

**Dr. Paul Achleitner**  
**Speech at Financial Press Conference**  
**17<sup>th</sup> March 2005**

Ladies and Gentlemen,

Mr. Diekmann has explained how far we have come with the 3 + One program. Mr. Perlet has given an overview of how business is progressing. Now I'd like to explain how the management of our investments, the company portfolio and group financing is contributing to the success of the 3 + One program.

Some people, when they think about capital management at Allianz, think only in terms of individual transactions – for example the sale of our shares in MAN or Beiersdorf, or our recent All-in-One transaction. It is certainly not wrong to view capital management in that way. But if one views capital management in isolation, one tends to forget how closely our investment policy and group financing are intertwined with our business model. In the past, we pursued a buy-and-hold strategy in stocks, and built up surplus capital which was used to offset short-term fluctuations in the capital market. For decades, this was the successful model at the heart of our investment strategy. These days, however, we need to be much more efficient in risk management and capital management, in light of international accounting methods and regulatory requirements. Our institutional shareholders demand it too.

In recent years we have completely overhauled our investment strategy, and created a solid capital base, as prerequisites for ensuring that Allianz moves in the direction Mr. Diekmann has just described. Internal assignment of capital is carried out in accordance with the laws of an internal capital market. The company portfolio is actively managed to ensure optimal distribution of

growth opportunities at group companies. These are all components of the 3 + One program.

We have four concrete objectives:

- Decrease equity exposure
- Reduce cluster risks
- Divest non-strategic assets
- Strengthen our capital base

We have achieved a great deal in all of these areas in recent years.

1. First, our **equity exposure**: In the last five years, we have sold stock positions with a value of about € 30 billion. Disregarding our Eurohypo holding, we have reduced our proportion of stock holdings to below 13%. Alongside the traditional method – selling via the stock markets – we have employed methods that are innovative for our industry, namely the convertible bonds MILES and BITES. At present, Allianz's equity gearing is 0,9, measured against the net asset value of the group. This means that future stock market crises will not hit our capital base with their full force.

It is worth mentioning that now the mood on stock markets is looking brighter, various parties have already started criticizing our low proportion of stocks. They seem to be overlooking an important fact: We have made reductions not on the basis of short-term assessments of the markets, but rather as part of efforts to bring our business model in line with accounting and regulatory standards. The principle objective of our investment policy is, and will continue to be, to cover our insurance commitments. To this end, stocks will naturally continue to play an important role, especially given the need for diversification. Nevertheless, we do not wish to constantly tinker with asset allocation on a short-term basis.

Alternative asset classes are becoming increasingly important to our investment strategy. This includes real estate and in particular private equity and stock investments where strategy is not oriented to the normal benchmarks. These are commitments where we are less exposed to capital market fluctuations than with traditional stock investments.

The proceeds from the sale of the Messer Griesheim and Tank und Rast holdings during the past year were very satisfactory. As a result, we are focused on enhancing our private equity investments as we reduce equity exposure. Our investments in Hansen Transmissions in Belgium, Four Seasons Healthcare in the UK, and in our fund of fund business show how much importance we attach to private equity. Nonetheless, our private equity levels will remain well below those typical in Anglo-Saxon companies' investment portfolios.

This very selective investment approach, characteristic of private equity, will also be applied to public equity: Thus over the past two years we have been building up a small and mid-cap portfolio for Allianz Leben, investing very selectively, with a Europe focus. Internationally we want to encourage more group companies to invest in this portfolio. The annual return of 30% in 2004 make a compelling argument.

**To sum up: Our investment strategy is not based on short-term market trends. As we optimize the portfolio and returns, alternative investments have started to play a greater role.**

2. **Reduction of cluster risks**: By this I mean relatively non-fungible stock packets, especially of German blue chips. Here too we have basically achieved our objective. At the beginning of 2000, we were still in a position where holdings of greater than 5% made up 34% of our stock portfolio. Currently that figure is 9%.

I am rather proud that in disposing of stocks we have successfully upheld the interests of shareholders and customers, as well as of the companies involved. Current examples are the disposal of our MAN packet, and the remaining Munich Re holding which has been brought into our BITES index bond.

3. Now to the topic of **divestment of non-strategic assets**. As part of the All-in-One transaction, we increased the Allianz and Munich Re stock packages at Dresdner Bank. Both transactions resulted in risk weighted asset reductions of € 3 billion at Dresdner Bank.

The 'divestment of non-strategic assets' category also includes various activities within the company portfolio. Our main divestments during the past year were Allianz Canada and Allianz President General in Taiwan, along with Cornhill Life. It is true that our M&A transactions did include some purchases, such as the acquisition of the asset management company BNL Investimenti by our Italian group company RAS. Nevertheless, during the past year the main focus of portfolio management has been divestment.

In recent years we have restructured or wound up 78 intermediate companies and legal entities in the group. Viewed in isolation, these transactions may seem fairly unspectacular. Nonetheless, they are an important part of our efforts to reduce complexity as part of the 3 + One program.

**To sum up: We are continuing to restructure and sharpen the focus of the group, though there have not been any spectacular large-scale transactions.**

4. Last but not least, we have been working to strengthen our **capital base** – not merely the amount of capital (which we have boosted due to our strong

operating performance) but also the quality of our capital base. The All-in-One transaction in January contributed to this: The disposal of the Allianz shares, the two bonds and the simultaneously issued € 400 million AGF junior bond have significantly strengthened rating-relevant capital. At the same time, we have made further improvements to the group's solvency, as measured in light of the regulations for financial conglomerates that take effect at the end of the year.

We have also repeatedly taken advantage of the favorable interest climate of recent years to convert senior debt into junior liabilities and therefore improve the **maturity structure as well as the quality** of our financing. We have also reduced the amount of our external financing: Our long-term debt is currently economically at just € 13.1 billion (not including Commercial Paper), as compared with € 15.5 billion at the end of 2002. This includes bond maturities of € 2.7 billion this year - they will be refinanced via the hybrid bond in the All-in-One package to the tune of € 1.4 billion. We chose junior status so as to improve regulatory and rating-relevant capital positions.

**To sum up: We have improved our financing structure on an ongoing basis.**

In conclusion, it is clear that reducing the proportion of stock holdings, and reducing cluster risk and non-strategic assets, is having a significant impact on Allianz's business model. We are channeling capital into strategically relevant business areas on an ongoing basis, and **instead of using excess capital as a fire extinguisher in emergencies we have introduced a systematic capital allocation model**. Thus we are placing emphasis on operations, and, as our result for the year shows, this is definitely the right approach.

Thank you very much