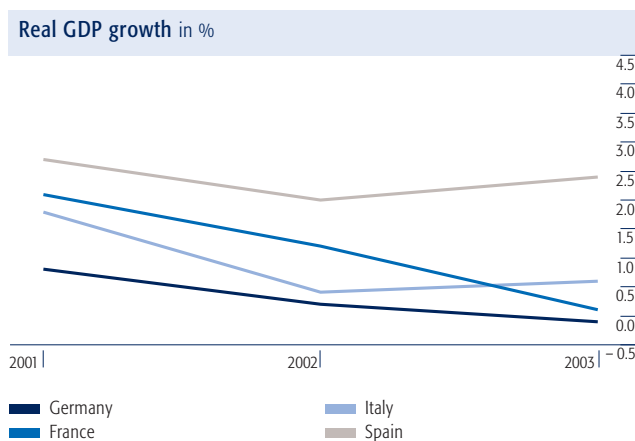


In 2003, the world economy once again suffered from exceptional adversity. At the beginning of the year, the smoldering Iraq crisis and the subsequent war paralyzed economic growth in almost all industrialized nations. Political unrest in other oil producing countries outside Iraq, terrorist attacks worldwide, and the SARS outbreak were causes of additional uncertainty and initially prevented the world economy from regaining its footing. In the second half, however, a worldwide recovery got underway.

A weak start

The economic expectations of companies and consumers alike were not met in the year under review. Germany experienced stagnation for the third year in a row, and economic growth in the European Union came to a meager 0.7 percent. The main reason for this economic slowdown was the Iraq conflict. It prevented the nascent optimistic undercurrent from budding, and put brakes on consumption and investment plans, even though the consolidation in businesses and households had well progressed. The job market situation in the industrialized countries also remained tense and improved only in the second half of 2003, albeit very gradually in most cases.

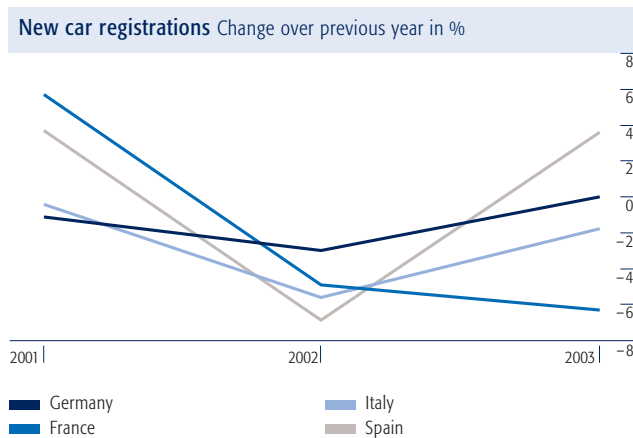
And yet, from a global perspective, there were hopeful signs of an impending recovery. At 2.2 percent, economic growth in Japan outpaced that of Europe (0.7 percent) for the first time in many years. With the economy expanding by 3.1 percent in the U.S.A., 2.7 percent in Australia and 1.7 percent in Canada, the industrial nations across all continents reached an average expansion rate of 2.0 percent which is, on the whole, a tolerable figure. Positive impulses also came from the economies of Asia, which are rapidly catching up. Above all, robust growth in China (8.8 percent) radiated throughout the entire region, which increased its performance by an average of 5.8 percent. With a solid 5 percent growth, the East European economy also made remarkable progress. The lion's share of this expansion, however, was due to a special effect in Russia, where growth accelerated to 6.4 percent, mainly as a result of higher oil prices. On the other hand, many other East European economies which are exporting to the West, felt the full impact of virtual stagnation in the European Union and registered only moderate growth. Latin America, which is still coping with internal problems and suffered from the political crisis in Venezuela, rebounded after the slump in 2002 and expanded by a modest 1.5 percent.



Sputtering recovery stifles financial services providers

Property and Casualty insurance This business segment was able to carry over its positive outlook from the previous year into 2003. It is favored by risk aversion on the part of customers and their readiness to sign up for insurance protection. Under these circumstances, property and casualty insurers in most business lines were able to impose rate adjustments corresponding to the actual risk. Higher premium income paired with only moderate increases of the claims ratio improved earnings across the market. But it became clear in the course of the year that property and casualty insurance continues to be an area of highly intensive competition, which in some cases made it impossible to enforce the necessary rate increases. Nonetheless, most insurers were able to improve their combined ratio. Disciplined cost management, risk-adequate pricing and, to some extent, more restrictive contractual conditions with clear coverage limits instead of unlimited risk transfers all helped to lower the combined ratio. Higher underwriting capacities on the part of reinsurers allowed primary insurers to spread their risks over a

broader base. The most important property and casualty line, automobile insurance, developed quite differently in various markets: in Germany, it grew by about 2 percent after close to 3 percent in the previous year, mainly due to the lower number of new car registrations (see chart). At the same time, Spanish automobile insurers enjoyed an extraordinarily dynamic upsurge of over 6 percent.



Life and Health insurance In most industrialized countries, citizens are becoming increasingly aware of the problems of an aging population and the strains that it puts on state pension systems. Additional private and corporate retirement insurance has finally become a widely discussed topic, and frequently, life insurance plays a predominant role in this discussion. So it is not surprising that this business segment continues to attract strong demand, as is the case in Germany, for example. But this demand is concentrated on the major, financially strong providers. That is a reaction to the turbulence in the capital markets, which made it very difficult for a number of smaller insurers to generate the returns on investment that their customers expected. Another drop in stock performance at the beginning of the year and persistently low interest rates put noticeable pressure on the investment income of many life insurers. And while interest rates went up slightly in the second half, they are still at a very low level, which will be a daunting challenge for the financial management of life insurers for some time to come.

But there were positive impulses as well. In Germany, they came from the pension reform and the concomitant reevaluation of company retirement provision schemes. At the same time, the sale of private provision instruments, such as the state-subsidized “Riester” pension plans, left much to be desired. Overall, industry-wide premium income was up 3 percent. The development in other important Allianz markets such as Italy and France, however, was extremely dynamic. On the whole, the life insurance industry still felt the reluctance of customers with respect to unit-linked life insurance, which is a natural reaction to the development of the financial markets.

Mandatory health insurance is also undergoing a financial crisis, at least in Germany. The resulting discussion about future financing concepts and the curtailed scope of benefits, which ultimately brought about a change of law, is a boon to the private insurance business, at least for the time being. Driven by rate adjustments and rising health care costs, they outpaced the already good growth of the prior year by a solid 6 percent. The introduction of a higher income limit for mandatory health insurance, which reduced the number of voluntarily insured policyholders likely to opt for private insurance, had a negative effect.

Asset Management The fund management industry felt the turbulence in the capital markets in 2003 as well. Investor confidence only returned in the second half of the year. The unsteady price development in the stock and fixed-interest markets made money market funds as popular as they had been in the previous year. Total fund assets were up after having suffered a decline in each of the two previous years. That rekindled the hope of a return to the growth rates of the past, a hope that is born out by the fundamentals of this business segment, which are quite good.

In nearly all industrialized nations, citizens have to make private retirement insurance arrangements to compensate for the cut in benefits provided by state pension systems. In a number of countries such as Sweden and nearly all the Central and Eastern European countries that are joining the European Union, workers are required by law to make retirement provisions by paying into pension funds. A part of these contributions is directly invested in pension funds that are managed by institutional asset managers and not by the state. The funds industry also benefits from the fact that the baby boomer generation is now growing into a phase of life where retirement planning is receiving increasing attention. This effect was observed in

nearly all major markets, although there are some significant time lags. Overall, providing for the baby boomers' retirement needs is a particularly strong growth engine for asset management in Europe and the U.S.A., and to an increasing extent also in Asia.

Banks After the serious difficulties of 2002, the German banking sector was dominated by such buzzwords as consolidation and restructuring. Now, it is in a process of fundamental transformation. The liberalization of the financial market and, even more, technical progress, are opening the door to vast economies of scale and thereby increase the pressure towards consolidation. To a growing extent, the banks are concentrating their efforts on profitable core business areas, a process that is accelerated by the prospect of new equity rules ("Basel II"). They are reducing vertical integration and breaking up the value-creation chain to make more effective use of their capital. In parallel, they are cutting costs through process automation, product standardization, outsourcing and other efficiency drivers. Risk management is being improved so that risk costs are leveling off, despite the still high number of insolvencies. These measures have strengthened the operating base of the banking business.

At the same time, the general business context is showing signs of improvement. While the gradual recovery of the economy in the second half was not sufficient to bring about a decisive revitalization of the retail business, the overall brighter picture in the capital markets had a positive impact on trading income and lent support to the securities business. But whether the current year will bring a palpable revival in the IPO business and in merger and acquisitions consulting remains to be seen.

German Banks continue to suffer from the structural deficits of their home market which, by international standards, is still highly fragmented. Even the four biggest institutions together have a market share of no more than 16 percent. In other European countries, the corresponding figure is three or four times as high. That deprives German banks of the strong domestic earnings base that their international competitors have. But the current restructuring and cost cutting drives show that, helped by economic recovery, they are well on their way to making up for this deficiency.

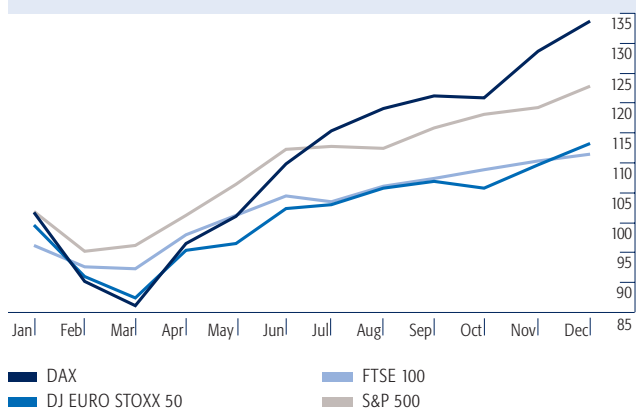
Capital markets

For the business of Allianz – insurance, asset management and banking – the development of the capital markets plays a preponderant role. It is reflected in its turnover as much as in its earnings positions, but also influences shareholders' equity because the valuation reserves fluctuate along with market performance. In view of the uncertainties in the first half of 2003, customers remained cautious and preferred low-risk investments.

Stock markets The stock indexes moved on a rollercoaster throughout the reporting year. After a three-year slump, they once again came under heavy pressure in the spring of 2003, mainly due to the Iraq crisis and the subsequent war. In this situation, investors shied away from risk more than they had in a long time. The result of this attitude was clearly shown by the indexes in March 2003: the German stock index DAX slipped to 2,200 points, Standard & Poor's to 800 points. When it became clear that the military confrontation in Iraq was going to come to a quick end, a steep recovery began. Surprisingly positive economic indicators and corporate profits in the U.S.A. gave the turnaround considerable traction, which sustained these through the end of the year. Over the full year, the DAX rose 37 percent. Standard & Poor's closed with a plus of 26 percent.

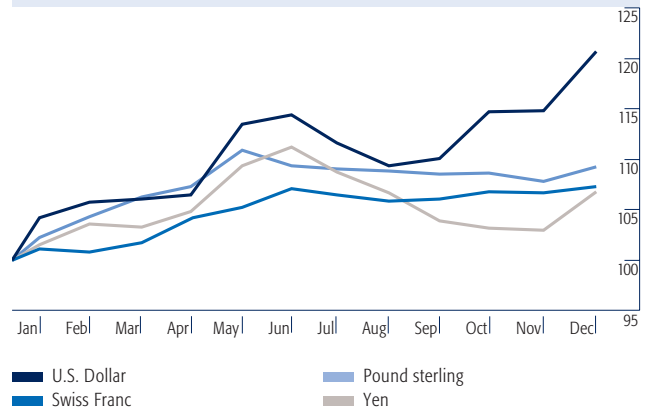
Stock market performance 2003

December 31, 2002 = 100

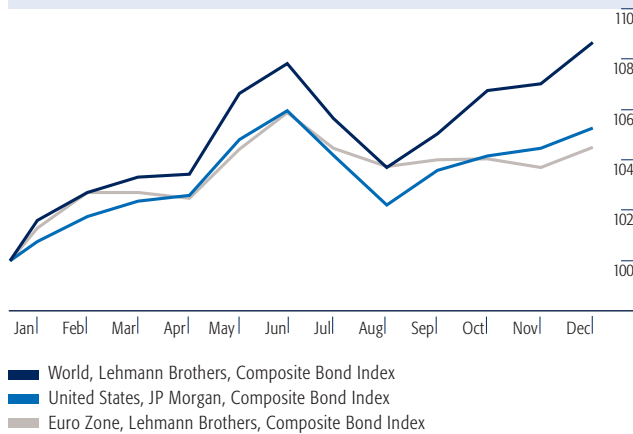


Bond markets The markets for fixed-interest securities essentially moved in the opposite direction of the stock markets. Until March 2003, investors decidedly clamored for quality bonds. The main beneficiaries of this aversion to risk were government bonds. Their yields for ten-year maturities slipped to historic lows: 3.3 percent in Germany and 3.1 percent in the U.S.A. This trend was supported by the central banks' cheap money policy: The U.S. Federal Reserve lowered its funds rate to 1 percent, while the European Central Bank cut its prime rate to 2 percent. Fears of deflation helped to accelerate the decline in yield of fixed-interest paper. When these fears had vanished and the word "inflation" once again made the rounds in the second half of the year, fixed-interest securities came under heavy pressure. In only six weeks, yields climbed 130 basis points in the U.S.A. and 80 in Germany. At the end of the year, bond markets closed with a slight plus at the long end.

Development of foreign currencies relative to the euro
December 31, 2002 = 100



Performance of Fixed Income Indexes 2003
December 31, 2002 = 100



Currencies Despite the insecurity at the beginning of 2003 over the course of events in Iraq, the U.S. dollar was relatively weak with respect to the euro. After the proclamation of the end of the war, a strong revaluation of the euro got underway. While the exchange rate dipped slightly in the summer, it came back with renewed force in September and climbed to new heights over the dollar. Over the entire reporting year, the value of the euro increased more than 15 percent with respect to the dollar. The euro also gained 8.3 percent on the pound sterling and 7 percent on the Swiss franc.