

The possibility of a war in the Gulf region weighs heavily over the prospects for economic improvement in the year 2003. Even if the world economy should regain momentum in the second half of the year, only modest growth can be expected for the year as a whole. Since the risks remain considerable, the overall situation for financial services providers is not likely to improve.

Many question marks

The world economy will get back on track only if consumers, companies and investors become more optimistic about the future. For that, the current uncertainties about the conflict with Iraq must be abated, and that will not happen before the second half of the year. Another prerequisite for the return of optimism and solid economic growth is confidence in capital markets, accounting practices and regulatory authorities – a healing process that takes time.

But there has also been a series of positive influences on the economic climate. The low fund rate and low interest rates on the capital markets as well as an expansive fiscal policy in the U.S.A. can be expected to support the forces of growth. In Europe, however, structural problems and household deficits hamper recovery. We expect the European economy to grow by close to 1.5 percent in 2003. Due to the weak domestic economy, the expansion in Germany will once again lag behind the European average, while growth in the U.S.A. is likely to reach 2 percent. The Japanese economy, which is supported by the economic upswing in Asia, will also expand slightly. Leading economic research institutes forecast similarly low growth rates. The job market situation remains difficult on both sides of the Atlantic, which severely limits the prospects for economic impetus from private consumption.

Uneven business environment for financial services providers

A subdued economic outlook does not, however, mean that sales and revenue of the Allianz Group will deliver an equally subdued performance. In fact, our business activities are additionally buoyed by many current trends. Since September 11, 2001, risks are again being viewed more critically, which can be expected to contribute to premium growth in the area of property and casualty insurance, even though this segment of our business is subject to strong competition. The known weakness of governmental retirement insurance plans is helping to maintain interest in private insurance in the form of life insurance and asset management products, which means that conditions for these areas of business in 2003 will be favorable. The situation in private health insurance is more tenuous, especially since recent changes in legislation in Germany are a burden for the insurance industry. Conditions in the banking sector will not improve significantly until there is an economic recovery and, most importantly, a return of confidence in the financial markets.

In the growth markets of central and eastern Europe, economic growth is expected to come to a total of 3.3 percent, up slightly from the comparable figure a year earlier. The impending entry of these countries into the European Union is having a stimulating effect. The overall situation for the insurance industry is favorable in this region since higher incomes, growing prosperity and gradual deregulation of the financial services sector are having a positive impact on our business.

In Asia, financial services providers like Allianz are benefiting from a dynamic economy and liberalization of the Chinese and Indian financial services markets with their impressive potential for new business. On the other hand, prospects for growth in Latin America are rather dim. The economic situation in that part of the world can be expected to improve, but the effects of the preceding crisis will continue to be felt for some time in many countries and especially in problem-ridden Argentina. Against this backdrop, it will hardly be possible to achieve a significant increase in sales of asset management products and life insurance.

Business outlook of the Allianz Group

Despite the risks referred to, we expect clear improvements of Allianz Group's operating results in the current year. We are planning further reductions of the combined ratio in the insurance business and of the cost-income ratio in asset management. The Turn-around 2003 program will substantially lower personnel costs and operating expenses in the banking business. However, if the uncertainties in the financial markets persist and economic activity remains depressed, high charges for security write-offs and loan loss provisions can be expected in the current year as well.

These assessments are, as always, subject to the disclaimer provided below.

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Certain of the statements contained herein may be statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words 'may, will, should, expects, plans, intends, anticipates, believes, estimates, predicts, potential, or continue' and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in the Allianz Group's core business and core markets, (ii) performance of financial markets, including emerging markets, (iii) the frequency and severity of insured loss events, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) the extent of credit defaults (vii) interest rate levels, (viii) currency exchange rates including the Euro-U.S. Dollar exchange rate, (ix) changing levels of competition, (x) changes in laws and regulations, including monetary convergence and the European Monetary Union, (xi) changes in the policies of central banks and/or foreign governments, (xii) the impact of acquisitions, including related integration issues, (xiii) reorganization measures and (xiv) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

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