

**Annual General Meeting  
of Allianz AG at April 29, 2003**

**Report of the Chairman  
of the Board of Management  
Dr. Henning Schulte-Noelle**

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## I. Risks and opportunities

Ladies and Gentlemen,

I should like to extend a very warm welcome to the Annual General Meeting of Allianz AG: **shareholders**, including those shareholders who have exchanged their **participation certificates** for shares, **journalists**, and – as in previous years – **students** who want to get an in-depth insight into the world of business.

At this point I should like to draw your attention to our **Annual General Meeting Newspaper**, which is being put together in part by students of the German School of Journalists, and to our three **information islands**.

Two of these centers are dealing with issues that are part of **life** – and that are particularly significant for the life of a **financial services provider**: I am referring here to the subjects of **risk and opportunity**.

During the past two fiscal years, we have been confronted with a dramatic **increase in risks** and these present completely new challenges for our risk management. The past year has seen us addressing this existential **challenge**. We have also had to tackle the issue of how we exploit opportunities in what is an extremely weak business environment.

## II. 2002 – a difficult year with a disappointing result

Ladies and Gentlemen, when we met at our Annual General Meeting in June of last year, we had a **dramatic year** behind us. The attack on the **World Trade Center** was not just

- a terrible **act of terrorism**, it was also
- the biggest individual **claim** in the history of the international insurance industry, and
- a **heavy blow** to the global economy with substantial long-term effects.

Cautious optimism at the start of 2002 gave some **hope** that the worst was behind us. Unfortunately, this was a **false dawn**. Instead of showing a recovery, the difficult environment continued with a dramatic downturn in the stock market. At the end of the year, **economic growth** in Germany was close to zero.

We were overcome by a veritable **wave of insolvencies** with 40,000 cases of insolvency.

The **Iraq conflict** and the fear of additional **terrorist attacks** strengthened the mood of **uncertainty** prevailing among consumers, companies and the global capital markets. All this exerted a **negative** effect on our business and impacted very significantly on our result.

### Earnings 2002

Despite great efforts in all the divisions, the year 2002 closed with a **significant loss**. Net income of 1.6 billion euros in 2001 gave way to a **net loss** of 1.2 billion euros in 2002. This is a very **unsatisfactory result** and a **great disappointment** for us all. There is no positive gloss to be applied here: this result must remain an isolated event.

### Share price performance at Allianz

The **share price performance** at Allianz was also more than disappointing. By December 31, **market capitalization** at Allianz had fallen by almost 66% to around 22 billion euros. By comparison, the DAX went down by 44% and the Dow Jones Euro STOXX Insurance, the most important European comparative index, fell by nearly 52%.

### III. Negative factors

What were the elements contributing to this disappointing performance? I should like to outline the **principal negative factors**:

#### Negative factors

- The most serious factor was the global **collapse** in the **stock markets**: We had to undertake **write-downs amounting to 5.5 billion euros** on securities, with **2.7 billion euros** exerting an effect on income.
- The massive fall in share price also eroded **trading income** and **net fee and commission income** of our banking segment. **Operating income** of Dresdner Bank fell overall by 1.7 billion euros.
- We were again forced to substantially increase **loanloss provision for the credit portfolio** to 2.2 billion euros because an increasing number of borrowers were unable to meet their obligations.
- Extensive storm damage also impacted negatively on our business, and the **flood of the century** last summer resulted in expenses amounting to 710 million euros. Finally, provision had to be made for **asbestosis** and **environmental liability claims** at our American subsidiary *Fireman's Fund* amounting to 762 million euros.

Even if the majority of problems in 2002 were caused by **external factors** and their extraordinarily **concentrated accumulation**, a self-critical review also reveals **in-house** problems and incorrect assessments:

- In view of the significant increase in **risk provision** at Dresdner Bank and particularly with the benefit of hindsight, it is clear that – particularly in the latter half of the 1990s – there was a deficit of critical judgment in **granting loans and risk assessment**. This is particularly applicable to the expansion of loans in North and South America and in some areas of the new economy. The fact that this has also affected a large number of other international banks cannot be any consolation.

- **Costs** were **not** always harmonized **fast enough** in response to income plummeting dramatically, e.g. in investment banking, partly because the performance of the markets was projected with excessive optimism.
- Key turnaround programs in insurance business were introduced by some subsidiaries **too hesitantly**, which in turn made it necessary to implement extremely **tough programs** in order to achieve the goals that had been set.

We have learned the right lessons from this experience and drawn the appropriate **conclusions**. In future, if **operating performance is poor**, we will ensure that countermeasures are implemented in the relevant group companies even more quickly and consistently. There can be no excuses here. In order to **improve our risk management** in the Group, we are now addressing the issue of **worst case scenarios** even more rigorously and taking into account the **accumulation** of different risks at the same time. We are carrying out **stress tests** systematically and in all areas. Appropriate systems are being implemented to lay the foundations for **risk management** that are commensurate with the big changes in risk situation and the higher level of volatility.

### IV. 2002 – an ambivalent year, but not a wasted year

When we take all the factors into account, the picture of the past fiscal year is much more differentiated than would appear at first sight. Despite the dominance of bad news, there were also a whole series of **positive developments** that were important not least because most of them ought to have **long-term importance**. Allow me to outline a few examples.

### Positive developments

- In **property and casualty insurance** we succeeded in reducing the **combined ratio**, i. e. the ratio of claims and expenses as a percentage of net premiums earned, by 3.1% to 105.7%. Adjusted by unscheduled effects (World Trade Center, flooding and asbestos) it fell by 2.7% to 101.7%.
- In **life insurance** there was a **very** dynamic expansion of business in Germany and abroad. We were extremely gratified to **increase** premium income by **18.9%**.
- **Dresdner Bank** achieved an initial key success in reducing costs: administrative expenses fell by 12.3% or nearly 1 billion euros.
- **Asset management** posted strong growth, mainly in **fixed-income** business, despite the overall adverse capital market environment.
- The **synergy effects** created by the model of the **integrated financial services provider** significantly exceeded our projections.

Ladies and Gentlemen, these are important and **encouraging** developments. They demonstrate that 2002 was not just a year of disappointments.

## V. A year marking a new departure

This was also a **year marking a new departure** that continued during the initial months of the current year: we laid **groundwork** of fundamental importance and began numerous **initiatives**. Their common aim is: **reinstatement of profitability**.

### Important groundwork

- I will start with the **Turnaround Programs**. We have been initiating, implementing and sustaining comprehensive measures not just at Dresdner Bank but also at Fireman's Fund, AGF and the two new companies **Allianz Global Risks Rückversicherungs-AG** and

**Allianz Marine & Aviation**. These measures have involved reducing costs, formulating tough goals, and recruiting new people to take on **management functions** right through to the top levels of executive management. And the **measures are taking effect**: at *Firemen's Fund* ongoing business is again profitable.

- We have tightened internal **procedures**, reduced **complexity** and above all continued to improve our **risk management**.
- Fireman's Fund is not the only instance in which we have **withdrawn from areas of business** where we saw no potential for increasing value. We have also come out of **unprofitable markets**, notably in recent months the Philippines. Finally, we have also abandoned projects that were overtaken by developments, including setting up a **financial planner organization** and progressing an independent direct bank in the **Advance** Group.
- We have – and this is my fourth point – strengthened risk selection, reviewed conditions and prices, increased them to match higher risks, and established them successfully in the marketplace. This is a big step forward.
- We have continued to reduce the **proportion of equities** in our financial assets in a way that did not put the capital markets under pressure. We also succeeded in largely **reducing** equity exposure for the existing portfolio with the assistance of **hedging**.
- Finally, the **capital measures** introduced during the autumn of last year have strengthened our **capital base** over the long term, which was still stable by international standards. This gives us significant competitive advantages and opportunities for growth.

Later, I will give a review of the current **capital increase** and its strategic significance for Allianz. The main point here is: The **good reception** this increase has received constitutes an important signal for us.

Clearly, markets and in particular you, our shareholders, once again have **renewed confidence** that Allianz will return to its **old strength** in the future.

But first I should like to present the key **figures in the financial statements for 2002** and developments in the **main business segments**. In view of the detailed reports contained in the Annual Report, I will restrict myself to a summary presentation.

After having reported on the past fiscal year and addressing the trends emerging during the **first quarter** of 2003, I should like to give you an overview of **how** we

- intend to **intensify** the **change** evident in the individual business areas over the course of 2003
- and return to the **success story** of previous years
- and why we can look to the future with equanimity in other respects.

But first let us look at the key indicators for fiscal year 2002:

## VI. Overview of fiscal 2002

**Sales growth** during recent years continued: total income went up by 14.2% to 92.5 billion euros.

However, overall we recorded a **loss** of nearly 1.2 billion euros for 2002, compared with net income amounting to 1.6 billion euros in 2002.

**Before taxes and amortization of goodwill**, the loss for the fiscal year was 52 million euros.

The rise in amortization of **goodwill** to 1.2 billion euros was principally due

- **on the one hand** to the **increase in our shareholdings** in Allianz Lebensversicherungs-AG, Bayerische Versicherungsbank AG and Frankfurter Versicherungs-AG,

- **and on the other hand** to the fact that the **Dresdner Bank** Group was first-time consolidated for the **entire** fiscal year in 2002.

Expenses for taxes actually paid amounted to 918 million euros, by comparison with **deferred taxes** totaling 1.7 billion euros, yielding net tax income of 735 million euros.

The proportion of **minority shareholders** fell significantly to 688 million euros.

## VII. Property and casualty

### Property and casualty: earnings performance

Earnings in property and casualty insurance improved – before taxes and amortization of goodwill – from 2.8 billion euros in the previous year to 7.9 billion euros. This development was driven

- by much higher earnings arising from **investments**, as a result of a number of unscheduled factors
- and by a significantly improved **combined ratio**.

This has brought us closer to achieving our **goal** of a combined ratio of less than 100% in the course of the year 2003 faster than anticipated. This ratio is already **less than 100** in the majority of our companies.

Improvements in the newly created **Allianz Marine & Aviation** were particularly gratifying. We succeeded in decreasing the combined ratio within the space of only **one** year by 34% points to 96.3%! And we have adopted even more ambitious targets.

I should like to mention here that **AGR, Allianz Global Risks Rückversicherungs-AG**, was founded on January 1, 2002. This entity bundles business with major international customers. We want to continue

to **expand** central control based on uniform underwriting guidelines. In concrete terms, the aim is for the combined ratio to fall below 100% within the current fiscal year.

## VIII. Life and health

### Life and health: earnings performance

Allianz was able to continue expanding its strong position in life insurance business.

While new business in the entire German life insurance market grew by 7.2%, **Allianz Leben** grew by a figure in the order of 30%.

Although the **Riester pension** has not yet lived up to expectations as far as sales are concerned, new business in company retirement provision has undergone extremely positive development. New premiums in Germany grew by 37%. Three quarters of **DAX customers** alone now number among our customers.

The positive development was not just restricted to Germany. For example, our **Italian** companies are now ranked second in their market.

After five quarters with high double-digit growth, **Allianz Life of North America** advanced from 23rd to fifth biggest private US pension insurer.

However, life and health insurance suffered particularly last year from the massive collapse in prices on international financial markets. Following on from the already weak figures for the previous year, investment **income** once again fell back by 1.1 billion euros to 7.4 billion euros.

Although we increased **premium income** by 18.9% and improved the **expense ratio** from 12.1% to 10.0%, **earnings** fell from 229 million euros to 19 million euros.

## IX. Asset management

### Asset management: managed assets

The *asset management* segment turned in a **gratifying** performance. Despite a difficult market environment, we succeeded in achieving net inflows of 43 billion euros adjusted for currency fluctuations. The fact that assets managed for third parties fell from 620 billion euros to 561 billion euros was due to

- **price losses** amounting to 25 billion euros and
- **devaluation effects** (US dollar against euro) amounting to 77 billion euros.

Our **strategy** proved correct: Aside from a strong presence in mutual funds and institutional customers, the fact that our business model is based on broad **diversification** of **investment styles** and **products** paid off. This enables us to react flexibly to capital market developments.

PIMCO took the **Jackpot**. Assets managed by PIMCO increased by 34% to 323.8 billion US dollars. PIMCO ranked number three in all US fund companies with inflows totaling around 60 billion US dollars. The most popular individual fund – the **Total Return Fund** – booked net inflows of 12.7 billion US dollars and advanced to the biggest actively managed investment fund worldwide with a total of around 68 billion US dollars.

However, success was not restricted to overseas. The **dit Euro Bond Total Return Fund** – powered by PIMCO – was the best-sold bond fund in 2002 and the most successful new fund in Germany with inflows of over 1.5 billion euros. PIMCO was nominated the best European Fixed Income Manager at the Financial News Awards in London. Although a lot of work still remains to be done when it comes to equities, important groundwork was also laid here in the course of 2002.

**Asset management: earnings performance**  
ADAM, Allianz Dresdner Asset Management, achieved an **operating result** of 495 million euros despite difficult conditions in the capital market. The improvement in the **cost income ratio** recorded a positive result of around 6 percentage points here.

**Net earnings** for the asset management segment continues to be compromised by the acquisition costs incurred for PIMCO, Nicholas-Applegate and Dresdner Bank, and currently stand at minus 405 million euros. The **income situation** should be **a lot brighter** from 2005 onward when a major proportion of the acquisition costs will have been accounted for.

## X. Banking

In line with the sector overall, 2002 was an **extremely difficult** year particularly for banking business at the Allianz Group. Aside from depressed sentiment in the capital markets, weak and indeed crisis-ridden economies in some countries led to a significant fall in **operating income** and a substantial requirement for **loan loss allowances**.

### **Banking: earnings performance**

Banking business sustained a **loss** of 1.3 billion euros before taxes and goodwill.

We have tackled this situation with an ambitious **turnaround program** intended to extend the successes attained to date – **reduction in administrative expenses** by nearly 1 billion euros and a significant **cutback in risk assets**. This program has top priority.

A **package of three measures** constitutes the core of this program:

### **Turnaround program at Dresdner Bank**

1. A third **wave of cost cutting** is intended to reduce **operating and personnel costs** to 6.25 billion euros in fiscal year 2003.

2. Streamlining support functions at the bank's Corporate Center based on divisions, i. e. **increased efficiency** in the provision of services that have so far been delivered centrally, and their transfer to the two divisions Private and Corporate Customers and Corporates and Markets where this makes sense.

3. And finally the creation of the **Institutional Restructuring Unit**. It is handling two areas, problem loans on the one hand and the healthy, **non-strategic** loans that should be distinguished from these on the other. The idea frequently floated in the media that only problem loans are being pooled here is incorrect. More than two thirds of the commitments are valuable assets, but in regions and markets where the bank no longer wishes to be active.

**Selective handling** of these two areas of credit in the **Institutional Restructuring Unit** will enable Dresdner Bank

- to get the problem of **excessive** loan loss provision in its loan business under control,
- and to open up **room for maneuver** in its core business.

All these measures and many others will enable the bank to realize **one aim**: that is, to achieve a **balanced operating result** as soon as possible – preferably as early as 2003, i. e. before financial income and restructuring expenses. We had already made considerable cuts here. We are now confident that we can implement the additional cost reductions necessary. As far as income and revaluations are concerned, we largely remain dependent on continuing economic development.



## XI. Integrated financial services provider

At this point, I should like to say something about the issue of the **integrated financial services provider**, given that the takeover of Dresdner Bank again comes in for some heavy criticism in a number of the counterproposals registered today.

**Why** do we still believe that the takeover and the **strategy** we are pursuing with integration are **correct**, despite the current serious problems at the bank?

1. The business models developed for integration are in some areas functioning even **better** than we expected. Compared to the old cooperation model, business with
  - life insurance business in the bank branches has **doubled**,
  - and business in the non-life sector has **quadrupled**.

By contrast, sales of banking products linked with capital markets through our agency organization have suffered from the weak stock market environment. While the bear market on stock exchanges has meant that we have been reaching **fewer Allianz customers** with financial packages of the bank, the consultations that we have conducted evinced an astoundingly **high success rate**. As a result, we have increased the number of **securities advisers** for insurance agents by nearly 50%.

However, that is only the **beginning**. We have only just started to embark on mutual **penetration** of our respective customer groups. Many of our customers are only just beginning to notice the **benefits** that we have to offer them. Market research indicates that the vast majority of our customers like receiving **“packages from a single source”**.

And there are some good reasons for that. The changing market environment and customer behavior during the last year has underlined the advantages of a **broad and flexible product line and distribution** under **one** roof. This put us in the position of being able to react to **changed market conditions** and customer requirements without the usual **conflicts** encountered by other providers: bond products from dit/PIMCO, money market funds from Dresdner Bank, and life insurance from Allianz Life were promoted, while variable annuities, mutual funds and equity products could be eased back in line with requirements.

Our ability to compensate for the disappointing market development in Riester products by our strong growth in the area of company retirement provision shows the competitive advantage offered by the **product breadth** and **sales flexibility** of the **integrated** financial services provider.

The strategically important success of **MetallRente** was achieved not least because of our ability to present ourselves **jointly** as an insurance company, bank and asset manager. This is precisely where our **strength** lies: a joint profile, offering joint solutions and implementing them together.

As far as we are concerned, there is **no doubt** that we have adopted the right strategy. The sales organization of Dresdner Bank is creating a much **improved position** for us in outstanding fields of growth, especially in **long-term savings and retirement provision**. However, we need time to fully exploit the potentials available in concert with Dresdner Bank. The strength of our model compared with straight-forward **joint-venture solutions** will emerge even more clearly as time passes. The passage of time was also necessary before acknowledged models of success such as the **ING** model proved themselves.

2. After the takeover of Dresdner Bank in June 2001, we defined concrete **synergy goals** for the years from 2002 to 2006. These include targets for the capital market. We established a target for synergies of 290 million euros for 2002 – and in fact achieved 376 million euros. Even if the focus during this year was on cost synergies that are generally easier to achieve than income synergies, this remains an important and encouraging result. We are also on the right track in this area.

3. The question remains whether the takeover of Dresdner Bank was not in fact still **too expensive** – despite these gratifying developments. Again, it's worth taking a closer look here.

If a company is listed on the stock exchange and has sufficient free float, it is quite easy to find a fair and **reasonable value** – the **stock market price**. And that is exactly what we based our takeover offer on at the time. Fairness entails factoring in the **takeover premium**, and 14% means that we were operating at the lower margin of the norm in the marketplace. Taken overall, the **purchase price** for Dresdner Bank was **fully in line with market conditions** at the time of the takeover.

Naturally, the **environment** has **changed dramatically** over the past two years. The result is that **share prices for banking stocks** have **fallen by around half**. Against this background, the acquisition may well seem to you expensive now. Should we have waited? I don't think so. You need to bear in mind that we did not **finance** the majority of the **acquisition** with cash, but by the **sale of shareholdings**, in particular HypoVereinsbank and Munich Re. In the meantime, **these shares have also experienced a significant loss of value**.

The losses arising from the collapse in stock markets would have impacted on us in any case, whether or not we had purchased Dresdner Bank. The only difference would have been that without the takeover, we would **not have the full control and would not be deriving the strategic benefits** that I have outlined to you.

4. There is also another aspect that can easily be overlooked. We were able to implement further important transactions in the package accompanying the takeover of the bank that we could **only** implement in this context. This package included increasing our shareholding in Allianz Lebensversicherungs-AG from 51% to 90% and more. We also increased our share in the property insurance subsidiaries BVB and Frankfurter Versicherungs-AG. All three **companies** are **"extremely healthy" and strategically very important**. If we hadn't taken over the bank, these purchases would not have been possible.

## XII. Dividend proposal

I should now like to come to our **dividend proposal**.

Despite the net loss of 1.2 billion euros – and despite some criticism in one or other counterproposal – we are recommending a dividend of 1.50 euros per share to the Annual General Meeting, in line with the dividend for 2000 and 2001.

Particularly in difficult times, we thereby want to **signal continuity**. This is part of the Allianz trademark, along with **sustainability, stability and dependability**. We are making this recommendation not least because we are firmly convinced that our earnings performance in fiscal year **2003** will allow us to pursue our policy of dividend continuity.

I should now like to turn to developments during the first quarter 2003. Work is currently proceeding on the financial statements, so that I can only make statements about trends.

### XIII. Trends for the 1<sup>st</sup> quarter 2003

As in the past fiscal year, the **1<sup>st</sup> quarter** was characterized by an extremely tense economic environment and a **sustained weakness in the capital markets**. The DAX 30 lost roughly an additional 16% from the close of 2002 to March 31, 2003, although that has now been largely recovered.

We anticipate **additional improvements** in **operating** business:

- We are confident that we have already reduced the **combined ratio** in property and casualty insurance to less than 100% during the first quarter of 2003.
- Preliminary figures also indicate that the **growth trend in life insurance** is continuing, especially with investment-oriented products. We are therefore anticipating growth in Germany of total premium income of nearly 9% and growth of well over 50% in Italy and the USA.
- We are on schedule with the implementation of the turnaround program in the **banking segment**. Current indications are that there will be a **significant improvement** in operating result at Dresdner Bank.
- Development in **asset management** lies within the framework of our planning.

However, earnings performance in the first quarter of 2003 continues to be negatively impacted by the sustained high level of write-downs on securities amounting to around 0.8 billion euros. Substantial restructuring expenses also need to be taken into account still, as well as the fact that no notable net gains on disposal have been booked.

We ask for your understanding that we will only be able to give additional and more **concrete details** on earnings **on May 16**, when we have all the figures and data available for the Group in reliable form.

### XIV. Groundwork and new departure

Ladies and Gentlemen, 2002 was an extraordinarily difficult year for us, but also an **eminently important** one. It was a **year of groundwork** and it marked a **new departure**.

From today's perspective, the **worst ought to be behind us**:

- Reasonable provision has been made for all the risks identifiable today within the scope permitted in the balance sheet.
- We are anticipating a significantly lower loan loss provision, and
- further reductions in costs.
- We are again planning an improved combined ratio in property and casualty insurance, and we want
- to retain our fast pace of growth, particularly in life insurance.

All this should play a role in ensuring an **upturn** in 2003.

Operating improvements in earnings for the first quarter all point in this direction.

However, it's too early as yet to give the **all-clear**. We certainly shouldn't let up on our **strenuous efforts**. I believe that our staff are well aware of this. The fact that we have laid the groundwork doesn't mean that we have already arrived at our goal.

We need to continue to drive forward the **cost reduction, restructuring, efficiency enhancement** that we introduced in 2002. We also need to be absolutely clear that the **framework conditions for business** have changed radically:

- The times of **booming capital markets** are gone and they won't come back again in a hurry.
- **Quick gains** may still be available on the stock market, but they are exceptions to the rule.
- **Uncertainty and volatility** will continue to determine the markets for the foreseeable future.

We need to **adjust to** this, i. e. at the Allianz Group we need to be **more independent** of the ups and downs of the equity markets than we have been up to now. We have to be in a position to generate sustained profits, even when **capital markets are flat**.

## XV. “Back to basics” – forward to the future

“Back to basics” is our slogan. In concrete terms this means: focusing on **operating business**, with

- strict cost management,
- a sustained increase in efficiency,
- a high level of flexibility, and
- a re-evaluation of the issue **risk**.

Essentially, this is nothing new, but we need to “**rediscover**” and **reinvent** some old principles. Our main task is to **implement** them stringently, “**live**” them with commitment, and **progress** slowly but surely. No question about it, this will be a long and difficult process for all of us.

What does all this mean for **life insurance business**?

Primarily, it means improving **cost structures**, continuously reviewing the **bonus** and adapting it to a **level that can be financed** over the long-term, i. e. in particular avoiding unreasonable investment risks by applying stringent asset liability management.

And what are the implications for business in the area of **property and casualty**?

Our answer is as follows: returning to the **underwriting** result even more consistently. The combined ratio will become the central **management tool**. Naturally, asset management will also remain an indispensable and integral element of our business here. But insurance business itself needs to be **profitable** without incurring any additional risks on the capital market.

In **banking business**, the new realities force us

- to handle our **resources** with more care,
- to undertake more rigid **cost management**,
- and to engage in more risk-oriented **risk management**.

**Concentrating on core competences** and focusing on the business portfolio will be decisive factors here.

**Costs** had in some cases undergone inflationary increases in times of bull markets, and these need to be reduced to a **sensible level**, i. e. to a volume at which we can also operate profitably in weak capital markets. And naturally we also need to transact **more business** – in **all** units, without losing sight of the priority of achieving profits by comparison with a focus on sales.

This sounds **ambitious**, but there is no alternative if we want to be **successful** rather than simply survive. And that's what we're aiming for. But we want to achieve more than that. We definitely want to emerge from these turbulent times in a stronger position and even more competitive.

This means that we need to play a **proactive** role in the **market restructuring** that is emerging in some business areas. Every cloud has a silver lining, and in every **crisis** there is an **opportunity**. I believe that this old adage will be proven in this process,

- which will be extremely **painful** for many companies,
- but which ought to open up some very **exciting** perspectives for Allianz.

Naturally, an economic tailwind would make the journey easier, but I am afraid that with **economic growth** around **zero** we will have to do without such assistance for the time being. Nevertheless, we need to return to **positive figures** – and we will.

## XVI. Cautious optimism

Does that sound **too optimistic**? I don't think so. Even if I can understand that you feel a degree of **scepticism** after this difficult year. While we must strive to avoid **painting an overoptimistic picture**, this shouldn't mean that we have to paint everything in **different shades of gray**.

Our cautious **optimism** hasn't simply been plucked out of the air, and it isn't just based on a few colored specks of color. I believe our confidence is based on some **firm evidence**:

### Cautious optimism

- Parts of our business turned in a **positive performance** in 2002.
- We have **identified** and **analyzed** our **problems**.
- We have laid new **groundwork** where this was necessary.
- **Negative** developments have in many areas already been **halted**, if not turned around.
- We also have a good position – **nationally and internationally**,
- supported by a significantly **strengthened capital base**.

## XVII. International growth

A look beyond the borders of Germany confirms this. International expansion is one of the **constant themes** running through Allianz policy. Recent years have also been characterized by the decisiveness with which we have invested in **growth markets**, particularly in Europe and Asia. During the 1990s, our **foreign strategy** linked us with names like AGF, Lloyd Adriatico, Allianz Suisse, Allianz Life in Korea, and PIMCO. This strategy has been *proved correct and* the future benefits will be even greater.

- But today, the Allianz Group is already **Europe's** number 1 in insurance business,
- number 2 among foreign insurers in **Asia/Pacific** with its enormous growth and income potential, and
- number 1 in **Central and Eastern Europe**.
- We are among the top 5 insurers in more than 20 national markets, and
- we have thereby carved out an **outstanding initial position** for ongoing growth.

## XVIII. The Trend is our friend

But I am also **optimistic** for another reason. Important long-term **trends** from which Allianz will derive **disproportionate benefit** are intact and they are working in our favor.

### Important long-term trends

Examples I am thinking of are:

- the increasing interest in competent **consultation**,
- the interest in differentiated **packages**, but also **holistic solutions**, and
- the increased trend that sees customers turning to big providers with a strong financial base (**flight to quality**).

Particularly during times of uncertainty, people would rather be dealing with a company that has a **stable financial base** and that is **competent and trustworthy**. For a large number of people, that above all means Allianz and its subsidiaries in blue, green and other colors.

In our **core business insurance**, we are benefiting from a **flight to quality** and the increasing willingness to pay a reasonable price for the transfer of risk in the light of risks that are continually on the increase. As a large provider, Allianz is also benefiting particularly from the trend towards **holistic initiatives for consultation and solutions**.

The **demographic change** currently occurring will entail a sustained increase in growth for our core business of **retirement provision**. The **trend** is clearly proceeding in the direction of **fully-funded** retirement provision.

A **study** by the *European Financial Services Round Table* recently highlighted the size of the **potential** inherent in the European **market for retirement provision**: The analysis indicated that Europeans currently need to save **456 billion euros** (!) each year in order to retain the current pension level. We intend to benefit, not just in **Germany**.

When it comes to our core business of **portfolio management**, securing their private assets is a top priority for customers when making their choice from a very wide range of investment options and styles. The trend is no longer focused on *dream returns*, but on **minimizing risk** for **sensible returns**. The broad base of our asset management and banking activities is an excellent preparation for this scenario.

## XIX. A strong foundation

### Threefold assets as a strong foundation

I should now like to present you with **three additional arguments**:

- our stable and significantly **strengthened capital base**,
- our extensive trust capital and **strong brands**,
- and finally our people, who represent our strongest “asset”.

I have already outlined the ways in which we have energetically countered the developments of the last two years, which saw substantial inroads made into our **financial strength** and hence our **strategic flexibility**.

Alongside the placement of three successful **new issues** in autumn 2002, we also have the massive **capital increase** in the course of this month. The extremely **positive** reception from the market is an indication of

- the **confidence** that Allianz continues to enjoy in the capital markets and
- the obvious confidence that you have in our achieving the **turnaround**.

I should like to take this opportunity to thank you in the name of my colleagues.

What is the purpose of these capital measures?

### Strengthened capital base

1. Firstly, it ensures our creditworthiness. In concrete terms it secures our AA rating, giving us a significant **strategic competitive advantage**. Our success with our customers is largely based on our financial strength, because this translates into **security and stability** for them.

2. Secondly, it helps us to generate **internal growth** and allows us to continue to expand successful **organic growth** of our business in line with the possibilities offered by the market.

## XX. Capital of trust

Ladies and Gentlemen, **capital** is not only measured in terms of euros, francs or dollars. It can also be analyzed in terms of the **trust** we enjoy with our customers. Strong brands like Allianz, Dresdner Bank and others provide us with a **capital of trust** that is particularly significant in today's environment in view of the increasing uncertainty and disappointments. Particularly during the last two years, investors, savers and policyholders have recognized the merits of **stability, reliability and trustworthiness**.

## XXI. "People are our biggest asset"

Last but by no means least, perhaps you would allow me to mention a special type of **asset** without which no company can be successful. I am referring to **our staff and agents**. Particularly over the course of the last year, when we had to make very considerable demands on them and even asked too much of them, they have once again proved

- the degree of their dedication to our **joint endeavor**, and
- the extent to which they identify with **their**, with **our** company.

At this point, I should like to proffer my **very heartfelt thanks** to them – and I am absolutely certain that I am speaking for all of you who are taking part in this Annual General Meeting today.

## XXII. Thanks to shareholders

And this, Ladies and Gentlemen, brings me to you, the shareholders. I should also like to express my **thanks** to you. You have once again continued to follow our work with **interest, excitement and critical solidarity** over the past year.

Last year, the share price provided you with some **unpleasant surprises**. I can well understand that there has been a degree of disappointment, perhaps even anger about us. I am therefore all the more gratified that you have **stood by Allianz** nevertheless and that many of you have also participated in the **capital increase**.

This is an indication that you continue to have **confidence** in our company and that you are **anticipating** that Allianz will return to the accustomed path of success. You are also expecting the Allianz share price to recover, and we have seen the first signs of this during recent weeks. This **confidence** is extremely important to us. In the final analysis, it forms the **foundation** of our work, and you may rest assured that it constitutes our **mission** and **strengthens our commitment**. It also provides the source of our **inspiration**. Thank you all for your trust in us.

## XXIII. A personal word of farewell

Ladies and gentlemen, I now come to the conclusion of my presentation – and the occasion makes this more personal than usual.

As you know, I am handing over the Chairmanship of the Board of Management to **Michael Diekmann** and bidding goodbye to an office that I have held for almost 12 years now. I am leaving behind some intriguing and fulfilling **tasks and functions**. I am also leaving **people** with whom it has been my privilege to enjoy outstanding cooperation. With them and with you, ladies and gentlemen, I was lucky enough to share a string of good business years during this time. However, the last two years have taught us some lessons about how quickly and decisively the markets can change. They have shown us how quickly the wind can alter direction and

blow right in your face. You, the shareholders, cannot be satisfied with the results of these two years, and I also derive no personal satisfaction from them.

There has been a lot of **speculation** about why I have taken the decision to relinquish my office at this particular point in time. Most of this speculation has been in the **realms of fantasy**. All I wish to say is this: The decision was my own, very personal decision, and the decision would have been **quite different** if I had not been firmly convinced that we are now experiencing an **upturn**.

The **timing** is right, because the **right man** with the right age is already waiting to shoulder the burden of responsibility. I have known **Michael Diekmann** as a colleague for many years now. I know from my direct observation that he possesses **the skills and experience** that are essential tools for holding this office.

He is now also the right age to ensure a very specific form of **management continuity** that is characteristic of Allianz and that has always served it well. During the 113 years of Allianz history, he will only be the **9<sup>th</sup>** chairman of the Board of Management, and I trust that many years will pass before the **10<sup>th</sup>** chairman takes over the reins.

Michael Diekmann, I should like to take this opportunity to wish you a great deal of happiness in your work, much success, and a **lucky hand** at all times.

For my part, I am today leaving my post with a feeling above all of gratitude. I am grateful that I have been privileged to serve Allianz and hence also you as shareholders for more than a decade. I should like to extend my thanks to you for the trust you have shown in me over many years.

This is a fantastic company and I should like to take this opportunity to wish it all the best for the future. I am doing so in the certainty that you, the shareholders, will be able to take more **pleasure** from Allianz in the future.

(The spoken word shall prevail).



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