b>	<b>42</b>	<b>36</b>
<b>Other<sup>(5)</sup></b>	<b>418</b>	<b>439</b>	<b>455</b>	<b>373</b>	<b>393</b>	<b>390</b>

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<b>Subtotal</b>	<b>49,583</b>	<b>47,641</b>	<b>48,522</b>	<b>20,809</b>	<b>20,574</b>	<b>19,997</b>
Consolidation <sup>(7)</sup>	(216)	(220)	(250)			
<b>Total</b>	<b>49,367</b>	<b>47,421</b>	<b>48,272</b>	<b>20,809</b>	<b>20,574</b>	<b>19,997</b>

- (1) Statutory premiums are gross premiums written from sales of life insurance policies as well as gross receipts from sales of unit-linked and other investment-oriented products, in accordance with the statutory accounting practices applicable in the insurer's home jurisdiction.
- (2) Loss ratios were 71.6%, 68.4% and 69.7% for 2007, 2006 and 2005, respectively.
- (3) Contains run-off of (3) mn, (2) mn and (11) mn in 2007, 2006 and 2005 respectively, from our former life insurance business in the United Kingdom which we sold in December 2004.
- (4) Effective 2007, life business in Mexico is shown within the Life/Health segment.
- (5) Contains, among others, the Life/Health business assumed by Allianz SE, which was previously reported under Germany in the Property-Casualty segment. Prior year balances have been adjusted to reflect this reclassification and allow for comparability across periods.
- (6) Presentation not meaningful.
- (7) Represents elimination of transactions between Allianz Group companies in different geographic regions.

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	Operating profit mn			Statutory expense ratio %		
	2007	2006	2005	2007	2006	2005
<b>Germany Life</b>	<b>695</b>	<b>521</b>	<b>347</b>	<b>5.8</b>	<b>9.1</b>	<b>8.1</b>
<b>Germany Health<sup>(2)</sup></b>	<b>164</b>	<b>184</b>	<b>159</b>	<b>9.8</b>	<b>9.3</b>	<b>9.1</b>
<b>Italy</b>	<b>372</b>	<b>339</b>	<b>334</b>	<b>5.8</b>	<b>6.4</b>	<b>5.4</b>
<b>France</b>	<b>632</b>	<b>582</b>	<b>558</b>	<b>15.4</b>	<b>12.6</b>	<b>15.1</b>
<b>Switzerland</b>	<b>66</b>	<b>50</b>	<b>55</b>	<b>10.6</b>	<b>9.9</b>	<b>8.7</b>
<b>Spain</b>	<b>104</b>	<b>92</b>	<b>71</b>	<b>9.2</b>	<b>9.3</b>	<b>7.4</b>
Belgium	68	62	76	10.1	12.5	12.1
Netherlands	44	50	41	9.8	18.4	13.5
Austria	40	29	35	11.8	12.1	9.4
Portugal	25	25	13	26.5	15.1	19.1
Greece	6	13	7	20.7	22.6	25.9
Luxembourg	4	5	5	10.8	12.2	14.4
<b>Western and Southern Europe<sup>(3)</sup></b>	<b>184</b>	<b>182</b>	<b>166</b>	<b>12.1</b>	<b>14.8</b>	<b>13.3</b>
Poland	10	6	3	19.7	17.6	33.3
Slovakia	29	16	8	16.8	18.2	24.4
Hungary	13	12	10	20.4	25.7	26.9
Czech Republic	10	9	6	18.0	20.1	21.5
Croatia	2	4	3	17.1	20.4	22.7
Bulgaria	4	3	3	15.0	14.2	10.5
Romania			1	33.8	39.3	28.0
Russia	(7)			99.5	28.1	
<b>New Europe</b>	<b>61</b>	<b>50</b>	<b>34</b>	<b>20.0</b>	<b>19.6</b>	<b>25.7</b>
<b>Other Europe</b>	<b>245</b>	<b>232</b>	<b>200</b>	<b>15.1</b>	<b>16.4</b>	<b>16.3</b>
<b>Mexico<sup>(4)</sup></b>	<b>5</b>			<b>13.8</b>		
United States	380	418	257	11.9	8.0	4.8
<b>NAFTA</b>	<b>385</b>	<b>418</b>	<b>257</b>	<b>11.9</b>	<b>8.0</b>	<b>4.8</b>
South Korea	286	64	20	14.4	13.9	16.6
Taiwan	26	14	11	2.9	5.0	4.3
Indonesia	6	3	1	12.7	19.3	25.0
Malaysia	12	10	2	17.2	19.9	14.0
Other	(30)	(10)	(7)	17.0	18.4	37.7
<b>Asia-Pacific</b>	<b>300</b>	<b>81</b>	<b>27</b>	<b>10.2</b>	<b>11.2</b>	<b>12.0</b>
<b>South America</b>		<b>1</b>	<b>2</b>	<b>32.6</b>	<b>16.9</b>	<b>17.7</b>
<b>Other<sup>(5)</sup></b>	<b>30</b>	<b>74</b>	<b>92</b>	<b>(6)</b>	<b>(6)</b>	<b>(6)</b>
<b>Subtotal</b>	<b>2,993</b>	<b>2,574</b>	<b>2,102</b>			
Consolidation <sup>(7)</sup>	2	(9)	(8)			
<b>Total</b>	<b>2,995</b>	<b>2,565</b>	<b>2,094</b>	<b>9.4</b>	<b>9.6</b>	<b>8.4</b>

(1) Statutory premiums are gross premiums written from sales of life insurance policies as well as gross receipts from sales of unit-linked and other investment-oriented products, in accordance with the statutory accounting practices applicable in the insurer's home jurisdiction.

(2) Loss ratios were 71.6%, 68.4% and 69.7% for 2007, 2006 and 2005, respectively.

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- (3) Contains run-off of (3) mn, (2) mn and (11) mn in 2007, 2006 and 2005 respectively, from our former life insurance business in the United Kingdom which we sold in December 2004.
- (4) Effective 2007, life business in Mexico is shown within the Life/Health segment.
- (5) Contains, among others, the Life/Health business assumed by Allianz SE, which was previously reported under Germany in the Property-Casualty segment. Prior year balances have been adjusted to reflect this reclassification and allow for comparability across periods.
- (6) Presentation not meaningful.
- (7) Represents elimination of transactions between Allianz Group companies in different geographic regions.

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**Banking Operations<sup>(1)</sup>**

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

Operating profit at 730 million despite financial markets turbulence.

Net trading loss of 461 million caused by markdowns on asset-backed securities.

Profitability of Private & Corporate Clients division further improved

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

Ambitious 2006 targets surpassed.

Strong growth of operating revenues and operating profit, outperforming our expectations.

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

Both operating divisions improved strongly.

Net income amounted to 891 million.

**Earnings Summary**

***Operating revenues***

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

Dresdner Bank's operating revenues were down by 20.3% to 5,424 million compared to the previous year. This development resulted mainly from the effects of the financial markets turbulence which heavily impacted our net trading income. However, the net interest income grew.

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Net interest income grew by 12.9% to 2,987 million. Private & Corporate Clients ( PCC ) as well as the Investment Bank ( IB ) contributed positively to this improvement with 61 million and 142 million, respectively. In the PCC division we saw higher income from the deposit business due to higher volumes and margins. This was partially offset by lower income from the loan business. The IB improved its result from the loan business and leveraged finance activities.

Net fee and commission income improved slightly by 0.9% to 2,866 million. This resulted from an increased fee volume in the advisory business of our Investment Bank and higher transaction-driven fees in Corporate Other. Lower income from the securities business in PCC, where we saw less client activity due to the market turbulence, partially offset this development.

The development in our net trading income was significantly impacted by the financial markets turbulence leading to a negative result of 461 million (2006: income of 1,242 million). This decline was almost entirely attributable to the markdowns of 1,275 million in only a limited number of business lines of our Investment Bank. The remaining shortfall in these business lines was indirectly related to the credit crisis, resulting from constrained activities in the capital markets. Unaffected business units in aggregate recorded revenue growth of 6.1%. This growth was largely driven by higher client revenues, particularly in leveraged finance, loans and interest derivatives.

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

Dresdner Bank's operating revenues strongly increased to 6,804 million, up 12.7% from the prior year. All income categories contributed to this development, with double-digit growth rates in net interest income and net trading income. Both operating divisions, Private & Corporate Clients (or PCC ) and Investment Banking (or IB ) recorded higher operating revenues compared to 2005.

Net interest income was 2,645 million, an increase of 19.3%, with significant growth from IB, largely driven by its increased loan book from structured finance and syndicated loan transactions. PCC recorded stable net interest income, as higher revenues in the deposit business were offset by lower net interest income from the loan business. The increase in our net interest income was aided by the development of the impact from the accounting treatment for derivative financial instruments which do not qualify for hedge accounting, amounting to a positive effect of 66 million in 2006 compared to a negative effect of 346 million in 2005.

<sup>(1)</sup> The results of operations of our Banking segment are almost exclusively represented by Dresdner Bank, accounting for 94.8% of our total Banking segment's operating revenues for the year ended December 31, 2007 (2006: 96.0%, 2005: 95.6%). Accordingly, the discussion of our Banking segment's results of operations relates solely to the operations of Dresdner Bank.



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At 2,841 million, we grew net fee and commission income by 5.5% over the 2005 level. This development was mainly a result of our growing securities business in PCC which benefited from both higher turnover-related commissions and increased assets under management. In addition, PCC's positively developing life and pension insurance business contributed, with particularly strong sales of Riester pension products. Net fee and commission income from IB also improved. Here, our advisory business benefited from increased merger and acquisition activities. In contrast, our Corporate Other division experienced a decline in net fee and commission income, principally impacted by the closure of our Institutional Restructuring Unit (or IRU) in September 2005.

Trading income (net), at 1,242 million in 2006 and up 10.6% compared to the prior year, benefited from a growth momentum across all product groups, particularly within the derivatives and the foreign exchange business. Contrary to the development of net interest income, net trading income was negatively affected by the impact from the accounting treatment for derivative instruments which do not qualify for hedge accounting, amounting to a negative effect of 113 million in 2006, after a positive effect of 132 million in 2005.

***Operating profit***

*Operating profit* *Dresdner Bank*

*in mn*

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

At 730 million, operating profit was down 46.1%, including the above mentioned markdowns on asset-backed securities of 1.3 billion experienced in a number of business lines of the Investment Bank due to the financial markets turbulence. The remaining shortfall in these business lines was also related to the credit crisis. Expense savings of 597 million partly

compensated this development. As these savings could not outweigh the decline in revenues, our cost-income ratio increased by 9.3 percentage points to 89.0%.

Operating expenses, at 4,826 million, were down 11.0%. We saw reductions in all expense categories. Administrative expenses were down by 10.7% to 4,809 million. Thereof, personnel expenses declined by 14.9% to 2,894 million driven by significantly lower performance-related expenses at the Investment Bank, reflecting the development in operating revenues. Further staff reductions and efficiency gains, achieved under the New Dresdner Plus programme, also contributed to this development. Non-personnel expenses also decreased by 3.4% to 1,915 million. This decline resulted predominantly from lower office costs and reduced consulting fees, partly offset by additional expenses for focused growth initiatives.

Loan loss provisions showed gross releases and recoveries of 645 million and at the same time new provisions of 513 million leading to net releases of 132 million in 2007 (2006: net additions of 27 million). We recorded releases and recoveries on a high level reflecting our conservative risk approach in the past. Following the approval of new internal models for expected losses which we also use for Basel II, our assumptions regarding the provisioning for the general loan loss provision turned out to be more cautious than necessary and were revised

accordingly.

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

We more than doubled our operating profit, up 114.9% to 1,354 million in 2006, primarily resulting from the positive revenue development previously described. With our higher operating revenues and lower operating expenses, our cost-income ratio improved significantly to 79.7% in 2006, down 11.7 percentage points compared to 2005.

Operating expenses, at 5,423 million, were down 1.8% from a year earlier due to decreased administrative expenses. Administrative expenses amounted to 5,384 million, of which personnel expenses were 3,400 million, up 3.8%, and non-personnel expenses were 1,984 million, down 8.9%.

Higher personnel expenses were entirely driven by increased performance-related bonuses, reflecting the strong growth of our operating revenues. On the other hand, further staff reductions and efficiency

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gains, helped to decrease both non-performance-related personnel expenses and non-personnel expenses. The decline in non-personnel expenses stemmed from materially lower office space expenses.

Within our loan loss provisions we continued to benefit from the improved quality of our loan portfolio. In aggregate, loan loss provisions experienced moderate net additions of 27 million, compared to net releases of 113 million in 2005. Net releases in the prior year were driven by recoveries and substantial releases in connection with the wind-down of the IRU. Our coverage ratio<sup>(1)</sup> improved to 61.5% as of December 31, 2006 from 56.8% in 2005.

### ***Non-operating results***

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

The non-operating result more than halved to a loss of 70 million in 2007. The main drivers were significantly reduced restructuring charges and lower net impairments on investments.

Net realized gains decreased by 422 million to 70 million. In the previous year, we recorded large gains from the sale of Dresdner Bank's remaining shareholding in Munich Re as well as from the disposal of Eurohypo AG.

Net impairments of investments declined by 58.6% to 89 million as the prior year's figure included higher write-downs on real estate properties used by third-parties.

Restructuring charges declined from 422 million to 51 million. In 2006, higher charges were incurred in connection with the New Dresdner Plus reorganization programme.<sup>(2)</sup>

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

In aggregate, the impact from non-operating items declined from 825 million profit to a loss of 145 million, as expected.

Realized gains/losses (net) decreased by 528 million to 492 million, primarily due to a

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- (1) Represents total loan loss allowance as a percentage of total non-performing loans and potential problem loans.  
(2) Please see Note 49 to our consolidated financial statements for further information on our restructuring plans.

reduced number of significant sale transactions compared to a year ago. Realized gains in 2006 included a tax-exempt gain from the sale of Dresdner Bank's remaining 2.3% shareholdings in Munich Re to Allianz SE (formerly Allianz AG) as well as a gain from the disposal of our remaining participation in Eurohypo AG.

Impairments of investments (net) was up 17.5% to 215 million, largely attributable to write-downs on real estate properties used by third-parties.

Restructuring charges increased by 410 million to 422 million, mainly reflecting the New Dresdner Plus reorganization program.

### *Net income*

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

The decline in net income by 58.9% to 366 million resulted mainly from lower operating profit as previously described.

Although we recorded lower income before income taxes and minority interests in earnings, our income taxes decreased by only 1.7% to 232 million leading to an effective tax rate of 35.2% (2006: 19.5%). The especially low effective tax rate in 2006 was caused mainly by the capitalization of corporate tax credits. In 2007 the German tax reform led to a negative one-off effect of 137 million due to the revaluation of the net deferred tax assets. In addition, no deferred tax assets were recognized for losses from markdowns on asset backed securities.

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

Net income amounted to a strong 891 million, evidencing the high quality of our earnings. Our significantly improved operating profit almost compensated for the expected decline in non-operating items.

With income tax expenses down 36.7%, our effective tax rate decreased from 25.6% to 19.5%. This development was mainly attributable to higher tax exempt income and the capitalization of corporate tax credits in Germany, while income before income taxes was lower in 2006.

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The following table sets forth the income statements and cost-income ratios for both our Banking segment as a whole and Dresdner Bank for the years ended December 31, 2007, 2006 and 2005.

	2007		2006		2005	
	Banking Segment mn	Dresdner Bank mn	Banking Segment mn	Dresdner Bank <sup>(1)</sup> mn	Banking Segment mn	Dresdner Bank mn
Net interest income <sup>(2)</sup>	3,104	2,987	2,720	2,645	2,294	2,218
Net fee and commission income <sup>(3)</sup>	3,048	2,866	3,008	2,841	2,850	2,693
Trading income (net) <sup>(4)</sup>	(464)	(461)	1,282	1,242	1,170	1,123
Income from financial assets and liabilities designated at fair value through income (net) <sup>(4)</sup>	33	33	53	53	(7)	(6)
Other income		(1)	25	23	11	11
<b>Operating revenues<sup>(5)</sup></b>	<b>5,721</b>	<b>5,424</b>	<b>7,088</b>	<b>6,804</b>	<b>6,318</b>	<b>6,039</b>
Administrative expenses	(5,061)	(4,809)	(5,605)	(5,384)	(5,661)	(5,452)
Investment expenses	(14)	(20)	(47)	(53)	(30)	(37)
Other expenses	1	3	14	14	(33)	(33)
<b>Operating expenses</b>	<b>(5,074)</b>	<b>(4,826)</b>	<b>(5,638)</b>	<b>(5,423)</b>	<b>(5,724)</b>	<b>(5,522)</b>
Loan loss provisions	126	132	(28)	(27)	110	113
<b>Operating profit</b>	<b>773</b>	<b>730</b>	<b>1,422</b>	<b>1,354</b>	<b>704</b>	<b>630</b>
Realized gains/losses (net)	83	70	492	492	1,020	1,020
Impairments of investments (net)	(90)	(89)	(215)	(215)	(184)	(183)
Amortization of intangible assets					(1)	
Restructuring charges	(52)	(51)	(424)	(422)	(13)	(12)
<b>Non-operating items</b>	<b>(59)</b>	<b>(70)</b>	<b>(147)</b>	<b>(145)</b>	<b>822</b>	<b>825</b>
<b>Income before income taxes and minority interests in earnings</b>	<b>714</b>	<b>660</b>	<b>1,275</b>	<b>1,209</b>	<b>1,526</b>	<b>1,455</b>
Income taxes	(266)	(232)	(263)	(236)	(387)	(373)
Minority interests in earnings	(71)	(62)	(94)	(82)	(102)	(82)
<b>Net income</b>	<b>377</b>	<b>366</b>	<b>918</b>	<b>891</b>	<b>1,037</b>	<b>1,000</b>
<b>Cost-income ratio<sup>(6)</sup> in %</b>	<b>88.7</b>	<b>89.0</b>	<b>79.5</b>	<b>79.7</b>	<b>90.6</b>	<b>91.4</b>

(1) We have enhanced the presentation of revenues and operating profit stemming from trades in shares of Allianz SE and its affiliates. From 2007 onwards, these results are eliminated on Dresdner Bank level, whereas in 2006 they were adjusted on segment level only. At Dresdner Bank this led to reduced operating revenues and reduced operating profit of 6 mn and 6 mn, respectively, compared to the figures as stated in 2006. As a result income taxes decreased by 3 mn. All other changes are related to rounding.

(2) Represents interest and similar income less interest expense.

(3) Represents fee and commission income less fee and commission expenses.

(4) The total of these items equals income from financial assets and liabilities carried at fair value through income (net) in the segment income statement included in Note 5 to the consolidated financial statements.

(5) For the Banking segment, total revenues are measured based upon operating revenues.

(6) Represents operating expenses divided by operating revenues.

**Table of Contents****Banking Operations by Division**

The following table sets forth our banking operating revenues, operating profit and cost-income ratio by division. Consistent with our general practice, these figures are presented before consolidation adjustments, representing the elimination of transactions between Allianz Group companies in different segments.

	Operating revenues			Operating profit (loss)			Cost-income ratio		
	2007 mn	2006 mn	2005 mn	2007 mn	2006 mn	2005 mn	2007 mn	2006 mn	2005 mn
Private & Corporate Clients <sup>(1)</sup>	3,625	3,624	3,464	884	783	626	74.0	74.9	77.2
Investment Banking <sup>(1)</sup>	1,628	3,111	2,613	(659)	548	351	137.0	82.9	88.1
Corporate Other <sup>(2)</sup>	171	69	(38)	505	23	(347)	(3)	(3)	(3)
<b>Dresdner Bank</b>	<b>5,424</b>	<b>6,804</b>	<b>6,039</b>	<b>730</b>	<b>1,354</b>	<b>630</b>	<b>89.0</b>	<b>79.7</b>	<b>91.4</b>
Other Banks <sup>(4)</sup>	297	284	279	43	68	74	83.5	75.7	72.4
<b>Total</b>	<b>5,721</b>	<b>7,088</b>	<b>6,318</b>	<b>773</b>	<b>1,422</b>	<b>704</b>	<b>88.7</b>	<b>79.5</b>	<b>90.6</b>

(1) Our reporting by division reflects the organizational changes within Dresdner Bank effective starting with 1Q 2007, resulting in two operating divisions, Private & Corporate Clients ( PCC ) and Investment Banking ( IB ). PCC combines all banking activities formerly provided by the Personal Banking and Private & Business Banking (including Private Wealth Management) divisions as well as our activities with medium-sized business clients from our former Corporate Banking division. IB, with Global Banking and Capital Markets, unites the activities formerly provided by the Dresdner Kleinwort Wasserstein division and the remaining activities of the former Corporate Banking division. Prior year balances have been adjusted accordingly to reflect these reorganization measures and allow for comparability across periods.

(2) The Corporate Other division contains income and expense items that are not assigned to Dresdner Bank's operating divisions. These items include, in particular, impacts from the accounting treatment for derivative financial instruments which do not qualify for hedge accounting as well as provisioning requirements for country and general risks. For the years ended December 31, 2007, 2006 and 2005 the impact from the accounting treatment for derivative financial instruments which do not qualify for hedge accounting on Corporate Other's operating revenues amounted to (54) mn, (47) mn and (214) mn, respectively.

(3) Presentation not meaningful.

(4) Consists of non-Dresdner Bank banking operations within our Banking segment.

**Table of Contents****Banking Operations by Geographic Region**

The following table sets forth our banking operating revenues and operating profit by geographic region for the years ended December 31, 2007, 2006 and 2005. Consistent with our general practice, these figures are presented before consolidation adjustments, representing the elimination of transactions between Allianz Group companies in different segments.

	Operating revenues			Operating profit (loss)		
	2007	2006	2005	2007	2006	2005
	mn	mn	mn	mn	mn	mn
Germany	4,321	4,312	4,340	1,488	853	814
The Americas	433	560	176	77	251	(78)
Europe	664	1,944	1,571	(907)	234	(110)
New Europe	72	60	47	8	2	3
Asia-Pacific	231	212	184	107	82	75
<b>Total</b>	<b>5,721</b>	<b>7,088</b>	<b>6,318</b>	<b>773</b>	<b>1,422</b>	<b>704</b>

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**Asset Management Operations**

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

Internal growth of 8.1% in third-party assets under management.

Strong profitability based on growing asset base and tight cost control.

Cost-income ratio at a very competitive 58.3%.

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

Another year of substantial improvement across all key performance indicators.

Strong net inflows of \$36 billion despite challenging capital market environment.

Further double-digit operating profit growth to \$1.3 billion.

Very competitive cost-income ratio at 57.6%.

Net income reached \$404 million, up 65.6%.

**Third-Party Assets Under Management of the Allianz Group**

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

The majority of our third-party assets under management outperformed their respective benchmarks. Operating profit grew 5.3% to \$1,359 million. Excluding negative foreign currency translation effects of \$96 million operating profit grew 12.8% at constant exchange rates.

In the fixed income business, especially in the second half of the year, we again generated a very strong overall investment performance, showing that our long-term approach pays off. We also further improved our investment performance in the equity business.



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Third party assets under management increased by 8.1% on an internal basis. This growth was driven by net inflows and positive market effects, which in aggregate contributed 62 billion. However, the continuing decline of the U. S. Dollar outweighed most of that asset growth.

Of the net inflows, 12.4 billion are attributable to fixed income investments, whereas there were outflows of 2.4 billion from equity investments.

There were no major movements in the geographic origination of third party assets under management in the year. The allocation between retail and institutional clients also remained almost unchanged. Roughly two thirds were made up by institutional clients with a majority thereof coming from the United States. The same applied to retail clients. With regards to investment categories, the proportion between fixed income and equity does not reflect any major movements either. The majority were fixed income investments mainly from the United States. On the equity side the allocation between the United States, Germany and other countries was fairly balanced.

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

In 2006, we faced a volatile and challenging capital market environment. Whereas in the first, third and fourth quarter, equity capital markets developed favorably worldwide, the second quarter showed substantial declines in market values. In the fixed income capital markets, substantial decreases in fixed income indices occurred throughout the first half of the year, following the increases in market interest rates, and values only recovered slowly during the second half of the year.

This capital market environment led to mixed developments in the asset management industry. For example, net flows in the fixed income mutual fund market in the United States turned negative during the second quarter of 2006. In Germany, the equity and fixed income mutual fund markets recorded net outflows in 2006, whereas balanced and money market products saw net inflows of a similar magnitude.

Despite this challenging environment and also dampened private demand for third-party asset management products and services, we achieved net inflows to third-party assets of 36 billion, primarily stemming from the United States and Europe, compared to 65 billion in 2005. Both fixed income and equity products contributed to net inflows in

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2006, which again affirmed our strong position as one of the largest asset managers worldwide, based on total assets under management.<sup>(1)</sup>

A key success factor continued to be our competitive investment performance. The overwhelming majority of the third-party assets we manage again outperformed their respective benchmarks in 2006. Market-related appreciation was \$43 billion. Net inflows and positive market effects were partly offset by negative currency conversion effects of \$57 billion, resulting primarily from a weaker U.S. Dollar versus the Euro. Overall, on a Euro-basis, our third-party assets increased by \$21 billion<sup>(2)</sup> to \$764 billion as of December 31, 2006, compared to \$743 billion as of December 31, 2005.

<sup>(1)</sup> Source: Own internal analysis and estimates.

<sup>(2)</sup> Including a negative deconsolidation effect of \$1 bn.

*Rolling investment performance of Allianz Global Investors<sup>(1)</sup>*

*in %*

<sup>(1)</sup> AGI account-based, asset-weighted 3-year investment performance of 3rd party assets vs. benchmark including all equity and fixed income accounts managed on a discretionary basis by equity and fixed income managers of AGI (including direct accounts, Spezialfonds and CPMs of Allianz with AGI Germany). For some retail funds the net of fee performance is compared to the median performance of an appropriate peer group (Micropal or Lipper; 1st and 2nd quartile mean out-performance). For all other retail funds and for all institutional accounts performance is calculated gross of fees using closing prices (revaluated) where appropriate and compared to the benchmark of each individual fund or account. Other than under GIPS, the performance of closed funds/accounts is not included in the analysis. Also not included: WRAP accounts and accounts of Caywood Scholl, AGI Taiwan, AGI Korea, AGF AM and RAS AM.

*Development of third-party assets under management*

*in bn*

*Third-party assets under management By geographic region as of December 31, 2007 (2006)*

*in %*

<sup>(1)</sup> Based on the origination of assets.

<sup>(2)</sup>

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Consists of third-party assets managed by Dresdner Bank (approximately 18 bn and 21 bn as of December 31, 2007 and 2006, respectively) and by other Allianz Group companies (approximately 22 bn and 20 bn as of December 31, 2007 and 2006, respectively).

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

Major awards received during the year reflect our success in the asset management business in 2007:

Morningstar has named PIMCO's Bill Gross and team the 2007 Fixed-Income Fund Manager of the year. Bill Gross is the first fund manager ever to receive three Morningstar Fund Manager of the year awards.

PIMCO was awarded Best Third-Party Provider of Fixed Income Portfolio Management Services in Asia from Euromoney Private Banking Survey 2007.

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Allianz Global Investors Germany was awarded with five stars again according to *Capital* magazine ranking.

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

Our major achievements in 2006 included:

Allianz/PIMCO Funds were named *Best Mutual Fund Family* in the 2006 Lipper/Barron's Fund Families Survey.

Particularly strong net inflows of approximately *7 billion* at our equity fund manager NFJ Investment Group.

PIMCO CommodityRealReturn Funds began trading on June 29, 2006 and already successfully raised USD 773 million in assets to December 31, 2006.

PIMCO was named *Investor of the Year* in the 2006 Securitization News survey.

Allianz Global Investors Germany is market leader in the innovative segment of certificate funds.<sup>(1)</sup>

Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH (or *dit*) ranked first in the *Most Improved Group* of Standard & Poor's German Fund Awards 2006.

*dit* was awarded five stars by the German financial magazine *Capital*, the highest possible score.

Effective January 1, 2007, our German retail fund company *dit* and our German special fund company *dresdnerbank investment management Kapitalanlagegesellschaft mbH* (or *dbi*) were merged to form Allianz Global Investors Kapitalanlagegesellschaft mbH.

<sup>(1)</sup> Source: Bundesverband Investment und Asset Management (or *BVI*), an association representing the German investment fund industry.

## **Earnings Summary<sup>(2)</sup>**

### ***Operating revenues***

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

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Operating revenues amounted to 3,178 million, up 6.3% from a year ago. Operating revenue grew 13.5% on an internal basis.

Net fee and commission income was up 186 million to 3,060 million driven by higher management fees resulting from our growing asset base, as well as by increased performance fees. In contrast, loading and exit fees decreased reflecting the development in mutual fund sales.

	2007 mn	2006 mn	2005 mn
Management fees	3,496	3,368	2,941
Loading and exit fees	307	334	333
Performance fees	202	107	122
Other income	292	309	294
<b>Fee and commission income</b>	<b>4,297</b>	<b>4,118</b>	<b>3,690</b>
Commissions	(877)	(895)	(812)
Other expenses	(360)	(349)	(281)
Fee and commission expenses	(1,237)	(1,244)	(1,093)
<b>Net fee and commission income</b>	<b>3,060</b>	<b>2,874</b>	<b>2,597</b>

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

At 2,989 million, operating revenues reflect a solid growth of 11.7% at stable revenue margins, primarily attributable to strict pricing discipline and a further improved responsiveness to our clients' needs. Net fee and commission income was up 277 million to 2,874 million, predominantly due to higher management fees as a result of the growing third-party asset under management base, as previously discussed. Internal operating revenue growth of 13.3% was even stronger, as nominal operating revenue growth was impacted by the weaker U.S. Dollar compared to the Euro.

- (2) The results of operations of our Asset Management segment are almost exclusively represented by AGI, accounting for 97.5% of our total Asset Management segment's operating revenues for the year ended December 31, 2007 (2006: 98.2%, 2005: 98.3%). Accordingly, the discussion of our Asset Management segment's results of operations relates solely to the operations of AGI.

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*Operating profit*

Operating profit Allianz Global Investors

in mn

*Year Ended December 31, 2007 Compared to Year Ended December 31, 2006*

Operating profit increased by 3.5% to 1,321 million.

Administrative expenses, excluding acquisition-related expenses were up 8.4% to 1,857 million as a result of our business expansion and structured investments to secure future growth. In line with new business generation, compensation-related expenses were also up. At 58.4%, our cost-income remains at a very competitive level.

*Year Ended December 31, 2006 Compared to Year Ended December 31, 2005*

Operating profit grew by 14.2% to 1,276 million.

Administrative expenses, excluding acquisition-related expenses, at 1,713 million in 2006, were up 9.8%, representing a considerably less than proportionate increase compared to that in our operating revenues due to effective cost control. As a result, our cost-income ratio decreased by 1.0 percentage point to 57.3%.

This success was achieved despite substantial investments in our distribution network and human resources development.

*Non-operating result*

*Year Ended December 31, 2007 Compared to Year Ended December 31, 2006*

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The aggregate net loss from non-operating items declined to \$492 million, down \$64 million compared to the prior year period. Acquisition related expenses declined by 7.7% to \$491 million. This was mainly driven by a positive foreign exchange effect of \$48 million. Excluding foreign exchange impacts, acquisition related expenses grew 1.2%, mainly due to valuation effects of PIMCO LLC Class B Units (or Class B Units ) as a result of increased operating performance at PIMCO. This outweighed the lower number of outstanding Class B Units in 2007 as compared to 2006. As of December 31, 2007, the Allianz Group had acquired 43,917 of the 150,000 Class B Units<sup>(1)</sup> originally outstanding. Going forward, we expect acquisition-related expenses to be mainly driven by the number of Class B Units outstanding and our operating profit development at PIMCO.

There was no charge in 2007 for amortization of intangible assets compared to a charge in the prior year of \$23 million that was related to the impairment of a brand name.

<sup>(1)</sup> Please see Note 48 to our consolidated financial statements for further information on the Class B Units.

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*Year ended December 31, 2006 Compared to Year ended December 31, 2005*

In aggregate, the net loss from non-operating items decreased significantly from 708 million to 556 million. Thereof, at 532 million, acquisition related expenses declined 22.6%. This decrease was mainly driven by a lower number of outstanding PIMCO LLC Class B Units (or Class B Units ) in 2006 as compared to 2005. As of December 31, 2006, the Allianz Group had acquired 21,762 of the 150,000 Class B Units originally outstanding. Going forward, we expect acquisition-related expenses to be mainly driven by the number of Class B Units outstanding and our operating profit development at PIMCO. Amortization of intangible assets of 23 million in 2006 was related to the merger of dit and dbi to Allianz Global Investors Kapitalanlagegesellschaft mbH, previously mentioned. Thereby, our dit brand was fully written off in 2006.

***Net income***

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

Income before income taxes and minority interests increased by 109 million, giving rise to a higher tax charge. Our effective tax rate increased by 2.4 percentage points to 40.7%, primarily due to a higher taxable income in the United States.

Due to the minority buy-outs of AGF and RAS, minority interests in earnings reduced by 27 million to 22 million.

Net income therefore grew by 19.0% to 470 million in 2007.

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

Net income reached 395 million, exceeding previous year's level by 68.8%. Primarily as a result of higher taxable income in the United States income tax expenses increased 117.3% to 276 million, representing a rise of our effective tax rate from 31.1% to 38.3%.



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The following table sets forth the income statements and cost-income ratios for both our Asset Management segment as a whole and AGI for the years ended December 31, 2007, 2006 and 2005.

	2007		2006		2005	
	Asset Management Segment mn	Allianz Global Investors mn	Asset Management Segment mn	Allianz Global Investors mn	Asset Management Segment mn	Allianz Global Investors mn
Net fee and commission income <sup>(1)</sup>	3,133	3,060	2,924	2,874	2,636	2,597
Net interest income <sup>(2)</sup>	81	75	71	66	56	51
Income from financial assets and liabilities carried at fair value through income (net)	31	29	38	37	19	18
Other income	14	14	11	12	11	11
<b>Operating revenues<sup>(3)</sup></b>	<b>3,259</b>	<b>3,178</b>	<b>3,044</b>	<b>2,989</b>	<b>2,722</b>	<b>2,677</b>
Administrative expenses, excluding acquisition-related expenses <sup>(4)</sup>	(1,900)	(1,857)	(1,754)	(1,713)	(1,590)	(1,560)
<b>Operating expenses</b>	<b>(1,900)</b>	<b>(1,857)</b>	<b>(1,754)</b>	<b>(1,713)</b>	<b>(1,590)</b>	<b>(1,560)</b>
<b>Operating profit</b>	<b>1,359</b>	<b>1,321</b>	<b>1,290</b>	<b>1,276</b>	<b>1,132</b>	<b>1,117</b>
Realized gains/losses (net)	2	4	7	5	6	5
Impairments of investments (net)	(1)	(1)	(2)	(2)		
<b>Acquisition-related expenses<sup>(4)</sup>, thereof</b>						
Deferred purchases of interests in PIMCO	(488)	(488)	(523)	(523)	(677)	(677)
Other acquisition-related expenses <sup>(5)</sup>	(3)	(3)	(9)	(9)	(10)	(10)
<b>Subtotal</b>	<b>(491)</b>	<b>(491)</b>	<b>(532)</b>	<b>(532)</b>	<b>(687)</b>	<b>(687)</b>
Amortization of intangible assets			(24)	(23)	(25)	(25)
Restructuring charges	(4)	(4)	(4)	(4)	(1)	(1)
<b>Non-operating items</b>	<b>(494)</b>	<b>(492)</b>	<b>(555)</b>	<b>(556)</b>	<b>(707)</b>	<b>(708)</b>
<b>Income before income taxes and minority interests in earnings</b>	<b>865</b>	<b>829</b>	<b>735</b>	<b>720</b>	<b>425</b>	<b>409</b>
Income taxes	(342)	(337)	(278)	(276)	(129)	(127)
Minority interests in earnings	(25)	(22)	(53)	(49)	(52)	(48)
<b>Net income</b>	<b>498</b>	<b>470</b>	<b>404</b>	<b>395</b>	<b>244</b>	<b>234</b>
<b>Cost-income ratio<sup>(6)</sup> in %</b>	<b>58.3</b>	<b>58.4</b>	<b>57.6</b>	<b>57.3</b>	<b>58.4</b>	<b>58.3</b>

(1) Represents fee and commission income less fee and commission expense.

(2) Represents interest and similar income less interest expense and investment expenses.

(3) For the Asset Management segment, total revenues are measured based upon operating revenues.

(4) The total of these items equals acquisition and administration expenses (net) in the segment income statement included in Note 5 to the consolidated financial statements.

(5) Consists of retention payments for the management and employees of PIMCO and Nicholas Applegate.

(6) Represents operating expenses divided by operating revenues.



**Table of Contents****Corporate Activities**

Operating loss declined by 506 million driven by higher investment result

**Earnings Summary**

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

The operating loss declined significantly due to higher current investment income and lower expenses. This improvement along with a positive trading result and a further increased level of realized gains led to a much lower loss before taxes, whereas the negative tax effects almost off-set these positive developments. Net income thus slightly improved by 21 million to a net loss of 158 million.

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

While operating loss, down 50 million to 831 million in 2006, remained relatively stable, net expenses from non-operating items declined significantly by 962 million. As a result, loss before income taxes and minority interests in earnings was down 1,012 million to 987 million. Consequently, net income was down to a net loss of 179 million from a net loss of 1,268 million in 2005.

	<b>Holding Function</b>			<b>Private Equity</b>			<b>Total</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>mn</b>	<b>mn</b>	<b>mn</b>	<b>mn</b>	<b>mn</b>	<b>mn</b>	<b>mn</b>	<b>mn</b>	<b>mn</b>
Operating profit (loss)	(446)	(824)	(932)	121	(7)	51	(325)	(831)	(881)
Non-operating items	37	(455)	(1,109)	(66)	299	(9)	(29)	(156)	(1,118)
Income (loss) before income taxes and minorities	(409)	(1,279)	(2,041)	55	292	42	(354)	(987)	(1,999)
<b>Net income (loss)</b>	<b>(168)</b>	<b>(460)</b>	<b>(1,286)</b>	<b>10</b>	<b>281</b>	<b>18</b>	<b>(158)</b>	<b>(179)</b>	<b>(1,268)</b>

***Holding Function***

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

**Operating profit** At 446 million, the operating loss was nearly halved, a considerable improvement as compared to a year earlier. On the revenue side, in line with a higher asset base and an increase in yields, the main driver was interest and similar income which was up 74.5%, reaching 745 million, driven by a high liquidity accumulated to pay back liabilities. Additionally, operating expenses declined by 6.9%, primarily attributing to lower investment expenses which reflect declined banking and investment transaction costs.

**Non-operating result** The non-operating result turned into an aggregate profit of 37 million compared to an aggregate loss of 455 million in the prior year. The non-operating trading result driven by the BITES exchangeable bond, which was partially repaid in 2007, and higher net capital gains contributed to this development and therefore more than compensated for the higher interest expense from external debt in connection with the minority buy-out at AGF.

**Net income** Due to high negative tax impacts stemming primarily from the German tax reform our net loss came to 168 million.

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

**Operating profit** The considerable decrease in operating loss stemmed primarily from higher interest and similar income due to higher dividends received from equity investments. Further key operating items included within Holding Function are administrative expenses to run our Group Center, expenses associated with our pension plans, and expenses for certain Allianz Group-wide growth initiatives.

**Non-operating items** Net expenses from non-operating items decreased by 654 million, predominantly from higher realized gains brought about by various sales transactions. With net realized gains of 434 million the sale of our shareholding in Schering AG in June 2006 contributed most. In addition, non-operating items benefited from a lower net loss from financial assets and liabilities held for trading in comparison to 2005 when the effects of

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derivatives from an equity-linked loan issued in connection with financing the cash tender offer for the outstanding RAS shares made a significant negative impact. Interest expense from external debt, at 775 million in 2006, remained relatively constant.

**Net income** Net loss of the Holding Function was down to 460 million and more than halved compared to the prior year. This was almost exclusively due to an almost similar development in non-operating items as previously described.

### ***Private Equity***

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

**Operating profit** At 121 million, the operating result turned positive after an operating loss of 7 million a year ago reflecting profit participation of 65 million.

**Non-operating result** Non-operating result turned negative and amounted to an aggregate loss of 66 million, following a gain of 299 million a year ago, as the high level of realized gains from disposals in the prior year period mainly in connection with the sale of Four Seasons Health Care Limited was not repeated.

**Net income** Net income decreased to 10 million. This development was mainly attributable to the non-operating loss. Furthermore, net income was impacted by higher taxes and increased minority interests in earnings.

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

**Operating profit** Operating profit turned negative and decreased 58 million from the 2005 level. In August 2006, the Allianz Group acquired 100.0% of MAN Roland Druckmaschinen AG. The full consolidation of this private equity investment had impacts of a similar magnitude both on operating revenues and operating expenses, namely income and expenses from fully consolidated private equity investments.

**Non-operating items** Non-operating items improved from a loss of 9 million to a gain of 299 million. The disposal of Four Seasons Health Care Ltd. (or Four Seasons ) in August 2006 contributed 287 million to this development.

**Net income** Net income was 281 million as compared to 18 in 2005. Non-operating items turned positive; this by far outweighed the negative operating profit development.



**Table of Contents****Balance Sheet Review**

Shareholders' equity of 47.8 billion.

Strong net income of 8.0 billion partially offset by various impacts following minority buy-outs.

**Consolidated Balance Sheets<sup>(1)</sup>**

The following table sets forth the Allianz Group's consolidated balance sheets as of December 31, 2007 and 2006.

As of December 31,	2007 mn	2006 mn
<b>ASSETS</b>		
Cash and cash equivalents	31,337	33,031
Financial assets carried at fair value through income <sup>(2)</sup>	185,461	198,992
Investments <sup>(3)</sup>	286,952	298,134
Loans and advances to banks and customers	396,702	423,765
Financial assets for unit linked contracts	66,060	61,864
Reinsurance assets	15,312	19,360
Deferred acquisition costs	19,613	19,135
Deferred tax assets	4,771	4,727
Other assets	41,528	38,001
Intangible assets	13,413	13,072
<b>Total assets</b>	<b>1,061,149</b>	<b>1,110,081</b>
As of December 31,	2007 mn	2006 mn
<b>LIABILITIES AND EQUITY</b>		
Financial liabilities carried at fair value through income	126,053	121,822
Liabilities to banks and customers	336,494	376,565
Unearned premiums	15,020	14,868
Reserves for loss and loss adjustment expenses	63,706	65,464
Reserves for insurance and investment contracts	292,244	287,032
Financial liabilities for unit linked contracts	66,060	61,864
Deferred tax liabilities	3,973	4,588
Other liabilities	49,324	49,764
Certificated liabilities	42,070	54,922
Participation certificates and subordinated liabilities	14,824	16,362
<b>Total liabilities</b>	<b>1,009,768</b>	<b>1,053,251</b>
Shareholders' equity	47,753	49,650
Minority interests	3,628	7,180
<b>Total equity</b>	<b>51,381</b>	<b>56,830</b>
<b>Total liabilities and equity</b>	<b>1,061,149</b>	<b>1,110,081</b>

- (1) The Allianz Group identified prior period errors through an analysis of various balance sheet accounts (the Errors ). The Errors resulted primarily from the accounting for the purchase of Dresdner Bank in 2001 and 2002, consolidation of special funds in 2001 and other errors related to minority interest and policyholder participation occurred in combination with mergers. The Errors had the effect of reducing net income by 78 mn in 2006, 42 mn in 2005, and 157 mn for the 4 years from 2001 through 2004. As the majority of the Errors related to the years 2001 through 2004, the Errors from these periods have been accounted for in 2007 by adjusting the opening balance sheet as of January 1, 2005. The Errors for 2005 and 2006 have been corrected through an out-of-period adjustment to net income in 2007. Certain financial instruments that were previously presented on a net presentation are now presented on a gross basis, due to contractual limitations to the right of offset. Partially offsetting these reclassifications from net to gross presentation is a change in the presentation of Collateral paid for securities borrowing transactions and Collateral received for securities lending transactions from gross to net presentation. The net effect is an increase in total assets and total liabilities of 57,610 mn for the year ended December 31, 2006. For further information, see Note 3 to the consolidated financial statements.
- (2) As of December 31, 2007, 23,163 mn are pledged to creditors and can be sold or replighted (2006: 90,211 mn).
- (3) As of December 31, 2007, 7,384 mn are pledged to creditors and can be sold or replighted (2006: 3,156 mn).



**Table of Contents****Total Equity**Shareholders' equity<sup>(4)</sup>

in mn

<sup>(1)</sup> Does not include minority interests of 3.6 bn, of 7.2 bn and of 8.4 bn as of December 31, 2007, 2006 and 2005, respectively. Please see note 23 to the consolidated financial statements for further information. Includes retrospective correction as of January 1, 2005 of 0.8 bn. Please see note 3 to the consolidated financial statements for further information.

<sup>(2)</sup> Includes foreign currency translation adjustments.

In 2007, our shareholders' equity decreased 3.8% to 47.8 billion. Additions to the shareholders' equity were primarily the 2007 net income of 8.0 billion and a capital increase of 2.8 billion raised as part of financing the AGF minority buy-out. The goodwill related to the minority buy-outs of AGF and Allianz Leben amounting to 7.0 billion was recorded as a reduction of shareholders' equity. Together with the transfer on disposal of unrealized gains and losses to realized of 2.5 billion were these the largest downward movements. Furthermore foreign currency translation effects of 1.4 billion and the dividend payment of 1.6 billion contributed to the overall reduction in our shareholders' equity.

**Total Assets and Total Liabilities**

Total assets and liabilities decreased by 48.9 billion and 43.5 billion, respectively. In the following sections we analyze important developments within the

balance sheets of our Life/Health, Property-Casualty and Banking segments as presented under Notes to the Allianz Group's Consolidated Financial Statements Business Segment Information Consolidated Balance Sheets. Relative to the Allianz Group's total assets and total liabilities, we consider the total assets and total liabilities from our Asset Management segment as immaterial and have, accordingly, excluded these assets and liabilities from the following discussion. Our Asset Management segment's results of operations stem primarily from its business with third-party assets. Please see Asset Management Operations Third-Party Assets under Management of the Allianz Group for further information on the development of our third-party assets.

**Assets and Liabilities of the Property-Casualty segment**

Property-Casualty asset base

fair values<sup>(1)</sup> in bn

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- <sup>(1)</sup>Loans and advances to banks and customers, held-to-maturity investments, and real estate held for investment are stated at amortized cost. Investments in associates and joint ventures are stated at either amortized cost or equity, depending upon, among other factors, our ownership percentage. For further information see note 2 to the consolidated financial statements.
- <sup>(2)</sup>Does not include affiliates of 10.0 bn and 9.5 bn as of December 31, 2007 and 2006, respectively.
- <sup>(3)</sup>Includes debt securities of 2.7 bn and 3.2 bn as of December 31, 2007 and 2006, respectively, equity securities of 0.4 bn and 0.4 bn as of December 31, 2007 and 2006, respectively, and derivative financial instruments of 0.1 bn and 0.1 bn as of December 31, 2007 and 2006, respectively.

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***Property-Casualty assets***

Our property-casualty asset base decreased by 2.2 billion to 97.6 billion. In the segment's investments, excluding affiliates, we recorded a decline of 5.6 billion to 73.7 billion. Thereof, debt securities decreased by 2.0 billion to 50.3 billion as a result of higher interest rates which had direct negative impact on the fair value. Equity investments were down 2.6 billion to 16.5 billion mainly caused by a strategic decision to actively decrease our equity exposure in order to reduce equity gearing.<sup>(1)</sup>

Of our average Property-Casualty asset base, ABS made up 4.9 billion, as of December 31, 2007, which is around 5%. CDOs accounted for 0.2 billion of this amount, of which 8 million are subprime-related. Unrealized losses on CDOs of 2 million were recorded in our equity. Realized losses of 12 million were reflected in the segment's income.

Rating structure of Property-Casualty fixed income portfolio<sup>(1)</sup>

in %

*(1) including loans and debt securities*

*(1) The equity gearing is an indicator for the sensitivity of our shareholders' equity due to changes in the value of all our equity investments.*

***Property-Casualty liabilities***

In 2007, reserves for loss and loss adjustment expenses decreased by 1.8 billion to 56.9 billion. Important contributors to this decline were the positive development on prior years' loss reserves primarily in Italy, France, the United Kingdom, Australia and within the credit insurance business, as well as foreign currency translation effects.

**Assets and Liabilities of the Life/Health segment**

Life/Health asset base

fair values<sup>(1)</sup> in bn

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- (1) Loans and advances to banks and customers, held-to-maturity investments, and real estate held for investment are stated at amortized cost. Investments in associates and joint ventures are stated at either amortized cost or equity, depending upon, among other factors, our ownership percentage. For further information see note 2 to the consolidated financial statements.
- (2) Financial assets for unit-linked contracts represent assets owned by, and managed on the behalf of, policyholders of the Allianz Group, with all appreciation and depreciation in these assets accruing to the benefit of policyholders. As a result, the value of financial assets for unit-linked contracts in our balance sheet corresponds with the value of financial liabilities for unit-linked contracts.
- (3) Does not include affiliates of 2.7 bn and 2.8 bn as of December 31, 2007 and 2006, respectively.
- (4) Includes debt securities of 9.3 bn and 7.3 bn as of December 31, 2007 and 2006, respectively, equity securities of 3.3 bn and 2.9 bn as of December 31, 2007 and 2006, respectively, and derivative financial instruments of (4.5) bn and (4.4) bn as of December 31, 2007 and 2006, respectively.

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***Life/Health assets***

Our Life/Health asset base grew by 2.5% to 350.0 billion. This development stemmed primarily from increased loans and advances to banks and customers, up 6.3% to 91.2 billion. Investments decreased slightly by 1.7% to 184.6 billion, excluding affiliates. Thereof, equity investments amounted to 41.2 billion, 1.0 billion lower than the last year as the upward market trend was reduced by higher realized gains. Debt securities were down by 1.2 billion to 137.6 billion principally due to increased market interest rates and, as a result, downward trends in fixed income indices. Financial assets for unit-linked contracts increased by 4.2 billion to 66.1 billion reflecting our sales success with unit-linked insurance and investment contracts. In aggregate, statutory premiums collected for unit-linked insurance and investment contracts amounted to 17.3 billion.

Within our Life/Health asset base, ABS amounted to 13.8 billion, as of December 31, 2007, less than 4 % of total average Life/Health assets. Of these, 0.3 billion are CDOs of which none are subprime-related. No unrealized losses on CDOs were recorded in our equity. Realized losses of 7 million were reflected in the segment's income.

Rating structure of Life/Health fixed income portfolio<sup>(1)</sup>

in %

<sup>(1)</sup>including loans and debt securities

***Life/Health liabilities***

Life/Health reserves for insurance and investment contracts were up 1.8% to 283.1 billion

including an increase of 3.0% or 7.6 billion in aggregate policy reserves mainly from domestic business partly offset by a decrease in provisions for premium refunds of 9.2% or 2.6 billion, triggered for the most part by subsidiaries in France, Germany and Italy.

**Assets and Liabilities of the Banking segment**

Banking loans and advances to banks and customers

in bn

<sup>(1)</sup>Includes loan loss allowance of (0.8) bn and (1.0) bn as of December 31, 2007 and 2006, respectively.

<sup>(2)</sup>Due to changes in the presentation of financial instruments we retrospectively adjusted figures for 2006. For further information see Note 3 to our consolidated financial statements.

***Banking loans and advances to banks and customers***

Loans and advances to banks and customers in our banking segment decreased by 10.2% to 295.5 billion as of December 31, 2007. The decrease was particularly driven by a reduced volume in reverse repurchase agreements of Dresdner Bank. This development was a result of the financial market turbulence which led to distortions in the money market business and therefore to reduced business activities between banks.

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### ***Banking liabilities to banks and customers***

Due to the reasons mentioned, liabilities to banks and customers also experienced a decrease of 12.4% to 320.4 billion namely in the form of repurchase agreements.

### **Off-Balance Sheet Arrangements**

In the ordinary course of business, the Allianz Group enters into arrangements that, under IFRS, are not recognized on the consolidated balance sheet and do not affect the consolidated income statement. Such arrangements remain off-balance sheet as long as the Allianz Group does not incur an obligation from them or become entitled to an asset itself. As soon as an obligation is incurred, it is recognized on the Allianz Group's consolidated balance sheet, with the corresponding loss recorded in the consolidated income statement. However, in such cases, the amount recognized on the consolidated balance sheet may or may not, in many instances, represent the full loss potential inherent in such off-balance sheet arrangements. The Allianz Group does not rely on off-balance sheet arrangements as a significant source of revenue. The types of off-balance sheet arrangements that Allianz is involved in are described below.

### ***Commitments and Guarantees***

In the normal course of business, we enter into various irrevocable loan commitments, leasing commitments, purchase obligations and various other commitments. We also extend market value guarantees to customers, as well as execute indemnification contracts under existing service, lease or acquisition transactions. Fee income from issuing guarantees is not a significant part of our total income, and losses incurred under guarantees and income from the release of related provisions were insignificant for each of the last three years. For further information, see Note 46 to our consolidated

financial statements. For additional information regarding parent company guarantees, please see the parent only condensed financial statements of Allianz Societas Europea in Schedule II.

### ***Special purpose entities (SPEs)***

The Allianz Group is involved with a variety of SPEs including asset securitization entities, investment funds and investment conduits. The Allianz Group is involved in asset securitization entities through arranging, facilitating, and in certain cases, managing investment conduits for banking customers in connection with asset-backed security transactions where the SPEs receive the underlying assets, such as trade or finance receivables from the Allianz Group's banking customers and securitizes such assets to provide customers with cost-efficient financing.

In providing these services, the Allianz Group may in some instances have a financial interest in such financing structures. However, the risk of financial loss may be mitigated through participations in such losses by other third party investors.

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The Allianz Group also engages in establishing and managing investment fund SPEs with a goal of developing, marketing and managing these funds. During the establishment phase of these funds, the Allianz Group may provide initial capital for the SPEs to acquire securities until either sufficient third-party investors purchase participations in the funds or the SPEs are terminated. Certain of these SPE s funds obligations may include capital maintenance and/or performance guarantees given to the investors. The guarantees we provide differ both in terms of amount and duration according to the relevant arrangements. The Allianz Group receives fee and commission income from investors for the management of these SPEs.



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As required under IFRS, the Allianz Group consolidates an SPE when the substance of the relationship between Allianz and the SPE indicates that the SPE is controlled by Allianz. The following table presents the assets held by all SPEs for which the Allianz Group controls the SPE by means other than a majority voting interest. Therefore, these SPEs are consolidated in the Allianz Group's consolidated financial statements as of December 31, 2007.

Type of SPE	As of December 31, 2007			
	Total assets mn	Consolidated assets which are collateral for SPE's obligations	Amount of consolidated assets which are collateral for SPE's obligations mn	Creditor's recourse to Allianz Group assets mn
Asset-backed securities transactions	22,643	Various receivables, corporate notes, index certificates and derivatives	22,643	
Structured finance transactions	12,413	Corporate notes, German bund securities, lease receivables, cash funds	12,413	
Derivatives transactions	3,861	Derivatives, equity, leases and cash balances	3,861	
Investment funds	1,739	Hedge fund units, bonds, investment funds and derivatives	1,739	
Other	469	Real estate, equity instruments and cash and cash equivalents	469	
Total	41,125		41,125	

The following tables set forth the total assets of non-consolidated SPEs in which the Allianz Group has a significant beneficial interest, the Allianz Group's maximum exposure to loss associated with these SPEs and further information regarding the Allianz Group's involvement as of December 31, 2007. A significant beneficial interest is considered to be either an investment greater than 100 million in an SPE, or a smaller investment in an SPE that leads to expected losses greater than 5 million. Allianz Group's maximum exposure to loss comprises the total amount of investment, including note positions, committed liquidity facilities (whether drawn or not), or guarantee notionals. It describes a worst case scenario without considering the asset rating, available collateral, other types of protection or hedging activities that can and do significantly reduce the economic exposure of these SPEs to the Allianz Group. The non-consolidated SPEs are aggregated based on principal business activity, as reflected in the first column. The nature of the Allianz Group's interest in these SPEs can take different forms, as described in the second column.

Type of SPE	As of December 31, 2007		
	Nature of Allianz Group's involvement with SPEs	Total assets mn	Allianz Group's maximum exposure to loss mn
Investment funds	Guarantee obligations	2,039	1,852
Investment funds	Investment manager and/or equity holder	970	32
Vehicles used for CDOs, securitization and credit derivative transactions	Arranger, establisher, servicer, liquidity provider and/or investment counterparty	13,818	11,397
Hedge funds	Hedge funds, Master funds, Equity holder	33,723	1,028
Securitization conduit	Commercial paper	8,654	1,658
SIV K2	Capital notes, liquidity, repo facilities and investment manager	16,344	3,546

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Vehicles used for CBO and CDO transactions	Investment manager and/or equity holder	6,518	1
Other	Client financing transaction	1,684	1,390
<b>Total</b>		<b>83,750</b>	<b>20,904</b>

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The following table summarizes the Allianz Group's maximum exposure to loss by the type of exposure and by type of SPE:

<b>Without any mitigation of risks</b>	<b>Equity/Fund Investment mn</b>	<b>Notes<sup>(1)</sup> mn</b>	<b>Liquidity Facilities<sup>(2)</sup> mn</b>	<b>Guarantees mn</b>	<b>CDS mn</b>	<b>Other mn</b>	<b>Total mn</b>
Investment funds guarantee obligations				1,852			1,852
Investment funds	12	20					32
Vehicles used for CDOs, securitization and credit derivative transactions	6	9,450	1,531			410	11,397
Hedge funds	604		424				1,028
Securitization conduit		1,490			135	33	1,658
SIV K2		47	102			3,397	3,546
Vehicles used for CBO and CDO transactions		1					1
Other	31	1,359					1,390
<b>Total</b>	<b>653</b>	<b>12,367</b>	<b>2,057</b>	<b>1,852</b>	<b>135</b>	<b>3,840</b>	<b>20,904</b>

(1) The notes category primarily consists of CDOs and CLOs.

(2) Maximum amount of liquidity facility which could but must not be drawn.

The following table provides the years to maturity of the Allianz Group's maximum exposure to loss in the non-consolidated SPEs.

<b>Years to maturity</b>	<b>Less than 1 mn</b>	<b>1-3 mn</b>	<b>3-5 mn</b>	<b>Over 5 mn</b>	<b>Equity mn</b>	<b>Total mn</b>
Investment funds guarantee obligations	1,852					1,852
Investment funds			12	8	12	32
Vehicles used for CDOs, securitization and credit derivative transactions	2,934	68	888	7,501	6	11,397
Hedge funds		424			604	1,028
Securitization conduit	1,523			135		1,658
SIV K2	3,499			47		3,546
Vehicles used for CBO and CDO transactions	1					1
Other	1	1,358			31	1,390
<b>Total</b>	<b>10,234</b>	<b>1,426</b>	<b>900</b>	<b>7,691</b>	<b>653</b>	<b>20,904</b>

The Group's liquidity facilities and capital maintenance guarantees as of December 31, 2007 are summarized above as with a maturity less than 1 year.

In addition to an equity interest or fund investment interest, the Allianz Group has various other types of interests in certain non-consolidated SPEs. These interests include direct loans, as well as liquidity facilities, which the SPE can draw upon if necessary. For certain mutual funds, primarily those sponsored by Allianz Global Investors in the normal course of business, the Allianz Group has guaranteed a portion of the investors' principal. Other agreements include securities lending and a foreign currency hedge transaction.

On March 18, 2008, Dresdner Bank and K2 Corporation entered into an agreement through which

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Dresdner Bank will provide a support facility to the Structured Investment Vehicle, K2. The agreement, which consists of a U.S.\$1,500,000,000 committed revolving mezzanine credit facility and a backstop facility, follows the announcement by Dresdner Bank on February 21, 2008 that it intended to offer support to K2.

The mezzanine credit facility provides K2 with immediate additional liquidity, allowing K2 to draw-down funds for terms up to the maturity date of its longest dated senior debt obligations. Under the terms of the backstop facility, Dresdner Bank has undertaken to provide to K2 firm prices at which it will purchase assets from K2 in the event that K2 is unable to obtain better prices for such assets on the open market. The aggregate of such prices provided by Dresdner Bank will at all times equate to an

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amount that ensures K2 has sufficient funds to repay its senior debt in full.

K2 is a SIV incorporated in Grand Cayman on October 17, 1997. K2 has invested in a diversified portfolio of assets. Dresdner Bank acts as the asset manager of K2.

In regard to credit risk, the rating of K2 assets as of December 31, 2007 is presented as follows:

<b>Rating Category</b>	<b>Moody's % of Portfolio</b>	<b>S&amp;P % of Portfolio</b>
Aaa/AAA including Super Senior <sup>(1)</sup>	57.67	55.85
Aa/AA	37.84	31.94
A/A	3.83	11.55
Baa/BBB	0.66	0.66

<sup>(1)</sup> Super senior bonds, a subset of the AAA class, are senior to all other classes with respect to both repayment and loss, including subordinate AAA classes.

As of December 31, 2007, the weighted average life of K2 cash assets is 3.34 years, and the weighted average life of K2 credit derivative assets is 3.89 years.

K2 raised its funding by issuing shares, subordinated capital notes ( CN ), commercial paper ( CP ) and mid-term notes ( MTN ). K2's senior funding is broken down in the following categories: European commercial paper ( E-CP ), European mid-term notes ( E-MTN ), U.S. commercial paper ( US-CP ) and U.S. mid-term notes ( US-MTN ). The weighted average life of K2's senior liabilities is 0.56 years as of December 31, 2007. Due to the extraordinary disruption of CP/MTN markets that started in 2007, liquidity has temporarily been provided by Dresdner Bank through buy/sell-back financing on arms-length conditions.

The maximum limit of the losses to be borne by capital note holders currently amounts to 1.3 billion. Dresdner Bank currently holds 47 million or 3.5% of the capital notes. The variable interests that Dresdner Bank holds in K2 consist of capital note coupons and investment management fees.

In addition, Dresdner Bank provides K2 with a committed liquidity facility amounting to 102 million. The obligation to fund K2 under the committed liquidity facility is at the request of K2 and is subject to certain conditions precedent being met. Terms that would limit Dresdner Bank's obligation to provide K2 funding include the standard conditions regarding enforceability (e.g., that the

facility does not contravene applicable law and that no liquidity event of K2's default is outstanding or would result from the making of the liquidity advance). There are several other liquidity providers, each of whose facility ranks pari passu with Dresdner Bank's facility and the terms and conditions of the facilities are similar in all material respects.

**Liquidity and Capital Resources**

Allianz Group and its subsidiaries are well-capitalized.

Ratings upgraded by both Standard & Poor's and A.M. Best.

## Organization

Liquidity planning is an integral part of the overall financial planning and capital allocation process and is based on strategic decisions which include solvency planning, our dividend target, and expected merger and acquisition activities. The Board of Management of Allianz SE, the holding and ultimate parent company of the Allianz Group, decides, after consultation with local management for the Allianz Group companies, on how to allocate capital among the Group.

## Liquidity Resources

Our liquidity resources resulted from the operations of our Property-Casualty, Life/Health, Banking and Asset Management segments, as well as from capital raising activities. In the context of a financial services company, where our working capital is largely representative of our liquidity, we believe our working capital is sufficient for our present requirements.<sup>(1)</sup>

Allianz owns several finance companies. We execute our external debt financing and other corporate financing purposes primarily through two of these companies: Allianz Finance B.V. and Allianz Finance II B.V., both incorporated in the Netherlands.

**Insurance Operations** The principal sources of liquidity for our operating activities within our

<sup>(1)</sup> For further information regarding the management of our liquidity risk please refer to Item 11. Quantitative and Qualitative Disclosures about Market Risk.

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

We generate substantial cash flow from our insurance operations as a result of most premiums being received in advance of the time when claim payments or policy benefits are required, thereby allowing us to invest these funds in the interim to generate investment income and realized gains.

However, the liquidity of our insurance operations is impacted by, among other factors, the duration of our investments, development of equity capital markets, interest rate environment and our ability to realize the carrying value of our investment portfolio to meet insurance claims and policyholder benefits as they become due.

Additionally, the liquidity of our property-casualty insurance operations is affected by the frequency and severity of losses under its policies, as well as by policy renewal rates.

The liquidity needs of our life operations are generally affected by trends in actual mortality experience compared to the related assumptions included in the pricing of our life insurance policies, by the extent to which minimum returns or crediting rates are provided in connection with our life insurance products, as well as by the level of surrenders and withdrawals.

**Banking and Asset Management Operations** For our banking operations, our primary sources of liquidity include customer deposits and interest and similar income from our lending transactions, while our major uses of funds are for the issuance of new loans and advances to banks and customers, and the payment of interest on deposits and other operating costs.

The liquidity of our banking operations is largely subject to the ability of individual customers and enterprises to which we extend credit, to make payments to us based on their outstanding commitments. Therefore liquidity could be negatively affected by unforeseeable losses due to problem loans.

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

**Capital Raising Activities** Allianz SE coordinates and executes external debt financing for instance through securities issues and other capital raising transactions for the Allianz Group in order to fund any liquidity need. We have access to commercial paper, medium-term notes and other credit facilities as additional sources of liquidity. As of December 31, 2007, we had access to unused, committed and long-term credit lines as a source of further liquidity with different banks.

## **Debt and Capital Funding**

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As of December 31, 2007, the majority of Allianz SE's external debt financing was made up of bonds and money market securities.

Our total certificated liabilities outstanding as of December 31, 2007 was 42,070 million (December 31, 2006: 54,922 million). Of these, 28,523 million are due within one year.<sup>(1)</sup> Our total participation certificates and subordinated liabilities outstanding as of December 31, 2007 were 14,824 million (December 31, 2006: 16,362 million). Thereof, 1,476 million are due within one year.<sup>(2)</sup>

In December 2003, Allianz SE (then Allianz AG) established a Medium Term Note (or MTN) program which was established for the purposes of external and internal debt issuance. The aggregate volume of debt issued by Allianz Finance B.V. and Allianz Finance II B.V. for the years ended December 31, 2007 and 2006 was 0.3 billion and 2.3 billion, respectively. As of December 31, 2007, Allianz SE had money market securities outstanding with a carrying value of 2,929 million.

On March 9, 2007 we redeemed 64.35% of the Basket Index Tracking Equity Linked Securities

<sup>(1)</sup> See Note 21 to our consolidated financial statements for further information.

<sup>(2)</sup> See Note 22 to our consolidated financial statements for further information. Additionally, see Note 43 to our consolidated financial statements for information regarding how we use certain derivatives to hedge our exposure to interest rate and foreign currency risk related to certificated and subordinated liabilities.



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( BITES ) exchangeable bond, representing 0.8 billion notional, issued in February 2005, with Munich Re shares.

Our use of commercial paper as a short-term financing instrument was increased by 2.0 billion to 2.9 billion in 2007 from 0.9 billion in 2006. Interest expense on commercial paper increased by 85.1% to 87.0 million ( 47.0 million) due to increasing interest rates in 2007 and higher average usage.

On April 2, 2007, Allianz Finance II B.V. issued USD 400 million of senior bonds, guaranteed by Allianz SE, with a floating coupon rate. The maturity of this bond is April 2, 2009.

On July 10, 2007, the Allianz Group completed the squeeze-out procedure for the outstanding AGF shares. In connection with this transaction, we completed a capital increase involving the issuance of 16.97 million new Allianz SE shares. The total cash component of the consideration for the acquisition of the outstanding AGF shares amounted to approximately 6.0 billion.

On January 14, 2008, the Allianz Group announced its intention to redeem the remaining 35.65% of the BITES index-linked bond at the final maturity date with Munich Re shares.<sup>(1)</sup>

Allianz SE s issued debt as of December 31, 2007 and 2006<sup>6)</sup>

	2007			2006		
	Nominal value mn	Carrying value mn	Interest expense mn	Nominal value mn	Carrying value mn	Interest expense mn
Senior bonds	4,306	4,279	209.3	6,232	6,195	258.9
Subordinated bonds	7,043	6,853	407.1	7,079	6,883	404.6
Exchangeable bonds	450	450	8.3	1,262	1,262	14.8
<b>Total</b>	<b>11,799</b>	<b>11,582</b>	<b>624.7</b>	<b>14,573</b>	<b>14,340</b>	<b>678.3</b>

<sup>(1)</sup> Bonds and exchangeable bonds issued or guaranteed by Allianz SE in the capital market, presented at nominal and carrying values. Excludes 85.1 mn of participation certificates at each December 31, 2007 and 2006, with interest expense of 16.2 mn and 6.2 mn, respectively.

*Certificated liabilities and subordinated bonds<sup>(1)</sup>*

*by maturity Overview as of December 31, 2007*

*in mn*

(1) Bonds and exchangeable bonds issued or guaranteed by Allianz SE in the capital market, presented at carrying values. Excludes 85.1 mn of participation certificates.

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(1) See Note 52 to our consolidated financial statements for further information on this early redemption.

**Table of Contents****Allianz SE Issued Debt Outstanding as of December 31, 2007<sup>(1)</sup>**

The following table describes Allianz SE's issued debt outstanding as of December 31, 2007 at nominal values. For further information see Notes 21 and 22 to our consolidated financial statements.

	<b>Interest expense in 2007</b>
<b>1. Senior bonds</b>	
<b>5.0% bond issued by Allianz Finance B.V., Amsterdam</b>	
Volume	1.6 bn
Year of issue	1998
Maturity date	3/25/2008
ISIN	DE 000 230 600 8
Interest expense	<b>85.0 mn</b>
<b>Floating coupon rate bond issued by Allianz Finance II B.V., Amsterdam</b>	
Volume	USD 0.4 bn
Year of issue	2007
Maturity date	4/2/2009
SIN	
ISIN	
Interest expense	<b>11.5 mn</b>
<b>5.625% bond issued by Allianz Finance II B.V., Amsterdam</b>	
Volume	0.9 bn
Year of issue	2002
Maturity date	11/29/2012
ISIN	XS 015 879 238 1
Interest expense	<b>51.2 mn</b>
<b>4.00% bond issued by Allianz Finance B.V., Amsterdam</b>	
Volume	1.5 bn
Year of issue	2006
Maturity date	11/23/2016
ISIN	XS 027 588 026 7
Interest expense	<b>61.6 mn</b>
<b>Total interest expense for senior bonds</b>	<b>209.3 mn</b>
<b>2. Subordinated bonds</b>	
<b>6.125% bond issued by Allianz Finance II B. V., Amsterdam</b>	
Volume	2 bn
Year of issue	2002
Maturity date	5/31/2022
ISIN	XS 014 888 756 4
Interest expense	<b>120.5 mn</b>
<b>6.5% bond issued by Allianz Finance II B. V., Amsterdam</b>	
Volume	1 bn
Year of issue	2002
Maturity date	1/13/2025
SIN	377 799
ISIN	XS 015 952 750 5
Interest expense	<b>65.9 mn</b>
<b>7.25% bond issued by Allianz Finance II B. V., Amsterdam</b>	
Volume	USD 0.5 bn
Year of issue	2002
Maturity date	Perpetual Bond
ISIN	XS 015 915 072 0
Interest expense	<b>27.8 mn</b>
	<b>Interest expense in 2007</b>

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**5.5% bond issued by Allianz SE**

Volume	1.5 bn	
Year of issue	2004	
Maturity date	Perpetual Bond	
ISIN	XS 018 716 232 5	
Interest expense		<b>84.0 mn</b>

**4.375% bond issued by Allianz Finance II B. V., Amsterdam**

Volume	1.4 bn	
Year of issue	2005	
Maturity date	Perpetual Bond	
ISIN	XS 021 163 783 9	
Interest expense		<b>62.9 mn</b>

**5.375% bond issued by Allianz Finance II B. V., Amsterdam**

Volume	0.8 bn	
Year of issue	2006	
Maturity date	Perpetual Bond	
ISIN	DE000A0GNPZ3	
Interest expense		<b>46.0 mn</b>

**Total interest expense for subordinated bonds 407.1 mn**

**3. Exchangeable bonds**

**0.75% Basket Index Tracking Equity Linked Securities (BITES) issued by Allianz Finance II B.V., Amsterdam**

Underlying	DAX®	
Volume	0.5 bn	
Year of issue	2005	
Maturity date	2/18/2008	
ISIN	XS 021 157 635 9	
Interest expense		<b>8.3 mn</b>

**Total interest expense for exchangeable bonds 8.3 mn**

**4. Participation certificates**

**Allianz SE participation certificate**

Volume	85.1 mn	
ISIN	DE 000 840 405 4	
Interest expense		16.2 mn

**Total interest expense for participation certificates 16.2 mn**

**5. Issues that matured in 2007**

**5.75% bond issued by Allianz Finance B.V., Amsterdam**

Volume	1.1 bn	
Year of issue	1997/2000	
Maturity date	7/30/2007	
ISIN	DE 000 194 000 5	
Interest expense		<b>37.0 mn</b>

**4.625% bond issued by Allianz Finance II B.V., Amsterdam**

Volume	1.1 bn	
Year of issue	2002	
Maturity date	11/29/2007	
ISIN	XS 015 878 835 5	
Interest expense		<b>47.9 mn</b>

**Total interest expense for matured issues 84.9 mn**

**Total interest expense 725.8 mn**

(1) Bonds and exchangeable bonds issued or guaranteed by Allianz SE in the capital market.

**Table of Contents****Capital Requirements**

Certain of the operating entities within the Allianz Group are subject to legal restrictions on the amount of dividends they can pay to their shareholders. Furthermore, regulators impose minimum capital rules on the level of both the Allianz Group's operating entities and the Allianz Group as a whole. See Note 23 to our consolidated financial statements for more information on our capital requirements.

**Allianz Group Consolidated Cash Flows**

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

*in mn*

(1) Includes effect of exchange rate changes on cash and cash equivalents of (115) mn, (78) mn and 72 mn in 2007, 2006 and 2005, respectively.

Positive net cash flow provided by operating activities was 12.7 billion in 2007, down 8.0 billion from a year ago. This decline resulted primarily from higher net outflows for collateralized refinancing activities in the banking segment.

Lower net cash outflow used in investing activities, at 4.6 billion in 2007 compared to 34.9 billion in the prior year, was mainly attributable to an increase in both available-for-sale investments and change in other loans and advances to banks and customers.

Net cash outflow provided by financing activities was down by 25.3 billion to 9.6 billion in 2007. The main contributing factors were lower net inflows from liabilities to banks and customers, as well as higher net outflows from certificated liabilities, participation certificates and subordinated liabilities. Additionally the cash flow for financing activities was affected by higher outflows from transactions between equityholders (mainly AGF).

Overall, cash and cash equivalents decreased by 1.7 billion to 31.3 billion as of December 31, 2007.

**Cash and cash equivalents**

<b>As of December 31,</b>	<b>2007</b>	<b>2006</b>
	<b>mn</b>	<b>mn</b>
Balances with banks payable on demand	23,848	26,915
Balances with central banks	6,301	4,945

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Cash on hand	918	919
Treasury bills, discounted treasury notes, similar treasury securities and checks	264	224
Bills of exchange	6	28
<b>Total</b>	<b>31,337</b>	<b>33,031</b>

The Allianz Group holds cash and cash equivalents in more than 30 different currencies, although such cash and cash equivalents are held primarily in Euros, U.S. Dollars and Swiss Francs.<sup>(1)</sup>

<sup>(1)</sup> See Note 6 to our consolidated financial statements for additional information on the Allianz Group's cash and cash equivalents.

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**Investment Portfolio Impairments, Depreciation and Unrealized Losses**

For information concerning the valuation of available-for-sale securities and held-to-maturity securities, see Critical Accounting Policies and Estimates Fair Values of Financial Assets and Liabilities.

**Impairment Charges and Depreciation**

For the year ended December 31, 2007, net realized gains, losses totaled 6,548 million, of which 2,290 million related to realized losses. Of the total amount of realized losses in 2007, 2,031 million related to available-for-sale securities, 93 million related to investments in joint ventures, 120 million related to loans to banks and customers, and 46 million to real estate held for investment. Net impairments totaled 1,272 million, of which 19 million were reversal of net impairments. Of the total amount of net impairments 1,230 million related to available-for-sale securities, 10 million related to investments in associates and joint ventures and 51 million related to real estate held for investments. Of the available-for-sale net impairments we recorded in 2007, 1,155 million related to equity securities and 75 million to debt securities.

For the year ended December 31, 2006, net realized gains, losses totaled 6,151 million, of which 1,344 million related to realized losses. Of the total amount of realized losses in 2006, 1,137 million related to available-for-sale securities, 15 million related to investments in joint ventures, 57 million related to loans to banks and customers and 135 million to real estate held for investment. Net impairments totaled 775 million, of which 82 million were reversal of net impairments. Of the total amount of net impairments 586 million related to available-for-sale securities, 7 million related to held to maturity investments, 12 million related to investments in associates and joint ventures and 172 million related to real estate held for investments. Of the available-for-sale net impairments we recorded in 2006, 479 million related to equity securities and 105 million to debt securities.

**Unrealized Losses**

As of December 31, 2007, unrealized losses from available-for-sale securities totaled 4,711 million, of which 467 million were attributable to equity securities, 2,549 million to corporate bonds, 1,591 million to government bonds and 104 million to other securities.

As of December 31, 2006, unrealized losses from available-for-sale securities totaled 2,114 million, of which 159 million were attributable to equity securities, 862 million to corporate bonds, 1,075 million to government bonds and 18 million to other securities.

The following tables set forth further details regarding the duration and amount below amortized cost of the Allianz Group's unrealized loss positions for equity securities and debt securities as of December 31, 2007 and 2006, respectively. The length of time criterion reflects the period of time over which a security had continually been in the actual percentage decline category it was in on December 31, 2007 and December 31, 2006, respectively. We believe the following tables provide meaningful disclosure, as they capture the actual percentage decline category and related time period applicable at December 31, 2007 and December 31, 2006, respectively.

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An equity security is considered to be impaired if there is objective evidence that the cost of the equity security may not be recovered. IAS 39 revised requires that a significant or prolonged decline in the fair value of an equity security below cost is considered to be objective evidence of impairment. In addition to the existing qualitative criteria, the Allianz Group established new quantitative impairment criteria for equity securities to define significant or prolonged decline. To satisfy the significant criterion, the Allianz Group has established a policy that an equity security is considered impaired if the fair value is below the weighted-average cost by more than 20%. To satisfy the prolonged criterion, the Allianz Group established a policy that an equity security is considered impaired if the fair value is below the weighted-average cost for greater than nine months. Each of these policies is applied independently at the subsidiary level.



**Table of Contents****Equity Securities Aging Table: Duration and Amount of Unrealized Losses as of December 31, 2007**

	0-6 months mn	6-9 months mn	>9 months mn	Total mn
<b>Less than 20%</b>				
Market Value	7,150	52	82	7,284
Amortized Cost	7,549	61	91	7,701
Unrealized Loss	(399)	(9)	(9)	(417)
<b>20% to 50%</b>				
Market Value	159			159
Amortized Cost	207			207
Unrealized Loss	(48)			(48)
<b>Greater than 50%</b>				
Market Value	37			37
Amortized Cost	39			39
Unrealized Loss	(2)			(2)
<b>Total</b>				
Market Value	7,346	52	82	7,480
Amortized Cost	7,795	61	91	7,947
Unrealized Loss	(449)	(9)	(9)	(467)

**Debt Securities Aging Table: Duration and Amount of Unrealized Losses as of December 31, 2007**

	0-6 months mn	6-12 months mn	>12 months mn	Total mn
<b>Less than 20%</b>				
Market Value	41,695	33,829	46,137	121,661
Amortized Cost	42,257	35,141	48,453	125,851
Unrealized Loss	(562)	(1,321)	(2,316)	(4,190)
<b>20% to 50%</b>				
Market Value	14	70		84
Amortized Cost	20	99		119
Unrealized Loss	(6)	(29)		(35)
<b>Greater than 50%</b>				
Market Value	11			11
Amortized Cost	30			30
Unrealized Loss	(19)			(19)
<b>Total</b>				
Market Value	41,720	33,899	46,137	121,756
Amortized Cost	42,307	35,240	48,453	126,000
Unrealized Loss	(587)	(1,341)	(2,316)	(4,244)

**Table of Contents****Equity Securities Aging Table: Duration and Amount of Unrealized Losses as of December 31, 2006**

	0-6 months mn	6-9 months mn	>9 months mn	Total mn
<b>Less than 20%</b>				
Market Value	3,327	66	79	3,472
Amortized Cost	3,416	76	84	3,576
Unrealized Loss	(89)	(10)	(5)	(104)
<b>20% to 50%</b>				
Market Value	135			135
Amortized Cost	190			190
Unrealized Loss	(55)			(55)
<b>Greater than 50%</b>				
Market Value				
Amortized Cost				
Unrealized Loss				
<b>Total</b>				
Market Value	3,462	66	79	3,607
Amortized Cost	3,606	76	84	3,766
Unrealized Loss	(144)	(10)	(5)	(159)

**Debt Securities Aging Table: Duration and Amount of Unrealized Losses as of December 31, 2006**

	0-6 months mn	6-12 months mn	>12 months mn	Total mn
<b>Less than 20%</b>				
Market Value	50,459	25,509	22,927	98,895
Amortized Cost	50,995	26,144	23,704	100,843
Unrealized Loss	(536)	(635)	(777)	(1,948)
<b>20% to 50%</b>				
Market Value			24	24
Amortized Cost			31	31
Unrealized Loss			(7)	(7)
<b>Greater than 50%</b>				
Market Value				
Amortized Cost				
Unrealized Loss				
<b>Total</b>				
Market Value	50,459	25,509	22,951	98,919
Amortized Cost	50,995	26,144	23,735	100,784
Unrealized Loss	(536)	(635)	(784)	(1,955)

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### **Reversals of Impairment**

Pursuant to IAS 39 revised, we no longer record reversals of impairment in our consolidated income statement for available-for-sale equity securities.

For fixed income securities, if, in a subsequent period, the amount of the impairment previously recorded on a security decreases and the decrease can be objectively related to an event occurring after the impairment, such as an improvement in the debtor's credit rating, the impairment is reversed through other income for investments in the Allianz Group's consolidated income statement. Such reversals do not result in a carrying amount of a security that exceeds what would have been, had the impairment not been recorded, at the date of the impairment is reversed. For the years ended December 31, 2007, 2006 and 2005 we recorded reversals of impairments of \$13 million (available-for-sale securities: \$13 million; held-to-maturity securities: \$0 million), \$2 million (available-for-sale securities: \$1 million; held-to-maturity securities: \$1 million) and \$6 million (available-for-sale securities: \$3 million; held-to-maturity securities: \$3 million), respectively.

### **Tabular Disclosure of Contractual Obligations**

The table sets forth the Allianz Group's contractual obligations as of December 31, 2007. Contractual obligations do not include contingent liabilities or commitments and only transactions with parties outside the Allianz Group are considered.

The table includes only liabilities that represent fixed and determinable amounts. The table excludes interest on floating rate long-term debt obligations and interest on money market securities, as the contractual interest rate on floating rate interest is not fixed and determinable. The amount and timing of

interest on money market securities is not fixed and determinable since these instruments have a daily maturity. For further information, see Notes 21 and 22 to our consolidated financial statements.

Furthermore, reserves for insurance and investment contracts presented in the table include contracts where the timing and amount of payments are considered fixed and determinable and contracts which have no specified maturity dates and may or may not result in a payment to the contract holder depending on mortality and morbidity experience and the incidence of surrenders, lapses, or maturities. For contracts which do not have payments that are fixed and determinable, the Allianz Group has made assumptions to estimate the undiscounted cash flows of contractual policy benefits including mortality, morbidity, interest crediting rates, policyholder participation in profits, and future lapse rates. These assumptions represent current best estimates, and may differ from the estimates originally used to establish the reserves for insurance and investment contracts as a result of the lock-in of assumptions on the issue dates of the contracts as required by the Allianz Group's established accounting policy. For further information, see Note 2 to our consolidated financial statements. Due to the uncertainty of the assumptions used, the amount presented could be materially different from the actual incurred payments in future periods. Furthermore, these amounts do not include premiums and fees expected to be received, investment income earned, expenses incurred to parties other than the policyholder such as agents, or administrative expenses. In addition, these amounts are presented net of reinsurance expected to be received as a result of these cash flows. The amounts presented in this table are undiscounted and therefore exceed the reserves for insurance and investment contracts presented in the consolidated balance sheet. For further information on reserves for insurance and investment contracts, see Note 18 to our consolidated financial statements.



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As of December 31, 2007, our income tax obligations amounted to 2,563 million. Thereof 1,925 million we expect to pay within the twelve months after the balance sheet date. For the remaining amount of 638 million an estimate of the timing of cash outflows is not reasonably possible. Our income tax obligations are not included in the below table.

	Payments Due By Period at December 31, 2007				
	Total mn	Less than 1 Year mn	1-3 Years mn	3-5 Years mn	More than 5 Years mn
Long-term debt obligations <sup>(1)</sup>	56,894	29,999	7,803	4,387	14,705
Interest on long-term debt obligations <sup>(2)</sup>	1,339	519	260	120	440
Operating lease obligations <sup>(3)</sup>	3,652	567	807	647	1,631
Purchase obligations <sup>(4)</sup>	855	292	185	109	269
Liabilities to banks and customers <sup>(5)</sup>	336,494	321,464	8,044	2,553	4,433
Reserves for insurance and investment contracts	848,180	33,207	62,686	61,275	691,012
Reserves for loss and loss adjustment expenses <sup>(6)</sup>	56,943	16,967	15,145	8,040	16,791
<b>Total contractual obligations</b>	<b>1,304,357</b>	<b>403,015</b>	<b>94,930</b>	<b>77,131</b>	<b>729,281</b>

(1) For further information, see Notes 21 and 22 to our consolidated financial statements.

(2) Amounts included in the table reflect estimates of interest on fixed rate long-term debt obligations to be made to lenders based upon the contractually fixed interest rates.

(3) The amount of 3,652 million is gross of 120 million related to subleases, which represent cash inflow to the Allianz Group.

(4) Purchase obligations only include transactions related to goods and services; purchase obligations for financial instruments are excluded.

(5) Liabilities to banks and customers include 11,204 million and 60,443 million of payables on demand, respectively. For further information, see Note 15 to our consolidated financial statements.

(6) Comprise reserves for loss and loss adjustment expenses from our property-casualty insurance operations. These assumptions represent current best estimates and may differ from estimates utilized to establish the reserves. Due to the uncertainty of the assumptions used, the amounts presented could be materially different from the actual incurred payments in future periods. The amounts presented in the above table are gross of reinsurance ceded. The corresponding amounts, net of reinsurance ceded, are 14,533 million, 12,769 million, 7,164 million and 14,211 million for the periods less than 1 year, 1-3 years, 3-5 years and more than 5 years, respectively. For further information on reserves for loss and loss adjustment expenses, see Information on the Company Property-Casualty Insurance Reserves and Note 17 to our consolidated financial statements.

**Recent and Expected Developments****Economic Outlook****Increased uncertainty**

Global economic growth is expected to be less buoyant in 2008 than in previous years. The industrialized countries in particular are likely to see growth down by around half a percentage point on 2007. However, growth in emerging market economies should decline to a lesser extent. Financial markets will not return to calmer waters until uncertainty is dispelled about the nature of the economic risks originating from the U.S. housing crisis. Monetary policy in Europe and the U.S. will then also need to confront the looming risk of inflation.

**Weaker economic growth**

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Our economists forecast global economic growth of more than 3% in 2008. Although around half a percentage point less than in 2007, this is still robust growth. We expect this pace to be set by the emerging markets, which we estimate will grow at

6.5%, only slightly less than 2007 (2006: 7%). We expect expansion in industrialized countries to be much more subdued than in 2007, at 2% (2006: 2.4%).

Asia will again be the most dynamic region with forecast growth of 8%. We expect that China will lead the way with growth of just over 10% (2006: 11.5%), with a modest slowdown welcome here in order to prevent the economy from overheating. India is estimated to take second place with growth of 8%, approximately half a percentage point below 2007. The other emerging markets in Asia are not expected to grow quite as strongly this year as in 2007. Expansion in Latin America and Eastern Europe in 2008 is expected to be roughly a percentage point below the corresponding figure for 2007.

Overall, economic momentum in industrialized countries at almost 2% will likely be more subdued than in 2007. Our forecast for Japan is 1.5% (2006: 2.1%), for Germany and the euro zone about 1.8%. In the case of Germany this is a significant slowdown compared to 2.5% growth in 2007. In the

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U.S. we also expect rather modest growth of almost 2% in the shadow of the housing crisis. U.S. growth began to slow in 2007, coming in at 2.2%. The weak U.S. Dollar is expected to boost U.S. exports in 2008 and, together with the expansive monetary and fiscal policy, to bolster the economy. At the same time, falling house prices are likely to dampen consumer spending, eliminating any significant boost from the consumption side.

The many uncertainties will also cast a shadow over the financial markets. However, we expect the economy to pick up again in the second half of the year, buoying equity prices. Interest rates will probably rise only moderately, especially as inflation should fall again in the second half of 2008. The U.S. Dollar will likely recover from its record lows against the euro during the year.

### **Not an easy environment for financial services providers**

The aging of society is happening regardless of the economic uncertainties. The long-term fundamentals of the Life/Health segment remain intact. Private pension schemes remain important and are becoming ever more vital for the general public. In contrast to many pension insurance systems, most health insurance schemes are still faced with fundamental reform. Rising healthcare costs, which

can scarcely be financed through the common pay-as-you-go-based systems, will increasingly have to be paid privately. This gives rise to challenges and opportunities for private healthcare insurers.

Pensions should be based on more than one pillar, both now and in the future. Many countries are reorganizing their systems accordingly while building up capital for future pensions. This form of private financing is also increasingly being adopted in booming Asia, providing excellent business opportunities for asset managers. In the ageing societies of Europe and the U.S. the prospects for growth in the fund management sector remain intact.

In the Property-Casualty segment there are opportunities for expansion due to rises in income and assets in emerging markets. However, in established markets competition for market share is intense, and our demand for profitability limits growth.

Banks will feel the consequences of the U.S. housing crisis in 2008 as well. However, the improved economic outlook for the second half of the year should give a renewed impetus to business. On the other hand a flat interest-rate curve and the generally rather modest prospects for growth indicate only a slight upwards trend.

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### **ITEM 6. Directors, Senior Management and Employees**

#### **Corporate Governance**

##### **General**

Allianz SE is a Germany based stock corporation in the form of a European Company (Societas Europaea or SE). Allianz SE is subject to specific provisions regarding the SE (such as the Council Regulation (EC) 2157/2001 ( SE-Regulation ) and the German Act on the SE-Implementation (SE-Ausführungsgesetz, SEAG)). However, to a large extent Allianz SE is treated as a German stock corporation and therefore governed by the general provisions of German corporate law (in particular the German Stock Corporation Act, Aktiengesetz). The corporate bodies of Allianz SE are the Board of Management (Vorstand), the Supervisory Board (Aufsichtsrat) and the General Meeting (Hauptversammlung). The Board of Management and the Supervisory Board are separate and no individual may serve simultaneously as a member of both boards.

The Board of Management is responsible for managing the day-to-day business of Allianz SE in accordance with the European SE-Regulation, the German Stock Corporation Act, the Statutes (Satzung) of Allianz SE as well as its internal rules of procedure (Geschäftsordnung). The Board of Management represents Allianz SE in its dealings with third parties. The Supervisory Board oversees the management. It is also responsible for appointing and removing the members of the Board of Management and representing Allianz SE in its transactions with members of the Board of Management. The Supervisory Board is not permitted to make management decisions, but as established by the Statutes or determined by the Supervisory Board, certain types of transactions may require the Supervisory Board's prior consent.

In carrying out their duties, the members of the Board of Management and the Supervisory Board must exercise the standard of care of a diligent and prudent business person. In complying with this standard of care, the members of both boards must take into account a broad range of considerations in their decisions, including the interests of Allianz SE, its shareholders, employees and creditors. Additionally, the Board of Management is required to respect the rights of shareholders to equal treatment and equal information.

Members of either board who violate their duties may be personally liable for damages to Allianz SE. The company may only waive these damages or settle these claims if at least three years have passed from the date of their origination and if the General Meeting approves the waiver or settlement with a simple majority. No approval of a waiver or settlement by the General Meeting will be effective if opposing shareholders who hold, in the aggregate, one-tenth or more of the share capital of Allianz SE have their opposition formally noted in the minutes recorded by a German notary. As a general rule under German law, a shareholder has no direct recourse against the members of the Board of Management or the Supervisory Board in the event that they are believed to have breached a duty to Allianz SE.

The Supervisory Board has comprehensive monitoring functions. To ensure that these functions are carried out properly, the Board of Management must regularly report to the Supervisory Board with regard to current business operations and future business planning (including financial, investment and personnel planning). The Supervisory Board is also entitled to request at any time special reports regarding the affairs of Allianz SE, the legal or business relations of Allianz SE to its subsidiaries and the affairs of any of its subsidiaries to the extent these may have a significant impact on Allianz SE.



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The Board of Management is required to ensure that adequate risk management and internal monitoring systems exist within Allianz SE to detect risks relating to Allianz Group's business activities at the earliest possible stage.

Upon the transformation of Allianz into an SE in 2006, Allianz SE was required to establish an SE works council that represents the European Allianz employees. The Allianz SE works council consists of employee representatives from up to 26 European countries. The SE works council, in simple terms, is a company-wide representative body for the European Allianz employees with special responsibility for cross-border matters within Europe. In particular, the SE works council has the right to be informed and heard with regard to all cross-border matters. In addition, it has the right to initiate cross-border measures in the areas of equal opportunity, worker safety and health protection data protection and basic and further training. Details of the SE works council are contained in the Agreement concerning the Participation of Employees in Allianz SE ( Employee Involvement Agreement ) discussed below.

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### **Applicable Corporate Governance Rules**

Principal sources of enacted corporate governance standards for a European Company with its registered seat in Germany are the SE-Regulation, the German Act on the SE-Implementation (SE-Ausführungsgesetz, SEAG), the German Act on Employee Participation in a SE (SE-Beteiligungsgesetz, SEBG) and the German Stock Corporation Act (Mitbestimmungsgesetz). The German Co-determination Act, however, does not apply to Allianz SE. Instead, the participation of employees of Allianz on the Supervisory Board of Allianz SE is governed by the Employee Involvement Agreement of September 20, 2006, which was concluded between the Special Negotiating Body of the employees and the managements of Allianz SE and RAS within the employee involvement procedures initiated in connection with the formation of Allianz SE. The Employee Involvement Agreement to a large extent follows the statutory default provisions provided for in the German Act on Employee Participation in a SE (SE-Beteiligungsgesetz, SEBG).

In addition, the German Corporate Governance Code (Deutscher Corporate Governance Kodex, Code ), originally published by the German Ministry of Justice (Bundesministerium der Justiz) in 2002, presents essential statutory regulations for the corporate governance of German listed companies. The aim of the Code is to make the German corporate governance rules related to German listed stock corporations transparent for national and international investors. As an SE with registered office and listed in Germany, Allianz SE is subject to the Code.

The Code comprises a set of best-practice guidelines. In addition to restating various corporate governance-related provisions of German law, the Code contains recommendations , which reflect widely recognized standards of corporate governance. Listed companies can deviate from the recommendations, but are then required to disclose this annually. Furthermore, the Code contains suggestions , which incorporate additional standards for the sound and responsible management and supervision of a company. Companies can deviate from the Code s suggestions without disclosure. Topics covered by the German Corporate Governance Code include:

The composition and responsibilities of the Board of Management, the compensation of Board of Management members, and rules for avoiding and resolving conflicts of interest;

The composition and responsibilities of the Supervisory Board and committees of the Supervisory Board, the compensation of Supervisory Board members, and rules for avoiding and resolving conflicts of interest;

The relationship between the Board of Management and the Supervisory Board;

Transparency and disclosure in periodic reports; and

Reporting on, and auditing of, the company s annual financial statements.

Although the Code does not have the force of law, it has a legal basis through the declaration of compliance required by Section 161 of the German Stock Corporation Act, which entered into force in 2002 and requires that the Board of Management and the Supervisory Board of a listed company declare annually either

(i) that the company has complied, and does comply, with the recommendations set forth in the German Corporate Governance Code, or, alternatively,

(ii) which recommendations the company has not complied, or does not comply, with (so-called "comply or explain" system).

On December 20, 2007, the Board of Management and the Supervisory Board of Allianz SE issued the following Declaration of Compliance:

1. Allianz SE will comply with all recommendations made by the Government Commission on the German Corporate Governance Code (Code version as of 14 June 2007).

2. Since the last Declaration of Compliance as of 18 December 2006, which referred to the German Corporate Governance Code in its 12 June 2006 version, Allianz SE has complied with all recommendations made by the Government Commission on the German Corporate Governance Code then in force.

The Declaration of Compliance is also available on Allianz Group's website at [www.allianz.com/corporate-governance](http://www.allianz.com/corporate-governance). (Reference to this uniform resource locator or URL is made as an inactive textual reference for informational purposes only. The information found at this website is not incorporated by reference into this document.)

Furthermore, you will find a summary of significant ways in which our corporate governance practices differ from those required from domestic companies under the NYSE corporate governance

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standards on our website under [www.allianz.com/corporate-governance](http://www.allianz.com/corporate-governance). (Reference to this uniform resource locator or URL is made as an inactive textual reference for informational purposes only. The information found at this website is not incorporated by reference into this document.)

### **General Meeting**

General Meetings of the shareholders are called by the Board of Management. In exceptional cases, the Supervisory Board can call a General Meeting. Shareholders holding an aggregate of at least 5% of Allianz SE's issued share capital may request that a General Meeting be called. The right to participate in and vote at a General Meeting is only given to those shareholders who have timely notified Allianz SE of their attendance at the General Meeting and whose respective shares are registered in the share register.

### **Board of Management**

The Board of Management (Vorstand) of Allianz SE currently consists of eleven members, and is multinationally staffed, in keeping with Allianz Group's international orientation. It is responsible for the management of Allianz SE and the Group. The managerial tasks of the Board of Management are primarily to determine the strategic direction of and to manage the Group, and the planning, establishment and monitoring of a risk management system. The chairman of the Board of Management coordinates its work; he has a casting vote in case of a tie and a veto right against resolutions of the Board of Management.

Under the Statutes of Allianz SE, the Supervisory Board determines the size of the Board of Management, although it must have at least two members. The Statutes furthermore provide that Allianz SE may be legally represented by two members of the Board of Management or by one member of the Board of Management together with one person vested with a general power of attorney under German law (Prokurist). In addition, pursuant to a filing with the commercial register in Munich, Allianz SE may also be represented by two holders of a general power of attorney (Prokura). The Supervisory Board represents Allianz SE in connection with transactions between a member of the Board of Management and Allianz SE. To the extent that a Supervisory Board committee is entitled to decide on a specific matter in lieu of the Supervisory Board, the right of representing Allianz SE vis-à-vis the Board of Management in that matter can be transferred to the relevant Supervisory Board committee.

The Supervisory Board appoints the members of the Board of Management. The initial term of the members of the Board of Management is generally between three and five years. Under the Statutes of Allianz SE the term of the members of the Board of Management is limited to a maximum of five years. Each member may be reappointed or have his term extended by the Supervisory Board for one or more terms of up to five years each. As a general rule, the Supervisory Board limits the initial appointment or the reappointment of members of the Board of Management attaining the age of 60 to terms of one year. Members of the Board of Management must further resign from office at the end of the fiscal year in which they attain the age of 65. There is no share ownership requirement to qualify for or to remain a member of the Board of Management. The Supervisory Board may remove a member of the Board of Management prior to the expiration of his term for good cause, for example in the case of a serious breach of duty or a bona fide vote of no confidence by the General Meeting. A member of the Board of Management may not deal with, or vote on, matters relating to proposals, arrangements or contractual agreements between himself and Allianz SE and may be liable to Allianz SE if he has a material interest in any contractual agreement between Allianz SE and a third party which was not disclosed to, and approved by, the Supervisory Board. The Board of Management has adopted its own internal rules of procedure.

The Board of Management regularly reports to the Supervisory Board on the business of Allianz SE. According to the German Stock Corporation Act, the Board of Management requires the consent of the Supervisory Board to engage in certain transactions, primarily, certain

share capital measures.

Further, the Statutes of Allianz SE contain a catalogue of transactions requiring consent of the Supervisory Board, namely (i) acquisition of companies, participation in companies and parts of companies (except for financial investments), if in the individual case the market value, or in case of a lack of a market value, the book value reaches or exceeds 10% of the equity of the last consolidated balance sheet; or (ii) disposal of participations (except for financial investments) in a group company, to the extent that it leaves the circle of group companies by virtue of the disposal and if in the individual case the market value, or in case of lack of market value, the book value of the participation disposed of reaches or

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exceeds 10% of the equity of the last consolidated balance sheet; or (iii) entering into intercompany agreements (Unternehmensverträge); or (iv) development of new and abandonment of existing

business segments, to the extent such action is of material importance to the group. The Supervisory Board of Allianz SE may make further types of transactions contingent upon its approval.

The current members of the Board of Management of Allianz SE, their age as of December 31, 2007, their areas of responsibility, the year in which each member was first appointed, the year in which the term of each member expires, and their principal board memberships outside the Allianz Group, respectively, are listed below.

Name	Age	Area of Responsibility	Year First Appointed	Year Current Term Expires	Principal Outside Board Memberships
Michael Diekmann	53	Chairman of the Board of Management	1998	2011	Member of the Supervisory Boards of BASF SE, Linde AG (deputy chairman), Deutsche Lufthansa AG and Siemens AG (since January 24, 2008)
Dr. Paul Achleitner	51	Finance	2000	2009	Member of the Supervisory Boards of Bayer AG and RWE AG
Oliver Bäte	42	Chief Operating Officer	2008	2012	None
Clement B. Booth	53	Insurance Anglo, NAFTA Markets/Global Lines	2006	2010	None
Enrico Cucchiani	57	Insurance Europe I	2006	2010	Member of the board of directors of Pirelli & Co. S.p.A. and Unicredit S.p.A.
Dr. Joachim Faber	57	Asset Management Worldwide	2000	2009	Member of the Supervisory Board of Bayerische Börse AG
Dr. Helmut Perlet	60	Controlling, Reporting, Risk	1997	2008	Member of the Supervisory Board of GEA-Group AG
Dr. Gerhard Rupprecht	59	Insurance German Speaking Countries	1991	2008	Member of the Supervisory Boards of Fresenius SE and Heidelberger Druckmaschinen AG
Jean-Philippe Thierry	59	Insurance Europe II	2006	2008	Member of the boards of directors of Société Financière et Foncière de participation, Baron Philippe de Rothschild, Compagnie Financière Saint-Honoré, Eurazeo, Paris Orléans and Pinault Printemps Redoute
Dr. Herbert Walter	54	Banking Worldwide	2003	2012	Member of the Supervisory Board of Deutsche Börse AG, E.ON Ruhrgas AG and the board of directors of Banco Popular Español S.A. and Banco BPI S.A.
Dr. Werner Zedelius	50	Insurance Growth Markets	2002	2009	Bajaj Allianz General Insurance Company Limited; Bajaj Allianz Life Insurance Company Limited

The following is a summary of the business experience of the current members of the Board of Management:

*Michael Diekmann:* Joined the Allianz Group in 1988. From 1996 to 1998 he was chief executive

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officer of Allianz Insurance Management Asia- Pacific Pte. Ltd., Singapore. He became a deputy member in October 1998 and a full member of the Board of Management of Allianz AG in March 2000. He was appointed as chairman of the Board of Management in April 2003.

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*Dr. Paul Achleitner:* Joined the Board of Management in January 2000. He was previously chairman of Goldman, Sachs & Co. oHG, Frankfurt/Main, Germany and a partner of Goldman Sachs Group from 1994 to 1999.

*Oliver Bäte:* Joined the Board of Management of Allianz SE on January 1, 2008. He worked with McKinsey&Company from 1993 on. At McKinsey&Company, he was head of the German Insurance Sector from 1998-2003, and director and head of the European Insurance and Asset Management Sector from 2003 to 2007.

*Clement B. Booth:* Joined the Board of Management on January 1, 2006. From 1999 to 2003, he was a member of the Board of Management of Munich Re and from 2003 to 2005 he was chairman and CEO of Aon Re International, London.

*Enrico Cucchiani:* Joined the Board of Management on January 1, 2006. From 1996, he has held several leading management positions within Lloyd Adriatico S.p.A., Trieste. He became CEO in 1998 and from 2001 to 2007 he was chairman of the board of directors of Lloyd Adriatico.

*Dr. Joachim Faber:* Joined the Allianz Group in 1997 after holding various positions at Citibank AG, Frankfurt/Main, Germany (1984-1992), including chairman of the Board of Management, and Citibank International PLC, London (1992-1997), including head of capital markets. He was a member of the Board of Management of Allianz Versicherung from 1997 to 1999 and became a member of the Board of Management in January 2000.

*Dr. Helmut Perlet:* Joined the Allianz Group in 1973. He has been head of the foreign tax department since 1981, head of corporate finance since 1990 and head of accounting and controlling since 1992. He became a deputy member in July 1997 and a full member of the Board of Management in January 2000.

*Dr. Gerhard Rupprecht:* Joined the Allianz Group in 1979. In January 1989, he became a deputy member, and in January 1991 a full member, and in October 1991 was appointed chairman, of the Board of Management of Allianz Leben. He became a member of the Board of Management in October 1991.

*Jean-Philippe Thierry:* Joined the Board of Management on January 1, 2006. Previously, he was Chairman and CEO of Athena Insurance (1985-1997) and CEO of Generali France (1998-2001). Since June 2001, he is Chairman and Chief Executive Officer of Assurances Générales de France.

*Dr. Herbert Walter:* Held various positions at Deutsche Bank AG since 1983, including chairman of the business segment Private & Business Clients and speaker of the Board of Management of Deutsche Bank 24. Since 2002, he has been a member of the Group Executive Committee of Deutsche Bank group as well as Global Head of Private & Business Clients. He became a member of the Board of Management on March 19, 2003, and became the Chairman of the Board of Management of Dresdner Bank AG effective March 25, 2003.

*Dr. Werner Zedelius:* Joined the Allianz Group in 1987. After various positions in branch offices and in the headquarters of Allianz AG, he was General Manager Finance and member of the board of directors of Cornhill Insurance PLC in London from 1996 until 1999. Dr. Zedelius



became a member of the Board of Management on January 1, 2002.

The members of the Board of Management may be contacted at the business address of Allianz SE.

### **Supervisory Board**

In accordance with the Statutes of Allianz SE, the Supervisory Board (Aufsichtsrat) of Allianz SE consists of twelve members, six of whom are shareholder representatives and six of whom are employee representatives. According to applicable law and the Statutes of Allianz SE the members of the Supervisory Board are appointed by the General Meeting, however, as to the appointment of the employee representatives, the General Meeting is bound to the proposals of the employees. There is no share ownership requirement to qualify for or remain a member of the Supervisory Board.

The first Supervisory Board of Allianz SE was appointed when the company became a European Company in October 2006. Its term ended at the close of the first ordinary General Meeting of Allianz SE on May 2, 2007. At the first ordinary General Meeting of Allianz SE, shareholders re-elected all members of the Supervisory Board who stood for reelection and appointed Peter Kossubek as an

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employee representative. The employee representatives are no longer representatives of the German employees only, but also representatives of employees of Allianz Group in certain other European countries. Among the employee representatives, there may also be representatives of the trade unions represented in the Allianz Group in Europe. The term of office of the members of the Supervisory Board of Allianz SE runs until the close of the General Meeting which resolves on the ratification of actions in respect of the forth financial year following the beginning of the term of office not counting the financial year in which the term of office begins, but in no case longer than six years. Repeated appointments are permitted.

As stipulated in the Employee Involvement Agreement concluded with the representatives of Allianz employees in September 2006, four of the six employees representatives on the Supervisory Board are from Germany (including one union representative), one is from France and one is from the UK. For all forthcoming Supervisory Boards of Allianz SE (from 2012 onward), the country distribution of the employee representatives will depend on the country distribution of the employees of the Allianz Group within the EU and the European Economic Area. The appointment of the employee representatives of the Supervisory Board will follow the respective national legal provisions of the countries of origin of such representatives. In case no such provisions exist, the appointment will be made by the SE Works Council which was established pursuant to the Employee Involvement Agreement.

The General Meeting may remove any Supervisory Board member it has elected without having been bound by a proposal for the election by a simple majority of the votes cast. As regards the removal of members of the Supervisory Board that have been elected in accordance with a proposal by the employees, the Employee Involvement Agreement provides for the application of the respective statutory framework for the removal enacted in the respective member states. In the event no such provisions exist, Section 37 of the German Act on Employee Participation in a SE (SE-Beteiligungsgesetz, SEBG) shall apply accordingly. Under such provision, the employee representatives from Germany may be removed by the General Meeting upon a respective request by (i) the works councils (Arbeitnehmervertretungen) that have formed the electoral college (Wahlgremium),

i.e., in the present case, Allianz SE's Group Works Council (Konzernbetriebsrat), with a 75% majority of the votes cast, or (ii), with respect to the Supervisory Board members proposed by a trade union, only such trade union. The General Meeting is bound by such request. In addition, any member of the Supervisory Board may resign by giving written notice to the Board of Management.

The Supervisory Board of Allianz SE has elected a chairman, who must be a shareholder representative, and two deputy chairpersons. The Supervisory Board of Allianz SE constitutes a quorum if all members are invited or requested to adopt a resolution and if either at least six members, among them the chairman, or at least nine members, participate in the resolution.

Except where a different majority is required by law or the Statutes of Allianz SE, the Supervisory Board acts by simple majority of the votes cast. In the case of a tie, the vote of the chairman or if he does not participate in the voting, the vote of the deputy chairperson (provided that the deputy chairperson is a shareholder representative) shall be decisive (casting vote). The Supervisory Board meets at least twice each half-year. During the financial year 2007, the Supervisory Board met in total six times. Its main functions are:

to monitor the management of Allianz SE;

to appoint the members of the Board of Management; and

to approve matters in areas where such approval is required by German law or by the Statutes or which the Supervisory Board has made generally or in the individual case subject to its approval. See Board of Management .

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In addition, Supervisory Boards of German insurance companies are tasked with the appointment of the external auditor.

In order to exercise its functions efficiently, the Supervisory Board has established a Standing Committee, an Audit Committee, a Personnel Committee a Risk Committee, and in December 2007, a Nomination Committee. The committees prepare the discussion and adoption of resolutions in the plenary session. Furthermore, in appropriate cases, authority to take decisions has been delegated

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to committees themselves. The establishment of a Mediation Committee is no longer required because the German Employee Co-determination Act, which provides for such a committee, does not apply to Allianz SE.

*Standing Committee.* The Standing Committee, which comprises the chairman of the Supervisory Board, and four additional members elected by the Supervisory Board (two members upon proposal of the shareholders representatives and two upon proposal of the employee representatives), may approve or disapprove certain transactions of Allianz SE to the extent that such transactions do not fall under the competency of any other committee or are not required to be decided by plenary meeting of the Supervisory Board. In particular, the Standing Committee is responsible for approving several loans in accordance with the German Stock Corporation Act, Board of Management resolutions on capital measures and on acquisition or disposal of treasury shares and certain acquisitions of companies or participations in companies. Furthermore, the Standing Committee examines the corporate governance of Allianz SE, drafts the declaration of compliance and examines the efficiency of the work of the Supervisory Board. In addition, it is responsible for amendments to the Statutes that only affect the wording, not the content. The Standing Committee held four meetings and three telephone conference calls in 2007. The members of the Standing Committee are Dr. Henning Schulte-Noelle as chairman, Dr. Gerhard Cromme, Dr. Franz B. Humer, Claudia Eggert-Lehmann and Rolf Zimmermann.

*Audit Committee.* The Audit Committee comprises five members elected by the Supervisory Board (three members upon proposal of the shareholders representatives and two upon proposal of the employee representatives). The Audit Committee prepares the decisions of the Supervisory Board about the Allianz Group's annual financial statements, the consolidated financial statements and the appointment of the auditors and ascertains the independence of the auditors. Furthermore, the Audit Committee assigns the mandate to the auditors, sets priorities for the audit and determines the compensation of the auditors. In addition, it examines the quarterly reports. After the end of the fiscal year, the Audit Committee examines the Allianz Group's

annual financial statements and the consolidated financial statements, examines the risk monitoring system, discusses the auditor's report with the auditors and deals with compliance topics. The Audit Committee held five meetings and one telephone conference call in 2007. The members of the Audit Committee are Dr. Franz B. Humer as chairman, Dr. Wulf H. Bernotat, Igor Landau, Jean-Jaques Cette and Jörg Reinbrecht.

*Personnel Committee.* The Personnel Committee consists of the chairman of the Supervisory Board and two other members elected by the Supervisory Board (one member upon proposal of the shareholders representatives and one upon proposal of the employee representatives). It prepares the appointment of members of the Board of Management and it represents the company before the members of the Management Board pursuant to § 112 of the German Stock Corporation Act. In addition, it attends to on-going personnel matters of the members of the Board of Management including their membership on boards of other companies and the payments they receive. The Personnel Committee held four meetings in 2007. The members of the Personnel Committee are Dr. Henning Schulte-Noelle as chairman, Dr. Gerhard Cromme and Claudia Eggert-Lehmann.

*Risk Committee.* The Risk Committee consists of five members elected by the Supervisory Board (three members upon proposal of the shareholders representatives and two upon proposal of the employee representatives). The Risk Committee was established in December 2006 by the newly constituted Supervisory Board of Allianz SE. The Risk Committee monitors the establishment and maintenance of an appropriate risk management and risk monitoring system as well as its organizational structure and ongoing development. The Risk Committee monitors whether the risk strategy is aligned with general business strategy, keeping itself informed about the general risk situation and special risk developments. The Committee also conducts a preliminary examination of special risk-related statements as part of the audit of annual financial statements and management reports, informing the Audit Committee about its findings. The Risk Committee held two meetings in 2007. The members of the Risk Committee are Dr. Henning Schulte-Noelle as chairman, Dr. Wulf H. Bernotat, Prof. Dr. Renate Köcher, Godfrey Robert Hayward and Peter Kossubek.

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*Nomination Committee.* The Nomination Committee was established in December 2007 and consists of the chairman of the Supervisory Board and two further shareholder representatives (elected by the shareholder representatives of the Supervisory Board). With the establishment of the Nomination Committee, Allianz SE is following a new recommendation of the German Corporate Governance Code to establish this type of committee. The Nomination Committee is responsible for drawing up selection criteria for

shareholder representatives on the Supervisory Board, seeking suitable candidates for the election of shareholder representatives to the Supervisory Board and proposing suitable candidates to the Supervisory Board for its election proposal to the General Meeting. The newly established Nomination Committee held no meetings in 2007. The members of the Nomination Committee are Dr. Henning Schulte-Noelle as chairman, Dr. Gerhard Cromme and Dr. Franz B. Humer.

The current members of the Supervisory Board of Allianz SE, their age as of December 31, 2007, their principal occupations, the year in which each member first served on the Supervisory Board, the year in which the current term of each member expires and their principal board memberships outside the Allianz Group, respectively, are as follows:

Name	Age	Principal Occupation	Year First Appointed	Principal Outside Board
				Memberships
Dr. Henning Schulte-Noelle, Chairman <sup>(1)</sup>	65	Former chairman of the Board of Management of Allianz AG	2003	Member of the Supervisory Boards of E.ON AG, Siemens AG (until January 24, 2008) and ThyssenKrupp AG
Dr. Wulf H. Bernotat <sup>(1)</sup>	59	Chairman of the Board of Management of E.ON AG	2003	Member of the Supervisory Boards of Metro AG and Bertelsmann AG
Jean-Jacques Cette <sup>(2)</sup>	51	Member of the AGF board of directors	2006	None
Dr. Gerhard Cromme <sup>(1)</sup>	64	Chairman of the Supervisory Board of ThyssenKrupp AG	2001	Member of the Supervisory Boards of ThyssenKrupp AG (chairman), Axel Springer AG, Siemens AG (chairman), and member of Board of Directors of Compagnie de Saint-Gobain S.A.
Claudia Eggert-Lehmann <sup>(2)</sup>	40	Employee, Dresdner Bank AG	2003	None
Godfrey Robert Hayward <sup>(2)</sup>	47	Employee, Allianz Cornhill, UK	2006	None
Dr. Franz B. Humer <sup>(1)</sup>	61	Chairman of the board of directors of F. Hoffmann-La Roche AG	2005	Member of the board of directors of DIAGEO plc.
Prof. Dr. Renate Köcher <sup>(1)</sup>	55	Chairperson Institut für Demoskopie, Allensbach	2003	Member of the Supervisory Boards of MAN AG, Infineon Technologies AG and BASF AG (until January 14, 2008)
Peter Kossubek <sup>(2)</sup>	53	Employee, Allianz Versicherungs-AG	2007	None
Igor Landau <sup>(1)</sup>	63	Member of the board of directors of Sanofi-Aventis S.A.	2005	Member of the Supervisory Boards of adidas AG (deputy chairman) and member of the boards of directors of HSBC France and Sanofi-Aventis S.A.
Jörg Reinbrecht <sup>(2)</sup>	50	Trade Union Secretary, ver.di, Germany	2006	Member of the Supervisory Board of SEB AG
Rolf Zimmermann <sup>(2)</sup>	54	Employee, Allianz Versicherungs-AG	2006	None

<sup>(1)</sup> Shareholder Representative

<sup>(2)</sup> Employee Representative

The members of the Supervisory Board may be contacted at the business address of Allianz SE.

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The remuneration of the Board of Management consists of fixed and variable pay components and it is designed to support sustained value-oriented management performance. To achieve this objective a significant portion of overall remuneration is variable. It is a three tier incentive system which includes short-term and mid-term cash bonus plans and equity related long-term incentives. The overall remuneration of individual Board Members is dependent upon their delegated role and accountability, individual performance, achievement of the financial goals of the Allianz Group and of the respective business unit, as well as the evolution of the Allianz SE share price. The remuneration of the Board of Management is set by the Personnel Committee of the Supervisory Board. The Personnel Committee is committed to a remuneration policy that is aligned to the interests of shareholders taking into consideration the competitive environment and the global market place in which the company operates. The structure of remuneration is regularly reviewed and discussed at the Supervisory Board.

The remuneration components of the Board of Management are described below:

*Fixed salary*

Base salary is a fixed amount which is normally reviewed every 3 years and reflects the individual's role as well as the market context. The salary is paid in twelve monthly installments. The 2007 base pay levels of the Board of Management are shown on page 150.

*Performance-based remuneration*

To achieve an appropriate balance of components linked to short term financial performance and those linked to long-term success and shareholder value creation a three-tier incentive system has been put in place. An overview is set out below:

*Three-tier incentive system*

<b>Annual bonus (short-term) Goal category</b>	<b>Three-year bonus (mid-term) Goal category</b>	<b>Equity-related remuneration (long-term) Goal category</b>
Allianz Group financial goals	EVA-objectives over three-year performance period	Sustained increase in share price
Business division financial goals	Allianz Group financial goals and strategic objectives	

Individual objectives

Business  
division  
financial goals  
and strategic  
objectives

Individual  
strategic  
objectives

*Short-Term and Mid-Term bonus plans*

All members of the Board of Management are eligible to participate in the annual (short-term) and three-year (mid-term) bonus plans.

*Annual bonus*

The annual bonus is dependent on the achievement of annual goals. These include financial targets set at Group or business division level as well as personal objectives. Performance against these goals is assessed at the end of the annual performance period with the amount of bonus payable depending on the extent to which the targets and objectives have been met. The Personnel Committee sets the target bonus level for members of the Board of Management. For 2007 the target bonus amounts to 150.0% of base salary. The maximum achievement is set at 165.0% of target performance.

Details of the annual bonus amounts paid to each member of the Board of Management are shown in the Remuneration table on page 150.

*Three-year bonus*

The three-year or mid-term bonus plan was designed to make the continuous increase in value of



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the company a priority concern of executive management across the Group. Plan participants are the Board of Management and approximately 100 top managers globally. Bonus payouts under the plan depend on the attainment of financial and strategic goals over the defined three-year performance period. The mid-term bonus is granted at the end of the defined three year performance period and the amount is based on the overall achievement for the three years. Certain exceptions apply, for example in the event of retirement. Although an interim assessment of the objectives takes place once a year, these projections are only provisional and informative in nature. Mid-term bonus target levels for members of the Board of Management are set by the Personnel Committee. For the 2007 – 2009 plan, the target bonus amounts to approximately 128.0% of base salary over the three-year performance period. The maximum achievement is set at 140.0% of target performance. Details of the mid-term bonus amounts accrued for each member of the Board of Management are shown on page 150.

In exceptional circumstances, the Personnel Committee can decide to award bonuses moderately above maximum level. It can also decide to reduce bonuses where warranted and in exceptional circumstances could reduce them to zero. Any material exercise of discretion outside the maximum range will be explained in the Remuneration Report.

### ***Equity-related remuneration***

The Board of Management and approximately 800 top managers and high performing future leaders worldwide participate in the Group Equity Incentives (GEI) program. This consists of virtual stock options, known as Stock Appreciation Rights (SAR) and virtual stock awards, known as Restricted Stock Units (RSU).

The number of SAR and RSU awarded to the members of the Board of Management is dependent upon the discretionary decision of the Supervisory Board is based on their designated role and the performance of the Group and their respective business division. The value of the GEI program granted in any year cannot exceed the sum of base salary and the annual target bonus.

The SAR have a vesting period of two years and subject to the performance conditions mentioned below, they may be exercised during the following five years as set out in the rules of the plan. They lapse unconditionally at the end of the seven year term. To align the interests of management with those of shareholders the Personnel Committee has set two performance conditions for the exercise of the SAR. These are directly linked to the performance of Allianz SE stock. The conditions consist of a relative measure linked to the Dow Jones EURO STOXX Price Index (600) and an absolute measure requiring a set increase in the price of Allianz SE stock over the period between grant and exercise. Also, the program has a cap of 150.0% of the grant price on the potential payout from SAR exercises in recognition of the leverage profile. To encourage long term value creation the RSU have a vesting period of five years, at the end of which they are automatically released as set out in the rules of the plan.

### ***Miscellaneous***

The members of the Board of Management also receive perquisites. These consist of contributions to accident and liability insurances and the provision of a company car and, where applicable, a travel allowance for non-resident Board Members. Each member of the Board of Management is responsible for income tax on these perquisites. For 2007 the total value of the perquisites amounted to 0.5 million.

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The following table sets out the total fixed remuneration, perquisites and annual bonus. For reasons of transparency, the proportional bonus accrued for each member of the Board of Management of Allianz SE for the first year of the three-year bonus plan 2007 – 2009 is shown in the remuneration table:

Board of Management	Fixed salary		Perquisites <sup>(1)</sup>		Total non-performance based remuneration		Annual bonus <sup>(2)</sup>		Three-year bonus <sup>(3)</sup>	
	Change from previous year				Change from previous year		Change from previous year		Change from previous year	
	2007 thou	year %	2007 thou	2007 thou	year %	2007 thou	year %	2007 thou	year %	
Michael Diekmann (Chairman)	1,050		24	1,074	(1.5)	2,046	(8.0)	472	3.1	
Dr. Paul Achleitner	700		13	713	(1.7)	1,416	(10.1)	310	0.6	
Clement B. Booth	700		78	778	4.6	1,218	(17.5)	318	(7.8)	
Jan R. Carendi <sup>(4)</sup>	700		16	716	0.1	1,102	(15.7)	255	(10.5)	
Enrico Cucchiani	700		118	818	14.7	1,261	(15.3)	346	(3.4)	
Dr. Joachim Faber	700		20	720	0.6	1,245	(11.0)	312	5.4	
Dr. Helmut Perlet	700		20	720	(1.5)	1,469	(2.6)	311	(1.3)	
Dr. Gerhard Rupprecht	700		34	734	2.7	1,217	(18.9)	322	(2.4)	
Jean-Philippe Thierry	700		77	777	7.8	1,245	(13.4)	312	(11.6)	
Dr. Herbert Walter	700		45	745	1.6	923	(32.3)	175	(51.8)	
Dr. Werner Zedelius	700		14	714	0.0	1,363	(13.2)	348	18.4	
Total	8,050		459	8,509	2.3	14,505	(13.9)	3,481	(6.0)	

(1) Broad range reflects travel allowances for non resident Board Members.

(2) Actual bonus paid in 2008 for fiscal year 2007.

(3) Estimated amount for 2007 following interim assessment – the actual performance assessment can only take place at the end of the three-year period.

(4) Retired from Board of Management on December 31, 2007. For three-year bonus actual proportional amount paid in 2008.

For the 2004 – 2006 three-year bonus plan the total amount paid to the Board of Management in 2007 was 9.7 million. The amounts paid to each member were accrued over the three-year performance period and disclosed in the relevant remuneration tables in the 2004, 2005 and 2006 annual reports.

The following table sets out the details of all awards made under the GEI program of equity related remuneration in 2007 for each member of the Board of Management.

Board of Management	Number of SAR granted	Number of RSU granted	Fair value		Total Change from previous year %	
			of awards at date of grant			
			2007 thou	2007 thou		
Michael Diekmann (Chairman)	15,065	7,582	588	1,020	1,608	5.2
Dr. Paul Achleitner	10,044	5,054	392	680	1,072	2.0
Clement B. Booth	10,044	5,054	392	680	1,072	13.9

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Jan R. Carendi	10,044	5,054	392	680	1,072	13.9
Enrico Cucchiani	10,044	5,054	392	680	1,072	11.3
Dr. Joachim Faber	10,044	5,054	392	680	1,072	10.4
Dr. Helmut Perlet	10,044	5,054	392	680	1,072	10.2
Dr. Gerhard Rupprecht	10,044	5,054	392	680	1,072	10.9
Jean-Philippe Thierry	10,044	5,054	392	680	1,072	14.7
Dr. Herbert Walter	10,044	5,054	392	680	1,072	(47.6)
Dr. Werner Zedelius	10,044	5,054	392	680	1,072	6.6

The GEI awards are accounted for as cash settled plans by the Allianz Group. Therefore, the Allianz Group accrues the fair value of the GEI awards as compensation expense over the vesting period. Upon vesting, any changes in the fair value of the unexercised SARs are recognized as compensation expense. The GEI compensation expense in 2007 amounted to, in thousand, for Mr. Diekmann 1,626, for Dr. Achleitner 1,212, for Mr. Booth 660, for Mr. Carendi 966, for Mr. Cucchiani 981, for Dr. Faber 1,128, for Dr. Perlet 1,136, for Dr. Rupprecht 1,112, for Mr. Thierry 456, for Dr. Walter 2,864 and for Dr. Zedelius 1,039.

SAR can be exercised once the two-year vesting period has expired on the condition that the Allianz SE stock price is at least 20.0% above the price at which the SAR were granted (strike price). Also, the price of the stock must have exceeded the Dow Jones EURO STOXX Price Index (600) over a period of five consecutive trading days at least once during the plan period. The RSU are released on the first trading day after the end of a five-year vesting period.

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The total remuneration of the Board of Management for fiscal year 2007 amounted to 39 million (2006: 41 million).

**Remuneration for Allianz Group mandates and for mandates from outside the Allianz Group**

If a member of the Board of Management holds a mandate in another company the full compensation amount is transferred to Allianz SE if the company is owned by Allianz. If the mandate is from a company outside the Allianz Group, 50.0% of the compensation received is normally paid to Allianz SE. The compensation paid by companies outside the Allianz Group is shown in the Annual Reports of the companies concerned.

**Pensions and similar benefits**

The pension agreements for members of the Board of Management up to 2004 provided for retirement benefits of a fixed amount that were not linked to the increases in salary or variable pay. With effect from 2005, Allianz SE changed from this defined benefit arrangement to a contribution-based system. The respective pension rights that existed at that point in time were frozen. As a result of the change, since 2005, annual contributions have been made by the Company instead of the former increase amendments. Interest is accrued on the contributions with a minimum guaranteed rate of 2.75% per annum. Should the net annual return from the invested contribution exceed 2.75% the full increase in value is credited to the members the same year. The company reviews the level of contributions annually. The contribution payments are guaranteed only as required for further regular financing of accrued pension rights resulting from defined benefit promises existing on December 31, 2004. In the case of an insured event, the accumulated capital is converted to equivalent annuity payments which are then paid out for the rest of the member's life or if

applicable to dependents. The increase in reserves for pensions (current service cost) includes the required expenditures for further financing of accrued pension rights as well as the contribution payments for the new contribution-based system.

When a mandate of a member of the Board of Management ends, a pension may become payable at the earliest upon reaching the age of 60, except for cases of occupational or general disability for medical reasons, or in case of death whereby a pension becomes payable to the dependents. If the mandate is terminated for other reasons before retirement age has been reached, a pension promise is maintained if non-forfeitable. This does not include, however, a right to pension payments beginning immediately.

The Allianz Group paid 4 million (2006: 4 million) to increase pension reserves and reserves for similar benefits for active members of the Board of Management. On December 31, 2007, pension reserves and reserves for similar benefits to members of the Board of Management who were active at that date, amounted to 25 million (2006: 23 million).

The following table sets out the current service cost and contributions arising in relation to the current pension plans according to IAS 19, excluding the current service cost for the old pension plan redeemed as of December 31, 2004 for each individual member of the Board of Management of Allianz SE in 2007.

<b>Board of Management</b>	<b>thou</b>	<b>Board of Management</b>	<b>thou</b>
Michael Diekmann (Chairman)	299	Dr. Helmut Perlet	208
Dr. Paul Achleitner	183	Dr. Gerhard Rupprecht	182

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Clement B. Booth	259	Jean-Philippe Thierry	477
Jan R. Carendi	0	Dr. Herbert Walter	198
Enrico Cucchiani	310	Dr. Werner Zedelius	210
Dr. Joachim Faber	214		

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The additional current service cost in 2007 according to IAS 19 for the frozen pension plan amounted to, in thousand, for Mr. Diekmann 162, for Dr. Achleitner 246, for Dr. Faber 134, for Dr. Perlet 0, for Dr. Rupprecht 175, for Dr. Walter 326 and for Dr. Zedelius 85.

### ***Termination of service***

The Supervisory Board decided to amend the service contract for members of the Board of Management for future appointments and prolongations to comply with a new suggestion of the German Corporate Governance Code regarding a severance payment cap. According to this amendment, payments made to members of the Board of Management in case of premature termination of the service contract without serious cause will be limited to a maximum of the value of two years cash compensation including benefits.

Members of the Board of Management who leave the Board after serving a term of at least five years are entitled to a transition payment for a period of six months. The amount payable is calculated on fixed salary and a proportion of the annual target bonus and it is paid in monthly installments.

If service is terminated as a result of a so-called change of control, the following separate regulation applies:

A change of control requires that a shareholder of Allianz SE acting alone or together with other shareholders holds more than 50.0% of voting rights in Allianz SE. If the appointment of a member of the Board of Management is unilaterally revoked by the Supervisory Board as a result of such a change of control within a period of twelve months after the event, or if the member terminates service by resignation due to a substantial decrease in managerial responsibilities and, without giving cause for termination, all contracted benefits will be payable in the form of a lump-sum for the duration of the employment contract. The amount to be paid is based on the fixed salary at the time of the change of control, the annual and current three-year bonus, in each case discounted according to market conditions at the time of payment. A target achievement of 100.0% is the basis for the annual and three-year bonus. If the remaining duration of the service contract is not at least three years at the time of

change of control, the lump-sum payment in respect of fixed salary and annual bonus is increased to correspond to a term of three years. If the member reaches the age of 60 before the three years have elapsed, the lump-sum payment decreases correspondingly. For the equity-based remuneration the member is treated as having retired. These regulations are also effective if the Board of Management mandate is not extended within two years after the change of control.

For other cases of early termination of appointment to the Board of Management, service contracts do not contain any special rules.

### **Benefits to retired Members of the Board of Management**

In 2007, remuneration and other benefits of 5 million (2006: 4 million) were paid to retired members of the Board of Management and dependents. Additionally, reserves for current pensions and accrued pension rights totaled 49 million (2006: 52 million).

### **Supervisory Board remuneration**

***Remuneration system***

The remuneration of the Supervisory Board is based on the scale and scope of the company, the functions and responsibilities of the members of the Supervisory Board and the financial situation of the company. The relevant provisions are contained in §11 of the Statutes of Allianz SE. The remuneration was decided at the General Meeting.

Three components make up the Supervisory Board's remuneration: a fixed sum of 50,000 and two performance-based components. One of the performance-based components has a short-term focus and depends on the increase of consolidated earnings-per-share in the previous fiscal year; the other is long-term and corresponds to the cumulative increase of this figure over the past three years.

The maximum sum for each of the two variable remuneration components is 24,000. This means that with the fixed sum of 50,000 the maximum total regular compensation for a Supervisory Board member amounts to 98,000. This maximum amount is achieved when the previous year's earnings-per-share has risen by 16.0% and when this

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indicator has further improved by a total of 40.0% or more over the last three years. If there has been no improvement in Corporate earnings-per-share during the relevant period (i.e. the past fiscal year or the past three years), no performance-based remuneration will be awarded.

The structure of the Supervisory Board's remuneration was ratified by the Annual General Meeting in 2005; on the conversion of Allianz AG into Allianz SE in 2006 it was adopted without changes. It complies with the recommendation or suggestion of the German Corporate Governance Code under which members of the Supervisory Board shall receive fixed as well as performance-based compensation that should contain components based on the long-term performance of the business. We believe that this form of the Supervisory Board's remuneration has proven to be effective, and that the earnings-per-share performance measure is appropriate for the calculation of the performance-based remuneration of the Supervisory Board.

The Chairperson and Deputy Chairpersons of the Supervisory Board as well as the Chairperson and members of its committees receive additional remuneration as follows: The Chairperson of the Supervisory Board receives double, the deputies one-and-a-half times the regular remuneration of a member of the Supervisory Board. Members of the Personnel Committee, Standing Committee and Risk Committee receive an additional 25.0%, and the Chairpersons of each of these committees 50.0%.

Members of the Audit Committee are entitled to a fixed sum of 30,000 per year, the Committee Chairperson receives 45,000. No additional remuneration is granted to the members of the Nomination Committee.

***Remuneration of the Supervisory Board of Allianz SE***

There is a cap on the total remuneration of each member of the Supervisory Board. It is reached when the Chairperson of the Supervisory Board has been awarded triple and the other members of the Supervisory Board double the regular remuneration of a member of the Supervisory Board.

The members of the Supervisory Board receive a 500 attendance fee for each Supervisory Board or committee meeting that they attend in person. This sum remains unchanged if several meetings occur on one day or when various meetings are held on consecutive days. The total expenditure for attendance fees in 2007 amounted to 33,000.

***Performance-based remuneration***

The Group's earnings-per-share increased by 5.34% compared to 2006 and by 96.45% in relation to the financial year 2004. This meant that the regular remuneration for the short-term performance-based component for each member of the Supervisory Board amounted to 8,100 and the long-term performance-based component to 24,000.

	Fixed remuneration	Performance- based remuneration	Committee remuneration	Total remuneration
Supervisory Board				



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		short- term	long- term	(may be capped)	(may be capped)
Dr. Henning Schulte-Noelle (Chairman)	100,000	16,200	48,000	82,100	246,300
Dr. Gerhard Cromme (Deputy Chairman)	75,000	12,150	36,000	41,050	164,200
Claudia Eggert-Lehmann (Deputy Chairwoman)	75,000	12,150	36,000	41,050	164,200
Dr. Wulf H. Bernotat	50,000	8,100	24,000	50,525	132,625
Jean-Jacques Cette	50,000	8,100	24,000	30,000	112,100
Godfrey Robert Hayward	50,000	8,100	24,000	20,525	102,625
Dr. Franz B. Humer	50,000	8,100	24,000	20,525	102,625
Prof. Dr. Renate Köcher	50,000	8,100	24,000	20,525	102,625
Peter Kossubek (since May 2, 2007)	33,334	5,400	16,000	13,684	68,418
Igor Landau	50,000	8,100	24,000	30,000	112,100
Jörg Reinbrecht	50,000	8,100	24,000	30,000	112,100
Margit Schoffer (until May 2, 2007)	20,834	3,375	10,000	8,553	42,762
Rolf Zimmermann	50,000	8,100	24,000	20,525	102,625
Total	704,168	114,075	338,000	409,062	1,565,305

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### ***Remuneration for mandates in other Allianz Group subsidiaries***

As members of the Supervisory Board of Dresdner Bank AG Claudia Eggert-Lehmann received 45,000 and Margit Schoffer 45,000. Peter Kossubek received 40,000 as member of the Supervisory Board of Allianz Versicherungs-AG.

### **Loans to Members of the Board of Management and Supervisory Board**

Loans granted by the Dresdner Bank and other Allianz Group companies to members of the Board of Management and Supervisory Board totalled 71,451 on the date of balance (December 31, 2007). Loans are provided at standard market conditions or at the conditions as applied to employees. The repaid amounts of loans amounted to 27,361 in 2007. Moreover, overdraft facilities were granted to members of the Board of Management and Supervisory Board as part of existing account relationships, likewise corresponding to conditions according to market standard or those applied to employees.

The loans and overdrafts mentioned above (1) were made in the ordinary course of business, (2) were granted on conditions that are comparable to those of loans and overdrafts granted to people in peer groups and (3) did not involve more than the normal risk of collectibility or present other unfavourable features. For members of the Board of Management, this means that the conditions have been set according to the prevailing conditions for Allianz employees.

### **Board Practices**

Allianz SE has entered into service contracts with members of the Board of Management

providing for a limited benefit upon termination of service prior to the stated expiration date of a member's contract. In such circumstances, the member of the Board of Management would receive monthly fixed payments for a further six months as well as *pro rata* bonus payments if the conditions for the bonus payments are fulfilled. If regular pension benefits were to become due during this time period, they would be credited against these payments. Allianz SE has not entered into such contracts with members of the Supervisory Board.

### **Share Ownership**

As of March 10, 2008, the members of the Board of Management and the Supervisory Board held less than 1% of our ordinary shares issued and outstanding. As of such date, the members of the Board of Management and the Supervisory Board held in the aggregate approximately 84,300 ordinary shares of Allianz SE.

### **Employees**

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As of December 31, 2007, the Allianz Group employed a total of 181,207 people worldwide, of whom 72,063 or 39.8%, were employed in Germany. A large number of our German employees are covered by collective bargaining agreements or similar arrangements. In the past three years, there have been no work stoppages or strikes at our various sites that have arisen from collective bargaining disputes or for other reasons which had a material adverse effect on the Allianz Group's results of operations. We believe that our employee relations are good.

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The following table shows the number of employees of the Allianz Group by region as of December 31, 2007, 2006 and 2005.

**Employees by countries**

Country	2007	2006	2005
Germany	72,063	76,790	72,195
France	19,120	17,096	17,246
Russia	11,744	280	235
United Kingdom	10,865	9,945	27,661
United States	10,706	10,691	10,840
Italy	7,445	7,661	7,706
Switzerland	4,117	2,874	2,823
Australia	3,608	3,474	3,673
Spain	3,299	3,139	2,762
Hungary	3,235	3,159	2,839
Austria	3,096	3,106	3,024
Brazil	2,971	2,334	2,345
Slovakia	2,627	2,564	2,645
Romania	2,292	2,061	1,749
Netherlands	2,130	1,988	1,851
Belgium	1,807	1,633	1,563
Other	20,082	17,710	16,468
Total	181,207	166,505	177,625

**Stock-based Compensation Plans****Group Equity Incentive (GEI) Plans**

Group Equity Incentives support the orientation of senior management, and in particular the Board of Management, toward the long-term increase of the value of the company. In 1999, Allianz introduced Stock Appreciation Rights (SAR) through which part of the total remuneration is directly tied to the development of the Allianz share price. In 2003, Restricted Stock Units (RSU) with a 5-year vesting period were issued for the first time. Allianz senior management worldwide is entitled to participate in these Group Equity Incentives.

Awards were granted by the respective companies in accordance with uniform group-wide conditions. The grant price for SAR and RSU applicable for the award is calculated on the basis of the average daily closing price of the Allianz share in Xetra trading on the 10 trading days following the Financial Press Conference of Allianz SE. The grant price for the GEI plan 2007 is €160.13.

The number of SAR and RSU offered is set individually for each participant and is determined on the basis of the grant price, the economic development of the value of Allianz SE and the respective responsible company and individual elements such as fixed remuneration and performance. The volume of rights granted and thus the potential gain for the participant depends essentially on the economic performance.

For additional information on the Group Equity Incentive Plans see Note 48 to our consolidated financial statements.

#### **Employee Stock Purchase Plans**

Allianz SE offers its shares to qualified employees in Germany and abroad at favorable conditions within pre-defined timeframes. To be eligible, employees must have been employed for a minimum period of time prior to the share offering and no notice of termination of employment must have been served. Employees are also subject to certain restrictions on the amount that may be invested to purchase Allianz shares. Allianz SE and each participating Allianz Group subsidiary establishes a restricted period of at least one and maximum five years during which employees may not transfer these Allianz shares after purchasing them. After this period, these Allianz shares are not subject to vesting or other restrictions. The eligible employees of the Allianz Group acquired a total of 939,303 Allianz shares under such arrangements in 2007 (2006: 929,509; 2005: 1,144,196).

For additional information on our Employee Stock Purchase Plans, see Note 48 to our consolidated financial statements.

#### **ITEM 7. Major Shareholders and Related Party Transactions**

##### **Major Shareholders**

The outstanding capital stock of Allianz SE consists of ordinary shares without par value that are issued in registered form. Under our Statutes, each outstanding ordinary share represents one vote. Major shareholders do not have different voting rights. Based on our share register, as of March 10, 2008, we had approximately 419,800 registered shareholders, of which approximately 520 were

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U.S. holders. Based on our share register, approximately 16.4% of our ordinary shares issued were held by such U.S. holders. Although our shareholders are generally required when registering to indicate their respective names, addresses and, in the case of legal entities, whether they hold on behalf of a third party, many of our ordinary shares may be held of record by brokers, trustees or other nominal holders who are not required to provide such information with regard to beneficial shareholders. As a result, the number of holders of record or registered U.S. holders may not be representative of the actual number of beneficial U.S. holders. For information regarding the share ownership of the members of our Board of Management and our Supervisory Board, see Directors, Senior Management and Employees-Share Ownership.

Under the German Securities Trading Act, holders of voting securities of a listed German company are required to notify the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, or BaFin) and the company of the level of their holding whenever it reaches, exceeds or falls below specified thresholds. These thresholds are 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% of a company's shares. The provisions of the German Securities Trading Act provide several criteria for attribution of shares.

As of March 10, 2008, no shareholder holding 5% or more of the share capital was reported to Allianz SE.

As of February 29, 2008, 452,350,000 ordinary shares were issued, of which 450,755,801 were outstanding and 1,594,199 were held by the Allianz Group in treasury (including 1,042,621 shares held by Dresdner Bank in trading positions).

Significant changes in the percentage ownership held of record by any of our major shareholders in the last three years were as follows:

the share ownership of Munich Re as reported to the SEC decreased from 12.8% as of December 31, 2003 to approximately 4.9% of our outstanding ordinary shares on July 12, 2005.

the voting rights of Munich Re as reported under the German Securities Trading Act on September 25, 2007, decreased below 3% and amounted to 2.67% as of this day.

## **Related Party Transactions**

For a description of related party transactions, see Note 45 to the consolidated financial statements.

## **ITEM 8. Financial Information**

### **Consolidated Statements and Other Financial Information**

See pages F-1 and following for the consolidated financial statements required by this item.

### **Legal Proceedings**

For a description of legal proceedings, see Note 46 to the consolidated financial statements.

### **Dividend Policy**

Allianz SE normally declares dividends at the annual general meeting and pays these dividends once a year. Under applicable German law, dividends may be declared and paid only from balance sheet profits as shown in the German statutory annual financial statements of Allianz SE. For each fiscal year, the Board of Management approves the annual financial statements and submits them to the Supervisory Board with its proposal as to the appropriation of the annual profit. This proposal will set forth what amounts of the annual profit should be paid out as dividends, transferred to capital reserves, or carried forward to the next fiscal year. Upon approval by the Supervisory Board, the Board of Management and the Supervisory Board submit their combined proposal to the shareholders at the annual general meeting. The general meeting ultimately determines the appropriation of the annual profits, including the amount of the annual dividends. Shareholders generally participate in distributions of any dividends in proportion to the number of their ordinary shares. Any dividends declared by Allianz SE will be paid in Euro.

For information regarding annual dividends declared in 2007 and paid from 2003 through 2006, see [Key Information Dividends](#).

### **Significant Changes**

For a description of significant developments since the date of the annual financial statements included in this annual report, see Note 52 to the consolidated financial statements.

**Table of Contents****ITEM 9. The Offer and Listing****Trading Markets**

The principal trading market for the ordinary shares is the Frankfurt Stock Exchange. The ordinary shares also trade on the following other German stock exchanges: Berlin-Bremen, Düsseldorf, Hamburg, Hanover, Munich and Stuttgart, as well as the stock exchanges in London, Paris, Milan and Zurich. The ADSs of Allianz SE, each representing one-tenth of an ordinary share, trade on the New York Stock Exchange under the symbol AZ. See also Major Shareholders and Related Party Transactions Major Shareholders.

**Market Price Information**

The table below sets forth, for the periods indicated, the high and low closing sales prices on the Frankfurt Stock Exchange for the ordinary shares of Allianz SE as reported by XETRA. The table also shows, for the periods indicated, the highs and lows of the DAX. See the discussion under Key Information Exchange Rate Information for information with respect to rates of exchange between the U.S. Dollar and the Euro applicable during the periods set forth below.

	Price per ordinary share <sup>(1)</sup>		DAX	
	High	Low	High	Low
<b>Annual highs and lows</b>				
2003	101.5	41.1	3,965.2	2,203.0
2004	111.2	73.9	4,261.8	3,647.0
2005	129.7	89.7	5,458.6	4,178.1
2006	156.8	111.2	6,611.8	5,292.1
2007	178.6	133.9	8,105.7	6,447.7
2008 (through March 10, 2008).	145.9	108.7	7,949.1	6,439.2
<b>Quarterly highs and lows</b>				
2006				
First quarter	139.5	124.1	5,984.2	5,334.3
Second quarter	139.0	111.2	6,140.7	5,292.1
Third quarter	137.4	115.5	6,004.3	5,396.9
Fourth quarter	156.8	136.1	6,611.8	5,992.2
2007				
First quarter	169.0	147.8	7,027.6	6,447.7
Second quarter	178.6	155.0	8,090.5	6,937.2
	Price per ordinary share <sup>(1)</sup>		DAX	
	High	Low	High	Low
Third quarter	174.6	148.7	8,105.7	7,270.1
Fourth quarter	165.4	133.9	8,076.1	7,512.0
2008				
(through March 10, 2008)	145.9	108.7	7,949.1	6,439.2
<b>Monthly highs and lows</b>				
2007				



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September	163.9	148.7	7,861.5	7,375.4
October	165.4	150.5	8,041.3	7,794.9
November	151.8	133.9	7,880.9	7,512.0
December	148.0	137.6	8,076.1	7,808.9
<b>2008</b>				
January	145.9	111.3	7,949.1	6,439.2
February	121.7	113.1	7,002.3	6,733.7
March 10	116.0	108.7	6,690.0	6,448.1

(1) Adjusted to reflect the capital increase in April 2003.

On March 10, 2008, the closing sale price per Allianz SE ordinary share on XETRA was 108.70, which was equivalent to \$167.06 per ordinary share, translated at the closing noon buying rate for Euros on such date.

Based on turnover statistics supplied by Bloomberg, the average daily volume of the ordinary shares of Allianz SE traded on the Frankfurt Stock Exchange (XETRA) between January 2, 2008 and March 10, 2008 was 5,859,449.

### **Trading on the New York Stock Exchange**

Official trading of Allianz SE ADSs on the New York Stock Exchange commenced on November 3, 2000. Allianz SE ADSs trade under the symbol AZ.

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The following table sets forth, for the periods indicated, the high and low closing sales prices per Allianz SE ADS as reported on the New York Stock Exchange Composite Tape:

	Price per ADS	
	High \$	Low \$
<b>Annual highs and lows</b>		
2003	12.7	5.0
2004	14.0	9.0
2005	15.4	11.4
2006	20.6	13.9
2007	24.0	19.2
2008 (through March 10, 2008)	21.4	16.4
<b>Quarterly highs and lows</b>		
2006		
First quarter	17.0	15.1
Second quarter	17.5	13.9
Third quarter	17.5	14.6
Fourth quarter	20.6	17.3
2007		
First quarter	22.2	19.2
Second quarter	23.8	20.7
Third quarter	24.0	20.3
Fourth quarter	23.5	19.6
2008		
(through March 10)	21.4	16.4
<b>Monthly highs and lows</b>		
2007		
September	23.3	20.7
October	23.5	21.5
November	22.0	19.6
December	21.5	20.2
2008		
January	21.4	16.9
February	18.5	16.4
March (through March 10)	17.6	16.6

On March 10, 2008, the closing sales price per Allianz SE ADS on the New York Stock Exchange as reported on the New York Stock Exchange Composite Tape was \$16.62.

**ITEM 10. Additional Information****Articles of Association (Statutes)**

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Allianz SE's current statutes are filed as an exhibit to this annual report. See also "Directors, Senior Management and Employees" for a description of our corporate governance structure.

### Organization and Share Capital

Allianz SE is a Stock Corporation in the form of a European Company (Societas Europaea or SE) and is organized under the laws of the Federal Republic of Germany and the European Union. It is registered in the Commercial Register in Munich, Germany, under the entry number HRB 164232.

The share capital of Allianz SE consists of ordinary shares without par value. As of February 29, 2008, the capital stock of Allianz SE amounts to 1,158,016,000. It is sub-divided into 452,350,000 shares with no par value, of which 450,755,801 shares were outstanding. The shares are registered and can only be transferred with the approval of the Company. The Company will withhold a duly applied approval only if it deems this to be necessary in the interest of the Company on exceptional grounds. The applicant will be informed about the reasons.

### Objects and Purposes

Pursuant to article 1, paragraph 2 of our statutes the corporate purpose of the Company is the direction of an international group of companies, which is active in the areas of insurance, banking, asset management and other financial, consulting and similar services. The Company holds interests in insurance companies, banks, industrial companies, investment companies and other enterprises. As a reinsurer, the Company primarily assumes insurance business from its Group companies and other companies in which Allianz SE holds direct or indirect interests.

Copies of the statutes are publicly available from the Commercial Register in Munich. German- and English-language versions are available at our headquarter and on our website.

### Conditions Governing Changes in Capital

Allianz SE has several categories of authorized capital, which are set forth in its statutes.

At the Extraordinary General Meeting on February 8, 2006, the shareholders approved the following authorized capital for issuance of new registered shares by the Board of Management, upon the approval of the Supervisory Board:

Up to 450,000,000 in the aggregate on one or more occasions on or before February 7, 2011 by issuing new registered

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no-par value shares against contributions in cash and/or in kind (Authorized Capital 2006/1), of which an amount of 406,545,646 remains as of February 29, 2008. If the capital stock is increased against contributions in cash, the shareholders are to be granted a subscription right. However, the Board of Management is authorized, upon the approval of the Supervisory Board, to exclude such shareholders' subscription right:

(i) for fractional amounts;

(ii) to the extent necessary to grant subscription rights on new shares to holders of bonds issued by Allianz SE or Allianz AG or its Group companies that carry conversion or option rights or conversion obligations to such an extent as such holders would be entitled after having exercised their conversion or option rights after any conversion obligations have been fulfilled; and

(iii) if the issue price is not substantially lower than the market price, subject to certain additional limitations in accordance with the German Stock Corporation Act.

Furthermore, the Board of Management is authorized, upon the approval of the Supervisory Board, to exclude shareholders' subscription rights in the case of a capital increase against contributions in kind. The Board of Management is also authorized, upon the approval of the Supervisory Board, to determine the additional rights of the shares and the conditions of the share issuance.

Up to 15,000,000 in the aggregate on one or more occasions on or before February 7, 2011 by issuing new registered no-par shares against contributions in cash (Authorized Capital 2006/II), of which an amount of 9,848,297 remains as of February 29, 2008. The Board of Management is authorized, upon the approval of the Supervisory Board:

(i) to exclude shareholders' subscription rights in order to issue the new shares to the employees of Allianz SE and Allianz Group companies;

(ii) to exclude fractional amounts from the shareholders' subscription right; and

(iii) to determine the additional rights of the shares and the conditions of the share issuance.

Furthermore, the shareholders have conditionally increased the share capital by an aggregate amount of up to 250,000,000.00 through issuance of up to 97,656,250 new registered no-par value shares with entitlement to share in profits from the beginning of the financial year of their issuance (Conditional Capital 2006). The conditional capital increase shall be carried out only to the extent that conversion or option rights are exercised by holders of conversion or option rights attached to bonds which Allianz AG or Allianz SE or their Group companies have issued against cash payments in accordance with the resolution of the General Meeting as of February 8, 2006, or that conversion obligations under such bonds are fulfilled, and only in so far as no other methods of performance are used in serving these rights. The Board of Management is authorized to determine further details of the conditional share capital increase.

At the Annual General Meeting on May 5, 2004, the shareholders have conditionally increased the share capital by an aggregate amount of up to 250,000,000.00 through issuance of up to 97,656,250 new registered no-par value shares with entitlement to share in profits from the beginning

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of the financial year of their issuance (Conditional Capital 2004). Of this conditional capital, an amount of up to 5,632,000 through issuance of up to 2,200,000 new registered no-par shares remained December 31, 2007. The conditional capital increase shall be carried out only to the extent that conversion or option rights are exercised by holders of conversion or option rights attached to bonds that Allianz AG or Allianz SE or their Group companies have issued against cash payments in accordance with the resolution of the General Meeting of Allianz AG of May 5, 2004, or that conversion obligations under such bonds are fulfilled, and only insofar as no other methods of performance are used in serving these rights. The Board of Management is authorized to determine further details of the conditional share capital increase. All option rights resulting from bonds which Allianz SE or its subsidiaries have issued on the basis of this authority have been exercised until

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February 15, 2008, so that this contingent capital has been fully carried out.

With respect to purchases of our own ordinary shares, see Note 23 to our consolidated financial statements.

### **Capital Increase**

For information regarding capital increases see Note 23 to our consolidated financial statements.

### **Material Contracts**

For information on material contracts to which Allianz AG or Allianz SE or any of its subsidiaries was a party in the preceding two years, see Note 45 to our consolidated financial statements.

### **Exchange Controls**

Germany does not generally restrict capital movements between Germany and other countries, institutions or persons.

For statistical purposes, subject to certain exceptions, each company or person domiciled in Germany is required to report to the German Bundesbank each payment received from or made to a company or person not domiciled in Germany in excess of 12,500 (or an equivalent amount in a foreign currency). Moreover, all claims and liabilities of a company or person domiciled in Germany against or towards a company or person not domiciled in Germany in excess of 5 million (or an equivalent amount in a foreign currency) are required to be reported monthly to the German Bundesbank.

Other than as described above, there is no limitation on the right of non-resident or foreign owners to receive dividends or other payments relating to the ordinary shares or the ADSs permitted or granted by German law. Various national, state and other laws relating to the acquisition of control of Allianz SE's insurance and banking subsidiaries may impose limitations on the ability to acquire ordinary shares or ADSs beyond specified thresholds. In addition, some national laws may authorize investigation of certain money transfers.

### **German Taxation**

The following discussion is a summary of the material German tax regulations which might be of interest for legal or beneficial owners of shares or ADSs, particularly for Non-German-Holders. Throughout this section we refer to owners as Non-German Holders if they are (i) not German residents for German income tax purposes (i.e., persons whose residence, habitual abode, statutory seat or place of effective management and

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control is not located in Germany) and (ii) whose shares do not form part of the business property of a permanent establishment or fixed base in Germany.

The comments are of a general nature and include herein solely for information purposes. These comments cannot replace legal or tax advice and does not purport to be a comprehensive discussion of all German tax consequences. The owner should consult their tax advisor regarding the German federal, state and local tax consequences of the purchase, ownership and disposition of shares or ADSs, the procedures to follow for the refund of German taxes withheld from dividends and the possible effects of changes in the tax laws of the Federal Republic of Germany.

This summary is based on the relevant German tax laws currently in force and typical tax treaties to

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which Germany is a party, as they are applied on the date hereof and are subject to changes in German tax laws or respective treaties.

### **Taxation of the Company in Germany**

German corporations, including Allianz SE, have been subject to a corporate income tax rate of 25% in 2007. In addition a solidarity surcharge of 5.5% on the net assessed corporate income tax has to be paid, so that the corporate income tax and the solidarity surcharge, in the aggregate, amount to approximately 26.375%.

In the course of the reform of business taxation, implemented by the Business Tax Reform Act 2008, the income tax rate for corporations has been reduced to 15% as of the fiscal year 2008; including the solidarity surcharge, the aggregate rate amounts to 15.825%.

In addition, German corporations are subject to profit-related trade tax on income which is a municipal tax levied at an effective tax rate of approximately between 12% and 20%, depending on the applicable trade tax factor of the relevant municipality and is a deductible item in computing the corporation's tax base for corporate income and trade tax purposes. Due to the Business Tax Reform Act 2008 the trade tax will no longer be deductible for corporate income tax and trade tax purposes.

Tax losses carried forward can be used to offset against taxable profits of a period for an amount not exceeding 1 million. Taxable profits exceeding 1 million may only be set off by 60% with tax losses brought forward from prior periods. Unutilized tax losses can be carried forward without any time limitation.

### **Taxation of Dividends**

Germany has a classic corporate tax system.

If the Shares or ADS's are held as private assets (*Privatvermögen*) by an **individual German resident**, dividends will be taxed as investment income (Einkünfte aus Kapitalvermögen). These dividends received are included in the tax basis by 50% only. However, income related expenses (e.g. custody fees or interest for a debt financed portfolio)

are also deductible by 50% only. The amount of such payments after deduction of related expenses will be subject to progressive income tax plus solidarity surcharge thereon. Since 2007, a personal annual exemption (Sparer-Freibetrag) of 750 Euro (1,500 Euro for married couples filing their tax return jointly) is available for the aggregate amount of the investment income, including the dividends. In addition, an individual is entitled to a standard deduction of 51 (102 for married couples filing their tax return jointly) in computing his overall investment income unless the expenses involved are demonstrated to have actually exceeded that amount.

If the shares are held as business assets (*Betriebsvermögen*) by a **German resident corporate investor**, the dividends are generally subject to corporate income tax plus solidarity surcharge thereon and trade tax. Under the current corporate income tax system dividends received by a German resident corporate investor are basically 100% tax-exempt (participation exemption). However, 5% of the gross dividend is considered



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non tax deductible expense (on each level of a corporate chain for corporate tax as well as for trade tax purposes). Dividends received from non-qualifying participations, which are participations of less than 10% (15% as from fiscal year 2008), are subject to trade tax on income for the full amount.

If the shares are held as business assets (*Betriebsvermögen*) by a **German partnership**, the dividends received are included in the tax basis by 50% only. For trade tax purposes the same rules apply as for corporate investors.

In the course of the reform of business taxation the taxation of dividends has been changed for individuals and partnerships. From 1 January 2009 onwards a final flat-rate tax (*Abgeltungssteuer*) amounting to 25% (plus a 5.5% solidarity surcharge) on all types of investment income (including dividends) will be established. This withholding tax levied on the income from capital investment shall generally be final and only be included in the relevant tax assessment for individuals upon application, especially if the personal income tax rate falls below 25%. The personal annual exemption (*Sparer-Freibetrag*) and the standard deduction will be replaced by a unitary flat sum (*Sparer-Pauschbetrag*) for the overall investment income of 801 ( 1,602 for married couples filing their tax

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return jointly). The deduction of related expenses will not be possible any more.

For German nonresidents (individuals and corporate investors) the dividends received are basically subject to income taxes and therefore to withholding tax (see next section).

### **Imposition of Withholding Tax**

Dividend distributions are subject to a 20% withholding tax. In addition, a solidarity surcharge at a rate of 5.5% on the withholding tax is levied, resulting in an aggregate rate of withholding tax of 21.1% of the declared dividend. The withholding tax is generally withheld irrespective of whether and to what extent the dividend distribution is exempt at the level of the holder.

As part of the reform of business taxation, from 1 January 2009 onwards the withholding tax amounts to 25% (plus a 5.5% solidarity surcharge) on all types of investment income, including dividends.

For a Non-German Holder, the withholding tax rate may be reduced in accordance with an applicable income tax treaty. For a Non-German Holder, the withholding tax rate may be reduced in accordance with an applicable income tax treaty. Under most income tax treaties to which Germany is a party, including the U.S.-German income tax treaty, the rate of dividend withholding tax for individual holders and corporate holders of a non-qualifying participation is reduced to 15%. In that case, the Non-German Holder eligible for the reduced treaty rate may apply for a refund of 6.1% of the declared dividend for dividend distributions paid on or after January 1, 2002 by Allianz SE. The application for refund must be filed with the German Federal Tax Office (Bundeszentralamt für Steuern, Dienststz Bonn, An der Kueppe 1, D-53225 Bonn, Germany). The relevant forms can be obtained from the German Federal Tax Office or from German embassies and consulates.

From 1 January 2009 onwards two-fifth of the withholding tax will be refunded to Non-German corporate investors upon application at the German Federal Tax Office, which finally results in a withholding tax of 15% (plus solidarity surcharge), leaving the entitlement for further reductions under an applicable income tax treaty unaffected.

### **Refund Procedure for U.S. Shareholders**

For shares and ADSs kept in custody with The Depository Trust Company in New York or one of its participating banks, the German tax authorities have introduced a collective procedure for the refund of German dividend withholding tax and the solidarity surcharge thereon on a trial basis. Under this procedure, The Depository Trust Company may submit claims for refunds payable to eligible U.S. holders (as defined below) under the income tax convention between Germany and the United States, as currently in effect (the Treaty ) collectively to the German tax authorities on behalf of these eligible U.S. holders. The German Federal Tax Office will pay the refund amounts on a preliminary basis to The Depository Trust Company, which will redistribute these amounts to the eligible U.S. holders according to the regulations governing the procedure. The German Federal Tax Office may review whether the refund was made in accordance with the law within four years after making the payment to The Depository Trust Company. Details of this collective procedure are available from The Depository Trust Company.

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You are an eligible U.S. holder if you are a U.S. holder (as defined below under United States Taxation ) that:

is a resident of the United States for purposes of the Treaty;

does not maintain a permanent establishment or fixed base in Germany to which the ordinary shares or ADSs are attributable and through which you carry on or have carried on business (or, in the case of an individual, perform or have performed independent personal services); and

is otherwise eligible for benefits under the Treaty with respect to income and gain from the ordinary shares or ADSs.

Individual claims for refunds may be made on a special German form which must be filed with the German Federal Tax Office at the address noted above. Copies of such form may be obtained from the German Federal Tax Office at the same address or from the Embassy of the Federal Republic of Germany, 4645 Reservoir Road, N.W., Washington, D.C. 20007-1998. Claims must be filed within a four-year period from the end of the calendar year in which the dividend was received.

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As part of the individual refund claim, an eligible U.S. holder must submit to the German tax authorities the original bank voucher (or a certified copy thereof) issued by the paying agent documenting the tax withheld, and an official certification on IRS Form 6166 of its last United States federal income tax return. IRS Form 6166 may be obtained by filing a request, via IRS form 8802, with the Internal Revenue Service Center in Philadelphia, Pennsylvania, P.O. Box 42530, Philadelphia, PA 19101-2530. Requests for certification must include the eligible U.S. holder's name, Social Security or Employer Identification Number, tax return form number, and tax period for which the certification is requested. Requests for certifications can include a request to the Internal Revenue Service to send the certification directly to the German tax authorities. If no such request is made, the Internal Revenue Service will send a certification on IRS Form 6166 to the eligible U.S. holder, who then must submit this document with his refund claim.

## **Taxation of Capital Gains**

If the shares are held as business assets (Betriebsvermögen) by a corporate investor or partnerships, the capital gains are treated as the dividends.

For non-corporate investors, a 50% tax exemption on realized gains on the disposal of shares arise only if they sell shares of a corporation of which they hold at least 1% of the outstanding shares of the company at any time within the five years prior to the sale; within the 12 month speculative period or which were held as business assets in a partnership. Due to the Business Tax Reform Act 2008 capital gains from individuals are subject to taxation irrespective of any holding period with a 25% withholding tax .

Under German domestic tax law, capital gains derived by a Non-German Holder from the sale or other disposition of shares or ADSs are subject to tax in Germany only if such Non-German Holder has held, directly or indirectly, shares or ADSs representing 1% or more of the registered share capital of the company at any time during the five-year period immediately preceding the disposition.

U.S. holders that qualify for benefits under the Treaty are exempt in Germany under the Treaty on capital gains derived from the sale or disposition of shares or ADSs.

## **Inheritance and Gift Tax**

Under German law, German gift or inheritance tax will be imposed on transfers of shares or ADSs by a Non-German Holder at death or by way of gift, if

(i) the decedent or donor, or the heir, donee or other transferee has his residence in Germany at the time of the transfer or with respect to German citizens who are not resident in Germany, if the decedent or donor, or the heir, donee or other transferee has not been continuously outside of Germany for a period of more than five years; or

(ii) the shares or ADSs subject to such transfer form part of a portfolio which represents 10% or more of the registered share capital of the company and has been held, directly or indirectly, by the decedent or donor, respectively, himself or together with related parties.

The right of the German government to impose inheritance or gift tax on a Non-German Holder may be further limited by an applicable estate tax treaty (such as the U.S.-German Inheritances and Gifts Tax Treaty of December 14, 1998).

#### **Other Taxes**

No German transfer, stamp or similar taxes apply to the purchase, sale or other disposition of shares or ADSs by a Non-German Holder. Currently, net worth tax is not levied in Germany.

#### **United States Taxation**

This section describes the principal United States federal income tax consequences of owning ordinary shares or ADSs. It applies to you only if you hold your ordinary shares or ADSs as capital assets for tax purposes. This section does not address all material tax consequences of owning ordinary shares or ADSs. It does not address special classes of holders, some of whom may be subject to other rules, including:

dealers in securities or currencies;

tax-exempt entities;

life insurance companies;

broker-dealers;

traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;

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investors liable for alternative minimum tax;

investors that actually or constructively own 10% or more of the voting stock of Allianz AG;

investors that hold ordinary shares or ADSs as part of a straddle or a hedging or conversion transaction; or

investors whose functional currency is not the U.S. Dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, and published rulings and court decisions, all as currently in effect, as well as on the Treaty. These laws are subject to change, possibly on a retroactive basis.

In addition, this section is based in part upon the representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms. In general, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADSs. Exchanges of shares for ADRs, and ADRs for shares, generally will not be subject to United States federal income tax.

You are a U.S. holder if you are a beneficial owner of ordinary shares or ADSs and you are, for United States federal income tax purposes:

a citizen or resident of the United States;

a domestic corporation;

an estate whose income is subject to United States federal income tax regardless of its source; or

a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

If a partnership holds our Shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. If you hold our shares as a partner in a partnership, you should consult your tax advisor with regard to the U.S. federal income tax treatment of an investment in our Shares.

You should consult your own tax advisor regarding the United States federal, state, local, foreign and other tax consequences of owning and disposing of ordinary shares or ADSs in your particular circumstances. In particular, you should confirm whether you qualify for the benefits of the Treaty and the consequences of failing to do so.

**Taxation of Dividends**

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Subject to the passive foreign investment company rules discussed below, if you are a U.S. holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. If you are a noncorporate U.S. holder, dividends paid to you in taxable years beginning before January 1, 2011 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15% provided that you hold the ordinary shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends we pay with respect to the ordinary shares or ADSs generally will be qualified dividend income if you meet the holding period requirement. You must include any German tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you, in the case of ordinary shares, or the depository, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. Dollar value of the gross dividend amount, determined at the spot Euro/U.S. Dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. Dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. Dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The currency gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated

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earnings and profits, as determined for United States federal income tax purposes, will be treated as a return of capital to the extent of your basis in the ordinary shares or ADSs and thereafter as capital gain.

Subject to certain limitations, the German tax withheld in accordance with German law or the Treaty and paid over to Germany will be creditable against your United States federal income tax liability. To the extent a refund of the tax withheld is available to you under German law or under the Treaty, the amount of tax withheld that is refundable will not be eligible for credit against your United States federal income tax liability. See German Taxation Refund Procedure for U.S. Shareholders, above, for the procedures for obtaining a tax refund. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate.

Dividends constitute income from sources outside the United States, but dividends paid in taxable years beginning before January 1, 2007 generally will be passive or financial services income, and dividends paid in taxable years beginning after December 31, 2006 will, depending on your circumstances, be passive or general income which, in either case, is treated separately from other types of income for purposes of computing the foreign tax credit allowable to you.

## **Taxation of Capital Gains**

Subject to the passive foreign investment company rules discussed below, if you are a U.S. holder and sell or otherwise dispose of your ordinary shares or ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. Dollar value of the amount that you realize and your tax basis, determined in U.S. Dollars, in your ordinary shares or ADSs. Capital gain of a non-corporate U.S. holder that is recognized before January 1, 2011 is generally taxed at a maximum rate of 15% where the holder has a holding period greater than one year. Gain or loss

generally will be treated as arising from sources within the United States for foreign tax credit limitation purposes.

## **Passive Foreign Investment Company Status**

We believe that our shares and ADSs should not be treated as stock of a passive foreign investment company (PFIC), for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. If we were to become a PFIC, the tax treatment of distributions on our shares or ADSs and of any gains realized upon the disposition of our shares or ADSs may be less favorable than as described herein. You should consult your own tax advisors regarding the PFIC rules and their effect on you if you hold shares or ADSs.

## **Documents on Display**

Allianz SE is subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, Allianz SE files reports and other information with the Securities and Exchange Commission. These materials, including this annual report and the exhibits thereto, may be inspected and copied at the Commission's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Copies of the materials may be obtained from the Commission's Public Reference Room at prescribed rates. The public may obtain information on the operation of the Commission's Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330. The Commission also maintains a web site at <http://www.sec.gov> that contains reports, proxy statements and other



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information regarding registrants that file electronically with the Commission. Allianz SE's annual reports and some of the other information submitted by Allianz SE to the Commission may be accessed through this web site. In addition, material filed by Allianz SE can be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

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### **ITEM 11. Quantitative and Qualitative Disclosures about Market Risk**

**Allianz risk management is designed to add value by focusing on both risk and return.**

As a provider of financial services, we consider risk management one of our core competencies. It is therefore an integrated part of our business processes. The key elements of our risk management are:

Promotion of a strong risk culture supported by a robust risk governance structure.

Integrated risk capital framework consistently applied across the Group to protect our capital base and to support effective capital management.

Integration of risk considerations and capital needs into management and decision making processes through the attribution of risk and allocation of capital to the various segments.

#### **Risk Governance Structure**

The Allianz risk governance approach is designed to enable us to manage our local and global risks equally and to reduce the likelihood that our overall risk increases in an undetected manner. The following diagram provides an overview regarding risk-related decision-making responsibility within our risk governance structure.

The Board of Management of Allianz SE formulates business objectives and allocates capital resources across the Allianz Group, balancing return on investment and risk. The Supervisory Board Risk Committee of Allianz SE meets on a regular and ad-hoc basis to monitor the risk profile of the Allianz Group based on risk reports presented by the Chief Financial Officer and Chairman of the Group Risk Committee.

Two additional Board of Management level committees focus on the Group's risk exposure. The

Group Risk Committee monitors the Allianz Group's risk profile and availability of capital in an effort to maintain an adequate relationship between return on investment and risk. Its role is to provide for comprehensive risk awareness within the Allianz Group and to continually improve risk control. It also defines risk standards and establishes risk limits. Furthermore, it is responsible for recommending and coordinating measures to mitigate risk. The Group Finance Committee makes decisions about investments and market risks, while complying with the Allianz Group's risk framework.



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The Group Risk department ( Group Risk ), which reports to the Chief Financial Officer, develops methods and processes for identifying, assessing and monitoring risks across the Allianz Group based on systematic qualitative and quantitative analysis and regularly informs management concerning the Allianz Group s risk profile. Group Risk develops the Allianz risk framework and oversees the operating entities adherence to the framework. The core elements of the risk framework are set forth in the Group Risk Policy, which has been approved by the Board of Management of Allianz SE and which defines the minimum requirements for all operating entities within the Allianz Group. Additional risk standards, such as standards related to specific segments or risk categories, are in place for our operating entities worldwide. Group Risk is also responsible for monitoring the accumulation of specific types of risks across business lines, in particular with respect to natural disasters and business counterparties.

Local operating entities assume responsibility for their own risk management, with risk functions and committees that are similar to the Group structure. Independent risk oversight is a fundamental principle of our risk governance structure, with a clear separation between business functions that actively take decisions and assume risk responsibility, on the one hand, and independent risk oversight, on the other hand. Risk oversight consists of independent risk identification, assessment, reporting and monitoring, but also includes analyzing alternatives and proposing recommendations to the Risk Committees and local management or to the Board of Management of Allianz SE. The local risk departments performing the oversight role in our major operating entities are headed by a local Chief Risk Officer. Group Risk is represented on the local Risk Committees to enhance the risk dialogue between the Group and the operating entities.

The risk governance structure is further complemented by Group Audit, Group Compliance and Legal Services functions. On a periodic basis, Group Audit independently reviews the risk governance implementation, performs quality reviews of risk processes and tests adherence to business standards. Group Legal Services seek to mitigate legal risks with support from other departments. Legal risks include legislative changes, major litigation and disputes, regulatory proceedings and contractual

clauses that are unclear or construed differently by the courts. The Allianz Group s objective is to ensure laws and regulations are observed, to react appropriately to all impending legislative changes or new court rulings, to attend to legal disputes and litigation, and to provide legally appropriate solutions for transactions and business processes.

Allianz Group s risk landscape is continually evolving due to changes in our environment. In order to adapt, the Trend Assessment Committee is responsible for early recognition of new risks and opportunities evaluating long-term trends that may have a significant impact on the Allianz Group s risk profile. In addition, the Allianz Climate Core Group is a panel of internal experts that examines the possible effects of climate change on our business developing risk management strategies and identifying potential opportunities resulting from climate change.

## **Internal Risk Capital Framework**

We define internal risk capital as the capital required to protect against unexpected, extreme economic losses. We aggregate internal risk capital consistently across all business segments (Property-Casualty, Life/Health, Banking, Asset Management and Corporate), providing a common standard for measuring and comparing risks across the wide range of different activities that we undertake as an integrated financial service provider.

### **Value-at-Risk approach**

We use an internal risk capital model based on a Value-at-Risk ( VaR ) approach, determining a maximum loss in the value of our portfolio of businesses covered within the scope of the model (the covered business ) due to adverse market, credit, insurance and other business events,

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within a specified timeframe (holding period) and probability (confidence level). More specifically, we calculate the net fair asset value of our covered business based on values (i) under current best estimate conditions and (ii) under adverse conditions defined by scenarios for each risk category. The required internal risk capital per risk category is defined as the difference between the value of the portfolio under the best estimate scenario and under the adverse scenario. Internal risk capital is determined on a quarterly basis and results per category are

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aggregated in a manner that takes into account the diversification effect across risk categories and regions.

To calculate internal risk capital using the VaR approach at the Allianz Group level, we assume a confidence level of 99.97% and a holding period of one year, which is assumed to be equivalent to an AA rating of Standard & Poor's. We apply a holding period of one year because it is generally assumed that it may take up to one year to identify a counterparty to whom to transfer the liabilities in our portfolio. This capital requirement is sufficient to cover a loss in any one year equivalent to a 3-in-10,000 year event. Although our internal risk capital is based on extreme events, it nonetheless provides adequate indications to manage the risks resulting from reasonably possible smaller adverse events that we might identify in the near-term, because the results allow us to analyze separately and in aggregate our exposure to each source of risk.

### **Diversification and correlation assumptions**

Our internal risk capital model considers both concentration and correlation when aggregating results on the Allianz Group level, in order to reflect that not all of our potential losses are likely to be

realized at the same time. This effect is known as diversification. Managing diversification forms a central element of our risk management framework. The Allianz Group strives to diversify the risks to which it is exposed to limit the impact of any single source of risk and to help ensure that the positive developments of some businesses operate in such a manner to neutralize the possible negative developments of others.

The degree to which diversification can be realized depends in part on the level of relative concentration of those risks. For example, the greatest diversification is in general obtained in a balanced portfolio without any disproportionately large exposures to any one or more risks. In addition, the diversification effect depends upon the relationship between sources of risks. The degree of relationship between two sources of risk is referred to as correlation, characterized by a value between  $-1$  and  $+1$ . Where possible, we develop correlation parameters for each pair of risks through statistical analysis of historical data. If sufficient historical data is unavailable, we use conservative professional judgment, ruling out negative correlations, and, in general, we set the correlation parameters to represent the level of interdependency of risks under adverse conditions.

**Table of Contents****Scope**

Our internal risk capital model takes into account the following sources of risk, classified as risk categories per segment:

<b>Risk category</b>	<b>Insurance</b>	<b>Banking</b>	<b>Asset Management</b>	<b>Corporate</b>	<b>Description</b>
<b>Market risk:</b>			ü (3)		
interest rate	ü	ü		ü	Possible losses caused by changes in interest rates, equity prices, real estate values, commodity prices and exchange rates
equity	ü	ü		ü	
real estate	ü	ü		ü	
currency <sup>(1)</sup>	ü	ü (2)		ü	
<b>Credit risk:</b>			ü <sup>(3)</sup>	ü <sup>(3)</sup>	
investment	ü	ü (5)		ü	Possible losses caused by the failure of our debtors, bond issuers, reinsurance partners or counter parties to meet payment obligations or by changes in their creditworthiness
reinsurance	ü (4)				
<b>Actuarial risk:</b>					
premium CAT	ü				Unexpected financial losses due to the inadequacy of premiums for catastrophe and non-catastrophe risks, due to the inadequacy of reserves or due to the unpredictability of mortality or longevity
premium non-CAT	ü				
reserve	ü				
biometric	ü				
<b>Business risk:</b>					
operational	ü	ü	ü	ü	Cost risks, as well as operational risks which is the risk of a loss resulting from inadequate or failed internal processes, or from personnel and systems, or from external events
cost	ü	ü	ü	ü	

(1) Foreign currency risks are mainly allocated to the Corporate segment.

(2) As commodity risk is not significant on the Group level, it is covered in our internal risk capital model within currency risk.

(3) Although the internal risk capital requirements for the Asset Management segment only reflect business risk, the evaluation of market risk and credit risk on the account of third parties is an integral part of the risk management process of our local operating entities.

(4) Reinsurance credit risk also covers the premium risk which our credit insurance entity Euler Hermes is exposed to due to its business model, as this type of risk is a special form of credit risk.

(5) In the Banking segment, credit risks include default and migration risks arising from the lending and securities business and our derivatives trading activities; for the latter, settlement risk is additionally taken into account. Furthermore, credit risks include country (and transfer) risk.

Our internal risk capital model covers:

Substantially all of our major insurance and banking operations.

Substantially all of our assets (including bonds, mortgages, investment funds, loans, floating rate notes, equities and real estate) and liabilities (including the cash flow profile of all technical reserves as well as deposits and issued securities). For the Life/Health segment, the model reflects the interaction between assets and liabilities and local management decisions such as investment strategies and policyholder participation rules.

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Substantially all of our derivatives (options, swaps and futures), in particular if they form part of the operating entity's regular business model (e.g., at Dresdner Bank or Allianz Life United States) or if they have a significant impact on the resulting internal risk capital (e.g., hedges of Allianz SE or in the Life/Health segment, if material obligations to policyholders are hedged through financial derivatives). Typically, embedded derivatives contained in a host contract are also included.



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For smaller insurance operating entities that have an immaterial impact on the Group risk profile, and for the Asset Management segment, we assign internal risk capital requirements based on an approach similar to Standard & Poor's standard model, using the same risk categories as for our internal risk capital model, thereby allowing us to consistently aggregate internal risk capital for all segments to the Group level. More specifically, approximately 99% of the investments managed by the Asset Management segment are held for the benefit of either third parties or Allianz Group insurance entities and, therefore, do not result in significant market and credit risk for the Asset Management segment. As a result, the internal risk capital requirements for the Asset Management segment only reflect business risk. Furthermore, Dresdner Bank represents substantially all of the internal risk capital of our Banking segment accounting for 96% of our total Banking segment's internal risk capital. Therefore, the detailed risk discussion in the Banking segment below relates to Dresdner Bank only.

The Allianz Group's policy is to require each operating entity to match the currency of their material assets and liabilities or to otherwise hedge foreign currency risk. As a result, our residual foreign currency risk results primarily from the fair value of the net asset value of our non-Euro operating entities and certain exposures to non-Euro denominated assets and liabilities held at the Group level in currencies different to Euro. This currency risk is monitored and managed centrally at the Allianz Group level by Group Corporate Finance & Treasury and is, therefore, mostly allocated to the Corporate segment.

## **Limitations**

Our internal risk capital model expresses the potential worst case amount in economic value that we might lose at a certain level of confidence. However, there is a statistically low probability of 0.03% that actual losses could exceed this threshold.

We assume that model parameters derived from historical data can be used to characterize future possible risk events; if future market conditions differ substantially from the past as in the case of the 2007 credit crisis for which there was no precedent, then our VaR approach may be too conservative or too liberal in ways that can not be predicted. Our ability to back-test the model's accuracy is limited because of the high confidence level of 99.97% and one-year holding period. Furthermore, as historical data is used to calibrate the model, it cannot be used for validation. Instead, we validate the model and parameters through external reviews by independent consulting firms focusing on methods for selecting parameters and control processes. Overall, we believe that our model adequately assesses the risks to which we are exposed.

As our internal risk capital model considers the change in economic fair value of our assets and liabilities, it is crucial to accurately estimate the fair value of each item. For certain assets and liabilities, we apply a mark-to-model approach without having available a current market price for that instrument or similar instruments. For our liabilities, the accuracy of fair values also depends on the quality of the actuarial cash flow estimates. Despite these limitations, we believe the estimated fair values are appropriately assessed in the aggregate.

We apply customized derivative valuation tools which are suitable to our business to reflect substantially all of our derivatives in internal risk capital. Our integrated internal risk capital model for insurance operations currently only allows for the modeling of common derivatives such as equity calls, puts, forwards and interest rate swaps. For internal risk capital calculations, non-standardized instruments, such as derivatives embedded in structured financial products, are represented by the most comparable standard derivative types. The volume of non-standard instruments is not material on either the local or the Allianz Group level, but a more precise modeling of these instruments might impact the fair value and resulting internal risk capital for these derivatives. However, we believe that any such change would not be material.

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**Capital Management**

The Allianz internal risk capital model plays a significant role in solvency management and capital allocation. Our aim is to ensure that the Allianz Group is adequately capitalized at all times, even following a significant adverse event, and that all operating entities meet their respective capital requirements. In addition, we employ a value-based approach (Economic Value Added or EVA), among other approaches, to measure and manage our business activities as well as to optimize capital allocation across the Allianz Group. Internal risk capital is a key parameter of our EVA-approach.

In managing our capital position, we also consider additional external requirements of regulators and rating agencies. While meeting rating agencies' capital requirements forms a strategic business objective of the Allianz Group, capital requirements imposed by regulators constitute a binding constraint. Regulators and rating agencies impose minimum capital rules on the level of both the Allianz Group's operating entities and on the Allianz Group as a whole.

**Internal capital adequacy**

Our objective is to maintain available capital at the Group level in excess of the minimum requirements that are determined by our internal risk capital model according to a solvency probability of 99.97% over a holding period of one year. In support of this objective, we require our local operating entities to hold available capital resources allowing them to remain solvent at a lower confidence level of 99.93% over the same one-year holding period. In doing so, we take into account the benefits of a single operating entity being part of a larger, diversified Group.

The Allianz Group's available capital is based on published shareholders' equity adjusted to reflect the full economic capital base available to absorb any unexpected volatility in results of operations. For example, the present value of future profits in the Life/Health segment and hybrid capital are added to shareholders' equity, whereas goodwill and other intangible assets are subtracted therefrom.

*Available capital<sup>(1)</sup> and internal risk capital*

*in bn*

Our available capital at December 31, 2007 amounted to 63.8 billion (2006: 70.2 billion), while our internal capital requirements at December 31, 2007 amounted to 33.4 billion (2006: 35.8 billion), resulting in a capital adequacy ratio of 191.0% at December 31, 2007, compared to 196.1% at December 31, 2006. The decrease of 9.1% in available capital was primarily driven by a decrease of shareholders' equity due to the buy-out by Allianz of the minority interests in AGF.

The Allianz Group-wide internal risk capital after Group diversification and before minority interests of 33.4 billion at December 31, 2007 reflects a realized diversification benefit on the Group level of approximately 54%. Non-diversified and Group diversified internal risk capital are broken down as follows:

(1) The figure for available capital in 2006 has been adjusted. See Note 3 to our consolidated financial statements for further information.

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*Allocated internal risk capital by risk category (total*

*portfolio before minority interest)*

*in mn*

*Allocated internal risk capital by segment (total portfolio*

*before minority interest)*

*in mn*

The overall decrease of 6.8% in internal risk capital in 2007 was due to a decline in market risk, which is discussed in more detail in the respective section.

## **Regulatory capital adequacy**

Under the EU Financial Conglomerates Directive, a supplementary European Union directive, a financial conglomerate is defined as any financial parent holding company that, together with its subsidiaries, has significant cross-border and cross-sector activities. The Allianz Group is a financial conglomerate within the scope of the Directive and related German law. The law requires that a financial conglomerate calculates the capital needed to meet its solvency requirements on a consolidated basis.

At December 31, 2007, based on the current status of discussion, our eligible capital for the solvency margin required for our insurance segments and our banking and asset management business is 45.5 billion (2006: 49.5 billion) including off-balance sheet reserves<sup>(2)</sup>, surpassing the minimum legally stipulated level by 16.6 (2006: 23.4 billion). This margin results in a preliminary cover ratio of 157% at December 31, 2007 (2006: 190%). The decrease of 8.1% in eligible capital was primarily driven by a decrease of shareholders' equity due to the buy-out by Allianz of the minority interests in AGF. See Note 23 to our consolidated financial statements for further information with respect to capital requirements.

## **Rating agency capital adequacy**

Rating agencies apply their own models to evaluate the relationship between the required risk capital of a company and its available capital resources. Assessing capital adequacy is usually an integral part of the rating process. At December 31, 2007, the financial strength of Allianz SE was rated

- (1) The figure for available capital in 2006 has been adjusted. See Note 3 to our consolidated financial statements for further information.
- (2) Off-balance sheet reserves represent the difference between the fair value and the amortized cost of real estate used by third parties and investments in associates and joint ventures, net of deferred taxes, policyholders' participation and minority interests.
- (3) Represents the ratio of eligible capital to required capital.

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by Standard & Poor's as AA (stable outlook), by A. M. Best as A+ (stable outlook), and by Moody's as Aa3 (stable outlook). Subsequently to December 31, 2007, Standard & Poor's changed the outlook on its rating of Dresdner Bank (A+) from stable to negative.

In addition to its long-term financial strength rating, Standard & Poor's has introduced a new rating category for Enterprise Risk Management (ERM) which is rated separately. Standard & Poor's commenced its analysis of the Allianz risk management approach in 2006 and continued the review in 2007. Currently Standard & Poor's has assigned Allianz a Strong rating for the ERM capabilities for our insurance operations. This rating indicates that Standard & Poor's regards it unlikely that Allianz SE will experience losses outside its risk tolerance. Standard & Poor's stated that the assessment is based on the Allianz Group's strong risk management culture, strong controls for the majority of key risks and strong strategic risk management.

### **Supplementary stress test analysis**

In addition to our internal risk capital analysis, we perform regular stress tests that act as early-warning indicators in monitoring the Allianz Group's regulatory solvency capital ratios and its capital position required by rating agencies. We also apply regular stress tests on a local operating entity level in order to monitor capital requirements imposed by local regulators and rating agencies.

For example, stress test results on a Group level indicated that a 10% price decline in our available-for-sale equity securities as of December 31, 2007 would have resulted in a 2.7 billion decline in shareholders' equity before minority interests. If the interest rate had increased by 100 basis points, shareholders' equity before minority interests would have decreased by 3.6 billion, if available-for-sale fixed income securities are taken into account as of December 31, 2007.

### **Concentration of Risks**

As we are an integrated financial service provider offering a variety of products across different business segments and geographic regions, diversification is key to our business model. Diversification helps us to manage our risks efficiently by limiting the economic impact of any single event and by contributing to relatively stable results and risk profile in general. As discussed above, the degree to which the diversification effect can be realized depends not only on the correlation between risks but also on the level of relative concentration of those risks. Therefore, our aim is to maintain a balanced risk profile without any one or more disproportionately large risks.

Disproportionately large risks that might accumulate and have the potential to produce substantial losses (e.g., natural catastrophes or credit events) are closely monitored on a standalone basis (i.e., before the diversification effect) and are subject to a global limit framework. For example, the Management Board of Allianz SE has implemented a framework of natural catastrophe limits at both the operating entity and Group levels in an effort to reduce potential earnings volatility and restrict potential losses from events having an occurrence probability of once in 250 years. Group limits are linked to the planned operating profit and the limits on operating entity level are based on the Property-Casualty net asset value. Traditional reinsurance coverage and dedicated financial transactions on Group level are examples of two instruments to mitigate the peak risks and to limit the impact of adverse conditions on our financial results and shareholders' equity.

Similarly, the Group monitors and limits credit exposures to single obligors and groups. We identify and measure risk concentrations in terms of non-diversified internal risk capital in line with the risk categories covered in our internal risk capital model. In the subsequent sections all risks are presented before and after diversification and concentrations of single sources of risk are discussed accordingly.



**Table of Contents****Market Risk**

In the following, we present our Group-wide internal risk capital related to market risks.

**Allocated Internal Market Risk Capital by Business Segment and Source of Risk****Total Portfolio Before Minority Interests**

As of December 31,	Non-diversified		Group diversified	
	2007 mn	2006 mn	2007 mn	2006 mn
<b>Total Group</b>	<b>22,738</b>	<b>27,297</b>	<b>13,913</b>	<b>17,457</b>
Percentage of total Group internal risk capital	32%	36%	42%	49%
Interest rate	6,691	8,590	655	1,259
Equity	13,508	16,307	10,885	13,790
Real estate	2,238	2,265	1,088	1,083
Currency <sup>(1)</sup>	301	135	1,285	1,325
<b>Property-Casualty</b>	<b>11,066</b>	<b>12,958</b>	<b>6,477</b>	<b>8,379</b>
Interest rate	2,758	2,916	270	427
Equity	6,835	8,633	5,508	7,300
Real estate	1,385	1,290	673	617
Currency <sup>(1)</sup>	88	119	26	35
<b>Life/Health</b>	<b>5,533</b>	<b>6,219</b>	<b>2,836</b>	<b>3,244</b>
Interest rate	2,100	2,613	206	383
Equity	3,006	3,092	2,422	2,615
Real estate	427	514	208	246
Currency <sup>(1)</sup>	0	0	0	0
<b>Banking</b>	<b>2,814</b>	<b>2,940</b>	<b>1,962</b>	<b>2,090</b>
Interest rate	205	374	20	55
Equity	2,239	2,205	1,804	1,865
Real estate	157	345	76	165
Currency <sup>(2)</sup>	213	16	62	5
<b>Asset Management<sup>(3)</sup></b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Corporate</b>	<b>3,325</b>	<b>5,180</b>	<b>2,638</b>	<b>3,744</b>
Interest rate	1,628	2,687	159	394
Equity	1,428	2,377	1,151	2,010
Real estate	269	116	131	55
Currency <sup>(1)</sup>	0	0	1,197	1,285

(1) Foreign currency risks are mainly allocated to the Corporate segment (please see Internal Risk Capital Framework Scope for further information).

(2) As commodity exposure is limited to the Banking segment only and not significant on the Group level, it is covered in our internal risk capital model within currency risk.

(3) The internal risk capital requirements for the Asset Management segment only reflect business risk (please see Internal Risk Capital Framework Scope for further information).

The decrease in market risk mainly results from the sale of a significant portion of our strategic equity participations, in particular on the Corporate level and in the Property-Casualty segment. Furthermore, an increase in interest rates in Europe reduced our exposure to risk in connection with the minimum guaranteed crediting rate that we must provide to policyholders for certain of our Life/Health products.



As previously discussed, we determine internal risk capital figures on a quarterly basis. The table below presents the average internal risk capital for market risk calculated over the four quarters of 2007 and 2006, as well as the high and low quarterly internal risk capital amounts calculated in both years.

**Table of Contents****Average, High and Low Allocated Internal Market Risk Capital By Business Segment and****Source of Risk****Total Portfolio Before Minority Interests and After Group Diversification**

As of December 31,	2007			2006		
	Over quarterly results			Over quarterly results		
	Average mn	High mn	Low mn	Average mn	High mn	Low mn
<b>Total Group</b>	<b>15,559</b>	<b>16,800</b>	<b>13,913</b>	<b>17,438</b>	<b>18,565</b>	<b>16,738</b>
Interest rate	713	764	655	1,403	1,492	1,259
Equity	12,424	13,662	10,885	13,713	14,908	12,913
Real estate	1,072	1,103	1,038	967	1,083	910
Currency <sup>(1)</sup>	1,350	1,409	1,285	1,355	1,433	1,317
<b>Property-Casualty</b>	<b>7,299</b>	<b>7,948</b>	<b>6,476</b>	<b>8,595</b>	<b>9,458</b>	<b>8,243</b>
Interest rate	301	330	270	456	478	427
Equity	6,331	7,020	5,508	7,481	8,291	7,137
Real estate	636	673	593	624	672	599
Currency <sup>(1)</sup>	31	33	26	34	35	33
<b>Life/Health</b>	<b>3,074</b>	<b>3,215</b>	<b>2,835</b>	<b>3,177</b>	<b>3,247</b>	<b>3,094</b>
Interest rate	210	226	195	468	517	383
Equity	2,650	2,781	2,422	2,478	2,615	2,369
Real estate	214	223	208	238	246	233
Currency <sup>(1)</sup>	0	0	0	0	0	0
<b>Banking</b>	<b>2,116</b>	<b>2,326</b>	<b>1,962</b>	<b>2,103</b>	<b>2,198</b>	<b>1,929</b>
Interest rate	25	33	20	60	68	55
Equity	1,933	2,136	1,804	2,000	2,137	1,865
Real estate	113	159	76	(4)	(4)	(4)
Currency <sup>(2)</sup>	45	62	28	(4)	(4)	(4)
<b>Asset Management<sup>(3)</sup></b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Corporate</b>	<b>3,071</b>	<b>3,521</b>	<b>2,639</b>	<b>3,562</b>	<b>3,931</b>	<b>3,202</b>
Interest rate	177	185	159	422	448	394
Equity	1,510	1,988	1,151	1,757	2,192	1,285
Real estate	109	131	63	65	75	55
Currency <sup>(1)</sup>	1,275	1,339	1,197	1,319	1,400	1,283

(1) Foreign currency risks are mainly allocated to the Corporate segment (please see Internal Risk Capital Framework Scope for further information).

(2) As commodity exposure is limited to the Banking segment only and not significant on the Group level, it is covered in our internal risk capital model within currency risk.

(3) The internal risk capital requirements for the Asset Management segment only reflect business risk (please see Internal Risk Capital Framework Scope for further information).

(4) Only year-end results available for 2006.

In addition to the information given in the following paragraphs, the quantitative contributions of the non-trading and trading positions to the overall internal risk capital for market risk is presented at the end of this section.

**Non-trading portfolios**

The Allianz Group's non-trading portfolios contain all non-trading activities of the Banking segment as well as the financial assets and liabilities of the Property-Casualty, Life/Health and Corporate segments. The Allianz Group holds and uses many

different financial instruments in managing its businesses. Grouped according to our internal risk capital model categories, the following are the most significant market risks in terms of market values: equity price risk (including common shares and preferred shares), interest rate risk (from bonds, loans and mortgages) and currency risk (especially the impact of foreign exchange rate movements on the net asset value of our non-Euro denominated operating entities).

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### ***Property-Casualty and Life/Health segments***

As of December 31, 2007, most of the Allianz Group's insurance-related equity investments are intended to be held long-term. 63% of the non-diversified internal risk capital allocated to the Property-Casualty and Life/Health segments for equity risk is assigned to our operating entities in Germany, Italy, France and the U.S.

The interest rate risk to which the Property-Casualty and Life/Health segments are exposed arises from the net position between our insurance liabilities and the investments in fixed income instruments, in particular bonds, loans and mortgages, backing policyholder obligations that are different in terms of maturity and size. Our internal risk capital model provides management with information regarding the cash flow profiles of the segments' liabilities, which allows for active monitoring and management of our assets and liabilities. While the potential payments related to our liabilities in the Property-Casualty segment are typically shorter in maturity than the financial assets backing them, the opposite usually holds true for our Life/Health segment, which provides us with a natural hedge at the Allianz Group level.

We have allocated a significant part of the Life/Health segment's non-diversified internal risk capital for interest rate risk to Western Europe (47% as of December 31, 2007), mainly to cover traditional life insurance products. Traditional products sold in Western Europe generally feature policyholder participation in the profits (or losses) of the insurance company issuing the contract, subject to a minimum guaranteed crediting rate. In particular, our Life/Health contracts in Germany, France, Switzerland and Austria comprise a significant level of policyholder participation, limiting all sources of risk, including market, credit, actuarial and cost risks, which would otherwise be borne by Allianz. On the other hand, in accordance with the guarantees related to these arrangements, we must credit minimum rates for individual contracts (e.g., in Germany, France, U.S., Italy and South Korea). As interest rates may fall below the guaranteed crediting rates in those markets, we are exposed to interest rate risk. The valuation of these guarantees, which take into account the interaction of investment strategy and obligations to policyholders, forms an integral part of our internal risk capital model.

### ***Banking Segment***

The market risk in the non-trading portfolio of the Banking segment comprises interest rate risk and equity risk. The interest rate risk in the non-trading portfolio arises from loans and deposits, issued securities, interest rate related investment securities as well as corresponding hedges and also from long-term fixed rate loans funded in part by short-term deposits. The equity risk arises from available-for-sale securities with equity characteristics. Dresdner Bank manages this risk by setting VaR limits. At December 31, 2007, the Dresdner Bank diversified VaR, with a 99% confidence level and 10-day holding period, for market risks in the non-trading portfolio amounted to 15.8 million, compared to 15.5 million at December 31, 2006.

### ***Asset Management segment***

Although the internal risk capital requirements for the Asset Management segment only reflect business risk, the evaluation of market risk and credit risk on the account of third parties is an integral part of the risk management process of our local operating entities. Our Asset Management operating entities monitor market risks using VaR models, sensitivity analyses and stress tests that estimate the potential loss under extreme market conditions. All underlying models are regularly reviewed by the risk departments of the respective local operating entities.

### ***Corporate segment***

The primary Corporate risks are interest rate, equity and foreign currency risks. The Corporate segment manages the equity investments of Allianz SE and its finance subsidiary holding companies, as well as securities issued to fund the capital requirements of the Allianz Group. The issued securities include structured products that might be partly repaid with equity participation securities held in our asset portfolio. Some of the securities issued qualify as eligible capital for existing regulatory solvency requirements to the extent they constitute subordinated debt or are perpetual in nature.

On the level of the Corporate segment we are exposed to foreign currency risk because some of our subsidiaries' local currencies are different from the Euro. If non-Euro foreign exchange rates decline against the Euro, from a Group perspective, the Euro equivalent net asset values also decline. Our primary exposures to foreign currency risk are related to the U.S. Dollar, Swiss Franc and South Korean Won.

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**Table of Contents****Trading portfolios**

The trading portfolios of the Allianz Group consist of all assets and liabilities classified as held for trading positions, most of which are to be found in the Banking segment. Activities in the Property-Casualty, Life/Health and Corporate segments designated as trading for accounting purposes relate mainly to hedging instruments for our insurance liabilities; in general, we do not actively trade structural hedge positions and they are not internally classified as trading. Trading activities in the Asset Management segment are immaterial. In our worldwide hedging and trading activities, the Allianz Group uses financial derivatives for the management of market risks and as a component of structured financial transactions. In terms of volume, the primary derivative products entered into by the Allianz Group are interest rate swaps, futures and options as well as foreign exchange forwards and equity derivatives.

***Property-Casualty, Life/Health and Corporate segments***

The Property-Casualty, Life/Health and Corporate segments generally do not engage in trading activities. In general, for accounting purposes and from a management perspective, financial instruments are classified as held-for-trading if they are financial assets or financial liabilities that are acquired or incurred for the purpose of selling or repurchasing them in the near term. For accounting purposes, however, all derivative instruments must be classified as trading regardless of their specific use within the business or of whether management intends to sell or repurchase them in the near term, and as such, the accounting classification may differ from Allianz Group's management view. The market risk data for the trading portfolios of these segments reflects risks related to such derivatives that are required to be treated as trading for accounting purposes. However, derivatives used in the Allianz Group's insurance operations and in the Corporate segment are principally used for hedging and not for trading purposes, and, as such, from a management perspective, we do not view them as trading.

***Banking segment***

The Banking segment is active in trading equities, interest rate instruments, foreign exchange, commodities and derivatives. The Banking segment

uses derivatives in its trading portfolios primarily to meet customer demands as well as to hedge market and credit risks. Derivatives are also used to take advantage of market opportunities. Dresdner Bank has expanded its use of credit and foreign exchange derivatives in order to meet client demands in this product field.

Although our internal risk capital model generally uses a one-year holding period and a confidence level of 99.93% for local operating entities, Dresdner Bank calculates market VaR figures based on different confidence level and holding period assumptions for its regulatory reporting as well as for the purposes of internal limit setting and risk management. These assumptions take into account that Dresdner Bank's trading portfolio can be transferred significantly faster than insurance liabilities.

Dresdner Bank's VaR model, which is used to evaluate capital adequacy for regulatory purposes and which produces the input for the Group's internal risk capital model, applies a confidence level of 99% and a 10-day holding period. This model has been approved by the German regulator, BaFin. For the purpose of risk management and internal limit setting, Dresdner Bank calculates its VaR with a confidence level of 95% and a one-day holding period. Unlike the VaR calculation required by the BaFin, this model assigns greater weight to the most recent market fluctuations. In doing so, Dresdner Bank endeavors to reflect current market trends on a timely basis.

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VaR is only one of the instruments used to characterize and control the market risk profile of Dresdner Bank. In addition, Dresdner Bank uses operational risk indicators and limits that are specifically adapted to the risk situation of the trading units. Current limit utilization is determined and monitored on a daily basis. Limit breaches, if any, are immediately communicated to management so that corrective action can be taken.

The VaR for market risks within Dresdner Bank's trading portfolio is calculated based on the industry-standard and Basel II compliant confidence level of 99% and holding period of 10 days. The Dresdner Bank diversified VaR amounted to 44 million at December 31, 2007, compared to 57 million at December 31, 2006. This decrease was mainly caused by lower interest rate risks due to an adjusted risk exposure.

**Table of Contents****VaR Statistics for Market Risks within Dresdner Bank's Trading Portfolio (99% Confidence Level, 10-day Holding Period)**

	2007	2006	2007			2006		
	As of December 31,		Over daily results			Over daily results		
	mn	mn	Average	High	Low	Average	High	Low
			mn	mn	mn	mn	mn	mn
<b>Non-diversified</b>	<b>85</b>	<b>100</b>	<b>83</b>	(1)	(1)	<b>87</b>	(1)	(1)
Interest rate	30	43	35	55	22	51	77	32
Equity	41	44	32	63	15	23	85	8
Commodity	5	4	5	34	3	3	17	1
Currency	9	9	11	22	3	10	25	1
<b>Dresdner Bank diversified</b>	<b>44</b>	<b>57</b>	<b>42</b>	<b>67</b>	<b>26</b>	<b>46</b>	<b>89</b>	<b>26</b>

(1) The high and low values for non-diversified VaR can not be reasonably calculated as a sum, since the single values are measured on different dates.

These market risks are integrated into the Allianz Group-wide internal risk capital model. To this end, Dresdner Bank converts its VaR calculated using a 99% confidence interval and 10-day holding period to match Allianz's Group-wide internal risk capital standards for time horizon (one year) and confidence level (99.93%). The conversion is based on the methodology used by industry regulators to convert VaR into regulatory capital requirements. Through this conversion, we achieve the comparability and integration of Dresdner Bank results into the Group-wide analysis.

**Contributions of trading and non-trading portfolios**

The following tables show the contribution of non-trading and trading positions to the overall internal risk capital for market risks of the Allianz Group. The figures take into account the diversification effect for all the main sources of risk addressed in our internal risk capital model. Certain financial instruments are included in more than one risk category because they may be affected by changes in more than one parameter. For example, equities denominated in non-Euro currencies are affected by fluctuation in both stock prices and exchange rates.



**Table of Contents****Allocated Internal Market Risk Capital By Business Segment and Source of Risk****Non-Trading Portfolio Before Minority Interests and After Group Diversification**

As of December 31,	2007	2006
	mn	mn
<b>Property-Casualty</b>	<b>6,360</b>	<b>8,307</b>
Interest rate	265	418
Equity	5,396	7,237
Real estate <sup>(1)</sup>	673	617
Currency <sup>(2)</sup>	26	35
<b>Life/Health</b>	<b>2,625</b>	<b>3,014</b>
Interest rate	205	383
Equity	2,212	2,385
Real estate <sup>(1)</sup>	208	246
Currency <sup>(2)</sup>	0	0
<b>Banking</b>	<b>1,885</b>	<b>2,030</b>
Interest rate	11	47
Equity	1,743	1,818
Real estate <sup>(1)</sup>	76	165
Currency <sup>(3)</sup>	55	0
<b>Asset Management<sup>(4)</sup></b>	<b>0</b>	<b>0</b>
<b>Corporate</b>	<b>2,482</b>	<b>3,604</b>
Interest rate	159	394
Equity	1,029	1,872
Real estate <sup>(1)</sup>	131	55
Currency <sup>(2)</sup>	1,163	1,283
<b>Total</b>	<b>13,352</b>	<b>16,955</b>

(1) All real estate assets are non-trading.

(2) Foreign currency risks are mainly allocated to the Corporate segment (please see Internal Risk Capital Framework Scope for further information).

(3) As commodity risk is not significant on the Group level, it is covered in our internal risk capital model within currency risk.

(4) The internal risk capital requirements for the Asset Management segment only reflect business risk (please see Internal Risk Capital Framework Scope for further information).

**Table of Contents****Allocated Internal Market Risk Capital By Business Segment and Source of Risk****Trading Portfolio Before Minority Interests and After Group Diversification**

As of December 31,	2007	2006
	mn	mn
<b>Property-Casualty</b>	<b>117</b>	<b>72</b>
Interest rate	5	9
Equity	112	63
Real estate <sup>(1)</sup>	0	0
Currency <sup>(2)</sup>	0	0
<b>Life/Health</b>	<b>211</b>	<b>230</b>
Interest rate	1	0
Equity	210	230
Real estate <sup>(1)</sup>	0	0
Currency <sup>(2)</sup>	0	0
<b>Banking</b>	<b>77</b>	<b>60</b>
Interest rate	9	8
Equity	61	47
Real estate <sup>(1)</sup>	0	0
Currency <sup>(3)</sup>	7	5
<b>Asset Management<sup>(4)</sup></b>	<b>0</b>	<b>0</b>
<b>Corporate</b>	<b>156</b>	<b>140</b>
Interest rate	0	0
Equity	122	138
Real estate <sup>(1)</sup>	0	0
Currency <sup>(2)</sup>	34	2
<b>Total</b>	<b>561</b>	<b>502</b>

(1) All real estate assets are non-trading.

(2) Foreign currency risks are mainly allocated to the Corporate segment (please see Internal Risk Capital Framework Scope for further information).

(3) As commodity risk is not significant on the Group level, it is covered in our internal risk capital model within currency risk.

(4) The internal risk capital requirements for the Asset Management segment only reflect business risk (please see Internal Risk Capital Framework Scope for further information).

**Table of Contents****Credit Risk**

Credit risk arises from claims against various obligors such as borrowers, counterparties, issuers, guarantors and insurers. Losses may result from the following events:

Changes in creditworthiness of an obligor, including ultimately its failure to meet payment obligations (default and migration risk);

Default on local government debt or temporary suspension of payment obligations ( moratorium ), deterioration of economic or political conditions, expropriation of assets, inability to transfer assets abroad due to sovereign intervention, etc. (country risk including transfer risk); and

Failure in the settlement of transactions (settlement risk).

Group Risk's obligor credit risk management framework is comparable to those widely used in the industry and is based on internal ratings, estimates of exposure at default ( EAD ) and loss given default

( LGD ). These measurements are all estimated using statistical analysis and professional judgment. Our aggregation methodology is comparable to approaches widely used in the industry known as structural model . In a structural model, a counterparty is deemed to have defaulted when the value of its total assets is lower than its total liabilities. Since changes in the asset value of a company determine whether it defaults or migrates from one credit class to another, the correlation between different firms' asset values determines the correlation between the firms' defaults and migrations. Estimating these parameters allows us to aggregate credit risk across individual obligors using Monte-Carlo simulations to obtain the loss profile of a given portfolio i.e., its loss probability distribution. The loss profile is the basis of our internal credit risk capital model.

We monitor and manage credit risks pursuant to a limit system applicable to the entire Allianz Group. The limit system aggregates major risks having Group-wide significance such as credit insurance, lending, reinsurance recoverables and our fixed income investments and serves as the basis for controlling the risk on an Allianz Group-wide basis.

**Allocated Internal Credit Risk Capital By Business Segment and Source of Risk****Total Portfolio Before Minority Interests**

As of December 31,	Non-diversified		Group diversified	
	2007 mn	2006 mn	2007 mn	2006 mn
<b>Total Group</b>	<b>7,983</b>	<b>8,005</b>	<b>5,701</b>	<b>5,767</b>
Percentage of total Group internal risk capital	11%	11%	17%	16%
Investment	5,839	5,949	4,128	4,307
Reinsurance	2,144	2,056	1,573	1,460

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<b>Property-Casualty</b>	2,779	2,583	2,016	1,844
Investment	832	719	588	521
Reinsurance	1,947	1,864	1,428	1,323
<b>Life/Health</b>	<b>936</b>	<b>949</b>	<b>668</b>	<b>685</b>
Investment	739	757	523	548
Reinsurance	197	192	145	137
<b>Banking</b>	4,216	4,470	2,981	3,236
<b>Asset Management<sup>(1)</sup></b>	0	0	0	0
<b>Corporate</b>	52	3	36	2

<sup>(1)</sup> The internal risk capital requirements for the Asset Management segment only reflect business risk (please see Internal Risk Capital Framework Scope for further information).

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In spite of the overall difficult credit market worldwide in the second half of 2007, our internal credit risk capital remained rather stable in 2007 in comparison with 2006, mainly due to risk mitigating measures such as the closing of a non-investment grade commercial paper portfolio at Dresdner Bank early in 2007.

### **Property-Casualty, Life/Health and Corporate segments**

In the Property-Casualty and Life/Health segments, credit risks arising from reinsurance counterparties are considered separately from issuer and counterparty risks arising from our investment activities, though the same methodology is applied. For the Corporate segment, our internal risk capital model covers only investment credit risk, as reinsurance activities are generally allocated to the Property-Casualty segment.

### ***Reinsurance credit risk***

Reinsurance credit risk also covers the premium risk which our credit insurance entity Euler Hermes is exposed to due to its business model, as this type of risk is a special form of credit risk. As of December 31, 2007, it represented 61% of our total Group non-diversified internal risk capital allocated to credit reinsurance risk.

We take steps to limit our liability from insurance business by ceding part of the risks we assume to the international reinsurance market. When selecting our reinsurance partners, we consider only companies with strong credit profiles. We may also require letters of credit, cash deposits or other financial measures to further mitigate our exposure to credit risk. To manage the related credit risk, we compile Allianz Group-wide data on potential and actual recoverables in respect of reinsurance losses. At December 31, 2007, 77% of the Allianz Group's reinsurance recoverables were distributed among reinsurers that had been assigned at least an A rating by Standard & Poor's. Non-rated reinsurance recoverables represented 23% of the total reinsurance recoverables at December 31, 2007, which is a reduction of 8% in non-rated exposure from December 31, 2006. Reinsurance recoverables

without Standard & Poor's rating include exposures to brokers, companies in run off and pools, where no rating is available, and companies rated by A.M. Best.

As of December 31, 2007, 13% of our total Group non-diversified internal risk capital allocated to credit reinsurance risk was assigned to our operating entities in the U.S.

*Reinsurance recoverables by rating class<sup>(1)</sup> as of*

*December 31, 2007*

*in bn*

<sup>(1)</sup> Represents gross exposure broken down by reinsurer.

*Investment credit risk*

As of December 31, 2007, our operating entities in the U.S. accounted for 20% of the non-diversified internal risk capital allocated to our Property-Casualty, Life/Health and Corporate segments for credit investment risk.

We limit the credit risk of our fixed income investments by setting high requirements on the creditworthiness of our issuers, by diversifying our investments and by setting limits for credit concentrations. We track the+ limit utilization by consolidating and monitoring our exposure across individual debtors and across all investment categories and business segments on a monthly basis. At December 31, 2007, approximately 95% of the fixed income investments of the insurance companies of the Allianz Group had an investment grade rating and approximately 90% of these investments were distributed among obligors that had been assigned at least an A rating by Standard & Poor s.

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*Fixed income investments by rating class as of*

*December 31, 2007*

*fair values in bn*

In addition to these fixed income investments, Allianz Group has also non-tradable mortgage loan portfolios in Germany and the U.S. At December 31, 2007, 98% of the German mortgage portfolio obligors were assigned a Standard & Poor's equivalent investment grade rating of at least A based on an internal scoring. The U.S. commercial mortgage loan investments are subject to thorough credit assessment and conservative underwriting by the responsible credit managers. There have been no delinquent or foreclosed non-tradeable commercial mortgage loans since 1994, and we thus regard the portfolio as investment grade. The North American Allianz insurance companies have a residential mortgage portfolio exposure of less than \$2,000,000.

**Banking segment**

As of December 31, 2007, approximately half (51%) of total Group non-diversified internal credit risk capital was represented by Dresdner Bank. In the Banking segment, credit risks include default and migration risks arising from the lending and securities business and our derivatives trading activities; for the latter, settlement risk is additionally taken into account. Furthermore, credit risks include country (and transfer) risk.

We use our customers' credit ratings as the central element for our approval, monitoring and control process. In this process, the creditworthiness of our customers is represented in the form of rating classes with each class representing a different average probability of default. We use a system with 16 distinct rating classes: The first six classes correspond to investment grade, classes VII to XIV signify non-investment grade. Rating classes XV

and XVI are default classes according to the Basel II definition. We assess and improve our rating procedures on an ongoing basis.

The total credit risk exposure of Dresdner Bank of 299 billion includes loan limits from lending business and market values of trading positions, which for derivatives is the positive replacement value plus risk-based add-ons to reflect possible future changes in market prices. At December 31, 2007, approximately 74.6% of total credit risk exposure of Dresdner Bank was included in the rating classes I to VI, compared to 77.1% at December 31, 2006.

*Credit profile of Dresdner Bank's rated portfolio as of*

*December 31, 2007*

*in %*

Despite the difficult market conditions in certain business segments especially in the second half of the year loan volumes and quality remained stable. The implementation of a value-oriented growth strategy as well as further enhancements in loan processes contributed to this stable development. At December 31, 2007, approximately 68% (2006: 68%) of Dresdner Bank's loans (measured by limits) were with investment grade obligors.

In line with the observed portfolio quality, our total volume of problem loans and potential problem loans (measured by usage), which are two additional indicators for the quality of the loan portfolio, decreased from approximately 2.0 billion at December 31, 2006 to 1.8 billion at December 31, 2007.

#### **Asset Management segment**

As part of the investment management process, the Asset Management segment's entities assess credit risk affecting their customers' portfolios.



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Though our asset management companies do not engage in any lending transactions, counterparty risks can arise in certain circumstances, such as with broker-related over-the-counter transactions. Our asset management companies analyze the creditworthiness of their counterparties and set limits per counterparty based on objective criteria.

**Actuarial Risk**

Actuarial risks consist of premium and reserve risks in the Property-Casualty segment as well as biometric risks in our Life/Health segment. In the Banking and Asset Management segments, actuarial risks are not relevant. Although the Corporate segment provides some guarantees that transfer small parts of the actuarial risk away from local entities, such risk is primarily transferred by internal reinsurance and allocated to the Property-Casualty segment.

**Allocated Internal Actuarial Risk Capital by Business Segment and Source of Risk<sup>(1)</sup>****Total Portfolio Before Minority Interests**

As of December 31,	Non-diversified		Group diversified	
	2007	2006	2007	2006
	mn	mn	mn	mn
<b>Total Group</b>	<b>23,038</b>	<b>21,928</b>	<b>6,521</b>	<b>5,846</b>
Percentage of total Group internal risk capital	32%	29%	20%	16%
Premium CAT	5,780	5,261	1,077	831
Premium non-CAT	8,284	8,315	3,249	3,172
Reserve	8,037	7,485	2,170	1,823
Biometric	937	867	25	20
<b>Property-Casualty</b>	<b>21,705</b>	<b>20,981</b>	<b>6,389</b>	<b>5,807</b>
<b>Life/Health</b>	<b>950</b>	<b>947</b>	<b>29</b>	<b>39</b>
<b>Corporate<sup>(2)</sup></b>	<b>383</b>	<b>0</b>	<b>103</b>	<b>0</b>

(1) As risks are measured by an integrated approach on an economic basis, internal risk capital takes reinsurance effects into account.

(2) Allianz SE has a conditional commitment to make capital payments to Fireman's Fund Insurance Co. In particular, Allianz SE is required to make these payments in case of future negative developments of the reserves for the year 2003 and before. They are limited to US Dollar 1.1 billion.

Internal reserve risk capital increased, as we changed the reinsurance structure and further improved our internal risk capital model. The rise of the internal premium catastrophe risk capital was mainly due to an enhancement of the respective simulation models and their coverage.

The table below presents the average internal risk capital calculated for actuarial risks over the four quarters of 2007 and 2006, as well as the high and low quarterly internal risk capital amounts calculated in both years.

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Average, High and Low Allocated Internal Actuarial Risk Capital by Source of Risk

Total Portfolio Before Minority Interests and After Group Diversification

	2007			2006		
	Over quarterly results			Over quarterly results		
	Average	High	Low	Average	High	Low
	mn	mn	mn	mn	mn	mn
<b>Total Group</b>	<b>6,311</b>	<b>6,521</b>	<b>6,111</b>	<b>6,166</b>	<b>6,752</b>	<b>5,846</b>
Premium CAT	1,007	1,077	953	887	993	828
Premium non-CAT	3,210	3,249	3,143	3,334	3,677	3,172
Reserve	2,071	2,170	1,984	1,926	2,063	1,823
Biometric	23	25	21	20	20	18

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### **Property-Casualty segment**

A substantial portion of the Property-Casualty segment's non-diversified internal actuarial risk capital was assigned to our operating entities in Germany, Italy, France and the U.S. (47% as of December 31, 2007).

#### ***Premium risk***

Premium risk represents risk that, during a one-year time horizon, underwriting profitability is less than expected. Such risk is subdivided into catastrophe risk (CAT risk) and non-catastrophe risk (non-CAT risk). We primarily quantify and manage premium risk based on actuarial models that are used to derive loss distributions for each risk.

Natural disasters such as earthquakes, storms and floods represent a special challenge for risk management due to their accumulation potential and occurrence volatility. In order to measure such risks and better estimate the potential effects of natural disasters, we use special modeling techniques in which we combine data about our portfolio (such as the geographic distribution and characteristics of insured objects and their values), with simulated natural disaster scenarios to estimate the magnitude and frequency of potential losses. Where such models do not exist (for example, hail risk in Germany), we use a scenario-based methodology.

Nearly a third (31% as of December 31, 2007) of the non-diversified internal premium risk capital allocated to natural catastrophe risk was borne by our operating entities in Germany and the U.S. Our exposure to losses from European windstorm is our largest exposure to natural catastrophe, followed by U.S. hurricane and California earthquake.

Our loss potential net of reinsurance for European wind-storm is approximately 900 million, measured at a probability level of once in 250 years (i.e., 0.4%).

#### ***Reserve risk***

Reserve risk represents the risk of losses emerging on claims provisions over a one-year time

horizon. We measure and manage reserve risks by constantly monitoring the development of the provisions for insurance claims and change the provision for reserves in line with actuarial standards if necessary. We use approaches that are similar to the methods used for setting the reserves.

### **Life/Health segment**

#### ***Biometric risk***

We consider mortality and longevity risks which can cause variability in policyholder benefits resulting from the unpredictability of the (non-)incidence of death and the timing of its occurrence. For modeling these risks within our internal risk capital model, we distinguish level, trend and calamity risk. Biometric assumptions, such as life expectancy, play a significant role. To the extent available, we use assumptions approved by supervisory authorities and actuarial associations to enhance our models.

Due to the offsetting effects of mortality risk and longevity risk inherent in the combined portfolios of life insurance and annuity products, as well as due to a geographically diverse portfolio, our Life/Health segment does not have significant concentrations of biometric risk.

### **Business Risk**

Business risks consist of operational risks and cost risks. Operational risks represent the loss resulting from inadequate or failed internal processes, or from personnel and systems, external events (such as interruption of business operations due to a break-down of electricity or a flood), damage caused by employee fraud or the losses caused by court cases. Operational risks do not include strategic risk and reputational risks, which are excluded in accordance with the requirements of Solvency II and Basel II. Cost risks consist of unanticipated fluctuations in earnings arising from a decline in income without a corresponding decrease in expenses and include the risk of budget deficits resulting from lower revenues or higher costs than budgeted.

**Table of Contents****Allocated Internal Business Risk Capital by Business Segment****Total Portfolio Before Minority Interests**

As of December 31,	Non-diversified		Group diversified	
	2007 mn	2006 mn	2007 mn	2006 mn
<b>Total Group</b>	<b>18,365</b>	<b>18,145</b>	<b>7,233</b>	<b>6,716</b>
Percentage of total Group internal risk capital	25%	24%	22%	19%
Property-Casualty	6,425	6,480	2,064	1,941
Life/Health	4,288	3,896	1,840	1,509
Banking	1,630	1,497	634	570
Asset Management <sup>(1)</sup>	5,576	5,662	2,621	2,605
Corporate	446	610	74	91

<sup>(1)</sup> The internal risk capital requirements for the Asset Management segment only reflect business risk (please see Internal Risk Capital Framework Scope for further information).

The increase of internal business risk capital for the Life/ Health segment is mainly due to expanding the scope of our internal risk capital model by systematically taking into account the unit-linked business in our operating entities. In addition, the regular update of assumptions (e.g., lapse and mortality rates) at the beginning of the year contributed to the overall increase, as we take into account the experience of the previous year when determining the adverse scenarios.

Internal business risk capital for the Asset Management segment remained to be the highest Group-diversified figure compared with other segments. This is due to the high volume of third party assets under management coupled with the inherent conservative risk factor incorporated within the aforementioned approach similar to Standard & Poor's standard model. As discussed, because substantially all of the investments managed by the Asset Management segment are held for the benefit of either third parties or Allianz insurance entities, we are not exposed to significant market and credit risk in the Asset Management segment. As a result, the internal risk capital requirements for the Asset Management segment only reflect business risk.

Allianz has developed a Group-wide operational risk framework that focuses on early recognition and pro-active management of operational risks. The framework defines roles and responsibilities, risk processes and methods and has been implemented at the major Allianz Group companies. Local risk managers ensure this framework is implemented in the respective operating entities.

The operating entities identify and evaluate relevant operational risks and control weaknesses through a bottom-up approach via a structured self assessment. Complementing our pro-active local management approach, operational losses are collected in a central loss database and an analysis of the causes for significant losses is used to enable the operating entities to implement measures to avoid or reduce future losses. The measures adopted may include revising processes, improving failed or inappropriate controls, installing comprehensive security systems and strengthening emergency plans. This structured reporting is designed to provide comprehensive and timely information to senior management of the relevant local operating entities.

**Other Risks**

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There are certain risks that cannot be fully quantified across the Group using our internal risk capital model. For these risks, we also pursue a systematic approach with respect to identification, analysis, assessment and monitoring. In general, the risk assessment is based on qualitative criteria or scenario analyses. The most important of these other risks include liquidity, reputational and strategic risk.

### **Liquidity risk**

Liquidity risk is the risk that short-term current or future payment obligations cannot be met or can only be met on the basis of altered conditions, along with the risk that in the event of a company liquidity crisis, refinancing is only possible at higher interest rates or that assets may have to be liquidated at a

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discount. This risk can arise primarily if there are mismatches in the timing of cash payments and funding obligations. Liquidity risk does not include the risk of a change in market prices due to a worsening of the market liquidity of assets, as this is a component of market risk analyzed through our internal risk capital model (e.g., the assumed volatility of real estate investments takes into account historical observations). Funding risk, a particular form of liquidity risk, arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

### ***Corporate segment***

On the Group level, liquidity risks arise mainly from capital requirements of subsidiaries and necessary refinancing of expiring strategic financial liabilities. The liquidity position of Allianz SE is monitored on a daily basis and reported to the Board of Management regularly. The main tools to limit unforeseen liquidity requirements are committed credit lines from banks, commercial paper facilities, medium-term debt issuance programs, access to the market of sale and repurchase agreements (the so-called Repo market) as well as internal resources in the form of intra-Group loans and an international cash pooling infrastructure.

### ***Property-Casualty and Life/Health segments***

Our insurance operating entities manage liquidity risk locally, using local asset-liability management systems designed to ensure that assets and liabilities are adequately matched. To the extent available, the approaches used to project the liability cash flows for the Property-Casualty segment are similar to the methods used for setting reserves.

Liquidity risk in our insurance segments is a secondary risk following external events, such as natural disasters, that are generally reflected in our internal risk capital model. Therefore, limiting and monitoring of the associated primary risks (such as through the use of reinsurance) also helps limit our liquidity risk related to such events. The quality of our investments also provides comfort that we can meet high liquidity requirements in unlikely events. Furthermore, in the case of an extraordinary event, a portion of the applicable payments may usually be made with a certain time lag, which reduces the risk that short-term current payment obligations cannot be

met. We employ actuarial methods for estimating our liabilities arising from insurance contracts. In the course of standard liquidity planning we reconcile the cash flows from our investment portfolio with the estimated liability cash flows. These analyses are performed on the operating entity level and aggregated at the Group level. Excess liquidity is centrally pooled on the Group level and can be transferred to single operating entities if necessary.

### ***Banking segment***

In this segment, the treasury function is responsible for liquidity management and the risk function is responsible for monitoring liquidity risk for regulatory as well as internal purposes. Liquidity risk monitoring includes a reporting process for limit breaches and provisions for emergency planning. Liquidity risk measurement is based on Dresdner Bank's liquidity management system, which models the maturities of all cash flows under different scenario assumptions and compiles a maturity mismatch profile (i.e., net cash flow for different maturities) taking into account available prime-rated securities as additional source of liquidity. Limits on liquidity gaps are established to manage short-term liquidity risk. Funding ratio limits are established for managing medium- and long-term structural liquidity risk for maturities of more than one year.

*Asset Management segment*

We limit liquidity risk by continually reconciling the cash flows from our operating business with our commitments to pay liabilities. Forecasting and managing liquidity is a regular process, designed to meet both regulatory requirements and Allianz Group standards.

**Reputational risk**

Reputational risk is the risk of direct loss or loss in future business caused by a decline in the reputation of the Allianz Group or one or more of its specific operating entities from the perspective of its stakeholders – shareholders, customers, staff, business partners or the general public. First, every action, existing or new transaction or product can lead to losses in the value of our reputation, either directly or indirectly, and can also result in losses in other risk categories. Second, every loss in other risk categories, irrespective of its size, can pose



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reputational risk to the Allianz Group. Therefore, reputational risk can both cause and result from losses in all risk categories such as market or credit risks.

Group Risk identifies and assesses this risk qualitatively as part of a quarterly evaluation. On the basis of this evaluation, Group Risk creates an overview of local and global risks which also includes reputational risks, analyses the risk profile of the Allianz Group and regularly informs management about the current situation.

**Strategic risk**

Strategic risk is the risk of an unexpected negative change in the company value, arising from

the adverse effect of management decisions on both business strategies and their implementation. This risk is a function of the compatibility between strategic goals, the business strategies developed to achieve those goals and the resources deployed to achieve those goals. Strategic risk also includes the ability of management to effectively analyze and react to external factors, which could impact the future direction of the relevant operating entity.

These risks are evaluated and analyzed quarterly in the same way as reputational risk.

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**Outlook**

We plan to continue to strengthen our risk management framework and systems in 2008. In particular, we are striving to constantly improve our accumulation monitoring systems, particularly those related to natural and man-made catastrophes, and are continuing to develop and extend our modeling capabilities for catastrophe risk.

In 2007, a key initiative started to consolidate infrastructure and to establish a best practice technical platform. Once fully operational, this platform will allow for efficient and auditable processes and enhanced capabilities to analyze, aggregate and manage risks across the Group.

In early 2008, we introduced our enhanced internal risk capital model for the purpose of quarterly risk reporting and risk related-performance measurement EVA in the Life/ Health segment. The enhanced model is part of an integrated approach addressing also the calculation of Market Consistent Embedded Value ( MCEV ), which, on an economic basis, is considered the shareholders' future profit embedded in the issued Life/Health business. This model change, applied per January 1, 2008, is expected to result in an increase of Group diversified internal risk capital for the Life/Health segment by approximately 2.2 billion.

In 2007, we reviewed the risk factor incorporated within the model used to derive business risk capital for the Asset Management segment. As a result, a level of conservatism within this factor will be reduced starting in 2008 to better reflect the risk capital needs of this segment.

Solvency II is a major European project and is expected to lead to significant changes to the European insurance solvency requirements in the coming years; therefore, the Allianz Group is actively participating in the process. We are continuously providing feedback on the proposals and analyses of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and the EU Commission. Furthermore, we participate in the Quantitative Impact Studies and give technical advice, for instance, through the Chief Risk Officer Forum, which is comprised of the Chief Risk Officers of the major European insurance companies and financial conglomerates. It is our aim to have our

internal risk capital model, as well as our risk management practices, comply with the forthcoming internal and supervisory requirements at an early stage, and accordingly, we are constantly reviewing them on the basis of the evolving standards.

**ITEM 12. Description of Securities other than Equity Securities**

Not applicable

**ITEM 13. Defaults, Dividend Arrearages and Delinquencies**

None

**ITEM 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None

**ITEM 15. Controls and Procedures**

For its fiscal year ending December 31, 2007, Allianz performed an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures. In doing so, we recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance of achieving the desired control objectives. Allianz's management is required to apply judgment in evaluating the risks facing Allianz in achieving its objectives, in determining the risks that are considered acceptable to bear, in assessing the likelihood of the risks concerned materializing, in identifying its ability to reduce the incidence and impact of the risks that do materialize and in ensuring the costs of operating particular controls are proportionate to the benefit.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated Allianz's disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, in light of the judgments noted above as of the end of the period covered by this report. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that these disclosure controls and procedures provided reasonable assurance as to effectiveness as of December 31, 2007.

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### **Management's Annual Report on Internal Control Over Financial Reporting**

The management of Allianz is responsible for establishing and maintaining adequate internal control over financial reporting. Allianz's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS<sup>1</sup>).

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Allianz; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, that our receipts and expenditures are being made only in accordance with the authorizations of the management and the directors of Allianz; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Allianz's internal control over financial reporting as of December 31, 2007. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on this assessment, Allianz's management has concluded that Allianz maintained effective internal control over financial reporting as of December 31, 2007.

### **Report of Independent Registered Public Accounting Firm**

To the Board of Management and Supervisory Board of Allianz SE:

We have audited Allianz SE and its subsidiaries (collectively, the Allianz Group) internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Allianz Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Allianz Group's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted

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<sup>(1)</sup> as issued by the IASB and adopted by the European Union

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accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Allianz Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Allianz Group as of December 31, 2007 and 2006, and the related consolidated income statements, consolidated statements of changes in equity and consolidated statements of cash flows for each of the years in the three-year period ended December 31, 2007 including the disclosures provided in the Qualitative and Quantitative Disclosures about Market Risk on pages 167 to 189, and our report dated March 19, 2008, expressed an unqualified opinion on those consolidated financial statements.

KPMG Deutsche Treuhand-Gesellschaft

Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft

Munich, Germany

March 19, 2008

## **Changes in Internal Control Over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting that occurred during fiscal year 2007, which have materially

affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

## **ITEM 16A. Audit Committee Financial Expert**

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Our Supervisory Board has determined that Dr. Franz B. Humer, Dr. Wulf H. Bernotat and Igor Landau meet the criteria of an audit committee financial expert, as that term is defined in Item 16A(b) of Form 20-F. Dr. Franz B. Humer, Dr. Wulf H. Bernotat and Igor Landau are independent members of the Supervisory Board in accordance with NYSE listing standards applicable to Allianz SE.

### **ITEM 16B. Code of Ethics**

In response to Section 406 of the Sarbanes-Oxley Act of 2002, we have adopted a specific Code of Ethics in addition to our general Code of Conduct that applies to all members of our Board of Management, including persons performing the functions of a principal executive officer, principal financial officer, principal accounting officer and controller and senior employees performing similar functions. A copy of this code of ethics is available on our Internet website [www.allianz.com/corporate-governance](http://www.allianz.com/corporate-governance). (Reference to this uniform resource locator or URL is made as an inactive textual reference for informational purposes only. The information found at this website is not incorporated by reference into this document). There have been no amendments or waivers to this code of ethics since its adoption. Information regarding any future amendments or waivers will be published on the aforementioned website.

### **ITEM 16C. Principal Accountant Fees and Services**

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

The table set forth below contains aggregate fees billed for each of the last two fiscal years by KPMG DTG or KPMG DTG and the world wide member firms of KPMG International (or KPMG ) in the following categories: (i) Audit Fees, which comprise fees billed for services rendered for the audit of the Allianz Group s consolidated financial

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statements, the statutory audits of the financial statements of Allianz SE and its subsidiaries or services the are normally provided in connection with statutory and regulatory filings or engagements; (ii) Audit-Related Fees, which comprise fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the financial statements and which are not reported under (i); (iii) Tax Fees, which comprise fees billed for professional services rendered for tax advice and tax compliance; and (iv) All Other Fees, which comprise fees billed for all other products and services provided other than the services reported under (i) through (iii).

**Fees of KPMG worldwide**

	2007	2006
	mn	mn
Audit fees	49.0	57.8
Audit-related fees	9.8	8.1
Tax fees	4.2	6.0
All other fees	4.1	7.0
<b>Total<sup>(1)</sup></b>	<b>67.1</b>	<b>78.9</b>

(1) Fees attributable to KPMG DTG and affiliated entities for audit fees were 24.3 mn (2006: 24.7), audit-related fees 7.9 mn (2006: 3.6 mn), tax fees 2.7 mn (2006: 2.7 mn) and all other fees 2.5 mn (2006: 3.6 mn) for the year ended December 31, 2007. Effective October 1, 2007, KPMG operations in Germany and the United Kingdom became affiliated entities. Fee amounts pertaining to the year 2007 therefore include both entities.

*Audit Fees* KPMG billed the Allianz Group an aggregate of 49.0 million in 2007 and 57.8 million in 2006 in connection with professional services rendered for the audit of our annual consolidated financial statements and services normally provided by KPMG in connection with statutory and regulatory filings or engagements. These services consisted mainly of periodic review engagements and the annual audit.

*Audit-related fees* KPMG billed the Allianz Group an aggregate of 9.8 million in 2007 and 8.1 million in 2006 for assurance and related services. These services consisted primarily of advisory and consulting services related to accounting and financial reporting standards and financial due diligence services.

*Tax fees* KPMG billed the Allianz Group an aggregate of 4.2 million in 2007 and 6.0 million in 2006 for professional services, primarily for tax advice.

*All other fees* KPMG billed the Allianz Group an aggregate of 4.1 million in 2007 and 7.0 million in 2006 for other services, which consisted primarily of general consulting services and other services under the guidance of Allianz Group management.

All services provided by KPMG to Allianz Group companies must be approved by the Audit Committee of the Allianz SE Supervisory Board. Services other than audit services must be pre-approved by the Audit Committee. The Audit Committee pre-approval process is based on the use of a Positive List of activities decided by the Audit Committee and, in addition, a Guiding Principles and User Test is applied. All internal control-related services are specifically pre-approved by the Audit Committee. Group Compliance and KPMG report to the Audit Committee periodically with respect to services performed. In 2007, the percentage of the total amount of revenue we paid to our principal accountants represented by non-audit services subject to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X was less than 5%.



**ITEM 16D. Exemptions from the Listing Standards for Audit Committees**

Our Audit Committee consists of three shareholder representatives and two employee representatives, one of whom is employed by the Allianz Group. With respect to the employee representative employed by the Allianz Group, Allianz SE relies on the exemption afforded by Rule 10A-3(b)(1)(iv)(C) under the Securities Exchange Act of 1934. We believe that such reliance does not materially adversely affect the ability of the Audit Committee to act independently or to satisfy the other requirements of Rule 10A-3.

**Table of Contents****ITEM 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The table below sets forth the information with respect to purchases made by or on behalf of Allianz SE or any affiliated purchaser, as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, of Allianz SE shares for the year ended December 31, 2007.

<b>Period</b>	<b>Total Number of Shares Purchased <sup>(1)</sup></b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</b>
January 1/1/07-1/31/07			N/A	N/A
February 2/1/07-2/28/07				
March 3/1/07-3/31/07				
April 4/1/07-4/30/07				
May 5/1/07-5/31/07				
June 6/1/07-6/30/07				
July 7/1/07-7/31/07				
August 8/1/07-8/31/07				
September 9/1/07-9/30/07				
October 10/1/07-10/31/07				
November 11/1/07-11/30/07	1,025,643 <sup>(2)</sup>	154,07 <sup>(2)</sup>		
December 12/1/07-12/31/07				
<b>Total</b>	<b>1,025,643</b>	<b>154,07</b>		

(1) This table excludes market-making and related hedging purchases by Dresdner Bank and certain other Allianz Group entities. The table also excludes Allianz SE shares purchased by investment funds managed by Allianz Group entities for clients in accordance with investment strategies that are established by fund managers acting independently of Allianz SE.

(2) Allianz SE purchased these newly issued shares in connection with the Allianz Group's Employee Stock Purchase Plan.

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**Table of Contents****PART III****ITEM 17. Financial Statements**

Not applicable.

**ITEM 18. Financial Statements**

See page F-1 forward for the consolidated financial statements required by this item.

**ITEM 19. Exhibits**

The following exhibits are filed as part of this annual report:

<b>Exhibit Number</b>	<b>Document</b>
1.1	Statutes of Allianz SE, dated November 2007
7.1	Statement regarding ratio of earnings to fixed charges
8.1	List of subsidiaries
12.1	Certification of the Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification of the Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certification of the Chief Executive Officer required by Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certification of the Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002
14.1	Consent of KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft

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**Report of Independent Registered Public Accounting Firm**

To the Board of Management and Supervisory Board of Allianz SE:

We have audited the accompanying consolidated balance sheets of Allianz SE and subsidiaries (collectively, the Allianz Group ) as of December 31, 2007 and 2006, and the related consolidated income statements, consolidated statements of changes in equity and consolidated statements of cash flows for each of the years in the three-year period ended December 31, 2007 including the disclosures provided in the Qualitative and Quantitative Disclosures about Market Risk on pages 167 to 189. In connection with our audits of the consolidated financial statements we have also audited the accompanying financial statement schedules I to IV. These consolidated financial statements and financial statement schedules are the responsibility of the Allianz Group s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing

the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Allianz Group as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with International Financial Reporting Standards, as issued by the IASB and as adopted by the EU. Also in our opinion, the related financial statement schedules referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Allianz Group s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 19, 2008, expressed an unqualified opinion on the effectiveness of the Allianz Group s internal control over financial reporting.

KPMG Deutsche Treuhand-Gesellschaft

Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft

Munich, Germany

March 19, 2008

**Table of Contents****Allianz Group****Consolidated Balance Sheets**

As of December 31,	Note	2007 mn	2006 mn
<b>ASSETS</b>			
Cash and cash equivalents	6	31,337	33,031
Financial assets carried at fair value through income <sup>1)</sup>	7	185,461	198,992
Investments <sup>2)</sup>	8	286,952	298,134
Loans and advances to banks and customers	9	396,702	423,765
Financial assets for unit linked contracts		66,060	61,864
Reinsurance assets	10	15,312	19,360
Deferred acquisition costs	11	19,613	19,135
Deferred tax assets	41	4,771	4,727
Other assets	12	41,528	38,001
Intangible assets	13	13,413	13,072
<b>Total assets</b>		<b>1,061,149</b>	<b>1,110,081</b>
As of December 31,	Note	2007 mn	2006 mn
<b>LIABILITIES AND EQUITY</b>			
Financial liabilities carried at fair value through income	14	126,053	121,822
Liabilities to banks and customers	15	336,494	376,565
Unearned premiums	16	15,020	14,868
Reserves for loss and loss adjustment expenses	17	63,706	65,464
Reserves for insurance and investment contracts	18	292,244	287,032
Financial liabilities for unit linked contracts	19	66,060	61,864
Deferred tax liabilities	41	3,973	4,588
Other liabilities	20	49,324	49,764
Certificated liabilities	21	42,070	54,922
Participation certificates and subordinated liabilities	22	14,824	16,362
<b>Total liabilities</b>		<b>1,009,768</b>	<b>1,053,251</b>
Shareholders' equity	23	47,753	49,650
Minority interests	23	3,628	7,180
<b>Total equity</b>		<b>51,381</b>	<b>56,830</b>
<b>Total liabilities and equity</b>		<b>1,061,149</b>	<b>1,110,081</b>

<sup>1)</sup> As of December 31, 2007, 23,163 mn are pledged to creditors and can be sold or repledged (2006: 90,211 mn).

<sup>2)</sup> As of December 31, 2007, 7,384 mn are pledged to creditors and can be sold or repledged (2006: 3,156 mn).



**Table of Contents****Allianz Group****Consolidated Income Statements**

	Note	2007 mn	2006 mn	2005 mn
<b>Premiums written</b>		<b>65,788</b>	<b>65,275</b>	<b>64,766</b>
Ceded premiums written		(5,934)	(6,218)	(6,429)
Change in unearned premiums		(492)	(533)	(655)
<b>Premiums earned (net)</b>	<b>24</b>	<b>59,362</b>	<b>58,524</b>	<b>57,682</b>
Interest and similar income	25	26,047	23,956	22,644
Income from financial assets and liabilities carried at fair value through income (net)	26	(1,247)	940	1,163
Realized gains/losses (net)	27	6,548	6,151	4,978
Fee and commission income	28	9,440	8,856	8,162
Other income	29	217	86	92
Income from fully consolidated private equity investments	30	2,367	1,392	598
<b>Total income</b>		<b>102,734</b>	<b>99,905</b>	<b>95,319</b>
Claims and insurance benefits incurred (gross)		(46,409)	(45,523)	(46,802)
Claims and Insurance benefits incurred (ceded)		3,287	3,226	4,032
<b>Claims and insurance benefits incurred (net)</b>	<b>31</b>	<b>(43,122)</b>	<b>(42,297)</b>	<b>(42,770)</b>
Change in reserves for insurance and investment contracts (net)	32	(10,685)	(11,375)	(11,176)
Interest expense	33	(6,672)	(5,759)	(6,377)
Loan loss provisions	34	113	(36)	109
Impairments of investments (net)	35	(1,272)	(775)	(540)
Investment expenses	36	(1,057)	(1,108)	(1,092)
Acquisition and administrative expenses (net)	37	(23,218)	(23,486)	(22,559)
Fee and commission expenses	38	(2,673)	(2,351)	(2,312)
Amortization of intangible assets		(17)	(51)	(50)
Restructuring charges	49	(232)	(964)	(100)
Other expenses	39	(14)	1	(51)
Expenses from fully consolidated private equity investments	40	(2,317)	(1,381)	(572)
<b>Total expenses</b>		<b>(91,166)</b>	<b>(89,582)</b>	<b>(87,490)</b>
<b>Income before income taxes and minority interests in earnings</b>		<b>11,568</b>	<b>10,323</b>	<b>7,829</b>
Income taxes	41	(2,854)	(2,013)	(2,063)
Minority interests in earnings		(748)	(1,289)	(1,386)
<b>Net income</b>		<b>7,966</b>	<b>7,021</b>	<b>4,380</b>
Basic earnings per share	50	18.00	17.09	11.24
Diluted earnings per share	50	17.71	16.78	11.14

**Table of Contents****Allianz Group****Consolidated Statements of Changes in Equity**

	Paid-in capital mn	Revenue reserves mn	Foreign currency translation adjustments mn	Unrealized gains and losses (net) mn	Shareholders equity mn	Minority interests mn	Total equity mn
<b>Balance as of January 1, 2005, as previously reported</b>	<b>19,433</b>	<b>5,893</b>	<b>(2,634)</b>	<b>7,303</b>	<b>29,995</b>	<b>7,696</b>	<b>37,691</b>
Adjustments (Note 3)		(559)		(272)	(831)	771	(60)
<b>Balance as of January 1, 2005</b>	<b>19,433</b>	<b>5,334</b>	<b>(2,634)</b>	<b>7,031</b>	<b>29,164</b>	<b>8,467</b>	<b>37,631</b>
Foreign currency translation adjustments			1,601	50	1,651	33	1,684
Available-for-sale investments							
Unrealized gains and losses (net) arising during the year <sup>1)</sup>				3,805	3,805	549	4,354
Transferred to net income on disposal <sup>2)</sup>				(1,114)	(1,114)	(133)	(1,247)
Cash flow hedges				3	3		3
Miscellaneous		370			370	141	511
Total income and expense recognized directly in shareholders equity		370	1,601	2,744	4,715	590	5,305
Net income		4,380			4,380	1,386	5,766
Total recognized income and expense for the year		4,750	1,601	2,744	9,095	1,976	11,071
Paid-in capital	2,183				2,183		2,183
Treasury shares		352			352		352
Transactions between equity holders		(1,742)	1	277	(1,464)	(1,328)	(2,792)
Dividends paid		(674)			(674)	(729)	(1,403)
<b>Balance as of December 31, 2005</b>	<b>21,616</b>	<b>8,020</b>	<b>(1,032)</b>	<b>10,052</b>	<b>38,656</b>	<b>8,386</b>	<b>47,042</b>
Foreign currency translation adjustments			(1,175)	(4)	(1,179)	(276)	(1,455)
Available-for-sale investments							
Unrealized gains and losses (net) arising during the year <sup>1)</sup>				4,731	4,731	20	4,751
Transferred to net income on disposal <sup>2)</sup>				(1,744)	(1,744)	(146)	(1,890)
Cash flow hedges				1	1		1
Miscellaneous		246			246	111	357
Total income and expense recognized directly in shareholders equity		246	(1,175)	2,984	2,055	(291)	1,764
Net income		7,021			7,021	1,289	8,310
Total recognized income and expense for the year		7,267	(1,175)	2,984	9,076	998	10,074
Paid-in capital	129				129		129
Treasury shares		910			910		910
Transactions between equity holders	3,653	(2,316)	(3)	356	1,690	(1,552)	138
Dividends paid		(811)			(811)	(652)	(1,463)
<b>Balance as of December 31, 2006</b>	<b>25,398</b>	<b>13,070</b>	<b>(2,210)</b>	<b>13,392</b>	<b>49,650</b>	<b>7,180</b>	<b>56,830</b>
Foreign currency translation adjustments			(1,378)	(2)	(1,380)	(214)	(1,594)
Available-for-sale investments							
Unrealized gains and losses (net) arising during the year <sup>1)</sup>				(1,123)	(1,123)	(41)	(1,164)
Transferred to net income on disposal <sup>2)</sup>				(2,484)	(2,484)	(101)	(2,585)
Cash flow hedges				35	35		35
Miscellaneous		(77)			(77)	116	39
Total income and expense recognized directly in shareholders equity		(77)	(1,378)	(3,574)	(5,029)	(240)	(5,269)
Net income		7,966			7,966	748	8,714
Total recognized income and expense for the year		7,889	(1,378)	(3,574)	2,937	508	3,445
Paid-in capital	158				158		158
Treasury shares		269			269		269

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Transactions between equity holders	2,765	(6,968)	(68)	652	(3,619)	(3,707)	(7,326)
Dividends paid		(1,642)			(1,642)	(353)	(1,995)
<b>Balance as of December 31, 2007</b>	<b>28,321</b>	<b>12,618</b>	<b>(3,656)</b>	<b>10,470</b>	<b>47,753</b>	<b>3,628</b>	<b>51,381</b>

- 1) During the year ended December 31, 2007 unrealized gains and losses (net) arising during the year included in shareholders' equity are net of deferred tax benefit of 720 mn (2006: deferred tax benefit of 478 mn; 2005: deferred tax charge of 568 mn).
- 2) During the year ended December 31, 2007, realized gains/losses (net) transferred to net income on disposal are net of income tax charge of 206 mn (2006: 308 mn; 2005: 303 mn).

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**Table of Contents****Allianz Group****Consolidated Statements of Cash Flows**

	2007	2006	2005
	mn	mn	mn
<b>Summary:</b>			
Net cash flow provided by operating activities	12,706	20,681	47,200
Net cash flow provided by (used in) investing activities	(4,643)	(34,866)	(22,811)
Net cash flow provided by (used in) financing activities	(9,642)	15,647	(8,442)
Effect of exchange rate changes on cash and cash equivalents	(115)	(78)	72
<b>Change in cash and cash equivalents</b>	<b>(1,694)</b>	<b>1,384</b>	<b>16,019</b>
Cash and cash equivalents at beginning of period	33,031	31,647	15,628
<b>Cash and cash equivalents at end of period</b>	<b>31,337</b>	<b>33,031</b>	<b>31,647</b>
<b>Cash flow from operating activities:</b>			
<b>Net income</b>	<b>7,966</b>	<b>7,021</b>	<b>4,380</b>
<b>Adjustments to reconcile net income to net cash flow provided by operating activities</b>			
Minority interests in earnings	748	1,289	1,386
Share of earnings from investments in associates and joint ventures	(521)	(287)	(253)
Realized gains/losses (net) and impairments of investments (net) of:			
Available-for-sale and held-to-maturity investments, investments in associates and joint ventures, real estate held for investment, loans to banks and customers	(5,276)	(5,376)	(4,438)
Other investments, mainly financial assets held for trading and designated at fair value through in-come	681	(938)	(1,546)
Depreciation and amortization	891	983	787
Loan loss provision	(113)	36	(109)
Interest credited to policyholder accounts	3,225	3,126	2,748
Net change in:			
Financial assets and liabilities held for trading	18,948	19,265	10,371
Reverse repurchase agreements and collateral paid for securities borrowing transactions	30,215	(27,294)	72,504
Repurchase agreements and collateral received from securities lending transactions	(48,143)	14,188	(47,688)
Reinsurance assets	716	663	428
Deferred acquisition costs	(932)	(1,434)	(1,753)
Unearned premiums	341	593	876
Reserves for losses and loss adjustment expenses	(389)	(188)	2,621
Reserves for insurance and investment contracts	6,675	7,025	7,634
Deferred tax assets/liabilities	55	292	(39)
Other (net)	(2,381)	1,717	(709)
<b>Subtotal</b>	<b>4,740</b>	<b>13,662</b>	<b>42,820</b>
<b>Net cash flow provided by operating activities</b>	<b>12,706</b>	<b>20,681</b>	<b>47,200</b>
<b>Cash flow from investing activities</b>			
<b>Proceeds from the sale, maturity or repayment of:</b>			
Financial assets designated at fair value through income	8,219	7,207	9,981
Available-for-sale investments	130,421	118,747	137,915
Held-to-maturity investments	317	336	534
Investments in associates and joint ventures	1,902	730	3,938
Non-current assets and disposal groups held for sale	4	2,253	792
Real estate held for investment	889	1,376	1,091
Loans and advances to banks and customers (purchased loans)	8,689	8,365	5,195
Property and equipment	607	453	113
<b>Subtotal</b>	<b>151,048</b>	<b>139,467</b>	<b>159,559</b>

**Table of Contents****Allianz Group****Consolidated Statements of Cash Flows (Continued)**

	2007	2006	2005
	mn	mn	mn
<b>Payments for the purchase or origination of:</b>			
Financial assets designated at fair value through income	(11,220)	(9,680)	(11,278)
Available-for-sale investments	(129,060)	(131,290)	(161,418)
Held-to-maturity investments	(301)	(280)	(255)
Investments in associates and joint ventures	(1,509)	(491)	(934)
Non-current assets and disposal groups held for sale	(1,073)		(178)
Real estate held for investment	(430)	(860)	(1,064)
Loans and advances to banks and customers (purchased loans)	(12,286)	(10,598)	(5,493)
Property and equipment	(832)	(1,588)	(1,126)
<b>Subtotal</b>	<b>(156,711)</b>	<b>(154,787)</b>	<b>(181,746)</b>
<b>Business combinations (Note 4):</b>			
Proceeds from sale, net of cash disposed	372		2,029
Acquisition, net of cash acquired	(670)	(344)	
<b>Change in other loans and advances to banks and customers (originated loans)</b>	<b>43</b>	<b>(19,224)</b>	<b>(1,877)</b>
<b>Other (net)</b>	<b>1,275</b>	<b>22</b>	<b>(776)</b>
<b>Net cash flow used in investing activities</b>	<b>(4,643)</b>	<b>(34,866)</b>	<b>(22,811)</b>
<b>Cash flow from financing activities</b>			
Policyholders' account deposits	12,810	13,234	14,118
Policyholders' account withdrawals	(9,365)	(8,432)	(5,560)
Net change in liabilities to banks and customers	9,007	13,524	(19,167)
Proceeds from the issuance of certificated liabilities, participation certificates and subordinated liabilities	59,191	103,429	115,422
Repayments of certificated liabilities, participation certificates and subordinated liabilities	(71,627)	(103,946)	(111,737)
Cash inflow from capital increases	115	98	2,159
Transactions between equity holders	(7,326)	(70)	(2,932)
Dividends paid to shareholders	(1,995)	(1,463)	(1,403)
Net cash from sale or purchase of treasury shares	(34)	(458)	2,061
Other (net)	(418)	(269)	(1,403)
<b>Net cash flow provided by (used in) financing activities</b>	<b>(9,642)</b>	<b>15,647</b>	<b>(8,442)</b>
<b>Supplementary information on the consolidated statement of cash flows</b>			
Income taxes paid	(2,856)	(2,241)	(1,644)
Dividends received	2,526	1,946	1,476
Interest received	22,256	20,552	19,770
Interest paid	(6,697)	(5,556)	(6,332)
<b>Significant non-cash transactions:</b>			
<b>Settlement of exchangeable bonds issued by Allianz Finance II B.V. with shares:</b>			
Available-for-sale investments	(812)	(1,074)	
Certificated liabilities	(812)	(1,074)	
<b>Novation of quota share reinsurance agreement:</b>			
Reinsurance assets	(2,469)	(1,111)	(1,117)
Deferred acquisition costs	145	76	76
Payables from reinsurance contracts	(2,324)	(1,035)	(1,041)
<b>Effects from the merger of RAS with and into Allianz AG (Note 4):</b>			
Revenue reserves		(2,362)	
Minority interests		(1,659)	
Paid-in capital		3,653	
Unrealized gains and losses (net)		368	
<b>Effects from buy-out of AGF minorities (Note 4):</b>			
Revenue reserves	(1,843)		
Unrealized gains and losses (net)	146		
Minority interests	(1,068)		

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Paid-in capital	2,765		
<b>Proceeds from sales of available-for-sale investments:</b>			
Debt securities	89,355	89,813	107,929
Equity securities	27,485	21,696	24,800
<b>Total</b>	<b>116,840</b>	<b>111,509</b>	<b>132,729</b>

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**Notes to the Allianz Group's Consolidated Financial Statements**

**1 Nature of operations and basis of presentation**

*Nature of operations*

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

*Basis of presentation*

The consolidated financial statements of the Allianz Group have been prepared in conformity with International Financial Reporting Standards ( IFRS ), as adopted under European Union ( EU ) regulations in accordance with section 315a of the German Commercial Code ( HGB ). The consolidated financial statements of the Allianz Group have also been prepared in accordance with IFRS as issued by the International Accounting Standard Board ( IASB ). The Allianz Group's application of IFRSs results in no differences between IFRS as adopted by the EU and IFRS as issued by the IASB. Within these consolidated financial statements, the Allianz Group has applied all standards and interpretations issued by the IASB that are compulsory as of December 31, 2007.

IFRS does not provide specific guidance concerning all aspects of the recognition and measurement of insurance and reinsurance contracts. Therefore, as envisioned in IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, the provisions embodied under accounting principles generally accepted in the United States of America ( US GAAP ) have been applied to those aspects where specific guidance is not provided by IFRS 4, Insurance Contracts. See Note 3 regarding changes to IFRS effective January 1, 2007. The consolidated financial statements are presented in millions of Euro ( ).

**2 Summary of significant accounting policies**

*Principles of consolidation*

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

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

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

For business combinations with an agreement date before March 31, 2004, minority interests are



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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

recorded at the minority's proportion of the pre-acquisition carrying amounts of the identifiable assets and liabilities.

The Allianz Group transfers financial assets to certain SPEs in revolving securitizations of commercial mortgage or other loan portfolios. The Allianz Group consolidates these SPEs as the Allianz Group continues to control the financial assets transferred and retains the servicing of such loans.

Third party assets held in an agency or fiduciary capacity are not assets of the Allianz Group and are not presented in these consolidated financial statements.

***Associated enterprises and joint ventures***

Associated enterprises are entities over which the Allianz Group can exercise significant influence and which are not joint ventures. Significant influence is the power to participate in, but not to control, the financial and operating policies within an enterprise. Significant influence is presumed to exist where the Allianz Group has at least 20% but not more than 50 % of the voting rights. Joint ventures are entities over which the Allianz Group and one or more other parties have joint control.

Investments in associated enterprises and joint ventures are generally accounted for using the equity method of accounting, in which the results and the carrying amount of the investment represent the Allianz Group's proportionate share of the entity's net income and net assets, respectively. The Allianz Group accounts for all material investments in associates on a time lag of no more than three months. Income from investments in associated enterprises and joint ventures is included in interest and similar income.

***Foreign currency translation***

The individual financial statements of each of the Allianz Group's subsidiaries are prepared in the prevailing currency in the environment where the subsidiary conducts its ordinary activities (its functional currency). Transactions recorded in currencies other than the functional currency (foreign currencies) are recorded at the rate of exchange on the date of the transaction. At the balance sheet date, monetary assets and liabilities recorded in foreign currencies are translated into the functional currency using the closing exchange rate and non-monetary assets and liabilities are translated at historical rates.

Currency gains and losses arising from foreign currency transactions are reported in investment expenses.

For purposes of the consolidated financial statements, the results and financial position of each of the Allianz Group's subsidiaries are expressed in Euro, the functional currency of the Allianz Group. Assets and liabilities of subsidiaries not reporting in Euro are translated at the closing rate

on the balance sheet date and income and expenses are translated at the quarterly average exchange rate. Any foreign currency translation differences, including those arising from the equity method, are recorded directly in shareholders' equity, as foreign currency translation adjustments.

*Use of estimates and assumptions*

The preparation of consolidated financial statements requires the Allianz Group to make estimates and assumptions that affect items reported in the consolidated balance sheets and consolidated income statements, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. The most significant accounting estimates are associated with the reserves for loss and loss adjustment expenses, reserves for insurance and investment contracts, loan loss allowance, fair value and impairments of financial instruments, goodwill, deferred acquisition costs, deferred taxes and reserves for pensions and similar obligations.

*Cash and cash equivalents*

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

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

***Real estate held for investment***

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

**Financial assets and liabilities**

***Recognition and classification***

Financial assets and liabilities are generally recognized on trade date, when the Allianz Group has entered into contractual arrangements with counterparties to purchase securities or incur a liability.

Financial assets are either carried at fair value through income, or they are categorized into available-for-sale investments, held-to-maturity investments, loans and advances to banks and customers, financial assets for unit-linked assets or funds held by others under reinsurance contracts assumed.

***Fair value of financial assets and liabilities***

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations on the last exchange trading day prior to and including the balance sheet date. The quoted market price used for a financial asset held by the Group is the current bid price; the quoted market price used for financial liabilities is the current ask price. The impact of the Allianz Group's own credit spread on liabilities carried at fair value is calculated by discounting future cash flows at a rate which incorporates the group's observable credit spreads.

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

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

For the portfolio of ABS-based products, primarily consisting of residential mortgage backed securities ( RMBS ) and collateralized debt obligations ( CDOs ) that were affected by the financial market crisis, the availability of price quotations from a functioning market were limited during the second half of 2007 and as of December 31, 2007. Therefore, the valuations for these financial instruments were derived based on the market values of similar financial instruments. The market quotations used were taken from other market participants and competitors, which management believes are representative of the market. If this were not possible due to a lack of price quotations, the vintage and rating-specific valuations of the ABX.HE (Home Equity) index were used. The Allianz Group strictly adhered to these ABX.HE valuations.

*Financial assets and liabilities carried at fair value through income*

Financial assets carried at fair value through income include financial assets and liabilities held for trading and financial assets and liabilities designated at fair value through income.

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

Financial assets held for trading consist of debt and equity securities, promissory notes and precious metal holdings, which have been acquired principally for the purpose of generating a profit from short-term fluctuations in price, and derivative financial instruments with positive fair values that do not meet the criteria for hedge accounting. Financial assets held for trading are reported at fair value. Changes in fair value are recognized directly in net income for the period.

Financial liabilities held for trading primarily consist of derivative financial instruments with negative fair values that do not meet the criteria for hedge accounting and obligations to deliver assets arising from short sales of securities, which are carried out in order to benefit from short-term price fluctuations. The securities required to close out short sales are obtained through securities borrowing or reverse repurchase agreements.

Financial assets and liabilities designated at fair value through income are recorded at fair value with changes in fair value recorded in net income for the period. A financial instrument may only be designated at inception as held at fair value through income and cannot subsequently be changed.

***Available-for-sale investments***

Available-for-sale investments are securities that are designated as available-for-sale or are not classified as held-to-maturity, loans and advances to banks and customers, or financial assets carried at fair value through income. Available-for-sale securities are recorded at fair value. Unrealized gains and losses, which are the difference between fair value and cost or amortized cost, are included as a separate component of shareholders' equity, net of deferred taxes and the latent reserve for premium refunds to the extent that policyholders will participate in such gains and losses on the basis of statutory or contractual regulations when they are realized. Realized gains and losses on securities are generally determined by applying the average cost method at the subsidiary level.

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

***Held-to-maturity investments***

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

***Impairment of available-for-sale and held-to-maturity investments***

A held-to-maturity or available-for-sale debt security is impaired if there is objective evidence that a loss event has occurred, which has impaired the expected cash flows, i.e. all amounts due according to the contractual terms of the security are not considered collectible. Typically this is due to deterioration in the creditworthiness of the issuer. A decline in fair value below amortized cost due to changes in risk free interest rates does not represent objective evidence of a loss event.

If there is objective evidence that the cost may not be recovered, an available-for-sale equity security is considered to be impaired. Objective evidence that the cost may not be recovered, in addition to qualitative impairment criteria, includes a significant or prolonged decline in the fair value below cost. The Allianz Group's policy considers a significant decline to be one in which the fair value is below the weighted-average cost by more than 20% and a prolonged decline to be one in which fair value is below the weighted-average cost for greater than nine months. This policy is applied by all subsidiaries at the individual security level.

If an available-for-sale equity security is impaired based upon the Allianz Group's qualitative or quantitative impairment criteria, any further

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

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

In a subsequent period, if the fair value of an available-for-sale debt security instrument increases and the increase can be objectively related to an event occurring after the recognition of an impairment loss, such as an improvement in the debtor's credit rating, the impairment is reversed through impairments of investments (net). Reversals of impairments of available-for-sale equity securities are not recorded through the income statement.

***Loans and advances to banks and customers***

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

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

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

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

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

### *Impairment of loans*

Loan loss allowance is recognized for loans for which there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan, and that loss event

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

has an impact on the estimated future cash flows of the loan that can be reasonably estimated. If there is objective evidence that a loan is impaired, a loan loss allowance is recognized as the difference between the loan's carrying amount and the present value of future cash flows, which includes all contractual interest and principal payments, discounted at the loan's original effective interest rate. The loan loss allowance is reported as a reduction of loans and advances to banks and customers. Provisions for contingent liabilities, such as guarantees, loan commitments and other obligations are reported as other liabilities.

Loans with an outstanding balance greater than 1 mn are considered to be individually significant, and they are assessed individually to determine whether an impairment exists. Individually significant loans that are not impaired, as well as loans that are not individually significant, are grouped with loans evidencing similar credit characteristics and are collectively assessed for impairment. Loans impaired individually or collectively are eliminated from further testing to ensure that there is no duplication of impairment. The following allowances comprise the total loan loss allowance.

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

General allowances are established to provide for incurred but unidentified losses for individually significant loans that do not have a specific allowance. Loans are segmented into groups of loans with similar risk characteristics and general allowances are calculated using statistical methods of credit risk measurement based on historical loss experience and the evaluation of the loan portfolio under current events and economic conditions.

Portfolio allowances are established for all loans that are not considered individually significant and have not been individually assessed. These loans are segmented into portfolios of homogeneous loans exhibiting similar loss characteristics, and allowances are calculated using statistical methods based upon historical loss rates which are regularly updated. Portfolio allowances are presented within the specific allowance category.

Country risk allowances are established for transfer risk. Transfer risk is a measure of the likely ability of a borrower in a country to repay its foreign currency-denominated debt in light of the economic or political situation prevailing in the country. Country risk allowances are based on a country risk rating system that incorporates current and historical economic, political and other data to categorize countries by risk profile. Loans with specific allowances are excluded from the country risk rating system, and countries provided for within the country risk allowance are excluded from the determination of the transfer risk component of the general allowance. Country risk allowances are presented within the specific or general risk category, as appropriate.

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

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

*Financial assets for unit linked contracts*

Financial assets for unit linked contracts are recorded at fair value with changes in fair value recorded in net income together with the offsetting changes in fair value of the corresponding financial liabilities for unit linked contracts.

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

***Funds held by others under reinsurance contracts***

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

***Liabilities to banks and customers***

Liabilities to banks and customers include repurchase (repo) agreements and securities lending transactions. Repo transactions involve the sale of securities by the Allianz Group to a counterparty, subject to the simultaneous agreement to repurchase these securities at a certain later date, at an agreed price. If control of the securities remains with the Allianz Group over the entire lifetime of the transaction, the securities concerned are not derecognized by the Allianz Group. The proceeds of the sale are reported under liabilities to banks or customers. Interest expense from repo transactions is accrued over the duration of the agreements and reported in interest and similar expenses.

In securities lending transactions the Allianz Group generally receives cash collateral which is recorded as liabilities to banks or customers. Fees received are recognized as interest income.

***Derivative financial instruments***

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

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

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

For derivative financial instruments used in hedge transactions that meet the criteria for hedge accounting (accounting hedges), the Allianz Group designates the derivative financial instrument as a fair value hedge, cash flow hedge, or hedge of a net investment in a foreign entity. The

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Allianz Group documents the hedge relationship, as well as its risk management objective and strategy for entering into various hedge transactions. The Allianz Group assesses, both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments that are used for hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items. Derivative financial instruments used in accounting hedges are recognized as follows:

### *Fair value hedges*

Fair value hedges are hedges of a change in the fair value of a recognized financial asset or liability or a firm commitment due to a specified risk. Changes in the fair value of a derivative financial instrument, together with the share of the change in fair value of the hedged item attributable to the hedged risk are recognized in net income.

### *Cash flow hedges*

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

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

***Hedges of a net investment in a foreign entity***

Hedge accounting may be applied to derivative financial instruments used to hedge the foreign currency risk associated with a net investment in a foreign entity. The proportion of gains or losses arising from valuation of the derivative financial instrument, which is determined to be an effective hedge, is recognized in unrealized gains and losses (net) in shareholders' equity, while any ineffectiveness is recognized directly in net income.

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

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

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

***Derecognition of financial assets and liabilities***

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the Allianz Group transfers the asset and substantially all of the risks and rewards of ownership or transfers the asset and loses control of the asset. A financial liability is derecognized when it is extinguished.

**Insurance, investment and reinsurance contracts**

***Insurance and investment contracts***

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Contracts issued by insurance subsidiaries of the Allianz Group are classified according to IFRS 4 as insurance or investment contracts. Contracts under which the Allianz Group accepts significant insurance risk from a policyholder are classified as insurance contracts. Contracts under which the Allianz Group does not accept significant insurance risk are classified as investment contracts. Certain insurance and investment contracts include discretionary participation features. All insurance contracts and investment contracts with discretionary participating features are accounted for under the provisions of US GAAP, including SFAS 60, SFAS 97 and SFAS 120. Investment contracts without discretionary participation features are accounted for as financial instruments in accordance with IAS 39.

### *Reinsurance contracts*

The Allianz Group's consolidated financial statements reflect the effects of ceded and assumed reinsurance contracts. Assumed reinsurance refers to the acceptance of certain insurance risks by Allianz that other companies have underwritten. Ceded reinsurance refers to the transfer of insurance risk, along with the respective premiums, to one or more reinsurers who will share in the risks. When the reinsurance contracts do not transfer significant insurance risk according to SFAS 113, deposit accounting is applied as required under SOP 98-7.

Assumed reinsurance premiums, commissions and claim settlements, as well as the reinsurance element of technical provisions are accounted for in accordance with the conditions of the reinsurance contracts and with consideration of the original contracts for which the reinsurance was concluded.

Premiums ceded for reinsurance and reinsurance recoveries on benefits and claims incurred are deducted from premiums earned and insurance and

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

investment contract benefits. Assets and liabilities related to reinsurance are reported on a gross basis. Amounts ceded to reinsurers from reserves for insurance and investment contracts are estimated in a manner consistent with the claim liability associated with the reinsured risks. Revenues and expenses related to reinsurance agreements are recognized in a manner consistent with the underlying risk of the business reinsured.

To the extent that the assuming reinsurers are unable to meet their obligations, the Group remains liable to its policyholders for the portion reinsured. Consequently, allowances are made for receivables on reinsurance contracts which are deemed uncollectible.

*Deferred acquisition costs*

Deferred acquisition costs ( DAC ), present value of future profits ( PVFP ) and deferred sales inducements comprise the deferred acquisition costs in the balance sheet.

DAC generally consist of commissions, underwriting expenses and policy issuance costs, which vary with and are directly related to the acquisition and renewal of insurance contracts. These acquisition costs are deferred, to the extent they are recoverable, and are subject to recoverability testing at the end of each accounting period.

For short and long duration traditional products (SFAS 60) and limited payment products (SFAS 97), DAC is amortized in proportion to premium revenue recognized. For universal life, participating life, and investment-type products (SFAS 97 and SFAS 120), DAC is amortized over the contract life of a book of contracts based on estimated gross profit ( EGP ) or estimated gross margin ( EGM ), as appropriate, based on historical and anticipated future experience, which is evaluated regularly.

For investment contracts, acquisition costs are only deferred if the costs are incremental. Acquisition costs are incremental if the costs would not have been incurred if the related contracts would not have been issued.

PVFP is the present value of net cash flows anticipated in the future from insurance contracts in force at the date of acquisition and is amortized over the life of the related contracts. PVFP was determined using discount rates ranging from 12% to 15%. Interest accrues on the PVFP balance based upon the policy liability rate or contract rate. Interest accrues on PVFP at rates between 2.4% and 9.8%.

Deferred sales inducements on insurance contracts that meet the following criteria are deferred and amortized using the same methodology and assumptions used to amortized deferred acquisition costs:

recognized as part of reserves for insurance and investment contracts,

explicitly identified in the contract at inception,

incremental to amounts the Allianz Group credits on similar contracts without sales inducements, and

higher than the contract's expected ongoing crediting rates for periods after the inducement.

***Shadow accounting***

Shadow accounting is applied to insurance and investment contracts with discretionary participating features, and SFAS 97 universal life type insurance contracts and SFAS 97 investment contracts. Shadow accounting is applied to DAC, PVFP, deferred sales inducements, unearned premium liabilities and the reserves for insurance and investment contracts to take into account the effect of unrealized gains or losses on insurance liabilities or assets in the same way as it is done for a realized gain or loss. These assets or liabilities are adjusted with corresponding charges or credits recognized directly to shareholders' equity as a component of the related unrealized gains and losses.

***Unearned premiums***

For short-duration insurance contracts, such as property-casualty contracts, in accordance with SFAS 60, premiums written to be earned in future years are



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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

recorded as unearned premiums. These premiums are earned in subsequent years in relation to the insurance coverage provided.

For long-duration insurance contracts, in accordance with SFAS 97, amounts charged as consideration for origination of the contract (i.e. initiation or front-end fees) are reported as unearned premium. These fees are recognized using the same methodology as DAC amortization.

***Unbundling***

The deposit component of an insurance contract is unbundled when both of the following conditions are met:

1. the deposit component (including any embedded surrender option) can be measured separately (i.e., without taking into account the insurance component); and
2. the Allianz Group's accounting policies do not otherwise require the recognition of all obligations and rights arising from the deposit component.

Currently, the Allianz Group has no in-force insurance contracts for which all of the rights and obligations related to such contracts have not been recognized. As a result, the Allianz Group has not recognized an unbundled deposit component in respect of any of its insurance contracts, and accordingly the Allianz Group has not recorded any related provisions in its consolidated financial statements.

***Bifurcation***

Certain of the Allianz Group's universal life-type insurance contracts include options to replicate a market index (market value liability options or MVLO). These options are bifurcated from the insurance contracts and accounted for as derivatives.

***Reserves for loss and loss adjustment expenses***

Reserves are established for the payment of losses and loss adjustment expenses (LAE) on claims which have occurred but are not yet settled. Reserves for loss and loss adjustment expenses fall into two categories: case reserves for reported claims and incurred but not reported reserves (IBNR).

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Case reserves for reported claims are based on estimates of future payments that will be made with respect to claims, including LAE relating to such claims. Such estimates are made on a case-by-case basis, based on the facts and circumstances available at the time the reserves are established. The estimates reflect the informed judgment of claims personnel based on general insurance reserving practices and knowledge of the nature and value of a specific type of claim. These case reserves are regularly reevaluated in the ordinary course of the settlement process and adjustments are made as new information becomes available.

IBNR reserves are established to recognize the estimated cost of losses that have occurred but where the Allianz Group has not yet been notified. IBNR reserves, similar to case reserves for reported claims, are established to recognize the estimated costs, including expenses, necessary to bring claims to final settlement. The Allianz Group relies on its past experience, adjusted for current trends and any other relevant factors to estimate IBNR reserves. IBNR reserves are estimates based on actuarial and statistical projections of the expected cost of the ultimate settlement and administration of claims. The analyses are based on facts and circumstances known at the time, predictions of future events, estimates of future inflation and other societal and economic factors. Trends in claim frequency, severity and time lag in reporting are examples of factors used in projecting the IBNR reserves. IBNR reserves are reviewed and revised periodically as additional information becomes available and actual claims are reported.

The process of estimating loss and LAE reserves is by nature uncertain due to the large number of variables affecting the ultimate amount of claims. Some of these variables are internal, such as changes in claims handling procedures, introduction of new IT systems or company acquisitions and divestitures. Others are external, such as inflation, judicial trends, and legislative changes. The Allianz Group reduces the uncertainty in reserve estimates through the use of multiple actuarial and reserving techniques and analysis of the assumptions underlying each technique.

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

There is no adequate statistical data available for some risk exposures in liability insurance, such as environmental and asbestos claims and large-scale individual claims, because some aspects of these types of claims become known very slowly and continue to evolve. Appropriate provisions have been made for such cases based on the Allianz Group's judgment and an analysis of the portfolios in which such risks occur. These provisions represent the Allianz Group's best estimate. The reserves for loss and loss adjustment expenses for asbestos claims in the United States were reviewed by independent actuaries during the year end of 2005; current reserves reflect subsequent loss developments and reestimation of initial reserves.

***Reserves for insurance and investment contracts and financial liabilities for unit linked contracts***

Reserves for insurance and investment contracts include aggregate policy reserves, reserves for premium refunds and other insurance reserves.

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

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

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

Current and historical client data, as well as industry data, are used to determine the assumptions.

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

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

	<b>Long- duration insurance contracts (SFAS 60)</b>	<b>Traditional participating insurance contracts (SFAS 120)</b>
Deferred acquisition costs	2.5 6%	5 6%
Aggregate policy reserves	2.5 6%	2.8 4.3%

Aggregate policy reserves also include liabilities for guaranteed minimum death, and similar mortality and morbidity benefits related to non-traditional contracts, annuitization options, and sales inducements. These liabilities are calculated based on contractual obligations using actuarial assumptions. Contractually agreed sales inducements to contract holders include persistency bonuses, and are accrued over the period in which the insurance contract must remain in force to qualify for the inducement.

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

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

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

<b>Country</b>	<b>Base</b>	<b>Percentage</b>
<b>Germany</b>		
Life <sup>1)</sup>	investments	90%
Health <sup>1)</sup>	investments	80%
<b>France</b>		
Life	all sources of Profit	80%
<b>Italy</b>		
Life	investments	85%
<b>Switzerland</b>		
Group Life	all sources of Profit	90%
Individual Life	all sources of Profit	100%

1) additionally an adequate participation in all other sources of profit.

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

***Other assets***

Other assets primarily consist of receivables, prepaid expenses, derivative financial instruments used for hedging that meet the criteria for hedge accounting, and firm commitments, property and equipment, assets held for sale and other assets. Receivables are generally recorded at face value less any payments received, net of valuation allowances.

Property and equipment includes real estate held for own use, equipment and software.

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

Real estate held for own use (e.g., real property and buildings, including buildings on leased land) is carried at cost less accumulated depreciation and impairments. The capitalized cost of buildings is calculated on the basis of acquisition cost and depreciated on a straight-line basis over a maximum of 50 years in accordance with their useful lives. Costs for repairs and maintenance are expensed as incurred, while improvements if they extend the useful life or increase the value of the asset are capitalized. An impairment is recognized when the recoverable amount of these assets is less than their carrying amount. Where it is not possible to identify separate cash flows for estimating the recoverable cost of an individual asset, an estimate of the recoverable amount of the cash generating unit to which the asset belongs is used.

Equipment is carried at cost less accumulated depreciation and impairments. Depreciation is generally computed using the straight-line method over the estimated useful lives of the assets. The estimated useful life of equipment ranges from 2 to 10 years, except for purchased information technology equipment, which is 2 to 8 years.

Software, which includes software purchased from third parties or developed internally, is initially recorded at cost and is amortized on a straight-line basis over the estimated useful service lives or contractual terms, generally over 3 to 5 years.

Costs for repairs and maintenance are expensed as incurred, while improvements, if they extend the useful life of the asset or provide additional functionality, are capitalized.

***Intangible assets***

Intangible assets include goodwill, brand names and other intangible assets.

Goodwill resulting from business combinations represents the difference between the acquisition cost of the business combination and the Allianz Group's proportionate share of the net fair value of identifiable assets, liabilities and certain contingent liabilities. Goodwill resulting from business combinations is not subject to amortization. It is initially recorded at cost and subsequently measured at cost less accumulated impairments.

The Allianz Group conducts an annual impairment test of goodwill during the 4th quarter or more frequently if there is an indication that goodwill is not recoverable. For the purpose of impairment testing, goodwill is allocated to each of the Allianz Group's cash generating units that is expected to benefit from the business combination. The impairment test includes comparing the recoverable amount to the carrying amount, including goodwill, of all relevant cash generating units. A cash generating unit is impaired if the carrying amount is greater than the recoverable amount. The impairment of a cash generating unit is equal to the difference between the carrying amount and recoverable amount and is allocated to reduce any goodwill, followed by allocation to the carrying amount of any remaining assets. Impairments of goodwill are not reversed. Gains or losses realized on the disposal of subsidiaries include any related goodwill.

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

Similar to goodwill, an intangible asset with an indefinite life is subject to an annual impairment test, or more frequently if there is an indication that it is not recoverable. The impairment test includes comparing the recoverable amount to the carrying amount. Where it is not possible to identify separate cash flows for estimating the recoverable amount of an individual asset, the Allianz Group estimates the recoverable amount of the cash generating unit to which the intangible asset belongs. An intangible asset is impaired if the carrying amount is greater than the recoverable amount. The impairment of an intangible asset is equal to the difference between the carrying amount and recoverable amount.

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

***Other liabilities***

Other liabilities include payables, unearned income, provisions, deposits retained for reinsurance ceded, derivative financial instruments for hedge accounting purposes that meet the criteria for hedge accounting and firm commitments, financial liabilities for puttable equity instruments, disposal groups held for sale, and other liabilities. These liabilities are reported at redemption value.

Tax payables are calculated in accordance with relevant local tax regulations.

Liabilities for puttable equity instruments include the minority interests in shareholders' equity of certain consolidated investment funds. These minority interests qualify as a financial liability of the Allianz Group, as they give the holder the right to put the instrument back to the Allianz Group for cash or another financial asset (a puttable instrument). These liabilities are required to be recorded at redemption amount with changes recognized in net income.

***Certificated liabilities, participation certificates and subordinated liabilities***

Certificated liabilities, participation certificates and subordinated liabilities are initially recorded at cost, which is the fair value of the consideration received, net of transaction costs incurred. Subsequent measurement is at amortized cost, using the effective interest method to amortize the premium or discount to the redemption value over the life of the liability.

***Equity***

Issued capital represents the mathematical per share value received from the issuance of shares.

Capital reserves represent the premium, or additional paid in capital, received from the issuance of shares.

Revenue reserves include the retained earnings of the Allianz Group and treasury shares. Treasury shares are deducted from shareholders' equity. No gain or loss is recognized on the sale, issuance, acquisition or cancellation of these shares. Any consideration paid or received is recorded directly in shareholders' equity.

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Any foreign currency translation differences, including those arising in the application of the equity method of accounting, are recorded as foreign currency translation adjustments directly in shareholders' equity without affecting earnings.

Unrealized gains and losses (net) include unrealized gains and losses from available-for-sale investments and derivative financial instruments used for hedge purposes that meet the criteria for hedge accounting, including cash flow hedges and hedges of a net investment in a foreign entity.

Minority interests represent the proportion of equity that is attributable to minority shareholders.

### *Premiums earned and claims and insurance benefits paid*

Property-casualty insurance premiums are recognized as revenues over the period of the contract in proportion to the amount of insurance protection provided.

Health insurance premiums for long-duration contracts such as non-cancelable and guaranteed renewable contracts that are expected to remain in force over an extended period of time are recognized as earned when due. Premiums for short-duration health insurance contracts are recognized as revenues over the period of the contract in proportion to the amount of insurance protection provided.

Life insurance premiums from traditional life insurance policies are recognized as earned when due. Premiums from short-duration life insurance policies are recognized as revenues over the period of the contract in proportion to the amount of insurance protection provided. Benefits are recognized when incurred.

Unearned premiums for Property-Casualty and Life/Health contracts are calculated separately for each individual policy to cover the unexpired portion of written premiums.

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

Revenues for universal life-type and investment contracts, such as universal life and variable annuity contracts, represent charges assessed against the policyholders' account balances for the front-end loads, net of the change in unearned revenue liability, cost of insurance, surrenders and policy administration and are included within premiums earned (net). Benefits charged to expense include benefit claims incurred during the period in excess of policy account balances and interest credited to policy account balances.

***Interest and similar income/expense***

Interest income and interest expense are recognized on an accrual basis. Interest income is recognized using the effective interest method. This line item also includes dividends from available-for-sale equity securities, interest recognized on finance leases and income from investments in associated entities and joint ventures. Dividends are recognized in income when declared. Interest on finance leases is recognized in income over the term of the respective lease so that a constant period yield based on the net investment is attained.

Income from investments in associated entities and joint ventures (net) represents the share of net income from entities accounted for using the equity method.

***Income from financial assets and liabilities carried at fair value through income (net)***

Income from financial assets and liabilities carried at fair value through income includes all investment income, and realized and unrealized gains and losses from financial assets and liabilities carried at fair value through income. In addition, commissions attributable to trading operations and related interest expense and transaction costs are included in this line item.

***Fee and commission income and expenses***

In addition to traditional commission income received on security transactions, fee and commission income in the securities business also includes commissions received in relation to private placements, syndicated loans and financial advisory services. Other fees reflect fees from underwriting business (new issues), commissions received for trust and custody services, for the brokerage of insurance policies, and fees related to credit cards, home loans, savings contracts and real estate. Fee and commission income is recognized in Allianz Group's Banking segment when the corresponding service is provided.

Assets and liabilities held in trust by the Allianz Group in its own name, but for the account of third parties, are not reported in its consolidated balance sheet. Commissions received from such business are shown in fee and commission income.

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Investment advisory fees are recognized as the services are performed. Such fees are primarily based on percentages of the market value of the assets under management. Investment advisory fees receivable for private accounts consist primarily of accounts billed on a quarterly basis. Private accounts may also generate a fee based on investment performance, which is recognized at the end of the respective contract period if the prescribed performance hurdles have been achieved.

Distribution and servicing fees are recognized as the services are performed. Such fees are generally based on percentages of the market value of assets under management.

Administration fees are recognized as the services are performed. Such fees are generally based on percentages of the market value of assets under management.

### *Income and expenses from fully consolidated private equity investments*

All of the income from fully consolidated private equity investments and all of the expenses from fully consolidated private equity investments are presented in separate income and expense line items. Revenue from fully consolidated private equity investments is recognized upon customer acceptance of goods delivered and when services have been rendered.

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

***Income taxes***

Income tax expense consists of the current taxes on profits actually charged to the individual Allianz Group subsidiaries and changes in deferred tax assets and liabilities.

The calculation of deferred tax is based on temporary differences between the Allianz Group's carrying amounts of assets or liabilities in its consolidated balance sheet and their tax bases. The tax rates used for the calculation of deferred taxes are the local rates applicable in the countries concerned; changes to tax rates already adopted prior to or as of the consolidated balance sheet date are taken into account. Deferred tax assets are recognized only to the extent it is probable that sufficient future taxable income will be available for realization.

***Leases***

Payments made under operating leases to the lessor are charged to administrative expenses using the straight-line method over the period of the lease. When an operating lease is terminated before the lease period has expired, any penalty is recognized in full as an expense at the time when such termination takes place.

***Pensions and similar obligations***

The Allianz Group uses the projected unit credit actuarial method to determine the present value of its defined benefit plans and the related service cost and, where applicable, past service cost. The principal assumptions used by the Allianz Group are included in Note 47. The census date for the primary pension plans is October or November, with any significant changes through December 31, taken into account.

For each individual defined benefit pension plan, the Allianz Group recognizes a portion of its actuarial gains and losses in income or expense if the unrecognized actuarial net gain or loss at the end of the previous reporting period exceeds the greater of: a) 10% of the projected benefit obligation at that date; or b) 10% of the fair value of any plan assets at that date. Any unrecognized actuarial net gain or loss exceeding the greater of these two values is generally recognized in net periodic benefit cost in the consolidated income statement over the expected average remaining working lives of the employees participating in the plans.

***Share compensation plans***

The share-based compensation plans of the Allianz Group are required to be classified as equity settled or cash settled plans. Equity settled plans are measured at fair value on the grant date and recognized as an expense, with an increase in shareholders' equity, over the vesting period. Equity settled plans include a best estimate of the number of equity instruments that are expected to vest in determining the amount of expense

to be recognized. For cash settled plans, the Allianz Group accrues the fair value of the award as compensation expense over the vesting period. Upon vesting, any change in the fair value of any unexercised awards is recognized as compensation expense.

***Restructuring plans***

Provisions for restructuring are recognized when the Allianz Group has a detailed formal plan for the restructuring and has started to implement the plan or has communicated its main features. The detailed formal plan includes the business concerned, approximate number of employees who will be compensated for terminating their services, the expenses to be incurred and the time period over which the plan will be implemented. The detailed plan must be communicated such that those affected have an expectation that the plan will be implemented. The income statement line item, restructuring charges, includes additional restructuring related expenditures that are necessarily entailed by the restructuring and not associated with the ongoing activities of the entity but which are not included in the restructuring provisions.

**3 Recently adopted and issued accounting pronouncements and changes in the presentation of the consolidated financial statements**

***Recently adopted accounting pronouncements (effective January 1, 2007)***

In August 2005, the IASB issued an amendment to IAS 1, Presentation of Financial Statements. The amendment requires additional disclosures relating to

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

the Allianz Group's capital. In addition, in August 2005, the IASB issued IFRS 7, Financial Instruments: Disclosures, relating to disclosure requirements for financial instruments. The Allianz Group adopted the amendments to IAS 1 and IFRS 7 as of January 1, 2007. The Allianz Group's consolidated financial statements have been presented with the effect of these changes.

***Impact of IFRS 7 on the Allianz Group's consolidated financial statements***

IFRS 7 applies to all risks arising from financial instruments. IFRS 7 requires disclosure of:

- (a) the significance of financial instruments for an entity's financial position and performance
- (b) qualitative and quantitative information about exposure to risks arising from financial instruments.

The scope of IFRS 7 includes recognized and unrecognized financial instruments. Recognized financial instruments are those financial assets and financial liabilities within the scope of IAS 39. Unrecognized financial instruments are financial instruments that are outside of the scope of IAS 39 but within the scope of IFRS 7. IFRS 7 requires to group financial instruments into classes that are appropriate to the nature of the information disclosed and take into account the characteristics of those financial instruments. The classes of financial instruments generated within Allianz Group are mainly in line with those according to IAS 39.

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

The following table summarizes the relations between balance sheet positions, classes according to IFRS 7 and categories according to IAS 39:

<b>Balance sheet line item and IFRS 7 classes of financial assets</b>	<b>Measurement basis</b>	<b>IAS 39 category</b>
<b>Financial assets</b>		
Cash and cash equivalents	Nominal value	
Financial assets carried at fair value through income		
Financial assets held for trading	Fair value	Held for trading
Financial assets designated at fair value through income	Fair value	Designated at fair value through income
Investments		
Available-for-sale investments	Fair value	Available-for-sale investments
Held-to-maturity investments	Amortized cost	Held-to-maturity investments
Loans and advances to banks and customers	Amortized cost	Loans and receivables
Financial assets for unit linked contracts	Fair value	
Other Assets		
Derivative financial instruments used for hedging that meet the criteria for hedge accounting and firm commitments	Fair value	
<b>Balance sheet line item and IFRS 7 classes of financial liabilities</b>		
<b>Financial liabilities</b>		
Financial liabilities carried at fair value through income		
Financial liabilities held for trading	Fair value	Held for trading
Financial liabilities designated at fair value through income	Fair value	Designated at fair value through income
Liabilities to banks and customers	Amortized cost	Other liabilities - at amortized cost
Reserves for insurance and investment contracts		
Investment contracts with policyholders	Fair value	
Financial liabilities for unit linked contracts	Fair value	
Other Liabilities		
Derivative financial instruments used for hedging purposes that meet the criteria for hedge accounting and firm commitments	Fair value	
Financial liabilities for puttable equity instruments	Redemption amount	
Certificated liabilities	Amortized cost	Other liabilities - at amortized cost
Participation certificates and subordinated liabilities	Amortized cost	Other liabilities - at amortized cost
<b>Off-balance sheet</b>		
Financial guarantees	Nominal value	
Irrevocable loan commitments	Nominal value	



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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

Overall, IFRS 7 leads to enlarged disclosure requirements for financial instruments and associated risks. While some of the disclosures required by IFRS 7 were already included in the consolidated financial statements and notes in 2006, disclosures were added mainly in the appropriate notes dealing with financial instruments and include enlarged and more detailed information on:

Financial assets and financial liabilities designated at fair value through income including information on credit risk exposure

Hedge accounting

Fair value disclosures including fair values determined if there is non-observable market data, day 1 profit or loss, equity instruments at amortized costs and derecognition

Credit risk as well as collaterals and other credit enhancements

Furthermore, the enlarged risk disclosure requirements of IFRS 7 are reflected in the Quantitative and Qualitative Disclosures about Market Risk (ITEM 11) on pages 167 to 189 in this 20-F.

The requirements of IAS 1 with regard to capital disclosures are also incorporated in ITEM 11.

ITEM 11, with the exception of the Outlook section on page 190, is an integral part of the audited consolidated financial statements.

In March 2006, the International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 9, Reassessment of Embedded Derivatives. The Interpretation clarifies whether a reassessment should be made regarding whether an embedded derivative needs to be separated from the host contract after the initial hybrid contract has been recognized. IFRIC 9 concludes that reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 is effective for annual periods beginning on or after June 1, 2006. As the interpretation is consistent with the Allianz Group's existing policy, there was no significant impact on the Allianz Group's financial results or financial position.

In July 2006, the IFRIC issued IFRIC 10, Interim Financial Reporting and Impairment. IFRIC 10 address the potential conflict between requirements of IAS 34 and the requirements for recording impairment losses on goodwill in IAS 36 and certain financial assets in IAS 39. The interpretation prohibits the reversal of an impairment loss recognized in a previous interim period with respect to goodwill or an investment in either an equity instrument or a financial asset carried at cost. IFRIC 10 is effective for annual periods beginning on or after November 1, 2006. As the interpretation is consistent with the Allianz Group's existing policy, there was no significant impact on the Allianz Group's financial results or financial position.

*Recently issued accounting pronouncements (effective on or after January 1, 2008)*

In November 2006, the IASB issued IFRS 8, Operating Segments. IFRS 8 requires the identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance (i.e., the management approach). IFRS 8 requires explanations of how the segment information is prepared as well as reconciliations of total reportable segment revenues, total profits or losses, total assets, total liabilities, and other amounts disclosed for reportable segments to corresponding amounts recognized in the entity's financial statements. IFRS 8 applies to annual financial statements for periods beginning on or after January 1, 2009. IFRS 8 will have no impact on the Allianz Group's financial results or financial position. The Allianz Group is currently evaluating the potential impact, if any, that the adoption of IFRS 8 will have on the Group's segment reporting.

In March 2007, the IASB issued amendments to IAS 23, Borrowing Costs. The main change from the previous version is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The cost of an asset will in future include all costs incurred in getting it ready for use or sale. The revised Standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after January 1, 2009. The

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

amendment is expected to have no impact the Allianz Group's consolidated financial statements.

In June 2007, IFRIC issued IFRIC 13, Customer Loyalty Programmes. IFRIC 13 addresses how companies, that grant their customers loyalty award credits (often called "points") when buying goods or services, should account for their obligation to provide free or discounted goods or services if and when the customers redeem the points. Customers are implicitly paying for the points they receive when they buy other goods or services. Some revenue should be allocated to the points. Therefore, IFRIC 13 requires companies to estimate the value of the points to the customer and defer this amount of revenue as a liability until they have fulfilled their obligations to supply awards. IFRIC 13 is mandatory for annual periods beginning on or after July 1, 2008. Earlier application is permitted. The interpretation is expected to have no material impact the Allianz Group's consolidated financial statements.

In July 2007, IFRIC issued IFRIC 14, IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. IFRIC 14 addresses how entities should determine the limit placed by IAS 19, Employee Benefits, on the amount of a surplus in a pension plan they can recognize as an asset, how a minimum funding requirement affects that limit and when a minimum funding requirement creates an onerous obligation that should be recognized as a liability in addition to that otherwise recognized under IAS 19. The interpretation is mandatory for annual periods beginning on or after January 1, 2008. Earlier application is permitted. The interpretation is expected to have no material impact the Allianz Group's consolidated financial statements.

In September 2007, the IASB issued the revised IAS 1, Presentation of Financial Statements. The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. The revised standard gives preparers of financial statements the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements. The revisions also include changes in the titles of some of the financial statements to reflect their function more clearly. The new titles will be used in accounting standards, but are not mandatory for use in financial statements. Revised IAS 1 applies to annual financial statements for periods beginning on or after January 1, 2009. The Allianz Group is currently evaluating the potential impact, if any, that the adoption of revised IAS 1 will have on the presentation of the Group's financial statements.

In January 2008, the IASB issued a revised version of IFRS 3, Business Combinations, and an amended version of IAS 27, Consolidated and Separate Financial Statements. The revised version of IFRS 3 and the amended version of IAS 27 include the following changes:

The scope of IFRS 3 has been extended and applies now also to combinations of mutual entities and to combinations achieved by contract alone.

In partial acquisitions, non-controlling interests are measured as their proportionate interest in the net identifiable assets or at fair value of the interests.

Under the current IFRS 3, if control is achieved in stages, it is required to measure at fair value every asset and liability at each step for the purpose of calculating a portion of goodwill. The revised version requires that goodwill is measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired.

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Acquisition-related costs are generally recognised as expenses and are not included in goodwill.

Contingent consideration must be recognised and measured at fair value at the acquisition date. Subsequent changes in fair value are recognised in accordance with other IFRSs, usually in profit and loss. Goodwill is no longer adjusted for those changes.

Transactions with non-controlling interests, i.e., changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, are accounted for as equity transactions.

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

The revised standards apply to annual financial statements for periods beginning on or after July 1, 2009. The carrying amounts of any assets and liabilities that arose under business combinations prior to the application of the revised IFRS 3 are not adjusted. The amendments to IAS 27 need to be applied retrospectively with certain exceptions. Earlier application is permitted under certain conditions. The Allianz Group is currently evaluating the potential impact that the adoption of the standards will have on the Group's financial statements.

In January 2008, the IASB issued an amendment to IFRS 2, Share-based Payment. The amendment clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment applies to annual financial statements for periods beginning on or after January 1, 2009. Earlier application is permitted. The Allianz Group is currently evaluating the potential impact, if any, that the adoption of the amendment of IFRS 2 will have on the Group's financial statements.

In February 2008, the IASB issued amendments to IAS 32, Financial Instruments: Presentation, and IAS 1, Presentation of Financial Statements. IAS 32 requires a financial instrument to be classified as a liability if the holder of that instrument can require the issuer to redeem it for cash. The consequence is that some financial instruments that would usually be considered equity allow the holder to put the instrument and are, therefore, considered liabilities rather than equity. The amendments to IAS 32 address this issue and require entities to classify the following types of financial instruments as equity provided they have particular features and meet specific conditions:

puttable financial instruments (e.g., some shares issued by co-operative entities)

instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (e.g., some partnership interests and some shares issued by limited life entities).

The amendments apply to annual financial statements for periods beginning on or after January 1, 2009. Earlier application is permitted. The Allianz Group is currently evaluating the potential impact, if any, that the adoption of the amendments of IAS 32 and IAS 1 will have on the Group's financial statements.

***Changes in the presentation of the consolidated financial statements***

The Allianz Group has identified certain prior period errors through an analysis of various balance sheet accounts (the Errors). The Errors resulted primarily from the following issues:

Accounting for the purchase of Dresdner Bank in 2001 and 2002, which included realized gains and losses on investments which did not reflect the correct purchase price allocation for the Dresdner Bank opening balance sheet.

Consolidation of dividends for special funds in the year 2001, which resulted in the recognition of amounts for reserves for premium refunds, that did not properly take into account the different financial years of the sponsor and the special funds.

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Other errors, related to the accounting for minority interests and reserves for premium refunds, occurred in combination with mergers.

The Errors were included in the Allianz Group's financial statements for each of the years from 2001 through 2006. The Allianz Group quantified the Errors based on the amount of the error originating in the current year income statement, as well as the effects of correcting the error in the balance sheet at the end of the year (the rollover and iron curtain method of evaluating errors, respectively). The Allianz Group evaluated the Errors individually and in the aggregate, and concluded that they were immaterial to the financial statements for all years in which they were included.

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

The following table summarizes the effects of the Errors on net income as reported for the years 2005 and 2006, and the cumulative effect of the Errors on net income for the years 2001 through 2004.

Description of error	2006 mn	Net income 2005 mn	2001-2004 mn
Dresdner Bank purchase accounting	(78)	(42)	(182)
Special funds consolidation			29
Other			(4)
<b>Total</b>	<b>(78)</b>	<b>(42)</b>	<b>(157)</b>

As the majority of the Errors related to the years 2001 through 2004, and their correction has been determined to be immaterial, the Errors from these periods have been accounted for in 2007 by adjusting the opening balance sheet as of January 1, 2005. The Errors for 2005 and 2006 have been corrected through an out-of-period adjustment to net income in 2007.

The following table summarizes the Errors by issue and by their effect on the consolidated opening balance sheet and the consolidated statement of changes in equity as of January 1, 2005 as well as on the subsequent consolidated balance sheets and consolidated statements of changes in equity as of December 31, 2006 and 2007.

	Dresdner Bank mn	Special Funds mn	Other mn	Total mn
Other assets	(892)			(892)
Intangible assets (Goodwill)	306	(169)		137
<b>Total assets</b>	<b>(586)</b>	<b>(169)</b>		<b>(755)</b>
Reserves for insurance and investment contracts (Reserves for premium refunds)		(668)	3	(665)
Deferred tax liabilities		(30)		(30)
Shareholders' equity				
Revenue reserves	(894)	458	(123)	(559)
Unrealized gains/losses (net)	(272)			(272)
Minority interest	580	71	120	771
Total shareholders equity	(586)	529	(3)	(60)
<b>Total liabilities and equity</b>	<b>(586)</b>	<b>(169)</b>		<b>(755)</b>

The adjustment impacted certain asset and liability accounts previously reported within the consolidated balance sheet, consolidated statement of changes in equity and the consolidated segment balance sheet as of December 31, 2006. The following table summarizes the impact of correcting the Errors on the relevant line items on the face of the consolidated balance sheet and consolidated statement of changes in equity as of December 31, 2006:

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As of December 31, 2006	As previously reported mn	Adjustment mn	As adjusted <sup>1)</sup> mn
Other assets	38,893	(892)	38,001
Intangible assets (Goodwill)	12,935	137	13,072
<b>Total assets</b>	<b>1,053,226</b>	<b>(755)</b>	<b>1,052,471</b>
Reserves for insurance and investment contracts (Reserves for premium refunds)	287,697	(665)	287,032
Deferred tax liabilities	4,618	(30)	4,588
Shareholders' equity			
Revenue reserves	13,629	(559)	13,070
Unrealized gains/losses (net)	13,664	(272)	13,392
Minority interest	6,409	771	7,180
Total shareholders equity	56,890	(60)	56,830
<b>Total liabilities and equity</b>	<b>1,053,226</b>	<b>(755)</b>	<b>1,052,471</b>

<sup>1)</sup> Excludes the change in presentation due to the reclassification of certain financial instruments



**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

The following table summarizes the impact of correcting the Errors on the relevant line items of the face of the business segment information consolidated balance sheets as of December 31, 2006:

As of December 31, 2006	Prior to adjustment mn	Adjustment mn	As adjusted mn
<b>Property Casualty</b>			
Other assets	17,737		17,737
Intangible assets (Goodwill)	1,653		1,653
<b>Total assets</b>	<b>150,740</b>		<b>150,740</b>
Reserves for insurance and investment contracts (Reserves for premium refunds)	8,956	(2)	8,954
Deferred tax liabilities	3,902	(8)	3,894
<b>Total liabilities</b>	<b>111,020</b>	<b>(10)</b>	<b>111,010</b>
<b>Life/Health</b>			
Other assets	12,891		12,891
Intangible assets (Goodwill)	2,399	(169)	2,230
<b>Total assets</b>	<b>395,404</b>	<b>(169)</b>	<b>395,235</b>
Reserves for insurance and investment contracts (Reserves for premium refunds)	278,701	(663)	278,038
Deferred tax liabilities	1,181	(22)	1,159
<b>Total liabilities</b>	<b>379,504</b>	<b>(685)</b>	<b>378,819</b>
<b>Banking</b>			
Other assets	9,571	(892)	8,679
Intangible assets (Goodwill)	2,285	92	2,377
<b>Total assets</b>	<b>506,080</b>	<b>(800)</b>	<b>505,280</b>
Deferred tax liabilities	83		83
<b>Total liabilities</b>	<b>489,233</b>		<b>489,233</b>
<b>Asset Management</b>			
Other assets	3,471		3,471
Intangible assets (Goodwill)	6,334	214	6,548
<b>Total assets</b>	<b>12,944</b>	<b>214</b>	<b>13,158</b>
Deferred tax liabilities	46		46
<b>Total liabilities</b>	<b>4,340</b>		<b>4,340</b>

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<b>Total adjustments</b>	
Other assets	(892)
Intangible assets (Goodwill)	137
<b>Total assets</b>	<b>(755)</b>
Reserves for insurance and investment contracts (Reserves for premium refunds)	(665)
Deferred tax liabilities	(30)
<b>Total liabilities</b>	<b>(695)<sup>1)</sup></b>

<sup>1)</sup> Group level equity adjustments of (60) mn are not included in this table, as equity is not reported in the segment balance sheets.

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)*****Change in the presentation of financial instruments***

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

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

The following table summarizes the impact that this reclassification has had on the previously reported financial statements:

<b>As of December 31, 2006</b>	<b>As previously reported mn</b>	<b>Adjustment mn</b>	<b>As adjusted<sup>1)</sup> mn</b>
Financial assets carried at fair value through income	156,869	42,123	198,992
Collateral paid for securities borrowing transactions	41,031	(6,719)	34,312
Reverse repurchase agreements	139,413	22,206	161,619
Loans and advances to banks and customers	408,278	15,487	423,765
<b>Total assets</b>	<b>1,053,226</b>	<b>57,610</b>	<b>1,110,836</b>
Financial liabilities carried at fair value through income	79,699	42,123	121,822
Collateral received for securities lending transactions	28,617	(6,719)	21,898
Repurchase agreements	117,592	22,206	139,798
Liabilities to banks and customers	361,078	15,487	376,565
<b>Total liabilities and equity</b>	<b>1,053,226</b>	<b>57,610</b>	<b>1,110,836</b>

<sup>1)</sup> Excludes the correction of other errors.

The change in presentation from net to gross basis has had no effect on reported earnings or equity.

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****4 Consolidation***Scope of consolidation*

In addition to Allianz SE, the consolidated financial statements for the period ended December 31, 2007, generally include all German and foreign operating companies in which Allianz SE directly or indirectly holds a majority of voting rights, or whose activities it can in some other way control. The companies are consolidated from the date on which Allianz SE is able to exercise control.

The companies listed in the table below are consolidated in addition to the parent company Allianz SE.

<b>Consolidated group</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Number of fully consolidated companies (subsidiaries)</b>			
Germany	172	143	169
Other countries <sup>1)</sup>	1,003	824	840
<b>Total</b>	<b>1,175</b>	<b>967</b>	<b>1,009</b>
<b>Number of fully consolidated investment funds</b>			
Germany	47	51	67
Other countries	12	21	26
<b>Total</b>	<b>59</b>	<b>72</b>	<b>93</b>
<b>Number of fully consolidated Special Purpose Entities ( SPE )</b>	<b>55</b>	<b>46</b>	<b>35</b>
<b>Total of fully consolidated entities</b>	<b>1,289</b>	<b>1,085</b>	<b>1,137</b>
<b>Number of joint ventures valued at equity</b>	<b>4</b>	<b>9</b>	<b>10</b>
<b>Number of associated entities valued at equity</b>	<b>218</b>	<b>177</b>	<b>150</b>

<sup>1)</sup> Includes 8 (2006: 9; 2005: 9) subsidiaries where the Allianz Group owns less than majority of the voting power of the subsidiary, including CreditRas Vita S.p.A. ( CreditRas ) and Antoniana Veneta Popolare Vita S.p.A. ( Antoniana ). The Allianz Group controls these entities on the basis of shareholder agreements between the Allianz Group subsidiary owning 50 % of each such entity and the other shareholders. Pursuant to these shareholder agreements, the Allianz Group has the power to govern the financial and operating policies of these subsidiaries and the right to appoint the general manager, in the case of CreditRas, and the CEO, in the case of Antoniana, who have been given unilateral authority over all aspects of the financial and operating policies of these entities, including the hiring and termination of staff and the purchase and sale of assets. Furthermore, all management functions of these subsidiaries are performed by the employees of the Allianz Group and all operations are undertaken in Allianz Group's facilities. The Allianz Group also develops all insurance products written through these subsidiaries. Although the Allianz Group and the other shareholders each have the right to appoint half of the directors of each subsidiary, the rights of the other shareholders are limited to matters specifically reserved to the board of directors and shareholders under Italian law, such as decisions concerning capital increases, amendments to articles and similar matters. In addition, in the case of Antoniana, the Allianz Group has the right to appoint the Chairman, who has double board voting rights, thereby giving the Allianz Group a majority of board votes. The shareholder agreements for CreditRas and Antoniana are subject to automatic renewal and are not terminable prior to their stated terms.

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All subsidiaries, joint ventures and associated enterprises are individually listed in the disclosure of equity investments that will be published together with the consolidated financial statements in the German Electronic Federal Gazette as well as on the Company's Website. The disclosure of equity investments includes individually listed commercial partnerships which are exempt from preparing single financial statements in accordance with section 264b of the German Commercial Code ( HGB ) as they are included in the consolidated financial statements of the Allianz Group. Selected subsidiaries and associated entities are listed in the selected subsidiaries and other holdings section.

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****Significant acquisitions**

	Equity interest %	Date of first-time consolidation	Segment	Goodwill <sup>2)</sup> mn	Transaction
<b>2007</b>					
Russian People's Insurance Society, Moscow	97.2	02/21/2007	Property-Casualty	514	Increase in equity interest
Selecta AG, Muntelier <sup>1)</sup>	100.0	07/03/2007	Corporate	472	Purchase
Insurance Company Progress Garant, Moscow	100.0	05/31/2007	Property-Casualty	70	Purchase
Commerce Assurance Bhd., Kuala Lumpur	100.0	09/30/2007	Property-Casualty	49	Purchase
JSC Insurance Company ATF POLICY, Almaty	100.0	09/30/2007	Property-Casualty	8	Purchase
<b>2006</b>					
MAN Roland Druckmaschinen AG, Offenbach	100.0	7/18/2006	Corporate	144	Purchase
Home & Legacy Limited, London	100.0	6/15/2006	Property-Casualty	68	Purchase
Premier Line Direct Limited, Lancaster	100.0	10/01/2006	Property-Casualty	36	Purchase

<sup>1)</sup> Classified as held for sale

<sup>2)</sup> At the date of first-time consolidation

**2007 Significant acquisitions****Russian People's Insurance Society, Moscow**

On February 21, 2007, the Allianz Group acquired additional 49.8% of Russian People's Insurance Society, Moscow at a purchase price of 572 mn. Russian People's Insurance Society, Moscow is the second largest insurance company in Russia which offers products in the business segments Property-Casualty, Life/Health and Asset Management.

The impact of the acquisition of Russian People's Insurance Society, Moscow, net of cash acquired, on the consolidated statement of cash flows for the year ended December 31, 2007 was:

2007  
mn

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Intangible assets	(530)
Other assets	(798)
Other liabilities	717
Deferred tax liabilities	15
Minority interests	10
Less: previous investment in Rosno	78
<b>Acquisition of subsidiary, net of cash acquired</b>	<b>(508)</b>

*Components of costs*

As of December 31,	2007 mn
Purchase price (49.8 % interest)	571
Subsequent acquisition costs	1
<b>Total purchase price</b>	<b>572</b>

The impact on the Group's net income as of December 31, 2007 was (11) mn.

*Selecta AG, Muntelier*

On July 3, 2007, the Allianz Group acquired 100.0% of Selecta AG, Muntelier at a purchase price of 1,126 mn. Selecta AG, Muntelier is the leading vending operator in Europe.

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

The impact of the acquisition of Selecta AG, Muntelier, net of cash acquired, on the consolidated statement of cash flows for the year ended December 31, 2007 was:

	<b>2007 mn</b>
Intangible assets	(1,113)
Loans and advances to banks and customers	(107)
Other assets	(301)
Other liabilities	258
Deferred tax liabilities	190
<b>Acquisition of subsidiary, net of cash acquired</b>	<b>(1,073)</b>

*Components of costs*

<b>As of December 31,</b>	<b>2007 mn</b>
Purchase price (100.0% interest)	1,126
Transaction costs	
<b>Total purchase price</b>	<b>1,126</b>

The impact on the Group's net income as of December 31, 2007 was (11) mn.

During the fourth quarter ended December 31, 2007, Selecta AG, Muntelier was reclassified to disposal groups held for sale.

**2006 Significant acquisitions***MAN Roland Druckmaschinen AG, Offenbach*

On July 18, 2006, the Allianz Group acquired 100.0% of MAN Roland Druckmaschinen AG, Offenbach, at a purchase price of 554 mn. MAN Roland is the world's second largest manufacturer of printing systems.



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The impact of the acquisition of MAN Roland Druck-maschinen AG, Offenbach, net of cash acquired, on the consolidated statement of cash flows for the year ended December 31, 2006 was:

	<b>2006 mn</b>
Intangible assets	268
Loans and advances to banks and customers	386
Other assets	931
Liabilities to banks and customers	(491)
Other liabilities	(625)
Deferred tax liabilities	(125)
<b>Acquisition of subsidiary, net of cash acquired</b>	<b>344</b>

### *Components of costs*

<b>As of December 31,</b>	<b>2006 mn</b>
Purchase price (100.0% interest)	553
Transaction costs	1
<b>Total purchase price</b>	<b>554</b>

The impact on the Group's net income as of December 31, 2006 was 26 mn.

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****Significant disposals**

	Equity interest %	Date of deconsolidation	Proceeds from sale mn	Segment	Goodwill mn	Transaction
<b>2007</b>						
Grundstücksgesellschaft der Vereinten Versicherungen mbH & Co. Besitz- und Betriebs KG, Munich				Property-Casualty		Sale to third party
Les Assurances Fédérales IARD, Strasbourg	93.7	12/14/2007	194	Property-Casualty		Sale to third party
Allianz PFI (UK) Ltd., London	60.0	09/30/2007	86	Corporate		Sale to third party
Adriática de Seguros C.A., Caracas	100.0	08/17/2007	52	Property-Casualty/Life/Health		Sale to third party
<b>2006</b>						
Four Seasons Health Care Ltd., Wilmslow	98.3	08/31/2007	26	Corporate	158	Sale to third party
<b>2005</b>						
DresdnerGrund-Fonds, Frankfurt am Main	100.0	8/31/2006	863	Banking		Sale to third party
Cadence Capital Management Inc., Delaware	100.0	12/22/2005	2,029	Asset Management	39	Liquidation

**Acquisitions and disposals of significant minority interests**

	Date of acquisition/disposal	Equity interest change %	Costs of acquisition mn	Increase (decrease) in shareholders equity mn	Increase (decrease) of minority interests mn
<b>2007</b>					
Assurances Générales de France, Paris <sup>1)</sup>	during 2007	39.8	10,052	(3,419)	(3,868)
Allianz Lebensversicherungs-Aktiengesellschaft, Stuttgart	during 2007	3.8	303	(211)	(92)
Allianz Taiwan Life Insurance Co. Ltd., Taipei	04/19/2007	49.6	40	(39)	(1)
<b>2006</b>					
Riunione Adriatica di Sicurtà S.p.A., Milan ( RAS <sup>1)</sup> )	10/13/2006	23.7	3,653	1,659	(1,659)
Allianz Global Investors of America L.P., Delaware	during 2006	0.3	70	(70)	
<b>2005</b>					
Riunione Adriatica di Sicurtà S.p.A., Milan ( RAS )	11/30/2005	20.7	2,701	(1,339)	(1,362)
Allianz Global Investors of America L.P., Delaware	during 2005	3.4	209	(209)	
Bayerische Versicherungsbank AG, Munich	11/15/2005	10.0	22	82	(104)

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Assurances Générales de France, Paris

during 2005

(1.0)

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- <sup>1)</sup> Impact on shareholders' equity includes increase in equity due to financing of AGF minority buy-out in the year 2007 of 2,765mn and RAS minority buy-out in the year 2006 of 3,653mn.

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****5 Segment reporting**

As a result of the Allianz Group's worldwide organization, the business activities of the Allianz Group are first segregated by product and type of service: insurance activities, banking activities, asset management activities and corporate activities. Due to differences in the nature of products, risks and capital allocation, insurance activities are further divided between property-casualty and life/health categories. Thus, the Allianz Group's segments are structured as Property-Casualty, Life/Health, Banking, Asset Management and Corporate. Based on various legal, regulatory and other operational issues associated with operating entities in jurisdictions worldwide, the segments of the Allianz Group are also further analyzed by geographical areas or regions in matrixes that comprise a number of profit and service-center segments. This geographic analysis is performed to provide further understanding of trends and results underlying the segment data.

***Property-Casualty***

The Allianz Group is the largest German property-casualty insurance company based on gross premiums written during the year ended December 31, 2007. Principal product lines offered primarily within Germany include automobile liability and other automobile insurance, fire and property insurance, personal accident insurance, liability insurance and legal expense insurance. The Allianz Group is also among the largest property-casualty insurance companies in other countries, including France, Italy, the United Kingdom, Switzerland and Spain. The Allianz Group conducts its property-casualty insurance operations in these countries through five main groups of operating entities: in France, primarily offering automobile, property, injury and liability insurance for both individual and corporate customers; Italy, operating in all personal and commercial property-casualty lines in particular personal automobile insurance; the United Kingdom, offering products generally similar to those offered by the Allianz Group's German property-casualty operations as well as a number of specialty products, including extended warranty and pet insurance; Switzerland, offering property-casualty insurance, travel and assistance insurance, conventional reinsurance as well as a variety of alternative risk transfer products for corporate customers worldwide; and Spain, offering a wide variety of traditional personal and commercial property-casualty insurance products, with an emphasis on automobile insurance.

***Life/Health***

The Allianz Group is the largest provider of life insurance and the third largest provider of health insurance in Germany based on gross statutory premiums written during the year ended December 31, 2007. Germany is the Allianz Group's most important market for life/health insurance business. The Allianz Group's German life insurance companies offer a comprehensive and unified range of life insurance and life insurance-related products on both an individual and group basis. The main classes of coverage offered include endowment life insurance, annuity policies, term life insurance, unit linked annuities, and other life insurance-related forms of cover, which are provided as riders to other policies and on a stand-alone basis. The Allianz Group's German health insurance companies provide a wide range of health insurance products, including full private health-care coverage for the self-employed, salaried employees and civil servants, supplementary insurance for people insured under statutory health insurance plans, daily sickness allowance for the self-employed and salaried employees, hospital daily allowance, supplementary care insurance and foreign travel medical expenses insurance. The Allianz Group also maintains significant life/health operations in the United States, offering a wide variety of life insurance, fixed and variable annuity contracts, including equity-indexed annuities to individuals, and long-term care insurance to individual and corporate customers. Italy and France are also markets the Allianz Group maintains a significant presence offering products such as unit linked and investment-oriented products, health insurance and individual and group life insurance.

*Banking*

The Allianz Group's banking operations primarily comprise the operations of the Dresdner Bank AG and subsidiaries, hereafter Dresdner Bank Group, whose principal banking products and services include traditional commercial banking

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

activities such as deposit taking, lending (including residential mortgage lending) and cash management, as well as corporate finance advisory services, mergers and acquisitions advisory services, capital and money market services, securities underwriting and securities trading and derivatives business on its own account and for its customers. The Allianz Group operates through the domestic and international branch network of the Dresdner Bank Group and through various subsidiaries both in Germany and abroad, some of which also have branch networks.

***Asset Management***

The Allianz Group's Asset Management segment operates as a global provider of institutional and retail asset management products and services to third-party investors and provides investment management services to the Allianz Group's insurance operations. The Allianz Group managed 765 bn of third-party assets on a worldwide basis as of December 31, 2007, with key management centers in Munich, Frankfurt, London, Paris, Singapore, Hong Kong, Milan, Westport (Connecticut) and San Francisco, San Diego and Newport Beach (California). The United States is the Allianz Group's largest geographic region for third-party assets under management accounting for approximately 56.2% (2006: 57.1%; 2005: 59.6%) of the total third-party assets under management. As measured by total assets under management at December 31, 2007, the Allianz Group is one of the five largest asset managers in the world.

***Corporate***

The Corporate segment includes all group activities which are not allocated to a specific business segment. Further, the Corporate segment includes group funding and risk management activities, such as the senior bonds, subordinated bonds and money market securities issued or guaranteed by Allianz SE and the related derivative financial instruments held by Allianz SE or one of its subsidiaries.

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****Business Segment Information Consolidated Balance Sheets**

As of December 31,	Property-Casualty		Life/Health		Banking	
	2007 mn	2006 mn	2007 mn	2006 mn	2007 mn	2006 mn
<b>ASSETS</b>						
Cash and cash equivalents	4,985	4,100	8,779	6,998	17,307	21,528
Financial assets carried at fair value through income	3,302	4,814	13,216	11,026	168,339	181,628
Investments	83,741	88,819	187,289	190,607	16,284	17,803
Loans and advances to banks and customers	20,712	16,825	91,188	85,769	295,506	329,196
Financial assets for unit linked contracts			66,060	61,864		
Reinsurance assets	10,317	11,437	5,043	7,966		
Deferred acquisition costs	3,681	3,704	15,838	15,381		
Deferred tax assets	1,442	1,651	316	503	1,733	1,679
Other assets	21,864	17,737	14,071	12,891	8,203	8,679
Intangible assets	2,332	1,653	2,218	2,230	2,379	2,377
<b>Total assets</b>	<b>152,376</b>	<b>150,740</b>	<b>404,018</b>	<b>395,235</b>	<b>509,751</b>	<b>562,890</b>

As of December 31,	Property-Casualty		Life/Health		Banking	
	2007 mn	2006 mn	2007 mn	2006 mn	2007 mn	2006 mn
<b>LIABILITIES AND EQUITY</b>						
Financial liabilities carried at fair value through income	96	1,070	5,147	5,251	120,383	114,338
Liabilities to banks and customers	6,865	4,473	6,078	7,446	320,388	365,635
Unearned premiums	13,163	12,994	1,858	1,874		
Reserves for loss and loss adjustment expenses	56,943	58,664	6,773	6,804		
Reserves for insurance and investment contracts	8,976	8,954	283,139	278,038		
Financial liabilities for unit linked contracts			66,060	61,864		
Deferred tax liabilities	2,606	3,894	946	1,159	102	83
Other liabilities	22,989	18,699	17,741	16,314	11,011	12,140
Certificated liabilities	158	657	3	3	34,778	46,191
Participation certificates and subordinated liabilities	905	1,605	60	66	7,966	8,456
<b>Total liabilities</b>	<b>112,701</b>	<b>111,010</b>	<b>387,805</b>	<b>378,819</b>	<b>494,628</b>	<b>546,843</b>

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

Asset Management		Corporate		Consolidation		Group	
2007	2006	2007	2006	2007	2006	2007	2006
mn	mn	mn	mn	mn	mn	mn	mn
770	767	445	536	(949)	(898)	31,337	33,031
980	985	887	1,158	(1,263)	(619)	185,461	198,992
879	774	102,894	96,652	(104,135)	(96,521)	286,952	298,134
469	367	4,754	2,963	(15,927)	(11,355)	396,702	423,765
						66,060	61,864
				(48)	(43)	15,312	19,360
94	50					19,613	19,135
161	196	935	1,473	184	(775)	4,771	4,727
3,452	3,471	10,786	7,020	(16,848)	(11,797)	41,528	38,001
6,227	6,548	257	264			13,413	13,072
<b>13,032</b>	<b>13,158</b>	<b>120,958</b>	<b>110,066</b>	<b>(138,986)</b>	<b>(122,008)</b>	<b>1,061,149</b>	<b>1,110,081</b>
Asset Management		Corporate		Consolidation		Group	
2007	2006	2007	2006	2007	2006	2007	2006
mn	mn	mn	mn	mn	mn	mn	mn
		1,376	1,713	(949)	(550)	126,053	121,822
807	605	13,023	7,293	(10,667)	(8,887)	336,494	376,565
				(1)		15,020	14,868
				(10)	(4)	63,706	65,464
		358	306	(229)	(266)	292,244	287,032
						66,060	61,864
35	46	88	171	196	(765)	3,973	4,588
3,647	3,689	14,625	14,149	(20,689)	(15,227)	49,324	49,764
		9,567	9,265	(2,436)	(1,194)	42,070	54,922
14		7,069	7,099	(1,190)	(864)	14,824	16,362
<b>4,503</b>	<b>4,340</b>	<b>46,106</b>	<b>39,996</b>	<b>(35,975)</b>	<b>(27,757)</b>	<b>1,009,768</b>	<b>1,053,251</b>
<b>Total equity</b>						<b>51,381</b>	<b>56,830</b>
<b>Total liabilities and equity</b>						<b>1,061,149</b>	<b>1,110,081</b>



**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****Business Segment Information Consolidated Income Statements**

	Property-Casualty			Life/Health			Banking		
	2007 mn	2006 mn	2005 mn	2007 mn	2006 mn	2005 mn	2007 mn	2006 mn	2005 mn
<b>Premiums written</b>	<b>44,289</b>	<b>43,674</b>	<b>43,699</b>	<b>21,522</b>	<b>21,614</b>	<b>21,093</b>			
Ceded premiums written	(5,320)	(5,415)	(5,529)	(637)	(816)	(926)			
Change in unearned premiums	(416)	(309)	(485)	(76)	(224)	(170)			
<b>Premiums earned (net)</b>	<b>38,553</b>	<b>37,950</b>	<b>37,685</b>	<b>20,809</b>	<b>20,574</b>	<b>19,997</b>			
Interest and similar income	4,473	4,096	3,747	13,417	12,972	12,057	8,370	7,312	7,321
Income from financial assets and liabilities carried at fair value through income (net)	85	189	164	(940)	(361)	258	(431)	1,335	1,163
Realized gains/losses (net)	1,479	1,792	1,421	3,716	3,282	2,731	83	492	1,020
Fee and commission income	1,178	1,014	989	701	630	507	3,651	3,598	3,397
Other income	122	69	53	182	43	45		25	11
Income from fully consolidated private equity investments									
<b>Total income</b>	<b>45,890</b>	<b>45,110</b>	<b>44,059</b>	<b>37,885</b>	<b>37,140</b>	<b>35,595</b>	<b>11,673</b>	<b>12,762</b>	<b>12,912</b>
Claims and insurance benefits incurred (gross)	(28,131)	(27,028)	(28,478)	(18,292)	(18,520)	(18,332)			
Claims and insurance benefits incurred (ceded)	2,646	2,356	3,147	655	895	893			
<b>Claims and insurance benefits incurred (net)</b>	<b>(25,485)</b>	<b>(24,672)</b>	<b>(25,331)</b>	<b>(17,637)</b>	<b>(17,625)</b>	<b>(17,439)</b>			
Change in reserves for insurance and investment contracts (net)	(339)	(425)	(707)	(10,268)	(10,525)	(10,443)			
Interest expense	(402)	(273)	(339)	(374)	(280)	(452)	(5,266)	(4,592)	(5,027)
Loan loss provisions	(6)	(2)	(1)	3	(1)		126	(28)	110
Impairments of investments (net)	(343)	(200)	(95)	(827)	(390)	(199)	(90)	(215)	(184)
Investment expenses	(322)	(300)	(333)	(833)	(750)	(567)	(14)	(47)	(30)
Acquisition and administrative expenses (net)	(10,616)	(10,590)	(10,216)	(4,588)	(4,437)	(3,973)	(5,061)	(5,605)	(5,661)
Fee and commission expenses	(967)	(721)	(775)	(209)	(223)	(219)	(603)	(590)	(547)
Amortization of intangible assets	(14)	(1)	(11)	(3)	(26)	(13)			(1)
Restructuring charges	(122)	(362)	(68)	(45)	(174)	(18)	(52)	(424)	(13)
Other expenses	(13)	(4)	(17)	(2)	(9)	(1)	1	14	(33)
Expenses from fully consolidated private equity investments									
<b>Total expenses</b>	<b>(38,629)</b>	<b>(37,550)</b>	<b>(37,893)</b>	<b>(34,783)</b>	<b>(34,440)</b>	<b>(33,324)</b>	<b>(10,959)</b>	<b>(11,487)</b>	<b>(11,386)</b>
<b>Income (loss) before income taxes and minority interests in earnings</b>	<b>7,261</b>	<b>7,560</b>	<b>6,166</b>	<b>3,102</b>	<b>2,700</b>	<b>2,271</b>	<b>714</b>	<b>1,275</b>	<b>1,526</b>
Income taxes	(1,656)	(2,075)	(1,804)	(897)	(641)	(488)	(266)	(263)	(387)
Minority interests in earnings	(431)	(739)	(827)	(214)	(416)	(425)	(71)	(94)	(102)
<b>Net income (loss)</b>	<b>5,174</b>	<b>4,746</b>	<b>3,535</b>	<b>1,991</b>	<b>1,643</b>	<b>1,358</b>	<b>377</b>	<b>918</b>	<b>1,037</b>

**Table of Contents****Notes to the Allianz Group s Consolidated Financial Statements (Continued)**

Asset Management			Corporate			Consolidation			Group		
2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005
mn	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn
						(23)	(13)	(26)	65,788	65,275	64,766
						23	13	26	(5,934)	(6,218)	(6,429)
									(492)	(533)	(655)
									59,362	58,524	57,682
135	112	90	855	509	416	(1,203)	(1,045)	(987)	26,047	23,956	22,644
	31	38	19	51	(334)	(441)	(43)	73	(1,247)	940	1,163
	2	7	6	980	861	172	288	(283)	(372)	6,548	6,151
	4,403	4,186	3,746	198	190	164	(691)	(762)	(641)	9,440	8,856
	14	11	11	15	28		(116)	(90)	(28)	217	86
				2,367	1,392	598				2,367	1,392
	4,585	4,354	3,872	4,466	2,646	909	(1,765)	(2,107)	(2,028)	102,734	99,905
											95,319
							14	25	8	(46,409)	(45,523)
							(14)	(25)	(8)	3,287	3,226
											4,032
										(43,122)	(42,297)
											(42,770)
							(78)	(425)	(26)	(10,685)	(11,375)
	(55)	(41)	(33)	(1,586)	(1,282)	(1,321)	1,011	709	795	(6,672)	(5,759)
				(10)	(5)					113	(36)
	(1)	(2)		(11)	32	(62)				(1,272)	(775)
	1		(1)	(115)	(215)	(345)	226	204	184	(1,057)	(1,108)
											(1,092)
	(2,391)	(2,286)	(2,277)	(642)	(655)	(516)	80	87	84	(23,218)	(23,486)
	(1,270)	(1,262)	(1,110)	(130)	(127)	(92)	506	572	431	(2,673)	(2,351)
		(24)	(25)							(17)	(51)
	(4)	(4)	(1)	(9)						(232)	(964)
										(14)	1
											(51)
				(2,317)	(1,381)	(572)				(2,317)	(1,381)
											(572)
	(3,720)	(3,619)	(3,447)	(4,820)	(3,633)	(2,908)	1,745	1,147	1,468	(91,166)	(89,582)
											(87,490)
	865	735	425	(354)	(987)	(1,999)	(20)	(960)	(560)	11,568	10,323
	(342)	(278)	(129)	217	824	741	90	420	4	(2,854)	(2,013)
	(25)	(53)	(52)	(21)	(16)	(10)	14	29	30	(748)	(1,289)
											(1,386)
	498	404	244	(158)	(179)	(1,268)	84	(511)	(526)	7,966	7,021
											4,380

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****Business Segment Information Insurance**

<b>PROPERTY-CASUALTY</b> As of and for the years ended December 31,	<b>Premiums earned (net)</b>			<b>Loss ratio<sup>1)</sup></b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>mn</b>	<b>mn</b>	<b>mn</b>	<b>%</b>	<b>%</b>	<b>%</b>
<b>Europe</b>						
Germany	9,245	9,844	10,048	64.8	65.1	63.0
Italy	4,902	4,935	4,964	71.2	68.8	69.3
France	4,422	4,429	4,375	70.9	71.0	74.0
United Kingdom	1,989	1,874	1,913	66.3	64.1	65.4
Spain	1,820	1,675	1,551	71.6	71.0	71.4
Switzerland	1,595	1,706	1,708	69.5	69.3	74.9
Western and Southern Europe	2,768	2,819	2,863	67.4	61.7	63.2
New Europe	2,067	1,388	1,313	60.8	61.1	61.7
<b>Subtotal</b>	<b>28,808</b>	<b>28,670</b>	<b>28,735</b>			
<b>NAFTA</b>	<b>3,427</b>	<b>3,623</b>	<b>3,566</b>	<b>61.6</b>	<b>58.4</b>	<b>67.1</b>
<b>Asia-Pacific</b>	<b>1,415</b>	<b>1,336</b>	<b>1,280</b>	<b>69.5</b>	<b>68.7</b>	<b>68.0</b>
<b>South America</b>	<b>692</b>	<b>623</b>	<b>510</b>	<b>62.9</b>	<b>64.8</b>	<b>64.5</b>
<b>Other</b>	<b>50</b>	<b>32</b>	<b>30</b>	<b>2)</b>	<b>2)</b>	<b>2)</b>
<b>Specialty Lines</b>						
Allianz Global Corporate and Specialty	1,800	1,545	1,633	67.9	62.5	91.1
Credit Insurance	1,268	1,113	997	47.9	49.7	41.3
Travel Insurance and Assistance Services	1,093	1,008	934	58.1	58.7	60.3
<b>Subtotal</b>	<b>4,161</b>	<b>3,666</b>	<b>3,564</b>			
<b>Subtotal</b>	<b>38,553</b>	<b>37,950</b>	<b>37,685</b>			
<b>Consolidation<sup>3)</sup></b>						
<b>Total</b>	<b>38,553</b>	<b>37,950</b>	<b>37,685</b>	<b>66.1</b>	<b>65.0</b>	<b>67.2</b>
<b>LIFE/HEALTH</b> As of and for the years ended December 31,	<b>Statutory premiums<sup>4)</sup></b>			<b>Statutory expense ratio<sup>5)</sup></b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>mn</b>	<b>mn</b>	<b>mn</b>	<b>%</b>	<b>%</b>	<b>%</b>
<b>Europe</b>						
Germany Life	13,512	13,009	12,231	5.8	9.1	8.1
Germany Health	3,123	3,091	3,042	9.8	9.3	9.1
Italy	9,765	8,555	9,313	5.8	6.4	5.4
France	6,550	5,792	5,286	15.4	12.6	15.1
Switzerland	992	1,005	1,058	10.6	9.9	8.7
Spain	738	629	547	9.2	9.3	7.4
Western and Southern Europe	1,762	1,655	1,546	12.1	14.8	13.3
New Europe	1,039	828	479	20.0	19.6	25.7
<b>Subtotal</b>	<b>37,481</b>	<b>34,564</b>	<b>33,502</b>			
<b>NAFTA</b>	<b>6,968</b>	<b>8,758</b>	<b>11,115</b>	<b>11.9</b>	<b>8.0</b>	<b>4.8</b>
<b>Asia-Pacific</b>	<b>4,638</b>	<b>3,733</b>	<b>3,309</b>	<b>10.2</b>	<b>11.2</b>	<b>12.0</b>
<b>South America</b>	<b>78</b>	<b>147</b>	<b>141</b>	<b>32.6</b>	<b>16.9</b>	<b>17.7</b>
<b>Other</b>	<b>418</b>	<b>439</b>	<b>455</b>	<b>2)</b>	<b>2)</b>	<b>2)</b>
<b>Subtotal</b>	<b>49,583</b>	<b>47,641</b>	<b>48,522</b>			
<b>Consolidation<sup>3)</sup></b>	<b>(216)</b>	<b>(220)</b>	<b>(250)</b>			
<b>Total</b>	<b>49,367</b>	<b>47,421</b>	<b>48,272</b>	<b>9.4</b>	<b>9.6</b>	<b>8.4</b>

1) Represents claims and insurance benefits incurred (net) divided by premiums earned (net).

2) Presentation not meaningful.

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- 3) Represents elimination of intercompany transactions between Allianz Group subsidiaries in different geographic regions.
- 4) Statutory premiums are gross premiums written from sales of life insurance policies, as well as gross receipts from sales of unit linked and other investment-oriented products, in accordance with the statutory accounting practices applicable in the insurer's home jurisdiction.
- 5) Represents acquisition and administrative expenses (net) divided by statutory premiums (net).

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

	Expense ratio <sup>6)</sup>			Operating profit (loss)			Total assets	
	2007	2006	2005	2007	2006	2005	2007	2006
	%	%	%	mn	mn	mn	mn	mn
	26.8	27.8	26.4	1,628	1,479	1,765	52,034	49,570
	23.6	23.0	24.3	719	816	741	14,307	14,395
	26.4	28.2	28.0	486	420	227	25,748	30,373
	33.3	31.6	30.8	208	281	268	6,434	7,344
	19.8	19.3	20.0	253	252	217	4,185	3,990
	25.6	23.5	22.9	218	228	153	5,678	5,832
	28.0	28.5	28.0	482	550	494	7,952	7,686
	33.5	30.9	29.3	256	184	213	5,773	3,427
				<b>4,250</b>	<b>4,210</b>	<b>4,078</b>	<b>122,111</b>	<b>122,617</b>
	<b>29.6</b>	<b>30.5</b>	<b>29.1</b>	<b>663</b>	<b>825</b>	<b>495</b>	<b>10,818</b>	<b>12,457</b>
	<b>26.5</b>	<b>27.2</b>	<b>27.2</b>	<b>312</b>	<b>244</b>	<b>252</b>	<b>6,073</b>	<b>6,880</b>
	<b>36.1</b>	<b>36.4</b>	<b>36.3</b>	<b>55</b>	<b>47</b>	<b>61</b>	<b>1,340</b>	<b>1,295</b>
	2)	2)	2)	<b>9</b>	<b>9</b>	<b>7</b>	<b>236</b>	<b>211</b>
	28.1	29.7	31.3	414	404	(254)	16,362	17,929
	28.6	27.9	25.7	496	442	420	4,814	4,674
	35.6	43.1	33.0	97	90	77	1,376	1,246
				<b>1,007</b>	<b>936</b>	<b>243</b>	<b>22,552</b>	<b>23,849</b>
				<b>6,296</b>	<b>6,271</b>	<b>5,136</b>	<b>163,130</b>	<b>167,309</b>
				<b>3</b>	<b>(2)</b>	<b>6</b>	<b>(10,754)</b>	<b>(16,569)</b>
	<b>27.5</b>	<b>27.9</b>	<b>27.1</b>	<b>6,299</b>	<b>6,269</b>	<b>5,142</b>	<b>152,376</b>	<b>150,740</b>
	Operating profit			Total assets				
	2007	2006	2005	2007	2006			
	mn	mn	mn	mn	mn			
	695	521	347	154,903	154,009			
	164	184	159	20,637	19,022			
	372	339	334	50,294	49,905			
	632	582	558	74,321	69,231			
	66	50	55	8,930	9,053			
	104	92	71	5,818	5,840			
	184	182	166	17,316	16,693			
	61	50	34	3,165	2,537			
	<b>2,278</b>	<b>2,000</b>	<b>1,724</b>	<b>335,384</b>	<b>326,290</b>			
	<b>385</b>	<b>418</b>	<b>257</b>	<b>54,728</b>	<b>56,371</b>			
	<b>300</b>	<b>81</b>	<b>27</b>	<b>14,260</b>	<b>13,061</b>			
		<b>1</b>	<b>2</b>	<b>234</b>	<b>259</b>			
	<b>30</b>	<b>74</b>	<b>92</b>	<b>327</b>	<b>286</b>			
	<b>2,993</b>	<b>2,574</b>	<b>2,102</b>	<b>404,933</b>	<b>396,267</b>			
	<b>2</b>	<b>(9)</b>	<b>(8)</b>	<b>(915)</b>	<b>(1,032)</b>			
	<b>2,995</b>	<b>2,565</b>	<b>2,094</b>	<b>404,018</b>	<b>395,235</b>			

<sup>6)</sup> Represents acquisition and administrative expenses (net) divided by premiums earned (net).

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****Business Segment Information Banking****BANKING SEGMENT BY DIVISION**

	Operating revenues			Operating profit (loss)			Cost-income ratio			Total Assets	
	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006
	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn
Private & Corporate Clients <sup>1)</sup>	3,625	3,624	3,464	884	783	626	74.0	74.9	77.2	61,900	62,700
Investment Banking <sup>1)</sup>	1,628	3,111	2,613	(659)	548	351	137.0	82.9	88.1	422,300	475,800
Corporate Other <sup>2)</sup>	171	69	(38)	505	23	(347)	<sup>3)</sup>	<sup>3)</sup>	<sup>3)</sup>	17,597	16,323
<b>Dresdner Bank</b>	<b>5,424</b>	<b>6,804</b>	<b>6,039</b>	<b>730</b>	<b>1,354</b>	<b>630</b>	<b>89.0</b>	<b>79.7</b>	<b>91.4</b>	<b>501,797</b>	<b>554,823</b>
<b>Other Banks<sup>4)</sup></b>	<b>297</b>	<b>284</b>	<b>279</b>	<b>43</b>	<b>68</b>	<b>74</b>	<b>83.5</b>	<b>75.7</b>	<b>72.4</b>	<b>7,954</b>	<b>8,067</b>
<b>Total</b>	<b>5,721</b>	<b>7,088</b>	<b>6,318</b>	<b>773</b>	<b>1,422</b>	<b>704</b>	<b>88.7</b>	<b>79.5</b>	<b>90.6</b>	<b>509,751</b>	<b>562,890</b>

<sup>1)</sup> Our reporting by division reflects the organizational changes within Dresdner Bank effective starting with 1Q 2007, resulting in two operating divisions, Private & Corporate Clients ( PCC ) and Investment Banking ( IB ). PCC combines all banking activities formerly provided by the Personal Banking and Private & Business Banking (including Private Wealth Management) divisions as well as our activities with medium-sized business clients from our former Corporate Banking division. IB, with Global Banking and Capital Markets, unites the activities formerly provided by the Dresdner Kleinwort Wasserstein division and the remaining activities of the former Corporate Banking division. Prior year balances have been adjusted accordingly to reflect these reorganization measures and allow for comparability across periods.

<sup>2)</sup> The Corporate Other division contains income and expense items that are not assigned to Dresdner Bank's operating divisions. These items include, in particular, impacts from the accounting treatment for derivative financial instruments which do not qualify for hedge accounting as well as provisioning requirements for country and general risks. For the years ended December 31, 2007, 2006 and 2005 the impact from the accounting treatment for derivative financial instruments which do not qualify for hedge accounting on Corporate Other's operating revenues amounted to (54) mn, (47) mn and (214) mn, respectively.

<sup>3)</sup> Presentation not meaningful.

<sup>4)</sup> Consists of non-Dresdner Bank banking operations within our Banking segment.

**BANKING SEGMENT BY GEOGRAPHIC REGION**

	Operating revenues			Operating profit (loss)		
	2007	2006	2005	2007	2006	2005
	mn	mn	mn	mn	mn	mn
Germany	4,321	4,312	4,340	1,488	853	814
The Americas	433	560	176	77	251	(78)
Europe	664	1,944	1,571	(907)	234	(110)
New Europe	72	60	47	8	2	3
Asia-Pacific	231	212	184	107	82	75
<b>Total</b>	<b>5,721</b>	<b>7,088</b>	<b>6,318</b>	<b>773</b>	<b>1,422</b>	<b>704</b>



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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

**BUSINESS SEGMENT INFORMATION OPERATING PROFIT**

The Allianz Group evaluates the results of its Property-Casualty, Life/Health, Banking, Asset Management and Corporate segments using a financial performance measure referred to herein as operating profit. The Allianz Group defines segment operating profit as earnings from ordinary activities before taxes, excluding, as applicable for each respective segment, all or some of the following items: net capital gains and impairments on investments, net trading income, intra-Allianz Group dividends and profit transfer, interest expense on external debt, restructuring charges, other non-operating income/expenses, acquisition-related expenses and amortization of intangible assets.

While these excluded items are significant components in understanding and assessing the Allianz Group's consolidated financial performance, the Allianz Group believes that the presentation of operating results enhances the understanding and comparability of the performance of its operating segments by highlighting net income attributable to on-going segment operations and the underlying profitability of its businesses. For example, the Allianz Group believes that trends in the underlying profitability of its segments can be more clearly identified without the fluctuating effects of the realized capital gains and losses or impairments on investment securities, as these are largely dependent on market cycles or issuer-specific events over which the Allianz Group has little or no control, and can and do vary, sometimes materially, across periods. Further, the timing of sales that would result in such gains or losses is largely at the Allianz Group's discretion. Operating profit is not a substitute for earnings from ordinary activities before taxes or net income as determined in accordance with IFRS. The Allianz Group's definition of operating profit may differ from similar measures used by other companies, and may change over time.



**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****Segment Information Total Revenues and Operating Profit**

The following table summarizes total revenues, operating profit and net income for each of the segments and the Allianz Group for the years ended December 31, 2007, 2006 and 2005.

	Property- Casualty mn	Life/ Health mn	Banking mn	Asset Management mn	Corporate mn	Consolidation mn	Group mn
<b>2007</b>							
<b>Total revenues<sup>1)</sup></b>	<b>44,289</b>	<b>49,367</b>	<b>5,721</b>	<b>3,259</b>		<b>(38)</b>	<b>102,598</b>
<b>Operating profit (loss)</b>	<b>6,299</b>	<b>2,995</b>	<b>773</b>	<b>1,359</b>	<b>(325)</b>	<b>(186)</b>	<b>10,915</b>
Non-operating items	962	107	(59)	(494)	(29)	166	653
<b>Income (loss) before income taxes and minority interests in earnings</b>	<b>7,261</b>	<b>3,102</b>	<b>714</b>	<b>865</b>	<b>(354)</b>	<b>(20)</b>	<b>11,568</b>
Income taxes	(1,656)	(897)	(266)	(342)	217	90	(2,854)
Minority interests in earnings	(431)	(214)	(71)	(25)	(21)	14	(748)
<b>Net income (loss)</b>	<b>5,174</b>	<b>1,991</b>	<b>377</b>	<b>498</b>	<b>(158)</b>	<b>84</b>	<b>7,966</b>
<b>2006</b>							
<b>Total revenues<sup>1)</sup></b>	<b>43,674</b>	<b>47,421</b>	<b>7,088</b>	<b>3,044</b>		<b>(98)</b>	<b>101,129</b>
<b>Operating profit (loss)</b>	<b>6,269</b>	<b>2,565</b>	<b>1,422</b>	<b>1,290</b>	<b>(831)</b>	<b>(329)</b>	<b>10,386</b>
Non-operating items	1,291	135	(147)	(555)	(156)	(631)	(63)
<b>Income (loss) before income taxes and minority interests in earnings</b>	<b>7,560</b>	<b>2,700</b>	<b>1,275</b>	<b>735</b>	<b>(987)</b>	<b>(960)</b>	<b>10,323</b>
Income taxes	(2,075)	(641)	(263)	(278)	824	420	(2,013)
Minority interests in earnings	(739)	(416)	(94)	(53)	(16)	29	(1,289)
<b>Net income (loss)</b>	<b>4,746</b>	<b>1,643</b>	<b>918</b>	<b>404</b>	<b>(179)</b>	<b>(511)</b>	<b>7,021</b>
<b>2005</b>							
<b>Total revenues<sup>1)</sup></b>	<b>43,699</b>	<b>48,272</b>	<b>6,318</b>	<b>2,722</b>		<b>(44)</b>	<b>100,967</b>
<b>Operating profit (loss)</b>	<b>5,142</b>	<b>2,094</b>	<b>704</b>	<b>1,132</b>	<b>(881)</b>	<b>(188)</b>	<b>8,003</b>
Non-operating items	1,024	177	822	(707)	(1,118)	(372)	(174)
<b>Income (loss) before income taxes and minority interests in earnings</b>	<b>6,166</b>	<b>2,271</b>	<b>1,526</b>	<b>425</b>	<b>(1,999)</b>	<b>(560)</b>	<b>7,829</b>
Income taxes	(1,804)	(488)	(387)	(129)	741	4	(2,063)
Minority interests in earnings	(827)	(425)	(102)	(52)	(10)	30	(1,386)
<b>Net income (loss)</b>	<b>3,535</b>	<b>1,358</b>	<b>1,037</b>	<b>244</b>	<b>(1,268)</b>	<b>(526)</b>	<b>4,380</b>

1)

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

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)***Property-Casualty Segment*

	2007	2006	2005
	mn	mn	mn
<b>Gross premiums written<sup>1)</sup></b>	<b>44,289</b>	<b>43,674</b>	<b>43,699</b>
Ceded premiums written	(5,320)	(5,415)	(5,529)
Change in unearned premiums	(416)	(309)	(485)
<b>Premiums earned (net)</b>	<b>38,553</b>	<b>37,950</b>	<b>37,685</b>
Interest and similar income	4,473	4,096	3,747
Income from financial assets and liabilities designated at fair value through income (net) <sup>2)</sup>	136	106	132
Income from financial assets and liabilities held for trading (net), shared with policyholders <sup>2)</sup>	8		
Realized gains/losses (net) from investments, shared with policyholders <sup>3)</sup>	46	46	273
Fee and commission income	1,178	1,014	989
Other income	122	69	53
<b>Operating revenues</b>	<b>44,516</b>	<b>43,281</b>	<b>42,879</b>
Claims and insurance benefits incurred (net)	(25,485)	(24,672)	(25,331)
Changes in reserves for insurance and investment contracts (net)	(339)	(425)	(707)
Interest expense	(402)	(273)	(339)
Loan loss provisions	(6)	(2)	(1)
Impairments of investments (net), shared with policyholders <sup>4)</sup>	(67)	(25)	(18)
Investment expenses	(322)	(300)	(333)
Acquisition and administrative expenses (net)	(10,616)	(10,590)	(10,216)
Fee and commission expenses	(967)	(721)	(775)
Other expenses	(13)	(4)	(17)
<b>Operating expenses</b>	<b>(38,217)</b>	<b>(37,012)</b>	<b>(37,737)</b>
<b>Operating profit</b>	<b>6,299</b>	<b>6,269</b>	<b>5,142</b>
Income from financial assets and liabilities held for trading (net), not shared with policyholders <sup>2)</sup>	(59)	83	32
Realized gains/losses (net) from investments, not shared with policyholders <sup>3)</sup>	1,433	1,746	1,148
Impairments of investments (net), not shared with policyholders <sup>4)</sup>	(276)	(175)	(77)
Amortization of intangible assets	(14)	(1)	(11)
Restructuring charges	(122)	(362)	(68)
<b>Non-operating items</b>	<b>962</b>	<b>1,291</b>	<b>1,024</b>
<b>Income before income taxes and minority interests in earnings</b>	<b>7,261</b>	<b>7,560</b>	<b>6,166</b>
Income taxes	(1,656)	(2,075)	(1,804)
Minority interests in earnings	(431)	(739)	(827)
<b>Net income</b>	<b>5,174</b>	<b>4,746</b>	<b>3,535</b>
Loss ratio <sup>5)</sup> in %	66.1	65.0	67.2
Expense ratio <sup>6)</sup> in %	27.5	27.9	27.1
<b>Combined ratio<sup>7)</sup> in %</b>	<b>93.6</b>	<b>92.9</b>	<b>94.3</b>

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- 1) For the Property-Casualty segment, total revenues are measured based upon gross premiums written.
- 2) The total of these items equals income from financial assets and liabilities carried at fair value through income (net) in the segment income statement.
- 3) The total of these items equals realized gains/losses (net) in the segment income statement.
- 4) The total of these items equals impairments of investments (net) in the segment income statement.
- 5) Represents claims and insurance benefits incurred (net) divided by premiums earned (net).
- 6) Represents acquisition and administrative expenses (net) divided by premiums earned (net).
- 7) Represents the total of acquisition and administrative expenses (net) and claims and insurance benefits incurred (net) divided by premiums earned (net).

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)***Life/Health Segment*

	2007	2006	2005
	mn	mn	mn
<b>Statutory premiums<sup>1)</sup></b>	<b>49,367</b>	<b>47,421</b>	<b>48,272</b>
Ceded premiums written	(644)	(840)	(942)
Change in unearned premiums	(61)	(221)	(168)
Statutory premiums (net)	48,662	46,360	47,162
Deposits from SFAS 97 insurance and investment contracts	(27,853)	(25,786)	(27,165)
<b>Premiums earned (net)</b>	<b>20,809</b>	<b>20,574</b>	<b>19,997</b>
Interest and similar income	13,417	12,972	12,057
Income (loss) from financial assets and liabilities carried at fair value through income (net), shared with policyholders <sup>2)</sup>	(945)	(361)	258
Realized gains/losses (net) from investments, shared with policyholders <sup>3)</sup>	3,579	3,087	2,523
Fee and commission income	701	630	507
Other income	182	43	45
<b>Operating revenues</b>	<b>37,743</b>	<b>36,945</b>	<b>35,387</b>
Claims and insurance benefits incurred (net)	(17,637)	(17,625)	(17,439)
Changes in reserves for insurance and investment contracts (net)	(10,268)	(10,525)	(10,443)
Interest expense	(374)	(280)	(452)
Loan loss provisions	3	(1)	
Impairments of investments (net), shared with policyholders <sup>4)</sup>	(824)	(390)	(199)
Investment expenses	(833)	(750)	(567)
Acquisition and administrative expenses (net)	(4,588)	(4,437)	(3,973)
Fee and commission expenses	(209)	(223)	(219)
Operating restructuring charges <sup>5)</sup>	(16)	(140)	
Other expenses	(2)	(9)	(1)
<b>Operating expenses</b>	<b>(34,748)</b>	<b>(34,380)</b>	<b>(33,293)</b>
<b>Operating profit</b>	<b>2,995</b>	<b>2,565</b>	<b>2,094</b>
Income from financial assets and liabilities carried at fair value through income (net), not shared with policyholders <sup>2)</sup>	5		
Realized gains/losses (net) from investments, not shared with policyholders <sup>3)</sup>	137	195	208
Impairments of investments (net), not shared with policyholders <sup>4)</sup>	(3)		
Amortization of intangible assets	(3)	(26)	(13)
Non-operating restructuring charges <sup>5)</sup>	(29)	(34)	(18)
<b>Non-operating items</b>	<b>107</b>	<b>135</b>	<b>177</b>
<b>Income before income taxes and minority interests in earnings</b>	<b>3,102</b>	<b>2,700</b>	<b>2,271</b>
Income taxes	(897)	(641)	(488)
Minority interests in earnings	(214)	(416)	(425)
<b>Net income</b>	<b>1,991</b>	<b>1,643</b>	<b>1,358</b>
<b>Statutory expense ratio<sup>6)</sup> in %</b>	<b>9.4</b>	<b>9.6</b>	<b>8.4</b>

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- 1) For the Life/Health segment, total revenues are measured based upon statutory premiums. Statutory premiums are gross premiums written from sales of life insurance policies, as well as gross receipts from sales of unit linked and other investment-oriented products, in accordance with the statutory accounting practices applicable in the insurer's home jurisdiction.
- 2) The total of these items equals income from financial assets and liabilities carried at fair value through income (net) in the segment income statement.
- 3) The total of these items equals realized gains/losses (net) in the segment income statement.
- 4) The total of these items equals impairments of investments (net) in the segment income statement.
- 5) The total of these items equals restructuring charges in the segment income statement.
- 6) Represents acquisition and administrative expenses (net) divided by statutory premiums (net).

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****Banking Segment**

	2007		2006		2005	
	Banking Segment mn	Dresdner Bank mn	Banking Segment mn	Dresdner Bank <sup>1)</sup> mn	Banking Segment mn	Dresdner Bank mn
Net interest income <sup>2)</sup>	3,104	2,987	2,720	2,645	2,294	2,218
Net fee and commission income <sup>3)</sup>	3,048	2,866	3,008	2,841	2,850	2,693
Trading income (net) <sup>4)</sup>	(464)	(461)	1,282	1,242	1,170	1,123
Income from financial assets and liabilities designated at fair value through income (net) <sup>4)</sup>	33	33	53	53	(7)	(6)
Other income		(1)	25	23	11	11
<b>Operating revenues<sup>5)</sup></b>	<b>5,721</b>	<b>5,424</b>	<b>7,088</b>	<b>6,804</b>	<b>6,318</b>	<b>6,039</b>
Administrative expenses	(5,061)	(4,809)	(5,605)	(5,384)	(5,661)	(5,452)
Investment expenses	(14)	(20)	(47)	(53)	(30)	(37)
Other expenses	1	3	14	14	(33)	(33)
<b>Operating expenses</b>	<b>(5,074)</b>	<b>(4,826)</b>	<b>(5,638)</b>	<b>(5,423)</b>	<b>(5,724)</b>	<b>(5,522)</b>
Loan loss provisions	126	132	(28)	(27)	110	113
<b>Operating profit</b>	<b>773</b>	<b>730</b>	<b>1,422</b>	<b>1,354</b>	<b>704</b>	<b>630</b>
Realized gains/losses (net)	83	70	492	492	1,020	1,020
Impairments of investments (net)	(90)	(89)	(215)	(215)	(184)	(183)
Amortization of intangible assets					(1)	
Restructuring charges	(52)	(51)	(424)	(422)	(13)	(12)
<b>Non-operating items</b>	<b>(59)</b>	<b>(70)</b>	<b>(147)</b>	<b>(145)</b>	<b>822</b>	<b>825</b>
<b>Income before income taxes and minority interests in earnings</b>	<b>714</b>	<b>660</b>	<b>1,275</b>	<b>1,209</b>	<b>1,526</b>	<b>1,455</b>
Income taxes	(266)	(232)	(263)	(236)	(387)	(373)
Minority interests in earnings	(71)	(62)	(94)	(82)	(102)	(82)
<b>Net income</b>	<b>377</b>	<b>366</b>	<b>918</b>	<b>891</b>	<b>1,037</b>	<b>1,000</b>
<b>Cost-income ratio<sup>6)</sup> in %</b>	<b>88.7</b>	<b>89.0</b>	<b>79.5</b>	<b>79.7</b>	<b>90.6</b>	<b>91.4</b>

1) We have enhanced the presentation of revenues and operating profit stemming from trades in shares of Allianz SE and its affiliates. From 2007 onwards, these results are eliminated on Dresdner Bank level, whereas in 2006 they were adjusted on segment level only. At Dresdner Bank this led to reduced operating revenues and reduced operating profit of 6 mn and 6 mn, respectively, compared to the figures as stated in 2006. As a result income taxes decreased by 3 mn. All other changes are related to rounding.

2) Represents interest and similar income less interest expense.

3) Represents fee and commission income less fee and commission expenses.

4) The total of these items equals income from financial assets and liabilities carried at fair value through income (net) in the segment income statement.

5) For the Banking segment, total revenues are measured based upon operating revenues.

- 6) Represents operating expenses divided by operating revenues.

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****Asset Management Segment**

	2007		2006		2005	
	Asset Management Segment mn	Allianz Global Investors mn	Asset Management Segment mn	Allianz Global Investors mn	Asset Management Segment mn	Allianz Global Investors mn
Net fee and commission income <sup>1)</sup>	3,133	3,060	2,924	2,874	2,636	2,597
Net interest income <sup>2)</sup>	81	75	71	66	56	51
Income from financial assets and liabilities carried at fair value through income (net)	31	29	38	37	19	18
Other income	14	14	11	12	11	11
<b>Operating revenues<sup>3)</sup></b>	<b>3,259</b>	<b>3,178</b>	<b>3,044</b>	<b>2,989</b>	<b>2,722</b>	<b>2,677</b>
Administrative expenses, excluding acquisition-related expenses <sup>4)</sup>	(1,900)	(1,857)	(1,754)	(1,713)	(1,590)	(1,560)
<b>Operating expenses</b>	<b>(1,900)</b>	<b>(1,857)</b>	<b>(1,754)</b>	<b>(1,713)</b>	<b>(1,590)</b>	<b>(1,560)</b>
<b>Operating profit</b>	<b>1,359</b>	<b>1,321</b>	<b>1,290</b>	<b>1,276</b>	<b>1,132</b>	<b>1,117</b>
Realized gains/losses (net)	2	4	7	5	6	5
Impairments of investments (net)	(1)	(1)	(2)	(2)		
<b>Acquisition-related expenses<sup>4)</sup>, thereof:</b>						
Deferred purchases of interests in PIMCO	(488)	(488)	(523)	(523)	(677)	(677)
Other acquisition-related expenses <sup>5)</sup>	(3)	(3)	(9)	(9)	(10)	(10)
<b>Subtotal</b>	<b>(491)</b>	<b>(491)</b>	<b>(532)</b>	<b>(532)</b>	<b>(687)</b>	<b>(687)</b>
Amortization of intangible assets			(24)	(23)	(25)	(25)
Restructuring charges	(4)	(4)	(4)	(4)	(1)	(1)
<b>Non-operating items</b>	<b>(494)</b>	<b>(492)</b>	<b>(555)</b>	<b>(556)</b>	<b>(707)</b>	<b>(708)</b>
<b>Income before income taxes and minority interests in earnings</b>	<b>865</b>	<b>829</b>	<b>735</b>	<b>720</b>	<b>425</b>	<b>409</b>
Income taxes	(342)	(337)	(278)	(276)	(129)	(127)
Minority interests in earnings	(25)	(22)	(53)	(49)	(52)	(48)
<b>Net income</b>	<b>498</b>	<b>470</b>	<b>404</b>	<b>395</b>	<b>244</b>	<b>234</b>
<b>Cost-income ratio<sup>6)</sup> in %</b>	<b>58.3</b>	<b>58.4</b>	<b>57.6</b>	<b>57.3</b>	<b>58.4</b>	<b>58.3</b>

1) Represents fee and commission income less fee and commission expenses.

2) Represents interest and similar income less interest expense and investment expenses.

3) For the Asset Management segment, total revenues are measured based upon operating revenues.

4) The total of these items equals acquisition and administrative expenses (net) in the segment income statement.

5) Consists of retention payments for the management and employees of PIMCO and Nicholas Applegate.

6) Represents operating expenses divided by operating revenues.



**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****Corporate Segment**

	2007	2006	2005
	mn	mn	mn
Interest and similar income	855	509	416
Income from financial assets and liabilities designated at fair value through income (net) <sup>1)</sup>	7	(60)	
Operating income from financial assets and liabilities held for trading (net) <sup>1)</sup>	(33)		
Fee and commission income	198	190	164
Other income	15	28	
Income from fully consolidated private equity investments	2,367	1,392	598
<b>Operating revenues</b>	<b>3,409</b>	<b>2,059</b>	<b>1,178</b>
Interest expense, excluding interest expense from external debt <sup>2)</sup>	(535)	(507)	(534)
Loan loss provisions	(10)	(5)	
Investment expenses	(115)	(215)	(345)
Acquisition and administrative expenses (net), excluding acquisition-related expenses <sup>3)</sup>	(627)	(655)	(516)
Fee and commission expenses	(130)	(127)	(92)
Expenses from fully consolidated private equity investments	(2,317)	(1,381)	(572)
<b>Operating expenses</b>	<b>(3,734)</b>	<b>(2,890)</b>	<b>(2,059)</b>
<b>Operating profit (loss)</b>	<b>(325)</b>	<b>(831)</b>	<b>(881)</b>
Non-operating income from financial assets and liabilities held for trading (net) <sup>1)</sup>	77	(274)	(441)
Realized gains/losses (net)	980	861	172
Interest expense from external debt <sup>2)</sup>	(1,051)	(775)	(787)
Impairments of investments (net)	(11)	32	(62)
Acquisition-related expenses <sup>3)</sup>	(15)		
Restructuring charges	(9)		
<b>Non-operating items</b>	<b>(29)</b>	<b>(156)</b>	<b>(1,118)</b>
<b>Loss before income taxes and minority interests in earnings</b>	<b>(354)</b>	<b>(987)</b>	<b>(1,999)</b>
Income taxes	217	824	741
Minority interests in earnings	(21)	(16)	(10)
<b>Net loss</b>	<b>(158)</b>	<b>(179)</b>	<b>(1,268)</b>

1) The total of these items equals income from financial assets and liabilities carried at fair value through income (net) in the segment income statement.

2) The total of these items equals interest expense in the segment income statement.

3) The total of these items equals acquisition and administrative expenses (net) in the segment income statement.

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

**Supplementary Information to the  
Consolidated Balance Sheets**

**6 Cash and cash equivalents**

As of December 31, 2007	2007 mn	2006 mn
Balances with banks payable on demand	23,848	26,915
Balances with central banks	6,301	4,945
Cash on hand	918	919
Treasury bills, discounted treasury notes, similar treasury securities and checks	264	224
Bills of exchange	6	28
<b>Total</b>	<b>31,337</b>	<b>33,031</b>

As of December 31, 2007, compulsory deposits on accounts with national central banks under restrictions due to required reserves from the European Central Bank totaled 5,473 mn (2006: 4,176 mn).

**7 Financial assets carried at fair value through income**

As of December 31,	2007 mn	2006 mn
<b>Financial assets held for trading</b>		
Debt securities <sup>1)</sup>	59,715	81,881
Equity securities	30,596	31,266
Derivative financial instruments	73,230	66,958
<b>Subtotal</b>	<b>163,541</b>	<b>180,105</b>
<b>Financial assets designated at fair value through income</b>		
Debt securities <sup>2)3)</sup>	15,924	14,414
Equity securities	4,232	3,834
Loans to banks and customers	1,764	639
<b>Subtotal</b>	<b>21,920</b>	<b>18,887</b>
<b>Total</b>	<b>185,461</b>	<b>198,992</b>

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- 1) Debt securities held for trading include 15.1 bn of asset-backed securities of Dresdner Bank as of December 31, 2007.
- 2) Debt securities designated at fair value through income include 2.8 bn of credit investment related conduits ( CIRC ) of Dresdner Bank as of December 31, 2007.
- 3) Debt securities designated at fair value through income include 0.8 bn of asset-backed securities of the Life/Health segment as of December 31, 2007.

### *Debt and equity securities included in financial assets held for trading*

Equity and debt securities included in financial assets held for trading are primarily marketable and listed securities. As of December 31, 2007, the debt securities include 17,281 mn (2006: 21,924 mn) from public sector issuers and 42,434 mn (2006: 59,957 mn) from other issuers.

### *Credit risk exposure of loans to banks and customers designated at fair value through income*

The maximum credit exposure of the loans to banks and customers designated at fair value through income amounts to 1,779 mn (2006: 630 mn) as of December 31, 2007. The Allianz Group hedged the credit exposure using credit derivatives with a notional value of 1,468 mn (2006: 379 mn).

The change in fair value of loans to banks and customers attributable to changes in credit risk amounts to a loss of 23 mn (2006: gain of 10 mn) for the year ended December 31, 2007 and cumulatively to a loss of 13 mn (2006: gain of 10 mn).

The change in fair value of the credit derivatives attributable to changes in credit risk amounts to a gain of 8 mn for the year ended December 31, 2007 and cumulatively to a gain of 8 mn.

The change in fair value of loans to banks and customers attributable to changes in credit risk has been calculated using a credit spread function. The credit spread function is based on various parameters, primarily on the default probability and recovery rate of the loan holder. In most cases the fair value of the financial assets is determined using quoted marked prices, while in some cases specific valuation models based on the above parameters are used.

## 8 Investments

As of December 31,	2007 mn	2006 mn
Available-for-sale investments	268,001	277,898
Held-to-maturity investments	4,659	4,748
Funds held by others under reinsurance contracts assumed	1,063	1,033
Investments in associates and joint ventures	5,471	4,900
Real estate held for investment	7,758	9,555
<b>Total</b>	<b>286,952</b>	<b>298,134</b>

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)***Available-for-sale investments*

As of December 31,	2007				2006			
	Amortized Cost mn	Unrealized Gains mn	Unrealized Losses mn	Fair Value mn	Amortized Cost mn	Unrealized Gains mn	Unrealized Losses mn	Fair Value mn
<b>Debt securities</b>								
<b>Government and agency mortgage-backed securities (residential and commercial)<sup>1)</sup></b>	<b>7,628</b>	<b>30</b>	<b>(112)</b>	<b>7,546</b>	<b>8,757</b>	<b>16</b>	<b>(218)</b>	<b>8,555</b>
<b>Corporate mortgage-backed securities (residential and commercial)<sup>1)</sup></b>	<b>6,663</b>	<b>39</b>	<b>(101)</b>	<b>6,601</b>	<b>4,768</b>	<b>38</b>	<b>(53)</b>	<b>4,753</b>
<b>Other asset-backed securities<sup>1)</sup></b>	<b>5,384</b>	<b>34</b>	<b>(92)</b>	<b>5,326</b>	<b>3,911</b>	<b>25</b>	<b>(40)</b>	<b>3,896</b>
<b>Government and government agency bonds</b>								
Germany	12,987	127	(187)	12,927	14,523	335	(139)	14,719
Italy	23,090	232	(259)	23,063	23,722	560	(127)	24,155
France	13,452	596	(255)	13,793	15,353	798	(133)	16,018
United States	4,544	114	(20)	4,638	5,219	28	(135)	5,112
Spain	6,717	150	(79)	6,788	8,322	337	(42)	8,617
Belgium	5,050	38	(114)	4,974	5,210	124	(38)	5,296
All other countries	32,445	77	(565)	31,957	31,655	612	(243)	32,024
<b>Subtotal</b>	<b>98,285</b>	<b>1,334</b>	<b>(1,479)</b>	<b>98,140</b>	<b>104,004</b>	<b>2,794</b>	<b>(857)</b>	<b>105,941</b>
<b>Corporate bonds</b>	<b>86,095</b>	<b>660</b>	<b>(2,356)</b>	<b>84,399</b>	<b>82,061</b>	<b>1,367</b>	<b>(769)</b>	<b>82,659</b>
<b>Other</b>	<b>2,933</b>	<b>99</b>	<b>(104)</b>	<b>2,928</b>	<b>2,122</b>	<b>215</b>	<b>(18)</b>	<b>2,319</b>
<b>Subtotal</b>	<b>206,988</b>	<b>2,196</b>	<b>(4,244)</b>	<b>204,940</b>	<b>205,623</b>	<b>4,455</b>	<b>(1,955)</b>	<b>208,123</b>
<b>Equity securities</b>	<b>40,794</b>	<b>22,734</b>	<b>(467)</b>	<b>63,061</b>	<b>43,248</b>	<b>26,686</b>	<b>(159)</b>	<b>69,775</b>
<b>Total</b>	<b>247,782</b>	<b>24,930</b>	<b>(4,711)</b>	<b>268,001</b>	<b>248,871</b>	<b>31,141</b>	<b>(2,114)</b>	<b>277,898</b>

<sup>1)</sup> includes asset-backed-securities of the Property-Casualty segment of 4.9 bn and of the Life/Health segment of 13.0 bn as of December 31, 2007.

*Held-to-maturity investments*

As of December 31,	2007				2006			
	Amortized Cost mn	Unrealized Gains mn	Unrealized Losses mn	Fair Value mn	Amortized Cost mn	Unrealized Gains mn	Unrealized Losses mn	Fair Value mn
<b>Government and government agency bonds</b>								
Germany	130			130	104	2		106
Italy	447	9		456	437	18		455
All other countries	1,555	26	(17)	1,564	1,561	56	(1)	1,616

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<b>Subtotal</b>	<b>2,132</b>	<b>35</b>	<b>(17)</b>	<b>2,150</b>	<b>2,102</b>	<b>76</b>	<b>(1)</b>	<b>2,177</b>
<b>Corporate bonds</b>	<b>2,500</b>	<b>31</b>	<b>(3)</b>	<b>2,528</b>	<b>2,620</b>	<b>92</b>	<b>(3)</b>	<b>2,709</b>
<b>Other</b>	<b>27</b>			<b>27</b>	<b>26</b>			<b>26</b>
<b>Total</b>	<b>4,659</b>	<b>66</b>	<b>(20)</b>	<b>4,705</b>	<b>4,748</b>	<b>168</b>	<b>(4)</b>	<b>4,912</b>

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)***Unrealized losses on available-for-sale investments and held-to-maturity investments*

The following table sets forth gross unrealized losses on available-for-sale investments and held-to-maturity investments and the related fair value, segregated by investment category and length of time such investments have been in a continuous unrealized loss position as of December 31, 2007 and 2006.

As of December 31,	Less than 12 months		Greater than 12 months		Total	
	Fair Value mn	Unrealized Losses mn	Fair Value mn	Unrealized Losses mn	Fair Value mn	Unrealized Losses mn
<b>2007</b>						
<b>Debt securities</b>						
Government and agency mortgage-backed securities (residential and commercial)	1,371	(22)	4,115	(90)	5,486	(112)
Corporate mortgage-backed securities (residential and commercial)	2,720	(50)	1,902	(51)	4,622	(101)
Other asset-backed securities	1,527	(50)	979	(42)	2,506	(92)
Government and government agency bonds	36,587	(699)	18,522	(797)	55,109	(1,496)
Corporate bonds	33,724	(1,075)	20,183	(1,284)	53,907	(2,359)
Other	1,062	(50)	487	(54)	1,549	(104)
<b>Subtotal</b>	<b>76,991</b>	<b>(1,946)</b>	<b>46,188</b>	<b>(2,318)</b>	<b>123,179</b>	<b>(4,264)</b>
<b>Equity securities</b>	<b>7,480</b>	<b>(467)</b>			<b>7,480</b>	<b>(467)</b>
<b>Total</b>	<b>84,471</b>	<b>(2,413)</b>	<b>46,188</b>	<b>(2,318)</b>	<b>130,659</b>	<b>(4,731)</b>
<b>2006</b>						
<b>Debt securities</b>						
Government and agency mortgage-backed securities (residential and commercial)	2,706	(66)	4,815	(152)	7,521	(218)
Corporate mortgage-backed securities (residential and commercial)	1,738	(13)	1,078	(40)	2,816	(53)
Other asset-backed securities	1,447	(19)	728	(21)	2,175	(40)
Government and government agency bonds	37,923	(554)	9,833	(304)	47,756	(858)
Corporate bonds	31,888	(516)	6,397	(256)	38,285	(772)
Other	481	(7)	100	(11)	581	(18)
<b>Subtotal</b>	<b>76,183</b>	<b>(1,175)</b>	<b>22,951</b>	<b>(784)</b>	<b>99,134</b>	<b>(1,959)</b>
<b>Equity securities</b>	<b>3,607</b>	<b>(159)</b>			<b>3,607</b>	<b>(159)</b>
<b>Total</b>	<b>79,790</b>	<b>(1,334)</b>	<b>22,951</b>	<b>(784)</b>	<b>102,741</b>	<b>(2,118)</b>



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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

***Government and agency mortgage-backed securities (residential and commercial)***

Total unrealized losses amounted to 112 mn as of December 31, 2007. The unrealized loss positions concern mostly issues of United States government agencies, which are primarily held by Allianz Group's North American entities. These pay-through/pass-through securities are serviced by cash flows from pools of underlying loans to mostly private debtors. The unrealized losses of these mortgage-backed securities were partly caused by interest rate increases between purchase date of the individual securities and the balance sheet date. Also in various instances, price decreases were caused by increased prepayment risk for individual loan pools that were originated in a significantly higher interest rate environment. Because the decline in fair value is attributable to changes in interest rates and, to a lesser extent, instances of insignificant deterioration of credit quality, the Allianz Group does not consider these investments to be impaired at December 31, 2007.

***Government and government agency bonds***

Total unrealized losses amounted to 1,496 mn at December 31, 2007. The Allianz Group holds a large variety of government bonds, mostly of OECD countries (Organization of Economic Cooperation and Development). Given the fact that the issuers of these bonds are backed by the fiscal capacity of the issuers and the issuers typically hold an investment grade country- and/or issue-rating, credit risk is not a significant factor. Hence, the unrealized losses on Allianz Group's investment in government bonds were mainly caused by interest rate increases between the purchase date of the individual securities and the balance sheet date. Because the decline in fair value is attributable to changes in interest rates and, to a lesser extent, to instances of insignificant deterioration of credit quality, the Allianz Group does not consider these investments to be impaired at December 31, 2007.

***Corporate bonds***

Total unrealized losses amounted to 2,359 mn as of December 31, 2007. The Allianz Group holds a large variety of bonds issued by corporations mostly domiciled in OECD countries. For the vast majority of the Allianz Group's corporate bonds, issuers and/or issues are of investment grade. Therefore, the unrealized losses on Allianz Group's investment in corporate debt securities were primarily caused by interest rate increases between the purchase date of the individual securities and the balance sheet date. As the decline in fair value is primarily attributable to changes in interest rates, the Allianz Group does not consider these investments to be impaired at December 31, 2007.

***Equity securities***

As of December 31, 2007, unrealized losses from equity securities amounted to 467 mn. These unrealized losses concern equity securities that did not meet the criteria of Allianz Group's impairment policy for equity securities as described in Note 2. Substantially all of the unrealized losses have been in a continuous loss position for less than 6 months.

***Contractual term to maturity***

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The amortized cost and estimated fair value of available-for-sale debt securities and held-to-maturity debt securities as of December 31, 2007, by contractual term to maturity, are as follows:

As of December 31, 2007	Amortized Cost mn	Fair Value mn
<b>Available-for-sale investments</b>		
Due in 1 year or less	16,333	16,459
Due after 1 year and in less than 5 years	64,716	64,612
Due after 5 years and in less than 10 years	59,781	59,048
Due after 10 years	66,158	64,821
<b>Total</b>	<b>206,988</b>	<b>204,940</b>
<b>Held-to-maturity investments</b>		
Due in 1 year or less	336	340
Due after 1 year and in less than 5 years	1,406	1,422
Due after 5 years and in less than 10 years	1,436	1,437
Due after 10 years	1,481	1,506
<b>Total</b>	<b>4,659</b>	<b>4,705</b>

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

Actual maturities may deviate from the contractually defined maturities, because certain security issuers have the right to call or repay certain obligations ahead of schedule, with or without redemption or early repayment penalties. Investments that are not due at a single maturity date are, in general, not allocated over various maturity buckets, but are shown within their final contractual maturity dates.

**Equity investments carried at cost**

As of December 31, 2007, fair values could not be reliably measured for equity investments with carrying amounts totaling 1,742 mn (2006: 1,486 mn). These investments are primarily investments in privately held corporations and partnerships. During the year ended December 31, 2007, such investments with carrying amounts of 27 mn (2006: 12 mn) were sold leading to gains of 42 mn (2006: 32 mn) and losses of 6 mn (2006: 1 mn).

**Investments in associates and joint ventures**

As of December 31, 2007, loans to associated enterprises and joint ventures and debt securities available-for-sale issued by associated enterprises and joint ventures held by the Allianz Group amounted to 1,232 mn (2006: 2,236 mn). As of December 31, 2007, the fair value of investments in associates and joint ventures was 5,654 mn (2006: 4,941 mn).

**Real estate held for investment**

	2007 mn	2006 mn	2005 mn
Cost as of January 1,	13,039	13,090	13,655
Accumulated depreciation as of January 1,	(3,484)	(3,521)	(3,027)
<b>Carrying amount as of January 1,</b>	<b>9,555</b>	<b>9,569</b>	<b>10,628</b>
Additions	406	792	608
Changes in the consolidated subsidiaries of the Allianz Group	3	68	240
Disposals	(564)	(746)	(740)
Reclassifications <sup>1)</sup>	(1,313)	345	(745)
Foreign currency translation adjustments	(92)	(71)	70
Depreciation	(192)	(230)	(253)
Impairments	(51)	(252)	(240)
Reversals of impairments	6	80	1
<b>Carrying amount as of December 31,</b>	<b>7,758</b>	<b>9,555</b>	<b>9,569</b>
Accumulated depreciation as of December 31,	2,356	3,484	3,521
Cost as of December 31,	10,114	13,039	13,090

<sup>1)</sup> The reclassifications for the year ended December 31, 2007 relate mainly to a portfolio of real estate held for investment, that was classified as disposal group held for sale.

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As of December 31, 2007, the fair value of real estate held for investment was 12,031 mn (2006: 13,494 mn). As of December 31, 2007, real estate held for investment pledged as security, and other restrictions on title, were 146 mn (2006: 55 mn).

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****9 Loans and advances to banks and customers**

As of December 31,	2007			2006		
	Banks mn	Customers mn	Total mn	Banks mn	Customers mn	Total mn
Short-term investments and certificates of deposit	10,316		10,316	6,775		6,775
Reverse repurchase agreements	68,340	56,991	125,331	95,770	65,849	161,619
Collateral paid for securities borrowing transactions	16,664	23,714	40,378	15,191	19,121	34,312
Loans	74,944	125,403	200,347	69,211	129,319	198,530
Other	14,012	7,148	21,160	15,225	8,358	23,583
<b>Subtotal</b>	<b>184,276</b>	<b>213,256</b>	<b>397,532</b>	<b>202,172</b>	<b>222,647</b>	<b>424,819</b>
Loan loss allowance	(3)	(827)	(830)	(108)	(946)	(1,054)
<b>Total</b>	<b>184,273</b>	<b>212,429</b>	<b>396,702</b>	<b>202,064</b>	<b>221,701</b>	<b>423,765</b>

*Loans and advances to banks and customers by contractual maturity*

As of December 31, 2007	Up to	> 3 months	> 1 year	> 3 years	Greater	Total
	3 months	up to	up to	up to	than	
	mn	1 year	3 years	5 years	5 years	mn
Loans and advances to banks	95,456	23,124	21,539	9,265	34,892	184,276
Loans and advances to customers	117,865	14,573	17,988	10,865	51,965	213,256
<b>Total</b>	<b>213,321</b>	<b>37,697</b>	<b>39,527</b>	<b>20,130</b>	<b>86,857</b>	<b>397,532</b>

*Loans and advances to banks and customers by geographic region*

As of December 31,	2007			2006		
	Germany mn	Other countries mn	Total mn	Germany mn	Other countries mn	Total mn
Short-term investments and certificates of deposit	3,188	7,128	10,316	1,124	5,651	6,775
Reverse repurchase agreements	23,980	101,351	125,331	31,884	129,735	161,619
Collateral paid for securities borrowing transactions	6,415	33,963	40,378	7,087	27,225	34,312
Loans	148,063	52,284	200,347	146,333	52,197	198,530
Other	3,409	17,751	21,160	2,875	20,708	23,583
<b>Subtotal</b>	<b>185,055</b>	<b>212,477</b>	<b>397,532</b>	<b>189,303</b>	<b>235,516</b>	<b>424,819</b>
Loan loss allowance	(534)	(296)	(830)	(834)	(220)	(1,054)

<b>Total</b>	<b>184,521</b>	<b>212,181</b>	<b>396,702</b>	<b>188,469</b>	<b>235,296</b>	<b>423,765</b>
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*Loans and advances to customers by type of customer*

<b>As of December 31,</b>	<b>2007</b>	<b>2006</b>
	<b>mn</b>	<b>mn</b>
Corporate customers	148,848	155,845
Private customers	55,761	59,505
Public authorities	8,647	7,297
<b>Total</b>	<b>213,256</b>	<b>222,647</b>

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)***Loans and advances to customers by economic sector*

As of December 31,	2007 mn	2006 mn
<b>Germany</b>		
<b>Corporate Customers</b>		
Manufacturing industry	7,023	6,383
Construction	1,128	916
Wholesale and retail trade	4,999	4,306
Financial institutions (excluding banks) and insurance companies	9,626	7,740
Service providers	7,701	10,091
Other	4,469	3,615
<b>Subtotal</b>	<b>34,946</b>	<b>33,051</b>
<b>Public authorities</b>	<b>3,766</b>	<b>3,578</b>
<b>Private customers</b>	<b>49,580</b>	<b>51,084</b>
<b>Subtotal</b>	<b>88,292</b>	<b>87,713</b>
<b>Other countries</b>		
<b>Corporate Customers</b>		
Industry, wholesale and retail trade and service providers	11,748	13,474
Financial institutions (excluding banks) and insurance companies	91,369	102,250
Other	10,785	7,070
<b>Subtotal</b>	<b>113,902</b>	<b>122,794</b>
<b>Public authorities</b>	<b>4,881</b>	<b>3,719</b>
<b>Private customers</b>	<b>6,181</b>	<b>8,421</b>
<b>Subtotal</b>	<b>124,964</b>	<b>134,934</b>
<b>Total</b>	<b>213,256</b>	<b>222,647</b>

As of December 31, 2007, unearned income related to discounts deducted from loan balances was 58 mn (2006: 69 mn).

*Finance lease receivables*

Loans and advances to customers include amounts receivable under finance leases at their net investment value of 1,256 mn (2006: 2,081 mn).

As of December 31,	2007 mn	2006 mn
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<b>Gross investment in the lease</b>		
Due in one year or less	168	372
Due after one year and not later than five years	900	1,336
Due after five years	947	1,036
<b>Subtotal<sup>1)</sup></b>	<b>2,015</b>	<b>2,744</b>
<b>Unearned finance income</b>		
Due in one year or less	(95)	(98)
Due after one year and not later than five years	(367)	(314)
Due after five years	(297)	(251)
<b>Subtotal</b>	<b>(759)</b>	<b>(663)</b>
<b>Net investment in the lease</b>		
Due in one year or less	73	274
Due after one year and not later than five years	533	1,022
Due after five years	650	785
<b>Total</b>	<b>1,256</b>	<b>2,081</b>

<sup>1)</sup> As of December 31, 2007 and 2006, the residual values of the entire leasing portfolio were fully guaranteed.

During the year ended December 31, 2007, lease payments received were recognized as income in the amount of 174 mn (2006: 154 mn; 2005: 122 mn). As of December 31, 2007 and 2006, an allowance for uncollectible lease payments was not required.



**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****Reconciliation of allowances for credit losses by class of financial assets**

As of December 31, 2007, the overall volume of allowance for credit losses includes loan loss allowances deducted from loans and advances to banks and customers in the amount of 830 mn (2006: 1,054 mn; 2005: 1,647 mn) and provisions for credit losses included in other liabilities in the amount of 201 mn (2006: 261 mn; 2005: 117 mn). The provision for credit losses includes provisions for irrevocable loan commitments in the amount of 67 mn (2006: 126 mn; 2005: 36 mn), provisions for financial guarantees and contingent liabilities in the amount of 74 mn (2006: 65 mn; 2005: 72 mn) and other provisions for credit losses of 60 mn (2006: 70 mn; 2005: 9 mn).

	Loan loss allowance			Provision for credit losses			Total		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
	mn	mn	mn	mn	mn	mn	mn	mn	mn
<b>As of January 1,</b>	<b>1,054</b>	<b>1,647</b>	<b>4,135</b>	<b>261</b>	<b>117</b>	<b>371</b>	<b>1,315</b>	<b>1,764</b>	<b>4,506</b>
Changes in the consolidated subsidiaries of the Allianz Group		(1)	(3)					(1)	(3)
Additions charged to the income statement	537	456	659	35	77	115	572	533	774
Unwinding interest income <sup>1)</sup>	(8)	(6)					(8)	(6)	
Charge-offs	(376)	(605)	(2,571)		(10)	(258)	(376)	(615)	(2,829)
Releases	(397)	(272)	(659)	(88)	(45)	(123)	(485)	(317)	(782)
Other additions (reductions)	35	(152)	46	(6)	126	9	29	(26)	55
Foreign currency translation adjustments	(15)	(13)	40	(1)	(4)	3	(16)	(17)	43
<b>As of December 31,</b>	<b>830</b>	<b>1,054</b>	<b>1,647</b>	<b>201</b>	<b>261</b>	<b>117</b>	<b>1,031</b>	<b>1,315</b>	<b>1,764</b>

<sup>1)</sup> The unwinding interest income for the year ended December 31, 2006 relates to loans in the non-homogeneous portfolio belonging to the Allianz Group in Germany that have been called in and for which the process of realising the collateral has started. For the year ended December 31, 2007 the unwinding interest income additionally includes loans in the homogeneous portfolio belonging to the Allianz Group in Germany.

**Reconciliation of allowances for credit losses by specific and general allowance**

	Specific allowance <sup>1)</sup>			General allowance <sup>1),2)</sup>			Total		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
	mn	mn	mn	mn	mn	mn	mn	mn	mn
<b>As of January 1,</b>	<b>593</b>	<b>880</b>	<b>3,685</b>	<b>722</b>	<b>884</b>	<b>821</b>	<b>1,315</b>	<b>1,764</b>	<b>4,506</b>
Changes in the consolidated subsidiaries of the Allianz Group		(1)	(3)					(1)	(3)
Additions charged to the income statement	559	511	604	13	22	170	572	533	774
Unwinding interest income <sup>1)</sup>	(8)	(6)					(8)	(6)	
Charge-offs	(376)	(615)	(2,829)				(376)	(615)	(2,829)
Releases	(215)	(191)	(641)	(270)	(126)	(141)	(485)	(317)	(782)
Other additions (reductions)	29	19	39		(45)	16	29	(26)	55
Foreign currency translation adjustments	(9)	(4)	25	(7)	(13)	18	(16)	(17)	43
<b>As of December 31,</b>	<b>573</b>	<b>593</b>	<b>880</b>	<b>458</b>	<b>722</b>	<b>884</b>	<b>1,031</b>	<b>1,315</b>	<b>1,764</b>

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- 1) The category country risk allowance, disclosed separately in previous years financial statements, has been be due to simplicity and materiality reasons allocated to the categories of specific and general allowances going forward, using objective criteria. The amounts of 95 mn and 225 mn as of December 31, 2006 and 2005 have been allocated completely to general allowance.
- 2) Includes portfolio allowances.
- 3) The unwinding interest income for the year ended December 31, 2006 relates to loans in the non-homogeneous portfolio belonging to the Allianz Group in Germany that have been called in and for which the process of realising the collateral has started. For the year ended December 31, 2007 the unwinding interest income additionally includes loans in the homogeneous portfolio belonging to the Allianz Group in Germany.

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

The following tables present information relating to the Allianz Group's impaired and non-accrual loans:

<b>As of December 31,</b>	<b>2007</b>	<b>2006</b>
	<b>mn</b>	<b>mn</b>
Impaired loans	2,240	2,072
Impaired loans with specific allowances	1,301	1,428
Impaired loans with portfolio allowances	420	532
Non-accrual loans	1,555	1,801
	<b>2007</b>	<b>2006</b>
	<b>mn</b>	<b>mn</b>
Average balance of impaired loans	2,448	2,390
Interest income recognized on impaired loans	29	28
Interest income not recognized from non-accrual loans	77	86
Interest collected and recorded on non-accrual loans	3	7

As of December 31, 2007, the Allianz Group had 40 mn (2006: 34 mn) of commitments to lend additional funds to borrowers whose loans are non-performing or whose terms have been previously restructured.

**10 Reinsurance assets**

<b>As of December 31,</b>	<b>2007</b>	<b>2006</b>
	<b>mn</b>	<b>mn</b>
Unearned premiums	1,342	1,317
Reserves for loss and loss adjustment expenses	8,561	9,719
Aggregate policy reserves	5,319	8,223
Other insurance reserves	90	101
<b>Total</b>	<b>15,312</b>	<b>19,360</b>

Changes in aggregate policy reserves ceded to reinsurers are as follows:

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>mn</b>	<b>mn</b>	<b>mn</b>
<b>Carrying amount as of January 1,</b>	<b>8,223</b>	<b>9,772</b>	<b>10,276</b>
Foreign currency translation adjustments	(311)	(340)	443
Changes recorded in consolidated income statements	108	(7)	135
Other changes <sup>1)</sup>	(2,701)	(1,202)	(1,082)
<b>Carrying amount as of December 31,</b>	<b>5,319</b>	<b>8,223</b>	<b>9,772</b>

- 1) Primarily relating to novation of quota share reinsurance agreement.

The Allianz Group reinsures a portion of the risks it underwrites in an effort to control its exposure to losses and events and protect capital resources. International corporate risk exposures exceeding the relevant retention levels of the Allianz Group's subsidiaries are reinsured internally by Allianz Global Corporate & Specialty AG (AGCS) where the portfolio is pooled and risks exceeding the retention limits were retroceded to the external reinsurance market. The Allianz Group maintains a centralized program for natural catastrophe events that pools exposures from a number of subsidiaries by internal reinsurance agreements with Allianz SE. Allianz SE limits exposures in this portfolio through external reinsurance. For other risks, the subsidiaries of the Allianz Group maintain individual reinsurance programs. Allianz SE participates as a reinsurer on an arms length basis in these programs.

Reinsurance involves credit risk and is subject to aggregate loss limits. Reinsurance does not legally discharge the Allianz Group from primary liability under the reinsured policies. Although the reinsurer is liable to the Allianz Group to the extent of the reinsurance ceded, the Allianz Group remains primarily liable as the direct insurer on all risks it underwrites, including the portion that is reinsured. The Allianz Group monitors the financial condition of its reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically in order to evaluate the reinsurer's ability to fulfill its obligations to the Allianz Group under existing and planned reinsurance contracts. The Allianz Group's evaluation criteria, which includes the claims-paying and debt ratings, capital and surplus levels, and marketplace reputation of its reinsurers, are such that the Allianz Group believes that its reinsurance credit risk is not significant, and historically has not experienced noteworthy difficulty in collecting from their reinsurers. Additionally, and as appropriate, the Allianz Group may also require letters of credit, deposits, or other financial measures to further minimize its exposure to credit risk. In certain cases, however, the Allianz Group does establish an allowance for doubtful amounts related to reinsurance as appropriate, although this amount was not significant as of December 31, 2007 and 2006. Concentrations the Allianz Group has with individual reinsurers include Munich Re, Swiss Reinsurance Company and SCOR.

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****11 Deferred acquisition costs**

As of December 31,	2007	2006
	mn	mn
<b>Deferred acquisition costs</b>		
Property-Casualty	3,675	3,692
Life/Health	14,118	13,619
Asset Management	94	50
<b>Subtotal</b>	<b>17,887</b>	<b>17,361</b>
Present value of future profits	1,206	1,227
Deferred sales inducements	520	547
<b>Total</b>	<b>19,613</b>	<b>19,135</b>

*Deferred acquisition costs*

	2007	2006	2005
	mn	mn	mn
<b>Property-Casualty</b>			
Carrying amount as of January 1,	3,692	3,550	3,434
Additions	4,161	3,357	2,582
Changes in the consolidated subsidiaries of the Allianz Group	66		
Foreign currency translation adjustments	(72)	(35)	78
Amortization	(4,172)	(3,180)	(2,544)
<b>Carrying amount as of December 31,</b>	<b>3,675</b>	<b>3,692</b>	<b>3,550</b>
<b>Life/Health</b>			
Carrying amount as of January 1,	13,619	12,712	10,681
Additions	2,649	2,783	2,895
Changes in the consolidated subsidiaries of the Allianz Group			(26)
Foreign currency translation adjustments	(555)	(464)	541
Amortization	(1,595)	(1,412)	(1,379)
<b>Carrying amount as of December 31,</b>	<b>14,118</b>	<b>13,619</b>	<b>12,712</b>
<b>Asset Management</b>	<b>94</b>	<b>50</b>	<b>28</b>
<b>Total</b>	<b>17,887</b>	<b>17,361</b>	<b>16,290</b>

*Present value of future profits*

	2007	2006	2005
	mn	mn	mn
Cost as of January 1,	2,359	2,374	2,361
Accumulated amortization as of January 1,	(1,132)	(1,038)	(839)
<b>Carrying amount as of January 1,</b>	<b>1,227</b>	<b>1,336</b>	<b>1,522</b>
Changes in the consolidated subsidiaries of the Allianz Group	5		
Foreign currency translation adjustments	(6)	(6)	7
Amortization <sup>1)</sup>	(20)	(103)	(193)

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<b>Carrying amount as of December 31,</b>	<b>1,206</b>	<b>1,227</b>	<b>1,336</b>
Accumulated amortization as of December 31,	1,138	1,132	1,038
Cost as of December 31,	2,344	2,359	2,374

<sup>1)</sup> During the year ended December 31, 2007, includes interest accrued on unamortized PVFP of 70 mn (2006: 62 mn; 2005: 74 mn).

As of December 31, 2007, the percentage of PVFP that is expected to be amortized in 2008 is 14.29% (12.84% in 2009, 11.46% in 2010, 10.49% in 2011 and 9.72% in 2012).

*Deferred sales inducements*

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>mn</b>	<b>mn</b>	<b>mn</b>
<b>Carrying amount as of January 1,</b>	<b>547</b>	<b>515</b>	<b>303</b>
Additions	86	120	209
Foreign currency translation adjustments	(59)	(56)	52
Amortization	(54)	(32)	(49)
<b>Carrying amount as of December 31,</b>	<b>520</b>	<b>547</b>	<b>515</b>

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****12 Other assets**

As of December 31,	2007	2006
	mn	mn
<b>Receivables</b>		
Policyholders	4,616	4,292
Agents	3,956	3,698
Reinsurers	2,676	2,832
Other	4,994	5,365
Less allowance for doubtful accounts	(389)	(330)
Subtotal	15,853	15,857
<b>Tax receivables</b>		
Income tax	2,536	1,995
Other tax	731	690
Subtotal	3,267	2,685
<b>Accrued dividends, interest and rent</b>	5,503	5,658
<b>Prepaid expenses</b>		
Interest and rent	3,308	2,678
Other prepaid expenses	261	173
Subtotal	3,569	2,851
<b>Derivative financial instruments used for hedging that meet the criteria for hedge accounting and firm commitments</b>	344	463
<b>Property and equipment</b>		
Real estate held for own use	3,708	4,758
Equipment	1,666	1,597
Software	1,165	1,078
Subtotal	6,539	7,433
<b>Non-current assets and disposal groups held for sale</b>	3,503	
<b>Other assets<sup>1)</sup></b>	2,950	3,054
<b>Total</b>	<b>41,528</b>	<b>38,001</b>

<sup>1)</sup> As of December 31, 2007, includes prepaid benefit costs for defined benefit plans of 402 mn (2006: 265 mn).

Other assets due within one year amounted to 33,732 mn (2006: 29,399 mn), and those due after more than one year totaled 7,796 mn (2006: 8,602 mn).

**Property and equipment****Real estate held for own use**

	2007	2006	2005
	mn	mn	mn
Cost as of January 1,	6,153	5,894	7,499

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Accumulated depreciation as of January 1,	(1,395)	(1,503)	(1,457)
<b>Carrying amount as of January 1,</b>	<b>4,758</b>	<b>4,391</b>	<b>6,042</b>
Additions	194	284	540
Changes in the consolidated subsidiaries of the Allianz Group	(159)	819	(2,493)
Disposals	(248)	(248)	(318)
Reclassifications <sup>1)</sup>	(635)	(345)	745
Foreign currency translation adjustments	(47)	(24)	84
Depreciation	(139)	(117)	(200)
Impairments	(17)	(3)	(9)
Reversals of impairments	1	1	
<b>Carrying amount as of December 31,</b>	<b>3,708</b>	<b>4,758</b>	<b>4,391</b>
Accumulated depreciation as of December 31,	1,139	1,395	1,503
Cost as of December 31,	4,847	6,153	5,894

<sup>1)</sup> The reclassifications for the year ended December 31, 2007 relate mainly to a portfolio of real estate held for own use, that was classified as disposal group held for sale.

As of December 31, 2007, the fair value of real estate held for own use was 5,070 mn (2006: 6,379 mn). As of December 31, 2007, assets pledged as security and other restrictions on title were 107 mn (2006: 27 mn).

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	2007	2006	2005
	mn	mn	mn
Cost as of January 1,	3,764	3,472	3,320
Accumulated amortization as of January 1,	(2,686)	(2,381)	(2,348)
<b>Carrying amount as of January 1,</b>	<b>1,078</b>	<b>1,091</b>	<b>972</b>
Additions	582	523	577
Changes in the consolidated subsidiaries of the Allianz Group	(9)	73	(2)
Disposals	(58)	(70)	(38)
Foreign currency translation adjustments	(21)	(10)	14
Amortization	(406)	(496)	(432)
Impairments	(1)	(33)	
<b>Carrying amount as of December 31,<sup>1)</sup></b>	<b>1,165</b>	<b>1,078</b>	<b>1,091</b>
Accumulated amortization as of December 31,	2,781	2,686	2,381
Cost as of December 31,	3,946	3,764	3,472

<sup>1)</sup> As of December 31, 2007, includes 746 mn (2006: 683 mn; 2005: 772 mn) for software developed in house and 419 mn (2006: 395 mn; 2005: 319 mn) for software purchased from third parties.

*Non-current assets and disposal groups held for sale*

As of December 31,	2007	2006
	mn	mn
<b>Non-current assets and disposal groups held for sale</b>		
Real estate held for investment and real estate held for own use in Germany	1,950	
Selecta AG	1,543	
Other	10	
<b>Total</b>	<b>3,503</b>	
<b>Liabilities associated with non-current assets and disposal groups held for sale</b>		
Selecta AG	1,292	
Other	1	
<b>Total</b>	<b>1,293</b>	

During the second quarter ended June 30, 2007 the Allianz Group reclassified two portfolios of real estate held for investment and real estate held for own use in the Property-Casualty, Life/Health and Corporate segment in Germany to disposal groups held for sale as the classification criteria of IFRS 5 were met. The real estate held for own use is expected to be disposed of through sale-leaseback transactions. No gain or loss was recognised on reclassification as fair value less costs to sell exceeded the carrying amount. Partly the portfolio of real estate held for own use has already been disposed in 2007.

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During the fourth quarter ended December 31, 2007, the Allianz Group reclassified the assets, including goodwill, and liabilities related to its ownership of Selecta AG in the Corporate segment to disposal groups held for sale as the classification criteria of IFRS 5 were met. The Allianz Group is seeking to dispose of Selecta AG in 2008. No gain or loss was recognised on reclassification as fair value less costs to sell exceeded the carrying amount.

### 13 Intangible assets

As of December 31,	2007 mn	2006 mn
Goodwill	12,453	12,144
Brand names	737	717
Other	223	211
<b>Total</b>	<b>13,413</b>	<b>13,072</b>

Amortization expense of definite life intangible assets is estimated to be 36 mn in 2008, 36 mn in 2009, 35 mn in 2010, 17 mn in 2011 and 17 mn in 2012.

#### *Goodwill*

	2007 mn	2006 mn	2005 mn
Cost as of January 1,	12,368	12,384	12,038
Accumulated impairments as of January 1,	(224)	(224)	(224)
<b>Carrying amount as of January 1,</b>	<b>12,144</b>	<b>12,160</b>	<b>11,814</b>
Additions	1,153	315	70
Disposals			(45)
Foreign currency translation adjustments	(372)	(368)	479
Reclassifications		37	
Reclassifications into held for sale	(472)		(158)
<b>Carrying amount as of December 31,</b>	<b>12,453</b>	<b>12,144</b>	<b>12,160</b>
Accumulated impairments as of December 31,	224	224	224
Cost as of December 31,	12,677	12,368	12,384

Additions include goodwill from

increasing the interest in Russian People's Insurance Society, Moscow, from 47.4% to 97.2%,

the acquisition of a 100.0% participation in Selecta AG, Muntelier,

the acquisition of a 100.0% participation in Commerce Assurance Bhd., Kuala Lumpur,

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

the acquisition of 100.0% participation in Insurance Company Progress Garant , Moscow,

the acquisition of a 100.0% participation in SC Tour Michelet, Paris,

the acquisition of a 100.0% participation in Insurance Company JTS Insurance Company ATF POLICY , Almaty,

the acquisition of 100.0% participation in United Mercantile Agencies, Inc., Kentucky.

**2007**

The reclassifications affect the goodwill of Selecta AG, Muntelier as this subsidiary was reclassified to disposal groups held for sale.

**2006**

The reclassification affects intangible assets of Allianz Slovenská poisťovňa a.s., Bratislava as they were reclassified to goodwill due to a change in the accounting treatment.

***Impairment tests for goodwill and intangible assets with indefinite lives***

For purposes of impairment testing, the Allianz Group has allocated goodwill to cash generating units. These cash generating units represent the lowest level at which goodwill is monitored for internal measurement purposes. During 2007, the Allianz Group realigned its cash generating units in the Property-Casualty and Life/ Health segments to ensure consistency with the management responsibilities of the Board of Management. As a result, the Allianz Group has allocated goodwill to nine cash generating units in the Property-Casualty segment, six cash generating units in the Life/Health segment, three cash generating units in the Banking segment one cash generating unit in the Asset Management segment and one cash generating unit in the Corporate segment. The goodwill of Dresdner Bank and the brand name Dresdner Bank have been allocated to two cash generating units in the Banking segment and to one cash generating unit in the Asset Management segment.

The groups of cash generating units of the Property-Casualty segment are: Insurance Germany, Austria & Switzerland; Europe I, including Italy, Spain, Portugal and Greece; Europe II, including France, Netherlands, Belgium, Luxemburg and Africa; South America; Asia Pacific & Middle East; Eastern Europe; Insurance Anglo, NAFTA Markets & Global Lines, including United Kingdom, Ireland, Australia, United States and Mexico; Specialty Lines I, including Allianz Global Corporate & Specialty and Specialty Lines II, including Credit Insurance, Travel Insurance and Assistance Services.

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The cash generating units of the Life/Health segment are: Insurance Germany, Austria & Switzerland; Insurance Germany Health; Europe I; including Italy, Spain, Portugal and Greece; Europe II, including France, Netherlands, Belgium, Luxemburg and Africa; Asia Pacific & Middle East and Insurance Anglo NAFTA Markets & Global Lines, including United Kingdom, Ireland, Australia, United States and Mexico.

The cash generating units of the Banking segment are Private & Corporate Clients; Investment Banking and Corporate Other and Other Banking. The Asset Management segment is considered a cash generating unit. The cash generating unit of the Corporate segment is Private Equity.

The recoverable amounts of all cash generating units excluding Private Equity are determined on the basis of value in use calculations. The recoverable amount of the cash generating unit Private Equity is determined on the basis of the fair values of the Private Equity investments.

The Allianz Group applies generally acknowledged valuation principles to determine the value in use. In this regard, the Allianz Group utilizes the capitalized earnings method to derive the value in use for all cash generating units in the Property-Casualty and Banking segments as well as for the Asset Management, Insurance Germany Health cash generating units. Generally, the basis for the determination of the capitalized earnings value is the business plan ( detailed planning period ) as well as the estimate of the sustainable returns which can be assumed to be realistic on a long term basis ( terminal value ) of the companies included in the cash generating units. The capitalized earnings value

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

is calculated by discounting the future earnings using an appropriate discount rate.

The business plans applied in the value in use are the results of the structured management dialogues between the Board of Management of the Allianz Group and the companies in connection with a reporting process integrated into these dialogues. Generally, the business plans comprise a planning horizon of three years and are based on current market environment.

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

The discount rate is based on the capital asset pricing model and appropriate eternal growth rates. The assumptions, including the risk free interest rate, market risk premium, segment beta and leverage ratio, used to calculate the discount rates are consistent with the parameters used in the Allianz Group's planning and controlling process, specifically those utilized in the calculation of Economic Value Added.

Sensitivity analysis with regards to discount rates and/or key value drivers of the business plans were performed. Changes of capitalized earnings values of Property-Casualty cash generating units due to changes in applied long term sustainable combined ratios and of Banking cash generating unit as well as Asset Management cash generating units due to changes in assumptions regarding cost income ratios were analyzed. For all cash generating units respective capitalized earnings value sensitivities in combination with fair value analysis still exceeded respective carrying values.

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

Sensitivity analysis with regard to considered new business values are performed. For all Life cash generating units, respective Appraisal Value sensitivities still exceeded respective carrying values.

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The carrying amounts of goodwill and brand names allocated to Allianz Group's cash generating units as of December 31, 2007 and 2006 are as follows:

As of December 31,	2007		2006	
	Goodwill	Brand names	Goodwill	Brand names
	mn	mn	mn	mn
<b>Cash generating units</b>				
<b>Property-Casualty</b>				
Insurance Germany, Austria & Switzerland	277		277	
Europe I	90		90	
Europe II	638		611	
South America	21		21	
Asia Pacific & Middle East	79		31	
Eastern Europe	679	20	108	
Insurance Anglo, NAFTA Markets & Global Lines	410		419	
Specialty Lines I	7		5	
Specialty Lines II	27		19	
<b>Subtotal</b>	<b>2,228</b>	<b>20</b>	<b>1,581</b>	
<b>Life/Health</b>				
Insurance Germany, Austria & Switzerland	554		554	
Insurance Germany Health	325		325	
Europe I	43		43	
Europe II	538		538	
Asia Pacific & Middle East	320		320	
Insurance Anglo, NAFTA Markets & Global Lines	425		436	
<b>Subtotal</b>	<b>2,205</b>		<b>2,216</b>	
<b>Banking</b>				
Private & Corporate	1,479	656	1,482	656
Investment Banking	183		183	
Other Banking	52		52	
<b>Subtotal</b>	<b>1,714</b>	<b>656</b>	<b>1,717</b>	<b>656</b>
<b>Asset Management</b>	<b>6,165</b>	<b>61</b>	<b>6,486</b>	<b>61</b>
<b>Corporate</b>	<b>141</b>		<b>144</b>	
<b>Total</b>	<b>12,453</b>	<b>737</b>	<b>12,144</b>	<b>717</b>

**Brand name**

The brand name "Dresdner Bank" has an indefinite life, as there is no foreseeable end to its economic life; therefore, it is not subject to amortization and it is recorded at cost less accumulated impairments. The fair value of this brand name, registered as a trade name, was determined using a royalty savings approach.

**14 Financial liabilities carried at fair value through income**

As of December 31,	2007	2006
	mn	mn
<b>Financial liabilities held for trading</b>		

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Obligations to deliver securities	34,795	39,951
Derivative financial instruments	76,819	69,946
Other trading liabilities	12,469	10,988
<b>Subtotal</b>	<b>124,083</b>	<b>120,885</b>
<b>Financial liabilities designated at fair value through income</b>	<b>1,970</b>	<b>937</b>
<b>Total</b>	<b>126,053</b>	<b>121,822</b>

As of December 31, 2007, the carrying amount of financial liabilities designated at fair value through income was 63 mn lower (2006: 14 mn lower) than the contractually required payment at maturity. The amount of the change in fair value attributable to changes in credit risk for the year ended December 31, 2007 was 10 mn (2006: (4) mn) and 6 mn (2006: (4) mn) cumulatively.

The change in fair value of financial liabilities designated at fair value through income attributable to changes in credit risk has been calculated as the amount of change in fair value that is not attributable to changes in market conditions, but has been caused by a change in the entities own credit spread.

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****15 Liabilities to banks and customers**

As of December 31,	2007			2006		
	Banks mn	Customers mn	Total mn	Banks mn	Customers mn	Total mn
Payable on demand	11,204	60,443	71,647	18,216	68,677	86,893
Savings deposits		5,304	5,304		5,421	5,421
Term deposits and certificates of deposit	64,129	72,938	137,067	68,429	50,380	118,809
Repurchase agreements	50,444	42,145	92,589	77,002	62,796	139,798
Collateral received from securities lending transactions	16,235	4,729	20,964	17,493	4,405	21,898
Other	5,513	3,410	8,923	876	2,870	3,746
<b>Total</b>	<b>147,525</b>	<b>188,969</b>	<b>336,494</b>	<b>182,016</b>	<b>194,549</b>	<b>376,565</b>

*Liabilities to banks and customers by contractual maturity*

As of December 31, 2007	Up to 3 months mn	> 3 months up to 1 year mn	> 1 year up to 3 years mn	> 3 years up to 5 years mn	Greater than 5 years mn	Total mn
Liabilities to banks	108,964	24,153	7,647	2,532	4,229	147,525
Liabilities to customers	187,961	386	397	21	204	188,969
<b>Total</b>	<b>296,925</b>	<b>24,539</b>	<b>8,044</b>	<b>2,553</b>	<b>4,433</b>	<b>336,494</b>

*Liabilities to banks and customers by type of customer and geographic region*

	2007			2006		
	Germany mn	Other countries mn	Total mn	Germany mn	Other countries mn	Total mn
<b>Liabilities to banks</b>	<b>46,137</b>	<b>101,388</b>	<b>147,525</b>	<b>54,546</b>	<b>127,470</b>	<b>182,016</b>
<b>Liabilities to customers</b>						
Corporate customers	55,935	75,644	131,579	48,332	101,974	150,306
Public authorities	5,593	6,894	12,487	1,886	5,994	7,880
Private customers	34,284	10,619	44,903	28,438	7,925	36,363
<b>Subtotal</b>	<b>95,812</b>	<b>93,157</b>	<b>188,969</b>	<b>78,656</b>	<b>115,893</b>	<b>194,549</b>
<b>Total</b>	<b>141,949</b>	<b>194,545</b>	<b>336,494</b>	<b>133,202</b>	<b>243,363</b>	<b>376,565</b>

As of December 31, 2007, liabilities to customers include 27,091 mn (2006: 33,302 mn) of noninterest bearing deposits.



**16 Unearned premiums**

As of December 31,	2007 mn	2006 mn
Property-Casualty	13,163	12,994
Life/Health	1,858	1,874
Consolidation	(1)	
<b>Total</b>	<b>15,020</b>	<b>14,868</b>

**17 Reserves for loss and loss adjustment expenses**

As of December 31,	2007 mn	2006 mn
Property-Casualty	56,943	58,664
Life/Health	6,773	6,804
Consolidation	(10)	(4)
<b>Total</b>	<b>63,706</b>	<b>65,464</b>

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)***Changes in the reserves for loss and loss adjustment expenses for the Property-Casualty segment*

	Gross mn	2007 Ceded mn	Net mn	Gross mn	2006 Ceded mn	Net mn	Gross mn	2005 Ceded mn	Net mn
<b>As of January 1,</b>	<b>58,664</b>	<b>(9,333)</b>	<b>49,331</b>	<b>60,259</b>	<b>(10,604)</b>	<b>49,655</b>	<b>55,528</b>	<b>(10,049)</b>	<b>45,479</b>
<b>Loss and loss adjustment expenses incurred</b>									
Current year	29,839	(2,994)	26,845	28,214	(2,573)	25,641	30,111	(3,580)	26,531
Prior years	(1,708)	348	(1,360)	(1,186)	217	(969)	(1,633)	433	(1,200)
<b>Subtotal</b>	<b>28,131</b>	<b>(2,646)</b>	<b>25,485</b>	<b>27,028</b>	<b>(2,356)</b>	<b>24,672</b>	<b>28,478</b>	<b>(3,147)</b>	<b>25,331</b>
<b>Loss and loss adjustment expenses paid</b>									
Current year	(13,749)	1,118	(12,631)	(12,436)	675	(11,761)	(12,742)	861	(11,881)
Prior years	(14,206)	1,952	(12,254)	(14,696)	2,455	(12,241)	(13,284)	2,568	(10,716)
<b>Subtotal</b>	<b>(27,955)</b>	<b>3,070</b>	<b>(24,885)</b>	<b>(27,132)</b>	<b>3,130</b>	<b>(24,002)</b>	<b>(26,026)</b>	<b>3,429</b>	<b>(22,597)</b>
<b>Foreign currency translation adjustments and other changes<sup>1)</sup></b>	<b>(2,022)</b>	<b>666</b>	<b>(1,356)</b>	<b>(1,491)</b>	<b>497</b>	<b>(994)</b>	<b>2,278</b>	<b>(837)</b>	<b>1,441</b>
<b>Changes in the consolidated subsidiaries of the Allianz Group</b>	<b>125</b>	<b>(23)</b>	<b>102</b>				<b>1</b>		<b>1</b>
<b>As of December 31,</b>	<b>56,943</b>	<b>(8,266)</b>	<b>48,677</b>	<b>58,664</b>	<b>(9,333)</b>	<b>49,331</b>	<b>60,259</b>	<b>(10,604)</b>	<b>49,655</b>

<sup>1)</sup> Includes effects of foreign currency translation adjustments for loss and loss adjustment expenses for prior years claims of gross (1,690) mn (2006: (1,141) mn; 2005: 2,371 mn) and net of (1,052)mn (2006: (962) mn; 2005: 1,348 mn).

Prior years loss and loss adjustment expenses incurred reflects the changes in estimation charged or credited to the consolidated income statement in each year with respect to the reserves for loss and loss adjustment expenses established as of the beginning of that year. During the year ended December 31, 2007, the Allianz Group recorded additional income of 1,360 mn (2006: 969 mn; 2005: 1,200 mn) with respect of losses occurring in prior years. During the year ended December 31, 2007, these amounts as percentages of the net balance of the beginning of the year were 2.8% (2006: 2.0%; 2005: 2.6%).

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)*****Development of the reserves for loss and loss adjustment expenses for the Property-Casualty segment***

The following table illustrates the development of the reserves for loss and loss adjustment expenses over the past five years. The table presents calendar year data, not accident year data. In addition, the table includes (excludes) subsidiaries from the date acquired (disposed).

	2002	2003	2004	2005	2006	2007
	mn	mn	mn	mn	mn	mn
<b>Reserves for loss and loss adjustment expenses (net)</b>	<b>45,466</b>	<b>44,683</b>	<b>45,479</b>	<b>49,655</b>	<b>49,331</b>	<b>48,677</b>
Reserves for loss and loss adjustment expenses (ceded)	14,588	12,067	10,049	10,604	9,333	8,266
Reserves for loss and loss adjustment expenses (gross)	60,054	56,750	55,528	60,259	58,664	56,943
<b>Paid (cumulative) as of</b>						
One year later	16,357	14,384	13,282	14,696	14,206	
Two years later	24,093	21,157	20,051	21,918		
Three years later	29,007	26,149	24,812			
Four years later	32,839	29,859				
Five years later	35,845					
<b>Reserves reestimated as of</b>						
One year later	56,550	54,103	56,238	57,932	55,266	
Two years later	55,704	55,365	53,374	54,270		
Three years later	57,387	53,907	51,760			
Four years later	56,802	53,068				
Five years later	56,053					
<b>Cumulative surplus</b>						
Gross surplus before changes in the consolidated subsidiaries of the Allianz Group	4,001	3,682	3,768	5,989	3,398	
Gross surplus <sup>1)</sup>	4,001	3,142	3,768	5,989	3,398	
Net surplus before changes in the consolidated subsidiaries of the Allianz Group	1,365	2,397	3,204	4,582	2,412	
Net surplus <sup>1)</sup>	1,365	1,945	3,204	4,582	2,412	
<b>Net Surplus as percentage of initial reserves</b>	<b>3.0%</b>	<b>4.4%</b>	<b>7.0%</b>	<b>9.2%</b>	<b>4.9%</b>	

<sup>1)</sup> Gross/net surplus represents the cumulative surplus from re-estimating the reserves for loss and loss adjustment expenses for prior years claims and includes foreign currency translation adjustments of gross 1,690 mn (2006: 1,141 mn) and net 1,052 mn (2006: 962 mn). This leads to an effective run off result excluding effects of foreign currency translation of gross 1,708 mn (2006: 1,186 mn) and net 1,360 mn (2006: 969 mn) which can be found in the table for changes in the reserves for loss and loss adjustment expenses within this footnote. Please note that the 2006 numbers refer to the surplus presented in the consolidated financial statements 2006 and not the cumulative surplus of the calendar year 2006 presented in the table above.

***Discounted loss and loss adjustment expenses***

As of December 31, 2007 and 2006, the Allianz Group Property-Casualty reserves for loss and loss adjustment expenses reflected discounts of 1,466 mn and 1,377 mn, respectively. The discount reflected in the reserves is related to annuities for certain long-tailed liabilities, primarily in workers' compensation, personal accident, general liability, motor liability, individual and group health disability and employers' liability. All of the reserves that have been discounted have payment amounts that are fixed and timing that is reasonably determinable.

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

The following table shows, by country, the carrying amounts of reserves for loss and loss adjustment expenses that have been discounted, and the interest rates used for discounting:

As of December 31,	Discounted reserves for loss and loss adjustment expenses		Amount of the discount		Interest rate used for discounting			
	2007	2006	2007	2006	2007		2006	
	mn	mn	mn	mn	%		%	
France	1,321	1,325	400	349	3.25		3.25	
Germany	559	504	372	346	2.25	4.00	2.75	4.00
Switzerland	430	427	258	253	3.00		3.25	
United States	155	181	170	200	5.25		6.00	
United Kingdom	160	139	163	133	4.00	4.75	4.00	4.25
Belgium	94	91	28	26	4.50	3.20	4.68	
Portugal	64	79	49	47	4.00		4.00	
Hungary	79	74	26	23	1.40		1.40	
<b>Total</b>	<b>2,862</b>	<b>2,820</b>	<b>1,466</b>	<b>1,377</b>				

**18 Reserves for insurance and investment contracts**

As of December 31,	2007	2006
	mn	mn
Aggregate policy reserves	264,243	256,333
Reserves for premium refunds	27,225	30,024
Other insurance reserves	776	675
<b>Total</b>	<b>292,244</b>	<b>287,032</b>

*Aggregate policy reserves*

As of December 31,	2007	2006
	mn	mn
Traditional participating insurance contracts (SFAS 120)	127,502	123,835
Long-duration insurance contracts (SFAS 60)	46,337	45,390
Universal life-type insurance contracts (SFAS 97)	89,840	86,681
Non unit linked investment contracts	564	427
<b>Total</b>	<b>264,243</b>	<b>256,333</b>

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

Changes in aggregate policy reserves for traditional participating insurance contracts and long-duration insurance contracts for the years ended December 31, 2007 and 2006 were as follows:

	2007		2006	
	Traditional participating insurance contracts (SFAS 120) mn	Long-duration insurance contracts (SFAS 60) mn	Traditional participating insurance contracts (SFAS 120) mn	Long-duration insurance contracts (SFAS 60) mn
<b>As of January 1,</b>	<b>123,835</b>	<b>45,390</b>	<b>120,967</b>	<b>44,624</b>
Foreign currency translation adjustments	(104)	(755)	(119)	(356)
Changes in the consolidated subsidiaries of the Allianz Group		10		
Changes recorded in consolidated income statements	2,445	954	2,393	927
Novation of reinsurance agreements			(420)	
Dividends allocated to policyholders	1,278	207	1,029	198
Additions and disposals		(2)		
Other changes	48	533 <sup>1)</sup>	(15)	(3)
<b>As of December 31,</b>	<b>127,502</b>	<b>46,337</b>	<b>123,835</b>	<b>45,390</b>

<sup>1)</sup> Mainly relating to a reclassification from reserves for premium refunds and other insurance reserves.

Changes in aggregate policy reserves for universal life-type insurance contracts and non unit linked investment contracts for the years ended December 31, 2007 and 2006 were as follows:

	2007		2006	
	Universal life-type insurance contracts (SFAS 97) mn	Non unit linked investment contracts mn	Universal life-type insurance contracts (SFAS 97) mn	Non unit linked investment contracts mn
<b>As of January 1,</b>	<b>86,681</b>	<b>427</b>	<b>83,133</b>	<b>288</b>
Foreign currency translation adjustments	(3,933)	(12)	(3,686)	(12)
Premiums collected	12,579	231	13,092	142
Separation of embedded derivatives	(473)		(543)	
Interest credited	3,178	47	3,106	20
Releases upon death, surrender and withdrawal	(8,650)	(105)	(7,785)	(104)
Policyholder charges	(715)	(28)	(541)	(2)
Additions	81			
Portfolio acquisitions and disposals	(37)			
Reclassifications <sup>1)</sup>	1,129	4	(95)	95
<b>As of December 31,</b>	<b>89,840</b>	<b>564</b>	<b>86,681</b>	<b>427</b>

- 1) The reclassifications mainly relate to insurance contracts when policies transfer from a separate account contract to a universal life-type contract.

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

As of December 31, 2007, participating life business represented approximately 65% (2006: 62%) of the Allianz Group's gross insurance inforce. During the year ended December 31, 2007, participating policies represented approximately 61% (2006: 66%) of gross statutory premiums written and 60% (2006: 63%) of life premiums earned. As of December 31, 2007, reserves for conventional participating policies were approximately 54% (2006: 54%) of the Allianz Group's consolidated aggregate policy reserves.

**Reserves for premium refunds**

	2007 mn	2006 mn	2005 mn
<b>Amounts already allocated under local statutory or contractual regulations</b>			
<b>As of January 1,</b>	<b>12,764</b>	<b>10,915</b>	<b>8,794</b>
Foreign currency translation adjustments	(15)	(9)	14
Changes	689	1,858	2,107
<b>As of December 31,</b>	<b>13,438</b>	<b>12,764</b>	<b>10,915</b>
<b>Latent reserves for premium refunds</b>			
<b>As of January 1,</b>	<b>17,260</b>	<b>16,930</b>	<b>11,779</b>
Foreign currency translation adjustments	(19)	(24)	(4)
Changes due to fluctuations in market value	(4,099)	(50)	4,094
Changes in the consolidated subsidiaries of the Allianz Group		(491)	6
Changes due to valuation differences charged to income	645	895	1,055
<b>As of December 31,</b>	<b>13,787</b>	<b>17,260</b>	<b>16,930</b>
<b>Total</b>	<b>27,225</b>	<b>30,024</b>	<b>27,845</b>

**Concentration of insurance risk in the Life/Health segment**

The Allianz Group's Life/Health segment provides a wide variety of insurance and investment contracts to individuals and groups in approximately 30 countries around the world. Individual contracts include both traditional contracts and unit linked contracts. Without consideration of policyholder participation, traditional contracts generally incorporate significant investment risk for the Allianz Group. Traditional contracts include life, endowment, annuity, and supplemental health contracts. Traditional annuity contracts are issued in both deferred and immediate types. In addition, the Allianz Group's life insurance operations in the United States issue a significant amount of equity indexed deferred annuities. Unit linked contracts generally result in the contract holder assuming investment risk. In addition, in certain markets, the Allianz Group issues group life, health, and pension contracts.

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

As of December 31, 2007 and 2006, the Allianz Group's deferred acquisition costs and reserves for insurance and investment contracts for the Life/Health segment are summarized as follows:

As of December 31,	Deferred acquisition costs mn	Aggregate policy reserves mn	Reserves for premium refunds mn	Other insurance reserves mn	Total non unit linked reserves mn	Liabilities for unit linked contracts mn	Total mn
<b>2007</b>							
<b>Countries with legal or contractual policyholder participation in insurance, investment and/or expense risk</b>							
Germany Life	5,907	117,478	17,070	3	134,551	1,831	136,382
Germany Health	867	13,339	3,949	4	17,292		17,292
France	1,189	42,830	3,603	202	46,635	14,285	60,920
Italy	1,146	19,120	14		19,134	25,682	44,816
Switzerland	238	5,695	610	107	6,412	583	6,995
Austria	142	3,195	273	3	3,471	277	3,748
South Korea	785	5,978	47		6,025	904	6,929
<b>Subtotal</b>	<b>10,274</b>	<b>207,635</b>	<b>25,566</b>	<b>319</b>	<b>233,520</b>	<b>43,562</b>	<b>277,082</b>
<b>Other Countries</b>							
Belgium	112	5,327	17		5,344	302	5,646
Spain	25	4,857	138		4,995	92	5,087
Other Western and Southern Europe	318	1,865	151		2,016	3,819	5,835
Eastern Europe	291	1,596	25	4	1,625	1,076	2,701
United States	4,394	32,291			32,291	13,954	46,245
Taiwan	250	1,841			1,841	2,710	4,551
Other Asia-Pacific	172	565	58		623	529	1,152
South America		93			93	12	105
Other	2	776	10	5	791	4	795
<b>Subtotal</b>	<b>5,564</b>	<b>49,211</b>	<b>399</b>	<b>9</b>	<b>49,619</b>	<b>22,498</b>	<b>72,117</b>
<b>Total</b>	<b>15,838</b>	<b>256,846</b>	<b>25,965</b>	<b>328</b>	<b>283,139</b>	<b>66,060</b>	<b>349,199</b>
<b>2006</b>							
<b>Countries with legal or contractual policyholder participation in insurance, investment and/or expense risk</b>							
Germany Life	5,331	112,103	18,235	3	130,341	1,095	131,436
Germany Health	857	12,070	3,372	3	15,445		15,445
France	1,238	41,622	4,837	59	46,518	12,430	58,948
Italy	1,148	19,640	408	2	20,050	24,779	44,829
Switzerland	267	5,707	689	117	6,513	558	7,071
Austria	126	3,050	308		3,358	194	3,552
South Korea	786	5,847	58		5,905	970	6,875
<b>Subtotal</b>	<b>9,753</b>	<b>200,039</b>	<b>27,907</b>	<b>184</b>	<b>228,130</b>	<b>40,026</b>	<b>268,156</b>



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<b>Other Countries</b>							
Belgium	118	5,035	26		5,061	325	5,386
Spain	24	4,637	451	1	5,089	114	5,203
Other Western and Southern Europe	305	2,188	126		2,314	3,564	5,878
Eastern Europe	236	1,465	27	11	1,503	668	2,171
United States	4,601	32,762			32,762	15,063	47,825
Taiwan	209	1,883			1,883	1,868	3,751
Other Asia-Pacific	131	434	45		479	176	655
South America		88			88	58	146
Other	4	716	7	6	729	2	731
<b>Subtotal</b>	<b>5,628</b>	<b>49,208</b>	<b>682</b>	<b>18</b>	<b>49,908</b>	<b>21,838</b>	<b>71,746</b>
<b>Total</b>	<b>15,381</b>	<b>249,247</b>	<b>28,589</b>	<b>202</b>	<b>278,038</b>	<b>61,864</b>	<b>339,902</b>

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

A majority part of the Allianz Group's Life/Health segment operations is conducted in Western Europe. Insurance laws and regulations in Western Europe have historically been characterized by legal or contractual minimum participation of contract holders in the profits of the insurance company issuing the contract. In particular, Germany, Switzerland and Austria, which comprise approximately 47% and 46%, of the Allianz Group's reserves for insurance and investment contracts as of December 31, 2007 and 2006 respectively, include a substantial level of policyholder participation in all sources of profit including mortality/morbidity, investment and expense. As a result of this policyholder participation, the Allianz Group's exposure to insurance, investment and expense risk is mitigated.

Furthermore, all of the Allianz Group's annuity policies issued in the United States meet the criteria for classification as insurance contracts under IFRS 4 on an individual contract basis, because they include options for contract holders to elect a life-contingent annuity. These contracts currently do not expose the Allianz Group to significant insurance risk, nor are they expected to do so in the future, as the projected and observed annuitization rates are very low. Additionally, many of the Allianz Group's traditional contracts issued in France and Italy do not incorporate significant insurance risk, although they are accounted for as insurance contracts, because of their discretionary participation features. Similarly, a significant portion of the Allianz Group's unit linked contracts in France and Italy do not incorporate significant insurance risk.

As a result of the considerable diversity in types of contracts issued, including the offsetting effects of mortality risk and longevity risk inherent in a combined portfolio of life insurance and annuity products, and the geographic diversity of the Allianz Group's Life/Health segment, as well as the substantial level of policyholder participation in mortality/morbidity risk in certain countries in Western Europe, the Allianz Group does not believe its Life/Health segment has any significant concentrations of insurance risk, nor does it believe its net income or shareholders' equity is highly sensitive to insurance risk.

The Allianz Group's Life/Health segment is exposed to significant investment risk as a result of guaranteed minimum interest rates included in most of its traditional contracts. The weighted average guaranteed minimum interest rates of the Allianz Group's largest operating entities in the Life/Health segment by country can be summarized as follows:

As of December 31,	2007	2006
Country <sup>1)</sup>	%	%
Germany Life	3.41	3.45
France	1.99	2.44
Italy	2.49	2.50
Switzerland	2.87	2.86
Spain	5.05	5.38
Austria	3.00	3.11
Belgium	3.95	4.06
South Korea	5.29	6.06
Taiwan	3.61	3.74

<sup>1)</sup> The life operations of the Allianz Group in the United States only grant minimum guaranteed interest rates on approximately 15% of their existing business, the weighted average minimum interest rate for these contracts as of December 31, 2007 is 2.7% (2006: 2.7%).

In most of these markets, the effective interest rates being earned on the investment portfolio exceed these guaranteed minimum interest rates. In addition, the operations in these markets may also have significant mortality and expense margins. As a result, as of December 31, 2007 and

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2006, the Allianz Group does not believe that it is exposed to a significant risk of premium deficiencies in its Life/Health segment. However, the Allianz Group's Life/Health operations in Switzerland, Belgium, South Korea and Taiwan, have high guaranteed minimum interest rates on older contracts in their portfolios and, as a result, may be sensitive to any declines in investment rates or a prolonged low interest rate environment.

### 19 Financial liabilities for unit linked contracts

As of December 31,	2007	2006
	mn	mn
Unit linked insurance contracts	39,323	36,296
Unit linked investment contracts	26,737	25,568
<b>Total</b>	<b>66,060</b>	<b>61,864</b>

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

Changes in financial liabilities for unit linked insurance contracts and unit linked investment contracts for the years ended December 31, 2007 and 2006 were as follows:

	2007		2006	
	Unit linked insurance contracts mn	Unit linked investment contracts mn	Unit linked insurance contracts mn	Unit linked investment contracts mn
<b>As of January 1,</b>	<b>36,296</b>	<b>25,568</b>	<b>30,320</b>	<b>24,341</b>
Foreign currency translation adjustments	(1,954)	(2)	(1,765)	(6)
Premiums collected	9,381	7,903	8,313	5,987
Interest credited	1,508	(149)	3,013	705
Releases upon death, surrender and withdrawal	(3,740)	(6,286)	(2,584)	(5,257)
Policyholder charges	(1,130)	(222)	(914)	(289)
Portfolio acquisitions and disposals	20			
Reclassifications <sup>1)</sup>	(1,058)	(75)	(87)	87
<b>As of December 31,</b>	<b>39,323</b>	<b>26,737</b>	<b>36,296</b>	<b>25,568</b>

<sup>1)</sup> The reclassifications mainly relate to insurance contracts when policies transfer from a separate account contract to a universal life-type contract.

**20 Other liabilities**

As of December 31,	2007 mn	2006 mn
<b>Payables</b>		
Policyholders	4,806	5,322
Reinsurance	1,844	1,868
Agents	1,743	1,494
<b>Subtotal</b>	<b>8,393</b>	<b>8,684</b>
<b>Payables for social security</b>	<b>263</b>	<b>219</b>
<b>Tax payables</b>		
Income tax	2,563	2,076
Other	1,012	968
<b>Subtotal</b>	<b>3,575</b>	<b>3,044</b>
<b>Accrued interest and rent</b>	<b>779</b>	<b>793</b>
<b>Unearned income</b>		
Interest and rent	3,453	2,645
Other	351	279
<b>Subtotal</b>	<b>3,804</b>	<b>2,924</b>
<b>Provisions</b>		
Pensions and similar obligations	4,184	4,120
Employee related	2,956	3,120
Share-based compensation	1,761	1,898
Restructuring plans	541	887

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Loan commitments	201	261
Other provisions	1,991	1,943
<b>Subtotal</b>	<b>11,634</b>	<b>12,229</b>
<b>Deposits retained for reinsurance ceded</b>	<b>3,227</b>	<b>5,716</b>
<b>Derivative financial instruments used for hedging purposes that meet the criteria for hedge accounting and firm commitments</b>	<b>2,210</b>	<b>907</b>
<b>Financial liabilities for puttable equity instruments</b>	<b>4,162</b>	<b>3,750</b>
<b>Disposal groups held for sale</b>	<b>1,293</b>	
<b>Other liabilities</b>	<b>9,984</b>	<b>11,498</b>
<b>Total</b>	<b>49,324</b>	<b>49,764</b>

Other liabilities due within one year amounted to 39,444 mn (2006: 40,839 mn) and those due after more than one year totaled 9,880 mn (2006: 8,925 mn).

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****21 Certificated liabilities**

	Contractual Maturity Date						As of	As of
	2008 mñ	2009 mñ	2010 mñ	2011 mñ	2012 mñ	Thereafter mñ	December 31, 2007 mn	December 31, 2006 mn
<b>Allianz SE<sup>2)</sup></b>								
<b>Senior bonds</b>								
Fixed rate	1,631				893	1,483	4,007	6,195
Contractual interest rate	5.00%				5.63%	4.00%		
Floating rate		272					272	
Current interest rate		5.23%						
<b>Subtotal</b>	<b>1,631</b>	<b>272</b>			<b>893</b>	<b>1,483</b>	<b>4,279</b>	<b>6,195</b>
<b>Exchangeable bonds</b>								
Fixed rate	450						450	1,262
Contractual interest rate	0.75%							
Money market securities								
Fixed rate	2,929						2,929	870
Contractual interest rate	4.19%							
<b>Total Allianz SE<sup>2)</sup></b>	<b>5,010</b>	<b>272</b>			<b>893</b>	<b>1,483</b>	<b>7,658</b>	<b>8,327</b>
<b>Banking subsidiaries</b>								
<b>Senior bonds</b>								
Fixed rate	5,206	2,807	2,031	270	484	638	11,436	14,608
Contractual interest rate	6.50%	4.61%	4.45%	5.64%	4.57%	5.65%		
Floating rate	2,009	1,122	793	913	1,191	647	6,675	8,729
Current interest rate	5.16%	4.35%	4.90%	4.48%	4.86%	4.24%		
<b>Subtotal</b>	<b>7,215</b>	<b>3,929</b>	<b>2,824</b>	<b>1,183</b>	<b>1,675</b>	<b>1,285</b>	<b>18,111</b>	<b>23,337</b>
<b>Money market securities</b>								
Fixed rate	16,289						16,289	17,677
Contractual interest rate	4.50%							
Floating rate	9						9	4,978
Current interest rate	6.80%							
<b>Subtotal</b>	<b>16,298</b>						<b>16,298</b>	<b>22,655</b>
<b>Total banking subsidiaries</b>	<b>23,513</b>	<b>3,929</b>	<b>2,824</b>	<b>1,183</b>	<b>1,675</b>	<b>1,285</b>	<b>34,409</b>	<b>45,992</b>
<b>All other subsidiaries</b>								
<b>Certificated liabilities</b>								
Fixed rate						3	3	4
Contractual interest rate						2.11%		
<b>Money market securities</b>								
Fixed rate								599
Contractual interest rate								
<b>Total all other subsidiaries</b>						<b>3</b>	<b>3</b>	<b>603</b>
<b>Total</b>	<b>28,523</b>	<b>4,201</b>	<b>2,824</b>	<b>1,183</b>	<b>2,568</b>	<b>2,771</b>	<b>42,070</b>	<b>54,922</b>

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- 1) Except for the interest rates. The interest rates represent the weighted-average.
- 2) Includes senior bonds, exchangeable bonds and money market securities issued by issued by Allianz Finance B.V. and Allianz Finance II B.V. guaranteed by Allianz SE and money market securities issued by Allianz Finance Corporation, a wholly-owned subsidiary of Allianz SE, which are fully and unconditionally guaranteed by Allianz SE.

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****22 Participation certificates and subordinated liabilities**

	2008	2009	Contractual Maturity Date			Thereafter	As of	As of
	m\$	m\$	2010	2011	2012	m\$	December 31,	December 31,
			m\$	m\$	m\$		2007	2006
							mn	mn
<b>Allianz SE<sup>2)</sup></b>								
<b>Subordinated bonds</b>								
Fixed rate						1,129	1,129	1,164
Contractual interest rate						5.94%		
Floating rate						5,724	5,724	5,719
Current interest rate						5.61%		
<b>Subtotal</b>						<b>6,853</b>	<b>6,853</b>	<b>6,883</b>
<b>Participation certificates<sup>3)</sup></b>								
Floating rate						85	85	85
<b>Total Allianz SE<sup>2)</sup></b>						<b>6,938</b>	<b>6,938</b>	<b>6,968</b>
<b>Banking subsidiaries</b>								
<b>Subordinated bonds</b>								
Fixed rate	342	297	116	20	36	1,004	1,815	2,621
Contractual interest rate	5.87%	5.34%	6.31%	6.76%	5.83%	6.30%		
Floating rate	171	282	32	59	21	442	1,007	1,048
Current interest rate	5.62%	4.70%	4.91%	5.22%	6.15%	5.24%		
<b>Subtotal</b>	<b>513</b>	<b>579</b>	<b>148</b>	<b>79</b>	<b>57</b>	<b>1,446</b>	<b>2,822</b>	<b>3,669</b>
<b>Hybrid equity</b>								
Fixed rate				500		1,929	2,429	2,513
Contractual interest rate				5.79%		7.20%		
<b>Participation certificates<sup>4)</sup></b>								
Fixed rate	903	51				732	1,686	2,262
Contractual interest rate	7.87%	6.13%				5.39%		
<b>Total banking subsidiaries</b>	<b>1,416</b>	<b>630</b>	<b>148</b>	<b>579</b>	<b>57</b>	<b>4,107</b>	<b>6,937</b>	<b>8,444</b>
<b>All other subsidiaries</b>								
<b>Subordinated liabilities</b>								
Fixed rate	60					618	678	680
Contractual interest rate	6.84%					5.35%		
Floating rate						226	226	225
Current interest rate						5.66%		
<b>Subtotal</b>	<b>60</b>					<b>844</b>	<b>904</b>	<b>905</b>
<b>Hybrid equity</b>								
Fixed rate						45	45	45
Contractual interest rate						5.58%		
<b>Total all other subsidiaries</b>	<b>60</b>					<b>889</b>	<b>949</b>	<b>950</b>
<b>Total</b>	<b>1,476</b>	<b>630</b>	<b>148</b>	<b>579</b>	<b>57</b>	<b>11,934</b>	<b>14,824</b>	<b>16,362</b>



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- 1) Except for interest rates. Interest rates represent the weighted-average.
- 2) Includes subordinated bonds issued by Allianz Finance B.V. and Allianz Finance II B.V. and guaranteed by Allianz SE.
- 3) The terms of the profit participation certificates provide for an annual cash distribution of 240% of the dividend paid by Allianz SE per one Allianz SE share. Holders of profit participation certificates do not have voting rights, or any rights to convert the certificates into Allianz SE shares, or rights to liquidation proceeds. Profit participation certificates are unsecured and rank pari passu with the claims of other unsecured creditors. Profit participation certificates can be redeemed by holders upon twelve months prior notice every fifth year. Allianz SE has the right to call the profit participation certificates for redemption, upon six months prior notice every year. The next call date is December 31, 2008. Upon redemption by Allianz SE, the cash redemption price per certificate would be equal to 122.9% of the then current price of one Allianz SE share during the last three months preceding the recall of the participation certificate. In lieu of redemption for cash, Allianz SE may offer 10 Allianz SE ordinary shares per 8 profit participation certificates.
- 4) Participation certificates issued by the Dresdner Bank Group entitle holders to annual interest payments, which take priority over its shareholders' dividend entitlements. They are subordinated to obligations for all other creditors of the respective issuer, except those similarly subordinated, and share in losses of the respective issuers in accordance with the conditions attached to the participation certificates. The profit participation certificates will be redeemed subject to the provisions regarding loss sharing.

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****23 Equity**

As of December 31,	2007	2006
	mn	mn
<b>Shareholders' equity</b>		
Issued capital	1,152	1,106
Capital reserve	27,169	24,292
Revenue reserves	12,790	13,511
Treasury shares	(172)	(441)
Foreign currency translation adjustments	(3,656)	(2,210)
Unrealized gains and losses (net) <sup>1)</sup>	10,470	13,392
<b>Subtotal</b>	<b>47,753</b>	<b>49,650</b>
<b>Minority interests</b>	<b>3,628</b>	<b>7,180</b>
<b>Total</b>	<b>51,381</b>	<b>56,830</b>

<sup>1)</sup> As of December 31, 2007 includes 175 mn related to cash flow hedges (2006: 140 mn).

**Issued capital**

Issued capital at December 31, 2007 amounted to 1,152,384,000 divided into 450,150,000 registered shares. The shares have no par value but a mathematical per share value of 2.56 each as a proportion of the issued capital.

**Authorized capital**

As of December 31, 2007, Allianz SE had 406,545,646 (158,806,893 shares) of authorized unissued capital (Authorized Capital 2006/I) which can be issued at any time up to February 7, 2011. The Board of Management, with approval of the Supervisory Board, is authorized to exclude the preemptive rights of shareholders if the shares are issued against a contribution in kind and, in certain cases, if they are issued against a cash contribution.

As of December 31, 2007, Allianz SE had 9,848,297 (3,846,991 shares) of authorized unissued capital (Authorized Capital 2006/II) which can be issued at any time up to February 7, 2011. The Board of Management, with approval of the Supervisory Board, is authorized to exclude the preemptive rights of shareholders if the shares are issued to employees of the Allianz Group. Further, as of December 31, 2007, Allianz SE had an unissued conditional capital in the amount of 250,000,000 (97,656,250 shares), authorized in 2006 and in the amount of 5,632,000 (2,200,000 shares), authorized in 2004. A capital increase out of unissued conditional capital will be carried out only to the extent that conversion or option rights are exercised by holders of bonds issued by Allianz SE or any of its subsidiaries or that mandatory conversion obligations are fulfilled.

**Changes in the number of issued shares outstanding**

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	2007	2006	2005
<b>Issued shares outstanding as of January 1,</b>	<b>429,336,291</b>	<b>405,298,397</b>	<b>366,859,799</b>
Capital increase for merger with RAS		25,123,259	
Capital increase for tender offer AGF	16,974,357		
Exercise of warrants			9,000,000
Capital increase for cash			10,116,850
Capital increase for employee shares	1,025,643	986,741	1,148,150
Change in treasury shares held for non- trading purposes	(86,431)	(57,232)	17,165,510
Change in treasury shares held for trading purposes	1,660,788	(2,014,874)	1,008,088
<b>Issued shares</b>			
<b>outstanding as of December 31,</b>	<b>448,910,648</b>	<b>429,336,291</b>	<b>405,298,397</b>
Treasury shares	1,239,352	2,813,709	741,603
<b>Total number of issued shares</b>	<b>450,150,000</b>	<b>432,150,000</b>	<b>406,040,000</b>

In November 2007, 1,025,643 (2006: 986,741) shares were issued at a price of 154.07 (2006: 131.00) per share, enabling employees of Allianz Group subsidiaries in Germany and abroad to purchase 881,980 (2006: 929,509) shares at prices ranging from 107.85 (2006: 91.70) to 128.39 (2006: 111.35) per share. The remaining 143,663 (2006: 57,232) shares were warehoused and booked as treasury shares for further subscriptions by employees in the context of the employee share purchase plan in 2008. As a result, issued capital increased by 3 mn and capital reserve increased by 155 mn.

In April 2007 16,974,357 new Allianz SE shares were issued for the execution of the minority buy-out of AGF shares. The increase in share capital due to the minority buyout of AGF amounts to 43 mn; the additional paid-in capital increased by 2,722 mn.

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

On October 13, 2006, Allianz AG and RAS merged resulting in the issuance of 25,123,259 shares of Allianz SE to the shareholders of RAS. As a result, share capital increased by 64 mn and capital reserve increased by 3,589 mn.

In September 2005, the Allianz Group issued 10,116,850 shares for proceeds of 1,062 mn, which increased issued capital by 26 mn and capital reserve of 1,036 mn.

On February 18, 2005, the Allianz Group issued a subordinated bond with 11.2 mn detachable warrants, which allow the holder to purchase a share of Allianz SE. The warrants are exercisable at any time during their three year term and have an exercise price of 92 per share. The warrants were recorded in capital reserve at the premium received of 174 mn on their issuance date. During the year ended December 31, 2005, as a result of the exercise of 9 mn warrants the Allianz Group received consideration of 828 mn, which increased issued capital by 23 mn and capital reserve by 805 mn. On February 15, 2008 the remaining 2.2 mn warrants were exercised.

All shares issued during the years ended December 31, 2007, 2006 and 2005 are qualifying shares from the beginning of the year of issue.

***Dividends***

For the year ended December 31, 2007, the Board of Management will propose to shareholders at the Annual General Meeting the distribution of a dividend of 5.50 per qualifying share. During the years ended December 31, 2006 and 2005, Allianz SE paid a dividend of 3.80 and 2.00, respectively, per qualifying share.

***Treasury shares***

The Annual General Meeting on May 2, 2007 (2006: May 3), authorized Allianz SE to acquire its own shares for other purposes pursuant to clause 71(1) no. 8 of the German Stock Corporation Law (Aktiengesetz). During the year ended December 31, 2007 the authorization was used to acquire 143,663 (2006: 57,232) shares of Allianz SE.

In order to enable Dresdner Bank Group to trade in shares of Allianz SE, the Annual General Meeting on May 2, 2007 authorized the Allianz Group's domestic or foreign credit institutions in which Allianz SE has a majority holding to acquire treasury shares for trading purposes pursuant to clause 71(1) no. 7 of the Aktiengesetz. During the year ended December 31, 2007, in accordance with this authorization, the credit institutions of the Allianz Group purchased 24,780,668 (2006: 44,741,900) of Allianz SE's shares at an average price of 131.55 per share (2006: 131.45), which included previously held Allianz SE shares. During the year ended December 31, 2007, 25,348,169 shares (2006: 42,180,935) were disposed of holdings at an average price of 127.39 per share (2006: 132.76). During the year ended December 31, 2007, the losses arising from treasury share transactions and in consideration of the holding, were 110 mn (2006: gains 29 mn), which were recorded directly in revenue reserves.

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In 2005, the Dresdner Bank Group placed 17,155,008 shares of Allianz SE in the market.

The resulting short position in own shares is hedged by the use of derivatives and is reflected in the revenue reserves. Due to written put options the Allianz Group is obliged to buy own shares amounting to -mn (2006: 2 mn), in case the put options are exercised.

### *Composition of the treasury shares*

As of December 31,	Acquisition costs mn	Number of shares	Issued capital %
<b>2007</b>			
Allianz SE	72	567,698	0.13
Dresdner Bank Group	100	671,654	0.15
Dresdner Bank Group (obligation for written put options on Allianz SE shares)			
<b>Total</b>	<b>172</b>	<b>1,239,352</b>	<b>0.28</b>
<b>2006</b>			
Allianz SE	57	481,267	0.11
Dresdner Bank Group	382	2,332,442	0.54
Dresdner Bank Group (obligation for written put options on Allianz SE shares)	2		
<b>Total</b>	<b>441</b>	<b>2,813,709</b>	<b>0.65</b>

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)*****Capital Requirements***

The Allianz Group's capital requirements are primarily dependent on our growth and the type of business that it underwrites, as well as the industry and geographic locations in which it operates. In addition, the allocation of the Allianz Group's investments plays an important role. During the Allianz Group's annual planning dialogues with its operating entities, capital requirements are determined through business plans regarding the levels and timing of capital expenditures and investments. Regulators impose minimum capital rules on the level of both the Allianz Group's operating entities and the Allianz Group as a whole.

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

At December 31, 2007, based on the current status of discussion, our eligible capital for the solvency margin, required for our insurance segments and our banking and asset management business, was 45.5 bn (2006: 49.5 bn) including off-balance sheet reserves surpassing the minimum legally stipulated level by 16.6 bn (2006: 23.4 bn). This margin resulted in a preliminary cover ratio of 157% at December 31, 2007 (2006: 190%). In 2007, all Allianz Group companies also have met their local solvency requirements.

At December 31, 2007, our eligible capital for the solvency margin, required for insurance groups under German law, was 50.9 bn (2006: 53.3 bn), surpassing the minimum legally stipulated level by 32.8 bn (2006: 37.9 bn). This margin resulted in preliminary cover ratio of 281% (2006: 345%).

Dresdner Bank is subject to the German Banking Act ( Kreditwesengesetz ) as well as to the new Solvency Regulation ( Solvabilitäts-Verordnung ) and therefore Dresdner Bank calculates and reports under such guidelines to the German Federal Financial Supervisory Authority (the Bundesanstalt für Finanzdienstleistungsaufsicht, or BaFin ) and the Deutsche Bundesbank, the German central bank. These guidelines are used to evaluate capital adequacy based primarily on the perceived credit risk associated with balance sheet assets, as well as certain off-balance sheet exposures such as unfunded loan commitments, letters of credit, and derivative and foreign exchange contracts. In addition, for Allianz SE to maintain its status as a financial holding company under the U.S. Gramm-Leach-Bliley Financial Modernization Act of 1999, Dresdner Bank must be considered well capitalized under guidelines issued by the Board of Governors of the Federal Reserve System. To be considered well capitalized for these purposes, Dresdner Bank must have a Tier I Capital Ratio of a least 6% and a combined Tier I and Tier II Capital Ratio of at least 10%, and not be subject to a directive, order or written agreement to meet and maintain specific capital levels. As shown in the table below, Dresdner Bank maintained a well capitalized position during both 2007 and 2006.

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

As of December 31,

2007

2006

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	mn	mn
Tier I capital (core capital)	11,234	12,469
Tier I & Tier II capital	16,964	18,668
Tier III capital (supplementary capital)		
<b>Total capital</b>	<b>16,964</b>	<b>18,668</b>
Risk-weighted assets banking book	119,477	117,355
Risk-weighted assets trading book	3,638	2,625
<b>Total risk-weighted assets</b>	<b>123,115</b>	<b>119,980</b>
Tier I capital ratio (core capital) in %	9.1	10.4
Tier I & Tier II capital ratio in %	13.8	15.6
<b>Total capital ratio in %</b>	<b>13.8</b>	<b>15.6</b>

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- 1) Represents the difference between fair value and amortized cost of real estate held for investment and investments in associates and joint ventures, net of deferred taxes, policyholders' participation and minority interests.
- 2) Represents the ratio of eligible capital to required capital.

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

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

In addition to regulatory capital requirements, Allianz SE also uses an internal risk capital model to determine how much capital is required to absorb any unexpected volatility in results of operations.

Certain of the Allianz Group's insurance subsidiaries prepare individual financial statements based on local laws and regulations. These laws establish restrictions on the minimum level of capital and surplus an insurance entity must maintain and the amount of dividends that may be paid to shareholders. The minimum capital requirements and dividend restrictions vary by jurisdiction. The minimum capital requirements are based on various criteria including, but not limited to, volume of premiums written or claims paid, amount of insurance reserves, asset risk, mortality risk, credit risk, underwriting risk and off-balance sheet risk.

As of December 31, 2007, the Allianz Group's insurance subsidiaries were in compliance with all applicable solvency and capital adequacy requirements.

Certain insurance subsidiaries are subjected to regulatory restrictions on the amount of dividends which can be remitted to Allianz SE without prior approval by the appropriate regulatory body. Such restrictions provide that a company may only pay dividends up to an amount in excess of certain regulatory capital levels or based on the levels of undistributed earned surplus or current year income or a percentage thereof. By way of example only, the operations of our insurance subsidiaries located in the United States are subject to limitations on the payment of dividends to their parent company under applicable state insurance laws.

Dividends paid in excess of these limitations generally require prior approval of the insurance commissioner of the state of domicile. The Allianz Group believes that these restrictions will not affect the ability of Allianz SE to pay dividends to its shareholders in the future. In addition, Allianz SE is not subject to legal restrictions on the amount of dividends it can pay to its shareholders, except the legal reserve in the appropriated retained earnings, which is required according to clause 150 (1) of the German Stock Corporation Act (AktG).

***Minority interests***

<b>As of December 31,</b>	<b>2007</b>	<b>2006</b>
	<b>mn</b>	<b>mn</b>
Unrealized gains and losses (net)	95	888
Share of earnings	748	1,289
Other equity components	2,785	5,003
<b>Total</b>	<b>3,628</b>	<b>7,180</b>



The reduction in minority interests includes the impact of the minority buy-out of AGF with an amount of (3,868) mn.

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****Supplementary Information to the Consolidated Income Statements****24 Premiums earned (net)**

	Property-Casualty mn	Life/Health mn	Consolidation mn	Total mn
<b>2007</b>				
<b>Premiums written</b>				
Direct	41,526	21,241		62,767
Assumed	2,763	281	(23)	3,021
<b>Subtotal</b>	<b>44,289</b>	<b>21,522</b>	<b>(23)</b>	<b>65,788</b>
Ceded	(5,320)	(637)	23	(5,934)
<b>Net</b>	<b>38,969</b>	<b>20,885</b>		<b>59,854</b>
<b>Change in unearned premiums</b>				
Direct	(352)	(77)		(429)
Assumed	(68)	2	1	(65)
<b>Subtotal</b>	<b>(420)</b>	<b>(75)</b>	<b>1</b>	<b>(494)</b>
Ceded	4	(1)	(1)	2
<b>Net</b>	<b>(416)</b>	<b>(76)</b>		<b>(492)</b>
<b>Premiums earned</b>				
Direct	41,174	21,164		62,338
Assumed	2,695	283	(22)	2,956
<b>Subtotal</b>	<b>43,869</b>	<b>21,447</b>	<b>(22)</b>	<b>65,294</b>
Ceded	(5,316)	(638)	22	(5,932)
<b>Net</b>	<b>38,553</b>	<b>20,809</b>		<b>59,362</b>
<b>2006</b>				
<b>Premiums written</b>				
Direct	40,967	21,252		62,219
Assumed	2,707	362	(13)	3,056
<b>Subtotal</b>	<b>43,674</b>	<b>21,614</b>	<b>(13)</b>	<b>65,275</b>
Ceded	(5,415)	(816)	13	(6,218)

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<b>Net</b>	<b>38,259</b>	<b>20,798</b>		<b>59,057</b>
<b>Change in unearned premiums</b>				
Direct	(351)	(225)		(576)
Assumed	156	1		157
<b>Subtotal</b>	<b>(195)</b>	<b>(224)</b>		<b>(419)</b>
Ceded	(114)			(114)
<b>Net</b>	<b>(309)</b>	<b>(224)</b>		<b>(533)</b>
<b>Premiums earned</b>				
Direct	40,616	21,027		61,643
Assumed	2,863	363	(13)	3,213
<b>Subtotal</b>	<b>43,479</b>	<b>21,390</b>	<b>(13)</b>	<b>64,856</b>
Ceded	(5,529)	(816)	13	(6,332)
<b>Net</b>	<b>37,950</b>	<b>20,574</b>		<b>58,524</b>

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

	Property-Casualty mn	Life/Health mn	Consolidation mn	Total mn
<b>2005</b>				
<b>Premiums written</b>				
Direct	40,547	20,707		61,254
Assumed	3,152	386	(26)	3,512
<b>Subtotal</b>	<b>43,699</b>	<b>21,093</b>	<b>(26)</b>	<b>64,766</b>
Ceded	(5,529)	(926)	26	(6,429)
<b>Net</b>	<b>38,170</b>	<b>20,167</b>		<b>58,337</b>
<b>Change in unearned premiums</b>				
Direct	(378)	(161)		(539)
Assumed	(246)	(6)		(252)
<b>Subtotal</b>	<b>(624)</b>	<b>(167)</b>		<b>(791)</b>
Ceded	139	(3)		136
<b>Net</b>	<b>(485)</b>	<b>(170)</b>		<b>(655)</b>
<b>Premiums earned</b>				
Direct	40,169	20,546		60,715
Assumed	2,906	380	(26)	3,260
<b>Subtotal</b>	<b>43,075</b>	<b>20,926</b>	<b>(26)</b>	<b>63,975</b>
Ceded	(5,390)	(929)	26	(6,293)
<b>Net</b>	<b>37,685</b>	<b>19,997</b>		<b>57,682</b>

**25 Interest and similar income**

	2007 mn	2006 mn	2005 mn
Interest from held-to-maturity investments	223	233	253
Dividends from available-for-sale investments	2,332	2,119	1,469
Interest from available-for-sale investments	9,709	9,160	8,592
Share of earnings from investments in associates and joint ventures	521	287	253
Rent from real estate held for investment	835	930	993
Interest from loans to banks and customers	12,200	11,058	10,875
Other interest	227	169	209
<b>Total</b>	<b>26,047</b>	<b>23,956</b>	<b>22,644</b>



**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****26 Income from financial assets and liabilities carried at fair value through income (net)**

	Property- Casualty mn	Life/ Health mn	Banking mn	Asset Management mn	Corporate mn	Consolidation mn	Group mn
<b>2007</b>							
Income (expense) from financial assets and liabilities held for trading	(51)	(1,337)	(464)		44	(35)	(1,843)
Income from financial assets designated at fair value through income	150	345	67	64	7	(8)	625
Income (expense) from financial liabilities designated at fair value through income	3	11	(34)				(20)
Income (expense) from financial liabilities for puttable equity instruments (net)	(17)	41		(33)			(9)
<b>Total</b>	<b>85</b>	<b>(940)</b>	<b>(431)</b>	<b>31</b>	<b>51</b>	<b>(43)</b>	<b>(1,247)</b>
<b>2006</b>							
Income (expense) from financial assets and liabilities held for trading	83	(808)	1,282	7	(274)	72	362
Income (expense) from financial assets designated at fair value through income	121	742	95	(105)	5		858
Expense from financial liabilities designated at fair value through income	(1)	(2)	(42)			1	(44)
Income (expense) from financial liabilities for puttable equity instruments (net)	(14)	(293)		136	(65)		(236)
<b>Total</b>	<b>189</b>	<b>(361)</b>	<b>1,335</b>	<b>38</b>	<b>(334)</b>	<b>73</b>	<b>940</b>
<b>2005</b>							
Income (expense) from financial assets and liabilities held for trading	32	(324)	1,170	3	(441)	(3)	437
Income from financial assets designated at fair value through income	128	780	74	247			1,229
Expense from financial liabilities designated at fair value through income			(81)			3	(78)
Income (expense) from financial liabilities for puttable equity instruments (net)	4	(198)		(231)			(425)
<b>Total</b>	<b>164</b>	<b>258</b>	<b>1,163</b>	<b>19</b>	<b>(441)</b>		<b>1,163</b>

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****Income from financial assets and liabilities carried at fair value through income (net) comprises:**

	Interest and dividend income (expense) mn	Net realized gains (losses) mn	Net valuation result mn	Total mn
<b>2007</b>				
Financial assets and liabilities held for trading	(334)	433	(1,942)	(1,843)
Financial assets designated at fair value through income	511	182	(68)	625
Financial liabilities designated at fair value through income	(117)	52	45	(20)
Financial liabilities for puttable equity instruments (net)			(9)	(9)
<b>Total</b>	<b>(219)</b>	<b>667</b>	<b>(1,695)</b>	<b>(1,247)</b>
<b>2006</b>				
Financial assets and liabilities held for trading	(577)	927	12	362
Financial assets designated at fair value through income	316	167	375	858
Financial liabilities designated at fair value through income	(89)	45		(44)
Financial liabilities for puttable equity instruments (net)			(236)	(236)
<b>Total</b>	<b>(350)</b>	<b>1,139</b>	<b>151</b>	<b>940</b>
<b>2005</b>				
Financial assets and liabilities held for trading	244	567	(374)	437
Financial assets designated at fair value through income	211	117	901	1,229
Financial liabilities designated at fair value through income	(73)	(5)		(78)
Financial liabilities for puttable equity instruments (net)			(425)	(425)
<b>Total</b>	<b>382</b>	<b>679</b>	<b>102</b>	<b>1,163</b>

**Income from financial assets and liabilities held for trading (net)****Life/Health Segment**

Income from financial assets and liabilities held for trading for the year ended December 31, 2007 includes in the Life/ Health segment expenses of 1,352 mn (2006: 834 mn; 2005: 377 mn) from derivative financial instruments. Expenses of 756 mn (2006: 513 mn; 2005: 50 mn) result from the purchase of forward contracts for interest bonds and forward sales of shares. Also included are expenses from derivative financial instruments related to equity indexed annuity contracts and guaranteed benefits under unit-linked contracts of 622 mn (2006: 350 mn; 2005: 199 mn) and income from other derivative financial instruments of 26 mn (2006: 29 mn; 2005: 128 mn).

**Banking Segment**

Income from financial assets and liabilities held for trading of the Banking segment comprises:

	2007	2006	2005
	mn	mn	mn
Trading in interest products <sup>1)</sup>	411	637	569
Trading in loan products <sup>2)</sup>	(1,231)	241	146
Trading in equity products	309	304	224
Foreign exchange/ precious metals trading	256	209	112
Other trading activities	(209)	(109)	119
<b>Total</b>	<b>(464)</b>	<b>1,282</b>	<b>1,170</b>

1) For the year ended December 31, 2007 includes impairments of (23) mn for asset-backed securities held for trading of Dresdner Bank.

2) For the year ended December 31, 2007 includes impairments of (1,252) mn for asset-backed securities held for trading of Dresdner Bank.



**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****Corporate Segment**

Income from financial assets and liabilities held for trading for the year ended December 31, 2007, includes in the Corporate segment expenses of 15 mn (2006: 152 mn; 2005: 332 mn) from derivative financial instruments for which hedge accounting is not applied. This includes expenses from derivative financial instruments embedded in exchangeable bonds of 222 mn (2006: 570 mn; 2005: 605 mn), income from derivative financial instruments which partially hedge the exchangeable bonds, however which do not qualify for hedge accounting, of 164 mn (2006: 290 mn; 2005: 288 mn), and income from other derivative financial instruments of 43 mn (2006: 128 mn; 2005: expense of 15 mn).

**27 Realized gains/losses (net)**

	2007 m	2006 m	2005 m
<b>Realized gains</b>			
<b>Available-for-sale investments</b>			
Equity securities	7,744	5,052	3,348
Debt securities	423	739	968
<b>Subtotal</b>	<b>8,167</b>	<b>5,791</b>	<b>4,316</b>
<b>Investments in associates and joint ventures<sup>1)</sup></b>	<b>220</b>	<b>891</b>	<b>1,218</b>
<b>Loans to banks and customers</b>	<b>80</b>	<b>47</b>	<b>116</b>
<b>Real estate held for investment</b>	<b>371</b>	<b>766</b>	<b>373</b>
<b>Subtotal</b>	<b>8,838</b>	<b>7,495</b>	<b>6,023</b>
<b>Realized losses</b>			
<b>Available-for-sale investments</b>			
Equity securities	(598)	(342)	(566)
Debt securities	(1,433)	(795)	(332)
<b>Subtotal</b>	<b>(2,031)</b>	<b>(1,137)</b>	<b>(898)</b>
<b>Investments in associates and joint ventures<sup>2)</sup></b>	<b>(93)</b>	<b>(15)</b>	<b>(32)</b>
<b>Loans to banks and customers<sup>3)</sup></b>	<b>(120)</b>	<b>(57)</b>	<b>(93)</b>
<b>Real estate held for investment</b>	<b>(46)</b>	<b>(135)</b>	<b>(22)</b>
<b>Subtotal</b>	<b>(2,290)</b>	<b>(1,344)</b>	<b>(1,045)</b>
<b>Total</b>	<b>6,548</b>	<b>6,151</b>	<b>4,978</b>

<sup>1)</sup> During the year ended December 31, 2007, includes realized gains from the disposal of subsidiaries and businesses of 185 mn (2006: 613 mn; 2005: 394 mn).

<sup>2)</sup> During the year ended December 31, 2007, includes realized losses from the disposal of subsidiaries of 83 mn (2006: 3 mn; 2005: 14 mn).

<sup>3)</sup> During the year ended December 31, 2007, includes realized losses from leveraged buy-out transactions of Dresdner Bank of 30 mn.



**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****28 Fee and commission income**

	2007			2006			2005		
	Segment mn	Consolidation mn	Group mn	Segment mn	Consolidation mn	Group mn	Segment mn	Consolidation mn	Group mn
<b>Property-Casualty</b>									
Fees from credit and assistance business	703	(2)	701	681		681	662		662
Service agreements	475	(24)	451	318	(37)	281	316	(42)	274
Investment advisory				15		15	11		11
<b>Subtotal</b>	<b>1,178</b>	<b>(26)</b>	<b>1,152</b>	<b>1,014</b>	<b>(37)</b>	<b>977</b>	<b>989</b>	<b>(42)</b>	<b>947</b>
<b>Life/Health</b>									
Service agreements	174	(15)	159	191	(26)	165	176	(82)	94
Investment advisory	513	(16)	497	423	(28)	395	306		306
Other	14	(14)		16	(16)		25	(13)	12
<b>Subtotal</b>	<b>701</b>	<b>(45)</b>	<b>656</b>	<b>630</b>	<b>(70)</b>	<b>560</b>	<b>507</b>	<b>(95)</b>	<b>412</b>
<b>Banking</b>									
Securities business	1,519	(184)	1,335	1,472	(186)	1,286	1,339	(151)	1,188
Investment advisory	534	(145)	389	611	(156)	455	558	(140)	418
Payment transactions	372	(3)	369	364	(2)	362	381	(3)	378
Mergers and acquisitions advisory	233		233	284		284	256		256
Underwriting business	80	(1)	79	133		133	102		102
Other	913	(57)	856	734	(77)	657	761	(19)	742
<b>Subtotal</b>	<b>3,651</b>	<b>(390)</b>	<b>3,261</b>	<b>3,598</b>	<b>(421)</b>	<b>3,177</b>	<b>3,397</b>	<b>(313)</b>	<b>3,084</b>
<b>Asset Management</b>									
Management fees	3,558	(126)	3,432	3,420	(112)	3,308	2,987	(93)	2,894
Loading and exit fees	313		313	341		341	338		338
Performance fees	206	(1)	205	107	1	108	123	(2)	121
Other	326	(11)	315	318	(6)	312	298	(2)	296
<b>Subtotal</b>	<b>4,403</b>	<b>(138)</b>	<b>4,265</b>	<b>4,186</b>	<b>(117)</b>	<b>4,069</b>	<b>3,746</b>	<b>(97)</b>	<b>3,649</b>
<b>Corporate</b>									
Service agreements	198	(92)	106	190	(117)	73	164	(94)	70
<b>Subtotal</b>	<b>198</b>	<b>(92)</b>	<b>106</b>	<b>190</b>	<b>(117)</b>	<b>73</b>	<b>164</b>	<b>(94)</b>	<b>70</b>
<b>Total</b>	<b>10,131</b>	<b>(691)</b>	<b>9,440</b>	<b>9,618</b>	<b>(762)</b>	<b>8,856</b>	<b>8,803</b>	<b>(641)</b>	<b>8,162</b>

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****29 Other income**

	2007	2006	2005
	mn	mn	mn
<b>Income from real estate held for own use</b>			
Realized gains from disposals of real estate held for own use	210	82	23
Other income from real estate held for own use	2	3	33
<b>Subtotal</b>	<b>212</b>	<b>85</b>	<b>56</b>
<b>Income from non-current assets and disposal groups held for sale</b>	<b>4</b>	<b>1</b>	<b>35</b>
<b>Other</b>	<b>1</b>		<b>1</b>
<b>Total</b>	<b>217</b>	<b>86</b>	<b>92</b>

**30 Income from fully consolidated private equity investments**

	MAN Roland Druck- maschinen AG mn	Selecta AG mn	Four Seasons Health Care Ltd. mn	Other mn	Total mn
<b>2007</b>					
Sales and service revenues	1,936	375		22	2,333
Other operating revenues	21				21
Interest income	13				13
<b>Total</b>	<b>1,970</b>	<b>375</b>		<b>22</b>	<b>2,367</b>
<b>2006</b>					
Sales and service revenues	1,044		327		1,371
Other operating revenues	15				15
Interest income	5		1		6
<b>Total</b>	<b>1,064</b>		<b>328</b>		<b>1,392</b>
<b>2005</b>					
Sales and service revenues			597		597
Other operating revenues					
Interest income			1		1
<b>Total</b>			<b>598</b>		<b>598</b>



**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****31 Claims and insurance benefits incurred (net)**

	Property-Casualty mn	Life/Health mn	Consolidation mn	Total mn
<b>2007</b>				
<b>Gross</b>				
Claims and insurance benefits paid	(27,955)	(18,258)	9	(46,204)
Change in loss and loss adjustment expenses	(176)	(34)	5	(205)
<b>Subtotal</b>	<b>(28,131)</b>	<b>(18,292)</b>	<b>14</b>	<b>(46,409)</b>
<b>Ceded</b>				
Claims and insurance benefits paid	3,070	711	(9)	3,772
Change in loss and loss adjustment expenses	(424)	(56)	(5)	(485)
<b>Subtotal</b>	<b>2,646</b>	<b>655</b>	<b>(14)</b>	<b>3,287</b>
<b>Net</b>				
Claims and insurance benefits paid	(24,885)	(17,547)		(42,432)
Change in loss and loss adjustment expenses	(600)	(90)		(690)
<b>Total</b>	<b>(25,485)</b>	<b>(17,637)</b>		<b>(43,122)</b>
<b>2006</b>				
<b>Gross</b>				
Claims and insurance benefits paid	(27,132)	(18,485)	27	(45,590)
Change in loss and loss adjustment expenses	104	(35)	(2)	67
<b>Subtotal</b>	<b>(27,028)</b>	<b>(18,520)</b>	<b>25</b>	<b>(45,523)</b>
<b>Ceded</b>				
Claims and insurance benefits paid	3,130	777	(27)	3,880
Change in loss and loss adjustment expenses	(774)	118	2	(654)
<b>Subtotal</b>	<b>2,356</b>	<b>895</b>	<b>(25)</b>	<b>3,226</b>
<b>Net</b>				
Claims and insurance benefits paid	(24,002)	(17,708)		(41,710)
Change in loss and loss adjustment expenses	(670)	83		(587)
<b>Total</b>	<b>(24,672)</b>	<b>(17,625)</b>		<b>(42,297)</b>
<b>2005</b>				
<b>Gross</b>				
Claims and insurance benefits paid	(26,026)	(18,281)	8	(44,299)
Change in loss and loss adjustment expenses	(2,452)	(51)		(2,503)
<b>Subtotal</b>	<b>(28,478)</b>	<b>(18,332)</b>	<b>8</b>	<b>(46,802)</b>

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**Ceded**

Claims and insurance benefits paid	3,429	875	(8)	4,296
Change in loss and loss adjustment expenses	(282)	18		(264)

<b>Subtotal</b>	<b>3,147</b>	<b>893</b>	<b>(8)</b>	<b>4,032</b>
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**Net**

Claims and insurance benefits paid	(22,597)	(17,406)		(40,003)
Change in loss and loss adjustment expenses	(2,734)	(33)		(2,767)

<b>Total</b>	<b>(25,331)</b>	<b>(17,439)</b>		<b>(42,770)</b>
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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****32 Change in reserves for insurance and investment contracts (net)**

	Property-Casualty mn	Life/Health mn	Consolidation mn	Total mn
<b>2007</b>				
<b>Gross</b>				
Aggregate policy reserves	(233)	(4,868)		(5,101)
Other insurance reserves	24	(260)		(236)
Expenses for premium refunds	(163)	(5,255)	(78)	(5,496)
<b>Subtotal</b>	<b>(372)</b>	<b>(10,383)</b>	<b>(78)</b>	<b>(10,833)</b>
<b>Ceded</b>				
Aggregate policy reserves	16	92		108
Other insurance reserves	2	5		7
Expenses for premium refunds	15	18		33
<b>Subtotal</b>	<b>33</b>	<b>115</b>		<b>148</b>
<b>Net</b>				
Aggregate policy reserves	(217)	(4,776)		(4,993)
Other insurance reserves	26	(255)		(229)
Expenses for premium refunds	(148)	(5,237)	(78)	(5,463)
<b>Total</b>	<b>(339)</b>	<b>(10,268)</b>	<b>(78)</b>	<b>(10,685)</b>
<b>2006</b>				
<b>Gross</b>				
Aggregate policy reserves	(291)	(4,307)	(1)	(4,599)
Other insurance reserves	31	(78)		(47)
Expenses for premium refunds	(211)	(6,136)	(426)	(6,773)
<b>Subtotal</b>	<b>(471)</b>	<b>(10,521)</b>	<b>(427)</b>	<b>(11,419)</b>
<b>Ceded</b>				
Aggregate policy reserves	29	(38)	2	(7)
Other insurance reserves	2	11		13
Expenses for premium refunds	15	23		38
<b>Subtotal</b>	<b>46</b>	<b>(4)</b>	<b>2</b>	<b>44</b>
<b>Net</b>				
Aggregate policy reserves	(262)	(4,345)	1	(4,606)
Other insurance reserves	33	(67)		(34)
Expenses for premium refunds	(196)	(6,113)	(426)	(6,735)
<b>Total</b>	<b>(425)</b>	<b>(10,525)</b>	<b>(425)</b>	<b>(11,375)</b>
<b>2005</b>				



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<b>Gross</b>				
Aggregate policy reserves	(225)	(5,162)		(5,387)
Other insurance reserves	(11)	(12)		(23)
Expenses for premium refunds	(521)	(5,409)	(26)	(5,956)
<b>Subtotal</b>	<b>(757)</b>	<b>(10,583)</b>	<b>(26)</b>	<b>(11,366)</b>
<b>Ceded</b>				
Aggregate policy reserves	17	118		135
Other insurance reserves	(6)	5		(1)
Expenses for premium refunds	39	17		56
<b>Subtotal</b>	<b>50</b>	<b>140</b>		<b>190</b>
<b>Net</b>				
Aggregate policy reserves	(208)	(5,044)		(5,252)
Other insurance reserves	(17)	(7)		(24)
Expenses for premium refunds	(482)	(5,392)	(26)	(5,900)
<b>Total</b>	<b>(707)</b>	<b>(10,443)</b>	<b>(26)</b>	<b>(11,176)</b>

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****33 Interest expense**

	2007	2006	2005
	mn	mn	mn
Liabilities to banks and customers	(3,406)	(2,818)	(3,102)
Deposits retained on reinsurance ceded	(101)	(120)	(279)
Certificated liabilities	(2,063)	(1,532)	(1,498)
Participating certificates and subordinated liabilities	(584)	(716)	(693)
Other	(518)	(573)	(805)
<b>Total</b>	<b>(6,672)</b>	<b>(5,759)</b>	<b>(6,377)</b>

**34 Loan loss provisions**

	2007	2006	2005
	mn	mn	mn
Additions to allowances including direct impairments <sup>1)</sup>	(572)	(533)	(774)
Amounts released	485	317	782
Recoveries on loans previously impaired	200	180	101
<b>Total</b>	<b>113</b>	<b>(36)</b>	<b>109</b>

<sup>1)</sup> Additions to allowances for the year ended December 31, 2007 include allowances of 70 mn related to sub-prime crisis.

**35 Impairments of investments (net)**

	2007	2006	2005
	mn	mn	mn
<b>Impairments</b>			
<b>Available-for-sale investments</b>			
Equity securities	(1,155)	(479)	(245)
Debt securities <sup>1)</sup>	(75)	(106)	(10)
<b>Subtotal</b>	<b>(1,230)</b>	<b>(585)</b>	<b>(255)</b>
<b>Held-to-maturity investments</b>		(8)	(2)
<b>Investments in associates and joint ventures</b>	<b>(10)</b>	<b>(12)</b>	<b>(50)</b>
<b>Real estate held for investment</b>	<b>(51)</b>	<b>(252)</b>	<b>(240)</b>
<b>Subtotal</b>	<b>(1,291)</b>	<b>(857)</b>	<b>(547)</b>

**Reversals of impairments**

<b>Available-for-sale investments</b>			
Debt securities	13	1	3
<b>Held-to-maturity investments</b>		<b>1</b>	<b>3</b>
<b>Real estate held for investment</b>	<b>6</b>	<b>80</b>	<b>1</b>
<b>Subtotal</b>	<b>19</b>	<b>82</b>	<b>7</b>
<b>Total</b>	<b>(1,272)</b>	<b>(775)</b>	<b>(540)</b>

<sup>1)</sup> Impairments on available-for-sale debt securities include impairments of asset-backed securities of 12 mn for the Property-Casualty segment and 7 mn for the Life/Health segment.

### 36 Investment expenses

	2007	2006	2005
	mn	mn	mn
<b>Investment management expenses</b>	<b>(432)</b>	<b>(493)</b>	<b>(374)</b>
<b>Depreciation from real estate held for investment</b>	<b>(192)</b>	<b>(230)</b>	<b>(253)</b>
<b>Other expenses from real estate held for investment</b>	<b>(270)</b>	<b>(278)</b>	<b>(265)</b>
<b>Foreign currency gains and losses (net)</b>			
Foreign currency gains	687	473	417
Foreign currency losses	(850)	(580)	(617)
<b>Subtotal</b>	<b>(163)</b>	<b>(107)</b>	<b>(200)</b>
<b>Total</b>	<b>(1,057)</b>	<b>(1,108)</b>	<b>(1,092)</b>

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****37 Acquisition and administrative expenses (net)**

	Segment mn	2007 Consolidation mn	Group mn	Segment mn	2006 Consolidation mn	Group mn	Segment mn	2005 Consolidation mn	Group mn
<b>Property-Casualty</b>									
<b>Acquisition costs</b>									
Incurring	(7,310)		(7,310)	(7,131)		(7,131)	(6,805)		(6,805)
Commissions and profit received on reinsurance business ceded	691	(2)	689	722	(1)	721	953	(1)	952
Deferrals of acquisition costs	4,511		4,511	3,983		3,983	2,804		2,804
Amortization of deferred acquisition costs	(4,384)		(4,384)	(3,843)		(3,843)	(2,686)		(2,686)
<b>Subtotal</b>	<b>(6,492)</b>	<b>(2)</b>	<b>(6,494)</b>	<b>(6,269)</b>	<b>(1)</b>	<b>(6,270)</b>	<b>(5,734)</b>	<b>(1)</b>	<b>(5,735)</b>
<b>Administrative expenses</b>	<b>(4,124)</b>	<b>64</b>	<b>(4,060)</b>	<b>(4,321)</b>	<b>81</b>	<b>(4,240)</b>	<b>(4,482)</b>	<b>82</b>	<b>(4,400)</b>
<b>Subtotal</b>	<b>(10,616)</b>	<b>62</b>	<b>(10,554)</b>	<b>(10,590)</b>	<b>80</b>	<b>(10,510)</b>	<b>(10,216)</b>	<b>81</b>	<b>(10,135)</b>
<b>Life/Health</b>									
<b>Acquisition costs</b>									
Incurring	(3,823)	3	(3,820)	(3,895)		(3,895)	(3,822)		(3,822)
Commissions and profit received on reinsurance business ceded	146		146	150		150	115		115
Deferrals of acquisition costs	2,526		2,526	2,771		2,771	2,796		2,796
Amortization of deferred acquisition costs	(1,643)		(1,643)	(1,772)		(1,772)	(1,393)		(1,393)
<b>Subtotal</b>	<b>(2,794)</b>	<b>3</b>	<b>(2,791)</b>	<b>(2,746)</b>		<b>(2,746)</b>	<b>(2,304)</b>		<b>(2,304)</b>
<b>Administrative expenses</b>	<b>(1,794)</b>	<b>(72)</b>	<b>(1,866)</b>	<b>(1,691)</b>	<b>(19)</b>	<b>(1,710)</b>	<b>(1,669)</b>	<b>14</b>	<b>(1,655)</b>
<b>Subtotal</b>	<b>(4,588)</b>	<b>(69)</b>	<b>(4,657)</b>	<b>(4,437)</b>	<b>(19)</b>	<b>(4,456)</b>	<b>(3,973)</b>	<b>14</b>	<b>(3,959)</b>
<b>Banking</b>									
Personnel expenses	(2,979)		(2,979)	(3,485)		(3,485)	(3,352)		(3,352)
Non-personnel expenses	(2,082)	62	(2,020)	(2,120)	54	(2,066)	(2,309)	29	(2,280)
<b>Subtotal</b>	<b>(5,061)</b>	<b>62</b>	<b>(4,999)</b>	<b>(5,605)</b>	<b>54</b>	<b>(5,551)</b>	<b>(5,661)</b>	<b>29</b>	<b>(5,632)</b>
<b>Asset Management</b>									
Personnel expenses	(1,705)		(1,705)	(1,657)		(1,657)	(1,679)		(1,679)
Non-personnel expenses	(686)	16	(670)	(629)	16	(613)	(598)	8	(590)
<b>Subtotal</b>	<b>(2,391)</b>	<b>16</b>	<b>(2,375)</b>	<b>(2,286)</b>	<b>16</b>	<b>(2,270)</b>	<b>(2,277)</b>	<b>8</b>	<b>(2,269)</b>

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<b>Corporate</b>									
Administrative expenses	(642)	9	(633)	(655)	(44)	(699)	(516)	(48)	(564)
<b>Subtotal</b>	<b>(642)</b>	<b>9</b>	<b>(633)</b>	<b>(655)</b>	<b>(44)</b>	<b>(699)</b>	<b>(516)</b>	<b>(48)</b>	<b>(564)</b>
<b>Total</b>	<b>(23,298)</b>	<b>80</b>	<b>(23,218)</b>	<b>(23,573)</b>	<b>87</b>	<b>(23,486)</b>	<b>(22,643)</b>	<b>84</b>	<b>(22,559)</b>

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****38 Fee and commission expenses**

	2007			2006			2005		
	Segment mn	Consolidation mn	Group mn	Segment mn	Consolidation mn	Group mn	Segment mn	Consolidation mn	Group mn
<b>Property-Casualty</b>									
Fees from credit and assistance business	(615)	1	(614)	(487)	1	(486)	(594)		(594)
Service agreements	(352)	16	(336)	(231)	27	(204)	(172)	10	(162)
Investment advisory				(3)	2	(1)	(9)	4	(5)
<b>Subtotal</b>	<b>(967)</b>	<b>17</b>	<b>(950)</b>	<b>(721)</b>	<b>30</b>	<b>(691)</b>	<b>(775)</b>	<b>14</b>	<b>(761)</b>
<b>Life/Health</b>									
Service agreements	(45)	18	(27)	(88)	27	(61)	(137)	31	(106)
Investment advisory	(164)	6	(158)	(135)	19	(116)	(82)		(82)
<b>Subtotal</b>	<b>(209)</b>	<b>24</b>	<b>(185)</b>	<b>(223)</b>	<b>46</b>	<b>(177)</b>	<b>(219)</b>	<b>31</b>	<b>(188)</b>
<b>Banking</b>									
Securities business	(172)	1	(171)	(120)	1	(119)	(114)		(114)
Investment advisory	(177)	8	(169)	(190)	7	(183)	(178)	5	(173)
Payment transactions	(22)		(22)	(22)		(22)	(21)		(21)
Mergers and acquisitions advisory	(19)		(19)	(49)		(49)	(37)		(37)
Underwriting business	(2)		(2)	(4)		(4)			
Other	(211)	9	(202)	(205)	49	(156)	(197)	19	(178)
<b>Subtotal</b>	<b>(603)</b>	<b>18</b>	<b>(585)</b>	<b>(590)</b>	<b>57</b>	<b>(533)</b>	<b>(547)</b>	<b>24</b>	<b>(523)</b>
<b>Asset Management</b>									
Commissions	(948)	435	(513)	(953)	427	(526)	(862)	350	(512)
Other	(322)	5	(317)	(309)	4	(305)	(248)	5	(243)
<b>Subtotal</b>	<b>(1,270)</b>	<b>440</b>	<b>(830)</b>	<b>(1,262)</b>	<b>431</b>	<b>(831)</b>	<b>(1,110)</b>	<b>355</b>	<b>(755)</b>
<b>Corporate</b>									
Service agreements	(130)	7	(123)	(127)	8	(119)	(92)	7	(85)
<b>Subtotal</b>	<b>(130)</b>	<b>7</b>	<b>(123)</b>	<b>(127)</b>	<b>8</b>	<b>(119)</b>	<b>(92)</b>	<b>7</b>	<b>(85)</b>
<b>Total</b>	<b>(3,179)</b>	<b>506</b>	<b>(2,673)</b>	<b>(2,923)</b>	<b>572</b>	<b>(2,351)</b>	<b>(2,743)</b>	<b>431</b>	<b>(2,312)</b>

**39 Other expenses**

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	2007 mn	2006 mn	2005 mn
<b>Expenses from real estate held for own use</b>			
Realized losses from disposals of real estate held for own use	(4)	(9)	(8)
Impairments of real estate held for own use	(17)	(3)	(9)
<b>Subtotal</b>	<b>(21)</b>	<b>(12)</b>	<b>(17)</b>
<b>Other</b>	<b>7</b>	<b>13</b>	<b>(34)</b>
<b>Total</b>	<b>(14)</b>	<b>1</b>	<b>(51)</b>

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****40 Expenses from fully consolidated private equity investments**

	MAN Roland Druck- maschinen AG mn	Selecta AG mn	Four Seasons Health Care Ltd. mn	Other mn	Total mn
<b>2007</b>					
Cost of goods sold	(1,526)	(234)		(3)	(1,763)
Commissions	(164)				(164)
General and administrative expenses	(218)	(106)			(324)
Interest expense	(26)	(40)			(66)
<b>Total</b>	<b>(1,934)</b>	<b>(380)</b>		<b>(3)</b>	<b>(2,317)</b>
<b>2006</b>					
Cost of goods sold	(849)				(849)
Commissions	(71)				(71)
General and administrative expenses	(133)		(264)		(397)
Interest expense	(14)		(50)		(64)
<b>Total</b>	<b>(1,067)</b>		<b>(314)</b>		<b>(1,381)</b>
<b>2005</b>					
Cost of goods sold					
Commissions					
General and administrative expenses			(497)		(497)
Interest expense			(75)		(75)
<b>Total</b>			<b>(572)</b>		<b>(572)</b>

**41 Income taxes**

	2007 mn	2006 mn	2005 mn
<b>Current income tax expense</b>			
Germany	(738)	198	(1,020)
Other countries	(2,066)	(1,888)	(1,025)
<b>Subtotal</b>	<b>(2,804)</b>	<b>(1,690)</b>	<b>(2,045)</b>
<b>Deferred income tax expense</b>			
Germany	234	100	408
Other countries	(284)	(423)	(426)
<b>Subtotal</b>	<b>(50)</b>	<b>(323)</b>	<b>(18)</b>



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<b>Total</b>	<b>(2,854)</b>	<b>(2,013)</b>	<b>(2,063)</b>
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During the year ended December, 31, 2007, current income tax expense included a benefit of 5 mn (2006: benefit of 51 mn; 2005: charge of 44 mn) related to prior years.

The German Reorganization Tax Act (SEStEG) which entered into force in December 2006 stipulates that corporation tax credits accumulated under the pre-2001 corporation tax imputation system will be refunded in the future without regard to dividend distributions. The refunds are spread equally over a ten year period from 2008 to 2017. As a consequence of the tax law change Allianz Group's total corporate tax credits were capitalized on a discounted basis as of December 31, 2006, and reduced current income tax expense in 2006 by 571 mn.

Of the deferred tax charge for the year ended December 31, 2007, an expense of 178 mn (2006: income of 480 mn; 2005: income of 468 mn) is attributable to the recognition of deferred taxes on temporary differences and expense of 57 mn (2006: 785 mn; 2005: 492 mn) is attributable to tax losses carried forward. Additionally, changes of applicable tax rates due to changes in tax law produced deferred tax income of 185 mn (2006 expense of 18 mn; 2005 income of 7 mn). In this amount is included a tax income of 152 mn resulting from the German corporate tax reform. Current and deferred tax benefit included in shareholders' equity during the year ended December 31, 2007, amounted to 870 mn (2006: benefit of 740 mn; 2005: charge of 101 mn).

The recognized income tax charge for the year ended December 31, 2007, is 524 mn (2006: 1,130 mn; 2005: 278 mn) lower than the expected income tax charge. The following table shows the reconciliation from the expected income tax charge of the Allianz Group to the effectively recognized tax charge. The Allianz Group's reconciliation is a summary of the individual company-related reconciliations, which are based on the respective country-specific tax rates after taking into consideration consolidation effects with impact on the group result. The expected tax rate for domestic Allianz Group subsidiaries applied in the reconciliation includes corporate tax and the solidarity surcharge and amounts to 26.38% (2006: 26.38%; 2005: 26.38%).

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

The effective tax rate is determined on the basis of the effective income tax charge on income before income taxes and minority interests in earnings.

	2007 mn	2006 mn	2005 mn
<b>Income before income taxes and minority interests in earnings</b>			
Germany	3,373	2,314	1,780
Other countries	8,195	8,009	6,049
<b>Total</b>	<b>11,568</b>	<b>10,323</b>	<b>7,829</b>
Expected income tax rate in %	29.2	30.4	29.9
<b>Expected income tax charge</b>	<b>3,378</b>	<b>3,143</b>	<b>2,340</b>
Municipal trade tax and similar taxes	522	208	280
Net tax exempt income	(1,022)	(884)	(503)
Effects of tax losses	226	(50)	(73)
Effects of German tax law changes	(152)	(571)	
Other	(98)	167	19
<b>Income taxes</b>	<b>2,854</b>	<b>2,013</b>	<b>2,063</b>
<b>Effective tax rate in %</b>	<b>24.7</b>	<b>19.5</b>	<b>26.3</b>

During the year ended December 31, 2007, a deferred tax charge of 8 mn (2006: 35 mn; 2005: 4 mn) was recognized due to a devaluation of deferred tax assets on tax losses carried forward. Due to the use of tax losses carried forward for which no deferred tax asset was recognized, the current income tax charge diminished by 52 mn (2006: 45 mn; 2005: 64 mn). The recognition of deferred tax assets on losses carried forward from earlier periods, for which no deferred taxes had yet been recognized or which had been devalued resulted in a deferred tax income of 207 mn (2006: 54 mn; 2005: 39 mn). The non-recognition of deferred taxes on tax losses for the current fiscal year increased tax charges by 477 mn (2006: 14 mn; 2005: 26 mn). The above mentioned effects are shown in the reconciliation statement as effects of tax losses.

The tax rates used in the calculation of the Allianz Group deferred taxes are the applicable national rates, which in 2007 ranged from 10.0% to 45.4%. Changes to tax rates already adopted on December 31, 2007, are taken into account.

Deferred taxes on losses carried forward are recognized as an asset to the extent sufficient future taxable profits are available for realization.

**Deferred tax assets and liabilities**

As of December 31,	2007 mn	2006 mn
<b>Deferred tax assets</b>		
Intangible assets	471	556

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Investments	2,533	2,786
Financial assets held for trading	134	236
Deferred acquisition costs	244	351
Tax losses carried forward	4,041	4,859
Other assets	932	955
Insurance reserves	3,608	4,668
Pensions and similar obligations	357	384
Other liabilities	1,325	1,513
<b>Total deferred tax assets</b>	<b>13,645</b>	<b>16,308</b>
Non recognition or valuation allowance for deferred tax assets on tax losses carried forward	(814)	(731)
Effect of netting	(8,060)	(10,850)
<b>Net deferred tax assets</b>	<b>4,771</b>	<b>4,727</b>
<b>Deferred tax liabilities</b>		
Intangible assets	614	861
Investments	3,244	4,055
Financial assets held for trading	490	842
Deferred acquisition costs	3,486	3,927
Other assets	751	1,076
Insurance reserves	2,383	3,152
Pensions and similar obligations	231	257
Other liabilities	834	1,268
<b>Total deferred tax liabilities</b>	<b>12,033</b>	<b>15,438</b>
Effect of netting	(8,060)	(10,850)
<b>Net deferred tax liabilities</b>	<b>3,973</b>	<b>4,588</b>
<b>Net deferred tax assets/(liabilities)</b>	<b>798</b>	<b>139</b>

*Tax losses carried forward*

Tax losses carried forward at December 31, 2007, of 14,079 mn (2006: 13,336 mn) result in

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

recognition of deferred tax assets to the extent there is sufficient certainty that the unused tax losses will be utilized. 12,271 mn (2006: 10,414 mn) of the tax losses carried forward can be utilized without time limitation. The Allianz Group believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize its deferred tax assets.

Tax losses carried forward are scheduled according to their expiry periods as follows:

	2007 mn
2008	64
2009	120
2010	63
2011	120
2012	149
2013	7
2014	58
2015	2
2016	6
2017	10
>10 years	1,209
Unlimited	12,271
<b>Total</b>	<b>14,079</b>

**Other Information****42 Supplemental information on the Banking Segment***Net interest income from the Banking Segment*

	Segment mn	Consolidation mn	Group mn
<b>2007</b>			
Interest and similar income	8,370	(66)	8,304
Interest expense	(5,266)	178	(5,088)
<b>Net interest income</b>	<b>3,104</b>	<b>112</b>	<b>3,216</b>
<b>2006</b>			
Interest and similar income	7,312	(52)	7,260
Interest expense	(4,592)	71	(4,521)

<b>Net interest income</b>	<b>2,720</b>	<b>19</b>	<b>2,739</b>
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<b>2005</b>			
Interest and similar income	7,321	(36)	7,285
Interest expense	(5,027)	81	(4,946)
<b>Net interest income</b>	<b>2,294</b>	<b>45</b>	<b>2,339</b>

*Net fee and commission income from the Banking Segment*

	Segment mn	Consolidation mn	Group mn
<b>2007</b>			
Fee and commission income	3,651	(390)	3,261
Fee and commission expense	(603)	18	(585)
<b>Net fee and commission income</b>	<b>3,048</b>	<b>(372)</b>	<b>2,676</b>

<b>2006</b>			
Fee and commission income	3,598	(421)	3,177
Fee and commission expense	(590)	57	(533)
<b>Net fee and commission income</b>	<b>3,008</b>	<b>(364)</b>	<b>2,644</b>

<b>2005</b>			
Fee and commission income	3,397	(313)	3,084
Fee and commission expense	(547)	24	(523)
<b>Net fee and commission income</b>	<b>2,850</b>	<b>(289)</b>	<b>2,561</b>

The net fee and commission income of the Allianz Group's Banking segment includes the following:

	2007 mn	2006 mn	2005 mn
Securities business	1,347	1,352	1,225
Investment advisory	357	421	380
Payment transactions	350	342	360
Merger and acquisitions advisory	214	235	219
Underwriting business	78	129	102
Other	702	529	564
<b>Total</b>	<b>3,048</b>	<b>3,008</b>	<b>2,850</b>

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****Volume of foreign currency exposure from the Banking segment**

The amounts reported constitute aggregate Euro equivalents of a wide variety of currencies outside the European Monetary Union ( EMU ). Any differences between assets and liabilities are a result of differing measurements under current accounting policies. Loans and advances to banks, loans and advances to customers, liabilities to banks and liabilities to customers are reported at amortized cost, while all derivative transactions are accounted for at fair value.

	USD mn	2007 GBP mn	Other mn	Total mn	2006 Total mn
<b>Balance sheet items</b>					
Assets	93,906	45,067	30,815	169,788	222,548
Liabilities	108,159	39,425	33,343	180,927	207,692

**Trustee business in the Banking segment**

The following presents trustee business within the Allianz Group's Banking segment not recorded in the consolidated balance sheet:

As of December 31,	2007 mn	2006 mn
Loans and advances to banks	2,030	1,956
Loans and advances to customers	959	1,205
Investments and other assets	564	729
<b>Total assets<sup>1)</sup></b>	<b>3,553</b>	<b>3,890</b>
Liabilities to banks	655	870
Liabilities to customers	2,898	3,020
<b>Total liabilities</b>	<b>3,553</b>	<b>3,890</b>

<sup>1)</sup> Including 1,554 mn (2006: 1,964 mn) of trustee loans.

**Other banking information**

As of December 31, 2007, the Allianz Group had deposits that have been reclassified as loan balances of 8,152 mn (2006: 6,697 mn) and deposits with related parties of 302 mn (2006: 627 mn). The Allianz Group received no deposits on terms other than those available in the normal course of banking operations.

### 43 Derivative financial instruments

Derivatives derive their fair values from one or more underlying assets or specified reference values.

Examples of derivatives include contracts for future delivery in the form of futures or forwards, options on shares or indices, interest rate options such as caps and floors, and swaps relating to both interest rates and non-interest rate markets. The latter include agreements to exchange previously defined assets or payment series.

Derivatives used by individual subsidiaries in the Allianz Group comply with the relevant supervisory regulations and the Allianz Group's own internal guidelines. The Allianz Group's investment and monitoring rules exceed regulations imposed by supervisory authorities. In addition to local management supervision, comprehensive financial and risk management systems are in force across the Allianz Group. Risk management is an integral part of the Allianz Group's controlling process that includes identifying, measuring, aggregating and managing risks. Risk management objectives are implemented at both the Allianz Group level and by the local operational units. The use of derivatives is one key strategy used by the Allianz Group to manage its market and investment risks.

Insurance subsidiaries in the Allianz Group use derivatives to manage the risk exposures in their investment portfolios based on general thresholds and targets. The most important purpose of these instruments is hedging against adverse market movements for selected securities or for parts of a portfolio. Specifically, the Allianz Group selectively uses derivative financial instruments such as swaps, options and forwards to hedge against changes in prices or interest rates in their investment portfolio.

Within the Allianz Group's banking business, derivatives are used both for trading purposes and to hedge against movements in interest rates, currency rates and other price risks of the Allianz Group's investments, loans, deposit liabilities and other interest-sensitive assets and liabilities.

Market and counterparty risks arising from the use of derivative financial instruments are subject to

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

control procedures. Credit risks related to counterparties are assessed by calculating gross replacement values. Market risks are monitored by means of up-to-date value-at-risk calculations and stress tests and limited by specific stop-loss limits.

The counterparty settlement risk is virtually excluded in the case of exchange-traded products, as these are standardized products. By contrast, over-the-counter (OTC) products, which are individually traded contracts, carry a theoretical credit risk amounting to the replacement value. The Allianz Group therefore closely monitors the credit rating of counterparties for OTC derivatives. To reduce the counterparty risk from trading activities, so-called cross-product netting master agreements with the business partners are established. In the case of a defaulting counterparty, netting makes it possible to offset claims and liabilities not yet due.

**Property-Casualty, Life/Health and Corporate Segments**

As of December 31,	2007						2006			
	Maturity by			Notional principal amounts	Positive fair values	Negative fair values	Notional principal amounts	Positive fair values	Negative fair values	
	Up to 1 year	1 to 5 years	Over 5 years							
	mn	mn	mn	mn	mn	mn	mn	mn	mn	
<b>Interest rate contracts, consisting of:</b>										
<b>OTC</b>										
Forwards	11,177	1,884		13,061	10	(370)	5,057	69	(163)	
Swaps	2,132	16,066	13,734	31,932	160	(87)	14,254	171	(89)	
Swaptions	340	580		920	46	(17)	1,037	8	(11)	
Caps	621	7,524	10	8,155		(50)	14,403		(83)	
Floors			106	106						
Options	13			13			2			
<b>Exchange traded</b>										
Forwards							295		(3)	
Futures	10,966	4,754		15,720	67	(62)	33,211	35	(39)	
Options	21			21			1,417		(3)	
<b>Subtotal</b>	<b>25,270</b>	<b>30,808</b>	<b>13,850</b>	<b>69,928</b>	<b>283</b>	<b>(586)</b>	<b>69,676</b>	<b>283</b>	<b>(391)</b>	
<b>Equity index contracts, consisting of:</b>										
<b>OTC</b>										
Forwards	4,295	1,556		5,851	39	(2,151)	5,996	316	(1,178)	
Swaps	146	339		485	12	(19)	295			
Floors	5			5	5		3	3		
Options <sup>1)</sup>	59,476	1,851	55	61,382	1,029	(4,493)	78,365	1,242	(4,554)	
Warrants			13	13	13					
<b>Exchange traded</b>										
Futures	8,520			8,520	24	(97)	9,820	2	(42)	
Options		1	2	3		(1)	692		(2)	
Forwards	450			450		(428)	1,262		(752)	
Warrants		1		1	3		1	4		
<b>Subtotal</b>	<b>72,892</b>	<b>3,748</b>	<b>70</b>	<b>76,710</b>	<b>1,125</b>	<b>(7,189)</b>	<b>96,434</b>	<b>1,567</b>	<b>(6,528)</b>	
<b>Foreign exchange contracts, consisting of:</b>										
<b>OTC</b>										



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Forwards	6,001	25		6,026	61	(32)	5,222	965	(957)
Swaps		245	27	272	10	(21)	282	13	(11)
Options	71			71	2	(10)			
<b>Subtotal</b>	<b>6,072</b>	<b>270</b>	<b>27</b>	<b>6,369</b>	<b>73</b>	<b>(63)</b>	<b>5,504</b>	<b>978</b>	<b>(968)</b>
<b>Credit contracts, consisting of:</b>									
<b>OTC</b>									
Options							100		(3)
Swaps	242	1,112	582	1,936	6	(7)	1,138	2	(8)
<b>Exchange traded</b>									
Swaps		257		257	3		273	2	
<b>Subtotal</b>	<b>242</b>	<b>1,369</b>	<b>582</b>	<b>2,193</b>	<b>9</b>	<b>(7)</b>	<b>1,511</b>	<b>4</b>	<b>(11)</b>
<b>Total</b>	<b>104,476</b>	<b>36,195</b>	<b>14,529</b>	<b>155,200</b>	<b>1,490</b>	<b>(7,845)</b>	<b>173,125</b>	<b>2,832</b>	<b>(7,898)</b>

<sup>1)</sup> As of December 31, 2007, includes embedded derivatives related to equity indexed annuities with negative fair values of 4,327 mn (2006: 4,199 mn).

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****Banking and Asset Management Segments**

As of December 31,	2007			Notional principal amounts mn	Positive fair values mn	Negative fair values mn	Notional principal amounts mn	2006	
	Maturity by notional amount Up to 1 year mn	1-5 years mn	Over 5 years mn					Positive fair values mn	Negative fair values mn
<b>Interest rate contracts, consisting of:</b>									
<b>OTC</b>									
Forwards	53,445	4,706		58,151	43	(33)	122,708	37	(30)
Swaps	1,049,672	1,171,006	1,254,247	3,474,925	43,098	(41,487)	3,364,548	41,870	(40,669)
Swaptions	16,416	29,209	52,617	98,242	750	(1,928)	92,938	858	(2,253)
Caps	11,401	34,707	10,874	56,982	200	(300)	61,775	172	(191)
Floors	5,909	17,278	4,575	27,762	147	(119)	41,442	203	(144)
Options	102	454	532	1,088	35	(20)	2,225	41	(32)
Other	3,724	1,107	5,339	10,170	819	(579)	12,199	2,316	(1,388)
<b>Exchange traded</b>									
Futures	89,404	20,876	29	110,309	1	(1)	116,164	7	(5)
Options	458,934	366		459,300	1,432	(1,254)	29,909	1,390	(915)
<b>Subtotal</b>	<b>1,689,007</b>	<b>1,279,709</b>	<b>1,328,213</b>	<b>4,296,929</b>	<b>46,525</b>	<b>(45,721)</b>	<b>3,843,908</b>	<b>46,894</b>	<b>(45,627)</b>
<b>Equity index contracts, consisting of:</b>									
<b>OTC</b>									
Swaps	15,584	8,119	4,506	28,209	1,042	(1,246)	42,029	1,059	(977)
Options	104,037	84,067	9,151	197,255	11,080	(12,033)	194,791	10,668	(11,091)
Other	6	4	15	25	2	(117)	948	5	(47)
<b>Exchange traded</b>									
Futures	8,663	43		8,706			9,160		(10)
Options	76,888	63,107	4,167	144,162	6,197	(5,948)	93,683	4,705	(3,911)
<b>Subtotal</b>	<b>205,178</b>	<b>155,340</b>	<b>17,839</b>	<b>378,357</b>	<b>18,321</b>	<b>(19,344)</b>	<b>340,611</b>	<b>16,437</b>	<b>(16,036)</b>
<b>Foreign exchange contracts, consisting of:</b>									
<b>OTC</b>									
Forwards	473,173	17,358	478	491,009	6,358	(6,139)	374,725	4,888	(4,900)
Swaps	24,579	44,794	24,042	93,415	4,128	(3,203)	95,563	3,588	(3,222)
Options	238,872	30,696	3,990	273,558	2,978	(3,165)	215,826	1,540	(1,755)
Other	39			39					
<b>Exchange traded</b>									
Futures	2,895	1,410		4,305	21	(15)	1,773	3	(5)
Options	1,082	118		1,200	13	(4)	722	4	(1)
<b>Subtotal</b>	<b>740,640</b>	<b>94,376</b>	<b>28,510</b>	<b>863,526</b>	<b>13,498</b>	<b>(12,526)</b>	<b>688,609</b>	<b>10,023</b>	<b>(9,883)</b>
<b>Credit contracts, consisting of:</b>									
<b>OTC</b>									
Credit default swaps	56,977	831,150	252,400	1,140,527	11,525	(10,993)	895,412	5,313	(5,025)
Total return swaps	6,850	4,776	1,253	12,879	430	(857)	11,519	937	(1,440)
<b>Subtotal</b>	<b>63,827</b>	<b>835,926</b>	<b>253,653</b>	<b>1,153,406</b>	<b>11,955</b>	<b>(11,850)</b>	<b>906,931</b>	<b>6,250</b>	<b>(6,465)</b>
<b>Other contracts, consisting of:</b>									
<b>OTC</b>									
Precious metals	11,830	3,214		15,044	736	(640)	11,890	440	(417)

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Options	1,188	2,562	182	3,932	554	(583)	24	(1)
Other	68		87	155		(25)	7,618	(108)
<b>Exchange traded</b>								
Futures	1,738	459		2,197			1,938	1
<b>Subtotal</b>	<b>14,824</b>	<b>6,235</b>	<b>269</b>	<b>21,328</b>	<b>1,290</b>	<b>(1,248)</b>	<b>21,470</b>	<b>(526)</b>
<b>Total</b>	<b>2,713,476</b>	<b>2,371,586</b>	<b>1,628,484</b>	<b>6,713,546</b>	<b>91,589</b>	<b>(90,689)</b>	<b>5,801,529</b>	<b>80,171 (78,537)</b>

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)*****Derivative financial instruments used in accounting hedges***

The Allianz Group principally uses fair value hedging. Important hedging instruments are interest rate swaps, interest rate forwards, currency swaps and currency forwards. Hedging instruments may be implemented for individual transactions (micro hedge) or for a portfolio of similar assets or liabilities (portfolio hedge).

***Fair value hedges***

The interest rate swaps used by the Banking segment in fair value hedges of the interest rate risk of certificated and subordinated liabilities had a total net fair value as of December 31, 2007 of 176 mn (2006: 247 mn). Thereof, interest rate swaps with a positive fair value of 241 mn (2006: 305 mn) are recorded in the Allianz Group's consolidated balance sheet in other assets, and interest rate swaps with a negative fair value of 65 mn (2006: 58 mn) are recorded in other liabilities. During the year ended December 31, 2007, the fair value of the interest rate swaps decreased by 91 mn (2006: 184 mn), whereas the certificated and subordinated liabilities hedged increased in fair value by 84 mn (2006: 187 mn), resulting in a net ineffectiveness of the hedge of (7) mn (2006: 3 mn) that is recognized in the Allianz Group's consolidated income statement as income (expense) for financial assets and liabilities held for trading. For detailed information about certificated and subordinated liabilities, see Note 21 and Note 22, respectively.

The Property-Casualty and the Life/Health segments use fair value hedges to hedge forward sales of shares. The financial instruments used in the fair value hedges had a total fair value of (2,050) mn (2006: (67) mn) as of December 31, 2007.

Additionally the Allianz Group uses fair value hedges to protect against the change in the fair value of financial assets due to movements in interest rates or exchange rate. The derivative financial instruments used for all fair value hedges of the Allianz Group had a total positive fair value as of December 31, 2007 of 168 mn (2006: negative fair value of 388 mn).

For the year ended December 31, 2007, the Allianz Group recognised for fair value hedges a net loss of 462 mn (2006: 687 mn; 2005: 359 mn) on the hedging instrument and a net gain of 494 mn (2006: 698 mn; 2005: 400 mn) on the hedged item attributable to the hedged risk.

***Cash flow hedges***

During the year ended December 31, 2007, cash flow hedges were used to hedge variable cash flows exposed to interest rate fluctuations. As of December 31, 2007, the interest rate swaps utilized had a negative fair value of 2 mn (2006: 55 mn); other reserves in shareholders' equity increased by 35 mn (2006: 1 mn). Ineffectiveness of the cash flow hedges led to net realized losses of 1 mn in 2007 (2006: 2 mn).

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The majority of the cash flow hedges originate from the Banking Segment. The cash flows of variable interest rate loans (hedge item) are hedged with interest rate swaps. The interest payments of the loans are based on the Libor and mature in June/July 2010. At the time of the interest payment the effective portion of the hedge, depending on the reference interest rate at that time, is recognised in the consolidated income statements.

### *Hedge of net investment in foreign operations*

As of December 31, 2002, foreign exchange hedging transactions in the form of foreign currency forwards with a total fair value of 107 mn were outstanding with respect to hedges of currency risks related to a net investment in a foreign entity. This hedging strategy was terminated in the second quarter of 2003. Total unrealized gains of 182 mn related to this hedging strategy remain in other reserves.

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****44 Fair value of financial instruments**

The following table presents a comparison of the carrying amount and the fair value of the Allianz Group's classes of financial instruments:

As of December 31,	2007		2006	
	Carrying amount mn	Fair Value mn	Carrying amount mn	Fair Value mn
<b>Financial assets</b>				
Cash and cash equivalents	31,337	31,337	33,031	33,031
Financial assets held for trading	163,541	163,541	180,105	180,105
Financial assets designated at fair value through income	21,920	21,920	18,887	18,887
Available-for-sale investments	268,001	268,001	277,898	277,898
Held-to-maturity investments	4,659	4,705	4,748	4,912
Loans and advances to banks and customers	396,702	394,741	423,765	425,527
Financial assets for unit linked contracts	66,060	66,060	61,864	61,864
Derivative financial instruments and firm commitments included in other assets	344	344	463	463
<b>Financial liabilities</b>				
Financial liabilities held for trading	124,083	124,083	120,885	120,885
Financial liabilities designated at fair value through income	1,970	1,970	937	937
Liabilities to banks and customers	336,494	335,394	376,565	376,765
Investment contracts with policyholders	90,404	90,404	87,108	87,267
Financial liabilities for unit linked contracts	66,060	66,060	61,864	61,864
Derivative financial instruments and firm commitments included in other liabilities	2,210	2,210	907	907
Financial liabilities for puttable equity instruments	4,162	4,162	3,750	3,750
Certificated liabilities, participation certificates and subordinated liabilities	56,894	57,961	71,284	73,212

The fair value of a financial instrument is defined as the amount for which a financial asset could be exchanged, or a financial liability settled, between knowledgeable, willing parties in an arm's length transaction. Whenever possible the fair value is determined using the market prices available in active markets. If there is no quoted market price available, valuation techniques are used which are based on market prices of comparable instruments or parameters from comparable active markets (market observable inputs). If no observable market inputs are available valuation models are used (non-market observable inputs).

**Financial assets*****Cash and cash equivalents***

Cash and cash equivalents comprises cash and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

*Financial assets held for trading*

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative (not in a qualifying hedge relationship). Held for trading financial assets are initially recognized at fair value with transaction costs being recognized in profit or loss. Subsequently they are measured at fair value. Gains and losses on held for trading financial assets are recognized in profit or loss as they arise.

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)*****Financial assets designated as at fair value through income***

Financial assets that the Group designates on initial recognition as being at fair value through income are recognized at fair value, with transaction costs being recognized in income and are subsequently measured at fair value. Gains and losses on financial assets that are designated as at fair value through income are recognized in profit or loss as they arise. Financial assets may be designated as at fair value through income only if such designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; or (b) applies to a group of financial assets, financial liabilities or both that the Group manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract. Fair value designation significantly reduces the measurement inconsistency that would arise if these assets were classified as available-for-sale.

***Available-for-sale investments***

Available-for-sale investments are financial assets that are designated as available-for-sale on initial recognition or are not classified as held-to-maturity, held for trading, designated as at fair value through income, or loans and receivables. Available-for-sale financial assets are initially recognized at fair value plus directly related transaction costs. They are subsequently measured at fair value. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost and classified as available-for-sale financial assets. Impairment losses and exchange differences resulting from retranslating the amortized cost of currency monetary available-for-sale financial assets are recognized in profit or loss together with interest calculated using the effective interest method. Other changes in the fair value of available-for-sale financial assets are reported in a separate component of shareholders' equity until disposal, when the cumulative gain or loss is recognized in profit or loss.

***Held-to-maturity investments***

A financial asset is classified as a held-to-maturity investment only if it has fixed or determinable payments, a fixed maturity and the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are initially recognized at fair value plus directly related transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment losses.

***Loans and advances to banks and customers***

Non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans, except for those that are classified as available-for-sale or as held for trading, or are designated as at fair value through income. Loans are initially recognized at fair value plus directly related transaction costs. They are subsequently measured at amortized cost using the effective interest method less any impairment losses.

***Financial assets for unit linked contracts***



The fair values of financial assets for unit linked contracts were determined using the market value of the underlying investment.

*Derivative financial instruments and firm commitments included in other assets and other liabilities*

The fair value of a derivative financial instrument is derived from the value of the underlying assets and other market parameters. Exchange-traded derivative financial instruments are valued using the fair-value method, and the fair value is based on publicly quoted market prices. Valuation models established in financial markets (such as present value models or option pricing models) are used to value OTC-traded derivatives. In addition to interest rate curves and volatilities, these models also take into account market and counterparty risks. Fair value represents the capital required to settle in full all the future rights and obligations arising from the financial contract.

**Financial liabilities**

*Financial liabilities held for trading*

On initial recognition a financial liability is classified as held for trading if it is incurred principally for the purpose of selling in the near term,

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or is a derivative (not in a qualifying hedge relationship). Held for trading financial liabilities are recognized at fair value with transaction costs being recognized in profit or loss. Subsequently they are measured at fair value. Gains and losses are recognized in profit or loss as they arise.

***Financial liabilities designated as at fair value through income***

Financial liabilities that the Group designates on initial recognition as being at fair value through income are recognized at fair value, with transaction costs being recognized in profit or loss, and are subsequently measured at fair value. Gains and losses on financial liabilities that are designated as at fair value through income are recognized in profit or loss as they arise. Financial liabilities may be designated as at fair value through income only if such designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; or (b) applies to a group of financial assets, financial liabilities or both that the Group manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract.

***Liabilities to banks and customers***

Financial liabilities due to banks and customers which are not held for trading, not designated as at fair value through income, not financial guarantee contracts, not commitments to provide a loan at a below-market interest rate and not designated as hedged items are measured at amortized cost using the effective interest method.

***Investment contracts with policyholders***

Fair values for investment and annuity contracts are determined using the cash surrender values of policyholders' and contract holders' accounts.

***Financial liabilities for unit linked contracts***

Fair values of financial liabilities for unit linked contracts are equal to the fair value of the financial assets for unit linked contracts.

***Financial liabilities for puttable equity instruments***

A puttable equity instrument is a financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset. IAS 32 classifies any puttable instrument as a financial instrument.

*Certificated liabilities, participation certificates and subordinated liabilities*

The fair value of bonds and loans payable is determined by discounting future cash flows to present value at market rates for similar loans and other borrowings.

*Day one profit*

During the year ended December 31, 2007 the Allianz Group entered into transactions, where the fair value of financial instruments is determined using valuation techniques for which not all inputs are market observable rates or prices. The difference between transaction price and the model fair value is called day one profit.

The following table shows the reconciliation of day one profit and loss for the years ended December 31, 2007, 2006 and 2005:

	2007	2006	2005
	mn	mn	mn
<b>Day one profit as of January 1,</b>	<b>42</b>	<b>42</b>	<b>68</b>
Additions from new transactions	2	22	11
Releases to income statements	(16)	(22)	(37)
<b>Day one profit as of December 31,</b>	<b>28</b>	<b>42</b>	<b>42</b>

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

**45 Related party transactions**

Allianz Group companies maintain various types of ordinary course business relations (particularly in the area of insurance, banking and asset management) with related enterprises. In particular, the business relations with associated companies, which are active in the insurance business, take on various forms and may also include special service, computing, reinsurance, costsharing and asset management agreements, whose terms are deemed appropriate by management. Similar relationships may exist with pension funds, foundations, joint ventures and companies, which provide services to Allianz Group companies.

***Schering Disposal***

In June 2006, the Allianz Group sold its 10.6% shareholding in Schering AG for approximately 1.8 bn to Dritte BV GmbH, a 100% subsidiary of Bayer AG. Following this sale, Bayer AG acquired control of Schering AG. One member of the Board of Management of Allianz SE is a member of the Supervisory Board of Bayer AG, but this individual did not participate in the meeting of the Supervisory Board of Bayer AG that approved the acquisition of Schering AG. In addition, at the time of the transaction, the Chairman of the Supervisory Board of Bayer AG was also a member of Allianz's Supervisory Board but was not involved in Allianz SE's decision to sell its interest in Schering AG to Bayer AG, which occurred at the level of the Board of Management.

**46 Contingent liabilities, commitments, guarantees, and assets pledged and collateral**

***Contingent liabilities***

***Litigation***

Allianz Group companies are involved in legal, regulatory and arbitration proceedings in Germany and a number of foreign jurisdictions, including the United States, involving claims by and against them, which arise in the ordinary course of their businesses, including in connection with their activities as insurance, banking and asset management companies, employers, investors and taxpayers. It is not feasible to predict or determine the ultimate outcome of the pending or threatened proceedings. Management does not believe that the outcome of these proceedings, including those discussed below, will have a material adverse effect on the financial position or results of operations of Allianz Group, after consideration of any applicable reserves.

In March 2005, Allianz Versicherungs-AG, among other German insurance companies, was fined by the German Federal Cartel Office ( Bundeskartellamt ) for alleged coordinated behaviour to achieve premium increases in parts of the commercial and industrial insurance business and subsequently filed an appeal against this decision. In August 2007, Allianz Versicherungs-AG withdrew its appeal and paid the fully reserved fine, which is of an immaterial amount for the Allianz Group.

On November 5, 2001, a lawsuit, *Silverstein v. Swiss Re International Business Insurance Company Ltd.*, was filed in the United States District Court for the Southern District of New York against certain insurers and reinsurers, including a subsidiary of Allianz which is now named Allianz Global Risks US Insurance Company ( AGR US ). The complaint sought a determination that the terrorist attack of September 11, 2001 on the World Trade Center constituted two separate occurrences under the alleged terms of various coverages. Allianz SE was indirectly concerned by this lawsuit as reinsurer of AGR US. In connection with the terrorist attack of September 11, 2001, we recorded net claims expense of approximately 1.5 bn in 2001 for the Allianz Group on the basis of one occurrence. On October 18, 2006, the United States Court of Appeals for the Second Circuit of New York affirmed an earlier lower court decision in 2004 that had determined that the World Trade Center attack constituted two occurrences under the alleged terms of various coverages. Following this decision, we determined that no additional provisions on a net basis were necessary because additional liabilities arising from the decision were offset by positive developments in settling WTC claims and higher levels of reinsurance coverage due to Allianz under the two occurrence theory. On May 23, 2007, following a court-ordered mediation, AGR US reached a settlement with Silverstein Properties regarding the disputed insurance claims. The settlement amount is within our set case reserve and secured by letters of credit from SCOR, which is a

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reinsurer of AGR US for the relevant insurance policy. On May 24, 2007, SCOR announced that it considers the settlement agreed between AGR US and Silverstein Properties to not respect the terms and conditions of the Certificate of Reinsurance between SCOR and AGR US and referred the case to arbitration as contemplated under the Certificate of Reinsurance. The arbitration proceeding commenced in October 2007 and discovery is ongoing. We do not expect any material negative financial impact for Allianz from such arbitration.

On May 24, 2002, pursuant to a statutory squeeze-out procedure, the general meeting of Dresdner Bank AG resolved to transfer shares from its minority shareholders to Allianz as principal shareholder in return for payment of a cash settlement amounting to 51.50 per share. The amount of the cash settlement was established by Allianz SE on the basis of an expert opinion, and its adequacy was confirmed by a court appointed auditor. Some of the former minority shareholders applied for a court review of the appropriate amount of the cash settlement in a mediation procedure ( Spruchverfahren ), which is pending with the district court ( Landgericht ) of Frankfurt. We believe that a claim to increase the cash settlement does not exist. In the event that the court were to determine a higher amount as an appropriate cash settlement, this would affect all of the approximately 16 mn shares that were transferred to Allianz.

Allianz Global Investors of America L.P. and certain of its subsidiaries have been named as defendants in multiple civil US lawsuits commenced as putative class actions and other proceedings related to matters involving market timing and revenue sharing in the mutual fund industry. The consolidated lawsuits concerning revenue sharing allegations were dismissed by the court on September 18, 2007. The plaintiffs have not appealed this decision, which is final now. The lawsuits relating to market timing have been consolidated into and transferred to a multi-district litigation proceeding in the US District Court for the District of Maryland. The potential outcomes cannot be predicted at this time, but management currently does not expect any material negative financial outcome from these matters for the Allianz Group.

In August 2005, two nearly identical class action complaints were filed in the Northern District of Illinois Eastern Division against Pacific Investment Management Company LLC ( PIMCO ), a subsidiary of Allianz Global Investors of America L.P. The complaints have been consolidated into a single case, and PIMCO Funds, a trust that is an open end investment company with multiple separate portfolios managed by PIMCO (the Trust ), was added as a defendant. Plaintiffs, who each purchased 10-year Treasury note futures contracts, claim that they suffered damages from an alleged shortage of such notes when PIMCO held both physical and futures positions in 10-year Treasury notes for its client accounts. The complaint makes the allegation that PIMCO violated the federal Commodity Exchange Act by engaging in market manipulation. On July 31, 2007, the court granted class certification of a class consisting of those persons who purchased futures contracts to offset short positions between May 9, 2005 and June 30, 2005. On October 17, 2007, PIMCO and the Trust each filed a motion for summary judgment. The briefing of those motions was completed on February 6, 2008, and the motions are pending. On December 10, 2007, the U.S. Court of Appeals for the Seventh Circuit granted the petition of PIMCO and the Trust for seeking leave to appeal the class certification ruling. The appeal has not yet been briefed or argued. The Allianz Group believes the complaint is without merit, but given the early stage of the court proceedings, the outcome of this action cannot be predicted at this time.

The U.S. Department of Justice has alleged False Claims Act violations related to Fireman's Fund Insurance Company's ( FFIC ) involvement as a provider of Federal crop insurance from 1997 to 2003. The majority of the allegations concern falsified documentation in FFIC's Lambert, Mississippi and Modesto, California field offices. Two former FFIC claims employees and one contract adjuster have pled guilty to assisting farmers in asserting fraudulent crop claims. In November 2006, the Department of Justice proposed to FFIC a resolution of all civil, criminal and administrative allegations in the form of an offer to settle. Discussions between FFIC and the Department of Justice are continuing and the outcome of this matter cannot be predicted at this stage.

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Three members of the Fireman's Fund group of companies in the United States, all subsidiaries of Allianz SE, are among the roughly 135 defendants named in a class action filed on August 1, 2005 in the United States District Court of New Jersey in connection with allegations relating to contingent commissions in the insurance industry. No class has been certified for this class action. The court dismissed with prejudice the federal court causes of action and dismissed without prejudice the state law causes of action. The plaintiffs have appealed the ruling. Unless the Court of Appeal reverses the lower court's decision, the case will remain dismissed. It is not possible to predict potential outcomes or assess any eventual exposure at this time.

Allianz Life Insurance Company of North America (Allianz Life) is named as a defendant in various putative class action lawsuits, mainly in Minnesota and California, in connection with the marketing and sale of deferred annuity products. Two lawsuits in Minnesota and three in California have been certified as class actions. The complaints allege that the defendant engaged in, among other practices, deceptive trade practices and misleading advertising in connection with the sale of such products, including, with the respect to one of the Minnesota lawsuits, the violation of the Minnesota Consumer Fraud and Deceptive and Unlawful Trade Practices Act. In November 2007, the court granted final approval of settlement in the other of the Minnesota cases. Another lawsuit that was filed by the Minnesota Attorney General in January 2007 against Allianz Life alleging unsuitable sales of deferred annuities to senior citizens was settled in October 2007. The still pending lawsuits have not yet progressed to a stage at which a potential outcome or exposure can be determined.

*Other contingencies*

Liquiditäts-Konsortialbank GmbH (LIKO) is a bank founded in 1974 in order to provide funding for German banks which experience liquidity problems. 30% of LIKO shares are held by Deutsche Bundesbank, while the remaining shares are being held by other German banks and banking associations. The shareholders have provided capital of 200 mn to fund LIKO; Dresdner Bank AG's participation is 12.1 mn (6.07%). Dresdner Bank AG is contingently liable to pay future assessments to LIKO up to 60.7 mn (6.07%). In addition, under clause 5(4) of the Articles of Association of LIKO, Dresdner Bank AG is committed to a secondary liability, which arises if other shareholders do not fulfill their commitments to pay their respective future assessments. In all cases of secondary liability, the financial status of the other shareholders involved is sound.

Dresdner Bank AG is a member of the German banks' Joint Fund for Securing Customer Deposits (Joint Fund), which covers liabilities to each respective creditor up to specified amounts. As a member of the Joint Fund, which is itself a shareholder in LIKO, Dresdner Bank AG is liable with the other members of the Joint Fund for additional capital contributions, with the maximum being the amount of Dresdner Bank AG's annual contribution. During the year ended December 31, 2007, the Joint Fund levied a contribution of 24 mn (2006: 22 mn). Under section 5 (10) of the Statutes of the Joint Fund for Securing Customer Deposits, the Allianz Group has undertaken to indemnify the Federal Association of German Banks (Bundesverband deutscher Banken e.V.) for any losses it may incur by reason of measures taken on behalf of any bank in which the Allianz Group owns a majority interest.

*Commitments**Loan commitments*

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The Allianz Group engages in various lending commitments to meet the financing needs of its customers. The following table represents the amounts at risk should customers draw fully on all facilities and then default, excluding the effect of any collateral. Since the majority of these commitments may expire without being drawn upon, the amounts shown may not be representative of actual liquidity requirements for such commitments.

<b>As of December 31,</b>	<b>2007</b>	<b>2006</b>
	<b>mn</b>	<b>mn</b>
Advances	34,065	35,149
Stand-by facilities	1,635	8,930
Guarantee credits	1,604	1,765
Discount credits	64	64
Mortgage loans/public-sector loans	527	662
<b>Total</b>	<b>37,895</b>	<b>46,570</b>

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Moreover the Allianz Group has extended a loan commitment of 245 mn to the purchaser of a real estate portfolio ( Charlotte ). Title transfer of the real estate as well as disbursement of the loan occurred on March 1, 2008.

*Leasing commitments*

The Allianz Group occupies property in many locations under various long-term operating leases and has entered into various operating leases covering the long-term use of data processing equipment and other office equipment.

As of December 31, 2007, the future minimum lease payments under non-cancelable operating leases were as follows:

	<b>2007</b>
	<b>mn</b>
2008	567
2009	408
2010	399
2011	343
2012	304
Thereafter	1,631
<b>Subtotal</b>	<b>3,652</b>
Subleases	(120)
<b>Total</b>	<b>3,532</b>

Rental expense net of sublease rental income received of 16 mn, for the year ending December 31, 2007, was 429 mn (2006: 518 mn; 2005: 315 mn).

*Purchase obligations*

The Allianz Group has commitments for mortgage loans and to buy multi-tranche loans of 4,489 mn (2006: 4,337 mn) as well as to invest in private equity funds totaling 2,045 mn (2006: 1,675 mn) as of December 31, 2007. As of December 31, 2007, commitments outstanding to purchase real estate used by third-parties and owned by the Allianz Group used for its own activities amounted to 219 mn (2006: 325 mn). As of December 31, 2007, commitments outstanding to purchase items of equipment amounted to 197 mn (2006: 112 mn). In addition, as of December 31, 2007, the Allianz Group has other commitments of 229 mn (2006: 290 mn) referring to maintenance, real estate development, sponsoring and purchase obligations.

*Other commitments*

Other principal commitments of the Allianz Group include the following:

For Allianz of America, Inc., Wilmington, a guarantee declaration was made for liabilities in connection with the acquisition of PIMCO Advisors L.P. Allianz originally acquired through its subsidiary Allianz of America Inc., Wilmington, a stake of 69.5% in PIMCO, whereby minority shareholders held the option to tender their share to Allianz of America Inc., Wilmington. On December 31, 2007 the stake of Pacific Life in PIMCO was still 2.0%, so that the liabilities towards Pacific Life as of December 31, 2007 amounted to US Dollar 0.3 bn.

Pursuant to para. 124 ff. of the German Insurance Supervision Act ( *Versicherungsaufsichtsgesetz VAG* ), a mandatory insurance guarantee scheme ( *Sicherungsfonds* ) for life insurers was implemented in Germany. Each member of the scheme is obliged to make to the scheme annual contributions as well as special payments under certain circumstances. The exact amount of obligations for each member is calculated according to the provisions of a Federal Regulation ( *Sicherungsfonds-Finanzierungs-Verordnung (Leben) SichLVFinV* ). As of December 31, 2007, the future liabilities of Allianz Lebensversicherungs-Aktiengesellschaft and its subsidiaries to the insurance guarantee scheme amount to annual contributions of 36 mn (2006: 47 mn) and an obligation for special payments of 85 mn (2006: 78 mn).

In December 2002, Protektor Lebensversicherungs-Aktien gesellschaft ( *Protektor* ), a life insurance company whose role is to protect policyholders of all German life insurers, was founded. Allianz Lebensversicherungs-Aktiengesellschaft and some of its subsidiaries are obligated to provide additional funds either to the mandatory insurance guarantee scheme or to Protektor, in the event that the funds provided to the mandatory insurance guarantee scheme are not sufficient to handle an insolvency case. Such obligation amounts to a maximum of 1% of the sum of the net underwriting

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

reserve with deduction of payments already provided to the insurance guarantee scheme. As of December 31, 2007, and under inclusion of the contributions to the mandatory insurance scheme mentioned above, the aggregate outstanding commitment of Allianz Lebensversicherungs-Aktiengesellschaft and its subsidiaries to the insurance guarantee scheme and to Protektor was 809 mn (2006: 751 mn).

**Guarantees**

A summary of guarantees issued by the Allianz Group by maturity and related collateral-held is as follows:

	Letters of credit and other financial guarantees mn	Market value guarantees mn	Indemni- fication contracts mn
<b>2007</b>			
Up to 1 year	10,956	59	
1-3 years	2,371	451	16
3-5 years	2,042	273	
Over 5 years	994	2,528	244
<b>Total</b>	<b>16,363</b>	<b>3,311</b>	<b>260</b>
Collateral	6,023		10
<b>2006</b>			
Up to 1 year	12,157	11	200
1-3 years	1,644	66	12
3-5 years	1,284	464	6
Over 5 years	1,498	2,419	268
<b>Total</b>	<b>16,583</b>	<b>2,960</b>	<b>486</b>
Collateral	7,537		4

*Letters of credit and other financial guarantees*

The majority of the Allianz Group's letters of credit and other financial guarantees are issued to customers through the normal course of business of the Allianz Group's Banking segment in return for fee and commission income, which is generally determined based on rates subject to the nominal amount of the guarantees and inherent credit risks. Once a guarantee has been drawn upon, any amount paid by the Allianz Group to third-parties is treated as a loan to the customer, and is, therefore, principally subject to collateral pledged by the customer as specified in the agreement.

*Market value guarantees*

Market value guarantees represent assurances given to customers of certain mutual funds and fund management agreements, under which initial investment values and/or minimum market performance of such investments are guaranteed at levels as defined under the relevant agreements. The obligation to perform under a market value guarantee is triggered when the market value of such investments does not meet the guaranteed targets at predefined dates.

The Allianz Group's Asset Management segment, in the ordinary course of business, issues market value guarantees in connection with investment trust accounts and mutual funds it manages. The levels of market value guarantees, as well as the maturity dates, differ based on the separate governing agreements of the respective investment trust accounts and mutual funds. As of December 31, 2007, the maximum potential amount of future payments of the market value guarantees was 1,956 mn (2006: 1,874 mn), which represents the total value guaranteed under the respective agreements including the obligation that would have been due had the investments matured on that date. The fair value of the investment trust accounts and mutual funds related to these guarantees as of December 31, 2007, was 2,151 mn (2006: 1,882 mn).

The Allianz Group's banking operations in France, in the ordinary course of business, issue market value and performance-at-maturity guarantees in connection with mutual funds offered by the Allianz Group's asset management operations in France. The levels of market value and performance-at-maturity guarantees, as well as the maturity dates, differ based on the underlying agreements. In most cases, the same mutual fund offers both a market value guarantee and a performance-at-maturity guarantee. Additionally, the performance-at-maturity guarantees are generally linked to the performance of an equity index or group of equity indexes. As of December 31, 2007, the maximum potential amount of future payments of the market value and performance-at-maturity guarantees was 1,355 mn (2006: 1,086 mn), which represents the total value guaranteed under the respective agreements. The fair value of the mutual funds

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

related to the market guarantees as of December 31, 2007, was approximately 1,316 mn (2006 1,033 mn). Such funds generally have a duration of five to eight years.

*Indemnification contracts*

Indemnification contracts are executed by the Allianz Group with various counterparties under existing service, lease or acquisition transactions. Such contracts may also be used to indemnify counterparties under various contingencies, such as changes in laws and regulations or litigation claims.

In connection with the sale of various of the Allianz Group's former private equity investments, subsidiaries of the Allianz Group provided indemnities to the respective buyers in the event that certain contractual warranties arise. The terms of the indemnity contracts cover ordinary contractual warranties, environmental costs and any potential tax liabilities the entity incurred while owned by the Allianz Group.

*Credit derivatives*

Credit derivatives consist of written credit default swaps, which require payment by the Allianz Group in the event of default of debt obligations, as well as written total return swaps, under which the Allianz Group guarantees the performance of the underlying assets. The notional principal amounts and fair values of the Allianz Group's credit derivative positions as of December 31, 2007 are provided in Note 43.

*Assets pledged and collateral*

The carrying amount of the assets pledged as collateral where the secured party does not have the right by contract or custom to sell or repledge the assets are as follows:

As of December 31,	2007	2006
	mn	mn
Investments	597	932
Loans and advances to banks and customers	1,663	1,432
Financial assets carried at fair value through income	4,302	10,637
<b>Total</b>	<b>6,562</b>	<b>13,001</b>

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As of December 31, 2007, the Allianz Group has received collateral, consisting of fixed income and equity securities, with a fair value of 212,894 mn (2006: 254,653 mn), which the Allianz Group has the right to sell or repledge. As of December 31, 2007, 156,096 mn (2006: 134,005 mn) related to collateral that the Allianz Group has received and sold or repledged.

As of December 31, 2007 the Allianz Group took possession of collateral it holds as security with a carrying amount of 174 mn. These financial assets will be systematically sold in the market.

### 47 Pensions and similar obligations

Retirement benefits in the Allianz Group are either in the form of defined benefit or defined contribution plans. Employees, including agents in Germany, are granted such retirement benefits by the various legal entities of the Allianz Group. In Germany, these are primarily defined benefit in nature.

For defined benefit plans, the participant is granted a defined benefit by the employer or via an external entity. In contrast to defined contribution arrangements, the future cost to the employer of a defined benefit plan is not known with certainty in advance.

#### *Defined benefit plans*

Amounts recognized in the Allianz Group's consolidated balance sheets for defined benefit plans are as follows:

As of December 31,	2007 mn	2006 mn
Prepaid benefit costs	(402)	(265)
Accrued benefit costs	4,184	4,120
<b>Net amount recognized</b>	<b>3,782</b>	<b>3,855</b>

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

The following table sets forth the changes in the projected benefit obligations, the changes in fair value of plan assets and the net amount recognized for the various Allianz Group defined benefit plans:

	2007 mn	2006 mn
<b>Change in projected benefit obligations</b>		
<b>Projected benefit obligations as of January 1,</b>	<b>17,280</b>	<b>17,159</b>
Service cost	437	472
Interest cost	785	725
Plan participants' contributions	67	61
Amendments	(23)	(48)
Actuarial (gains)/losses	(1,316)	(689)
Foreign currency translation adjustments	(266)	(43)
Benefits paid	(685)	(678)
Changes in the consolidated subsidiaries of the Allianz Group	(137)	321
<b>Projected benefit obligations as of December 31,<sup>1)</sup></b>	<b>16,142</b>	<b>17,280</b>
<b>Change in fair value of plan assets</b>		
<b>Fair value of plan assets as of January 1,</b>	<b>10,888</b>	<b>8,287</b>
Expected return on plan assets	577	557
Actuarial gains/(losses)	(331)	(90)
Employer contributions <sup>2)</sup>	342	2,154
Plan participants' contributions	67	61
Foreign currency translation adjustments	(229)	(30)
Benefits paid <sup>3)</sup>	(315)	(307)
Changes in the consolidated subsidiaries of the Allianz Group	(68)	256
<b>Fair value of plan assets as of December 31,</b>	<b>10,931</b>	<b>10,888</b>
<b>Funded status as of December 31,</b>	<b>5,211</b>	<b>6,392</b>
Unrecognized net actuarial losses	(1,444)	(2,556)
Unrecognized prior service costs	15	19
<b>Net amount recognized as of December 31,</b>	<b>3,782</b>	<b>3,855</b>

<sup>1)</sup> As of December 31, 2007, includes direct commitments of the consolidated subsidiaries of the Allianz Group of 4,953 mn (2006: 5,306 mn) and commitments through plan assets of 11,189 mn (2006: 11,974 mn).

<sup>2)</sup> During January 2006, the Dresdner Bank AG contributed 1,876 mn to a contractual trust arrangement for the defined benefit plans of the Dresdner Bank Group.

<sup>3)</sup> In addition, the Allianz Group paid 370 mn (2006: 371 mn) directly to plan participants.

As of December 31, 2007, post-retirement health benefits included in the projected benefit obligation and net amount recognized amounted to 109 mn (2006: 142 mn) and 138 mn (2006: 152 mn), respectively.

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The net periodic benefit cost related to defined benefit plans consists of the following components:

	2007 mn	2006 mn	2005 mn
Service cost	437	472	353
Interest cost	785	725	693
Expected return on plan assets	(577)	(557)	(411)
Amortization of prior service cost	(25)	(33)	(45)
Amortization of net actuarial loss	101	126	57
(Income)/expenses of plan curtailments or settlements	(65)	(36)	(6)
<b>Net periodic benefit cost</b>	<b>656</b>	<b>697</b>	<b>641</b>

During the year ended December 31, 2007, net periodic benefit cost includes net periodic benefit cost related to post-retirement health benefits of 4 mn (2006: 9 mn; 2005: 8 mn).

The actual return on plan assets amounted to 246 mn, 467 mn and 883 mn during the years ended December 31, 2007, 2006 and 2005.

A summary of amounts related to defined benefit plans is as follows:

	2007 mn	2006 mn
Projected benefit obligation	16,142	17,280
Fair value of plan assets	10,931	10,888
Funded status	5,211	6,392
<b>Actuarial (gains) / losses from experience adjustments on:</b>		
Plan obligations	(56)	8
Plan assets	331	90

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)***Assumptions*

The assumptions for the actuarial computation of the projected benefit obligation and the net periodic benefit cost depend on the circumstances in the particular country where the plan has been established.

The calculations are based on current actuarially calculated mortality estimates. Projected turnover depending on age and length of service have also been used, as well as internal Allianz Group retirement projections.

The weighted-average value of the assumptions for the Allianz Group's defined benefit plans used to determine projected benefit obligation:

<b>As of December 31,</b>	<b>2007</b>	<b>2006</b>
	%	%
Discount rate	5.5	4.6
Rate of compensation increase	2.6	2.6
Rate of pension increase	1.8	1.5

The discount rate assumptions reflect the market yields at the balance sheet date of high-quality fixed income investments corresponding to the currency and duration of the liabilities.

The weighted-average value of the assumptions used to determine net periodic benefit cost:

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	%	%	%
Discount rate	4.6	4.1	4.9
Expected long-term return on plan assets	5.3	5.3	5.8
Rate of compensation increase	2.6	2.7	2.7
Rate of pension increase	1.5	1.4	1.6

For the year ended December 31, 2007, the weighted expected long-term return on plan assets was derived from the following target allocation and expected long-term rate of return for each asset category:

<b>Target allocation</b>	<b>Weighted expected long- term rate of return</b>
%	%

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Equity securities	30.9	7.6
Debt securities	64.4	4.3
Real estate	4.2	3.5
Other	0.5	0.8
<b>Total</b>	<b>100.0</b>	<b>5.3</b>

The determination of the expected long-term rate of return for the individual asset categories is based on capital market surveys.

### *Plan assets*

The defined benefit plans' weighted-average asset allocations by asset category are as follows:

As of December 31,	2007 %	2006 %
Equity securities	28.1	28.3
Debt securities	65.1	66.6
Real estate	2.8	2.9
Other	4.0	2.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

The bulk of the plan assets are held by the Allianz Versorgungskasse VVaG, Munich. This entity insures effectively all employees of the German insurance operations.

Plan assets do not include equity securities issued by the Allianz Group or real estate used by the Allianz Group.

The Allianz Group plans to gradually increase its actual equity securities allocation for plan assets of defined benefit plans.

### *Contributions*

During the year ending December 31, 2008, the Allianz Group expects to contribute 303 mn to its defined benefit plans and pay 382 mn directly to plan participants of its defined benefit plans.

### *Defined contribution plans*

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Defined contribution plans are funded through independent pension funds or similar organizations. Contributions fixed in advance (e.g., based on salary) are paid to these institutions and the beneficiary's right to benefits exists against the pension fund. The employer has no obligation beyond payment of the contributions. The main pension fund is the Versicherungsverein des Bankgewerbes a.G., Berlin, which covers most of the banking employees in Germany.

During the year ended December 31, 2007, the Allianz Group recognized expense for defined

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

contribution plans of 282 mn (2006: 223 mn; 2005: 192 mn). Additionally, the Allianz Group paid contributions for state pension schemes of 398 mn (2006: 381 mn; 2005: 362 mn).

**48 Share-based compensation plans**

***Group Equity Incentives Plans***

The Group Equity Incentives Plans ( GEI ) of the Allianz Group support the orientation of senior management, in particular the Board of Management, toward the long-term increase of the value of the Allianz Group. The GEI include grants of stock appreciation rights and restricted stock units.

***Stock appreciation rights***

The stock appreciation rights granted to a plan participant obligate the Allianz Group to pay in cash the excess of the market price of an Allianz SE share over the reference price on the exercise date for each stock appreciation right granted. The excess is capped at 150% of the reference price. The reference price represents the average of the closing prices of an Allianz SE share for the ten trading days following the Financial Press Conference of Allianz SE in the year of issue. The stock appreciation rights vest after two years and expire after seven years. Upon vesting, the stock appreciation rights may be exercised by the plan participant if the following market conditions are attained:

during their contractual term, the market price of Allianz SE share has outperformed the Dow Jones Europe STOXX Price Index at least once for a period of five consecutive trading days; and

the Allianz SE market price is in excess of the reference price by at least 20% on the exercise date.

In addition, upon death of plan participants, a change of control of the Allianz Group or notice for operational reason the stock appreciation rights vest immediately and will be exercised by the company provided the above market conditions have been attained.

Upon the expiration date, any unexercised stock appreciation right will be exercised automatically if the above market conditions have been attained. The stock appreciation rights are forfeited if the plan participant ceases to be employed by the Allianz Group or if the exercise conditions are not attained by the expiration date.

The fair value of the stock appreciation rights at grant date is measured using a Cox-Rubinstein binomial tree option pricing model. Volatility was derived from observed historical market prices. In the absence of historical information regarding employee stock appreciation exercise

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patterns (all plans issued between 1999 and 2002 are significantly out of the money ), the expected life has been estimated to equal the term to maturity of the stock appreciation rights.

The following table provides the assumptions used in estimating the fair value of the stock appreciation rights at grant date:

	2007	2006	2005
Expected volatility	27.9%	28.0%	27.8%
Risk-free interest rate	3.9%	4.1%	3.1%
Expected dividend rate	3.0%	1.6%	1.9%
Share price	158.01	123.67	99.33
Expected life (years)	7	7	7

The stock appreciation rights are accounted for as cash settled plans by the Allianz Group. Therefore, the Allianz Group accrues the fair value of the stock appreciation rights as compensation expense over the vesting period. Upon vesting, any changes in the fair value of the unexercised stock appreciation rights are recognized as compensation expense. During the year ended December 31, 2007, the Allianz Group recognized compensation expense related to the unexercised stock appreciation rights of 18 mn (2006: 116 mn; 2005: 99 mn).

As of December 31, 2007, the Allianz Group recorded a liability, in other liabilities, for the unexercised stock appreciation rights of 182 mn (2006: 276 mn).

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)***Restricted stock units*

The restricted stock units granted to a plan participant obligate the Allianz Group to pay in cash the average market price of an Allianz SE share in the ten trading days preceding the vesting date or issue one Allianz SE share, or other equivalent equity instrument, for each restricted stock unit granted. The restricted stock units vest after five years. The Allianz Group will exercise the restricted stock units on the first stock exchange day after their vesting date. On the exercise date, the Allianz Group can choose the settlement method for each restricted stock unit.

In addition, upon death of plan participants, a change of control of the Allianz Group or notice for operational reason the restricted stock units vest immediately and will be exercised by the company.

The restricted stock units are notional stocks without dividend payments. The fair value is calculated by subtracting the net present value of expected future dividend payments until maturity of the restricted stock units from the prevailing share price as of the valuation date.

The following table provides the assumptions used in calculating the fair value of the restricted stock units at grant date:

	2007	2006	2005
Average interest rate	3.9%	3.8%	2.8%
Average dividend yield	3.2%	1.5%	1.9%

The restricted stock units are accounted for as cash settled plans as the Allianz Group intends to settle in cash. Therefore, the Allianz Group accrues the fair value of the restricted stock units as compensation expense over the vesting period. During the year ended December 31, 2007, the Allianz Group recognized compensation expense related to the nonvested restricted stock units of \$55 mn (2006: \$85 mn; 2005: \$49 mn).

As of December 31, 2007, the Allianz Group recorded a liability, in other liabilities, of \$209 mn (2006: \$157 mn) for the nonvested restricted stock units.

***Share-based compensation plans of subsidiaries of the Allianz Group****PIMCO LLC Class B Unit Purchase Plan*

When acquiring AGI L.P. during the year ended December 31, 2000, Allianz SE caused Pacific Investment Management Company LLC (PIMCO LLC) to enter into a Class B Purchase Plan (the Class B Plan) for the benefit of members of the management of PIMCO LLC. The plan

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participants of the Class B Plan have rights to a 15% priority claim on the adjusted operating profits of PIMCO LLC.

The Class B equity units issued under the Class B Plan vest over three to five years and are subject to repurchase by AGI L.P. upon death, disability or termination of the participant prior to vesting. As of January 1, 2005, AGI L.P. has the right to repurchase, and the participants have the right to cause AGI L.P. to repurchase, a portion of the vested Class B equity units each year. The call or put right is exercisable for the first time six months after the initial vesting of each grant. On the repurchase date, the repurchase price will be based upon the determined value of the Class B equity units being repurchased. As the Class B equity units are puttable by the plan participants, the Class B Plan is accounted for as a cash settled plan.

Therefore, the Allianz Group accrues the fair value of the Class B equity units as compensation expense over the vesting period. Upon vesting, any changes in the fair value of the Class B equity units are recognized as compensation expense. During the year ended December 31, 2007, the Allianz Group recognized compensation expense related to the Class B equity units of 362 mn (2006: 383 mn; 2005: 536 mn). In addition, the Allianz Group recognized expense related to the priority claim on the adjusted operating profits of PIMCO LLC of 126 mn (2006: 140 mn; 2005: 141 mn). During the year ended December 31, 2007, the Allianz Group called 22,155 Class B equity units. The total amount paid related to the call of the Class B equity units was 324 mn.

The total recognized compensation expense for Class B equity units that are outstanding is recorded as a liability in other liabilities. As of December 31, 2007, the Allianz Group recorded a liability for the Class B equity units of 1,350 mn (2006: 1,455 mn).

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)***Dresdner Kleinwort*

The Allianz Group awarded eligible employees of Dresdner Kleinwort ( DrK ) a promise to deliver Allianz SE shares on the vesting dates (hereafter nonvested shares ). In jurisdictions in which regulatory restrictions do not allow for delivery of shares, the awards are settled in cash. The awards vest in three installments in each of the three years following the initial award. The number of shares to be disbursed depends on beneficiaries leaving the company and the operating results for the following years. If the results are positive, additional shares will be distributed, whereas if the results are negative, the number of shares to be disbursed will be reduced. A portion of the awards is also subject to performance vesting conditions, which are based on the financial operating results of DrK. If all of the performance targets have not been met for the previous year, then immediately prior to vesting, some or all of the performance related shares for that year are forfeited.

In 2007 Dresdner Kleinwort granted 1,164,377 (2006: 1,405,646) nonvested share units in total. The weighted average fair value at grant date was 162.78 (2006: 135.40). Thereof 1,068,189 (2006: 1,303,856) non-vested share units are equity settled and 96,188 (2006: 101,791) share units are cash settled.

The shares settled by delivery of Allianz SE shares are accounted for as equity settled plans by the Allianz Group. Therefore, the Allianz Group measures the total compensation expense to be recognized for the equity settled shares based upon their fair value as of the grant date. The total compensation expense is recognized over the three year vesting period. The shares settled in cash are accounted for as cash settled plans by the Allianz Group. Therefore, the Allianz Group accrues the fair value of the cash settled shares as compensation expense over the vesting period. Upon vesting, any changes in the fair value of the unexercised nonvested shares settled in cash are recognized as compensation expense. During the year ended December 31, 2007, the Allianz Group recognized compensation expense related to the nonvested shares of 103 mn (2006: 135 mn). Thereof 95 mn (2006: 125 mn) were recognized for equity settled share options.

As of December 31, 2007, the Allianz Group recorded a liability for the nonvested cash settled shares of 13 mn (2006: 10 mn).

*AGF Group share option plan*

The AGF Group has awarded share options on AGF shares to eligible AGF Group executives and managers of subsidiaries, as well as to certain employees, whose performance justified grants. The primary objective of the share option plan is to encourage the retention of key personnel of AGF Group and to link their compensation to the performance of AGF Group.

During the year ended December 31, 2007, Allianz acquired all of the remaining AGF shares from minority shareholders in the context of the Tender Offer and Squeeze-out (see Note 4 regarding the AGF acquisition and disposal of minority interests). Under the terms of an agreement (the Liquidity Agreement ) between Allianz SE, AGF and the beneficiaries of the AGF share option plans 2003-2006 (AGF employees), Allianz has the right to purchase all AGF shares issued through the exercise of these AGF share option plans after the put period (where the beneficiaries have the right to sell to Allianz). The price payable by Allianz per AGF share is a cash consideration equal to the Allianz 20-day-average share price prior to the date the right to buy or to sell is exercised, multiplied by a ratio representing the consideration proposed in the Tender Offer for each AGF share ( 126.43) divided by the Allianz share price on January 16, 2007 ( 155.72). This ratio is subject to adjustments in case of transactions impacting Allianz or AGF share capital or net equity. The cash settlement is based upon the initial offer proposed for each AGF



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share during the Tender Offer. As of December 31, 2007 all shares issued under these plans were fully vested and exercisable.

Due to the change in settlement arising from the Liquidity Agreement, the Allianz Group accounts for the AGF share option plans as cash settled plans, as all AGF employees will receive cash for their AGF shares. Therefore, the Allianz Group recognizes any change in the fair value of the unexercised plans as compensation expense.

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The effects of these modifications that increased the total fair value of the AGF share option plan to the AGF employees were expensed at the date of modification and amounted to 15 mn in 2007. The modification of the settlement terms from an equity share to cash for vested options was recorded directly in equity, and amounted to 18 mn during 2007.

Originally, the AGF share options plans were granted independently from the remuneration plans of the Allianz Group. At their original grant dates, the AGF share options had an exercise price of at least 85% of the then prevailing market price. The original maximum term for the AGF share option plans granted was eight years.

The fair value of these options at grant date was calculated using a Cox-Rubinstein binomial tree option pricing model. Volatility was derived from observed historical market prices aligned with the expected life of the options. The expected life has been estimated to equal the term to maturity of the options.

The following table provides original fair values at grant date of the AGF share options and the assumptions used in calculating them:

	2006	2005
Fair value	24.87	17.40
<b>Assumptions:</b>		
Share price at grant date	110.20	77.95
Expected life (years)	5	8
Risk free interest rate	3.9%	2.7%
Expected volatility	28.0%	27.5%
Dividend yield	4.5%	4.0%

Due to the Liquidity Agreement which became effective on June 30, 2007, the parameters for the valuation of the AGF share option plans were changed.

The following table provides an overview about the underlying assumptions used for the valuation after taking into account the impact of the Liquidity Agreement:

	2006	2005
Fair value	48.38	64.73
<b>Assumptions:</b>		
Share price at modification date	172.95	172.95
Expected life (years)	6	5
Risk free interest rate	4.5%	4.5%
Expected volatility	28.0%	30.0%
Dividend yield	3.2%	3.1%

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During the year ended December 31, 2007, the Allianz Group recognized total compensation expenses related to the modified AGF share option plans of 15 mn. As of December 31, 2007, the Allianz Group recorded a liability for the AGF plans of 46 mn.

### *RAS Group Allianz SE share option plan (modified RAS Group share option plan 2005)*

The RAS Group awarded eligible members of senior management with share purchase options on RAS ordinary shares. The share options had a vesting period of 18 months to 2 years and a term of 6.5 to 7 years.

The share options allow for exercise at any time after the vesting period and before expiration, provided that:

on the date of exercise, the RAS share price is at least 20% higher than the average share price in January of the grant year (for share options granted during the year ended December 31, 2001, the hurdle is 10%), and

the performance of the RAS share in the year of grant exceeds the Milan Insurance Index in the same year.

The fair value of the options at grant date was measured using a trinomial tree option pricing model. Volatility was derived from observed historical market prices aligned with the expected life of the options. The expected life was estimated to be equal to the term to maturity of the options.

The following table provides the grant date fair value and the assumptions used in calculating their fair value:

Fair value	2005 1.91
<b>Assumptions:</b>	
Share price at grant date	17.32
Expected life (years)	7
Risk free interest rate	3.4%
Expected volatility	18.0%
Dividend yield	7.1%

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A summary of the number and weighted-average exercise price of the options outstanding and exercisable are as follows:

	Number of options	Weighted average exercise price
<b>Outstanding as of January 1, 2005</b>	<b>2,261,000</b>	<b>13.55</b>
Granted	1,200,000	17.09
Exercised	(2,041,000)	13.47
Forfeited	(467,000)	15.78
<b>Outstanding RAS share options as of December 31, 2005</b>	<b>953,000</b>	<b>17.09</b>
Modification	(953,000)	17.09

**Outstanding as of December 31, 2006****Exercisable as of December 31, 2006**

On the effective date of the merger between Allianz SE and RAS, the RAS share option plan was modified. The outstanding share options, which were granted in 2005, on the date of the merger were replaced with Allianz SE share options on the basis of 1 Allianz SE option for every 5.501 RAS share options outstanding. The outstanding RAS Group options of 953,000 were replaced by 173,241 Allianz SE options. The Allianz SE share options have the same service period of 2 years; however, the market conditions noted above were replaced with a performance condition, which was already achieved on the date of the modification.

During the year ended December 31, 2006, the Allianz Group recorded compensation expense of 1 mn (2005: 1 mn) related to these share options.

After modification the valuation model for the RAS Group Allianz SE share option plan remain unchanged. Nevertheless the underlying assumptions had to be adjusted. The following table provides the grant date fair value and the assumptions used in calculating their fair value

Fair value	<b>2006</b> 66.35
<b>Assumptions:</b>	
Share price on modification date	145.41
Expected life (years)	5
Risk free interest rate	3.9%
Expected volatility	30.5%
Dividend yield	1.5%

A summary of the number and weighted-average exercise price of the options outstanding and exercisable are as follows:

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
<b>Outstanding as of January 1,</b>	<b>173,241</b>	<b>93.99</b>		
Granted			173,241	93.99
Exercised				
Forfeited	(41,992)	84.51		
Expired				
<b>Outstanding as of December 31,</b>	<b>131,249</b>	<b>80.74</b>	<b>173,241</b>	<b>93.99</b>
<b>Exercisable as of December 31,</b>				

The aggregate intrinsic value of share options outstanding was 11 mn for the year ended December 31, 2007 (2006: 11 mn).

The options outstanding as of December 31, 2007 have an exercise price of 80.74 and a weighted average remaining contractual life of 4 years.

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The shares settled by delivery of Allianz SE shares are accounted for as equity settled plans by the RAS Group. Therefore, the RAS Group measures the total compensation expense to be recognized for the equity settled shares based upon their fair value as of the grant date. The total compensation expense is recognized over the vesting period.

During the year ended December 31, 2007, the Allianz Group recorded compensation expense of 4 mn (2006: 6 mn) related to these share options.

***Employee Stock purchase plans***

The Allianz Group offers Allianz SE shares in 24 countries to qualified employees at favorable conditions. The shares have a minimum holding period of one year to five years. During the year ended December 31, 2007, the number of shares sold to employees under these plans was 939,303 (2006: 929,509; 2005: 1,144,196). During the year ended December 31, 2007, the Allianz Group recognized as compensation expense, the difference between the market price (lowest quoted price of the Allianz SE stock at the official market in Germany on September 6, 2007) and the discounted price of the shares purchased by employees, of 30 mn (2006: 25 mn; 2005: 24 mn).

In addition, during the year ended December 31, 2006, the AGF Group offered AGF shares to qualified employees in France at favorable conditions. During the year ended December 31, 2006 the number of shares sold to employees under this plan was 651,012. During the year ended December 31, 2006 the compensation expense recorded was 12 mn. Due to the Tender Offer all AGF shares were purchased by Allianz SE.

***Other share option and shareholding plans***

The Allianz Group has other local share-based compensation plans, including share option and employee share purchase plans, none of which, individually or in the aggregate, are material to the consolidated financial statements. During the year ended December 31, 2007, the total expense, in the aggregate, recorded for these plans was 4 mn (2006: 3 mn; 2005: 4 mn).

**49 Restructuring plans**

As of December 31, 2007, the Allianz Group has provisions for restructuring resulting from a number of restructuring programs in various segments. These provisions for restructuring primarily include personnel costs, which result from severance payments for employee terminations, and contract termination costs, including those relating to the termination of lease contracts that will arise in connection with the implementation of the respective initiatives.



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Changes in the provisions for restructuring were:

	Allianz Deutschland AG mn	Dresdner Bank Group mn	Other mn	Total mn
<b>As of January 1, 2005</b>		<b>670</b>	<b>69</b>	<b>739</b>
New provisions		22	86	108
Additions to existing provisions		29	3	32
Release of provisions recognized in previous years		(48)	(2)	(50)
Release of provisions via payments		(288)	(68)	(356)
Release of provisions via transfers		(294)		(294)
Foreign currency translation adjustments		12		12
Other		(13)	8	(5)
<b>As of December 31, 2005</b>		<b>90</b>	<b>96</b>	<b>186</b>
<b>As of January 1, 2006</b>		<b>90</b>	<b>96</b>	<b>186</b>
New provisions	526	328	41	895
Additions to existing provisions		9	1	10
Release of provisions recognized in previous years		(15)	(5)	(20)
Release of provisions via payments	(2)	(13)	(83)	(98)
Release of provisions via transfers	(69)	(20)		(89)
Changes in the consolidated subsidiaries of the Allianz Group			4	4
Foreign currency translation adjustments			(1)	(1)
<b>As of December 31, 2006</b>	<b>455</b>	<b>379</b>	<b>53</b>	<b>887</b>
<b>As of January 1, 2007</b>	<b>455</b>	<b>379</b>	<b>53</b>	<b>887</b>
New provisions		8	145	153
Additions to existing provisions	22	19	4	45
Release of provisions recognized in previous years	(65)	(29)	(1)	(95)
Release of provisions via payments	(27)	(65)	(52)	(144)
Release of provisions via transfers	(159)	(140)		(299)
Foreign currency translation adjustments		(6)		(6)
<b>As of December 31, 2007</b>	<b>226</b>	<b>166</b>	<b>149</b>	<b>541</b>

The development of the restructuring provisions reflects the implementation status of the restructuring initiatives. Based on the specific IFRS guidance, restructuring provisions are recognized prior to when they qualify to be recognized under the guidance for other types of provisions. In order to reflect the timely implementation of the various restructuring initiatives, restructuring provisions, as far as they are already locked in, have been transferred to the provision type, which would have been used not having a restructuring initiative in place. This applies for each single contract. For personnel costs, at the time an employee has contractually agreed to leave Allianz Group by signing either an early retirement, a partial retirement (Altersteilzeit, which is a specific type of an early retirement program in Germany), or a termination arrangement the respective part of the restructuring provision has been transferred to provisions for employee expenses. In addition, provisions for vacant office spaces that result from restructuring initiatives have been transferred to other provisions after the offices have been completely vacated.

**Allianz Deutschland AG's provisions for restructuring**

In 2006, Allianz Deutschland AG announced a restructuring plan for the insurance business in Germany, which is expected to continue through 2008. The objective of the restructuring program is to make the insurance business more customer focused, operate more efficiently and achieve



growth.

During the year ended December 31, 2007, Allianz Deutschland AG recorded restructuring charges of (16) mn. This amount includes additions

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

to existing provisions, release of provisions recognized in previous years, and restructuring charges as reflected in the consolidated income statement. The reduction of staff within this program shall occur in consent with the employees. The plan includes a reduction of approximately 5,700 positions. Approximately 3,176 full time equivalent positions have already been terminated, a part of which are related to natural employee turnover and early retirement agreements (Altersteilzeit) that were agreed upon before the restructuring provision was recorded and are not part of the restructuring provision.

	<b>2007</b>
	<b>mn</b>
New provisions	
Additions to existing provisions	22
Release of provisions recognized in previous years	(65)
Restructuring charges directly reflected in the consolidated income statement	27
<b>Total restructuring charges during the year ended December 31, 2007</b>	<b>(16)</b>
Total restructuring charges incurred to date	510

A summary of the changes in the provisions for restructuring of the Allianz Deutschland AG during the year ended December 31, 2007 is:

	Provisions recorded during 2007							Provisions as of December 31, 2007 mn
	Provisions as of January 1, 2007 mn	New provisions mn	Additions to existing provisions mn	Release of provisions recognized in previous years mn	Release of provisions via cash payments mn	Release of provisions via transfer mn	Foreign currency translation adjustments mn	
<b>Program 2006</b>								
Personnel costs	353		18	(25)		(159)		187
Contract termination costs	102		4	(40)	(27)			39
Other								
<b>Total</b>	<b>455</b>		<b>22</b>	<b>(65)</b>	<b>(27)</b>	<b>(159)</b>		<b>226</b>

Allianz Deutschland AG recorded releases of provisions via transfers to other provision categories of 159 mn as of December 31, 2007.

***Dresdner Bank Group's provisions for restructuring***

Dresdner Bank Group supplemented its existing restructuring programs introduced since 2000 with the initiative Programs 2007. For these combined initiatives, Dresdner Bank Group has announced plans to eliminate an aggregate of approximately 19,650 positions. As of December 31, 2007, an aggregate of approximately 17,810 positions had been eliminated and approximately 550 additional employees had contractually agreed to leave Dresdner Bank Group under these initiatives.

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During the year ended December 31, 2007, Dresdner Bank Group recorded restructuring charges for all restructuring programs of \$51 mn. This amount includes new provisions, additions to existing provisions, release of provisions recognized in previous years, and restructuring charges as reflected in the consolidated income statement.

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

A summary of the restructuring charges related to Dresdner Bank Group that are reflected in the Allianz Group's consolidated income statement for the year ended December 31, 2007, by restructuring program is as follows:

	2007			
	Programs 2007 mn	New Dresdner Plus mn	Former Programs mn	Total mn
New provisions	8			8
Additions to existing provisions		19		19
Release of provisions recognized in previous years		(24)	(5)	(29)
Restructuring charges directly reflected in the consolidated income statement	40	9	4	53
<b>Total restructuring charges during the year ended December 31, 2007</b>	<b>48</b>	<b>4</b>	<b>(1)</b>	<b>51</b>
Total restructuring charges incurred to date	48	412	1,560	2,020

A summary of the existing provisions for restructuring related to the Dresdner Bank Group is as follows:

**Programs 2007**

During the year ended December 31, 2007, Dresdner Bank Group recorded restructuring charges of 48 mn for the announced restructuring initiative Programs 2007, which is in addition to and separately from the initiative New Dresdner Plus and the Former Programs.

As a result of the recent developments in the Credit Markets Dresdner Kleinwort, the Investment Banking Division (IB) of Dresdner Bank Group, decided to restructure parts of their Credit Business. This decision led to the exit of specific market segments and to the alignment of the product range to the current market environment within the respective Credit Business. Hereby were impacted the areas Credit Flow Trading, Exotic Credit Derivatives, and Debt Capital Markets as well as the respective support areas within the front-office.

Through the Credit Initiative and further restructuring initiatives within the Investment Banking Division (IB) the Dresdner Bank Group plans to reduce approximately 150 positions globally. Approximately 10 employees had been terminated and approximately 100 additional employees had contractually agreed to leave Dresdner Bank Group pursuant to Credit Initiative as of December 31, 2007.

**New Dresdner Plus and Former Programs**

During the year ended December 31, 2007, Dresdner Bank Group recorded combined restructuring charges of 3 mn for the announced restructuring initiative New Dresdner Plus and the Former Programs, which are in addition to and separately from the Programs 2007.

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Through the program New Dresdner Plus , Dresdner Bank Group plans to eliminate 2,480 positions. Approximately 1,000 employees had been terminated and approximately 300 additional employees had contractually agreed to leave Dresdner Bank Group pursuant to program New Dresdner Plus as of December 31, 2007.

Through the Former Programs , Dresdner Bank Group plans to eliminate approximately 17,020 positions. Approximately 16,800 employees had been terminated and approximately 150 additional employees had contractually agreed to leave Dresdner Bank Group pursuant to the Former Programs as of December 31, 2007.

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

A summary of the changes in the provisions for restructuring of the Dresdner Bank Group during the year ended December 31, 2007 is:

	Provisions recorded during 2007							Provisions as of December 31, 2007 mn
	Provisions as of January 1, 2007 mn	New provisions mn	Additions to existing provisions mn	Release of provisions recognized in previous years mn	Release of provisions via cash payments mn	Release of provisions via transfer mn	Foreign currency translation adjustments mn	
<b>Programs 2007</b>								
Personnel costs		8						8
Contract termination costs								
Other								
<b>Subtotal</b>		<b>8</b>						<b>8</b>
<b>New Dresdner Plus</b>								
Personnel costs	299		18	(17)	(47)	(114)	(5)	134
Contract termination costs	27		1	(7)	(1)	(5)	(1)	14
Other	2							2
<b>Subtotal</b>	<b>328</b>		<b>19</b>	<b>(24)</b>	<b>(48)</b>	<b>(119)</b>	<b>(6)</b>	<b>150</b>
<b>Former Programs</b>								
Personnel costs	44			(5)	(11)	(20)		8
Contract termination costs	2				(1)	(1)		
Other	5				(5)			
<b>Subtotal</b>	<b>51</b>			<b>(5)</b>	<b>(17)</b>	<b>(21)</b>		<b>8</b>
<b>Total</b>	<b>379</b>	<b>8</b>	<b>19</b>	<b>(29)</b>	<b>(65)</b>	<b>(140)</b>	<b>(6)</b>	<b>166</b>

Dresdner Bank Group recorded releases of provisions via transfers to other provision categories of 140 mn as of December 31, 2007.

**Other restructuring plans**

For 2007, amongst others the following restructuring plans were announced:

*Allianz S.p.A., Italy*

In 2007, the Boards of RAS, Lloyd Adriatico and AZ Subalpina announced a restructuring program for the integration of these three companies into Allianz S.p.A effective since October 1, 2007.

The objective is to reorganize its strategic and commercial direction by aligning the underwriting strategies, refocusing some lines of business in the insurance business, as well as in the asset management segment, unifying all the support functions leveraging on best practices. Further some activities will be relocated within Italian sites whereas other operations will be integrated into one single organization.

During the year ended December 31, 2007, Allianz S.p.A. together with its group companies recorded restructuring charges of 73 mn.

*Allianz Shared Infrastructure Service GmbH*

During 2007, Allianz Deutschland AG recorded another provision for restructuring of 42 mn. The reason for the restructuring program are outsourcing activities for the divisions Desktop, Network and Telecommunication Services of Allianz Shared Infrastructure Service GmbH (former Allianz Dresdner Informationssysteme GmbH), Munich

During the year ended December 31, 2007, Allianz Group recorded restructuring charges of 79 mn in total.

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****50 Earnings per share**

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share reflects the effect of potentially dilutive securities. As of December 31, 2007, 1,175,554 (2006: 1,175,554) participation certificates issued by Allianz SE were outstanding which can potentially be converted to 1,469,443 (2006: 1,469,443) Allianz shares (on a weighted basis: 1,469,443 (2006: 1,469,443) Allianz SE shares) and therefore have a dilutive effect.

The Allianz Group's share compensation plans with potentially dilutive securities of 1,321,100 (2006: 335,346) are included in the calculation of diluted earnings per share for the year ended December 31, 2007.

Furthermore 3,265,298 (2006: 4,868,560) common shares from trading in derivatives on own shares have been included in the calculation of diluted earnings per share for the year ended December 31, 2007.

**Reconciliation of basic and diluted earnings per share**

	2007 mn	2006 mn	2005 mn
<b>Numerator for basic earnings per share (net income)</b>	<b>7,966</b>	<b>7,021</b>	<b>4,380</b>
Effect of dilutive securities	(4)	(3)	
<b>Numerator for diluted earnings per share (net income after assumed conversion)</b>	<b>7,962</b>	<b>7,018</b>	<b>4,380</b>
<b>Denominator for basic earnings per share (weighted-average shares)</b>	<b>442,544,977</b>	<b>410,871,602</b>	<b>389,756,350</b>
Dilutive securities:			
Participation certificates	1,469,443	1,469,443	1,469,443
Warrants	962,547	737,847	743,179
Share-based compensation plans	1,321,100	335,346	493,229
Derivatives on own shares	3,265,298	4,868,560	807,859
Subtotal	7,018,388	7,411,196	3,513,710
<b>Denominator for diluted earnings per share (weighted-average shares after assumed conversion)</b>	<b>449,563,365</b>	<b>418,282,798</b>	<b>393,270,060</b>
Basic earnings per share	18.00	17.09	11.24
Diluted earnings per share	17.71	16.78	11.14



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During the year ended December 31, 2007, the weighted average number of shares does not include 1,130,838 (2006: 730,391; 2005: 2,389,193) treasury shares held by the Allianz Group.

### 51 Other Information

#### *Employee information*

As of December 31,	2007	2006
Germany	72,063	76,790
Other countries	109,144	89,715
<b>Total</b>	<b>181,207</b>	<b>166,505</b>
thereof undergoing training	4,332	3,955

The average total number of employees for the year ended December 31, 2007 was 176,257 people.

#### *Personnel expenses*

	2007	2006	2005
	mn	mn	mn
Salaries and wages	9,741	10,230	9,582
Social security contributions and employee assistance	1,666	1,731	1,628
Expenses for pensions and other post-retirement benefits	1,028	1,005	855
<b>Total</b>	<b>12,435</b>	<b>12,966</b>	<b>12,065</b>

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

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

On December 20, 2007, the Board of Management and the Supervisory Board of Allianz SE issued the Declaration of Compliance according to clause 161 AktG and made it available on a permanent basis to the shareholders on the company's website.

The Declaration of Compliance of the two publicly traded group companies Allianz Lebensversicherungs-Aktiengesellschaft and Oldenburgische Landesbank AG were issued in December 2007, respectively, and were made permanently available to the shareholders.

***Principal accountant fees and services***

For a summary of fees billed by the Allianz Group's principal auditors, see page 192 and 193. The information provided there is considered part of these consolidated financial statements.

***Compensation for the Board of Management***

As of December 31, 2007, the Board of Management had 11 (2006: 11) members.

Total compensation of the Board of Management for the year ended December 31, 2007 amounts to 26.5 mn (2006: 28.9 mn). Furthermore 102,950 (2006: 110,434) stock appreciation rights and 51,805 (2006: 66,280) restricted stock units with a total fair value at grant date of 12.3 mn (2006: 12.3 mn) were granted to the Board of Management for the year ended December 31, 2007.

Compensation to former members of the Board of Management and their beneficiaries totaled 5.0 mn (2006: 4.3 mn). Pension obligations to former members of the Board of Management and their beneficiaries are accrued in the amount of 49.0 mn (2006: 52.0 mn).

Total compensation to the Supervisory Board amounts to 1.6 mn (2006: 2.5 mn).

Board of Management and Supervisory Board compensation by individual is included in the Corporate Governance section of this Annual Report. The information provided there is considered part of these consolidated financial statements.

**52 Subsequent events**

***Disposal of tranche of properties to IVG Group***

In August 2007, the Allianz Group sold five held for use properties for 876 mn to IVG Group. The sale will be finalized in the first half of 2008. After the sale, the properties will be leased back and will continue to be used by the Allianz Group.

***Disposal of property portfolio to Whitehall Funds***

In December 2007 the Allianz Group closed a contract with Whitehall Funds to sell a property portfolio for 1.7 bn. The sale was finalized on March 1, 2008. No immediate gain was recognized on the sale due to the seller financing that the Allianz Group extended to the buyer.

***Allianz redeems remaining part of the BITES exchangeable bond***

On January 14, 2008, the Allianz Group announced its intention to redeem the remaining 35.7% of the BITES bond issued in February 2005 with shares of Munich Re. The number of Munich Re shares used for the redemption was based on the averages of the DAX index and the Munich Re share price during a 20-day reference period which started on January 22, 2008 and ended on February 18, 2008. The delivery of Munich Re shares took place on February 27, 2008. As a result of the redemption of the index-linked exchangeable bond, the Allianz Group's shareholding in Munich Re was reduced to under 2%.

***Allianz Deutschland AG announces squeeze-out on Allianz Lebensversicherungs-Aktiengesellschaft, Stuttgart ( Allianz Leben )***

On January 18, 2008 the Allianz Group's subsidiary Allianz Deutschland AG announced that it has signed contracts via an investment management company regarding the acquisition of further shares in Allianz Leben. Following this transaction, Allianz Deutschland AG's equity stake in Allianz Leben will increase to more than 95%. Allianz Leben intends to present a resolution regarding the squeeze-out procedure at its next Annual General Meeting.

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**Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

*Acquisition of minority interests in Allianz Global Investors of America L.P., Delaware*

In January 2008, the Allianz Group increased its interest in Allianz Global Investors of America L.P., Delaware by approximately 1.86%. The acquisition cost for the additional interest amounted to approximately 194 mn.

*Exercise of warrants*

On February 15, 2008, the remaining 2.2 mn warrants were exercised which the Allianz Group had issued in February 2005 as part of the All-in-One transaction. In conjunction with the exercise 2.2 mn new shares of Allianz SE resulting from conditional capital were issued leading to proceeds from this increased equity of 202 mn. The new shares are entitled to dividend as of the financial year 2008.

*Financial market turbulences*

The Allianz Group expects to experience further mark-downs in the first quarter of 2008 due to further deterioration of observable market prices and credit indexes.

*Net claims estimate from Emma winter storm in Europe*

The Allianz Group estimates net claims before taxes from the Emma winter storm in Europe in March 2007 of above 200 mn.

*Issue of 5% senior bond by Allianz Finance II B.V., Amsterdam*

On March 6, 2008 Allianz Finance II B.V., Amsterdam issued 1.5 bn of senior bonds, guaranteed by Allianz SE, under our debt issuance program. The bond has a coupon rate of 5% and its maturity is March 6, 2013.

*Dresdner Bank provides support to K2*

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On March 18, 2008, Dresdner Bank and K2 Corporation entered into an agreement through which Dresdner Bank will provide a support facility to the Structured Investment Vehicle, K2. The agreement, which consists of a U.S.\$1,500,000,000 committed revolving mezzanine credit facility and a backstop facility, follows the announcement by Dresdner Bank on February 21, 2008 that it intended to offer support to K2 .

The mezzanine credit facility provides K2 with immediate additional liquidity, allowing K2 to draw-down funds for terms up to the maturity date of its longest dated senior debt obligations. Under the terms of the backstop facility, Dresdner Bank has undertaken to provide to K2 firm prices at which it will purchase assets from K2 in the event that K2 is unable to obtain better prices for such assets on the open market. The aggregate of such prices provided by Dresdner Bank will at all times equate to an amount that ensures K2 has sufficient funds to repay its senior debt in full.

### *AGI of America LLC intends to call further PIMCO Class B Units*

Allianz Global Investors of America LLC intends to call 23,946 PIMCO Class B units on March 31, 2008 for U.S.\$555 mn.

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)****53 Selected subsidiaries and other holdings**

Operating Subsidiaries	Equity mn	% owned <sup>1)</sup>
<b>Germany</b>		
Allianz Capital Partners GmbH, Munich	0.03	100.0
Allianz Capital Partners Verwaltungs GmbH, Munich	685	100.0
Allianz Dresdner Bauspar AG, Bad Vilbel	99	100.0
Allianz Global Corporate & Specialty AG, Munich	778	100.0
Allianz Global Investors Advisory GmbH, Frankfurt/Main	3	100.0
Allianz Global Investors AG, Munich	2,592	100.0
Allianz Global Investors Europe GmbH, Munich	17	100.0
Allianz Global Investors Kapitalanlagegesellschaft mbH, Frankfurt/Main	139	100.0
Allianz Global Investors Produkt Solutions GmbH, Munich	0.1	100.0
Allianz Immobilien GmbH, Stuttgart	5	100.0
Allianz Lebensversicherungs-Aktiengesellschaft, Stuttgart	1,456	94.8
Allianz Pension Partners GmbH, Stuttgart	0.5	100.0
Allianz Pensionskasse Aktiengesellschaft, Munich	146	100.0
Allianz Private Equity Partners GmbH, Munich	0.04	100.0
Allianz Private Krankenversicherungs-Aktiengesellschaft, Munich	360	100.0
Allianz ProzessFinanz GmbH, Munich	0.04	100.0
Allianz Shared Infrastructure Services GmbH, Munich	219	100.0
Allianz Versicherungs-Aktiengesellschaft, Munich	2,512	100.0
AZT Automotive GmbH, Munich	0.2	100.0
Deutsche Lebensversicherungs-Aktiengesellschaft, Berlin	45	100.0
Dresdner Bank AG, Frankfurt am Main	8,674	100.0
Euler Hermes Kreditversicherungs-AG, Hamburg	246	100.0
MAN Roland Druckmaschinen AG, Offenbach	289	100.0
Münchener und Magdeburger Agraversicherung Aktiengesellschaft, Munich	8	59.9
Oldenburgische Landesbank Aktiengesellschaft, Oldenburg	531	89.4
Reuschel & Co. Kommanditgesellschaft, Munich	149	97.5
risklab germany GmbH, Frankfurt am Main	0.03	100.0
Vereinte Spezial Krankenversicherung Aktiengesellschaft, Munich	3	100.0
Vereinte Spezial Versicherung AG, Munich	45	100.0

<sup>1)</sup> Percentage includes equity participations held by dependent enterprises in full, even if the Allianz Group's share in the dependent enterprise is under 100.0%.

Property-Casualty  
Life/Health  
Banking  
Asset Management  
Corporate

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

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

<b>Operating Subsidiaries</b>	<b>Other countries</b>	<b>Equity mn</b>	<b>% owned<sup>1)</sup></b>
<b>Argentina</b>			
	AGF Allianz Argentina Compania de Seguros Generales S.A., Buenos Aires	13	100.0
<b>Australia</b>			
	Allianz Australia Limited, Sydney	1,005	100.0
<b>Austria</b>			
	Allianz Elementar Lebensversicherungs-Aktiengesellschaft, Vienna	62	100.0
	Allianz Elementar Versicherungs-Aktiengesellschaft, Vienna	375	100.0
	Privatinvest Bank AG, Salzburg	15	74.0
<b>Belgium</b>			
	Allianz Belgium Insurance S.A., Brüssel	441	100.0
<b>Brazil</b>			
	AGF Brasil Seguros S.A., Sao Paulo	138	72.5
<b>Bulgaria</b>			
	Allianz Bulgaria Insurance and Reinsurance Company Ltd., Sofia	26	78.0
	Allianz Bulgaria Life Insurance Company Ltd., Sofia	13	99.0
	Commercial Bank Allianz Bulgaria Ltd., Sofia	50	99.8
<b>China</b>			
	Allianz China Life Insurance Co. Ltd., Shanghai	18	51.0
	Allianz Global Investors Hong Kong Ltd., Hong Kong	65	100.0
	Allianz Insurance (Hong Kong) Ltd., Hong Kong	9	100.0
	Dresdner Kleinwort (Japan) Limited, Hong Kong	288	100.0
	RCM Asia Pacific Ltd., Hong Kong	14	100.0
<b>Colombia</b>			
	Colseguros Generales S.A., Bogota	35	100.0
<b>Croatia</b>			
	Allianz Zagreb d.d., Zagreb	17	80.1
<b>Czech Republic</b>			
	Allianz poistovna a.s., Prague	121	100.0
<b>Egypt</b>			
	Allianz Egypt Insurance Company S.A.E., Cairo	6	85.0
	Allianz Egypt Life Company S.A.E., Cairo	8	99.4
<b>France</b>			
	AAAM S.A., Paris	32	84.9
	AGF Asset Management S.A., Paris	93	99.8
	Allianz Global Corporate & Specialty France, Paris	179	100.0
	Assurances Générales de France IART S.A., Paris	2,267	100.0
	Assurances Générales de France Vie S.A., Paris	2,361	100.0
	Assurances Générales de France, Paris	7,287	100.0
	Banque AGF S.A., Paris	179	100.0
	Euler Hermes SFAC S.A., Paris	337	100.0
	Mondial Assistance S.A. S., Paris Cedex	205	100.0
<b>Greece</b>			
	Allianz Hellas Insurance Company S.A., Athen	71	100.0
<b>Hungary</b>			
	Allianz Hungária Biztosító Zrt., Budapest	220	100.0
<b>Indonesia</b>			
	PT Asuransi Allianz Life Indonesia p.l.c., Jakarta	20	99.8
	PT Asuransi Allianz Utama Indonesia Ltd., Jakarta	19	76.0
<b>Ireland</b>			
	Allianz Global Investors Ireland Ltd., Dublin	5	100.0
	Allianz Irish Life Holdings p.l.c., Dublin	488	66.4
	Allianz Re Dublin Limited, Dublin	17	100.0

<sup>1)</sup> Percentage includes equity participations held by dependent enterprises in full, even if the Allianz Group's share in the dependent enterprise is under 100.0%.

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

Operating Subsidiaries - Other countries	Equity mn	% owned <sup>1)</sup>
<b>Italy</b>		
ALLIANZ SUBALPINA S.p.A. SOCIETÀ DI ASSICURAZIONI E RIASSICURAZIONI, Turin	246	98.0
Allianz Global Investors Italia S.p.A, Milan	48	100.0
Allianz S.p.A., Trieste	3,016	100.0
GENIALLOYD S.p.A., Milan	72	100.0
INVESTITORI SGR S.p.A., Milan	17	87.7
Lloyd Adriatico S.p.A., Trieste	989	99.9
RAS Tutela Giudiziaria S.p.A., Milan	9	100.0
RB Vita S.p.A., Milan	209	100.0
<b>Japan</b>		
Allianz Global Investors Japan Co. Ltd. , Tokyo	0.6	100.0
<b>Laos</b>		
Assurances Générales du Laos Ltd., Laos	3	51.0
<b>Luxembourg</b>		
Allianz Global Investors Luxembourg S.A., Luxembourg	69	100.0
Dresdner Bank Luxembourg S.A., Luxembourg	530	100.0
<b>Malaysia</b>		
Allianz General Insurance Malaysia Berhad p.l.c., Kuala Lumpur	30	100.0
Allianz Life Insurance Malaysia Berhad p.l.c., Kuala Lumpur	44	100.0
<b>Mexico</b>		
Allianz México S.A. Compañía de Seguros, Mexico	93	100.0
<b>Netherlands</b>		
Allianz Europe Ltd., Amsterdam	28,961	100.0
Allianz Nederland Asset Management B.V., Amsterdam	33	100.0
Allianz Nederland Levensverzekering N.V., Utrecht	263	100.0
Allianz Nederland Schadeverzekering N.V., Rotterdam	346	100.0
Dresdner VPV N.V., Gouda	48	100.0
<b>Poland</b>		
TU Allianz Polska S.A., Warsaw	100	100.0
TU Allianz Zycie Polska S.A., Warsaw	31	100.0
<b>Portugal</b>		
Companhia de Seguros Allianz Portugal S.A., Lisbon	199	64.8
<b>Republic of Korea</b>		
Allianz Global Investors Korea Limited, Seoul	19	100.0
Allianz Life Insurance Co. Ltd., Seoul	513	100.0
<b>Romania</b>		
Allianz Tiriac Asigurari SA, Bukarest	126	52.1
<b>Russia</b>		
Dresdner Bank ZAO, St. Petersburg	75	100.0
Insurance Company Progress Garant , Moscow	35	100.0
Insurance Joint Stock Company Allianz , Moscow	11	100.0
Russian People's Insurance Society ROSNO , Moscow	152	97.2
<b>Singapore</b>		
Allianz Global Investors Singapore Ltd., Singapore	1	100.0
<b>Slovakia</b>		
Allianz-Slovenská poisťovňa a.s., Bratislava	417	84.6
<b>Spain</b>		
Allianz Compañía de Seguros y Reaseguros S.A., Madrid	502	99.9
Euler Hermes Crédito Compañía de Seguros y Reaseguros, S.A., Madrid	7	100.0
Eurovida, S.A. Compañía de Seguros y Reaseguros, Madrid	59	51.0

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1) Percentage includes equity participations held by dependent enterprises in full, even if the Allianz Group s share in the dependent enterprise is under 100.0%.

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**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

Operating Subsidiaries - Other countries	Equity mn	% owned <sup>1)</sup>
<b>Switzerland</b>		
Alba Allgemeine Versicherungs-Gesellschaft, Basel	32	100.0
Allianz Risk Transfer AG, Zurich	309	100.0
Allianz Suisse Lebensversicherungs-Gesellschaft, Zurich	484	100.0
Allianz Suisse Versicherungs-Gesellschaft, Zurich	559	100.0
Compagnie d'Assurance de Protection Juridique S.A., Zug	13	100.0
Dresdner Bank (Schweiz) AG, Zurich	114	99.8
ELVIA Reiseversicherungs-Gesellschaft AG, Zurich	218	100.0
Selecta AG, Muntelier <sup>2)</sup>	135	100.0
<b>Taiwan</b>		
Allianz Global Investors Taiwan Ltd., Taipei	27	100.0
Allianz Taiwan Life Insurance Co. Ltd., Taipei	63	99.6
<b>United Kingdom</b>		
Allianz (UK) Limited, Guildford	588	100.0
Allianz Insurance plc., Guildford	1,085	98.0 <sup>3)</sup>
Dresdner Kleinwort Group Ltd., London	45	100.0
Dresdner Kleinwort Limited, London	344	100.0
Kleinwort Benson Channel Islands Holdings Ltd., St. Peter Port/Guernsey	280	100.0
Kleinwort Benson Private Bank Ltd., London	73	100.0
RCM (UK) Ltd., London	14	100.0
<b>United States</b>		
Allianz Global Investors of America L.P., Dover/Delaware	1,436	97.5
Allianz Global Investors U.S. Retail LLC, Dover/Delaware	37	100.0
Allianz Global Risks US Insurance Company, Burbank/California	2,910	100.0
Allianz Life Insurance Company of North America, Minneapolis/Minnesota	2,636	100.0
Allianz of America Inc., Wilmington/Delaware	9,868	100.0
Allianz Underwriters Insurance Company, Burbank/California	41	100.0
Dresdner Kleinwort Securities Llc, Wilmington/Delaware	182	100.0
Fireman's Fund Insurance Company, Novato/California	2,427	100.0
NFJ Investment Group LP, Dover/Delaware	4	100.0
Nicholas Applegate Capital Management LLC, Dover/Delaware	12	100.0
Pacific Investment Management Company LLC, Wilmington/Delaware	246	85.0
RCM Capital Management LLC, Wilmington/Delaware	15	100.0
Wm. H McGee & Co. Inc., New York/New York	2	100.0

<sup>1)</sup> Percentage includes equity participations held by dependent enterprises in full, even if the Allianz Group's share in the dependent enterprise is under 100.0%.

<sup>2)</sup> Classified as held for sale

<sup>3)</sup> 99.99% of the voting share capital

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

Associated Enterprises <sup>1)</sup>	Equity mn	% owned <sup>2)</sup>
Phenix Alternative Holding	3,275	32.8
Allianz-dit Euro Bond Total Return Fonds	2,923	38.8
AGF Jour	2,705	12.6 <sup>3)</sup>
AGF Euribor	2,242	35.4
AGF Eurocash	1,480	7.4 <sup>3)</sup>
Natinium 2007-1	1,146	48.4
AGF SECURICASH L	755	15.7 <sup>3)</sup>
Allianz PIMCO Euro Bond Total Return	713	30.3
Deutsche Schiffsbank AG, Bremen und Hamburg	552	40.0
AGF Peh Eur. IV FCPR	306	49.2
Oddo, Paris	289	20.0
Cofitem Cofimur, Paris	230	22.1
PHRV (Paris Hotels Roissy Vaugirard), Paris	163	24.9
Bajaj Allianz Life Insurance Company Ltd., Pune	153	26.0
Koç Allianz Sigorta T.A.S., Istanbul	147	37.1
Dresdner-Cetelem Kreditbank GmbH, Munich	138	49.9
FONDO IMMOBILIARE DOMUS	133	25.5
Citylife Srl., Milano	129	26.7
Ayudhya Allianz C.P. Life Public Company Limited, Bangkok	113	25.0
Kommanditgesellschaft Allgemeine Leasing GmbH & Co, Gruenwald	104	40.5
Bajaj Allianz General Insurance Company Ltd., Pune	89	26.0
Scandferries Holding GmbH, Hamburg	60	38.1
Euro Media Télévision S.A., Bry-sur_Marne	17	21.4

<sup>1)</sup> Associated enterprises are all those enterprises other than affiliated enterprises or joint ventures, in which the Allianz Group has an interest of between 20.0% and 50.0% regardless of whether a significant influence is exercised or not. The presented associated enterprises represent 90% of total carrying amount of investments in associated enterprises.

<sup>2)</sup> Including shares held by dependent subsidiaries.

<sup>3)</sup> Significant influence due to Allianz's role in the funds' management and its ownership share

**Table of Contents****Notes to the Allianz Group's Consolidated Financial Statements (Continued)**

<b>Other selected holdings in listed companies<sup>1)</sup></b>	<b>Market value mn</b>	<b>owned<sup>2)</sup> %</b>	<b>Group equity mn</b>	<b>Net profit mn</b>	<b>Balance sheet date</b>
Banco BPI S.A., Porto	360	8.8	1,905	355	12/31/2007
Banco Popular Espanol S.A., Madrid	1,331	9.4	5,914	1,026	12/31/2006
BASF SE, Ludwigshafen	1,246	2.5	18,578	3,215	12/31/2006
Bayer AG, Leverkusen	1,737	3.6	12,851	1,683	12/31/2006
Beiersdorf AG, Hamburg	883	6.6	1,790	664	12/31/2006
Bollore Investissement S.A., Ergue-Gaberic	206	6.0	3,894	583	12/31/2006
E.ON AG, Duesseldorf	2,956	2.9	52,762	5,057	12/31/2006
ENI S.p.A., Rom	592	0.6	41,199	9,217	12/31/2006
GEA Group AG, Bochum	458	10.4	1,261	(288)	12/31/2006
Heidelberger Druckmaschinen AG, Heidelberg	243	13.4	1,202	263	03/31/2007
Industrial & Commercial Bank of China Limited, Beijing	3,138	1.9	44,378	4,642	12/31/2006
Linde AG, Munich	1,307	8.8	8,225	1,838	12/31/2006
Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München, Munich	1,422	4.9	26,429	3,440	12/31/2006
Nestlé S.A., Vevey	827	0.7	31,805	5,535	12/31/2006
Rhön Klinikum AG, Bad Neustadt/Saale	142	6.4	729	105	12/31/2006
Royal Dutch Shell plc, London	533	0.3	79,892	17,683	12/31/2006
RWE AG, Essen	2,232	4.1	14,111	3,847	12/31/2006
Sanofi-Aventis S.A., Paris	521	0.6	45,820	4,006	12/31/2006
Sequana Capital S.A., Paris	131	11.8	1,244	958	12/31/2006
SGS S.A., Geneve	336	5.3	958	267	12/31/2006
Siemens Aktiengesellschaft, Munich	1,049	1.1	29,627	3,806	09/30/2007
Total S.A., Paris	897	0.7	41,148	11,768	12/31/2006
UniCredito Italiano S.p.A., Milan	1,819	2.4	38,468	5,448	12/31/2006
Zagrebacka Banka d.d., Zagreb	624	11.7	1,026	134	12/31/2006

<sup>1)</sup> Market value greater than or equal to 100 mn and percentage of shares owned greater than or equal to 5.0%, or market value greater than or equal to 500 mn, excluding trading portfolio of banking business.

<sup>2)</sup> Including shares held by dependent subsidiaries (incl. consolidated investment funds).

**Disclosure of equity investments**

Information according to clause 313 (2) German Commercial Code is published together with the consolidated financial statements in the German Electronic Federal Gazette as well as on the Company's website.

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### **Glossary**

The accounting terms explained here are intended to help the reader understand this Annual Report. Most of these terms concern the balance sheet or the income statement. Terminology relating to particular segments of the insurance or banking business has not been included.

### **Acquisition cost**

The amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition.

### **Affiliated enterprises**

The parent company of the Group and all consolidated subsidiaries. Subsidiaries are enterprises where the parent company can exercise a dominant influence over their corporate strategy in accordance with the control concept. This is possible, for example, where the parent company holds, directly or indirectly, a majority of the voting rights, has the power to appoint or remove a majority of the members of the Board of Management or equivalent governing body, or where there are contractual rights of control.

### **Aggregate policy reserves**

Policies in force especially in life, health, and personal accident insurance give rise to potential liabilities for which funds have to be set aside. The amount required is calculated actuarially.

### **Allowance for loan losses**

The overall volume of provisions includes allowances for credit losses deducted from the asset side of the balance sheet and provisions for risks associated with hedge derivatives and other contingencies, such as guarantees, loan commitments or other obligations, which are stated as liabilities.

Identified counterparty risk is covered by specific credit risk allowances. The size of each allowance is determined by the probability of the borrower's agreed payments regarding interest and installments, with the value of underlying collateral being taken into consideration. General allowances for loan losses have been established on the basis of historical loss data.

Country risk allowances are established for transfer risks. Transfer risk is a reflection of the ability of a certain country to serve its external debt. These country risk allowances are based on an internal country rating system which incorporates economic data as well as other facts to categorize countries.

Where it is determined that a loan cannot be repaid, the uncollectable amount is written off against any existing specific loan loss allowance, or directly recognized as expense in the income statement. Recoveries on loans previously written off are recognized in the income statement under net loan loss provisions.

#### **Assets under management**

The total of all investments, valued at current market value, which the Group has under management with responsibility for maintaining and improving their performance. In addition to the Group's own investments, they include investments held under management for third parties.

#### **Associated enterprises**

All enterprises, other than affiliated enterprises or joint ventures, in which the Group has an interest of between 20% and 50%, regardless of whether a significant influence is actually exercised or not.

#### **At amortized cost**

Under this accounting principle the difference between the acquisition cost and redemption value (of an investment) is added to or subtracted from the original cost figure over the period from acquisition to maturity and credited or charged to income over the same period.

#### **Available-for-sale investments**

Available-for-sale investments are securities which are neither held to maturity nor have been acquired for sale in the near term; available-for-sale investments are shown at fair value on the balance sheet.

#### **Business combination**

A business combination is the bringing together of separate entities or businesses into one reporting entity.





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### **Cash flow statement**

Statement showing movements of cash and cash equivalents during an accounting period, classified by three types of activity:

operating activities

investing activities

financing activities

### **Certificated liabilities**

Certificated liabilities comprise debentures and other liabilities for which transferable certificates have been issued.

### **Combined ratio**

Represents the total of acquisition and administrative expenses (net) and claims and insurance benefits incurred (net) divided by premiums earned (net).

### **Consolidated interest (%)**

The consolidated interest is the total of all interests held by affiliated enterprises and joint ventures in affiliated enterprises, joint ventures, and associated enterprises.

### **Contingent liabilities**

Financial obligations not shown as liabilities on the balance sheet because the probability of a liability actually being incurred is low. Example: guarantee obligations.

### **Corridor approach**

With defined benefit plans, differences come about between the actuarial gains and losses which, when the corridor approach is applied, are not immediately recognized as income or expenses as they occur. Only when the cumulative actuarial gains or losses fall outside the corridor is redemption made from the following year onwards. The corridor is 10% of the present value of the pension rights accrued or of the market value of the pension fund assets, if this is higher.

**Cost-income ratio**

Represents operating expenses divided by operating revenues.

**Coverage ratio**

Represents ratio of total loan loss provisions to total risk elements according to SEC guide 3 (non-performing loans and potential problem loans).

**Credit risk**

The risk that one party to a contract will fail to discharge its obligations and thereby cause the other party to incur financial loss.

**Current employer service cost**

Net expense incurred in connection with a defined benefit plan less any contributions made by the beneficiary to a pension fund.

**Deferred acquisition costs**

Expenses of an insurance company which are incurred in connection with the acquisition of new insurance policies or the renewal of existing policies. They include commissions paid and the costs of processing proposals.

**Deferred tax assets/liabilities**

The calculation of deferred tax is based on temporary differences between the carrying amounts of assets or liabilities in the published balance sheet and their tax base, and on differences arising from applying uniform valuation policies for consolidation purposes. The tax rates used for the calculation are the local rates applicable in the countries of the enterprises included in the consolidation; changes to tax rates already adopted

on the balance sheet date are taken into account.

**Defined benefit plans**

For defined benefit plans, the participant is granted a defined benefit by the employer or via an external entity. In contrast to defined contribution arrangements, the future cost to the employer of a defined benefit plan is not known with certainty in advance. To determine the expense over the period, accounting regulations require that actuarial calculations are carried out according to a fixed set of rules.

**Defined contribution plans**

Defined contribution plans are funded through independent pension funds or similar organizations.

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Contributions fixed in advance (e.g., based on salary) are paid to these institutions and the beneficiary's right to benefits exists against the pension fund. The employer has no obligation beyond payment of the contributions and is not participating in the investment success of the contributions.

### **Derivative financial instruments (derivatives)**

Financial contracts, the values of which move in relationship to the price of an underlying asset. Derivative financial instruments can be classified in relation to their underlying assets (e.g. interest rates, share prices, exchange rates or prices of goods). Important examples of derivative financial instruments are options, futures, forwards and swaps.

### **Earnings per share (basic/diluted)**

Ratio calculated by dividing the consolidated profit or loss for the year by the average number of shares issued. For calculating diluted earnings per share the number of shares and the profit or loss for the year are adjusted by the dilutive effects of any rights to subscribe for shares which have been or can still be exercised. Subscription rights arise in connection with issues of convertible bonds or share options.

### **Equity consolidation**

The relevant proportion of cost for the investment in a subsidiary is set off against the relevant proportion of the shareholders' equity of the subsidiary.

### **Equity method**

Investments in joint ventures and associated companies are accounted for by this method. They are valued at the Group's proportionate share of the net assets of the companies concerned. In the case of investments in companies which prepare consolidated financial statements of their own, the valuation is based on the sub-group's consolidated net assets. The valuation is subsequently adjusted to reflect the proportionate share of changes in the company's net assets, a proportionate share of the company's net earnings for the year being added to the Group's consolidated income.

### **Expense ratio**

Represents acquisition and administrative expenses (net) divided by premiums earned (net).

**Fair value**

The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

**FAS**

US Financial Accounting Standards on which the details of US GAAP (Generally Accepted Accounting Principles) are based.

**Financial assets carried at fair value through income**

Financial assets carried at fair value through income include debt and equity securities as well as other financial instruments (essentially derivatives, loans and precious metal holdings) which have been acquired solely for sale in the near term. They are shown in the balance sheet at fair value.

**Financial liabilities carried at fair value through income**

Financial liabilities carried at fair value through income include primarily negative market values from derivatives and short selling of securities. Short sales are made to generate income from short-term price changes. Short sales of securities are recorded at market value on the balance sheet date. Derivatives shown as financial liabilities carried at fair value through income are valued the same way as financial assets carried at fair value through income.

**Forwards**

The parties to this type of transaction agree to buy or sell at a specified future date. The price of the underlying assets is fixed when the deal is struck.

**Functional currency**

The functional currency is the currency of the primary economic environment in which the entity operates i.e. the one in which the entity primarily generates and expends cash.

**Funds held by/for others under reinsurance contracts**

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Funds held by others are funds to which the reinsurer is entitled but which the ceding insurer retains as collateral for future obligations of the reinsurer. The ceding insurer shows these amounts as funds held under reinsurance business ceded.

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### **Futures**

Standardized contracts for delivery on a future date, traded on an exchange. Normally, rather than actually delivering the underlying asset on that date, the difference between closing market value and the exercise price is paid.

### **Goodwill**

Difference between the purchase price of a subsidiary and the relevant proportion of its net assets valued at the current value of all assets and liabilities at the time of acquisition.

### **Gross/Net**

In insurance terminology the terms gross and net mean before and after deduction of reinsurance, respectively. In the investment terminology the term net is used where the relevant expenses (e.g. depreciations and losses on the disposal of assets) have already been deducted.

### **Hedging**

The use of special financial contracts, especially derivative financial instruments, to reduce losses which may arise as a result of unfavorable movements in rates or prices.

### **Held for sale**

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use. On the date a non-current asset meets the criteria as held for sale, it is measured at the lower of its carrying amount and fair value less costs to sell.

### **Held-to-maturity investments**

Held-to-maturity investments comprise debt securities held with the intent and ability that they will be held-to-maturity. They are valued at amortized cost.

## **IAS**

International Accounting Standards.

## **IFRS**

International Financial Reporting Standards. Since 2002, the designation IFRS applies to the overall framework of all standards approved by the International Accounting Standards Board. Already approved standards will continue to be cited as International Accounting Standards (IAS).

## **IFRS Framework**

The framework for International Financial Reporting Standards (IFRS) which sets out the concepts that underlie the preparation and presentation of financial statements for external users.

## **Income from financial assets and liabilities carried at fair value through income (net)**

Income from financial assets and liabilities carried at fair value through income (net) includes all realized and unrealized profits and losses from financial assets carried at fair value through income and financial liabilities carried at fair value through income. In addition, it includes commissions as well as any interest or dividend income from trading activities as well as refinancing costs.

## **Issued capital and capital reserve**

This heading comprises the capital stock, the premium received on the issue of shares, and amounts allocated when option rights are exercised.

## **Joint venture**

An enterprise which is managed jointly by an enterprise in the Group and one or more enterprises not included in the consolidation. The extent of joint management control is more than the significant influence exercised over associated enterprises and less than the control exercised over affiliated enterprises.

## **Loss frequency**



Number of losses in relation to the number of insured risks.

**Loss ratio**

Represents claims and insurance benefits incurred (net) divided by premiums earned (net).

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**Market value**

The amount obtainable from the sale of an investment in an active market.

**Minority interests in earnings**

That part of net earnings for the year which is not attributable to the Group but to others outside the Group who hold shares in affiliated enterprises.

**Minority interests**

Those parts of the equity of affiliated enterprises which are not owned by companies in the Group.

**New cost basis**

Historical cost adjusted by depreciation to reflect permanent diminution in value.

**Options**

Derivative financial instruments where the holder is entitled but not obliged to buy (call option) or sell (put option) the underlying asset at a predetermined price sometime in the future. The grantor (writer) of the option, on the other hand, is obliged to transfer or buy the asset and receives a premium for granting the option to the purchaser.

**OTC derivatives**

Derivative financial instruments which are not standardized and not traded on an exchange but are traded directly between two counterparties via over-the-counter (OTC) transactions.

**Participating certificates**

Amount payable on redemption of participating certificates issued. The participating certificates of Allianz SE carry distribution rights based on the dividends paid, and subscription rights when the capital stock is increased; but they carry no voting rights, no rights to participate in any proceeds of liquidation, and no rights to be converted into shares.

#### **Pension and similar obligations**

Reserves for current and future post-employment benefits formed for the defined benefit plans of active and former employees. These also include reserves for health care benefits and processing payments.

#### **Premiums written/earned**

Premiums written represent all premium revenues in the year under review. Premiums earned represent that part of the premiums written used to provide insurance coverage in that year. In the case of life insurance products where the policyholder carries the investment risk (e.g. variable annuities), only that part of the premiums used to cover the risk insured and costs involved is treated as premium income.

#### **Reinsurance**

Where an insurer transfers part of the risk which he has assumed to another insurer.

#### **Repurchase and reverse repurchase agreements**

A repurchase (repo) transaction involves the sale of securities by the Group to a counterparty, subject to the simultaneous agreement to repurchase these securities at a certain later date, at an agreed price. The securities concerned are retained in the Group's balance sheet for the entire lifetime of the transaction, and are valued in accordance with the accounting principles for financial assets carried at fair value through income or investment securities, respectively. The proceeds of the sale are reported in liabilities to banks or to customers, as appropriate. A reverse repo transaction involves the purchase of securities with the simultaneous obligation to sell these securities at a future date, at an agreed price. Such transactions are reported in loans and advances to banks, or loans and advances to customers, respectively. Interest income from reverse repos and interest expenses from repos are accrued evenly over the lifetime of the transactions and reported under interest and similar income or interest expenses.

#### **Reserves for loss and loss adjustment expenses**

Reserves for the cost of insurance claims incurred by the end of the year under review but not yet settled.

**Reserve for premium refunds**

That part of the operating surplus which will be distributed to policyholders in the future. This refund of premiums is made on the basis of statutory, contractual, or company by-law obligations, or voluntary undertaking.

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### **Revenue reserves**

In addition to the reserve required by law in the financial statements of the Group parent company, this item consists mainly of the undistributed profits of Group enterprises and amounts transferred from consolidated net income.

### **Segment reporting**

Financial information based on the consolidated financial statements, reported by business segments (Property-Casualty, Life/Health, Banking, Asset Management and Corporate) and by regions.

### **Subordinated liabilities**

Liabilities which, in the event of liquidation or bankruptcy, are not settled until after all other liabilities.

### **Swaps**

Agreements between two counterparties to exchange payment streams over a specified period of time. Important examples include currency swaps (in which payment streams and capital in different currencies are exchanged) and interest rate swaps (in which the parties agree to exchange normally fixed interest payments for variable interest payments in the same currency).

### **Unearned premiums**

Premiums written attributable to income of future years. The amount is calculated separately for each policy and for every day that the premium still has to cover.

### **Unrecognized gains/losses**

Amount of actuarial gains or losses, in connection with defined benefit pension plans, which are not yet recognized as income or expenses (see also corridor approach ).

**Unrecognized past service cost**

Present value of increases in pension benefits relating to previous years' service, not yet recognized in the pension reserve.

**US GAAP**

Generally Accepted Accounting Principles in the United States of America.

**Variable annuities**

The benefits payable under this type of life insurance depend primarily on the performance of the investments in a mutual fund. The policyholder shares equally in the profits or losses of the underlying investments.

**Table of Contents****SCHEDULE I****SUMMARY OF INVESTMENTS<sup>1) 2)</sup>****As of December 31, 2007**

	<b>Amortized cost</b>	<b>Fair Value</b>	<b>Amount shown in balance sheet</b>
	<b>mn</b>	<b>mn</b>	<b>mn</b>
<b>Debt securities:</b>			
Government and agency mortgage-backed securities (residential and commercial)	7,628	7,546	7,546
Corporate mortgage-backed securities (residential and commercial)	6,663	6,601	6,601
Other asset-backed securities	5,384	5,326	5,326
<b>Government Bonds:</b>			
Germany	13,117	13,057	13,057
Italy	23,537	23,519	23,510
France	13,452	13,793	13,793
United States	4,544	4,638	4,638
Spain	6,717	6,788	6,788
Belgium	5,050	4,974	4,974
All other countries	34,000	33,521	33,512
<b>Corporate Bonds:</b>			
Public utilities	2,581	2,553	2,553
All other corporate bonds	86,014	84,374	84,346
Other	2,960	2,955	2,955
<b>Total debt</b>	<b>211,647</b>	<b>209,645</b>	<b>209,599</b>
<b>Equity securities:</b>			
<b>Common stocks:</b>			
Public utilities	4,963	9,549	9,549
Banks, insurance companies, funds	12,451	16,964	16,964
Industrial, miscellaneous and all other	22,485	35,666	35,666
Non-redeemable preferred stocks	156	281	281
<b>Total equity securities</b>	<b>40,794</b>	<b>63,061</b>	<b>63,061</b>
Mortgage loans on real estate	26,661	26,661	26,661
Real Estate	7,758	12,031	7,758
Policy loans	1,765	1,765	1,765
Certificates of deposit	2,756	2,756	2,756
Short-term investments	7,560	7,560	7,560
<b>Total investments</b>	<b>298,941</b>	<b>323,479</b>	<b>319,160</b>

<sup>1)</sup> Includes all Allianz Group investments except portfolios carried at fair value through income.

<sup>2)</sup> The total of investments on the balance sheet of 286,952 mn includes total debt, total equity securities and real estate shown above. Plus investments in associates and joint ventures of 5,471 mn and funds held by others under reinsurance contracts assumed of 1,063 mn. The other items included in the above summary of investments are recorded in loans to banks and customers.





**Table of Contents****SCHEDULE II****ALLIANZ SOCIETAS EUROPAEA****PARENT ONLY CONDENSED FINANCIAL STATEMENTS BALANCE SHEETS (IFRS BASIS)**

<b>As of December 31,</b>	<b>2007</b>	<b>2006</b>
	<b>mn</b>	<b>mn</b>
<b>Assets:</b>		
Investment in subsidiaries and affiliates	67,488	74,774
Other invested assets	19,236	19,387
Insurance reserves ceded	2,896	3,211
Cash funds and cash equivalents	81	72
Other assets	7,804	6,447
	<b>97,505</b>	<b>103,891</b>
<b>Liabilities and Shareholders' Equity:</b>		
Insurance reserves	10,404	11,654
Participation certificates and subordinated liabilities	7,306	7,336
Certificated liabilities	4,829	1,799
Other liabilities	27,213	33,452
	<b>49,752</b>	<b>54,241</b>
Shareholders' equity	47,753	49,650
	<b>97,505</b>	<b>103,891</b>

**Table of Contents****SCHEDULE II****ALLIANZ SOCIETAS EUROPAEA****PARENT ONLY CONDENSED FINANCIAL STATEMENTS****STATEMENTS OF INCOME (IFRS BASIS)**

<b>For the years ended December 31,</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>mn</b>	<b>mn</b>	<b>mn</b>
<b>Revenues:</b>			
Net premiums earned	2,294	2,887	3,291
Investment income	1,708	475	2,704
Other income	15	20	
	<u>4,017</u>	<u>3,382</u>	<u>5,995</u>
<b>Expenses:</b>			
Insurance benefits	1,622	2,013	2,194
Acquisition costs and administrative expenses	1,202	1,392	1,249
Investment expense	1,851	1,639	1,661
Other expense		37	
	<u>4,675</u>	<u>5,081</u>	<u>5,105</u>
Income before tax	(658)	(1,699)	891
Taxes	210	808	572
	<u>(448)</u>	<u>(891)</u>	<u>1,463</u>
Income before equity in undistributed net income of subsidiaries	(448)	(891)	1,463
Equity in undistributed net income of subsidiaries	8,414	7,912	2,917
	<u>7,966</u>	<u>7,021</u>	<u>4,380</u>
<b>Net Income</b>	<b>7,966</b>	<b>7,021</b>	<b>4,380</b>

**Table of Contents****SCHEDULE II****ALLIANZ SOCIETAS EUROPAEA****PARENT ONLY CONDENSED FINANCIAL STATEMENTS****STATEMENT OF CASH FLOWS (IFRS BASIS)**

<b>For the years ended December 31,</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>mn</b>	<b>mn</b>	<b>mn</b>
<b>Cash flows from operating activities:</b>			
Net income	7,966	7,021	4,380
<b>Adjustments to reconcile net income to cash provided by operating activities:</b>			
Equity in undistributed net income of consolidated subsidiaries	(8,414)	(7,912)	(2,917)
Change in insurance reserves net	(935)	(1,787)	(2,330)
Change in other assets	(1,357)	(1,586)	(225)
Change in other liabilities	(6,239)	2,418	5,448
<b>Net cash (used) provided by operating activities</b>	<b>(8,979)</b>	<b>(1,846)</b>	<b>4,356</b>
<b>Cash flows from investing activities:</b>			
Change in investments in subsidiaries	(45)	(7,280)	(17,429)
Change in other invested assets	151	(3,340)	3,839
<b>Net cash provided (used) in investing activities</b>	<b>106</b>	<b>(10,620)</b>	<b>(13,590)</b>
<b>Cash flows from financing activities:</b>			
Change in certificated liabilities, participation certificates and subordinated liabilities	2,999	595	1,224
Net proceeds from issuance of common stocks and additional paid in capital	115	98	2,159
Dividends paid	(1,642)	(811)	(674)
Other changes in shareholders capital	7,410	12,597	6,544
<b>Net cash provided (used) by financing activities</b>	<b>8,882</b>	<b>12,479</b>	<b>9,253</b>
<b>Net increase (decrease) in cash</b>	<b>9</b>	<b>13</b>	<b>19</b>
Cash at January 1	72	59	40
<b>Cash at December 31</b>	<b>81</b>	<b>72</b>	<b>59</b>

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**Note to Parent Only Condensed Financial Statements**

**Contingent liabilities and other financial commitments**

As of December 31, 2007 the company had contingent liabilities under guarantees amounting of 8 million, matched by rights of recourse for the same amount.

Bonds issued in 1998 for 1.6 billion by Allianz Finance B.V., Amsterdam

Bonds issued in 2002 for 900 million by Allianz Finance II B.V., Amsterdam

Subordinated bonds issued in 2002 for 3.0 billion by Allianz Finance II B.V., Amsterdam

Subordinated bonds issued in 2002 for USD 500 million by Allianz Finance II B.V., Amsterdam

Loan taken out in 2002 for AUD 100 million by Allianz Australia Ltd., Sydney

Bonds issued in 2005 by Allianz Finance II B.V., Amsterdam with a repayment dependent on the development of the German share index (DAX) issue volume 450 million

Subordinated bonds issued in 2005 for 1.4 billion by Allianz Finance II B.V., Amsterdam

Subordinated bonds issued in 2006 for 800 million by Allianz Finance II B.V., Amsterdam

Bonds issued in 2006 for 1.5 billion by Allianz Finance II B.V., Amsterdam

Bonds issued in 2007 for USD 400 million by Allianz Finance II B.V., Amsterdam

In the context of the Minority buyout of AGF, Allianz SE guarantees debt obligations of Allianz Holding France amounting to 4.5 billion.

Guarantee declaration for Allianz Cornhill Insurance, Guildford in favour of Lloyds TSB amounting GBP 78 million.

Letters of credit for liabilities of Allianz Global Corporate & Specialty AG, Munich, amounting to USD 642 million.

## Edgar Filing: AETHLON MEDICAL INC - Form S-1

Allianz SE is committed to making future capital payments in favor of our North American holding company, Allianz of America, Inc., Wilmington. This will place Allianz of America Inc., Wilmington, in a position to provide sufficient capital to Allianz Global Risks US Insurance Company, Los Angeles, so that this company can meet its payment obligations for claims received in connection with the attack on the World Trade Center. These future capital payments are limited to USD 152 million and are secured by pledges in securities.

Letters of credit for liabilities of Allianz Global Risks US Insurance Company, Los Angeles, amounting to USD 330 million.

Allianz SE provides a guarantee to Allianz Argos14 to secure the payment obligations under the derivative contract entered into with Blue Fin Ltd., a Cayman Islands exempted SPE, in the context of the issuance of a catastrophe bond.

Allianz SE provides a maximum 1 billion guarantee for the obligations of AGF Vie, Paris, under a unit linked pension insurance contract (as of December 31, 2007: 211 million utilized).

With respect to Fireman's Fund Insurance Co., Novato, there is a conditional commitment to make capital payments which must, in particular, be made in case of future negative developments of the reserves for the year 2003 and before. They are limited to USD 1.1 billion.

A commitment to make capital payments in the amount of 27 million also exists with respect to Allianz Global Corporate & Specialty France, Paris.

For Allianz of America, Inc., Wilmington, a guarantee declaration was made for liabilities in connection with the acquisition of PIMCO Advisors L.P. Allianz originally acquired through its subsidiary Allianz of America Inc., Wilmington, a stake of 69.5 % in PIMCO, whereby minority shareholders held the option to tender their share to Allianz of America Inc., Wilmington. On December 31, 2007 the stake of Pacific Life in PIMCO was still 2.0 %, so that the liabilities towards Pacific Life as of December 31, 2007 amounted to USD 0.3 billion.

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A guarantee declaration was given to Dresdner Bank AG, Frankfurt, amounting to 50 million, for the acquisition of receivables from payments for the rights to use a name in connection with Allianz Arena.

Guarantee declarations have also been given for deferred annuity agreements signed by Allianz-RAS Seguros y Reaseguros S.A., Madrid.

Allianz SE provides guarantees in favour of Marsh, Inc. for coverage of potential liabilities for various Allianz subsidiaries.

For the US Dollar Commercial Paper Program a guarantee was given to investors by Allianz Finance Corporation, USA. At the end of the year USD 1.0 billion in commercial papers was issued as part of the program.

In the context of a Securities Lending Agreement, Allianz SE gave a payment guarantee to PIMCO funds and Abu Dhabi Investment Authority to fulfill financial obligations of Dresdner Bank AG, Frankfurt.

There is an agreement between Allianz Risk Transfer AG, Zurich, and Allianz SE regarding a target minimum capitalization in the form of a Net Worth Maintenance Agreement.

There is a conditional commitment to repay dividends received to Allianz Capital Partners GmbH, in order to ensure that company's ability to meet warranty obligations in connection with the disposal of a shareholding.

There are also value asset liabilities of 76 million for the phased-in retirement liabilities of German group companies.

In connection with the sale of holdings in individual cases, guarantees were given covering the various bases used to determine purchase prices. These can for example relate to tax risks. In respect of the sale of Allianz of Canada, which took place in 2005, these also relate to additional elements of purchase price fixing and, secondly, to the business insured by Allianz Global Risks US Reinsurance Canada Branch.

A contingent indemnity agreement was entered with respect to securities issued by HT1 Funding GmbH in case HT1 Funding GmbH can not serve the agreed coupon of the bond partly or in total.

Allianz SE has also provided several subsidiaries and associates with either a standard indemnity guarantee or such guarantee as is required by the supervisory authorities, which cannot be quantified in figures. This includes in particular a deed of general release for Dresdner Bank in accordance with § 5 (10) of the Statute of Deposit Security Arrangement Fund.

## Edgar Filing: AETHLON MEDICAL INC - Form S-1

Allianz SE guarantees the commitments of Allianz Argos 14 GmbH under a payment guarantee from November 7, 2007 which relates to a counterparty agreement and a reimbursement agreement. In addition, Allianz SE provides common warranties in the context of capital market transactions. The liability of this obligation amounts to total 41 million.

Legal obligations to assume any losses arise on account of management control agreements and/or transfer-of-profit agreements with the following companies:

ACM-Compagnie Mercur AG

Allianz Alternative Assets Holding GmbH

Allianz Autowelt GmbH

Allianz Deutschland AG

Allianz Finanzbeteiligungs GmbH

Allianz Global Corporate & Specialty AG

Allianz Immobilien GmbH (agreement cancelled as of December 31, 2007)

Allianz ProzessFinanz GmbH (agreement cancelled as of December 31, 2007)

AZ-Arges Vermögensverwaltungsgesellschaft mbH

AZ-Argos 3 Vermögensverwaltungsgesellschaft mbH

AZ-Argos 10 Vermögensverwaltungsgesellschaft mbH

IDS GmbH-Analysis and Reporting Services

META Finanz-Informationssysteme GmbH

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Control and transfer-of-profit agreements were concluded by Allianz SE with Allianz Investment Management SE on October 8, 2007 and with Allianz Argos 14 GmbH on October 31, 2007. These agreements require the consent of the General Meeting of Allianz SE to be granted in the General Meeting on May 21, 2008 and registration in the Commercial Register to become effective. The control and transfer-of-profit agreement with Allianz Investment Management SE shall apply as from July 1, 2007, the agreement with Allianz Argos 14 GmbH as from November 1, 2007, provided that the control under the agreements applies only as from registration in the respective Commercial Register.

There are financial commitments in connection with the promise of compensation to holders of rights under stock option programs of Assurances Générales de France.

Financial liabilities of 223 million arose in 2007 from advertising agreements.

Potential liabilities amounting to 30 million were outstanding at the balance sheet date for calls on equity stocks not fully paid up with respect to affiliated enterprises.

In the course of the sale of a real estate portfolio comprising objects from different Allianz Group entities, Allianz SE agreed to provide under certain circumstances guarantees to the buyer for the purchase price of the objects in an amount of up to 1.6 billion.

Security deposits for leasing contracts amount to 0.2 million financial commitments.



**Table of Contents****SCHEDULE III****SUPPLEMENTARY INSURANCE INFORMATION<sup>1)</sup>**

	<b>Deferred policy acquisition Costs GROSS</b>	<b>Future policy benefits, losses, claims and loss expense GROSS</b>	<b>Unearned premiums GROSS</b>	<b>Other policy claims and benefits payable GROSS</b>	<b>Premium revenue (earned) NET</b>
	<b>mn</b>	<b>mn</b>	<b>mn</b>	<b>mn</b>	<b>mn</b>
<b>As of and for the year ended December 31, 2007:</b>					
Life/Health	14,130	263,621	1,858	26,291	20,809
Property-Casualty	4,059	64,399	13,163	1,519	38,553
<b>Total</b>	<b>18,189</b>	<b>328,020</b>	<b>15,021</b>	<b>27,810</b>	<b>59,362</b>
<b>As of and for the year ended December 31, 2006:</b>					
Life/Health	13,779	256,051	1,874	28,791	20,574
Property-Casualty	4,127	65,813	12,994	1,807	37,950
<b>Total</b>	<b>17,906</b>	<b>321,864</b>	<b>14,868</b>	<b>30,598</b>	<b>58,524</b>
<b>As of and for the year ended December 31, 2005:</b>					
Life/Health	12,959	248,997	1,580	26,579	19,997
Property-Casualty	3,899	67,120	12,945	2,300	37,685
<b>Total</b>	<b>16,858</b>	<b>316,117</b>	<b>14,525</b>	<b>28,879</b>	<b>57,682</b>

<sup>1)</sup> After eliminating intra-Allianz Group transactions between segments.

**Table of Contents****SCHEDULE III****SUPPLEMENTARY INSURANCE INFORMATION<sup>1)</sup>**

	<b>Investment income NET</b>	<b>Benefits claims, losses and settlement expenses NET</b>	<b>Amortization of deferred policy acquisition costs NET</b>	<b>Other operating expenses NET</b>	<b>Premiums written NET</b>
	<b>mn</b>	<b>mn</b>	<b>mn</b>	<b>mn</b>	<b>mn</b>
<b>As of and for the year ended December 31, 2007:</b>					
Life/Health	14,675	27,905	1,555	3,033	20,885
Property-Casualty	5,364	25,824	4,042	6,574	38,969
<b>Total</b>	<b>20,040</b>	<b>53,729</b>	<b>5,597</b>	<b>9,607</b>	<b>59,854</b>
<b>As of and for the year ended December 31, 2006:</b>					
Life/Health	15,121	28,150	1,627	2,810	20,799
Property-Casualty	5,592	25,097	3,838	6,752	38,259
<b>Total</b>	<b>20,713</b>	<b>53,247</b>	<b>5,465</b>	<b>9,562</b>	<b>59,058</b>
<b>As of and for the year ended December 31, 2005:</b>					
Life/Health	14,295	27,882	1,285	2,688	20,167
Property-Casualty	4,801	26,038	2,683	7,533	38,170
<b>Total</b>	<b>19,096</b>	<b>53,920</b>	<b>3,968</b>	<b>10,221</b>	<b>58,337</b>

<sup>1)</sup> After eliminating intra-Allianz Group transactions between segments.

**Table of Contents****SCHEDULE IV****SUPPLEMENTARY REINSURANCE INFORMATION<sup>3)</sup>**

	<u>Direct gross amount</u>	<u>Ceded to other companies</u>	<u>Assumed from other companies</u>	<u>Net amount</u>	<u>Amount assumed to net</u>
	mn	mn	mn	mn	
<b>2007:</b>					
Life insurance in force	706,754	53,169	20,496	674,081	3.04%
<b>Premiums earned:</b>					
Life/Health insurance <sup>1)</sup>	21,164	(638)	283	20,809	1.36%
Property-Casualty insurance, including title insurance <sup>2)</sup>	41,174	(5,316)	2,695	38,553	6.99%
<b>Total premiums</b>	<b>62,338</b>	<b>(5,954)</b>	<b>2,978</b>	<b>59,362</b>	<b>5.02%</b>
<b>2006:</b>					
Life insurance in force	699,975	83,752	20,056	636,279	3.15%
<b>Premiums earned:</b>					
Life/Health insurance <sup>1)</sup>	21,027	(816)	363	20,574	1.76%
Property-Casualty insurance, including title insurance <sup>2)</sup>	40,616	(5,529)	2,863	37,950	7.54%
<b>Total premiums</b>	<b>61,643</b>	<b>(6,345)</b>	<b>3,226</b>	<b>58,524</b>	<b>5.51%</b>
<b>2005:</b>					
Life insurance in force	702,597	66,062	23,081	659,616	3.50%
<b>Premiums earned:</b>					
Life/Health insurance <sup>1)</sup>	20,546	(929)	380	19,997	1.90%
Property-Casualty insurance, including title insurance <sup>2)</sup>	40,169	(5,390)	2,906	37,685	7.71%
<b>Total premiums</b>	<b>60,715</b>	<b>(6,319)</b>	<b>3,286</b>	<b>57,682</b>	<b>5.70%</b>

1) Life/Health have been combined for this schedule.

2) Title insurance has been combined with Property-Casualty insurance.

3) After eliminating intra-Allianz Group transactions between segments.

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Allianz SE

/s/ MICHAEL DIEKMANN  
Name: Michael Diekmann  
Title: *Chief Executive Officer*

/s/ DR. HELMUT PERLET  
Name: Dr. Helmut Perlet  
Title: *Chief Financial Officer*

Date: March 19, 2008