



## *New Shareholder*

In my last letter to you, a little less than a year ago, I made a simple observation: the year 2002 will be, above all, a year of consolidation. I anticipated a year of great uncertainty, but I was still confident that my colleagues on the Board of Management and I would be able to deliver significantly better results than in 2001.

We have clearly missed this objective. For you, the owners of Allianz, 2002 was a bad year. In my 28 years with the company, I have never seen so many major risks materialize in such a short period. The bottom line was a loss of 1.2 billion euros and by year-end, our market capitalization stood at 22 billion euros.

The consolidation phase that I had announced was implemented earnestly and there were initial signs of success: we did cut costs at Dresdner Bank, streamline operations in property and casualty insurance, boost performance in asset management and increase our market share in private and corporate retirement plans. But we did not progress far enough to withstand the many blows that fell on us in 2002: the worldwide economic crisis and the free fall in the stock markets caused us to make significant write-downs in our investment portfolio and further impacted the bank's earnings.

Adding to these factors were threats of war and natural catastrophes of unexpected intensity and scale. Finally, we had to re-evaluate our exposure to asbestos-related and environmental risks in the U.S., leading us to increase the reserves related to these risks.

Have the risks in a highly integrated and complex world become so overwhelming that they threaten to undermine our business? Are forces of nature and market fluctuations hurting our ability to make decisions? As justified as such questions may appear in the face of turbulent forces of this magnitude and their mutually reinforcing effects, my answer is an unequivocal no. Let me remind you of the words of the British philosopher Isaiah Berlin, who cautioned against looking at history as “a highway with no exits”. He wrote, “Our margin of decision is not very big. Let’s say, one percent. But it is this one percent that matters.”

That is the lesson we have learned in 2002. It was an extraordinarily bad year, without doubt. But we did not waste it, because we used what margin we had to make the hard decisions necessary to restore our business to sustained profitability.

It is time to return to simple but vital and proven principles. Consistently applied, these are the principles that create true value. We have three primary objectives. In property and casualty insurance, we want to reduce the combined ratio (which measures claims and expenses as a percentage of premiums earned) to under 100 percent in 2003. That way, the profitability of this business will become increasingly independent of the capital markets. In banking, we want to control costs and structure our business model in such a way as to improve our earnings, even if the capital markets remain difficult over a prolonged period. Finally, our private retirement plans and asset management business should cater to the needs of customers at every stage of their life and in any market environment.

The implementation of these measures already began in 2002. We have initiated turnaround programs and we are making sure that they are implemented rigorously and without delay. We cut costs, discontinued unprofitable lines of business and changed management wherever necessary. Rates were adjusted to reflect the new risk dimensions, and risk management was further improved. We have become leaner and faster but at the same time we are growing, especially in the areas of life insurance and asset management, and in the region of Asia and central and eastern Europe.

In other words, we would have a satisfactory answer if you as the shareholder were to ask, “What is going to happen to Allianz if the economy and the capital markets also fail to recover in 2003?”. We are prepared for all market situations and expect better results, even if markets continue to be weak and the economy remains flat. For you, the shareholders, that is important to know in these uncertain times.

That is our program, which we announced in the fall of 2002 as “Back to basics”. This principle also applies in another, broader sense. The end of the “everything is do-able” era has fostered a return to traditional values such as integrity, sense of responsibility and fairness. Basic notions of corporate ethics have now achieved the breakthrough that I would have expected much earlier. Concepts such as sustainability, corporate citizenship and corporate governance have turned from slogans into reality. They will – I hope – also withstand the next upswing in the economy and become permanent underpinnings of corporate behavior. That is why we have decided to distribute, together with this Annual Report, the corporate responsibility magazine of the Allianz Group. We thereby affirm our conviction that business responsibility cannot be separated from community and social considerations and ecological concerns.

This is my last letter to you, dear shareholders, in my capacity as Chairman of the Board of Management. By the time you read it, you will already know that after the end of our Annual General Meeting 2003 my colleague Michael Diekmann will lead your company as the ninth Chairman in the 112-year history of Allianz. Quite apart from my personal plans, I consider this to be the right moment for a change of generations at the helm of Allianz. By virtue of age, experience and capabilities, Mr. Diekmann is predestined to shape the fate of the company for many years to come. In meeting this challenge, he can count on the support of a Board with a solid track record of efficient team work in a climate of mutual trust.

How eventful these last eleven and half years have been! And how quickly they have passed. In my first letter to you, which I wrote in 1992, I said that we were about to return to sober reality. It almost seems as if every ten years a new force reshapes the destiny of your company. It is good to know that the new Chairman will tackle the challenges ahead of him with an open mind and new energy. If you wish, I will be pleased to serve on the Supervisory Board of your company. But my time as the helmsman of Allianz is over. Mr. Diekmann is free to set the course that he deems best.

I thank you, our shareholders, for your trust and your patience. The past year has put you through a tough test. As I have explained, it will remain an exceptional year in the history of your company. That is why we propose to distribute a dividend in the same amount as last year. My sincere thanks also go to the approximately 182,000 employees of this company, as well as our agents and cooperation partners. In a very difficult year, they have shown their full capabilities.

Your company, Allianz, has rarely experienced a year as challenging as 2002. Given the difficult environment, it may take some time to regain our former strength. But I am confident that we will succeed. Your company will emerge from the consolidation of the financial services sector with renewed vigor and strategically in an even stronger position. And once again it will create the lasting value that you, as an investor, have every right to expect.

*Your sincerely*  
*Henning Schulte-Noelle*

Dr. Henning Schulte-Noelle  
Chairman of the Board of Management