Allianz

Investor Relations

Allianz Group – Development in the First Half of 2002

Positive trend in insurance business continues: significant rise in premium income – improvement in loss ratio – weak financial markets negatively influence banking business

In the first six months of fiscal 2002 Allianz Group achieved a net income of 1.6 billion euros, an increase of 15.1 percent compared with the corresponding period last year. While the positive trend in the insurance business persisted, developments in the banking business continue to be affected by the weakness of the financial markets. Overall, the banking business for the first half-year showed negative earnings of 1,058 million euros. Restructuring measures are beginning to take effect, as administrative expenditures fell substantially compared with the previous year, by 558 million euros or 13.5 percent. The Allianz Group managed to boost its worldwide gross premium income in the insurance business from 37.6 to 42.1 billion euros, an improvement of 12.1 percent which substantially exceeded own expectations. The combined ratio also saw an improvement by falling more than 2 percentage points to 102.2 percent compared with the previous year.

Half-year **earnings before tax and amortization of goodwill** totaled 2.7 billion euros in the Allianz Group, a drop of 6.1 percent compared with last year's figures. Amortization of goodwill went up by 249 million euros to 567 million euros, thanks to consolidation of the Dresdner Bank Group since July 23, 2001 and the purchase of shares in Allianz Lebensversicherungs-AG from Munich Re. Following tax expenditure of 695 million euros in the first half of 2001, the first six months of 2002 saw a tax yield of 275 million euros. After deduction of minority interests amounting to 879 million euros, the Allianz Group made net income of 1.6 billion euros. **Earnings per share** rose from 5.57 euros to 6.49 euros compared with the previous year.

In the second quarter, the Allianz Group posted negative earnings of 356 million euros as a result of the weak capital markets.

Gross premium income in insurance business worldwide increased by 12.1 percent from 37.6 to 42.1 billion euros in the first half-year. After adjustment for the effects of consolidation and exchange rates, growth was 11.9 percent. IAS accounts, which only include sales from investment-oriented life insurance products with their risk and cost elements, show gross premium income increasing by 5.7 percent from 31.4 to 33.1 billion euros. “These figures significantly exceeded our expectations. It is evident that, in the current climate, a company’s financial strength is increasingly proving to be a competitive advantage,” noted Dr. Helmut Perlet, member of the Board of Management of Allianz AG responsible for Controlling, Accounting and Taxes.

Property and casualty insurance saw a rise in **premium income** of 5.6 percent from 22.3 to 23.6 billion euros. The main contributors to this increase were Europe and Australia. Successful restructuring measures in the industrial insurance business as well as increased premiums worldwide had a major impact on this positive sales trend.

Compared with the first quarter of 2002, the **loss ratio** fell significantly by 1.6 percentage points and currently stands at an improved 74.6 percent. Compared with fiscal 2001 as a whole – and after adjustment for World Trade Center-related claims – the loss ratio actually improved by 2.1 percentage points. Contributing to this were the restructuring measures in international industrial insurance as well as a favorable loss frequency in many countries. The **expense ratio** remained more or less unchanged at 27.6 percent.

The ratio of incurred losses and expenses to net premium income (**combined ratio**) has shown a very positive development at 102.2 percent. “We have come much closer to our goal of achieving a ratio of 100 percent by 2004 at latest,” said Helmut Perlet.

After amortization of goodwill, taxes and minority interests, half-year earnings amounted to 6.9 billion euros. After adjustment for equity sales within the group, the Allianz Group posted **earnings** of 3.6 billion euros in its property and casualty segment (year-on-year comparison: 1.6 billion euros).

In **life and health insurance** the Allianz Group boosted **total sales** by 21.3 percent from 15.6 to 18.9 billion euros. 47.5 percent or nearly 9 billion euros were generated by investment-oriented products. Despite the poor climate on the financial markets, sales of these products showed strong growth, most notably in the USA and Italy. In total, the Allianz Group achieved overall growth in investment-oriented products of 44 percent. IAS accounts showed premium income rising by 6 percent from 9.4 to 9.9 billion euros. The development of business in Korea and Germany contributed strongly to this increase. Allianz Leben, for example, posted an increase in new business in Germany of 29 percent – more than double the market average of 13 percent.

After amortization for goodwill, taxes and minority interests, **earnings** in the life and health insurance segment for the first half-year amounted to 203 million euros (year-on-year comparison: 263 million euros).

In the **banking business** the overall situation tightened further in the second quarter of 2002. In a highly volatile market environment with increasing insolvencies, performance in Allianz's banking business has proved more difficult than expected. The Allianz Group sustained a drop in operating income of 19 percent compared with the corresponding period last year. This impacted both the net fee and commission income and the trading result.

As a result of increased value adjustment requirements – especially for single risks and Latin America – expenditure on **loan loss provisions** came to 1,068 million euros. In terms of **administrative expenses**, Dresdner Bank made substantially greater improvements than planned. Compared with the first six months of the previous year, administrative expenses have been reduced by 558 million euros or 13.5 percent. The early implementation of cost-cutting programs is beginning to show results.

After amortization for goodwill, taxes and minority interests, the banking segment reported negative **earnings** of 1,058 million euros, with Dresdner Bank accounting for 1,024 million euros of this. "Obviously we cannot be satisfied with this result," commented Helmut Perlet, "but we have already taken the necessary measures to return our banking business to profitability in the near future".

Assets under management of the Allianz Group totaled 1,101 billion euros as of June 30, 2002. Compared with year-end 2001 this signifies a loss of 6.1 percent or 71 billion euros. **The Group's own capital investments** fell by 5.5 percent or 29 billion euros to 498 billion euros as a result of the major fall in share prices. **Investments for third parties** fell by 6.9 percent or 43 billion euros to 577 billion euros mainly due to the weakness of the US dollar. A comparison based on the exchange rates of December 31, 2001 shows that there would have been growth of 4.9 billion euros.

The dit-EURO BOND TOTAL RETURN FUND "powered by PIMCO", which was launched in Germany on April 2, 2002, generated net inflows of around 900 million euros in its first four months.

In the **asset management** segment, pre-tax **operating income** of 334 million euros was posted after adjustment for amortization for loyalty bonuses and retention payments for the PIMCO Group. This result already well exceeds that of 2001. After amortization for goodwill, taxes and minority interests, the first half of 2002 showed, as expected, negative earnings of 144 million euros, with the second quarter accounting for 53 million euros. Compared with the first-quarter loss of 91 million euros, this is a substantial improvement.

The persistent weakness of the capital markets and the corresponding difficulties for earnings performance in the investment and banking business have prompted the Allianz Group to adjust their **earnings forecast for the year 2002** to the altered circumstances. Previously anticipated earnings for fiscal 2002 of 3 billion euros – following 1.6 billion euros in fiscal 2001 – were based on the assumption that the stock market would stabilize at the level reached at the beginning of the year. From the current perspective, this earnings forecast for 2002 cannot be upheld – at least not at the expected quality. “There are two reasons why it is difficult to put a figure on forecast earnings for fiscal 2002: Firstly, because of the uncertainty of the markets, and secondly, because we also want to reserve the flexibility to decide whether and under which circumstances to realize gains from our capital investments. We rank among the best-capitalized financial services providers in Europe. We are above plan in three out of four business segments, and we will get the banking segment back on track towards profitability in a determined and resolved fashion as well,” said Helmut Perlet.

Munich, 14th August 2002

The complete half-year report is available on the Internet at www.allianz.com/investor-relations.

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