The book value of investments held by Allianz AG rose by 18 percent to DM 62.4 billion.

Claims from natural disasters increased again in 1998. The picture above shows the eye of Hurricane Mitch.

Net income of Allianz AG for the year amounted to DM 1.4 billion. An increased dividend of DM 2.20 per share is proposed for fiscal 1998.
### Allianz Aktiengesellschaft

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>Change on previous year %</th>
<th>1997</th>
<th>Change on previous year %</th>
<th>1996</th>
<th>Change on previous year %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross premiums written</td>
<td>DM mn</td>
<td></td>
<td>9,311</td>
<td>– 3.9</td>
<td>9,693</td>
<td>– 1.7</td>
</tr>
<tr>
<td>Retention</td>
<td>%</td>
<td></td>
<td>62.8</td>
<td></td>
<td>62.0</td>
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<tr>
<td>Loss ratio on own account</td>
<td>%</td>
<td></td>
<td>71.6</td>
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<td>70.5</td>
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<tr>
<td>Expense ratio (gross)</td>
<td>%</td>
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<tr>
<td>Underwriting result</td>
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<td></td>
<td>107</td>
<td>– 10</td>
<td>117</td>
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<tr>
<td>Non-underwriting result</td>
<td>DM mn</td>
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<td>1,725</td>
<td>47.5</td>
<td>1,171</td>
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<tr>
<td>Earnings before tax</td>
<td>DM mn</td>
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<td>1,832</td>
<td>57.8</td>
<td>1,161</td>
<td>73.7</td>
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<tr>
<td>Taxes</td>
<td>DM mn</td>
<td></td>
<td>– 468</td>
<td>14</td>
<td>14</td>
<td>7</td>
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<tr>
<td>Net income</td>
<td>DM mn</td>
<td></td>
<td>1,364</td>
<td>16.1</td>
<td>1,175</td>
<td>95.4</td>
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<tr>
<td>Investments under management</td>
<td>DM mn</td>
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<td>62,444</td>
<td>18.2</td>
<td>52,849</td>
<td>19.2</td>
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<tr>
<td>Shareholders’ equity</td>
<td>DM mn</td>
<td></td>
<td>19,788</td>
<td>32.4</td>
<td>14,943</td>
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<tr>
<td>– (as percent of net premium income)</td>
<td>%</td>
<td></td>
<td>338.5</td>
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<td>Insurance reserves</td>
<td>DM mn</td>
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<td>29,173</td>
<td>– 0.1</td>
<td>29,199</td>
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<tr>
<td>Dividend per share</td>
<td>DM</td>
<td></td>
<td>2.20</td>
<td></td>
<td>1.90</td>
<td></td>
</tr>
<tr>
<td>Total dividend</td>
<td>DM mn</td>
<td></td>
<td>539</td>
<td></td>
<td>458</td>
<td></td>
</tr>
<tr>
<td>Allianz share price at year end</td>
<td>DM</td>
<td></td>
<td>620</td>
<td></td>
<td>466</td>
<td></td>
</tr>
<tr>
<td>Allianz market capitalization at year end</td>
<td>DM bn</td>
<td></td>
<td>151.8</td>
<td></td>
<td>107.2</td>
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an international commission set up to investigate claims under policies taken out by victims of Nazi persecution where no payments have been made, and to discuss the establishment of a fund for this purpose. In the same connection we have also been kept informed about our participation in the Foundation planned by the German business community.

We have examined in detail the possible impact of the so-called Year 2000 problem on the Allianz Group.

At our meeting in September the Board of Management gave us details about the new Allianz Asset Management division. We also received a special report about the positioning of the Allianz Group in the Asia Pacific region.

Another subject discussed by the Supervisory Board was the introduction of a long-term incentive plan by means of which the Group’s top management will participate in the long-term performance of the Group’s parent company Allianz AG. This additional means of remuneration is to be introduced in order to ensure that the Allianz Group remains internationally competitive in this area.

We have also discussed with the Board of Management the decision to adopt internationally recognized accounting standards (IAS) for presentation of the consolidated financial statements, which will enable us and our shareholders to make a better assessment of the performance of the Allianz Group as a whole. Finally the Board of Management has outlined to us its forecasts for the 1999 fiscal year. Our discussions in this connection centered around the German government’s plans for tax reform and the implications of those plans.
The Supervisory Board has appointed the following subcommittees: a Standing Committee, an Executive Committee, and the Mediation Committee required by the Codetermination Law. The Standing Committee held four meetings at which it was concerned mainly with the Company’s capital restructuring and fund-raising measures, whilst the Executive Committee entrusted with handling personnel matters met three times.

The independent auditors KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Munich, have examined the annual financial statements of Allianz AG and the consolidated financial statements for the year ended December 31, 1998, as well as the management reports of Allianz AG and of the Group, and given them an unqualified opinion. We have also inspected these records ourselves.

The reports by KPMG on the audit of the annual and consolidated financial statements were submitted to all members of the Supervisory Board and discussed in detail at the meeting of the Supervisory Board held for that purpose on May 19, 1999, which was also attended by the auditors. We have no objections and concur with the findings of the examination by KPMG. We agree with the Board of Management’s recommendation for the appropriation of profit. The Supervisory Board has approved the financial statements presented by the Board of Management, which are accordingly confirmed.

The new shareholder representatives on the Supervisory Board were elected for a five-year term at the General Meeting of shareholders held on July 8, 1998. The following members accordingly resigned from the Supervisory Board: Dr. Sylvia Maser, Prof. Dr. Dr. h.c. Marcus Bierich, Dr. Horst Burgard, Dr.-Ing. E.h. Werner H. Dieter, Dr.-Ing. E.h. Hermann Franz, Dr. Friedhelm Gieske, Dr. Wolfgang Müller, Lienhardt Reich, Edzard Reuter and Dr. Wolfgang Röller.

Ulrike Mascher has resigned from the Supervisory Board following her appointment as a Parliamentary permanent secretary. Prof. Dr. Rudolf Hickel was appointed by the court to replace her as an employee representative on the Board. Renate Daniel-Hauser has resigned from the Supervisory Board with effect from February 24, 1999, and has been replaced by Reiner Lembke as a representative on the Board elected by employees.

We have expressed our thanks to all the above for their contributions to the work of our Board.

The Supervisory Board has appointed Michael Diekmann as an alternate member of the Board of Management with effect from October 1, 1998. He has taken over responsibility for the Asia Pacific region.

Munich, May 19, 1999
For the Supervisory Board

Dr. Klaus Liesen
Dr. Klaus Liesen  
Chairman of the Supervisory Board  
Ruhrgas AG,  
Chairman  

Karl Miller  
Salaried employee,  
Frankfurter Versicherungs-AG,  
Deputy Chairman  
since July 8, 1998  

Dr. Wolfgang Röller  
Former Chairman of the  
Supervisory Board  
Dresdner Bank AG,  
Deputy Chairman  
department until July 8, 1998  

Dr. Alfons Titzrath  
Chairman of the Supervisory Board  
Dresdner Bank AG,  
Deputy Chairman  
since July 8, 1998  

Dr. Karl-Hermann Baumann  
Chairman of the Supervisory Board  
Siemens AG,  
since July 8, 1998  

Professor Dr. Dr. h.c.  
Marcus Bierich  
Chairman of the Supervisory Board  
Robert Bosch GmbH,  
department until July 8, 1998  

Norbert Blix  
Salaried employee,  
Allianz Versicherungs-AG  

Dr. Horst Burgard  
Former Member of the  
Supervisory Board  
Deutsche Bank AG,  
department until July 8, 1998  

Klaus Carlin  
Member of the Central Executive  
Committee  
Commerce, Bank and Insurance  
Workers’ Union (HBV)  

Bertrand Collomb  
Président Directeur Général Lafarge,  
since July 8, 1998  

Renate Daniel-Hauser  
Branch Manager,  
Allianz Versicherungs-AG,  
until February 24, 1999  

Dr. Ing. E.H. Werner H. Dieter  
Former Chairman of the  
Board of Management  
Mannesmann AG,  
until July 8, 1998  

Jürgen Dormann  
Chairman of the Board of Management  
Hoechst AG,  
since July 8, 1998  

Dr. Christoph Forster  
Attorney,  
Allianz Versicherungs-AG,  
until April 30, 1998  

Dr.-Ing. E.H. Hermann Franz  
Former Chairman of the  
Supervisory Board  
Siemens AG,  
until July 8, 1998  

Dr. Friedhelm Gieske  
Former Chairman of the  
Board of Management RWE AG,  
since July 8, 1998  

Professor Dr. Rudolf Hickel  
Commerce, Bank and Insurance  
Workers’ Union (HBV),  
since January 9, 1999  

Reiner Lembke  
Salaried employee,  
Allianz Versicherungs-AG,  
since February 25, 1999  

Frank Ley  
Salaried employee,  
Allianz Lebensversicherungs-AG,  
Deputy Chairman until July 8, 1998  

Alfred Mackert  
Salaried employee,  
Vereinte Krankenversicherung AG,  
since July 8, 1998  

Ulrike Mascher  
Member of the German Federal  
Parliament/  
Parliamentary permanent secretary,  
Commerce, Bank and Insurance  
Workers’ Union (HBV),  
until October 29, 1998  

Dr. Sylvia Maser  
Head of department,  
Allianz Lebensversicherungs-AG,  
from May 1, 1998 to July 8, 1998  

Dr. Wolfgang Müller  
Former Member of the  
Board of Management  
Allianz Aktiengesellschaft,  
until July 8, 1998  

Bernd Pischetsrieder  
Former Chairman of the  
Board of Management  
Bayerische Motoren Werke AG,  
since July 8, 1998  

Reinhold Pohl  
Custodian,  
Allianz Lebensversicherungs-AG  

Lienhardt Reich  
Salaried employee,  
Allianz Versicherungs-AG,  
until July 8, 1998  

Gerhard Renner  
Member of the  
Federal Executive Committee  
German Union of Commercial, Clerical  
and Technical Employees (DAG)  

Edzard Reuter  
Former Chairman of the  
Board of Management  
Daimler-Benz AG,  
until July 8, 1998  

Roswitha Schiemann  
Branch Manager,  
Allianz Versicherungs-AG,  
since July 8, 1998  

Dr. Albrecht Schmidt  
Speaker of the Board of Management  
Bayerische Hypo- und Vereinsbank AG  

Dr. Manfred Schneider  
Chairman of the Board of Management  
Bayer AG,  
since July 8, 1998  

Dr. Hermann Scholl  
Chairman of the Executive Board  
Robert Bosch GmbH,  
since July 8, 1998  

Jürgen E. Schrempp  
Chairman of the Board of Management  
DaimlerChrysler AG,  
since July 8, 1998
Dr. Henning Schulte-Noelle
Chairman

Dr. Diethart Breipohl
Chief Financial Officer

Detlev Bremkamp
Europe, Near East, Africa, Reinsurance

Dr. Reiner Hagemann
Property and Casualty Insurance, Germany, Personnel Director

Herbert Hansmeyer
North and South America

Dr. Gerhard Rupprecht
Life and Health Insurance, Germany

Michael Diekmann
Asia-Pacific, Deputy Member since October 1, 1998

Dr. Helmut Perlet
Controlling, Accounting, Tax, Deputy Member
REINSURANCE

Besides serving as holding company for the Group, Allianz AG also acts as the Group’s reinsurance carrier, generating most premiums from our Group subsidiaries and other companies in which we have an equity interest.

Gross premiums written went down by 3.9 percent in 1998 to DM 9.3 billion (1997: DM 9.7 billion). Net premiums were also 2.7 percent down at DM 5.8 billion (1997: DM 6.0 billion).

We attribute the decrease in revenue to the following factors in particular:

► Our property and casualty insurance companies in Germany had less premium income in 1998 than in the previous year.

► Premium income was also reduced as a result of the reorganization of our shareholdings in life and health insurance companies in Germany.

► Allianz Group companies in Britain and the United States changed their reinsurance strategies.

The proportion of total premium income contributed by companies outside Germany showed a marginal increase to 13.3 percent (1997: 13.1 percent).

The underwriting profit before adjustments to the claims equalization reserve fell by DM 205.2 million to DM 23.8 million.

The loss ratio on own account (excluding surrenders and premium returns) rose to 65.4 percent (1997: 63.0 percent). The increase was mainly due to claims incurred in connection with natural catastrophes. Earnings were affected by the ice storm in Canada (January 1998) and the devastation caused by Hurricane George in the USA and Puerto Rico (September 1998) and Hurricane Mitch in Central America (October 1998). The claims expenses for these natural catastrophes totaled DM 75.0 million. The loss ratio was also adversely affected by large-scale industrial insurance claims and – to a lesser extent – the unsatisfactory claims situation in automobile reinsurance.

The expense ratio was 26.2 percent (1997: 24.7 percent). It is influenced mainly by reinsurance commissions paid.

Owing to the increased level of claims and costs, DM 83.4 million had to be transferred from the claims equalization reserve (1997: DM 239.2 million transferred to the reserve). The underwriting result accordingly showed significant improvement from a loss of DM 10.2 million in 1997 to a profit of DM 107.3 million.
“Other” lines of reinsurance include:
- emergency assistance
- burglary, theft and robbery
- omnium (comprehensive cover for goods during the manufacturing process)
- extended coverage
- glass
- hail
- credit and bond
- water damage
- aviation
- aircraft and spacecraft liability
- storm
- animal (livestock)
- other property and casualty business.

The various lines of reinsurance reported as follows:

Premiums written in automobile reinsurance declined further. Business in this line of reinsurance is heavily influenced by the performance of the ceding insurers in Germany. Premium rates in this market continued to fall, resulting in an underwriting loss on automobile liability reinsurance business. Profits in automobile physical damage reinsurance were down compared with the previous year. After the prescribed transfer from claims equalization reserves, the underwriting result on the automobile reinsurance account improved from a loss of DM 112.7 million in the previous year to a loss of DM 49.6 million.

Fire reinsurance business is going through a period of deep-seated structural change, mainly because ceding insurers are increasingly requesting non-proportional forms of cover. This generally means that only the
excess of loss is reinsured. The level of premium ceded to the reinsurer is correspondingly reduced. Worldwide surplus capacity — as in previous years — also meant that premium rates remained as competitive as before. Premium income went down to DM 899.4 million (1997: DM 1,034.9 million). Major claims in industrial fire insurance and claims resulting from natural disasters weakened the underwriting result before adjustments to the claims equalization reserve. After transferring DM 151.5 million from that reserve the fire reinsurance account again showed a profit of DM 18.8 million.

Premiums written in **liability reinsurance** increased to DM 839.8 million (1997: DM 831.9 million). Most of the growth came from outside Germany; premium revenues in Germany remained much the same as before. The overall result improved from a loss of DM 72.4 million in the previous year to a loss of DM 2.9 million. DM 52.8 million had to be transferred to the claims equalization reserve.

Premiums written in **personal accident reinsurance** went up by 4.2 percent to DM 791.5 million. The increase was mainly due to a good performance in Germany. Earnings showed further improvement to DM 50.6 million (1997: DM 34.0 million).

Premium income from the **reinsurance of engineering business** went down to DM 478.2 million (1997: DM 558.5 million) thanks to competitive premium rate structuring and ceding insurers changing their reinsurance arrangements. Hurricane George had a serious impact on the claims experience. The underwriting loss deteriorated from DM 1.2 million in the previous year to DM 53.1 million.

Premiums written in **homeowners reinsurance** and **household effects reinsurance** totaled DM 456.7 million (1997: DM 457.7 million). Both lines benefited from a favorable claims record overall. After transferring DM 20.3 million to the claims equalization reserve the underwriting result just about broke even with a loss of DM 0.1 million (1997: profit of DM 2.4 million).

**Business interruption reinsurance** suffered from price undercutting and premium rate erosion. In this respect it is comparable with industrial fire reinsurance. Premium income went down to DM 151.4 million (1997: DM 180.0 million), but a more favorable record of major claims in this line of business in 1998 meant that the underwriting result in business interruption reinsurance improved from a loss of DM 6.1 million in 1997 to a profit of DM 1.5 million in the year under review.

In **marine reinsurance** we recorded premium income of DM 217.6 million. That represents growth of 9.3 percent. The underwriting account on this line of business showed a profit of DM 15.0 million (1997: DM 12.5 million).

Our revenues in **legal expenses reinsurance** climbed to DM 266.0 million (1997: DM 257.6 million). Favorable claims figures contributed to the fact that the profit on this account doubled to DM 11.3 million.

In **life reinsurance** business we had to accept a 5.1 percent decrease in premium income to DM 1,474.8 million in 1998. This is attributable to the fact that the business portfolios of Allianz Lebensversicherungs-AG and Deutsche Lebensversicherungs-AG were merged, with a consequent change in the treatment of reinsurance cessions.
This reinsurance account recorded a profit of DM 84.6 million (1997: DM 67.7 million).

Premiums written in health reinsurance fell heavily by no less than 31.5 percent to DM 229.5 million. This was due to the reorganization of our equity interests in German health insurance companies. In the context of these changes we lost part of the reinsurance business of Deutsche Krankenversicherung AG. This line of business made a reduced underwriting profit of DM 1.6 million (1997: DM 5.6 million).

Other lines of reinsurance include emergency assistance, burglary and theft, a special type of manufacturing coverage known as “omnium”, extended coverage, glass, hail, credit and bond, water damage, aviation (hull), aircraft and spacecraft liability, storm and animal (livestock) reinsurance and other property and casualty business.

Premium income totaling DM 1,119.7 million (1997: DM 1,046.1 million) in these other lines of reinsurance came almost entirely from Germany. Other property and casualty business made the most significant contribution (DM 679.0 million) to the total. Other major contributions came from extended coverage reinsurance with premium income of DM 141.5 million and from credit and bond reinsurance with DM 127.4 million. The overall profit from all these other lines of reinsurance went down from DM 46.7 million to DM 29.6 million.

INVESTMENTS

The book value of investments held by Allianz AG increased by 18.2 percent in 1998 to DM 62.4 billion (1997: DM 52.8 billion).

Holdings of real estate went down by DM 18 million in the year under review to DM 631 million.

Additions to investments in affiliated and associated companies at net book value amounted to DM 8.3 billion, increasing the total under that heading to DM 38.4 billion. The increase is mainly attributable to the following changes:

- Acquisition of 51.6 percent of the capital of the French insurance group Assurances Générales de France (AGF).
- We have restructured our equity interests held jointly with Münchener Rückversicherungs-Gesellschaft AG (Munich Re). During 1998 Allianz AG transferred around 2.3 percent of ERGO Versicherungsgruppe AG to Munich Re; in return Allianz AG received around 3.8 percent of Allianz Lebensversicherungs-AG. This means that we now hold 50.3 percent of Allianz Lebensversicherungs-AG.
In 1998 we founded Allianz Capital Partners GmbH and launched the business activities of Allianz Asset Management GmbH (AAM). Allianz Kapitalanlagegesellschaft mbH and Augsburger Aktienbank AG are now part of AAM.

The book value of **other investments** increased by DM 1.0 billion to DM 7.5 billion. This heading comprised mainly:
- stocks and other equity interests valued at DM 1.8 billion (1997: DM 2.7 billion);
- fixed income securities with a book value of DM 5.3 billion (1997: DM 2.9 billion); and
- bank deposits and miscellaneous investments totaling DM 0.4 billion (1997: DM 0.8 billion).

The market value of holdings of real estate, dividend-bearing stocks (investments in affiliated and associated companies, other shares and mutual fund units) and bearer bonds at the end of 1998 amounted to DM 101.5 billion (1997: DM 83.0 billion). Their corresponding balance sheet valuation was DM 44.8 billion (1997: DM 35.9 billion).

**Funds held by others** under reinsurance business assumed showed a slight increase to DM 15.9 billion (1997: DM 15.6 billion).

**Current income from investments** rose sharply, by DM 526.5 million to DM 3,175.4 million. What were the factors behind this growth? The most important, in brief:
- The profit transferred from Allianz Versicherungs-AG increased by DM 88.8 million to DM 665.9 million.
- Income from equity investments rose by DM 194.9 million to DM 742.4 million.
- Income from other investments also rose by DM 242.8 million to DM 1,767.1 million. This item includes interest on funds held by others amounting to DM 1,005.9 million (1997: DM 985.0 million).

**Realized investment gains** totaled DM 1,163.6 million (1997: DM 783.7 million). They included:
- DM 1,019.8 million from the sale of stocks and the disposal of investments in affiliated companies, about half of this figure coming from the transfer of shares in BHF-Bank;
- DM 119.1 million from the sale of real estate; and
- DM 24.7 million from the maturing and sale of fixed income securities and mutual fund units.

Realized investment losses totaled DM 224.9 million (1997: DM 7.2 million). DM 151.2 million of this related to the sale of the Australian insurance group Manufacturers Mutual Insurance (MMI) to Allianz Asia-Pacific and Africa Holding.
Depreciation and write-downs amounted to DM 142.8 million (1997: DM 420.8 million). This included:

- DM 100.4 million relating almost entirely to our equity interest in Berner Holding;
- DM 23.3 million on the book value of securities; and
- DM 19.0 million on holdings of real estate.

Net income from investments amounted to DM 2,963.1 million (1997: DM 2,566.3 million) after charging the following:

- investment management expenses of DM 180.0 million (1997: DM 193.1 million);
- interest payments of DM 704.1 million (1997: DM 219.4 million), mainly on loans from other companies in the Group; and
- an allocation of DM 124.1 million to the special untaxed reserve.

DM 999.4 million (1997: DM 976.7 million) of the investment income has been credited to the underwriting account as the allocated interest return.

TOTAL EARNINGS

Non-underwriting activities showed a profit of DM 1,724.8 million (1997: DM 1,171.3 million) overall. Together with the underwriting profit of DM 107.3 million (1997: loss of DM 10.2 million) there was a pre-tax profit of DM 1,832.1 million (1997: DM 1,161.1 million). The relatively low tax charge of DM 467.7 million is due primarily to taxes being recovered from other companies in the Group which are taxed as a single entity with Allianz AG, and to tax-free income. In the previous year these factors resulted in a net credit for taxation of DM 14.4 million because taxable income was lower. Net income after tax amounted to DM 1,364.4 million (1997: DM 1,175.5 million). DM 682.2 million (1997: DM 587.0 million) of this amount has been transferred to “other appropriated retained earnings”, leaving unappropriated retained earnings of DM 682.2 million (1997: DM 588.5 million). We will ask the Annual Meeting of shareholders to be held on July 7, 1999, to approve a further transfer of DM 143.4 million from unappropriated to appropriated retained earnings. An increased dividend of DM 2.20 (1997: DM 1.90) is to be distributed on each of the Company’s shares entitled to participate in the dividend.

RISK MANAGEMENT

Since the German Law on Corporate Governance and Transparency (KonTraG) came into force on May 1, 1998, insurance companies are also obliged to report on the risks and uncertainties that may affect their future performance.

These include first and foremost underwriting risks, investment risks, information technology risks, and risks associated with the millennium date change.
Underwriting risks
These include in particular an accumulation of claims, extreme weather-related losses resulting from natural catastrophes, and major industrial claims. The size and diversification of Allianz AG’s reinsurance portfolio enable it to carry such risks. They are analyzed continuously. The data required for this are fed to Allianz AG by the companies requiring reinsurance. Depending on its assessment of the risk, Allianz AG in turn passes on part of the risks assumed to the international reinsurance market in order to limit its own liability. Only companies which offer the best possible security are considered for this purpose. Claims incurred but not yet finally settled are another potential source of risk. Reserves for risks of this kind are set up on the basis of empirical data. Their run-off result is constantly monitored and the findings taken into account in current assessments. Changing trends in claims and market conditions are also significant and kept constantly under review. Allianz AG has claims equalization reserves of almost DM 1.2 billion to smooth out fluctuations in the incidence of claims.

Investment risks
Affiliated and associated companies represent by far the largest proportion of the investments held by Allianz AG, accounting for about 61.5 percent of the total. This is explained by Allianz AG’s function as holding company for the Group. A multi-stage control system helps to safeguard and maintain the value of this core portfolio of investments.

The value of other investments – which are held mainly to fund the insurance reserves – can be permanently diminished by various totally different factors:

- falling capital markets;
- failure of business partners or borrowers; or
- unplanned disposal of investments to meet unusually large major claims, or a concentration of claims, not covered by reinsurance.

Within the limits imposed by supervisory regulations we minimize the risks described above as part of our investment strategy. Funds are invested in such a way that the maximum possible level of security and return is achieved with an adequate degree of liquidity and an appropriate mix and spread of assets. At the end of 1998, as indicated above, we also had valuation reserves available amounting to DM 56.7 billion to act as an additional cushion against the occurrence of risk.

Derivative financial instruments are used to hedge against share price, interest rate and exchange rate risks as well as for the purpose of flexible portfolio management. Open positions are marked to market. The valuation is supported by sensitivity analysis.

The adequacy of internal financial and risk management systems is kept constantly under review. The Company’s independent auditors contribute to this process.
Information technology risks

The main danger here is a complete or partial systems breakdown. Our preventive measures to counter this risk include the following:

- segregation of computer installations in physically separate security and air-conditioned areas with controlled access;
- separate data security archives;
- monitoring procedures and security and quality checks; and
- installation of backup procedures, such as daily protection of data.

Risks associated with the millennium date change

We set about investigating the consequences of the millennium date change very early on – as early as 1988! – and have since been analyzing all the affected areas and putting preventive measures into effect. The modification of hardware and software as well as of application programs is now largely complete. Application tests will be concluded by the middle of 1999.

The insurance claims which may result from the millennium date change cannot be quantified with any degree of certainty. We are countering this risk by making as many of our customers aware of the problem as possible. Among other things we have sent out questionnaires, set up a hotline for small and medium-sized companies, and made comprehensive information available in order to limit the potential damage as far as possible.

Allianz AG is currently consolidating its existing internal risk management systems – which have been in place for years – into a multidisciplinary risk management system as required by the new (KonTraG) law.

The internationally recognized rating agency Standard & Poor’s has awarded Allianz AG the highest possible “AAA” group rating.

LOOKING AHEAD

As the Group’s reinsurance carrier, Allianz AG participates in the premium income and earnings performance of Group subsidiaries and affiliates. As the proportion of premiums written in Germany is still very high, market conditions in this country are crucial for the future level of premiums and earnings. It is already clear that premium rates for automobile reinsurance in Germany will continue to be eroded. Fire reinsurance business is still suffering from intense price competition. This means that premium income in the current fiscal year is hardly likely to increase. Provided there are no exceptionally large claims or natural catastrophes, the underwriting result can be expected to break even.

Financial markets in the early months of 1999 have been dominated by volatile equity markets and persistently low interest rates. Provided the general climate does not take a significant turn for the worse over the rest of the year, investment income in 1999 can be expected to remain high.
RECOMMENDATION FOR
APPROPRIATION OF PROFIT
ALLIANZ AKTIENGESELLSCHAFT

Unappropriated earnings of DM 682,210,800 are at the disposal of the annual meeting of shareholders. We propose that this amount be appropriated as follows:

1. Distribution of a dividend of DM 2.20 per qualifying share, any amount payable on shares held by the company being carried forward to new account;
2. Allocation of DM 143,400,000 to other appropriated retained earnings.

Munich, April 30, 1999

Allianz Aktiengesellschaft

The Board of Management

Dr. Schulte-Noelle       Dr. Breipohl
Bremkamp                 Dr. Hagemann
Hansmeyer                Dr. Rupprecht
Diekmann                 Dr. Perlet
### ASSETS

<table>
<thead>
<tr>
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<tbody>
<tr>
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<td>TDM</td>
<td>TDM</td>
<td>TDM</td>
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</tbody>
</table>

#### A. Intangible assets
- **Note:** 4,018

#### B. Investments

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>I. Real estate</td>
<td>631,233</td>
<td>649,151</td>
<td></td>
</tr>
<tr>
<td>II. Investments in affiliated and associated companies</td>
<td>38,437,656</td>
<td>30,135,380</td>
<td></td>
</tr>
<tr>
<td>III. Other investments</td>
<td>7,965,402</td>
<td>6,904,809</td>
<td></td>
</tr>
<tr>
<td>IV. Funds held by others under reinsurance business assumed</td>
<td>15,910,133</td>
<td>15,607,672</td>
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</tr>
<tr>
<td><strong>Total investments</strong></td>
<td>62,443,624</td>
<td>52,848,612</td>
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</table>

#### C. Receivables

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>I. Accounts receivable on reinsurance business</td>
<td>694,727</td>
<td>618,927</td>
<td></td>
</tr>
<tr>
<td>II. Other receivables</td>
<td>1,358,321</td>
<td>734,379</td>
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<tr>
<td><strong>Total Receivables</strong></td>
<td>2,053,048</td>
<td>1,353,306</td>
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</table>

#### D. Other assets

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Tangible fixed assets and inventories</td>
<td>481</td>
<td>657</td>
<td></td>
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<tr>
<td>II. Cash with banks, checks and cash on hand</td>
<td>58,361</td>
<td>39,981</td>
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<tr>
<td><strong>Total Other assets</strong></td>
<td>58,842</td>
<td>40,638</td>
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</table>

#### E. Prepaid expenses

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>I. Accrued interest and rents</td>
<td>112,863</td>
<td>52,453</td>
<td></td>
</tr>
<tr>
<td>II. Other prepaid expenses</td>
<td>232,404</td>
<td>17,997</td>
<td></td>
</tr>
<tr>
<td><strong>Total Prepaid expenses</strong></td>
<td>345,267</td>
<td>70,450</td>
<td></td>
</tr>
</tbody>
</table>

#### Total assets
- **Note:** 64,904,799
- **1998:** 64,904,799
- **1998:** 54,313,006

### EQUITY AND LIABILITIES

<table>
<thead>
<tr>
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<tbody>
<tr>
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<td>TDM</td>
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<td>TDM</td>
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</table>

#### A. Shareholders’ equity

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Capital stock</td>
<td>1,224,570</td>
<td>1,153,936</td>
<td></td>
</tr>
<tr>
<td>II. Additional paid-in capital</td>
<td>13,875,677</td>
<td>10,027,057</td>
<td></td>
</tr>
</tbody>
</table>
| III. Appropriated retained earnings
  1. required by law | 2,403 | 2,403 | |
  2. other | 4,003,467 | 3,171,267 | |
| IV. Unappropriated retained earnings | 682,211 | 588,496 | |
| **Total Shareholders’ equity** | 19,788,328 | 14,943,159 | |

#### B. Participating certificates
- **Note:** 879,183
- **1998:** 864,956

#### C. Special untaxed reserve
- **Note:** 247,717
- **1998:** 123,609

#### D. Insurance reserves

|-------------|------|------|------|
| I. Unearned premiums
  1. Gross | 1,525,632 | 1,631,029 | |
  2. less: amounts ceded | 549,064 | 614,361 | |
| II. Aggregate reserve
  1. Gross | 15,161,580 | 14,866,589 | |
  2. less: amounts ceded | 1,825,635 | 1,686,471 | |
| III. Reserve for loss and loss adjustment expenses
  1. Gross | 10,671,229 | 10,807,925 | |
  2. less: amounts ceded | 4,313,670 | 4,495,371 | |
| IV. Reserve for non-experience-rated premium refunds
  1. Gross | 21,729 | 184,980 | |
  2. less: amounts ceded | 93,251 | 79,482 | |
| V. Claims equalization and similar reserves | 1,191,873 | 1,275,301 | |
| VI. Other insurance reserves
  1. Gross | 405,825 | 432,691 | |
  2. less: amounts ceded | 45,868 | 49,472 | |
| **Total insurance reserves** | 22,345,943 | 22,273,358 | |

#### E. Other accrued liabilities
- **Note:** 4,969,738
- **1998:** 4,087,765

#### F. Funds held under reinsurance business ceded
- **Note:** 2,038,831
- **1998:** 1,896,310

#### G. Other liabilities

|-------------|------|------|------|
| I. Accounts payable on reinsurance business
  1. to affiliated companies | 738,174 | 490,727 | |
  2. to other companies | 13,644 | 26,676 | |
| II. Liabilities to banks | 89 | 28 | |
| III. Miscellaneous liabilities
  1. to affiliated companies | 4,087,765 | 3,872 | |
  2. to other companies | 9,230,212 | 175,457 | |
| **Total liabilities** | 14,635,025 | 10,123,114 | |

#### H. Deferred income
- **Note:** 34
- **1998:** 735

#### Total equity and liabilities
- **Note:** 64,904,799
- **1998:** 54,313,006
## Income Statement

for the period from January 1 to December 31, 1998

<table>
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<tr>
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<tbody>
<tr>
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<td>TDM</td>
<td>TDM</td>
<td>TDM</td>
<td>TDM</td>
</tr>
</tbody>
</table>

### I. Underwriting account

1. **Premiums earned - net**
   a. Gross premiums written
   b. Premiums ceded

2. Allocated interest return - net

3. Other underwriting income - net

4. Loss and loss adjustment expenses - net
   a. Claims paid
      aa. Gross
      bb. Amounts ceded in reinsurance
   b. Change in reserve for loss and loss adjustment expenses
      aa. Gross
      bb. Amounts ceded in reinsurance

5. Change in other insurance reserves - net

6. Expenses for non-experience-rated premium refunds - net

7. Underwriting expenses - net

8. Other underwriting expenses - net

9. Subtotal

10. Change in claims equalization and similar reserves

11. Underwriting result - net

---

### Notes

1. **Note:**

2. **Note:**
### II. Non-underwriting account

<table>
<thead>
<tr>
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<tbody>
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<td></td>
<td>TDM</td>
<td>TDM</td>
<td>TDM</td>
<td>TDM</td>
</tr>
<tr>
<td>1. Investment income</td>
<td>4,338,926</td>
<td>3,459,488</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Investment expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Allocated interest return</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Other income</td>
<td>638,924</td>
<td>257,898</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Other expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Non-underwriting result</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Earnings from ordinary activities before taxation</td>
<td>1,832,070</td>
<td>1,961,104</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Income taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Other taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Net income</td>
<td>1,364,411</td>
<td>1,175,496</td>
<td></td>
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</tr>
</tbody>
</table>
Legal Regulations
The financial statements and Management Report have been prepared in accordance with the regulations contained in the German Commercial Code (HGB), the Corporation Law (AktG), the Law on the supervision of insurance enterprises (VAG), and the Government Order on the external accounting requirements of insurance enterprises (RechVersV), as amended by the Insurance Accounting Directive Law (VersRiLiG) dated June 24, 1994.
The above-mentioned regulations for the Company as a reinsurance company not only address the special contents of the financial statements and Management Report but also the extended deadlines for their preparation. All amounts in the financial statements are stated in and rounded out to DM thousands (TDM).

Accounting, Valuation and Calculation Methods
Real estate (i.e. real property and equivalent rights and buildings including buildings on leased land) is recorded at cost less accumulated depreciation. Depreciation has been calculated at the highest rates allowable for tax purposes using the straight-line or declining balance methods.

Investments in affiliated and associated enterprises and other long-term equity investments are recorded at cost and written down to fair market value in accordance with the German Commercial Code (§ 253(2) HGB).

Stocks, investment fund units, bearer bonds and other fixed and variable income securities as well as miscellaneous investments are valued at the lower of cost or fair market value on the balance sheet date in accordance with the German Commercial Code (§ 341b(2) in conjunction with § 253(1) and (3) HGB). Lower values established in the past are retained even if the fair market value at the balance sheet date is higher. An average cost has been established where securities of the same kind were purchased at different cost.

Tangible and intangible fixed assets and inventories are recorded at cost less tax-allowable depreciation or amortization. Assets of low value are written off immediately in full.

Receivables have been recorded at face value less repayments. They consist of the following:

a) Loans to affiliated enterprises
b) Loans to other enterprises in which long-term equity investments are held
c) Debentures and loans
d) Bank deposits
e) Funds held by others under reinsurance business assumed
f) Accounts receivable on reinsurance business

g) Other receivables
h) Cash with banks, checks and cash on hand
i) Accrued interest and rents.

Insurance reserves consist of the following:
Unearned premiums
Aggregate policy reserve
Reserve for loss and loss adjustment expenses
Reserve for premium refunds (non-experience-rated)
Other insurance reserves.
These reserves were set up according to information provided by the ceding insurers, estimated to a certain extent.
The reinsurers’ shares were calculated in accordance with the reinsurance contracts.
The claims equalization reserve, the reserve for nuclear plants and the product liability reserve for major pharmaceutical risks were calculated for the net retention portion according to § 341h of the German Commercial Code in conjunction with § 29 and § 30 of the Government Order on the external accounting requirements of insurance enterprises.

Other accrued liabilities
The pension accruals are calculated actuarially based on the updated 1998 mortality tables of Dr. K. Heubeck. The full amount of the liability calculated in this way has been recorded in the financial statements. Miscellaneous accrued liabilities have been recorded as projected. The accrued liabilities for early retirement benefits and employee long-service awards have been calculated using actuarial principles.

Liabilities consist of:

a) Participating certificates
b) Funds held under reinsurance business ceded
c) Accounts payable on reinsurance business
d) Liabilities to banks
e) Other liabilities.
These liabilities are recorded at the amounts payable on maturity. Annuities are recorded at present value.

Deferred income
Premiums and discounts carried forward as prepaid expenses are being spread over the remaining life of the related loans outstanding.

Approximation and simplification procedures
The reinsurance cessions of individual ceding insurers are accounted for up to 12 months late owing to their statements of account not being received in time. This business accounts for just under ten percent of gross premium income.

Foreign currency translation
Investments denominated in foreign currencies are stated at the lower of historical cost or market, converted into DM at the balance sheet date. The other balance sheet items are valued in accordance with established principles for currency translation for open and – where applicable – closed positions.
Changes under asset headings A. through B.III. in fiscal 1998

Values stated at 12/31/1997

<table>
<thead>
<tr>
<th>TDM</th>
<th>%</th>
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<tbody>
<tr>
<td>649,151</td>
<td>1.8</td>
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B.I. Real estate

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<tr>
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<tbody>
<tr>
<td></td>
<td>DM in billions</td>
<td>DM in billions</td>
<td>DM in billions</td>
</tr>
<tr>
<td>Real estate</td>
<td>0.6</td>
<td>1.9</td>
<td>1.3</td>
</tr>
<tr>
<td>Dividend-bearing stocks</td>
<td>38.9</td>
<td>94.1</td>
<td>55.2</td>
</tr>
<tr>
<td>Bearer bonds</td>
<td>5.3</td>
<td>5.5</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>44.8</strong></td>
<td><strong>101.5</strong></td>
<td><strong>56.7</strong></td>
</tr>
</tbody>
</table>

Market value of investments

The market value of holdings of real estate, dividend-bearing stocks (investments in affiliated and associated enterprises, other shares and mutual fund units) and bearer bonds at December 31, 1998 amounted to DM 101.5 billion. The corresponding balance sheet valuation of these investments was DM 44.8 billion.

The following valuation methods have been used to arrive at market value:

**Real estate**

Land and buildings as a rule at capitalized earnings value, new buildings at cost, in each case as at December 31, 1998.
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<tr>
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<tr>
<td>TDM</td>
<td>TDM</td>
<td>TDM</td>
<td>TDM</td>
<td>TDM</td>
<td>TDM</td>
<td>TDM</td>
<td>%</td>
</tr>
<tr>
<td>5,328</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1,310</td>
<td>+ 4,018</td>
<td>4,018</td>
<td></td>
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<tr>
<td>49,013</td>
<td>–</td>
<td>47,909</td>
<td>–</td>
<td>19,022</td>
<td>– 17,918</td>
<td>631,233</td>
<td>1.4</td>
</tr>
<tr>
<td>29,879,832</td>
<td>380,420</td>
<td>21,172,072</td>
<td>–</td>
<td>100,000</td>
<td>+ 8,988,180</td>
<td>36,219,128</td>
<td>77.8</td>
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<tr>
<td>1,921,136</td>
<td>–</td>
<td>914,418</td>
<td>–</td>
<td>–</td>
<td>+ 1,006,718</td>
<td>1,425,108</td>
<td>3.1</td>
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<tr>
<td>1,087,027</td>
<td>– 380,420</td>
<td>2,400,402</td>
<td>–</td>
<td>404</td>
<td>– 1,694,199</td>
<td>787,893</td>
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<tr>
<td>10,277</td>
<td>–</td>
<td>8,700</td>
<td>–</td>
<td>–</td>
<td>+ 1,577</td>
<td>5,527</td>
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<tr>
<td>32,898,272</td>
<td>–</td>
<td>24,495,592</td>
<td>–</td>
<td>100,404</td>
<td>+ 8,302,276</td>
<td>38,437,656</td>
<td>82.6</td>
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<tr>
<td>1,710,603</td>
<td>–</td>
<td>2,540,742</td>
<td>–</td>
<td>3,759</td>
<td>– 835,898</td>
<td>1,849,950</td>
<td>4.0</td>
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<tr>
<td>2,857,920</td>
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<td>502,387</td>
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<td>19,585</td>
<td>+ 2,335,948</td>
<td>5,251,309</td>
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<tr>
<td>–</td>
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<td>47,553</td>
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<td>–</td>
<td>– 47,364</td>
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<tr>
<td>–</td>
<td>–</td>
<td>466,493</td>
<td>–</td>
<td>–</td>
<td>– 466,493</td>
<td>343,144</td>
<td>0.7</td>
</tr>
<tr>
<td>20,000</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>+ 20,000</td>
<td>20,010</td>
<td>0.0</td>
</tr>
<tr>
<td>4,588,712</td>
<td>–</td>
<td>5,557,175</td>
<td>–</td>
<td>23,344</td>
<td>+ 1,008,193</td>
<td>7,464,602</td>
<td>16.0</td>
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<tr>
<td>37,535,997</td>
<td>–</td>
<td>28,100,676</td>
<td>–</td>
<td>142,770</td>
<td>+ 9,292,551</td>
<td>46,533,491</td>
<td>100.0</td>
</tr>
<tr>
<td>37,541,325</td>
<td>–</td>
<td>28,100,676</td>
<td>–</td>
<td>144,080</td>
<td>+ 9,296,569</td>
<td>46,537,509</td>
<td></td>
</tr>
</tbody>
</table>

**Dividend-bearing stocks**

Quoted companies at the stock exchange price quoted on the last trading day of 1998. Non-quoted companies at their net worth calculated by the DVFA method or at acquisition cost.

**Bearer bonds and other fixed income securities**

At the stock exchange value quoted on the last trading day of 1998.

**Miscellaneous investments** (Assets B.III.5.)

These consist primarily of warrant options acquired.

**Other prepaid expenses** (Assets E.II.)

This heading includes TDM 51,969 in respect of repayment premiums on loans to affiliated enterprises and TDM 179,909 (1997: TDM 17,270) in respect of debt discount on miscellaneous liabilities.

**Collateral**

Assets included in the balance sheet totaling TDM 1,690,129 (1997: TDM 1,647,798) are subject to restricted usage through collateral.
During the year under review the capital stock was increased by warrant options being exercised for shares with a nominal value of DM 22,254,500. In March 1998 the capital stock was increased by DM 35,000,000 in the ratio of 1-for-34. The new shares were offered to existing shareholders of the Company at a subscription price of DM 220. In April 1998 the capital stock was increased by a further DM 12,310,030, with the pre-emptive rights of existing shareholders excluded. A further 214,000 shares with a nominal value of DM 1,070,000 (0.1 percent of the capital stock) were issued at a price of DM 500 each, enabling employees of Allianz companies in Germany to take up 113,150 employee shares at a price of DM 300. The remaining 100,850 shares with a nominal value of DM 504,250 were sold on the stock market at an average price of DM 552.14. The Company did not hold any of its own shares at the end of 1998. The capital stock at December 31, 1998 amounted to DM 1,224,570,000, divided into 244,914,000 registered shares. The shares have no par value as such but a mathematical value of DM 5 each as a proportion of the capital stock.

Additional paid-in capital (Liabilities A.II.)

<table>
<thead>
<tr>
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<th>TDM</th>
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</thead>
<tbody>
<tr>
<td>12/31/1997</td>
<td>10,027,057</td>
</tr>
<tr>
<td>+ Transfer from capital increases in 1998</td>
<td>2,974,018</td>
</tr>
<tr>
<td>+ Transfer from option warrants exercised</td>
<td>874,002</td>
</tr>
<tr>
<td>12/31/1998</td>
<td>13,875,677</td>
</tr>
</tbody>
</table>

Appropriated retained earnings (Liabilities A.III.)

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<thead>
<tr>
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</thead>
<tbody>
<tr>
<td></td>
<td>TDM</td>
<td>TDM</td>
<td>TDM</td>
</tr>
<tr>
<td>12/31/1997</td>
<td>TDM</td>
<td>TDM</td>
<td>TDM</td>
</tr>
<tr>
<td>1. Required by law</td>
<td>2,403</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>2. Other</td>
<td>3,171,267</td>
<td>150,000</td>
<td>682,200</td>
</tr>
<tr>
<td>Total</td>
<td>3,173,670</td>
<td>150,000</td>
<td>682,200</td>
</tr>
</tbody>
</table>
Authorized unissued capital V of DM 5 million is available for issue up to July 7, 2003 and can be used to protect the holders of conversion or subscription rights from dilution in the event of future capital increases for cash by granting them a pre-emptive right to subscribe for new shares. To that extent the pre-emptive rights of shareholders are excluded.

The Company had conditionally authorized capital with a nominal value of DM 20 million on which subscription or conversion rights, with pre-emptive rights for shares, can be issued up to June 30, 2003.

After the end of the year under review the Company's capital stock and all other DM amounts in the Company's statutes were restated in euros. The capital stock now consists of 626,112,698.96 euros divided into 244,914,000 no-par-value shares. The authorized unissued capital and the conditionally authorized capital are now expressed in euros as follows:

- **authorized unissued capital I:** € 135,492,348.52
- **authorized unissued capital II:** € 30,677,512.87
- **authorized unissued capital III:** € 51,129,188.12
- **authorized unissued capital IV:** € 3,380,881.77
- **authorized unissued capital V:** € 2,556,459.41
- **conditionally authorized capital:** € 10,225,837.62

In connection with the issue of warrant options by the Company, Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft (Munich Re), Munich, which traditionally owns 25 percent of the shareholders’ equity in the Company, has increased its shareholding temporarily to just over 25 percent.

**Participating certificates** (Liabilities B.)

At December 31, 1998, the form of capital known as participating certificates comprised 5,723,512 certificates carrying participation rights, with a nominal value of DM 57,235,120. The participating certificates carry no voting rights and no rights to participate in any proceeds of liquidation.

The dividend payable on a participating certificate is 24 percent of that paid by the Company on a multiple share certificate (10 shares of no par value); a minimum yield of 5 percent of the nominal value of the participating certificate is guaranteed. In addition, the holders of participating certificates have the right in certain circumstances to subscribe for new participating certificates; to that extent the subscription rights of shareholders are excluded. Redemption of the participating certificates cannot be demanded by a holder before the end of the year 2001 at the earliest; under normal circumstances the Company cannot call the certificates for redemption before the end of the year 2006.

The guaranteed redemption price of all the participating certificates issued to date is a uniform DM 153.61 after the 1998 rights issue; under their conditions of issue the Company can offer to exchange the participating certificates for capital stock instead of redeeming them for cash. On condition that any previous authorization still in force is withdrawn, the 1995 Annual Meeting of shareholders authorized the Board of Management, subject to the approval of the Company’s Supervisory Board, to issue participating certificates of DM 20 million at any time up to September 30, 2000.
### 8 Special untaxed reserve (Liabilities C.)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TDM</td>
<td>TDM</td>
<td>TDM</td>
<td>TDM</td>
</tr>
<tr>
<td>Reserve according to § 6b EStG</td>
<td>123,609</td>
<td>124,108</td>
<td>—</td>
<td>247,717</td>
</tr>
</tbody>
</table>

### 9 Other accrued liabilities (Liabilities E.)

The pension obligations of the companies in Allianz’s Property and Casualty Insurance Group in Germany, Allianz Lebensversicherungs-AG, Deutsche Lebensversicherungs-AG, Vereinte Lebensversicherung AG, and the obligations of Vereinte Versicherung AG for the retirement benefits of agents, are accrued in the financial statements of Allianz AG because the company has assumed joint liability for the pension obligations and undertaken to fulfill them. In addition to pension and similar reserves of TDM 4,137,941 (1997: TDM 3,636,337) and accrued taxes of TDM 730,683 (1997: TDM 369,526) the company has miscellaneous accrued liabilities of TDM 101,114 (1997: TDM 81,902), including TDM 23,104 for costs of the early retirement scheme and employee long-service awards, which are shared throughout the Group, and TDM 15,732 for contingencies.

### 10 Long-term and secured liabilities

<table>
<thead>
<tr>
<th></th>
<th>Period to maturity more than 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miscellaneous liabilities</td>
<td>TDM 4,601,193</td>
</tr>
</tbody>
</table>

TDM 1,804 of the miscellaneous liabilities are secured by mortgages or annuity charges.

Long-term liabilities have increased as a result of new lending arrangements within the Group.
The amount of investment income transferred under this heading from the non-underwriting section to the underwriting section of the income statement is calculated in accordance with § 38 RechVersV (the Government Order on the external accounting requirements of insurance enterprises).

This heading comprises TDM 616,490 (1997: TDM 532,975) added to the net aggregate reserve and TDM – 17,497 released from (1997: TDM 20,117) added to miscellaneous net insurance reserves.

Gross underwriting expenses of TDM 2,441,930 (1997: TDM 2,393,383) are shown net of commissions and profit-sharing on reinsurance ceded amounting to TDM 1,017,375 (1997: TDM 1,002,789).
**Supplementary Information on the Income Statement**

### Investment income (Income Statement II.1.)

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TDM</td>
<td>TDM</td>
</tr>
<tr>
<td>a. Income from long-term equity investments</td>
<td>742,418</td>
<td>547,470</td>
</tr>
<tr>
<td>including from affiliated enterprises:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TDM 546,930 (1997: 348,531)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Income from other investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>including from affiliated enterprises:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TDM 752,528 (1997: 739,176)</td>
<td>117,439</td>
<td>124,974</td>
</tr>
<tr>
<td>aa. Income from real estate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>bb. Income from other investments</td>
<td>1,649,633</td>
<td>1,399,299</td>
</tr>
<tr>
<td>c. Income from revaluations</td>
<td></td>
<td>1,259</td>
</tr>
<tr>
<td>d. Realized investment gains</td>
<td>1,163,574</td>
<td>783,665</td>
</tr>
<tr>
<td>e. Income from profit pooling and profit transfer agreements</td>
<td>665,862</td>
<td>577,135</td>
</tr>
<tr>
<td>f. Income from the release of special untaxed reserve</td>
<td></td>
<td>5,686</td>
</tr>
<tr>
<td>Total</td>
<td>4,338,926</td>
<td>3,439,488</td>
</tr>
</tbody>
</table>

### Investment expenses (Income Statement II.2.)

<table>
<thead>
<tr>
<th></th>
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<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TDM</td>
<td>TDM</td>
</tr>
<tr>
<td>a. Investment management, interest charges and other investment expenses</td>
<td>884,110</td>
<td>412,495</td>
</tr>
<tr>
<td>b. Depreciation and write-downs on investments</td>
<td>142,770</td>
<td>420,790</td>
</tr>
<tr>
<td>c. Realized investment losses</td>
<td>224,873</td>
<td>7,239</td>
</tr>
<tr>
<td>d. Allocation to special untaxed reserve</td>
<td>124,108</td>
<td>32,665</td>
</tr>
<tr>
<td>Total</td>
<td>1,575,861</td>
<td>873,189</td>
</tr>
</tbody>
</table>

### Depreciation and write-downs on investments

Write-downs under this heading include an extraordinary charge of TDM 100,069 in accordance with the German Commercial Code (§ 253 (2), sentence 3, HGB). Real estate has been written down by TDM 4,547 in accordance with German income tax law (§ 6b EStG).

### Other income (Income Statement II.4.)

The most important items under this heading are TDM 528,492 refunded by domestic Group companies in respect of pension costs for their employees accrued in the financial statements of Allianz AG, and foreign currency gains of TDM 58,847.
19 Other expenses (Income Statement II.5.)
This heading comprises mainly pension costs for the employees of domestic Group companies (TDM 528,492), interest and similar expenses (TDM 253,644), amounts added to non-underwriting reserves (TDM 29,585) and foreign currency losses (TDM 15,969).

20 Taxes (Income Statement II.8. and II.9.)
The Company has elected not to carry forward any deferred tax on the assets side of the balance sheet, as allowed under the German Commercial Code (§ 274(2) HGB). For calculating deferred taxation the Company has netted future tax benefits against future tax liabilities.
Since the Company files a consolidated tax return together with most of its German subsidiaries, Allianz AG is liable for a large portion of the taxes attributable to the Property and Casualty Insurance Group in Germany.

21 Net income (Income Statement II.10.)

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>1,364,411</td>
<td>1,175,496</td>
</tr>
<tr>
<td>Transfer to appropriated retained earnings:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other appropriated retained earnings</td>
<td>682,200</td>
<td>587,000</td>
</tr>
<tr>
<td>Unappropriated retained earnings</td>
<td>682,211</td>
<td>588,496</td>
</tr>
</tbody>
</table>
Contingent liabilities and other financial commitments

At December 31, 1998, the Company had contingent liabilities under guarantees amounting to TDM 14,788, matched by rights of recourse for the same amount.

Guarantee declarations have been given for the bonds issued in 1996 for DM 1.5 billion, and in 1997 for DM 1.5 billion, by Allianz International Finance N.V., Amsterdam; for the debenture bonds for DM 2 billion and FF 4 billion nominal issued in 1998 by Allianz Finance B.V., Amsterdam; and for the bonds for DM 2 billion issued by the same company in 1998 exchangeable into shares of Deutsche Bank AG. A guarantee declaration has also been given for a deferred annuity agreement signed by Allianz-RAS Seguros y Reaseguros S.A., Madrid.

Allianz AG has also provided several foreign subsidiaries and associates with either a standard indemnity guarantee or such guarantee as is required by the supervisory authorities, which cannot be quantified in figures.

Under the terms of management control agreements with the companies in Allianz’s Property and Casualty Insurance Group in Germany and with Allianz Lebensversicherungs-AG, the Company has statutory obligations to take over any losses made by those companies.

In December 1997 Allianz AG made an agreed takeover offer for Assurances Générales de France (AGF). Allianz AG was offered 79.6 percent of the capital. Allianz AG acquired a 51.6 percent majority of the capital direct and issued contingent value rights (CVRs) for 28.0 percent of the capital of AGF. The CVRs can be exercised between June 1 and June 15, 2000, and are structured as follows:

- if within a given period the average share price of AGF should be FF 320 or less, the shareholders have the option of selling their shares together with the CVRs to Allianz at FF 360 each.
- if during the given period the average share price of AGF should be between FF 320 and FF 360, the holders of the CVRs receive the difference between the actual share price and FF 360 (subject to a maximum of FF 40).

The total commitment for this could be anything up to FF 18.6 billion.

At the same time employee shareholders of AGF were offered the option of selling their shares at a price of FF 320 each at any time up to September 20, 2001. This was because they were not able to accept Allianz AG’s takeover offer owing to the restrictions placed on their shares for certain periods of time. The total commitment for this is a maximum of FF 1.6 billion. There are further potential financial commitments in connection with the promise of compensation to holders of rights under stock option programs of AGF. Potential liabilities amounting to TDM 695,192 were outstanding at the balance sheet date for calls on equity stocks not fully paid up.

Contractual payment commitments totaling TDM 119,502 had been given in connection with investment projects already started.

The other financial commitments outlined above include TDM 694,400 towards affiliated enterprises.

Effects of adjustments for tax purposes

After taking into account special tax-allowable depreciation charges, amounts transferred to special untaxed reserves under § 6b EStG, and the retention of write-downs which could have been reversed, the overall effect on net income for the year was no more than marginal.

The future effects on earnings of valuation adjustments made for tax purposes will be spread over
several years and will not be material for any one year.
Amounts totaling TDM 1,039 have not been written back, for tax reasons, in fiscal 1998.

**Personnel expenses**
Allianz AG has no employees.
Provided that the Annual Meeting of shareholders approves payment of the dividend proposed, the total emoluments of members of the Board of Management will amount to TDM 7,782 (1997: TDM 5,691), those of former members of the Board and their beneficiaries TDM 5,356 (1997: TDM 5,235).
Pension costs for the year amounted to TDM 6,767 (1997: TDM 6,190). The amount set aside for current and future pension benefits of former members of the Board of Management and their beneficiaries is TDM 36,463 (1997: TDM 34,165). The terms governing the remuneration of members of the Supervisory Board were revised with effect from July 1998 with the result that, including fees becoming payable after the 1999 Annual General Meeting, the total remuneration of the Supervisory Board will be TDM 2,052 (1997: TDM 1,166).
The names of all members of the Supervisory Board and of the Board of Management are listed on pages 6 and 7, and information regarding their membership of other supervisory and comparable management bodies is shown on pages 36 and 38.

Munich, April 13, 1999

Allianz Aktiengesellschaft

The Board of Management
Dr. Schulte-Noelle Dr. Breipohl
Bremkamp Dr. Hagemann
Hansmeyer Dr. Rupprecht
Diekmann Dr. Perlet
The accounting records and the financial statements, which we have audited in accordance with professional standards, comply with the German legal regulations and the Company’s statutes. The financial statements of Allianz Aktiengesellschaft present a true and fair view of the net worth, financial position and results of the Company in compliance with accounting principles generally accepted in Germany. The Management Report on Allianz Aktiengesellschaft is consistent with the financial statements.

Munich, April 30, 1999

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Gerd Geib            Dr. Frank Ellenbürger
Independent auditor       Independent auditor
MEMBERSHIPS OF SUPERVISORY BOARD MEMBERS IN OTHER CORPORATE MANAGEMENT BODIES (As of December 31, 1998)

a) Membership in other statutory supervisory boards in Germany
b) Membership in comparable management bodies

Dr. Klaus Liesen
a) Deutsche Bank AG
   Mannesmann AG
   Preussag AG
   Ruhrgas AG (Chairman)
   Veba AG
   Volkswagen AG (Chairman)
b) Beck GmbH & Co KG

Dr. Wolfgang Röller
a) Bayerische Motorenwerke AG
   Heidelberger Zement AG (Chairman)
   Münchener Rückversicherungs-Gesellschaft AG (Deputy Chairman)
b) Henkel KGaA

Dr. Alfons Titzrath
a) Dresdner Bank AG (Chairman)
   IVG Holding AG
   RWE AG
   VAW Aluminium AG

Dr. Karl-Hermann Baumann
a) Deutsche Bank AG
   Linde AG
   Metallgesellschaft AG
   Schering AG
   Siemens AG (Chairman)
   Thyssen Krupp AG since March 17, 1999

Professor Dr. Dr. h.c. Marcus Bierich
a) BASF AG until May 19, 1998
   Robert Bosch GmbH (Chairman)
   Deutsche Bank AG until May 20, 1998
   Veba AG until May 14, 1998
   J.M. Voith AG (Chairman)
b) Robert Bosch AG
   Robert Bosch Corp.
   Robert Bosch Internationale Beteiligungen AG (Chairman)
   Scintilla AG (Deputy Chairman)
   Verlagsgruppe
   Georg von Holtzbrinck GmbH (Chairman)

Norbert Blix
a) Allianz Versorgungskasse VVaG

Dr. Horst Burgard

Klaus Carlin
a) Dresdner Bank AG
   BHW Holding AG

Bertrand Collomb
b) Crédit Commercial de France (CCF)
   Membership in Group bodies:
   Elf Aquitaine
   Lafarge (Chairman)
   Lafarge Corp. (Chairman)

Renate Daniel-Hauser
a) Allianz Versicherungs-AG

Dr.-Ing. E.h. Werner H. Dieter
a) Esso AG
   Krone AG

Jürgen Dornmann
b) ABB Asea Brown Boveri AG
   IBM Corp.

Dr. Christoph Forster

Dr.-Ing. E.h. Hermann Franz
a) Deutsche Bank AG
   Thyssen AG
b) TÜV Süddeutschland e.V. (Chairman)
   Zeiss-Stiftung

Dr. Friedhelm Gieske
a) Karstadt AG
   MAN AG
   National-Bank AG (Deputy Chairman)
   RWE AG
   Thyssen AG

Professor Dr. Rudolf Hickel
a) GEWOBA AG Wohnen und Bauen in Bremen
   Sächsische Edelstahlwerke GmbH
   Salzgitter AG Stahl und Technologie

Reiner Lembke
a) Allianz Versicherungs-AG since February 25, 1999

Frank Ley
Alfred Mackert  
a) Vereinte Krankenversicherung AG  
   (Deputy Chairman)  

Ulrike Mascher  
a) Allianz Versicherungs-AG  
   until May 13, 1998  

Dr. Sylvia Maser  

Dr. Wolfgang Müller  

Bernd Pischetsrieder  
a) Dresdner Bank AG  
   METRO AG  
   VIAG AG  

Reinhold Pohl  

Lienhardt Reich  
a) Allianz Versorgungskasse VVaG  

Gerhard Renner  
a) Deutsche Bank AG  

Edzard Reuter  
a) Airbus Industrie  
   until March 31, 1998  
   Bankgesellschaft Berlin AG  
   Karlsruher Lebensversicherung AG  
   until July 3, 1998  
   VIAG AG  
   until July 14, 1998  
   b) L’Air Liquide S.A.  

Roswitha Schiemann  

Dr. Albrecht Schmidt  
a) Lufthansa Commercial Holding  
   Münchener Rückversicherungs- 
   Gesellschaft AG  
   Siemens AG  
   VIAG AG  

Membership in Group bodies:  
   Bayerische Handelsbank AG  
   (Chairman)  
   Nürnberger Hypothekenbank AG  
   (Chairman)  
   Süddeutsche Bodencreditbank AG  
   (Chairman)  
   Vereins- und Westbank AG  
   (Chairman)  
   b) Membership in Group bodies:  
   ADIG Allgemeine Deutsche 
   Investmentgesellschaft mbH  
   (Chairman)  

Dr. Manfred Schneider  
a) DaimlerChrysler AG  
   METRO AG  
   RWE AG  

Dr. Hermann Scholl  
a) BASF AG  
   Deutsche Bank AG  
   Thyssen AG  
   until March 16, 1999  
   b) Membership in Group bodies:  
   Robert Bosch Corp.  
   Robert Bosch  
   Internationale Beteiligungen AG  

Jürgen E. Schrempp  
a) Bayerische Hypo- und 
   Vereinsbank AG  

Membership in Group bodies:  
   DaimlerChrysler Aerospace  
   (DASA) AG  
   (Chairman)  
   DaimlerChrysler Luft- und Raum- 
   fahrt Holding AG (Chairman)  
   DaimlerChrysler Services  
   (debis) AG  
   (Chairman)  
   b) SASOL Ltd.  

Membership in Group bodies:  
   Freightliner Corp.  
   Mercedes-Benz of South Africa  
   (Pty) Ltd.
MEMBERSHIPS OF BOARD OF MANAGEMENT
MEMBERS IN OTHER CORPORATE MANAGEMENT BODIES
(As of December 31, 1998)

a) Membership in other statutory supervisory boards in Germany
b) Membership in comparable management bodies

Dr. Henning Schulte-Noelle

a) BASF AG
Dresdner Bank AG
Linde AG (Deputy Chairman)
MAN AG (Deputy Chairman)
Mannesmann AG
München Rückversicherungs-Gesellschaft AG
(Deputy Chairman)
Siemens AG
Thyssen AG (Deputy Chairman) until March 16, 1999
Thyssen Krupp AG since March 17, 1999
VEBA AG
Membership in Group bodies:
Allianz Lebensversicherungs-AG
(Chairman)
Allianz Versicherungs-AG
(Chairman)

b) Membership in Group bodies:
Assurances Générales de France
(Deputy Chairman)

Dr. Diethart Breipohl

a) Beiersdorf AG
Continental AG
Karstadt AG
Metallgesellschaft AG
RWE AG

b) Membership in Group bodies:
Assurances Générales de France

Detlev Bremkamp

a) Asea Brown Boveri AG
Hochtief AG
b) Banco Popular Español
Banco Portugues de Investimento
Dresdner ABD Securities Ltd.
Membership in Group bodies:
Allianz Elementar Versicherungs-AG
(Deputy Chairman)
Allianz-RAS Seguros S. A.
(Chairman)
Assurances Générales de France
Cornhill Insurance PLC
ELVIA Schweizerische Versicherungs-Gesellschaft
Hungária Biztosító Rt
(Chairman)
Portugal Previdente Companhia de Seguros S. A.
Riunione Adriatica di Sicurtà S.p.A.
Royal Nederland Verzekeringen Groep

Dr. Reiner Hagemann

a) Lahmeyer AG
Schering AG
Steag AG
TELA Versicherung AG
(Deputy Chairman)
Thyssen Krupp Stahl AG
VIAG AG
Membership in Group bodies:
Allianz Bauspar AG
(Chairman)
Allianz Globus Marine Versicherungs-AG
(Chairman) until April 23, 1999
Bayerische Versicherungsbank AG
(Chairman)
Frankfurter Versicherungs-AG
(Chairman)
Hermes Kreditversicherungs-AG
(Chairman)
Vereinte Holding AG
(Chairman)
Vereinte Versicherung AG
(Chairman)

b) Membership in Group bodies:
EULER
Herbert Hansmeyer
Dresdner Bank Lateinamerika AG
ERGO Versicherungsgruppe AG
(Deputy Chairman)
IKB Deutsche Industriebank AG
Karlsruher Lebensversicherung AG
(Deputy Chairman)
Karlsruher Versicherung AG
(Deputy Chairman)
VEBA OEL AG

b) Membership in Group bodies:
   - Allianz Insurance Co.
   - Allianz Insurance Co. of Canada
   - Allianz Life Insurance Co. of North America
   - American Automobile Ins. Co.
   - Associated Indemnity Corp.
   - Fireman's Fund Indemnity Corp.
   - Fireman’s Fund Insurance Co.
   - Fireman’s Fund Insurance Co. of Georgia
   - Fireman’s Fund Insurance Co. of Louisiana
   - Fireman’s Fund Insurance Co. of Missouri
   - Fireman’s Fund Insurance Co. of Nebraska
   - Fireman’s Fund Insurance Co. of Ohio
   - Fireman’s Fund Insurance Co. of Texas
   - Fireman’s Fund Insurance Co. of Wisconsin
   - National Surety Corp.
   - The American Insurance Co.
   - Vintage Insurance Co.

Dr. Gerhard Rupprecht

a) Deutsche Hypothekenbank Frankfurt-Hamburg AG
   - Heidelberger Druckmaschinen AG
   - Thyssen Handelsunion AG
   - Wüstenrot Lebensversicherungs-AG
     (Deputy Chairman)

   Membership in Group bodies:
   - Vereinte Holding AG
   - Vereinte Krankenversicherung AG
     (Chairman)
   - Vereinte Lebensversicherung AG
     (Chairman)

b) Membership in Group bodies:
   - Allianz Elementar
     Lebensversicherungs-AG
     (Chairman)
   - Allianz Elementar Versicherungs-AG
   - Allianz Life Insurance Company of North America

Michael Diekmann

b) MBA Berhard
   - Navakij Insurance PCL

   Membership in Group bodies:
   - MMI Insurance Group

Dr. Helmut Perlet

a) Membership in Group bodies:
   - Vereinte Versicherung AG

b) Membership in Group bodies:
   - Lloyd Adriatico S.p.A.
   - MMI Insurance Group
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<td>Rainer Stratmann</td>
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Tables and charts: Allianz

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