

**Annual General Meeting  
of Allianz AG on May 5, 2004**

Report of the  
Chairman of the Board of Management  
Michael Diekmann



Dear Shareholders,

I should like to welcome you in the name of my colleagues on the Board of Management to the Annual General Meeting of your Allianz at Munich's Olympic Hall. I'm delighted to see so many of you here.

I should also like to welcome the ladies and gentlemen from the press and the school children and students who are with us today.

## **Overview**

During the fiscal year 2003, ladies and gentlemen, we consistently pursued the realignment that we started the previous year. We have achieved a great deal toward ensuring that the coming years will experience an upswing at Allianz. I will be referring to this in the second half of my presentation. But first of all, I should like to address the results of the year 2003.

One of the most important indicators for the performance of your company is the **operating result**. It clearly shows what has been generated from ordinary business activities without gains on disposals and losses arising from shares and before taxes, goodwill depreciation and amortization, and minority interests. This operating result amounted to almost 4 billion euros during the course of the year under review.

However, what counts in the final analysis is **net income**, i.e. the annual surplus. This totaled 1.6 billion euros during the year under review. In other words, it was 2.8 billion euros up on the previous year. This upswing in income is very good news and extremely important. However, you will wish to be reassured that we are not taking a bad year like 2002 as a benchmark. That's why we're talking about a change in trend.

This change in trend was acknowledged by the capital market. At the beginning of the year, the Allianz share broke through the 100 euro barrier. Taking the year as a whole, the share price rose by around 24 percent. At the last Annual General Meeting we had a market capitalization of around 17.5 billion euros, including the average value of subscription rights. Today, this is around 32 billion euros.

You know your Allianz as a company that maintains a consistent **dividend policy**. This year, we are submitting a proposal to you to increase the dividend amount from 374 to 551 million euros. This is almost 50 percent more than in the previous year. Despite a significantly higher number of shares following the increase in capital, the intention is that the dividend per share should again be one euro and 50 cents.

### **Results that did not meet our expectations in 2003**

Unfortunately, two negative factors impacted on the results during the year under review:

1. Although we intended to bring Dresdner Bank operations up to the “Black Zero” during the course of the year, we undershot this target by 460 million euros.
2. In life and health insurance business we reported a negative overall result of 48 million euros despite having achieved a high operating profit.

When I go through the results of our four business segments, I shall return to these two items.

## The “3 + One” Program

I should now like to take you through the key results in the sequence of our “3 + One” Program. We have bundled all the activities and measures for the period 2003 – 2005 in this program. By “3 + One” we mean the following:

1. Protect and enhance the capital base
2. Substantially strengthen operating profitability
3. Reduce complexity

and plus one stands for

Increase sustainable competitiveness and value.

### 1. Protect and enhance the capital base

Our shareholders’ equity increased by a total of 6.9 billion euros. This was substantially determined by the **rights issue** in spring 2003. The overwhelming majority of **you** as our shareholders participated in this rights issue – and I should like to thank you for your confidence in us. That was an extremely important milestone for the ongoing development of the business year.

Shareholders’ equity also benefited from the balance of changes in unrealised gains and losses amounting to 2.5 billion euros and naturally also our net income.

Overall, this increase in our capital base meant that we succeeded in bucking the market trend and retained our good **rating**.

## 2. Substantially strengthen operating profitability

Ladies and gentlemen, the second element in our “3 + One” Program is:  
Strengthening operating profitability.

As I mentioned at the start of my presentation, we increased the operating result by 4.5 billion euros.

Although our sales increased by more than 6 percent to almost 94 billion euros after exchange-rate adjustments, we were able to reduce **costs** by 2.4 billion euros. This figure includes 1.9 billion euros saved in administrative expenses. That is particularly important because the lions’ share of these savings has a sustainable effect. In other words, we aren’t simply shifting costs into the future.

**All four business segments** and almost all Group companies have contributed to improving the operating results.

For those of you, who are not quite so familiar with Allianz the four business segments are shown here with the corresponding revenue figures. On the bottom left side of the slide, you see the proportionate share of each segment of the total revenues and on the bottom right side the proportionate regional split.

I will be brief as I now run through the **business segments**, because the Annual Report includes all the details and this will give us more time for the discussion afterward.

We increased premium income in **Property and Casualty Insurance** by 4 percent to 43.4 billion euros after adjustment for exchange rates. The segment generated an operating result of more than 2.8 billion euros. Here, we succeeded in reducing the ratio of losses and expenses to premiums earned – the so-called **Combined Ratio** – by 8.7 percentage points to 97 percent. The balance of gains on disposals and write-downs on shares remained unchanged at a high level of nearly 3.5 billion euros. This is why **net income** after taxes, goodwill and minority interests was significantly above the operating result at 4.5 billion euros.

In **Life and Health Insurance**, we increased premium income by almost 11 percent to 42.3 billion euros after adjustment for exchange rates. The **expense ratio** fell from 10.0 to 7.9 percent. This was indeed necessary in order to compensate for the historically low return on investments as far as possible.

We had to report a loss of 48 million euros as net income. This is primarily due to two **special effects** which impacted negatively on net income to the tune of 652 million euros.

Firstly, a retroactive **new tax regulation** in Germany significantly increased tax expenses for our companies Allianz Leben and Allianz Private Kranken. This impacted negatively on the result with 428 million euros.

Secondly, earnings for the year were reduced by 224 million euros in **unscheduled depreciation of goodwill** on our subsidiary Allianz Life in Korea. This **depreciation of goodwill** was necessary because the level of interest in Korea had fallen below the guaranteed interest rate on existing products in the portfolio.

Ladies and Gentlemen, I should now like to address our **Banking Business**. I will restrict myself to Dresdner Bank, because it constitutes the primary influence on this business segment.

We have all followed the reports on the German banking market and the significant challenges facing retail banks in Germany. There have also been many negative comments on Dresdner Bank. I have no intention of talking up the results today, but I should like to state very clearly that the negative reports fail to do justice to the massive efforts made by Dr. Walter, his colleagues on the Board of Management and the members of staff at Dresdner Bank.

I confirmed to you at our Annual General Meeting last year that we would need three years until the bank was earning its capital costs. Let's just look at where the bank is at this point in time.

Here you can see the operating results of the bank without the IRU, i.e. the unit which has been charged with settling the non-strategic or non-performing commitments. In the remaining core business areas, the bank earned 268 million euros on operating business after deduction of all financial burdens here in this category "Other". We are among the leaders in Europe for corporate customer business with a cost-income-ratio of 47 percent. Besides, the investment bank has been turning in positive earnings for the past six quarters.

As I commented at the start, we failed to achieve our ambitious goal of reporting a balanced operating result at the bank in 2003. Why was this?

We succeeded in reducing administrative expenses by more than one billion euros, thereby surpassing our cost goal. Allowance for loan losses in the credit portfolio was halved by comparison with the previous year to 1 billion euros. Undershooting our target was therefore solely due to lower operating revenues, which was due in turn to exchange-rate effects and an accounting effect arising from application of IAS 39.

This means that actual sales have stabilized with substantially reduced costs and significantly improved risk quality, despite massive restructuring throughout the bank. Operating earnings improved by 1.7 billion euros and this represents gratifying progress.

Why has Dresdner Bank impacted negatively on the Allianz result by 1.3 billion euros, despite a significant improvement in operating earnings?

The reason is that the income statement of Dresdner Bank includes 1.9 billion euros from **non-operating** business, i.e. one-off expenses. These are restructuring expenses for the programs "Turnaround 2003" and "New Dresdner", but also unscheduled write-downs. In other words, write-downs on valuations that no longer correspond to current assessments.

Today, I should again like to emphasize our original objective on the basis of the significant improvements in operating business:

- Positive net income before restructuring costs in 2004, and
- Net income amounting to the costs of capital for 2005

I should now like to turn to the **Asset Management** segment. There we were able to increase the **operating result** by 238 to 733 million euros. **Net inflows** to assets under management for third parties amounted to 25 billion euros. This has again reinforced our leading role among the most successful global asset managers. However, the costs incurred by the acquisitions of the US-American fund managers mask these advances in the result after taxes. These expenses will essentially have been absorbed by the year 2005, and the continuous improvements in the operating result will then be reflected in Allianz net income without distortion.

At the end of this report on the business segments, I would like to speak about our turnaround cases. A year ago we discussed **three turnaround cases** in addition to Dresdner Bank: our US-American property and casualty insurer Fireman's Fund, our industrial and reinsurance unit Allianz Global Risks, and French insurer AGF. Today, I am in a position to report to you that the **Turnaround** at Fireman's Fund and at Allianz Global Risks has been successfully completed. Also progress made at AGF was ahead of plan. We intend to conclude this turnaround successfully during the course of this year.

### **3. Reduce complexity**

I will now turn to the third item in our program: reducing complexity. During the year under review, we withdrew from 20 sub-critical companies and business activities, and thereby reduced the complexity of our **business portfolio**. As a result of selling major shareholdings in **Beiersdorf AG** and **Munich Re**, we also achieved a significantly improved spread of risk in our share portfolio.

In tandem with a reduced **share quota** (to 16.4 percent) and the consistently reduced credit risks at Dresdner Bank, we substantially reduced the strain on our **risk position**. The risk capital required for operating our business was cut down overall by 8 billion euros. As far as I am concerned, this is one of the most informative figures to emerge from our business last year. In combination with the

significant improvement in earnings, this figure shows the extent to which we have improved the quality of risk in our business over the period of just one year: significantly more income with much less risk capital.

### **“ + One” Increase sustainable competitiveness and value**

Despite the fact that the results from our first three program items are extremely promising, they are not good enough yet. A **quick comparison with the competition** suffices to demonstrate this. Although our earnings before amortization of goodwill amounting to 3 billion euros overtook the result of most of our international competitors, ING, Berkshire Hathaway and AIG achieved more.

If your question is: Can we catch up with the top competitors? The answer to this question is: Yes.

If your question is: Does Allianz have to evolve a new culture of performance in order to catch up with the top competitors, the answer is again: Yes.

If you then go on to ask: Is there enough ambition within your company not just to catch up with the competition but to be even better? My response to this question is also the answer: Yes. But in order to achieve that goal, the **entire company** will need to make a tremendous effort.

A strong capital base, high operating profitability and a clearly focused business portfolio are the right prerequisites for drawing equal with the very best of our competitors. This is the “3” of our “3 + One” program. But in order to be better than they are, we will have to mobilize all the reserves of performance we have available.

This is the core of our program for profitable growth, **the + One**. This is designed to demand and promote a sustainable increase in competitiveness and value. Ladies and Gentlemen, this is the really interesting bit as far as you are concerned.

We want this company to undergo **change**. We should like your Allianz to exploit all the available opportunities using its massive potential to surpass itself.

**Our corporate culture: decentral, customer-oriented, entrepreneurial within a clearly structured framework and encompassing each individual member of staff.**

During recent years, essential restructuring and integration projects in virtually all our markets entailed that we were focused too strongly on fulfilling plans only. This needs to change. That's why we launched a wide range of initiatives with the objective of stimulating an entrepreneurial spirit at all levels of the company. **Tomorrow**, Allianz needs to become a group that is no longer satisfied with meeting standards. It should be focused consistently on staying ahead of the market and strive to exceed its own business targets.

We need to take into account the fact that the framework conditions in our business are changing extremely dynamically in virtually all our markets.

Examples are the sweeping changes in the regulatory framework, changes in tax legislation, volatility in the equity markets and more impatient expectations of capital markets. The competitive environment is continually changing as a result of new competitors and consolidation taking place within the market. There are also dramatic demographic changes entailing long-term changes in customer structures and also customer potential in the regions.

Against the background of these ongoing changes, we need to review our strategy on a regular basis and adjust it as necessary. We also need to maintain our principle of local company management in order to be able to react with appropriate flexibility to these massive changes in the marketplace.

### **What are the core components of our strategy?**

We are continuing to focus our activities on the core businesses of Protection, Provision and Performance. The operating focuses are clearly directed toward increasing efficiency and innovation in the product houses, and merging products to create solutions for sales. Sales will be further expanded and improved with a continuous process of enhanced qualification.

We are operating either within a regional or within a global framework, depending on whether we are dealing on the customer side with a global buyer or a local customer. In local markets, we distinguish between those markets where we're working with our own sales force and those where we work with independent intermediaries. In our global areas of business, we need to be among the leading international providers, while in local business we also need to take up market positions that are locally significant. This is the only way we can be really successful.

Allianz has adopted the right strategy in investing in neighboring markets, in growth markets, and since 1998 also in asset management. Today, our position in global markets and in the key local markets in the world means that we really are able to tap the market potential. However, the enormous resources required to build up this structure have also been one reason for weak income.

It was right to diversify geographically and this is being confirmed increasingly. This very diversification has balanced out risks such as those arising from the economic consequences of the SARS respiratory disease, the Iraq War or terrorist attacks. We're also better able to respond to economic developments in individual markets.

In order to improve our position in international competition and bring the **mentality of the expansion phase** to an end, there are now two clear maxims that apply throughout the company:

- Each Allianz company needs to earn a premium on top of cost of capital sustainably.
- Each company needs to devote all its efforts toward being the first choice for our customers.

These maxims determine the **corporate culture**. They entail a common understanding of how we are managing our business and with what result. This approach also involves a corporate culture that has to be very open to difference and change. The corporate culture needs to accept that

- in different markets,

- with customers who are all different, and
- with rapidly changing patterns of demand,

the key factors for business success are agility, excellence and flexibility.

### **Culture of performance**

During the course of the reporting year, we have refined and supplemented the **instruments** which are intended to make Allianz more entrepreneurial and customer-oriented.

What are these instruments?

- We restructured our internal capital allocation.
- We introduced new leadership values.
- And we structured our incentive systems for members of staff and managers in such a way that we would be able to apply our principles on a worldwide basis.

The holding company takes on the role of a **capital market** in which each operating unit is in **competition** for capital. Only the units presenting the best business plans and providing evidence of maximum value creation will qualify for additional risk capital.

For the first time, we are requiring Group companies to pay a **minimum dividend** amounting to the level of their cost of capital. Profits which are in excess of the cost of capital can be used by the companies to finance their internal growth. However, they must be in a position to implement this requirement in competition with the other corporate entities. Above all, they must **execute their business plans**. We want to be absolutely certain that these funds are being deployed correctly.

The minimum dividend allows the holding company to improve its financial structure and also provides additional funds for capital allocation. This enables

us to ensure that we are actually in a position to take advantage of opportunities for growth where we see the best opportunities for profitability.

The advantage of this approach for you, the shareholders, is that the most profitable companies receive the greatest financial resources for financing further growth. Above-average performance is not simply rewarded in financial terms. It also promotes ongoing development of the most successful subsidiaries. This strengthens the strong companies and forces weaker companies to improve their performance in order to have an opportunity of obtaining capital in competition with the other companies.

Our aim is a business portfolio that can consistently attain the target yield of 15 percent.

**Our aim with these changes is not simply to achieve an increase in earnings. We also want our units to direct their energies fully to the customer segments where genuine value added can be created. The reason is that only increases in income achieved by customer-oriented companies are sustainable increases.**

If this company is to compete right at the top within the foreseeable future, its very lifeblood needs to be entrepreneurial and service-oriented. This is the decisive factor that will enable us to initiate a **growth curve** once more.

What gives me the confidence in our ability to go through with this transformation? We are in an excellent position to take an entrepreneurial approach to the consequences of an **aging society** and turn it to the benefit of our shareholders. Our international **reach**, our **customer base**, and our own **sales and production resources** enable us to generate profitable growth from this scenario. We have professional **staff** who are able and willing to exploit these resources to the full on the ground. That will be crucial.

## Profitable growth

I should like to give you a few examples where we will be able to generate profitable growth in future. These are intended to show how our model for capital allocation operates.

- We have drastically reduced risk capital in those parts of **Dresdner Bank** which are not core businesses or which are unprofitable. The risk capital released is invested in segments which meet our income expectations.
- In the USA, we increased our shareholding in **PIMCO**, the biggest bond fund manager in the world, from 70 to 84 percent. Together with PIMCO, we are the second biggest asset manager in the USA.
- Also in the USA, our subsidiary **Allianz Life** launched an alternative product profile and achieved an entrepreneurial flexibility that allows it to benefit from fluctuations in demand between classic annuity insurance and unit-linked annuity insurance at any time. With more than 200,000 independent salespeople, Allianz Life is now able to operate extremely close to customer requirements, tailoring its product range and rates to new conditions in the marketplace without delay. Sales of approximately 10 billion US dollars now place us not only among the biggest, but also among the most innovative annuity insurers in the USA.
- **Allianz Leben** in Germany has again significantly increased its market share of new business. We're now preparing for the transformation of the growth market pension provision. We're working on a **new generation of annuity insurance products** which are intended to supplement directly the statutory pension insurance within the scope provided by the Law on Taxation of Pensions and Annuities (*Alterseinkünftegesetz*). These will be more independent of the impact of any changes in tax policy as a result of downstream taxation.
- The "**New Dresdner**" Program is simply a broadly based initiative geared toward stimulating entrepreneurial growth following on from the tough restructuring phase the bank has been through. The bank will become faster, more efficient and more customer-oriented. We want our bank to be first

choice with customers by ensuring that its level of service and competence puts competitors in the shade.

- We are accelerating the integration of our competences in insurance, in long-term asset accumulation and in banking through **integrated financial consultancy**:
  - During the year under review, 84,000 property and 92,000 life insurance policies were sold through Dresdner Bank. This represents growth of 30 percent.
  - Dresdner Bank also proved to be successful in the sale of **solutions for company pension provision**: Compared to 2001 it increased its share of business concluded with Allianz Leben by a factor of five.
  - Dresdner Bank additionally generated sales of funds of our asset management company ADAM amounting to 3 billion euros.
  - More than 90 percent of our insurance agents in Germany are now selling investment funds. During the year under review, sales in excess of 700 million euros meant that they increased sales performance by 35 percent. New business even doubled by comparison with the year 2002.
- The next stage is now on the agenda. Since October 2003, all 10,000 Allianz agents have had access to the systems at Dresdner Bank via a new banking portal. This gives them a powerful platform for carrying out online banking transactions on behalf of their customers. Moreover, as the year progresses, **5,000 agents**, i.e. around half of our representative insurance agencies in Germany, will be in a position to offer their customers competent banking services and banking products following completion of the appropriate training.
- Our subsidiary RAS generated such outstanding sales in the growing market prevailing in Italy that it had sufficient financial resources after deduction of the dividend to the holding company for buying in sales capacity. The company acquired two sales organizations with more than 1,200 financial planners. This move allows RAS to accelerate its successful growth strategy in private investment even further.

- In Central and Eastern Europe, we now serve 10 million customers, and we increased premium income by 27 percent to 1.8 billion euros. Pension business saw us managing investments amounting to more than 1 billion euros. Around 15 years after we entered the market, we are **Number 2** in these highly profitable growth markets in the insurance sector and in pension business. Overall, we are the biggest foreign provider. This means we're in an outstanding position to take advantage of the dynamic growth anticipated as a result of EU accession by the new states.
- We have also significantly strengthened our position in China. We are active there as a bank, in property and life insurance business, and in asset management. Additionally, we have recently concluded a joint-venture agreement with the only **Chinese credit insurer**. The business potential is enormous, because only three percent of Chinese exports amounting to 400 billion US dollars are covered by credit insurance to date.
- The recently launched asset management business in China has got off to a good start. Our joint venture with Guotai concluded a **strategic partnership with ICBC**, one of the biggest Chinese state banks with more than 20,000 branches and 100,000 million customers. Our first two funds have been set up and marketed using this network. Within a very short space of time, sales of our fund have reached 1.3 billion US dollars, beating previous records in the Chinese market.

## Summary

These growth initiatives and successes demonstrate that Allianz is devoting strenuous efforts to regaining a position among the most successful financial services providers.

But we are adopting a disciplined approach during this process in order to ensure that sales are not achieved at the expense of profitability.

Take me at my word: we want to increase the value of the company sustainably. And we want to continue to grow steadily, profitably, with a clear focus on customers and generating excellent results for you, our shareholders. This constitutes the essence of our "3 + One" Program.

We will only be able to accomplish these aims and satisfy the expectations you, our shareholders, rightly have, if we can continue to count on the unrivalled commitment of the people working for Allianz. Our staff have demonstrated over the course of this challenging year that they are ready to make this commitment. At this point, I should like to express my heartfelt thanks to each individual member of staff for the dedication you have shown.

Our members of staff also know that we have some big challenges ahead of us. In this context it would be extremely helpful if we received a following wind from the politicians in Berlin and Brussels instead of a headwind.

Naturally, we will use all the opportunities available to us to help structure the legal and fiscal framework conditions relating to retirement provision in Europe. We cannot simply accept that on the one hand, voluntary retirement provision is being made a statutory requirement, while on the other hand, the most popular product, the endowment policy, is discriminated against.

We will also continue to put up a good case for fully-funded private solutions with a view to the imminent reforms in the health systems, especially in Germany and in France. We have also been playing a very proactive role in the USA, participating in deliberations on reform of procedural law currently taking place there, with the aim of creating a legal framework that will not obstruct business.

## **1st quarter 2004**

I should now like to conclude with a **brief overview of business during the 1st quarter** of this year.

The business figures for the first quarter of 2004 confirm that we are on the right track with our “3 + One” Program.

**Premium income in insurance business**, adjusted for exchange-rate effects and changes in the group of consolidated companies, increased by around 3 percent.

The **operating result** went up by a good 300 million euros to a 1.1 billion euros, and in the early months of the year all four business segments have again contributed to improvements in results:

The combined ratio in **Property and Casualty Business** improved further from 97% to currently below 96 percent.

**Life and Health Insurance** demonstrated robust growth at a good 6 percent. The expense ratio was reduced by almost one percentage point.

**Banking Business**, primarily governed by performance at Dresdner Bank, reported an operating result amounting to 170 million euros resulting in a positive after tax result.

**Asset Management** increased the net inflow of funds by nearly 10 billion euros. The operating result and the net income for the quarter improved by approximately one third.

All in all, net income for the quarter after taxes, goodwill and minority interests increased by 1.2 billion euros to approximately 650 million euros.

This result for the first quarter of 2004 confirms the trend reversal of 2003.

Dear Shareholders,

We don't have a crystal ball and we can't rule out the possibility of disasters. There are, however, strong grounds for assuming that your Allianz will play a leading role in global competition, and I anticipate that we will be able to overcome the weak prices seen last week. We therefore ask you to continue to support your company. We greatly appreciate your patience and your confidence in us and I believe you will not be disappointed.

Thank you for your attention

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

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