

# Allianz 1997



## **Allianz Aktiengesellschaft Annual Report 1997**

### **Spotlight on the Euro**

In a few months' time the euro will be launched. As a leading European insurer, Allianz will reap significant strategic benefits from monetary union. Our shareholders will also benefit from our strong competitive position. The significance of the euro for our customers and for our business is outlined in a special section of this report starting on page 58.

### **The Group**

Gross premiums written by the Allianz Group were up 14.7 percent at DM 85.6 billion. Pre-tax profit improved by 20.4 percent to DM 5.0 billion. Net Income for the year was up by 20.5 percent at DM 2.7 billion. Earnings per DM 5 share amount to DM 10.15 (1996: DM 9.09).

### **Allianz AG**

Net income of Allianz AG for the year amounted to DM 1,175 million. An increased dividend of DM 1.90 (1996: DM 1.70) per share is proposed for fiscal 1997.

## ■ At a Glance

<b>Allianz Group</b>		<b>1997</b>	Change over previous year in %	<b>1996</b>	Change over previous year in %	<b>1995</b>	More on page
Gross premiums written	DM bn	85.6	14.7	74.6	5.8	70.5	35
Benefits paid to clients	DM bn	76.9	18.0	65.2	4.6	62.3	19
Pre-tax profit	DM mn	5,014	20.4	4,164	36.8	3,043	36
Taxation	DM mn	2,318	20.4	1,926	88.5	1,022	
Net income	DM mn	2,696	20.5	2,238	10.7	2,021	37
Investments under management	DM bn	381.8	10.9	344.2	22.1	282.0	51
Stockholders' equity	DM bn	23.0	13.5	20.4	10.2	18.5	
Insurance reserves	DM bn			262.6	8.1	243.0	
Employees	thousand	73	11.3	66	- 4.9	69	29
<b>Allianz Aktiengesellschaft</b>							
Gross premiums written	DM bn	9.7		9.9		9.9	88
Stockholders' equity	DM bn	14.9		13.8		13.2	
Net income	DM mn	1,175		602		681	91
<b>Allianz Share</b>							
Consolidated earnings per share according to the DVFA/GDV method	DM	10.17		9.09		8.57	37
Dividend per share*)	DM	1.90		1.70		1.60	57
Dividend payout	DM mn	438		390		362	
Price of Allianz share at year-end	DM	466		277		282	cover
Market value of Allianz at year-end	DM bn	107.2		63.6		63.7	cover

## Allianz Shares

### Impressive performance

1997 was a record year for Allianz shares in several respects. The share price climbed 67.5 percent over the year. The DAX price index, in contrast, rose by only 47.1 percent. The Dow Jones STOXX 50, which consists of the shares of 50 leading European companies, put on 42.4 percent over the same period.

The Allianz share price has continued to outperform the market for the first few months of the current year, breaking through the DM 600 level in the process. With a stock market value in excess of DM 150 billion, our Company has the largest market capitalization in Germany and one of the top ten in Europe.

### Number of shareholders greatly increased

The number of shareholders has risen within a year from around 46,000 to almost 167,000.

► This is due first and foremost to the exchange of shares in Bayerische Hypotheken- und Wechselbank for Allianz shares. Some 60,000 shareholders accepted this share exchange offer.

► A further 25,000 or so new shareholders were created by the issue of employee stock in the fall of 1997. 66 percent of our employees acquired Allianz shares at that time. Our exclusive agents received a similar offer which was likewise well taken up. All in all about 20 percent of our shareholders are now also employees or agents of our Company.

► Finally the rapid growth in number of our shareholders was also undoubtedly due to the change in the par value of our shares to DM 5 in April 1997. The collective safe custody system for Allianz shares introduced at the same time has proved invaluable.

### Generous rights issue

In March 1998 we invited our shareholders to subscribe for new shares in the ratio of 1-for-34 at a price of DM 220 per DM 5 share, a discount of 62

percent on the stock market price at the time.

The capital stock was increased by a further DM 1.3 billion in April 1998 with the pre-emptive rights of existing shareholders excluded. The new shares were placed with institutional investors around the world. The subscription price of DM 546 was close set at a level to the current market price of the shares in order to comply with the statutory regulations governing an issue where the pre-emptive rights of existing shareholders are excluded.

Allianz option warrants falling due for redemption in 1997 and 1998 have further increased our equity capital by almost DM 1.1 billion.

These financing arrangements have given us a sound capital base for future business projects.

### Rewarding long-term investment

Not just in 1997, but also over a ten-year period Allianz shares have performed much better than the DAX. Whilst the Allianz share price averaged an increase of 18.4 percent each year between March 1988 and March 1998, the increase in the DAX price index was 13.9 percent. Over the same period Allianz's total dividend payout, including the corporate income tax credit, has more than doubled with an overall increase of 123 percent.

Including dividends and rights issues, an investment in Allianz shares has also performed better than a DAX-indexed portfolio for investors taking a long-term view. An investor who purchased 100 Allianz shares ten years ago will have paid DM 13,440 before expenses. By reinvesting the net dividends (taxed at 30 percent) and the proceeds from the sale of subscription rights in Allianz shares, the total shareholding would have increased to 142 shares by the end of March 1998 without any additional funds having been committed. The stock market value of such a holding at that time was DM 78,881. The increase in value over a period of ten years represents an average annual return of 19.4 percent after tax. A DAX portfolio would have yielded 17.0 percent p.a. over the same period.

## Heavily traded

Allianz shares are one of the most heavily traded stocks on the German exchanges and the most important of the 30 stocks which make up the DAX index, accounting for more than 10 percent of the total. In the Dow Jones STOXX 50 index Allianz accounts for about 3.7 percent of the total, making it the sixth most important stock in that index.

Allianz shares are officially listed on all the German stock exchanges as well as on the London Stock Exchange and the Swiss Stock Exchange. They are also traded on the Deutsche Terminbörse (the German futures and options exchange) and on the Xetra electronic trading system.

## Shareholder structure

About 17 percent of the capital is in the hands of foreign shareholders. That represents about one third of the shares in free float – that proportion of the capital which is not held long-term by institutional investors. The largest shareholder, with about 25 percent of the capital, is traditionally Münchener Rückversicherungs-Gesellschaft (Munich Re). Deutsche Bank and Dresdner Bank each hold about 10 percent and Bayerische Hypotheken- und Wechselbank about 5 percent of Allianz AG.

## Investor relations

Interest in information about our Company is increasing. Institutional investors and financial analysts want to find out for themselves how Allianz's financial position is developing and what strategies the Company is pursuing. Our Investor Relations team made contact with more than 2,500 investors and analysts in 1997 (compared with 200 in the previous year). We had individual discussions with about 260 of these, while all the rest took part in more general information briefings.

We staged more roadshows than ever before at all the main financial capitals of Europe, including London, Paris, Zürich and Amsterdam. We went to great lengths to provide compre-

hensive information about the strategies on which our friendly takeover offer for the French insurance company Assurances Générales de France (AGF) was based.

Our financial calendar and the contact details for further information from our Investor Relations department are listed on the back cover of this report.

## Information on further financial instruments issued by Allianz:

### Participating certificates:

Current redemption value as of 12/31/2001: DM 153.61  
Distribution for 1997: DM 4.56

3.0 percent exchangeable bond for DM 2 billion nominal issued by Allianz Finance B.V., Amsterdam, convertible on 2/4/2003, guaranteed by Allianz AG. The bondholders have the right to convert the bond into shares of Deutsche Bank AG. The conversion price for each DM 5 share of Deutsche Bank AG is DM 142.25.

6.0 percent bond for DM 1.5 billion nominal issued by Allianz International Finance N.V., Amsterdam, convertible on 5/14/2003, guaranteed by Allianz AG.

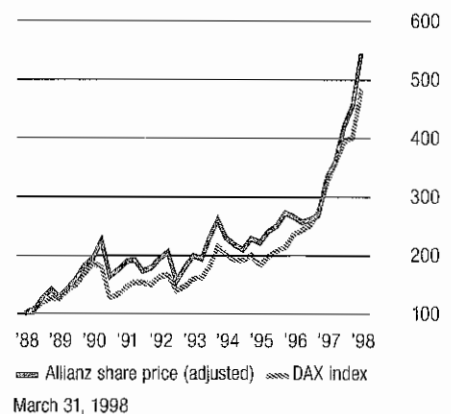
5.75 percent bond for DM 1.5 billion nominal issued by Allianz International Finance N.V., Amsterdam, convertible on 7/30/2007, guaranteed by Allianz AG.

5.0 percent bond for DM 2 billion nominal issued by Allianz Finance B.V., Amsterdam, convertible on 3/25/2008, guaranteed by Allianz AG.

5.0 percent bond for FF 4 billion nominal issued by Allianz Finance B.V., Amsterdam, convertible on 3/25/2008, guaranteed by Allianz AG.

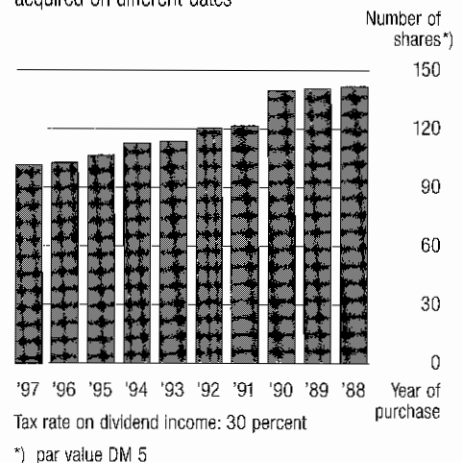
## Allianz share price versus DAX index

End of March 1988 = 100



## Performance of a holding of 100 Allianz shares\*)

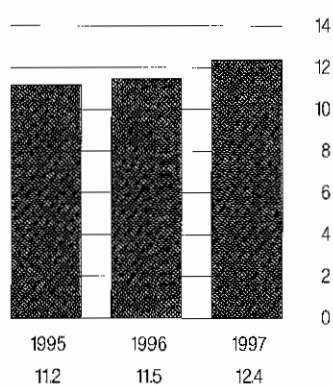
acquired on different dates





## Allianz Group

Return on equity (after tax)  
in %



## Allianz Group

## Allianz Aktiengesellschaft

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*Allianz is one of the world's leading global insurers. Premiums written in 1997 totaled DM 85.6 billion. With assets under management worth DM 468 billion we are one of the largest investment managers in the world.*

*Our customers can contact us for help and advice in nearly 60 countries. The financial health, level of service and overall capability of our Group depend on the commitment and dedication of 73,290 employees worldwide.*

DR. KLAUS LIESEN  
Chairman of the Supervisory Board  
Ruhrgas AG,  
Chairman

FRANK LEY  
Salaried employee,  
Allianz Lebensversicherungs-AG,  
Deputy Chairman

DR. WOLFGANG RÖLLER  
Chairman of the Supervisory Board  
Dresdner Bank AG,  
Deputy Chairman

PROFESSOR DR. DR. H. C.  
MARCUS BIERICH  
Chairman of the Supervisory Board  
Robert Bosch GmbH

NORBERT BLIX  
Salaried employee,  
Allianz Versicherungs-AG  
since May 23, 1997

DR. HORST BURGARD  
Former Member of the  
Supervisory Board  
Deutsche Bank AG

KLAUS CARLIN  
Member of the Central Executive  
Committee  
Commerce, Bank and Insurance  
Workers Union (HBV)

RENATE DANIEL-HAUSER  
Salaried employee,  
Allianz Versicherungs-AG

DR.-ING. E. H. WERNER H. DIETER  
Former Chairman of the  
Board of Management  
Mannesmann AG

DR. CHRISTOPH FORSTER  
Head of department,  
Allianz Versicherungs-AG  
until April 30, 1998

DR.-ING. E. H. HERMANN FRANZ  
Former Chairman of the  
Supervisory Board  
Siemens AG

DR. FRIEDHELM GIESKE  
Former Chairman of the  
Board of Management  
RWE AG

ULRIKE MASCHER  
Member of the Bundestag,  
Commerce, Bank and Insurance  
Workers Union (HBV)

DR. SYLVIA MASER  
Head of Department,  
Allianz Lebensversicherungs-AG  
since May 1, 1998

KARL MILLER  
Salaried employee,  
Frankfurter Versicherungs-AG

DR. WOLFGANG MÜLLER  
Former Member of the  
Board of Management  
Allianz Aktiengesellschaft,  
since May 8, 1997

REINHOLD POHL  
Custodian,  
Allianz Lebensversicherungs-AG

MANFRED RASP  
Salaried employee,  
Allianz Versicherungs-AG  
until February 28, 1997

LIENHARDT REICH  
Salaried employee,  
Allianz Versicherungs-AG  
since March 1, 1997

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

DR. ALBRECHT SCHMIDT  
Speaker of the Board of Management  
Bayerische Vereinsbank AG

SIR DAVID SIMOM, C.B.E.  
Chairman  
The British Petroleum Company PLC,  
until May 7, 1997

DR. KLAUS-RÜDIGER STROEBEL  
Salaried employee,  
Allianz Versicherungs-AG  
until May 22, 1997

## Supervisory Board

## Report of the Supervisory Board



We have continually monitored the Board of Management's conduct of the Company's affairs in accordance with our responsibilities under the law and the Company's statutes and have kept ourselves informed about the ongoing business situation at four meetings of the Supervisory Board and at eight meetings of the subcommittees appointed by the Supervisory Board, as well as by means of regular oral and written reports from the Board of Management. At the beginning of its current term of office the Supervisory Board appointed the following subcommittees required by the Co-Determination Law: a Mediation Committee, an Executive Committee and a Standing Committee. The Executive Committee deals with personnel matters. The Standing Committee is responsible mainly for considering and deciding on all business transactions which require authorization under the German Corporation Act and for approving the acquisition of significant equity interests in other companies.

The performance and development of the Allianz Group, Allianz AG and our main subsidiaries in Germany and abroad were the subject of detailed reports submitted to the Supervisory Board.

One of the main topics for deliberation was the offer made to take over the French company Assurances Générales de France, which has since been successfully completed. The Board of Management explained the strategic opportunities presented by the merger between Allianz, AGF and the Dutch insurance company Royal Nderlande and the effects of the merger on the Allianz Group. The Supervisory Board also considered the shareholder value of AGF, the returns expected from the transaction and the action required to finance it.

The Board of Management has explained the new divisional responsibilities of its members and the establishment of the International Executive Committee. The latter comprises the chief executive officers of the largest foreign companies in the Group together with the members of the Board of Management.

The requirements, ingredients and instruments of financial control in the Allianz Group have been explained to us.

The lawsuit pending before the U.S. District Court in New York in connection with life insurance policies issued between 1920 and 1945 was the subject of regular reports submitted to the Supervisory Board. The action has been filed against four Allianz subsidiaries by surviving dependants of victims of Nazi persecution. At the same time the Board of Management has kept us informed about the progress of an investigation being carried out by Arthur Andersen, the US firm of accountants appointed by Allianz Life to examine policy documentation of that period.

In addition to the above we have had explained to us the potential synergy benefits from the incorporation of AGIS Allianz Gesellschaft für Informatik Service mbH.

The issue of employee shares was another topic discussed by the Supervisory Board.

We have also had discussions with the Board of Management about the consequences of the exchange of Hypo-Bank shares for Allianz shares, which has led to an increase in the number of Allianz shares in free float.

The Board of Management has given us details about two new divisions – Alternative Risk Transfer (ART) for industrial clients and Asset Management – and informed us about the newly formed companies Allianz Risk Transfer and Allianz Asset Management GmbH.

We have examined the financial statements, the management report and the recommendation for the appropriation of profit. We concur with the conclusions of the Company's independent auditors, KPMG Deutsche Treuhand-Gesellschaft AG, Wirtschaftsprüfungsgesellschaft, Munich, who have given an unqualified opinion on the 1997 financial statements and management report. At the meeting of the Supervisory Board held on May 27, 1998, the financial statements presented by the Board of Management were approved and confirmed.

The consolidated financial statements and management report of the Group were also submitted to us for review and discussed in detail in the presence of the auditors at the meeting of the Supervisory Board held for that purpose.

Dr. Christoph Forster resigned from the Supervisory Board on April 30, 1998. He has been replaced by Dr. Sylvia Maser as a member elected by employees.

The term of office of all the current members of the Supervisory Board expires at the end of the Annual General Meeting to be held on July 8, 1998.

Munich, May 27, 1998

For the Supervisory Board



## Board of Management

DR. HENNING SCHULTE-NOELLE  
Chairman

DR. DIETHART BREIPOHL

DETLEV BREMKAMP

DR. ROBERTO GAVAZZI  
until June 30, 1997

DR. REINER HAGEMANN  
Personnel Director

HERBERT HANSMEYER

DR. GERHARD RUPPRECHT

DR. HELMUT PERLET  
Deputy Member  
since July 1, 1997

*Dear Shareholders,*

last year was another successful year for Allianz, your Company. Net income was up 20.5 percent after tax to very nearly DM 2.7 billion. The return on equity, which rose strongly from 11.5 percent to 12.4 percent net of tax, also reflects the excellent progress made on the earnings front, which has enabled us to recommend a further increase in the dividend from DM 1.70 to DM 1.90 per share. The stock market has acknowledged our performance with a 67 percent increase in the market value of Allianz shares.

Our achievements to date constitute a solid foundation for the years ahead but there is still more to do. We want to continue to grow our business and our profits so as to achieve a steady increase in the shareholder value of your Company. What are the strategic targets which we have set ourselves to achieve this? They can be summarized under five points:

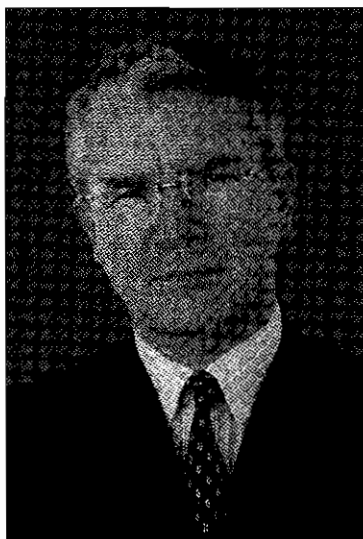
- We aim to be one of the top five insurers in the established markets which are important to us and to play a leading part in specialist markets.
- Life and health insurance business, a market with worldwide future potential, will be systematically expanded.
- We are committed to becoming one of the leading foreign providers of insurance products in the rapidly-growing insurance markets of the Asia-Pacific region, Eastern Europe and Latin America.
- We want to build our global industrial risk insurance business into the best in the world.
- Discretionary asset management is to be developed into a profitable core activity.

Our operating strategy is focused on these five targets.

In Germany we have consolidated our leading market position by completing the integration of Deutsche Versicherungs-AG in 1997, merging it with Allianz Versicherungs-AG from the beginning of 1998. The successful transformation of the German Democratic Republic's former state-run in-

insurance monopoly into a competitive and profitable company will go down as one of the outstanding achievements in the history of Allianz. Allianz is now providing about 11,500 secure jobs in Germany's new eastern states.

The gradual integration of the Vereinte Group into our group of companies is also proceeding on schedule. Vereinte Krankenversicherung in par-



ticular, as one of the leading providers in its field, will play an important part in our plans to grow our business in personal lines of insurance.

In a number of other markets we have taken a significant step forward towards the realization of our objectives by acquiring, after an initial approach towards the end of 1997, the French insurance group Assurances Générales de France (AGF) – the largest acquisition in Allianz's history. Together with AGF we will move to a leading position in the insurance sector in nine of the eleven countries which will be joining European monetary union on January 1, 1999. AGF is also a prominent global insurer of industrial risks; in marine, aviation and transport insurance it leads the world. Together we will double our volume of business in the emerging markets of Asia and Latin America. In future the Group will be able to play a much larger part in credit insurance and assistance services. Finally Allianz's investments, together with those of AGF, will increase the total value of assets under management to more than DM 600 billion.

In strategic terms, therefore, the two companies complement each other exceptionally well. No group will be better placed in Europe's insurance market of the future. We will use the extra strength of this platform to expand our international activities.

Against this background we are confident that the level of interest shown in our Company by internationally oriented investors will continue to rise as they turn their attention to the large capital market of Europe which will be created by the introduction of the single currency. I am pleased to say that the number of our shareholders has more than trebled over the past twelve months to the present total of around 170,000.

The response to our latest capital-raising exercise was extremely encouraging. We think this demonstrates investors' confidence in our ability to cope successfully with the challenges of the future. For our part, our confidence is based first and foremost on the fact that we can count on the hard work and commitment of all our skilled and dedicated staff, to whom I would like to express our heartfelt thanks for the success of their efforts during the year under review. Our customers and staff will benefit from our plans for the future. Increasing the performance and competitive capability of our Company is the best long-term guarantee of job security and satisfaction. Most of all, however, we hope that you, as shareholders of Allianz, will benefit. We value your continued confidence in us.

*Yours sincerely*  
*Dr. Henning Schulte-Noelle*

Dr. Henning Schulte-Noelle  
Chairman of the Board of Management  
Allianz Aktiengesellschaft



# 100

Top left to bottom right, the members of the International Executive Committee set up in 1997 consisting of the Board of Management of Allianz AG and the chief executive officers of other large companies in the Group.

Joc L. Sinner, Jr. (Fireman's Fund),  
Michael Dickmann (Allianz Asia Pacific),  
Alexander Hoyos (Allianz Elementar),  
Gerd Uwe Baden (FLV Ly. Berner),  
Detlev Breckmann (Allianz), Reinert  
Hagemann (Allianz), Thomas Perle  
(Allianz), Jürgen Rüdiger (Allianz),  
Edward J. Riegle Jr. (Allianz), Angelo  
Gambino (Allianz), Dietrich Breckoldt  
(Allianz), William Raymond Trean  
(Allianz), Günther Schilling (Allianz),  
Michael C. Anderson (Allianz),  
Jean-Dominique Bazy (Allianz France).



# 1000



## Cover Picture



More than 2,300 years ago an unknown artist painted the scene with Europe and the bull which decorates our front cover. The picture is emblazoned on a bowl from Apulia, the region in the heel of Italy around Bari, Brindisi and Taranto. Europe typifies the mythological worldview of classical antiquity. Her charms excited the love of Zeus, father of the Gods, to such an extent that he turned himself into a bull for her. It seems likely that the continent of Europe was named after her.

Europe? As an economic area it now has very few borders left. National characteristics may survive, but a common thread runs through all its cultures. As the 20th century nears its end, a European community of values seems to have a brighter future again. At the same time Europeans are coming to realize that future tasks and problems can best be tackled together. This applies as much as anything to the future development of their economy. Europe must be equipped to cope with the challenges of global competition. The introduction of a common currency gives the citizens of Europe the means to face this task with confidence.

Allianz is in favor of the euro. Monetary union opens the door to Europe for a new era of economic prosperity. As a leading insurer on the old continent Allianz already has a strong presence in all the important markets. This is a great advantage for when the euro arrives. Allianz's management team guarantees that this advantage will be used to good effect for profitable growth. This will benefit Allianz's shareholders and especially customers. For more information on the subject see the special section of this report which starts on page 56.





# Allianz steigert Ertragskraft

Zukäufe bestimmen das Umsatzwachstum – Dividende wird erneut angehoben

München – Nach einem deutlichen Umsatz- und Gewinnplus im vergangenen Jahr will der Allianz-Konzern 1998 seine Beitragseinnahmen wie auch die Ertragskraft weiter steigern. Während das Umsatzwachstum vor allem über Zukäufe zustandekommt,



**Allianz 1997**

## Allianz net income advances 16%

By Andrew Fisher  
in Frankfurt

Allianz  
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### Allianz erhöht Dividende kräftig Überschuß plus 16 Prozent

Börsen-Zeitung, 12.2.1998  
München (Eig. Ber.). – Das Geschäftsjahr 1997 ist für die Allianz AG, München, etwas besser verlaufen als zunächst angekündigt wor-

Pre-tax profits were 19 per cent higher at DM4.95bn. Earnings per share rose from DM9.25 to DM10.20. Allianz plans to raise the dividend by 16 per cent.

Der Allianz ist wieder ein Coup gelungen. Was lange erwartet worden war, ist heimlich, still und leise eingefädelt worden. Der Münchner Versicherungs-Konzern, der sich ausdrücklich als Global Player mit der AGF teils Ver-

Wieder ein Coup der Allianz

Von Hans-Gerd Heine

Allianz bietet für französische AGF

### Groß und stark

Von AXEL POSTINETT

Groß, größer, arschicht sich an. Die Einnahmen der Allianz sind in diesem Jahr um 16 Prozent gestiegen. Mit einem Kapitalertrag von 16 Prozent ist die Allianz die einzige Versicherungsgesellschaft, die die volle Übernahme der Gruppen dann auf Praxen in DM und würden die der Welt, die Nippon Life, ist das wirklich nötig? men im Europa an der Sch schneller wachsen, um in bleibe...

## Allianz-Gewinnsprung

Aktionären winkt mehr Dividende – Stark mit Vereinte

München (dpa) – Der Allianz-Konzern erzielt 1997 zweistellige Wachstumsraten beim Umsatz und Gewinn und erhöht zum dritten Mal in Folge die Dividende. Der Gewinn vor Steuern kletterte um knapp 19 % auf 4,95 Milliarden DM, gab die

Gewinn der Allianz AG, Köln, um 16 % auf 5,64 Milliarden DM. Der Gewinn vor Steuern kletterte um knapp 19 % auf 4,95 Milliarden DM, gab die

Unterwriting Gains Aid Allianz

MUNICH — Allianz AG, Europe's largest insurer, announced a 16 per cent increase in its dividend on Wednesday, helping to boost its share price.

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since 1990, Allianz AG, Europe's largest insurer, announced a 16 per cent increase in its dividend on Wednesday, helping to boost its share price.

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## ■ Dynamic profits growth maintained

Earnings of the Allianz Group rose by 20.4 percent before tax to DM 5.0 billion. Consolidated net income was DM 2.7 billion, an increase of 20.5 percent following 10.7 percent in the previous year. Gross premium income went up by 14.7 percent to DM 85.6 billion. These results show that we have again achieved our target of further profitable growth in the year under review.

### Reasonable level of claims

Fiscal 1997 was a good year as far as the level of claims was concerned. Claims expenses remained reasonable in most markets overall. Most importantly we had to underwrite less natural catastrophes and major claims than in previous years. External factors were not the only ones responsible for the improvement, however; the steps we have taken to improve risk selection and increase the efficiency of our claims management procedures also played a crucial part in enhancing the quality of earnings. We made an underwriting profit again for the first time since 1990.

## Booming financial markets

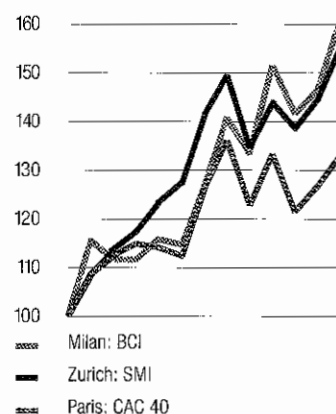
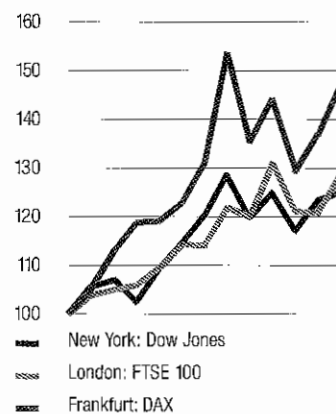
On the investment side we had a very favorable wind behind us due to booming stock market conditions in 1997. We made good use of it to achieve a significant increase in net investment income in spite of falling interest rates. Our investment valuation reserves also received another significant boost.

### Strategic position strengthened by AGF acquisition

One of the most important events of the year under review was the agreed takeover offer which we made to the shareholders of the *French* insurer Assurances Générales de France (AGF). The completion of this acquisition brings us closer to our strategic objectives sooner than expected:

- ▼ We achieve a leading position in almost all the main markets of Europe.
- Whereas this was already the case in *Germany, Austria, Switzerland, Italy, Hungary* and the *Czech Republic...*
- ...we will now become one of the five leading insurance companies in

## Stock exchanges 1997



*France, Spain and Belgium* as well and come closer to achieving this target in *Ireland, the Netherlands and Portugal*.

✔ We are also gaining ground outside Europe, particularly in South America and Asia. AGF's activities in these regions complement our own extremely well.

✔ AGF is one of the most important insurers of industrial risks in France and will strengthen our position in this sector.

✔ Together with AGF we will play a leading role in Europe both in credit insurance and as a provider of assistance services.

✔ Finally our investments, together with those of AGF, will increase by a further DM 120 billion to more than DM 600 billion. This will substantially strengthen our base for the proposed development of asset management activities in our Group.

#### **Expansion of core business activities**

In fiscal 1997 we concentrated on improving our position in automobile insurance, in life and health insurance and in the insurance of industrial risks:

✔ In *automobile insurance* we resolved to defend and/or increase market share. We introduced a flexible premium rate structure, speeded up the processing of claims, modernized sales and marketing procedures and improved service and product quality.

✔ In *personal lines of insurance* we intensified our activities both in highly developed markets and in the emerging economies. In this respect we were particularly successful in Eastern and Central Europe, and made excellent progress in the Asia-Pacific region.

✔ *Industrial risk insurance*: our aim in this sector, which is becoming increasingly global in nature, is to achieve worldwide market leadership.

During 1997 we launched new products on the market, focused our business on potentially profitable customer segments, and developed attractive niche markets. The newly-formed Global Risk Division will act as a central control point to further improve collaboration between companies in the Group and consequently the service provided to our international clientele. In Zürich we set up the Allianz Risk Transfer company to provide large industrial and insurance companies with innovative solutions for complex risks.

\* \* \*

After commenting on the business environment (page 13) we describe on pages 19 – 28 the action we are taking in the automobile, personal and industrial lines of insurance. We then provide some information about our staff, our communications activities and our commitment to the environment (pages 29 – 33). In the Group Management Report starting on page 34 we comment on the financial results of our group companies.

## ■ Varied environment

The overall economic environment for our business activities in the year under review was mixed. In countries like Germany and France the economic recovery – despite all the progress made compared with the previous year – was relatively modest. In Great Britain and especially the United States, by contrast, there was another sharp rise in GNP.

There was little overall growth in property and casualty insurance business in Western Europe. Automobile insurance in particular – by far the most important branch of property and casualty business – made hardly any progress at all. Premium rates for industrial risk insurance continued to decline. The prospects for personal lines of insurance, on the other hand, are good; the market potential in this sector is nowhere near exhausted.

### Economic trends

#### Restrained growth in Western Europe

The engine of economic activity moved up a gear in Europe but many of the national economies still failed to make the most of the growth potential. In Germany, for example, growth was hampered by persistent structural problems and the absence of reforms. Real incomes stagnated because higher taxation canceled out nominal increases. All in all the upturn in many countries was too weak to provide any relief on the unemployment front.

*Germany* and *France* occupied the middle ground in Europe with economic growth of 2.3 percent and 2.4 percent respectively. Both have in common that their growth came mainly from exports; domestic demand remained subdued. In *Austria* the economy followed the same pattern, expansion of 1.0 percent likewise coming mainly from increased exports. Consumer spending in *Italy* was less restrained, stimulating a resurgence in activity but still producing only a relatively modest recovery of 1.5 percent. In *Switzerland* the process of recovery was very hesitant; following

the recent period of stagnation the economy there grew by only 0.7 percent in 1997.

The pace of expansion in *Great Britain* was much more dynamic; with growth of 3.1 percent the British economy again took a completely different course from that of its neighbors in Continental Europe. The economy in *Spain* also fared very well, recording growth of 3.4 percent, its best result since the eighties. At 3.0 percent the economic barometer in the *Netherlands* continued to point to "Growth".

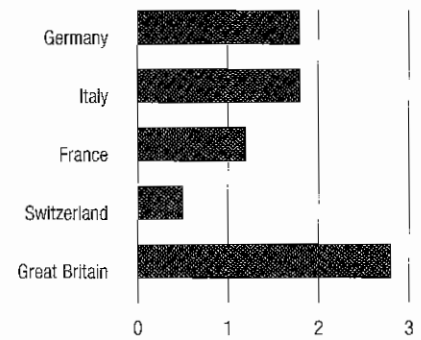
#### High residual unemployment

The economic recovery in Europe did not achieve the necessary momentum overall to make any noticeable difference to the number of people out of work. In some countries unemployment even rose slightly: in *Germany* to 11.5 percent, in *France* to 12.0 percent, in *Italy* to 12.2 percent and in *Switzerland* to 5.2 percent. In the *British* economy unemployment fell in the year under review for the fourth year in succession. Between 1993 and 1997 the British have succeeded in cutting the rate of unemployment from 10.3 percent to 5.6 percent!

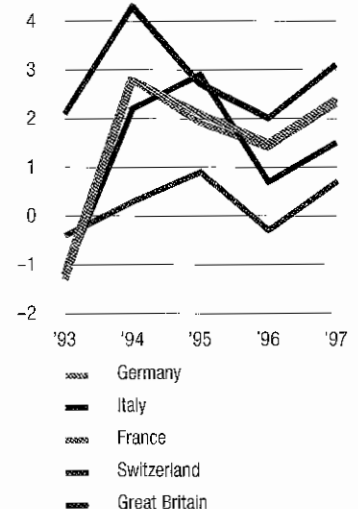
#### Low inflation

Any risk of inflation was still banished to the sidelines in Western Europe. The countries most successful in combating inflation in 1997 were *Italy* where prices rose by 1.8 percent, *France* with 1.2 percent and *Spain* with 2.0 percent. Consumer prices in all the *EU countries* combined rose by an average of 1.7 percent. Low inflation rates hold back premium growth in property and casualty insurance because weak inflation keeps claims down. In 1997 the premium adjustments allowed under the conditions of insurance to bring them into line with the level of claims were either minimal or totally unnecessary.

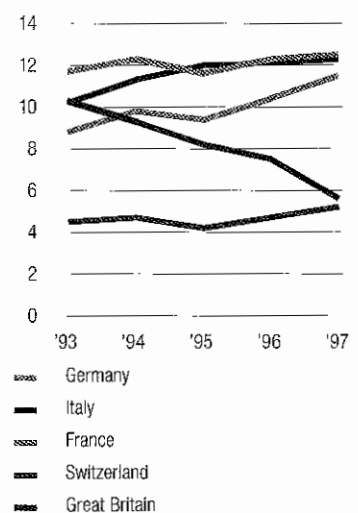
**Inflation 1997 in %**



**Economic growth in %**



**Unemployment trends (rate in %)**



**Development of Allianz premium income  
(Property and casualty insurance)  
in important European markets (growth in %)**

	1996	1997
Germany	- 1.4	- 2.4
France	- 3.1	- 6.9
Great Britain	11.8	-12.3
Italy	4.3	5.9
Austria	3.3	- 0.6
Switzerland	- 2.4	- 4.9
Czech Republic	214.7	42.3
Hungary	18.5	24.4

**Allianz market shares in important European markets  
(Property and casualty insurance) in %**

	1996
Germany	17.9
France	2.7
Great Britain	3.4
Italy	14.4
Austria	16.3
Switzerland	12.7
Czech Republic	4.3
Hungary	45.2

**Premium income growth (Allianz life business)  
in important European markets in %**

	1996	1997
Germany	3.8	4.4
France	- 7.7	- 7.7
Great Britain	3.1	5.0
Italy	22.2	30.4
Austria	13.0	1.3
Switzerland	27.6	-16.4*)
Czech Republic	31.4	19.3
Hungary	95.2	76.9

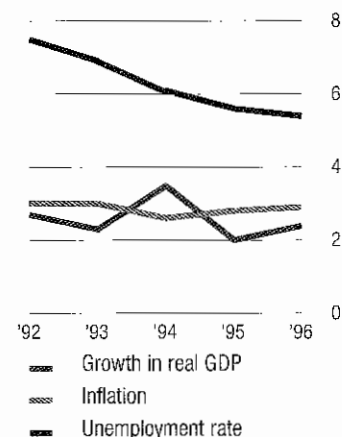
\*) ELVIA consolidated figures and excluding the special effect of changes to the ELVIA pension fund in 1996; otherwise +6,5

**Allianz market shares in important European markets  
(life insurance) in %**

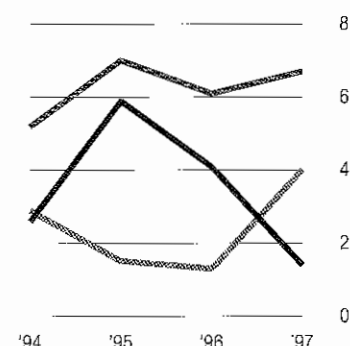
	1996
Germany	15.5
France	0.6
Great Britain	0.4
Italy	10.0
Austria	6.4
Switzerland	7.0
Czech Republic	2.9
Hungary	7.5

**USA**

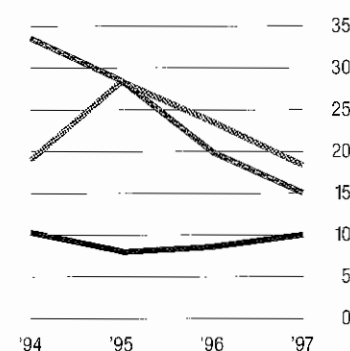
GDP growth, inflation,  
unemployment rate (%)



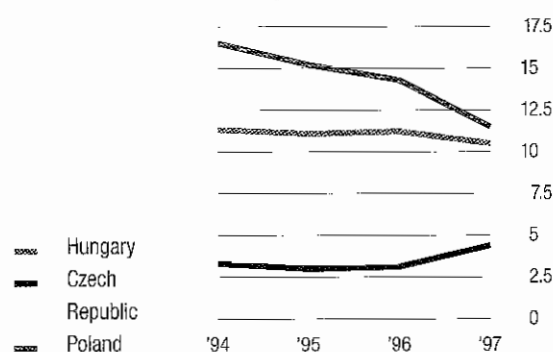
**Central and Eastern Europe  
Real GDP growth in %**



**Inflation in %**



**Unemployment rate in %**



## NAFTA area on growth tack

Economic conditions in the area covered by the *North American Free Trade Agreement* (NAFTA) were excellent in 1997. The *United States*, with 3.8 percent growth, continued to record the highest rate of all the main industrialized nations; the rate of inflation in the USA fell to 2.3 percent, back to the level of the sixties, and at 4.9 percent the US economy reached its lowest level of unemployment for the past two decades. *Canada* was close behind the USA with economic growth of 3.8 percent, but with unemployment running at 9.2 percent. Finally, the process of recovery in *Mexico* reached its high point to date in 1997 following the collapse of the economy in 1995; in the year under review Mexico's gross domestic product increased by a remarkable 7.0 percent.

## Contrasting speeds in Eastern and Central Europe

The pattern of economic activity in our most important markets in Central and Eastern Europe varied, in some cases substantially, from one country to another. *Hungary* is now well on course for growth (4 percent). The *Polish* economy continued its impressive expansion with a rate of 6.7 percent. The *Czech Republic*, by contrast, suffered a sharp reduction in growth (only 1.4 percent compared with 4.1 percent in the previous year). In the *Slovak Republic*, too, which has to cope with the same sort of problems as the Czech Republic, the growth rate of 6.2 percent was down on the previous year. The downward spiral of the *Russian* economy over the previous year was brought to a halt in 1997.

Inflation and unemployment remain high in *Hungary*, the *Czech Republic*, the *Slovak Republic* and *Poland*. Price rises in these countries averaged 12.4 percent, unemployment 9.8 percent.

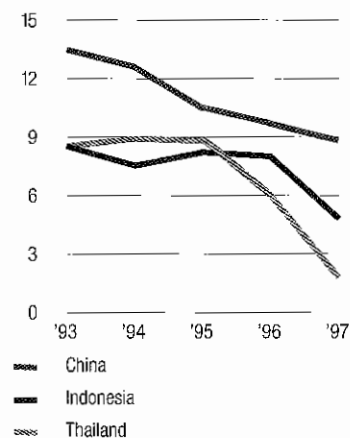
## Turbulent conditions in Asia-Pacific

The economies of the Asia-Pacific region recorded relatively dynamic growth in the first half of 1997. In July 1997 Thailand was forced to devalue its currency dramatically. The ensuing turmoil in financial markets in the Asia-Pacific region knocked economic expectations on the head. *Thailand* was worst affected, its economy growing by only 1.6 percent in 1997, but the economic thunderclouds were gathering in other countries in the region as well. For 1997 as a whole the repercussions were not yet so obvious in *Malaysia*, *Indonesia* and the *Philippines*, where the sharp downturn in the second half of the year was partially neutralized by the good first half. In *China*, *Singapore* and *Hong Kong* the effects of the crisis were hardly noticeable at this stage. China's economy strengthened by 8.8 percent, Singapore boosted gross domestic product by 7.4 percent, and Hong Kong recorded a growth rate of 5.2 percent. Activity in *Australia* rose by 2.8 percent.

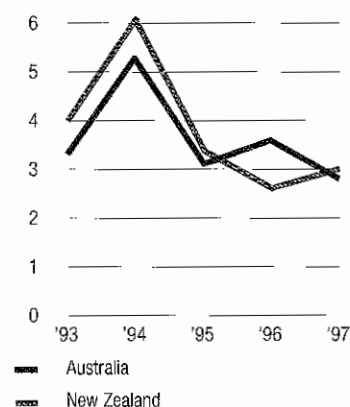
## South America is catching up

The main countries of South America continued to persevere with their privatization and deregulation policies in 1997. In *Argentina* and *Chile* the process is almost complete. After a later start *Brazil* is now beginning to liberalize its market. South America is now becoming the second most important growth region after Asia-Pacific. Argentina and Chile recorded particularly dynamic growth rates of 8.4 percent and 7.1 percent respectively in 1997. In *Venezuela* the economy broke free from the recessionary conditions of the previous year, recording growth of 5.1 percent.

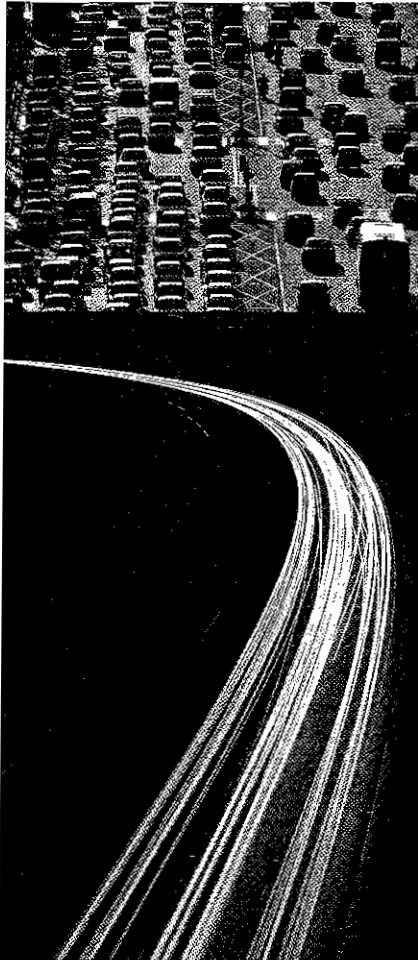
## Real GDP growth in Asia in %



## Real GDP growth in the Pacific Region in %







## Impact on insurance markets

### Key sector of automobile insurance under pressure

Sluggish consumer demand in Continental Europe is holding back growth in the insurance industry. This was particularly noticeable in 1997 in the automobile insurance sector, which is suffering from cutthroat competition. Large insurance companies are trying to gain market share in all countries by means of price differentials.

A leading position in the automobile insurance market remains of prime strategic importance because auto insurance generally represents the first point of contact with the private customer. Customer satisfaction in this area leads to further business from the same source.

Which road is going to be taken by automobile insurance in mature markets? We have seen three trends in 1997:

#### ▼ *Selective gains are diminishing.*

The time taken by competitors to respond to promising new product innovations is becoming steadily less. New premium rates reflecting the individual level of risk have in many cases been copied right across the market.

▼ *Differentiated customer marketing and response.* Marketing channels are being adapted or supplemented according to the different service requirements of customers. Where service and advice tend to be less important than price, direct selling methods are being increasingly employed – as in Great Britain. The absence of service is reflected in the price.

▼ *Regular price wars.* Downward cycles with intense price competition alternate with periods of upward pressure on premium rates. The cyclical swings in automobile insurance are becoming more and more pronounced.

## Personal insurance a growth market

Personal lines of insurance – life, annuity, health and accident insurance taken out by private individuals – is a growth market worldwide. The business potential in these lines of insurance was very good in the year under review and this situation is unlikely to change over the next ten or twenty years. What driving forces promise to keep this going? The three main ones are:

▼ *People are getting older.* Progress in the field of medicine is enabling people to live longer in all parts of the world. At the same time birth rates are falling. The result is that fewer and fewer people are in employment, whilst the number of retired people is rising steadily. In 1990 there were 500 million people over the age of 60, representing nine percent of the world population. By the year 2030 the number will have grown to 1.4 billion people, which will then be 16 percent of the world's population!

### Proportion of population aged over 60 (in %)

	1990	2000	2010	2020	2030
Brasil	7	8	10	14	x)
China	9	10	12	16	22
Hungary	19	19	21	24	25
OECD	19	20	23	27	30

Sources: Instituto Brasileiro de Geographia e Estatistica  
World Bank, own calculations  
x) = no figures currently available

▼ *Pay-as-you-go systems are coming apart at the seams.* Most state-run pension schemes operate on the pay-as-you-go system (also known in Germany as the "compact between the generations"), where the obligation to pay regular contributions is linked to employment. This system is now coming under pressure. There is already an imbalance between the number of people paying contributions and the number drawing pensions. And it is already obvious that this discrepancy will continue to grow over the next ten or twenty years all over the world. Forward projections also show that pension schemes can no longer be financed by the pay-as-you-go method.



For this reason many countries have taken steps to limit the benefits payable by state pension schemes and to increase contribution rates. Chile, Bolivia and Mexico have switched their entire pension schemes to fully funded systems in the private sector. East European countries also want to benefit from the advantages of such a system.

▼ **Prosperity is increasing.** Life, annuity, health and personal accident insurance are also benefiting from the higher standard of living in many countries. Considerable growth in the incomes of some sectors of the population in certain countries of Eastern Europe, Asia and Latin America has increased demand for private cover. There is a large volume of pent-up demand.

The Asian market in particular (apart from Japan) has extremely attractive business potential. 60 percent of the world's population live there. Their average age is only 30. Savings ratios are high, and there is a strong desire to preserve the increase in prosperity achieved. Experience shows that when disposable incomes rise there is a corresponding increase in the inclination of individuals to safeguard what they have achieved for their old age. This is graphically illustrated by the figures for Switzerland.

GNP per head (1995)	Expenditure on life and annuity insurance per head (1995)
in USD	in USD
China	620
Hungary	4,120
Brazil	4,748
Germany	27,510
Switzerland	40,630

Source: Schweizer Rück

Personal lines of insurance will therefore remain a growth market worldwide for some time to come. In 1997 the most dramatic growth rates for life insurance business were in *Hungary* and *Italy* (30 percent and 25 percent respectively). At the other end of the spectrum, *France* is a spe-

cial case because capital markets there were in such good form that life insurance lost some of its attraction compared with other forms of investment. Life insurance policies in *France* are predominantly savings-related. In *Germany* as a whole new business premiums for life insurance went up by 2.1 percent.

In addition to the growth aspect the life insurance market was characterized by the following developments in 1997:

▼ **Selling through banks continued to increase.** Especially in Spain, Great Britain, Italy and France, sales of insurance products through banks recorded rapid growth rates.

▼ **Single-premium life and annuity policies** were in particularly strong demand in Germany and Switzerland.

▼ Rising stock market prices stimulated interest in **index-linked or unit-linked life and variable annuity policies**, particularly in the United States, France and Italy.

▼ Finally, **pension fund business** has become well established in Hungary and the Czech Republic. In Italy legislation was passed in 1997 to clear the way for this form of private pension provision.

## Fundamental changes in industrial risk insurance

The move towards globalization of the industrial insurance market has engendered fierce competition on price and on terms and conditions. We observed four trends in 1997:

▼ **Falling prices.** Intense competition gave rise to surplus capacity, so that the supply of industrial insurance cover substantially exceeded demand. Premium rates fell as a result, in some cases dramatically. The discounts demanded by the market compared with the previous year ranged between 10 percent and 45 percent!

▼ **Globalization.** Direct investment across national frontiers has increased



by 18 percent per annum over the last 10 years. The number of multinational companies has risen sixfold in the last 20 years. They expect their insurers to provide high-quality insurance and expertise all round the globe. Only 278 of our 1,065 large international industrial clients are based in Germany. The large majority are spread around the globe: 427 in the rest of Europe, 270 in the United States and Canada, 75 in Asia and 15 in other countries.

▼ *Mergers and acquisitions.* The globalization process is encouraging mergers and acquisitions. Transactions of this kind in 1997 had a total value of US\$ 1,305 billion. This wave of mergers creates additional business opportunities for us because we already have a global presence. In all the main markets we have well-established and experienced insurance companies to give local support and advice to our industrial clients. Altogether we are represented in nearly 60 countries in the world. As one of the world's leading property and casualty insurers we also have the know-how and the underwriting and financial resources which large multinationals expect from their insurer.

▼ *Alternative solutions.* Demand for alternative forms of carrying and spreading risk is growing fast. On the one hand this involves the insurance of risks which up to now have traditionally been regarded as uninsurable. One example of this is when the risk associated with specially structured bond issues is placed on the market.

On the other hand some forms of cover are now being offered which reflect the fact that policyholders increasingly want to carry some of the insurance risk themselves. These customers need tailor-made cover which relieves them of the excess of loss over a stated amount, but they also often rely on receiving supplementary services in order to be able to deal efficiently with the element of risk retained.

In the United States "alternative risk transfer" solutions are capturing almost 30 percent of the market for industrial risk insurance. We expect this type of business to grow rapidly in Europe as well.

## ■ Automobile insurance: competitive position strengthened

Our group companies have responded to mounting competition in the key sector of automobile insurance with new products, improved service and a new premium structure. In 1997 we intensified our marketing efforts and developed new marketing channels. Procedures were shortened, simplified and automated with the aim of increasing customer satisfaction and reducing costs.

### **Individual premium rates**

The nature and quality of differential premium rates were again the main focus of attention in automobile insurance in 1997. Now that the insurance market in Europe has been deregulated we are quoting such rates in nearly every major market.

### **Risk-related premiums**

Is the wide variety of premiums simply designed to confuse? No, market segmentation according to the risk profile is an important tool for linking premiums in the auto sector more closely to the level of risk. In this way the policyholder pays only the price which corresponds to his profile. Low-risk groups no longer subsidize high-claim segments of the market (although of course customer segments with a bad claims record have to pay correspondingly more).

### **Successful marketing**

Allianz RAS in *Spain*, which has played a pioneering role in customer segmentation by risk profile, has achieved two important objectives with this rating policy:

- Loss ratios over the last few years have averaged 5 percentage points below the market level.
- The auto division has recorded faster than average growth and improved its market ranking from seventh to third place.

## **Large portfolio = competitive advantage**

The size of the business portfolio determines the quality of the premium structure and pricing. This equation gives us an almost unassailable competitive advantage in markets where we occupy a leading position. So in *Italy*, for example, we were able to achieve good financial results at rates which were adequate to cover the risks involved. This was not just because we are one of the largest automobile insurers in that market but also because we started to differentiate our premium rates individually before our competitors.

In *Germany* rate structuring criteria are quickly copied. Even more than in markets such as Italy, the important thing here is to single out the rating criteria which are really relevant. We can do that because we have by far the largest portfolio of policies in force. In 1997, by exploiting this advantage, we acquired nearly 880,000 new automobile policies with individual premium rates. The number of policies in force rose for the third year in succession, topping eight million vehicles for the first time in 1997.

In *Switzerland*, in order to maximize the advantages of large portfolios for calculating the level of premiums required to cover the risks involved, data from the portfolios of our three operating units – ELVIA, Berner and Allianz Schweiz – were combined.

The transfer of know-how within the Group is another factor which creates a competitive advantage for our companies when premium rates are set.

### **Wide-ranging scope for premium rate structuring**

The parameters chosen vary depending on the market. Personal criteria can include the sex, family status or age of the driver. In 1997 our *French* unit, for example, introduced new premium rates for senior citizens. In the *Czech Republic* only the vehicle details are taken into account. Our subsidiary Lloyd Adriatico in *Italy*, which specialized early in automobile insurance, currently distinguishes between



45 different criteria for calculating premiums. In most European markets our companies have chosen a mixture of personal and vehicle details, such as the age of the vehicle, the vehicle model or engine size, or the distance traveled.

### ***New marketing methods***

Another strategic area for winning the competition in automobile insurance is marketing. In 1997 we strengthened our tied agents organization and equipped them with the latest computer technology. In Germany we implemented a new marketing strategy. In Anglophone countries we tried out new marketing channels.

### **Marketing strategy for the sales force**

The new marketing strategy in *Germany* is intended to boost market share in the years ahead. It is designed to:

- win new customers;
- increase the number of policies per customer in the insurance portfolio;
- raise the level of customer retention; and
- increase the acquisition ratio per agent.

Various overlapping forms of action are being taken to achieve this.

✔ The *price/performance ratio* is being improved. The benefits of this were already evident on the automobile insurance account in fiscal 1997: 398,000 vehicles previously insured with competitors were switched to Allianz.

✔ *Customer service* – especially in the event of a claim – is being further improved.

✔ We are investing in *dialogue marketing*. By using a better combination of PC, telephone and direct mail, Allianz sales staff can significantly increase their acquisition rates without taking up more time.

✔ *Customer retention*. To protect the insurance portfolio from cancellations

and lapses, agents are to be given a computer-based early warning system. The system is designed in such a way that, with the help of the latest analysis software, Allianz sales staff are able to identify early on, from the large volume of data available, those policies which are in danger of lapsing. This so-called lapse scoring system should give us a competitive advantage over the long term which will be difficult to match, because systems of this kind work best by being able to search through the largest possible database for statistical connections. As market leader we have – unlike many of our competitors – just such a large database.

✔ In Germany we are also introducing *new commission arrangements* with improved rewards for the successful acquisition of new business. And we are recruiting *competent sales personnel* to make the agency network even more comprehensive.

### **Computer-based sales**

In those countries where we have a well-established tied sales force our companies improved the technology used to support sales. The latest computer technology brings with it several competitive advantages:

✔ In the first place the field sales force could no longer quote for products on the basis of numerous different rating criteria without having notebook computers on which all the relevant data is stored. Customers expect their agent to have all the relevant information immediately available on the spot.

✔ Secondly computers save having to print out reams of information about premium rates. Regular updates are no longer necessary. Costs are saved as a result.

✔ Delivering premium rates electronically also makes it more difficult for the competition to copy rating criteria and prices.

In *Switzerland* the intermediaries used by Berner were equipped with a

newly developed field sales system in 1997, including notebook computers.

The operating systems of Allianz in *Germany* and ELVIA in *Switzerland* were updated.

In *Great Britain* Cornhill is one of the companies pioneering the use of electronic data interchange (EDI). This system enables all important business procedures between the brokers and insurance companies to be handled quickly. Our *French* companies, too, introduced new computer applications in 1997 which are making the marketing function still leaner and more effective.

### Cooperation with brokers

The joint venture between Cornhill and Broker Direct brought a new auto policy onto the market in *Great Britain*. Broker Direct is a marketing and service company majority-owned by brokers. It is responsible for the operating side and participates in earnings of the joint venture. This arrangement is designed to strengthen the loyalty of brokers to Cornhill.

Allianz has demonstrated the success of cooperation arrangements such as this in *Canada*, where the "Grey Power National Network", a collaboration arrangement with independent brokers, increased premiums written in automobile insurance by 27 percent! The sales organization targets people over the age of 55.

### Insurance kiosks

Can insurance be sold through kiosks? Allianz *Canada* has demonstrated that it can: the new "Priceclub/Costco" form of retailing – a pilot project – showed the first signs of success in 1997. A kiosk situated in a department store sells automobile and household policies direct to the customer.

### Efficient claims management

Shorter processing times for handling claims do more than just increase customer satisfaction. They also substantially reduce the cost per claim and save running costs. These savings can then be used to quote more attractive rates. Efficient claims management is

therefore an essential tool for maintaining or increasing market share.

### Electronic data capture

We have made good progress down this road in 1997. In *Germany* we updated the computerized claims settlement system used by home office staff, enabling us to carry out statistical analysis procedures even better than before. Large volumes of data are processed instantly and reliably. Most importantly, however, claims are handled much more quickly! Paperless processing also ensures the immediate availability of information both internally and for the customer. Claims assessors in the field have been using notepads since 1994.

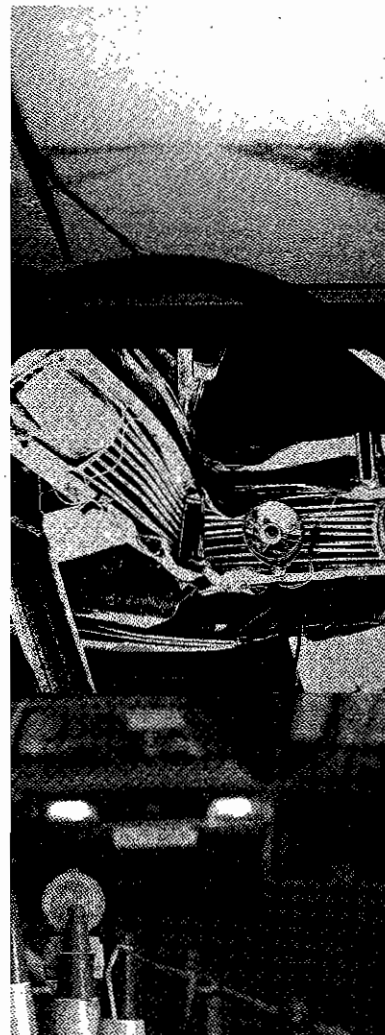
The automobile claims assessors of our company in *Austria* have been given an electronic inspection manual for transmitting damage reports online to the company. In addition a recommended list of auto repair shops has been drawn up to help victims of accidents find a competent repairer without delay. In future the selected repair shops are to be linked to the inspection manual via the Intranet.

### Telephone processing of claims

In *Germany* we have also increased the interactive processing of claims by telephone, which saves time and minimizes bureaucracy. About 50 percent of third party liability claims in automobile insurance were processed in this way. In 75 percent of these cases Allianz contacted the injured party on the same day as the claim was reported. Inspection of the vehicle and/or approval for repair work was also generally completed within 24 hours. Claims assessors are now on call 24 hours a day.

### Rehab services

The costs of personal injury claims in automobile insurance are rising. In *Germany* we have developed a rehab management service to keep such costs under control and at the same time provide a good service to the victims of accidents. Traffic accident victims who can claim against us under a third





party liability policy can request an improved medical rehabilitation service and additional vocational and social integration support. If our efforts succeed in getting the injured party back to work early, this can in some cases save us having to pay out benefit for years on end.

### **Claims research**

The research and development work carried out by the Allianz Center for Technology (ACT) represents another of our contributions towards reducing the cost of claims. The Institute for Automotive Technology is concerned with claims prevention and carries out research into cost-effective repair methods.

### **Safety precautions for dogs**

International research into the safety of automobiles has made enormous progress over the last ten or twenty years. ACT has played a significant part in this. It was our researchers who demonstrated, for example, the importance of fitted seatbelts and the airbag to save lives. It was ACT that highlighted the fact that unsecured baggage endangers passengers in a collision.

Until recently, however, hardly any attention has been paid to the risk associated with animals traveling in a vehicle. Crash tests carried out by ACT in 1997 demonstrated the potential dangers of having dogs unsecured in motor vehicles. The risks for both man and beast are greater if the dog – as in 80 percent of cases – is not secured. Having said that, however, most of the commercially available safety systems (harnesses, guards, netting) failed the Allianz crash test. On the basis of these findings ACT has developed a new safety system for the interior of the vehicle.

### **Cost-effective repair methods**

Repairing dents to vehicles damaged by hailstorms costs the insurance industry and its customers millions every year. This is mainly due to the fact that even minimal damage requires a complete new panel to be fitted, and that in turn requires extensive weld-

ing and painting work. ACT has developed new repair methods which give technically flawless results and reduce the cost by almost half.

### **Better products**

There were also numerous product improvements in 1997. Especially in *Germany* a wide variety of extras have been included in automobile insurance – ranging from cover for damage caused by passengers, to protected no-claim discounts for policyholders who have driven for years without making a claim. The latter still qualify for the most favorable premium rate of 30 percent even if they make a claim for third party liability or for damage to the vehicle under a comprehensive policy. In *Austria* we have launched a third party liability automobile policy on the market incorporating a facility for assistance services. The emergency helpline is manned 24 hours a day and organizes all the necessary assistance following a breakdown or accident.



## ■ Expansion of personal lines of insurance

Expanding our personal insurance business was the focal point of our efforts in the year under review. In the growth markets of Asia, Eastern Europe and Latin America we established the infrastructure for the future expansion of business. There was rapid growth in Italy and the United States in 1997. To support the expansion in business volume we set up centers of expertise for international life and health insurance business. In the mature markets of Europe we improved our position with the introduction of innovative products.

### **Improved position in life insurance market**

#### **Centers of expertise**

Our decentralized structure gives us a major advantage: our companies in each country can respond with agility and flexibility to what customers want and to changes in the marketplace. In addition to that the local units can always call on the wide-ranging know-how and experience gained in other markets. In 1997, in order to improve efficiency and increase the flow of information and advice, we established the "International Department Life", a center of expertise which will assist the entire Group in establishing and developing life insurance business.

#### **Unit-linked products**

In some countries the good performance of financial markets has enhanced the attractiveness of products where the value of the product is linked to the performance of capital markets. In the *United States* Allianz Life increased sales of so-called variable annuity products in 1997 by 21.5 percent. The performance of these products has been good.

In *France* sales of the new "Modularis" product – a unit-linked life insurance – have been very good.

"Mi Inversión" was launched in *Spain* in 1997. This flexible life insurance product is based on a bond fund

and an equity fund, both of which are managed by Allianz RAS. Depending on the balance between risk and return required, the policyholder can choose the mix between bonds and equities and control the maturity benefit structure of his insurance accordingly.

#### **Index policies**

ANNU-A-DEX, an annuity product developed by Allianz Life together with LifeUSA, its marketing partner, has also been successful in the *United States*. Premiums written went up from US\$ 3 million in 1996 to US\$ 23 million in the year under review. The return on this product depends on the performance of Standard & Poor's FORTUNE 500 index.

Dival Vita, a subsidiary of the RAS group, and Lloyd Adriatico launched an index-linked policy in *Italy* in 1997. Its performance data are linked to various stock market indices.

#### **Packaged products**

Our companies in the *Czech* and *Slovak Republics* were able to target a wide range of customers with packaged policies covering a variety of personal insurance needs. The basic components of these combination policies comprise deferred annuity insurance and whole life insurance. The level of benefit payable can be determined individually in each case. These two forms of cover can then be supplemented by personal accident, health, disability or term insurance cover.

#### **Expansion of business in emerging markets**

Despite the recent turbulence in financial markets we are very optimistic about the expansion of personal insurance business in Asia. We have had a life insurance company – Allianz Aken Life – in Indonesia since 1995.

The approval of a preliminary license to write life insurance business in the *Shanghai* district has opened up a way into the growth market of China for us in 1997. Per capita income of US\$ 980 (in 1995) in this economic



and financial center is well above that of China as a whole (US\$ 620). A relatively large amount per head is spent on life insurance in Shanghai (US\$ 57, compared with US\$ 1.9 in China). Allianz has an expert staff of ten making preparations to enter the market together with our Chinese joint-venture partner.

The insurance market in the *Philippines* has only recently been liberalized. Together with the Pioneer group Allianz has set up a joint venture for life insurance business in that country. The Pioneer group is the third largest carrier of property and casualty insurance in the country. It has a closely-knit sales network which will now market life insurance products of the new joint venture as well.

We have been selling life insurance in *Poland* since December 1997. The Polish pension system is currently being reformed with the object of increasing private provision.

Our operation in *Hungary* has made further progress. After only three years our subsidiary Hungária Biztosító was in fourth place in the life insurance market by 1997.

Private sector life insurance is growing rapidly in some business centers in *Russia*. Ost-West Allianz therefore started to sell life insurance policies in 1997, initially only to employees of existing clients for industrial insurance.

We increased our life insurance business in Latin America, especially in *Chile* and *Mexico*. In both these countries we have opened up a potentially lucrative area of business offering annuities in exchange for pension funds.

## Dynamic pension fund business

There are good growth prospects for pension funds in the *Czech Republic* because the state is subsidizing the creation of fully-funded pension plans. We want to achieve market leadership in this line of business. In 1997 the Allianz-Hypo and Zivnobanka pension funds merged to form the Allianz-Zivnobanka pension fund which, with around 50,000 subscribers, is one of the ten largest funds in the market.

*Hungária*, with 42,000 members, became market leader in pension fund business in Hungary in 1997. Thanks not least to this success it was authorized in the year under review to inaugurate a compulsory pension fund. The second stage of the Hungarian pension reform law coming into force in 1998 stipulates that every citizen has to provide for part of his old age pension by contributing to one of these compulsory funds.

In *Italy* Lloyd Adriatico and RAS have applied for a license to set up pension funds. They will start marketing these as soon as permission is received. In *Austria* Allianz Elementar established a pension fund in 1997 in order to add this line of business to its activities.

## Targeting wealthy private clients

The most important marketing channels for personal lines of insurance are still a company's own tied sales force and the banks. Wealthy private clients are a particularly attractive target group for personal insurance and investment products. We want to reach these clients more effectively through our own sales force so as to maximize the potential of this expanding market. In Germany and other countries we therefore set up specialized agencies in the year under review to concentrate on this group of customers.



## **Expansion of health insurance business**

### **International center of expertise**

In 1997, based on the same concept as the "International Department Life", we set up a center of expertise for the ongoing development of international health insurance business. Vereinte Krankenversicherung AG has been entrusted with this task.

### **Moving into Eastern and Central Europe**

*Hungária* was one of the first insurance companies to start writing health insurance business in Hungary in 1997. It provides health insurance and cover for hospital treatment during absence from work due to illness. This move into the market was supported by the center of expertise at Vereinte Krankenversicherung, which helped with product development, calculating premium rates and advising on setting up the administration and claims unit. Hungária will add cover for medical and dental treatment to its product range as soon as that is allowed by law.

In the *Czech Republic* Vereinte sold its equity investment in a health insurer in 1997 which belongs to the former state-run Česká group. Vereinte is now concentrating on developing the health insurance business of Allianz pojišťovna, starting with the introduction in 1997 of insurance cover for loss of earnings through illness. This type of cover can be taken out on its own or packaged together with other forms of cover.

### **New products in Western Europe**

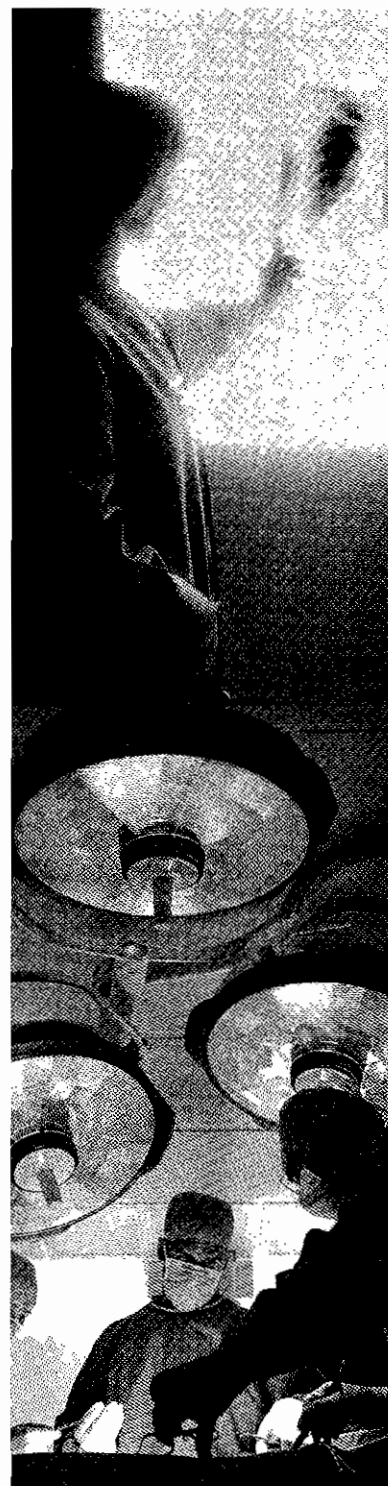
To stimulate health insurance business in *Austria* we have introduced a new range of premiums for outpatient treatment. Prior to this Allianz Elementar had limited its activities in this field to the insurance of supplementary benefits.

In *Spain* we have developed an innovative health insurance product called "Mi salud", which we will start to market in 1998. The first product to be marketed in the "Mi salud" range will offer policyholders a wide variety

of options. They can opt for complete insurance cover or for selected items only, such as dental treatment or a stay in hospital. Specific components can be individually combined as well.

Medical practitioners are given the necessary computer equipment by our health insurer to make sure that benefit payments are handled efficiently.

Our companies in *France* established their position in the health insurance market in 1997 with the "Précium" range of products. Précium Santé is aimed at all professional groups, Précium Santé Senior particularly at people aged 65 and over who lose their supplementary company cover when they retire. Précium Prévoyance, a precautionary form of cover in case of occupational incapacity, was also launched in 1997.



## ■ Global player in industrial risk business

We have set ourselves the target of being the leading global insurer of industrial risk business by the year 2000. In 1997 we refocused our strategic direction accordingly, introducing new products and enhancing global service and the interchange of expertise.

Our strategy for expansion is built around our traditional strengths: our global network, our underwriting and financial resources, and our ability to meet the most comprehensive insurance requirements long-term.

### **Clear responsibility**

We formed the Global Risk Division in 1997. It is responsible for the strategic planning and control of our international industrial insurance business.

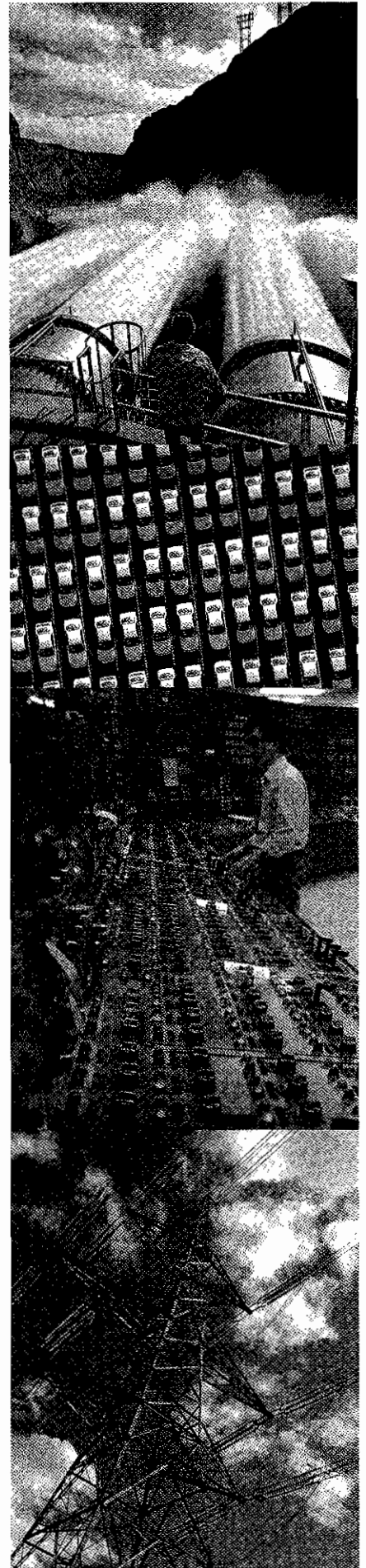
- ▼ The Global Risk Division coordinates international marketing and product development.
- ▼ It organizes the transfer of know-how,
- ▼ strengthens the international network,
- ▼ and serves as an interface between the parent company and local units.

### **Strategic management**

The Steering Committee is also new. It decides on a common product and marketing strategy for global industrial risk business and draws up a definitive corporate strategy. The Steering Committee also issues guidelines on underwriting, risk management and claims settlement.

### **Centralized expertise**

The international know-how of our companies is being brought together in centers of expertise for specific areas of business. These centers gather together the relevant expertise in underwriting, claims management, basic research and product development. In this way they fill the role of a specialist service provider for the entire Group. Their activities can range from support and advisory services to re-



gional responsibility for underwriting. They will normally be coordinated centrally from Munich.

➤ Allianz Globus Marine in Hamburg is responsible for *marine hull business*.

➤ Allianz Insurance Company in Los Angeles and Allianz Cornhill International in London have regional responsibilities for the so-called *energy business*. This comprises business involving risks in the oil, gas and petrochemical sector.

➤ There are three regional centers for *bond insurance business*. Fireman's Fund has responsibility for America, Hermes for Europe and MMI Limited for Asia.

### **Key account business**

In 1997 we focused our industrial risk insurer Allianz Insurance Company (AIC) in Los Angeles even more specifically on business with large international clients. The new business acquired as a result increased premium income by 11.3 percent to US\$ 513.5 million.

Business with multinational clients requires a flexible and efficient network for controlling and coordinating local forms of cover for a global insurance package. Our companies all over the world are linked together through an international email and database system.

### **Multiline/Multiyear policies**

Multinational industrial clients increasingly tend to want relatively long-term insurance policies covering several different types of risk. This demand is met by our multiline/multiyear package. It brings the different types of insurance required by a large company under the umbrella of a single policy. A very large retention element is normally agreed, which also relates to the total of all risks. The advantage of this arrangement to the client is that he no longer has to work with a large number of insurers and different policies. Instead he deals with Allianz and only a few large policies. The entire package is coordinated by a cen-

tral department over a period of several years.

We have developed similar packages for medium-sized industrial business. In *Spain*, for example, our subsidiary Allianz-RAS introduced a new policy in 1997 called "Multiseguro Empresarial" which bundles together the different types of cover wanted by the customer.

### **Alternative products for industrial clients**

Some new ideas have been developed in recent years under the heading "Alternative Risk Transfer" (ART for short) in response to a change in demand for insurance cover from industrial companies.

Such clients now require less formally categorized products and more integrated risk management. This includes risks which are difficult or impossible to insure, as well as exposure to financial and operating risks.

ART solutions are designed to meet the individual requirements of the policyholder. We set up the Allianz Risk Transfer company in Zürich in 1997 to advise our clients and offer them appropriate cover in this innovative area of business.

### **Product protection insurance**

Demand for insurance against the consequences of malicious contamination of food and drink products has risen dramatically. Industrial clients also increasingly want to protect themselves from the consequences of threatened interference with goods. Our new product protection insurance has been designed as a modular system so that it can be adapted in a flexible manner to the individual requirements of policyholders. The new product provides compensation for the costs of recall and damage limitation. Lost cash flow and lost revenue, however, can also be made good under the insurance.

### **Recall of products insurance**

We also offer recall of products insurance to trading and industrial companies in some markets. This special



type of public liability insurance covers the cost of actions which have to be taken by a company to avert the possibility of personal injury resulting from a product defect. The insurance is only valid, however, if the company is itself responsible for the defect. The insurance covers the costs of e.g. public notices in the media and the transportation and storage of defective products. The expenses of testing, collating and exchanging products are also covered. Policyholders who want help and advice in making contingency plans for recall actions can obtain such a service from Allianz's Center for Technology.

#### **Build-Operate-Transfer policy**

This policy simplifies the insurance of so-called operator models. These are schemes for investing in infrastructure projects such as power plants, road building, industrial and housing estates. They are designed, financed and operated in the private sector rather than by the state. For construction projects such as these we have developed the Build-Operate-Transfer policy, a packaged product which covers the main risks at all stages of the project. The operator is therefore insured from the start of construction work until the project is commissioned. He no longer has to insure each section of the work – construction, test phase, acceptance, commissioning – individually. The business prospects in this new segment are very good. The shortage of government finance in many countries means that large-scale projects are increasingly being handled as operator models.

#### **Insurance of redeveloped land**

Allianz Cornhill International, in conjunction with a broker, has developed a multi-sectoral policy which insures against the risks of soil contamination on reclaimed building land. Experts in *Great Britain* estimate that by the year 2016 about 60 percent of new building will be on land which has been used before (brownfield sites). The new policy – for a period of between 10 and 20 years – provides insurance cover for the event that sites which have already been developed are contaminated or appear ecologically suspect. The ground is thoroughly inspected and certified before a policy is signed. This product has been on the market since 1997 and has been very well received by brokers.

#### **Guarantee cover**

Construction companies in *Austria* have to deposit a guarantee retention equal to 2–5 percent of the contract value. Until now this deposit has been secured by bank guarantees. Our subsidiary Allianz Elementar is now expanding into this profitable business segment by offering similar guarantees. The advantage for the customer is that his line of credit is not affected by the guarantee deposit.

## ■ Our Staff

The pace of change in the insurance business around the world is now much faster than before, increasing the demands made on the professional expertise of our staff. For this reason we have devoted a great deal of attention to training and vocational development in 1997. With the emphasis on management and marketing courses our staff have been trained in preparation for the new requirements.

### Staff recruitment in China

In *Shanghai* we are making preparations for our joint venture Allianz Dazhong, a life insurance company, to enter the market. On the sales side we have been training Chinese agents, all of whom have also passed the exacting state examination. At the same time we have been recruiting office staff. The staff were all selected, taken on and trained within the space of six months. For the first few months the training was carried out by specialist personnel from Germany, who also instructed their Chinese counterparts who are to be entrusted with the remainder of the training.

### Training initiative

In *Germany* we provided an additional 200 trainee places in marketing in 1997. In this way we wanted to make a contribution towards easing the critical unemployment situation and above all do something for young people who have no vocational training.

### Management training

200 employees of our Hungária Biztosító subsidiary in *Hungary* attended a management training seminar in 1997. In *South Africa* Allianz has linked up with the University of California (Berkeley) to provide a new training scheme under which professors at the University will conduct management courses for junior management personnel. The training of the most promising junior executives is becoming increasingly international.

Participants from 14 countries attended the now well-established Allianz International Management Seminar in 1997. Together with INSEAD we are planning to introduce a top-up course to supplement this successful training program.

### Allianz Europe Committee

A European Directive has been issued providing for the formation of pan-European works councils. An alternative requirement is for a procedure to be established which will enable employees to be informed and consulted. In 1997, with these provisions in mind, we agreed with our employee representative councils to set up the Allianz Europe Committee, which serves as a forum for our companies in 21 European countries to communicate with each other.

### Number of employees increased

We employed an average of 73,290 people worldwide in 1997 (1996: 65,836). The main reason for the size of the increase was the inclusion of the Vereinte group in *Germany* for the first time, which meant that a total of 36,913 (1996: 30,404) employees contributed to the success of the business in our home market. In contrast to the previous year, the number of employees in Germany was again larger than the total number employed in the rest of the world, which increased slightly to 36,372 (1996: 35,432). Almost every second employee (46.9 percent of the total) is female.

### Allianz Group

Employees by country  
(annual average 1997)

Germany	36,913
USA	9,193
Italy	6,206
Switzerland	4,147
Austria	4,000
Great Britain	3,273
Hungary	2,465
France	2,186
Other countries	4,907
Total	73,290





To help staff combine career with family, some of our subsidiaries have introduced flexible working hours and improved conditions for part-time working.

The proportion of our employees worldwide who have a university degree went up from 16.9 percent to 17.5 percent. The largest number of those are MBAs and economists (27.1 percent), followed by trained lawyers (20.9 percent). 8.2 percent of our university graduates are actuaries and information scientists.

#### **Thanks to staff**

The Board of Management of the Allianz Group would like to thank all the members of staff of each company in the Group for their loyalty and commitment and for the success of their efforts in fiscal 1997.

#### **Salaries and wages bill increased**

The Allianz Group paid salaries and wages totaling DM 5.67 billion worldwide in 1997 (1996: DM 4.76 billion). Our total outlay on social security contributions, pensions and employee assistance amounted to DM 1.64 billion (1996: DM 1.44 billion).

## **■ Communications**

Corporate communications are important and becoming increasingly so. We are catering for this by strengthening our human and technical resources in this department at our head office in Munich. The new infrastructure is designed to meet the information requirements of all interested parties even better than before. Local communications are the responsibility of our group companies on the spot.

#### **Corporate communications**

The media landscape has changed dramatically in recent years. Demand for information is rising, the general appetite for dialogue is growing, and the influence of electronic media – including the Internet – is increasing. We are taking steps to cater for these changes. We want to be prepared to talk not just about our immediate business activities but also about, for example, company-related topics or our own employees. We are therefore restructuring our corporate communications. They are now divided into customer communications, financial communications, intercompany communications, staff communications, and documentation.

Since 1997, shareholders and the media and others with an interest in the Company have been receiving information not just through our Annual Report and interim reports but also from quarterly reports to keep them up-to-date with information about our current business performance. We also significantly increased our investor relations activities in the year under review. (For more on this subject see the section on "Allianz shares" inside the front flap of this Annual Report.)

We also keep our staff informed about the latest developments and our strategic objectives. We are making increasing use of electronic mail to give our staff up-to-date information. Since 1997 we have also been making more use of the medium of a Corporate Letter addressed by Dr. Schulte-Noelle personally – as Chairman of the Board of Management – to all group companies and their staff. In these Letters he



talks about developments which are of particular importance to the entire Group. One example in the year under review was the Corporate Letter about the agreed takeover offer made to the shareholders of AGF; another was the Letters explaining our responses to the accusations made by surviving dependants of the victims of Nazi persecution. An in-house magazine has been appearing in English for many years now, addressed to members of staff worldwide and helping to bond the Group together.

## Market communications

Local marketing strategies are decided by our group companies close to the market.

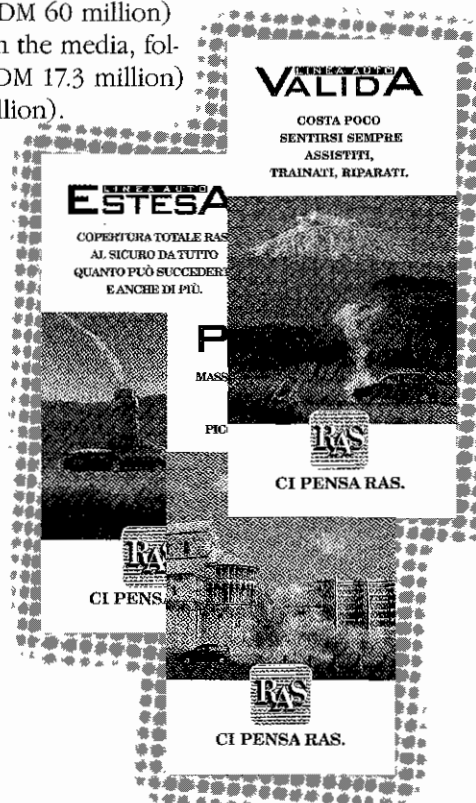
Our companies in *Germany* marketed themselves as innovative insurers in 1997 with a strong emphasis on customer service and support. The campaigns were focused on personal lines of insurance – the main point of emphasis of our special marketing effort during the year. On TV and in magazines we highlighted, for example, the benefits of taking out a private pension with Allianz. We launched the Allianz Children's Plan, an innovative product for the German market comprising supplementary disability benefit. The Plan pays an agreed annuity – for life if necessary – in the event of a child suffering a serious disability as a result of illness or an accident. Finally we are continuing to promote the "Future" campaign which provides information for young people about ways of obtaining insurance cover at a reasonable price.

In *Austria* Allianz Elementar concentrated its promotional campaigns in 1997 on private pension plans. The company invested much more in marketing than in previous years, changing its public image at the same time. The new TV and billboard campaign is building up in stages. The billboard campaign for July 1997 was voted campaign of the month by an independent jury.

Pet Plan, Allianz's leading animal insurer in *Great Britain*, sponsored the Pet Plan/Daily Telegraph Milestone Ride in the year under review. The response to this horseback event was

so overwhelming that it has secured a place in the Guinness Book of Records. The proceeds were donated to charities, including "Riding for the Disabled" and the "Animal Health and Petplan Charitable Trust".

Our German subsidiaries invested the largest amount (DM 60 million) in marketing through the media, followed by Cornhill (DM 17.3 million) and RAS (DM 12 million).



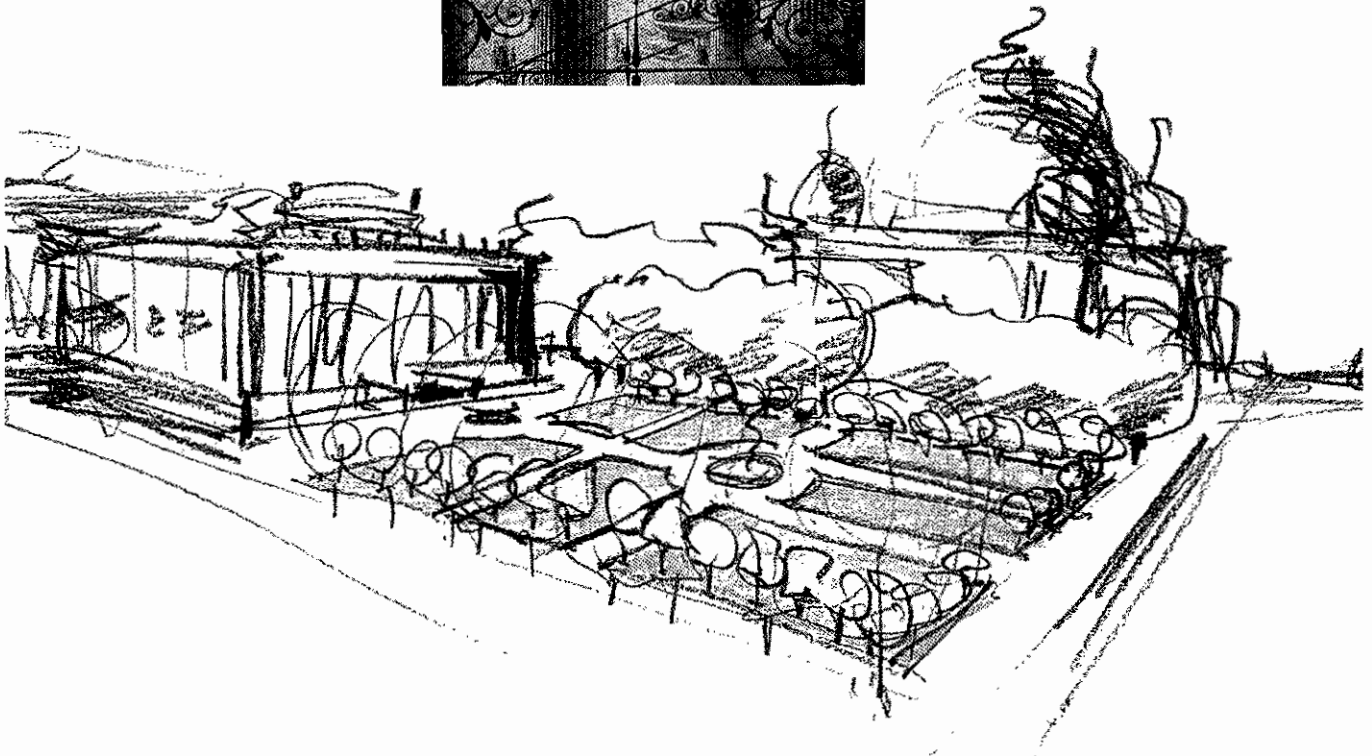
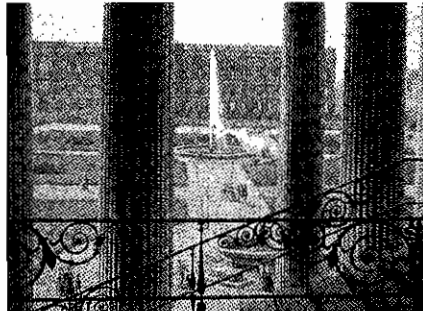
The new marketing campaign for automobile insurance launched by RAS attracted enormous interest in Italy in 1997. The unusual situations pictured in the campaign carry the message that RAS insurance also covers some of the less obvious risks.

## ■ Environment

The Allianz Foundation for the Protection of the Environment (Allianz Stiftung) is at the heart of our commitment to environmental and nature conservation and restoration. It was endowed with capital of DM 100 million in 1990. In 1997 it concentrated its sponsorship activities on the reconstruction of historic gardens, parks and squares. This new sphere of operations results from the Foundation's scope having been widened. After having supported projects for the protection of the environment for the first few years, it incorporated the theme of "Environment and Culture" into its sponsorship program for 1997.

In Berlin the Allianz Foundation for the Protection of the Environment is helping to restore the Pleasure Gardens on the basis of the design by court architect Schinkel. The photograph shows

the original layout around 1835, looking from the Old Museum across the Gardens to what was then the City Palace of the Kings of Prussia.



Do historic gardens, parks and squares in cities have any relevance today? We think they do. Apart from being oases of variety and relaxation they also reveal much about their time. These places demonstrate the progress of garden design in the age when they were laid out. They reveal contemporary taste in landscaping and in many cases are a record of astonishing creativity in garden design. They also tell us something about the relationship between Man and Nature and how it has changed over time.

The current vogue for looking back at our cultural heritage has increased the topicality of historic parks and gardens. Public interest in their conservation has been rekindled, which is why our Foundation for the Protection of the Environment has decided to sponsor their restoration. We want to help people enjoy the original charm of these green oases in the city now and in the future.

Two landmark projects in this sponsorship program are:

- reconstruction of the Pleasure Gardens in the center of Berlin; and
- restoration of the Fritz-von-Hark Park in Leipzig.



## The Berlin Pleasure Gardens

The history of the Pleasure Gardens can be traced back to the 17th century. They were developed on the Museum Island and are now bounded by Berlin Cathedral, Schinkel's Old Museum and the river Spree. On the south side they originally bordered the City Palace of the Kings of Prussia, but that side is now open because the bomb-damaged palace was blown up by the East German regime. The site was turned into a concrete parade ground and the Palace of the Republic.

When the Pleasure Gardens were first laid out, the designers based their work on the style of garden popular in the France of Louis XIV. They were then remodelled in 1828 to plans by Schinkel and subsequently over the years became very prestigious and

symbolic. From 1918 onwards large rallies were held in the Pleasure Gardens and they were paved over to cater for the crowds taking part in demonstrations and the like.

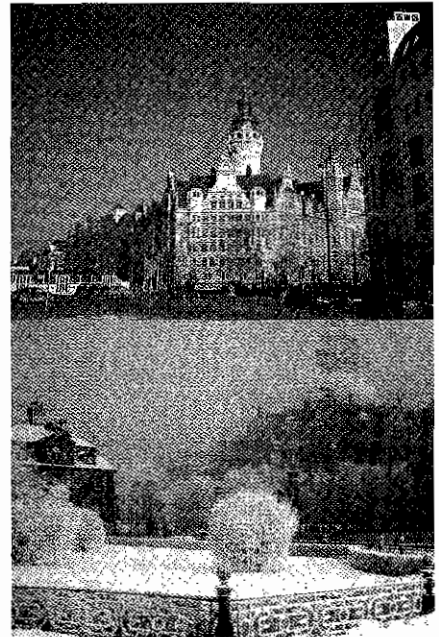
In conjunction with Berlin City Council, the Allianz Foundation for the Environment is restoring the Pleasure Gardens to their original purpose: not a parade ground, but a garden which invites people to linger and lends variety to the Berlin cityscape. This is precisely the function which Schinkel originally intended for them.

## The Fritz-von-Hark Park

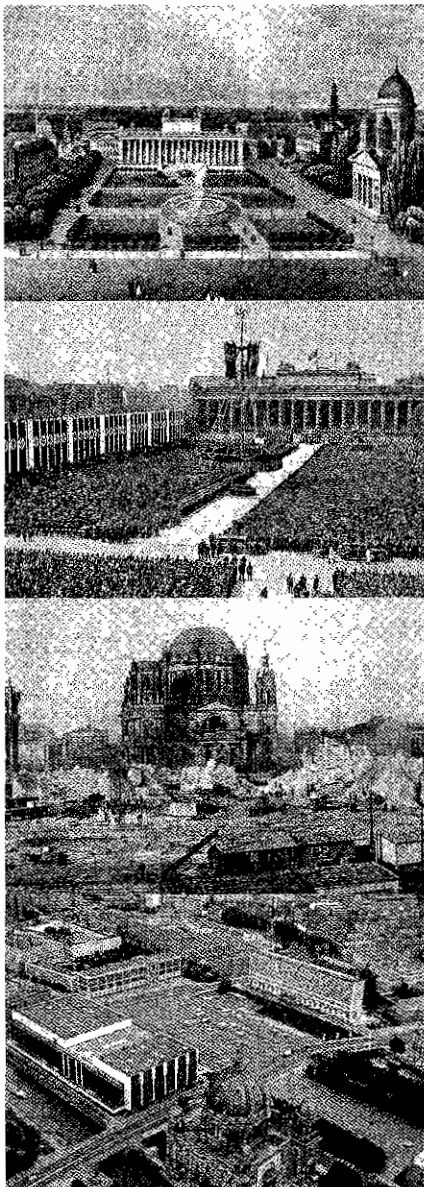
Some impressive parks were laid out in Leipzig around the turn of the century, one of which was the Fritz-von-Hark park which lies between the former Supreme Court building of the German Reich and the new City Hall. Its attractively landscaped gardens suffered damage during the Second World War and the East German planning authorities allowed the park to deteriorate into a meaningless open space. The Allianz Foundation is now supporting the restoration of the Fritz-von-Hark park to its original state with the intention of contributing in this way to the urban renewal of Leipzig.

The program for the revival of historic gardens, parks and squares has two aims. Firstly it supports facilities which give people pleasure; secondly, and more importantly, the projects are intended to act as models to promote substantive improvements to the environment.

The Pleasure Gardens in times of change. First as formal gardens (top) providing an attractive opportunity for a leisurely stroll in the early nineteenth century; then – paved over – as a parade ground for large rallies in the Third Reich. The next picture shows the Pleasure Gardens in ruins after the Second World War. They were renamed Marx-Engels-Platz by the East German authorities in 1951. The last photograph shows the Gardens and surrounding area during the final years of the East German regime.



In Leipzig the East German planning authorities allowed the Fritz-von-Hark park in front of the new City Hall to deteriorate into a meaningless open space. The Allianz Foundation is contributing towards the restoration of this delightful landscaped garden. The picture above shows its original condition.



## **Group Management Report**

## ■ The Allianz Group in brief

In 1997 we again achieved a significant increase in earnings from our business activities. Three important factors contributed to this good performance:

■ The claims record continued to be generally favorable; natural catastrophe losses remained below the average of recent years.

■ The quality of earnings was further improved by careful selection of risk and systematic management of claims and costs.

■ Capital markets in 1997 were in good shape.

We want our shareholders to benefit from the improved results in the form of a further increase in the dividend.

### Premiums written

Gross premium income of the Allianz Group rose by almost DM 11 billion in 1997 to DM 85.6 billion – an increase of 14.7 percent. Most of the increase was attributable to the effects of changes in the consolidation and exchange rate movements.

■ The Vereinte group was included in the consolidated financial statements in 1997, contributing revenue of DM 8.5 billion.

■ Premiums written by Hermes Kreditversicherung and the Berner group were included for a full year for the first time, increasing the total by DM 1.4 billion.

■ Finally, the previous minority interest in Adriática de Seguros in Venezuela was consolidated in full (premiums written: DM 147 million).

■ On the other hand the premium income of DKV Deutsche Krankenversicherungs-AG was excluded in the year under review. In 1996 that company contributed premiums of DM 3.4 billion for the first part of the year before being sold to Munich Re on August 1, 1996.

■ Exchange rate movements accounted for DM 2.6 billion of the increase in revenue, mainly due to changes in the value of the US dollar, pound sterling and Swiss franc.

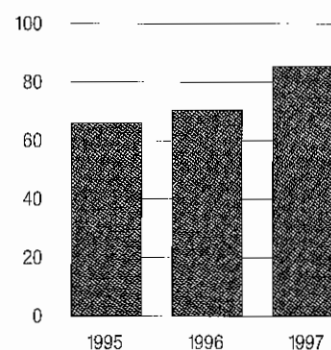
The proportion of life and health insurance in our total premium income went up by 2.4 percentage points to 43.5 percent, the balance of 56.5 percent coming from property and casualty insurance. The shift in emphasis is due to the inclusion of the Vereinte group for the first time, as well as to the strong growth in life and health business in Italy and the United States.

More than half (51.3 percent) of our premium income is written in Germany.

Excluding the changes in the

### Allianz Group

Premium income in DM billions



### Allianz Group

Premiums written by region

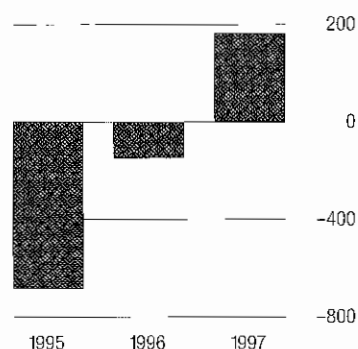
	1995		1996		1997	
	DM mn	%	DM mn	%	DM mn	%
Germany	38,976	55.2	37,798	50.7	43,923	51.3
Rest of Europe	21,232	30.1	24,426	32.7	26,210	30.6
North and South America	10,075	14.3	12,080	16.2	15,024	17.6
Africa, Asia	265	0.4	326	0.4	425	0.5
Total	70,548	100.0	74,630	100.0	85,582	100.0

### Premiums written by business segment

	1995		1996		1997	
	DM mn	%	DM mn	%	DM mn	%
Property and Casualty Insurance	40,386	57.2	43,979	58.9	48,313	56.5
Life and Health Insurance	30,162	42.8	30,651	41.1	37,269	43.5
Total	70,548	100.0	74,630	100.0	85,582	100.0

### Allianz Group

Underwriting result in DM millions



### Allianz Group

Loss/expense ratio in property and casualty insurance

1995	1996	1997
99.9	99.4	100.2

Group and at constant exchange rates, premium income would have gone up by 2.6 percent. On the same basis, life and health insurance business was up 7.6 percent. Premium income from property and casualty insurance went down by 0.5 percent. This was mainly due to the impact of the deregulation of automobile insurance in many European markets, which resulted in substantial reductions in premiums for risks with a good claims record.

### Underwriting result

The underwriting result improved by DM 331 million in 1997, producing a profit of DM 182 million – the first on this account since 1990. The underwriting profit on life and health business was increased by DM 180 million to DM 1,439 million. The underwriting loss on property and casualty insurance went down by DM 150 million to DM 1,257 million. The reason for the improvement is that DM 450 million less had to be transferred to the claims equalization reserve than in the previous year. The claims equal-

ization reserve serves to even out the cost of claims over the years.

### Non-underwriting result

The result on the non-underwriting account showed an improvement of 12.1 percent to DM 4.8 billion. The result on this account depends mainly on investment income earned in connection with property and casualty insurance business.

### What were the main factors behind this growth?

In the first place there was more current income on the increased holdings of investments.

Secondly we took advantage of the strength of capital markets to realize profits.

### Net income

The overall pre-tax profit rose by 20.4 percent to DM 5.0 billion. It was earned in almost equal shares by our group companies in Germany and our subsidiaries in other markets. Net

### Consolidated income statement (abridged)

	1995	1996	1997
	DM mn	DM mn	DM mn
Gross premiums written	70,548	74,630	85,582
Net premiums written	61,618	65,113	75,080
Benefits paid	62,276	65,164	76,900
Underwriting expenses	11,791	12,640	14,512
Net investment income	16,727	18,792	22,441
Pre-tax profit	3,043	4,164	5,014
Taxation	1,022	1,926	2,318
Net income	2,021	2,238	2,696

### Earnings per share (DVFA/GDV method)

	1995	1996	1997
	DM mn	DM mn	DM mn
Net income	2,021	2,238	2,696
Minority interests	507	588	665
Extraordinary income/expenses and items not relating to period under review	458	474	354
Adjusted profit	1,973	2,124	2,385
Number of shares	226,274,800	229,456,400	230,787,094
<b>Earnings per share</b>	<b>DM 8.72</b>	<b>9.25</b>	<b>10.33</b>
<b>Adjusted for 1998 increase in capital</b>	<b>DM 8.57</b>	<b>9.09</b>	<b>10.15</b>

income after tax was DM 2.7 billion, 20.5 percent up on the previous year's figure. The return on equity after tax improved to 12.4 percent (1996: 11.5 percent). The increase of DM 0.20 in the dividend to DM 1.90 per share, coupled with the increased capital, means that the total dividend payout (net of the corporation tax credit) has increased by 12.4 percent to DM 438 million.

### Earnings per share

Based on the method of calculation recommended by the DVFA/GDV (German Association of Financial Analysts/German Insurance Association), earnings per share went up from DM 9.09 to DM 10.15. This represents an increase of 11.7 percent.

### Staff

We employed an average of 73,290 people worldwide during the year, an increase of 7,454 over the previous year. The increase was almost entirely due to the first-time consolidation of the Vereinte group.

## ■ Allianz in Germany

In 1997 the German insurance industry again felt the effects of weak domestic activity in the economy, persistently high unemployment and a large number of corporate insolvencies. Deregulation of property and casualty insurance and intense competition resulted in substantial reductions in policyholders' premiums, especially for automobile insurance. Premium income from property and casualty insurance went down by 1.5 percent. Even the growth rates in life and private health insurance remained below those of the previous year, at 4.8 percent and 5.5 percent respectively.

Thanks mainly to the inclusion of the Vereinte group and Hermes Kreditversicherung in the consolidated financial statements, total premiums written in Germany rose by 16.2 percent to DM 43.9 billion.

Profitability was again greatly improved overall.

### Property and casualty insurance

Premiums written by the *Allianz Property and Casualty Insurance Group in Germany* were 2.2 percent down in the year under review at DM 16.7 billion. The Property and Casualty Insurance Group incorporates all our property and casualty insurance business in Germany (except for the Vereinte group). The decrease is mainly due to the reduction in premiums for low-risk business in automobile insurance, where premium revenue fell by 6 percent. Even in large-scale industrial and commercial business, however, premiums were eroded by competition.

On the other hand the Property and Casualty Insurance Group did succeed in winning new customers by offering competitively-priced rates for automobile insurance. Innovative products such as supplementary disability cover for children or recall of products and product protection insurance were also very well received. The volume of new business rose by a further 2.1 percent to around 2.2 million policies.

The number of claim notifications rose slightly in 1997, following an ex-

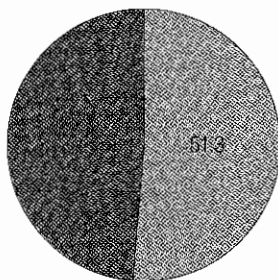
### Property and Casualty Insurance Group in Germany

(DM millions)	1995	1996	1997
Gross premiums written	17,314	17,071	16,700
Loss/expense ratio in %	92.4	91.3	93.0
Net income	472	593	683
Investments	27,271	28,660	29,712
Stockholders' equity	4,536	4,673	4,255
Number of employees	24,862	23,735	23,238



#### Allianz Group

Premiums written in Germany  
as % of group revenue



ceptionally good record over the past three years. The number of claims reported went up by 1.9 percent to 3.8 million. The increase was largely due to the numerous storms and frosts experienced last year, which hit homeowners insurance in particular. Claims expenses went up by only 0.3 percent to DM 11.4 billion, helped by the favorable trend in claims in automobile insurance and the reduction in the costs of large-scale claims. The cost of claims following the Oder floods in the summer of 1997 totaled DM 14 million, much less than originally feared.

The increase in operating costs was restricted to 0.9 percent despite substantial investment in new systems to improve internal operating procedures. The expense ratio, however, deteriorated by 0.8 percentage points to 24.5 percent as a result of the slow growth in premiums.

The underwriting profit was 21.1 percent up at DM 488 million. The reason for the improvement was that DM 269 million less had to be transferred to the claims equalization reserve in the year under review than in the previous year.

The book value of investments increased by 3.7 percent to DM 29.7 billion, earning current income of DM 1.9 billion (up 2.1 percent) for the Property and Casualty Insurance Group. Realized gains amounted to DM 228 million.

The decrease in the overall non-underwriting profit to DM 1.1 billion was more than counterbalanced by the improvement on the underwriting account. The net result was a pre-tax profit of DM 1.6 billion, an improvement of DM 19 million or 1.2 percent over the previous year. Allianz Versicherungs-AG transferred DM 577 million to Allianz AG under the terms of the profit and loss transfer agreement in force.

*Vereinte Versicherung AG*, the property and casualty insurer included in the consolidated figures for the first time, together with *Vereinte Rechtsschutzversicherung AG*, recorded premium income of DM 2 billion in 1997. That was 4.1 percent less than in the previous year. Here, too, the decline was largely attributable to

automobile insurance. In particular the new premium rates in this line of insurance resulted in a reduction of 7.5 percent in revenue. Premium income was also depressed by the continuing erosion of business in the other lines of insurance written.

The claims situation remained favorable, despite the fact that the homeowners, storm and water damage accounts were hard hit by the storm and frost damage in the early part of the year. The total number of claims reported went up by only 0.6 percent. The cost of claims incurred went down by 0.4 percent to DM 1.5 billion.

The high degree of integration into the Allianz Group already achieved in 1997 produced cost savings of DM 16 million or 2.7 percent.

The underwriting result improved by DM 45 million because the claims equalization reserve did not have to be increased in the year under review, but there was still a net loss of DM 85 million on the underwriting account.

Together with the non-underwriting result, which was down slightly on the previous year, the overall pre-tax profit came out at DM 128 million, an increase of DM 27 million or 26 percent over the figure for the previous year. Net income was DM 74 million.

#### Credit insurance

For the fifth year in succession there is still no end in sight to the spate of insolvencies in Germany. Having said that, however, the growth rate was noticeably slower. The number of corporate insolvencies increased by another 5.8 percent. Germany's new eastern states were again worse affected by insolvencies than those in the west.

*Hermes Kreditversicherungs-AG* increased premium income by 5.7 percent to DM 927 million. Most of the growth came from business with foreign customers, which increased by 73 percent. Growth in fidelity guarantee insurance was disappointingly slower than anticipated owing to insolvencies, midterm cancellations and policy revisions.

The claims experience improved

enormously, reducing the loss ratio by 35 percentage points to 56.2 percent. This performance reflects the wide-ranging action taken to improve the quality of the portfolio in trade credit insurance. We charged premiums more in line with the level of risk and introduced various forms of deductibles.

The underwriting profit went up by DM 45 million to DM 50 million after transferring DM 14 million to the claims equalization reserve – a transfer which had become necessary as a result of the considerable improvement in the loss ratio.

Together with the improvement in the non-underwriting result, net income for the year amounted to DM 61 million.

### Life insurance

The economic climate for the German life insurance industry did not improve much in 1997. The public debate about the proposal to tax the interest element of life insurance policies did not help either. *Allianz Lebensversicherungs-AG* still managed to speed up premium growth compared with the previous year with a growth rate of 4.7 percent (1996: 3.8 percent). Total premiums written by our company in 1997 – its 75th year – rose to DM 12.5 billion. In addition DM 2.4 billion was taken out of the reserve for premium refunds as dividends for our policyholders to increase the guaranteed value of benefits.

Single premium business, after performing less well in the previous year, generated an 11.9 percent increase in premium income to DM 1.4 billion. New regular premium business showed only a moderate increase of 4.2 percent. We attribute this most of all to the debate about taxation referred to above. Total new business premiums increased by 8.2 percent to DM 2.7 billion.

Business in force – measured in terms of the total sum insured – rose 5.1 percent to DM 305 billion. This was helped by the fact that the lapse ratio remained low, at 3.5 percent still well below the market average of 4.9 percent. Policyholders' benefits amounted to DM 19.5 billion, 7.0 per-

cent more than in the previous year. DM 11 billion of that was paid out to policyholders, an increase of 17 percent over the amount paid out in the previous year. DM 8.5 billion was added to provisions for future commitments.

The expense ratios were held at the same level as in previous years, despite increased investment in data processing and information systems in 1997. The acquisition cost ratio of 4.9 percent and the management expense ratio of 2.6 percent remain consistently below the market average.

The book value of investments rose 7.1 percent to DM 126.7 billion. Rising capital markets were used to realize profits, increasing the net return by 12 basis points to 7.6 percent.

The overall surplus increased by 7.1 percent to DM 4.7 billion. DM 4.5 billion of this has been transferred to the reserve for premium refunds to finance future policyholder benefits. Net income for the year after tax was DM 212 million.

*Deutsche Lebensversicherungs-AG*, which writes life insurance business in Germany's eastern states, recorded premium income of DM 1.5 billion in 1997. That represents an increase of 4.3 percent. The company also transferred DM 207 million from the reserve for premium refunds.

New business was slightly more subdued than in the previous year, new business premiums totaling DM 172 million. The book value of investments went up by 7.3 percent to DM 9.3 billion. The overall surplus came to DM 403 million, out of which DM 382 million was transferred to the reserve for premium refunds.

At the beginning of 1998, with the approval of the Federal Supervisory Office for the insurance industry, Allianz Leben took over the entire insurance portfolio of Deutsche Lebensversicherungs-AG together with the corresponding assets and liabilities.

*Vereinte Lebensversicherung AG* increased its premium income by 1.0 percent to DM 1.2 billion. In addition it transferred DM 126 million from the reserve for premium refunds. In terms of premium income the volume of new business was roughly the same

### Allianz Leben

(DM millions)	1995	1996	1997
Gross premiums written	11,519	11,952	12,514
Net income	158	190	212
Investments	109,604	118,333	126,746
Stockholders' equity	1,135	1,298	1,432
Number of employees	4,722	4,666	4,814

(DM 172 million) as in the previous year. This was mainly due to less single premiums being written (down 2.8 percent).

Business in force – measured in terms of the total sum insured – rose by 1.4 percent to DM 35.5 billion. The number of policies in force, by contrast, was down slightly by 1.6 percent to 1.1 million. The lapse ratio of 5.2 percent was still slightly above the market average.

Policyholders' benefits increased by 1.9 percent to DM 1.9 billion, DM 1.1 billion of which was paid out to policyholders, the balance of DM 0.8 billion being retained for growth in future commitments.

As part of the process of integrating the company into the Allianz Group we were also able to improve the expense ratios. The management expense ratio went down by 0.4 percentage points to 4.4 percent, while the acquisition cost ratio fell by 0.3 points to 5.5 percent.

The book value of investments rose 4.7 percent compared with the previous year to DM 13.2 billion. The net return went down by 0.3 percentage points to 7.2 percent. The surplus before tax was DM 35 million, after DM 500 million had been transferred to the reserve for premium refunds. The net profit after tax was DM 23 million (1996: DM 16 million).

## Health insurance

The third stage of the reform of the national health service had an impact on private health insurance business in 1997. The restrictions on benefits payable under the statutory health insurance scheme created new business opportunities. Supplementary forms of insurance were particularly in demand.

New business written by *Vereinte Krankenversicherung AG* was up 78 percent to a monthly premium figure of DM 20.5 million. Health insurance premiums are generally payable monthly, so the figures for new business premiums are stated here on a monthly basis. This performance was greatly helped by having the support and cooperation of Allianz's sales force. Almost 266,000 policyholders, mostly members of the state health insurance scheme, were gained as new customers.

Premiums written increased by 6.3 percent to DM 4.7 billion. The increase was partly due to the new business obtained, but also to the introduction of the second stage of compulsory long-term nursing care insurance, which was in force for a full year in 1997 for the first time. DM 594 million was also taken out of the reserve for premium refunds. In this way premium adjustments to match

Progress in the field of medicine is enabling people to live longer. At the same time birth rates are falling. These changes mean that state-run pension programs based on a pay-as-you-go system have reached breaking point. People can make their own provision for their old age by taking out a personal life or annuity policy.



the increase in costs in the health service can be mitigated.

Claims paid out rose by 7.4 percent to DM 3.3 billion, mainly as a result of the benefits payable under compulsory long-term nursing care insurance being extended to include inpatient care. The new government order on benefit rates for long-term care also led to delays in invoicing, so that some of the cost of benefits provided in the previous year was expensed in the year under review.

Acquisition costs increased out of proportion to the increase in revenue. The acquisition cost ratio (measured against premium income) went up by 2.5 percentage points to 8.0 percent. One reason for this was the exceptionally rapid expansion in new business. Another reason is that acquisition costs increased because the organization required to look after Allianz's field sales force had to be established. This involves specially qualified health insurance experts to provide advice and support for Allianz's own specialist staff. The ratio of management expenses to premiums was further reduced by 0.2 percentage points to 3.2 percent.

The book value of investments rose 11.7 percent to DM 13.6 billion. The net income generated by these investments went up by 12.8 percent to DM 950 million, helped especially by lower investment expenses. The net return of 7.4 percent was much the same as in the previous year.

Net income for the year amounted to DM 58 million (1996: DM 60 million).

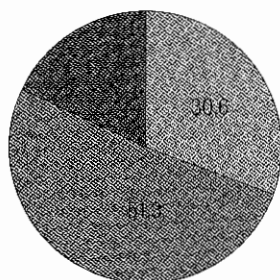


Private health insurance is a market with tremendous future potential. New business written by our subsidiary Vereinte Krankenversicherung AG in 1997 was up 78 percent at DM 20.5 million. This performance was greatly helped by having the support and cooperation of Allianz's marketing organization.

## ■ Allianz in the rest of Europe

### Allianz Group

- Premiums written in Europe (excluding Germany)
- Premiums written in Germany as % of group revenue



Much as in Germany, premium growth in other European countries was held back by the sluggish nature of the recovery in economic activity. Premiums written by our European group companies outside Germany went up by 4.4 percent in local currencies. In DM terms there was a 7.3 percent increase to DM 26.2 billion. The strength of the pound sterling, the Swiss franc and the Italian lira made a significant contribution to this.

Profitability again improved overall.

### France

Premiums written by the *Allianz France Group* remained below the previous year's level at DM 2.6 billion. Premiums for property and casualty insurance fell 6.9 percent to DM 1.6 billion, mainly as a result of increased competition, particularly in automobile and industrial risk insurance. We are trying to escape or at least mitigate the effects of this trend in the market by forging closer links with valuable customers. Our companies also stopped writing loss-making business.

Premiums written in life insurance went down by 7.7 percent to DM 968 million. The decrease has to be seen against the background of uncertainty over the future taxation of savings schemes. The encouraging success

### Allianz Holding France

(FRF millions)	1995	1996	1997
Gross premiums written	9,722	8,911	8,265
Property/Casualty	6,405	5,898	5,686
Life/Health	3,317	3,013	2,579
Loss/expense ratio in %	116.6	109.5	106.8
Net income	-331	145	187
Investments	35,848	39,753	41,399
Stockholders' equity	9,250	9,315	5,403
Number of employees	2,065	2,143	2,102

achieved in selling two new products was not sufficient to compensate for these setbacks in full. As soon as the legal background has been finally clarified we intend to market additional pension funds in France.

Our companies again produced a profit in 1997. It was brought about, firstly, by selective underwriting and restructuring measures which helped to reduce claims expenses. Secondly the merger between the two property and casualty insurers *Allianz Assurances* and *Rhin et Moselle Assurances* resulted in savings in costs. Allianz Holding France posted a consolidated profit of DM 56 million overall. This represents an increase of almost 30 percent compared with the previous year.

*Assurances Fédérales*, a joint venture with Crédit Lyonnais, continued to perform satisfactorily. Premium income was up 45 percent to DM 59 million after translation. This jump in

### Allianz Group

Premiums written in European markets (excluding Germany)

	1997	1997
	DM mn	% of total group revenue
Italy	10,180	11.9
Switzerland	4,803	5.6
Great Britain	3,393	4.0
France	2,738	3.2
Austria	2,179	2.5
Spain	1,174	1.4
Hungary	553	0.6
Portugal	371	0.4
Netherlands	301	0.4
Other European countries	518	0.6
Total Europe	26,210	30.6



revenue is due to the fact that the company now writes automobile insurance as well, whereas previously it concentrated solely on household effects, general liability and health insurance.

## Great Britain

The downward trend in the British insurance market since 1995 continued in 1997 and inevitably affected the business of the *Cornhill Group*, whose premium income fell by 10.9 percent in local currency. In DM terms, by contrast, premium income showed a slight increase to DM 3.3 billion. Most of the fall in premium income was in property and casualty insurance business, where a substantial increase in the insurance tax led to the loss of important customers for indemnity insurance. This was compounded by the general collapse in market rates for automobile insurance. Premiums written for life insurance were 5.0 percent up on the previous year at the equivalent of DM 325 million. New business recorded 5 percent growth, mostly through direct marketing.

The integration of the Pet Plan (animal insurance) and Ajax (engineering insurance) companies made good progress and produced good results. Both companies were acquired in 1996 and each operates in a profitable segment of the market with good future potential. Cornhill was market leader in animal insurance in 1997. In engineering insurance Cornhill strengthened its position to become the second largest insurer in that sector.

The negative premium growth in

<b>Cornhill Group</b>			
(GBP millions)	1995	1996	1997
Gross premiums written	1,107	1,234	1,100
Property/Casualty	1,008	1,130	991
Life/Health	99	104	109
Loss/expense ratio in %	102.9	105.3	104.9
Net income	46	44	42
Investments	1,821	1,892	2,105
Stockholders' equity	462	452	581
Number of employees	2,657	2,871	3,239

automobile insurance, coupled with lower investment income, reduced the profit of the Cornhill Group as a whole by 5.6 percent to DM 125 million.

## Italy

Our Italian companies in the Allianz Group increased premium income by 13.2 percent to the equivalent of DM 10.2 billion after translation. DM 6.7 billion of the total was written in property and casualty insurance, representing an increase of 5.9 percent and maintaining our position as the top-selling carrier of property and casualty insurance in Italy. The main contributor to this was the extra business gained in automobile insurance, which benefited from tax regulations encouraging people to replace their old vehicles with new ones.

Life insurance business again recorded particularly strong growth. Doubts about the performance capability of the state pension system are growing and, in parallel with those doubts, people are becoming increasingly more inclined to make private provision for their old age. Life insurance premiums written by our companies rose by 30 percent to DM 3.5 billion after translation. The strongest growth rates were recorded by our bancassurance companies *Duerrevita* and *Banca Antoniana Popolare Veneta Vita*.

*RAS S.p.A.*, Allianz's largest company in Italy, reported a 7.1 percent increase in revenue to DM 4.6 billion after translation. Earnings of DM 350 million showed a marginal increase over the previous year. Although investment income was down because interest rates continued to fall, this was counterbalanced by reduced costs and claims expenses.

Premium income of *Lloyd Adriatico*, Allianz's second largest company in Italy, went up by 6.1 percent to a total of DM 2.4 billion after translation. Premium rates in automobile insurance more closely linked to the level of risk involved produced a substantial improvement in the underwriting result, automobile insurance being by far the most important line of business written by this company. In spite of reduced investment in-

<b>RAS S.p.A.</b>			
(ITL billions)	1995	1996	1997
Gross premiums written	4,161	4,181	4,478
Property/Casualty	3,064	3,024	3,191
Life/Health	1,097	1,157	1,287
Loss/expense ratio in %	106.6	109.8	107.5
Net income	319	338	344
Investments	14,521	15,488	16,907
Stockholders' equity	4,934	5,120	6,653
Number of employees	3,435	3,389	3,150

**Lloyd Adriatico S. p. A.**

(ITL billions)	1995	1996	1997
Gross premiums written	2,073	2,130	2,259
Property/Casualty	1,772	1,827	1,907
Life/Health	301	303	352
Loss/expense ratio in %	114.3	117.2	109.1
Net income	32	47	69
Investments	4,003	4,558	5,297
Stockholders' equity	639	667	699
Number of employees	1,528	1,458	1,377

**Allianz Subalpina S. p. A.**

(ITL billions)	1995	1996	1997
Gross premiums written	1,013	1,052	1,111
Property/Casualty	787	801	791
Life/Health	226	251	320
Loss/expense ratio in %	100.9	106.8	105.7
Net income	25	68	51
Investments	2,009	2,351	2,756
Stockholders' equity	314	357	373
Number of employees	677	648	602

come, Lloyd Adriatico managed to boost its net income result by 47 percent to DM 70 million overall.

*Allianz Subalpina*, our third largest company in Italy, recorded premium growth of 5.6 percent to DM 1.1 billion. Most of the increase came from the sale of life insurance policies over the counters of banks, but the largest proportion of the company's premium income – DM 805 million – continued to come from property and casualty insurance, which was down slightly on the previous year. Net income of DM 52 million for the year did not match that of the previous year. Here, too, the downturn in investment income was a major contributory factor.

**Netherlands**

In the Netherlands *Allianz Nederland* writes global industrial risk business. Premium income of DM 154 million in 1997 did not quite match the previous year's total.

In bulk personal business Allianz is represented by *ELVIA Verzekeringen N.V.* with total revenue of DM 180 million. Health insurance business – which we have been writing since 1996 – made good progress. The same applies to business in corporate pension plans. Our companies continued to expand their overall volume of business in personal lines of insurance. They started a joint venture with the General Bank, for example, which sells standard products in life and non-life insurance.

Earnings of DM 23 million were slightly ahead of the previous year's figure. The improvement in investment income was diminished by a less favorable performance from major claims.

**Austria**

As part of restructuring the legal framework of the Austrian companies in the Group, the property and casualty insurance business of the former Anglo-Elementar and Wiener Allianz companies was merged into one company, *Allianz Elementar Versicherungs-AG*. Life insurance business is now written by Allianz Elementar Lebensversicherungs-AG.

**Allianz Group in Austria**

(AS millions)	1995	1996	1997
Gross premiums written	14,490	15,293	15,263
Property/Casualty	11,117	11,483	11,405
Life/Health	3,373	3,810	3,858
Loss/expense ratio in %	104.4	109.6	109.0
Net income	447	402	468
Investments	41,677	45,402	48,064
Stockholders' equity	2,771	3,046	3,312
Number of employees	4,050	4,014	4,001

Premiums written by the Allianz companies remained steady at DM 2.2 billion after translation, the same as in the previous year. In Austria, as elsewhere, cutthroat competition in the insurance industry is forcing premium rates down. Moreover the state has withdrawn its support for private single-premium pension policies. Premiums written for property and casualty insurance fell by 0.6 percent to DM 1.6 billion, mainly as a result of the competitive situation in automobile business.

Premiums written for life insurance went up by 1.3 percent to DM 548 million. Sales of pension policies were helped by the public debate about the problems of financing the state pension scheme.

Earnings were held back by heavy capital expenditure, especially on computer systems, as well as by the tight rein on premium rates. The higher level of claims, on the other hand, meant that some of the claims equalization reserve had to be released, with the result that net income went up to DM 67 million (1996: DM 57 million).

**Switzerland**

In Switzerland we are represented by the *ELVIA Versicherungen*, *Berner Versicherungen* and *Allianz Schweiz* companies. The total premium income of this group of companies was DM 4.8 billion, maintaining its fourth position in the Swiss market. Property and casualty insurance generated premium income of DM 2.8 billion after translation. Life insurance premiums amounted to DM 2 billion.

Premiums written by *ELVIA Ver-*

## ELVIA Group

(SF millions)	1995	1996	1997
Gross premiums written	2,470	2,830	2,367
Property/Casualty	1,521	1,551	1,450
Life/Health	949	1,279	917
Loss/expense ratio in %	106.5	106.5	106.9
Net income	44	56	74
Investments	7,591	8,024	8,526
Stockholders' equity	640	682	725
Number of employees	3,100	2,215	2,248

*sicherungen* in property and casualty insurance went down by 13 percent to DM 1.1 billion, primarily because of having ceased to write reinsurance business. Not even further dynamic growth in the revenue of *ELVIA Reiseversicherungen*, ELVIA's travel insurance operation – which recorded premium income of DM 551 million – could compensate fully for this decrease. The company achieved a leading position in the Italian travel insurance market by taking over Compagnia Europea di Assicurazioni. Excluding the effect of a non-recurring item in the previous year, life insurance achieved premium growth of 11 percent to DM 1.1 billion. Net income of the ELVIA group increased by DM 27 million to DM 91 million, helped by the moderate level of claims, the favorable cost situation and a substantial improvement in investment income.

*Berner Versicherungsgruppe* also suffered a decrease in revenue from property and casualty insurance. Premium income from this business went down by 3.2 percent to DM 864 million. This was mainly due to the fall in average premium rates for automobile insurance right across the market. By contrast the company held its premium income from life insurance at DM 730 million, slightly above the previous year's level.

*Allianz Schweiz* recorded total premium income of DM 419 million, divided equally between property and casualty insurance and life insurance. Despite fierce competition on price following deregulation of the market for third party liability automobile insurance the company held on to its position in the market. On

the life insurance side, sales of single premium policies held up particularly well.

Our companies in Switzerland improved net income by 28 percent overall to DM 106 million. Cooperation between them is to be further strengthened in order to create and exploit further potential for synergy.

## Spain

Our premium income in Spain went up by 10.7 percent in local currency to the equivalent of DM 1.2 billion after translation. The increase was linked to the upturn in economic activity in Spain. *Lloyd Adriatico España* – acquired in 1996 – contributed DM 100 million to the total.

In property and casualty insurance *Allianz RAS Seguros* recorded premium growth of 4.7 percent to DM 762 million against the background of a market devoid of growth. Industrial risk business provided a strong impetus for growth, but automobile insurance also performed well in a difficult market environment.

The life insurance business of *Allianz RAS* is heavily dependent on single premium business as a result of taking over the pension commitments of Banco Popular. Total premium income from life insurance business rose by 29 percent to DM 318 million. A further DM 116 million can be added to this from the life insurance business of *Eurovida*. This joint venture with Banco Popular increased its premium income by 61 percent in 1997. The successful launch of a new savings product was the main reason behind this dynamic performance.

The much lower level of interest rates on Spanish capital markets restricted the extent of any improvement in investment income. Even so *Allianz RAS Seguros* increased its pre-tax profit by 13 percent to DM 48 million, thanks mainly to the cost benefits of integrating *Lloyd Adriatico España* and the good earnings contribution from life insurance. Earnings after tax went down slightly to DM 39 million because most of the tax losses brought forward had already been used up in the previous year.

## Allianz RAS Seguros

(ESP millions)	1995	1996 <sup>*)</sup>	1997 <sup>*)</sup>
Gross premiums written	102,526	82,447	91,417
Property/Casualty	48,491	61,660	64,534
Life/Health	54,035	20,787	26,883
Loss/expense ratio in %	106.3	106.2	112.2
Net income	1,421	3,555	3,306
Investments	107,450	148,222	170,931
Stockholders' equity	7,182	12,089	13,243
Number of employees	727	882	866

<sup>\*)</sup> including *Lloyd Adriatico España*, merged in 1996

Eurovida improved on the previous year's good result by a further 13.6 percent to DM 9.2 million.

### **Portugal**

*Portugal Previdente* successfully completed the integration of the recent acquisitions A Social and Scottish Union de Portugal in the year under review. As a result of the merger its premium income rose by well over 60 percent to DM 371 million. In property and casualty insurance the increase was as high as 67 percent. Life insurance business benefited from the more intensive cooperation on the marketing side agreed with the banking group FONSECAS & Burney.

The profit contribution from life insurance was not sufficient to compensate for the increased loss and expense ratios in non-life business. Despite the good performance of the Portuguese capital market, net income declined to DM 8 million.

### **Hungary**

Our Hungarian subsidiary *Hungária Biztosító* increased its premium income by 27 percent in local currency – faster than the market as a whole – to DM 553 million after translation. Hungária further strengthened its leading position in the market for property and casualty insurance, especially in the automobile insurance sector.

We increased our market share of life insurance business in Hungary by a further 2 percentage points to 7.5 percent. Our entry into the market for pension fund business – a growth market in Hungary – was particularly successful. After doubling the number of our customers in 1997, Hungária is now market leader out of 290 insurance carriers in this field.

In 1997 Hungária was the first to offer health insurance incorporating daily benefit rates in the event of incapacity for work.

Hungária's earnings of DM 37 million fell short of the high level recorded in the previous year. Although helped by premium rates for automobile physical damage insurance being brought more into line with the risks involved, earnings were at the same time adversely affected by much lower investment income resulting from the decline in interest rates.

### **Other European countries**

In addition to the European markets referred to individually above we also have operations in Belgium, Denmark, Greece, Luxembourg, Norway, Poland, Russia, Sweden, and the Slovak and Czech Republics. In these countries we generated total premium income equivalent to DM 518 million after translation, mostly at a profit. We have equity interests in two insurance companies in Turkey.

## ■ Allianz in the NAFTA area

Our companies in the countries which are signatories to the North American Free Trade Agreement (NAFTA) increased premium income by 6.9 percent in local currency. The renewed strength of the US dollar meant that in DM terms the growth rate was as high as 23 percent. Premiums written totaled DM 14.6 billion. Profitability again improved at most of the companies concerned.

### United States

Intense competition continued to dominate the United States property insurance market in 1997, affecting industrial and commercial risk business in particular. Against this background *Fireman's Fund* was not able to maintain the same growth rate in gross premium income as in previous years. The situation was compounded by the elimination of unprofitable business and in particular by the San Francisco Re subsidiary ceasing to write reinsurance business. The significant increase in crop failure insurance was not sufficient to compensate for this. Premiums written went down by 2.7 percent in local currency. After translation at closing rates of exchange there was a 12.2 percent increase in premium income to DM 7.1 billion.

Net income increased to DM 423 million after translation. Much lower natural catastrophe losses and much higher investment income contributed to the improvement in earnings.

The global insurer of industrial risks *Allianz Insurance Company (AIC)* increased its premium income in local currency by 11.3 percent. The figure after translation was DM 921 million.

Increased claims expenses meant that, notwithstanding the improvement in investment income, net income of DM 23 million remained the same as in the previous year.

Our United States life insurance company *Allianz Life* maintained the good growth rate recorded in the previous year, increasing premium income by 17.5 percent in local currency

to the equivalent of DM 5.9 billion after translation. The growth was mainly due to sustained strong demand for single-premium variable annuity products. The attractiveness of these products was boosted by the low level of interest rates and the good performance of the funds in the range. The growth was further underpinned by the cooperation arrangement with Life USA and by the expansion of life reinsurance business.

With increased net income from investments, overall earnings for the year showed a substantial improvement, exceeding the previous year's figure by 12.4 percent at DM 204 million for the year under review.

### Canada

Our premium income in Canada rose by 15.3 percent in local currency to the equivalent of DM 468 million after translation. Most of the growth again came from global industrial risk business and from the products of the Grey Power broker organization aimed specifically at the senior citizen market. The Grey Power organization specializes in automobile insurance. Both sectors recorded above-average growth in 1997.

Despite the growth in premium income and a significant increase in investment income, net income of DM 18 million in Canada fell short of the previous year's good result (1996: DM 20 million). This was due to substantially increased claims expenses in third party liability automobile insurance in the provinces of Alberta and Quebec.

### Mexico

The economic recovery in Mexico continued unabated in 1997. Our company *Allianz México S.A.* increased its premium income by 38 percent in local currency to a total of DM 131 million after translation. The company benefited even more than in the previous year from the successful bancassurance cooperation arrangement with BanCrecer, which is now contributing 30 percent of total revenue.

Earnings were increased to DM 2 million.

### Fireman's Fund

(USD millions)	1995	1996	1997
Gross premiums written	3,772	4,080	3,970
Loss/expense ratio in %	142.5	110.1	109.8
Net income	-280	226	236
Investments	10,298	11,317	12,230
Stockholders' equity	3,148	3,234	3,611
Number of employees	7,885	8,157	8,334

### Allianz Life

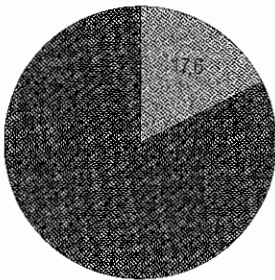
(USD millions)	1995	1996	1997
Gross premiums written	2,438	2,796	3,285
Net income	87	101	114
Investments	3,164	3,695	3,641
Stockholders' equity	951	1,014	1,218
Number of employees	606	637	535



## ■ Allianz in South America

### Allianz Group

Premiums written in North and South America as a % of Group premium income



Following privatization and deregulation, the countries in South America have developed into an important growth region during recent years. Our premium income in South America has doubled as a result of including the Venezuelan company *Adriática de Seguros C. A.* in the financial statements for the first time. Total premium income in 1997 was DM 367 million.

### Argentina

The insurance market in Argentina is currently undergoing restructuring. The process of concentration through the takeover of portfolios and business continues. *Allianz RAS Argentina* increased its premium income in local currency by 25 percent to the equivalent of DM 80 million. Growth was generated exclusively from personal lines in property and casualty business. Net income for the year improved to DM 2.5 million.

### Chile

The premium income of our companies in Chile increased by 20.5 percent in local currency. This is the equivalent of DM 157 million. Property and casualty business and life insurance contributed to this growth in equal proportions. Life insurance with gross written premiums of DM 84 million profited from the successful expansion of pension fund business. Although property insurance declined, on the market overall, our company was able to bring about an improved result with a more aggressive sales policy. This success, combined with the fact that the start-up finance of the life insurance company *Allianz Bice* was rather lower than planned, meant that the previous year's loss was halved to DM 3.8 million.

### Venezuela

The insurance market in Venezuela has recovered and stabilized following years of recession and high inflation. *Adriática de Seguros C. A.* – in which we increased our shareholding from 20 to 56 percent – increased its premium income in local currency by 45.5 percent. This is the equivalent of DM 147 million. The company's growth stemmed mainly from the expansion of fire and engineering insurance. The company is market leader in both branches of insurance. Since commissions rose disproportionately and conditions in the capital market deteriorated, net income in 1997 fell back to DM 13 million (1996: DM 28 million).

### Brazil

Our affiliate *Allianz Bradesco* in Brazil expanded its premium income in local currency by 38.1 percent. The recovery in automobile insurance throughout the market and a substantial growth in industrial business increased gross written premiums to the equivalent of DM 233 million. Exceptionally strong investment income enabled total net income to increase to DM 25 million (1996: DM 15 million).

## Allianz in Asia

The full effects of the financial and currency crises on insurance business in the Asia-Pacific region will only be felt in coming years. If large infrastructure projects are put on hold for the time being this will have a direct effect on industrial business. The higher levels of unemployment and lower disposable incomes will put a brake on growth in personal lines. The reinsurance market throughout the Asia-Pacific region is also suffering from a substantial reduction in premiums. There are, however, also positive developments: markets continue to open up – as promoted by the World Bank and the World Trade Organization – and barriers to entering the markets are being broken down. These are factors which enhance our opportunities for doing business in this region.

The premium volume achieved by our Group companies grew by 20.2 percent to a total of DM 192 million.

### **Singapore**

*Allianz Insurance Singapore* – to date the biggest company in Asia – achieved premium income equivalent to DM 90 million. In local currency this was more than 40 percent up on the previous year. As the main industrial insurer the company benefited especially from big infrastructure projects in the surrounding countries. It also derived advantages from its role as a reinsurance centre for all group companies and cooperation partners in this region. However, the result was marred by increased investment in improving the organization and services.

Even so the company made a profit of DM 0.6 million.

### **Hong Kong**

As anticipated, *Allianz Cornhill Insurance (Far East)* in Hong Kong experienced a difficult year in 1997. Since the construction of the new airport is practically complete and premium rates in the market continued to decline, premium income was reduced by 17 percent to DM 34 mil-

lion. The cautious underwriting policy also contributed to this decline. Despite an improvement in the loss ratio, net income was halved to around DM 1 million.

### **Indonesia**

Industrial insurer *Allianz Utama Indonesia* achieved premium income equivalent to DM 29 million. This was more than 50 percent up on the previous year in local currency. Turbulence in both currency and capital markets combined with a poor underwriting result to reduce net income to DM 0.7 million.

The establishment of the newly founded life insurance company *Allianz Aken Life* made good progress despite the fact that the company was particularly affected by the financial crisis in Indonesia. An expanded distribution network enabled the company to achieve premium income of more than DM 8 million. Our intention is also to build up pension fund business in the future.

### **Thailand**

The development of insurance company *Navakij* in Thailand in which we have a 15 percent interest proceeded satisfactorily. However, it was necessary to make substantial write-downs on investments and this significantly reduced the result to DM 1 million.

### **People's Republic of China**

Up to now we have established a presence through representative offices in Beijing, Shanghai and Guangzhou. Following preliminary approval for founding a life insurance company in Shanghai we are making preparations to enter the market together with our Chinese joint-venture partner.

### **The Philippines**

Investment in the Philippines has again borne fruit. Together with a local partner we have founded the life insurance company *Pioneer Allianz Life Insurance*. We are building up our distribution channels, developing

new products and preparing a broadly based advertising campaign.

### **Korea**

In Korea we received approval for establishing a representative office which opened in Seoul in the middle of 1997.

### **India**

We also received permission to open up a representative office in the highly regulated Indian market. In addition we came to an agreement with the Indian financial services provider Alpico Finance Ltd to found a joint venture. This is intended to conduct health insurance business if the market opens up for foreign insurers.

### **Japan**

Increasing deregulation in the Japanese insurance market considerably sharpened competition. Nevertheless our company *Allianz Fire and Marine Insurance* was able to achieve growth in premiums of 4.9 percent in local currency equivalent to DM 47 million. Despite worsening market conditions the company succeeded for the first time in underwriting direct business from a Japanese company. This sales success is all the more important since considerable losses were sustained in reinsurance business during the same period. The company also achieved a positive result of DM 1.2 million despite heavy investment in data processing.

## **■ Allianz in Australia**

In Australia we increased our participation in the *MMI Group* – one of the biggest insurers in the country – to 42.5 percent. Its premium volume was DM 1.8 billion in the fiscal year June 1997. This constitutes 10 percent growth.

The company increased its earnings by 20 percent to DM 58 million. The favorable development of the capital market was a significant factor in contributing to this increase. Earnings for the current 1997/98 fiscal year are suffering substantially from higher claims expenses and a decline in investment income.

MMI is supporting Allianz in opening up individual markets in the Asia-Pacific region. The company has a stake of 20 percent in each of our companies in Singapore and Indonesia. It has played an important role in preparations for taking on health insurance business in India.

## **■ Allianz in South Africa**

As the leading industrial insurer in South Africa we again achieved a marked increase in gross written premiums with *Allianz of South Africa*. Premium income increased by 51 percent to DM 235 million. In this market we are establishing ourselves as specialists for alternative forms of risk transfer. The increased demand for such solutions is supporting our expansion here.

Earnings improved to DM 3 million mainly as a result of the favorable claims experience in traditional commercial lines.

## ■ Investments

The total book value of investments held by the Group increased in 1997 by DM 52.2 billion or 19.5 percent to DM 319.1 billion. The investments of the Vereinte Versicherungsgruppe amounting to DM 30.5 billion are included for the first time. Without their inclusion growth would have been 8.1 percent.

Total net income from investments increased by 19.4 percent to DM 22.4 billion (1996: DM 18.8 billion). The net return was 7.7 percent (1996: 7.3 percent).

Including investments held for variable annuity policyholders, for financial services and for third parties, we had assets under management worth DM 469.5 billion at current market values.

## Financial markets

During the course of 1997 most of the world's bond markets experienced a further decline in interest levels for long maturities. In Germany interest rates on 10-year Bunds were 5.3 percent (1996: 5.8 percent) at the close of the year. On the other hand the interest for 3-month investments (Fibor) increased from 3.1 to 3.6 percent in the German market against a background of a constant discount rate at 2.5 percent.

The main stock markets of the world – with the exception of Japan – ended the year with substantial price gains. In Germany the DAX rose from 2,889 points to 4,250, a gain of 47.1 percent. The Asian crisis in autumn 1997 only had a temporary effect on international capital markets but necessitated a write-down requirement of DM 104 million in our portfolios investing in Asian shares.

With regard to currencies, at the year end the US dollar stood at 1.79 DM/USD, 15.3 percent above the rate of 1.55 DM/USD at the end of the previous year. The pound sterling rose to 2.98 DM/GBP (+13.5 percent) while the Swiss franc rose to 1.23 DM/CHF (+7.2 percent). The French franc was practically unchanged compared with the previous year at 0.299

DM/FRF, as were the Italian lira at 1.02 DM/1000 ITL and the currencies of the other members of the European monetary union.

## Portfolio structure

New investments were concentrated in registered and bearer bonds. Interest rate movements were taken into account by selective management of the structure of maturities in the portfolios. We also expanded our trading portfolios in equities and continued to diversify internationally.

Investments held by the property and casualty insurance companies amounted to DM 115.3 billion (1996: DM 104.0 billion) worldwide, those held by the life and health insurance companies DM 203.7 billion (1996: DM 162.9 billion). Additional investments amounting to DM 24.0 billion (1996: DM 18.5 billion) were held separately for variable annuity policyholders. In addition the consolidated balance sheet contains for the first time investments amounting to DM 4.5 billion held for financial services business.

## Real estate

The book value of property assets rose by DM 2.0 billion to DM 20.0 billion (1996: DM 18.0 billion). The market value of these assets was DM 27.5 billion so that the valuation of

## Allianz Group

Net return on investments  
as % of average value

1995	1996	1997
7.2	7.3	7.7

## Allianz Group

Investments by class of business  
in DM bn

	1996	1997
Property/Casualty	104.0	115.3
Life/Health	162.9	203.7

## Allianz Group

Assets under management 12/31/1997

	Market value		Book value
	DM mn	%	DM mn
Real estate	27,508	5.9	20,028
Dividend-bearing stocks	135,024	28.8	61,906
Fixed income securities	100,751	21.4	93,658
Other interest-earning assets	143,469	30.5	143,469
<b>Investments (asset heading C in consolidated balance sheet)</b>	<b>406,752</b>	<b>86.6</b>	<b>319,062</b>
Investments held for variable annuity policyholders (asset heading D in consolidated balance sheet)	24,008	5.1	
Investments held for financial services business (asset heading E in consolidated balance sheet)	4,476	1.0	
Additional investments held for third parties (non-consolidated)	34,298	7.3	
<b>Total assets under management</b>	<b>469,534</b>	<b>100.0</b>	

real estate incorporates hidden reserves of DM 7.5 billion. At present we are carrying out three big construction projects in Berlin-Treptow, in Unterföhring near Munich and at the Munich Head Office. The new buildings for the branches of Allianz Versicherungs-AG in Berlin and Bavaria will be finished in 1998. This will create efficient, cost-effective structures by bringing together important functional areas. By the end of 1997, DM 1.2 billion of the planned total investment amounting to DM 1.8 billion had already been realized.

### Dividend-bearing stocks

Dividend-bearing stocks include shares, investments in associated and non-consolidated affiliated enterprises and holdings in investment funds. The book value of these securities amounted to DM 61.9 billion (1996: DM 48.8 billion) of which associated and affiliated companies accounted for DM 4.9 billion (1996: DM 8.7 billion) and shares and other holdings DM 57.0 billion (1996: DM 40.1 billion).

The market value of dividend-bearing stocks at the year end was DM 135.0 billion, so there were valuation reserves of DM 73.1 billion. DM 53.4 billion (1996: DM 34.8 billion) of the market value was accounted for by industrial companies and banks which we held as permanent holdings, with DM 50.6 billion (1996: DM 33.5 billion) of that amount relating to German companies. All these permanent holdings are shown in detail on page 79. The market value of our 25 percent holding in Münchener Rückversicherungs-AG was DM 14.2 billion, our other remaining holdings in associated and affiliated companies DM 3.8 billion. Our holdings in invest-

ment funds and equity positions held in local portfolios for trading purposes had a market value of DM 63.6 billion.

### Fixed income securities and other interest-bearing assets

Fixed income securities with a book value of DM 93.7 billion (1996: DM 87.5 billion) incorporated valuation reserves of DM 7.1 billion; their market value was thus DM 100.8 billion. Fixed income securities are predominantly liquid government securities and investments with other borrowers of high credit standing.

We also have DM 22.9 billion (1996: DM 20.2 billion) invested in mortgages, DM 110.2 billion (1996: DM 82.9 billion) in lendings such as registered bonds and debentures, and DM 10.4 billion (1996: DM 9.5 billion) in other interest-bearing assets such as money-market investments and deposits retained by others under reinsurance business assumed. These investments are generally held until maturity and then redeemed at par value, hence no revaluations are made during their term.

### Investments held for third parties

DM 24.0 billion (1996: DM 18.5 billion) was held in separate portfolios on account and at the risk of variable annuity policyholders.

Investments held for financial services business constitute a new balance sheet heading amounting to DM 4.5 billion. They comprise loans and advances to customers and other investments of Allianz Bauspar AG amounting to DM 3.5 billion and of Augsburger Aktienbank AG amounting to DM 1.0 billion.

### Allianz Group

Valuation reserves at 12/31/1997

	Group DM bn	Property/Casualty DM bn	Life/Health DM bn
Real estate	7.5	3.5	4.0
Dividend-bearing stocks	73.1	49.7	23.4
Fixed income securities	7.1	3.1	4.0
<b>Total</b>	<b>87.7</b>	<b>56.3</b>	<b>31.4</b>



Investments totaling DM 34.3 billion (1996: DM 30.5 billion) that we manage through our asset management framework for private and institutional investors and for Allianz Versorgungskasse VvaG are not included in our consolidated balance sheet. The retail funds of KAG – the Allianz investment company – also developed extremely positively this year and achieved excellent performance for their investors. As in the previous year, their performance received the prestigious “DM Micropal Awards” for outstanding achievement in fund management. Special funds for institutional investors, Italian investment funds and the management of pension funds in various countries complete the range of services offered in the sphere of asset management for third parties.

Allianz had investments under management with a total market value of DM 469.5 billion at the end of 1997.

### Financial innovations

Allianz companies make comparatively little use of derivative financial instruments such as options, futures and swaps, and then primarily for risk management purposes. Local monitoring of this type of business is complemented by financial and risk control throughout the Group. At the balance sheet date all open positions relating to options, forward transactions, swaps and similar instruments had a principal value of DM 6.7 billion (1996: DM 1.5 billion) or 1.8 percent (1996: 0.5 percent) of the consolidated balance sheet total. These activities contributed a total net loss of DM 11 million to the consolidated income statement.

### Net investment result

Investment income and expenses are shown separately for life and health insurance and for property and casualty insurance on page 83 in the notes to the consolidated financial statements. Changes in the valuation of investments held for variable annuity business have no effect on earnings. Such changes are adjusted di-

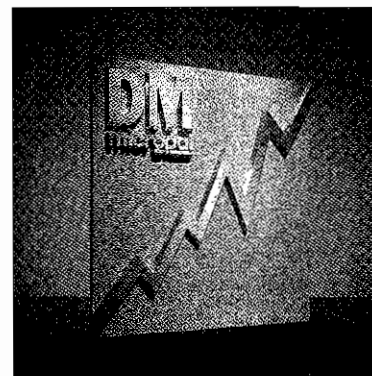
rectly against policyholders' funds by means of a corresponding adjustment to the aggregate reserve. The result from financial services business has been included in the income statement for the first time.

Current income from investments increased by 16.0 percent in the year under review to DM 21.8 billion (1996: DM 18.8 billion). Realized investment gains totaled DM 3.8 billion (1996: DM 2.8 billion), with DM 78 million (1996: DM 179 million) coming from investments in affiliated and associated companies, DM 271 million (1996: DM 165 million) from real estate, and DM 3.4 billion (1996: DM 2.4 billion) from securities and other interests. The last-named item derived principally from reallocation of nominal values in the portfolio and selective sales in the share portfolio.

Realized investment losses amounted to DM 195 million (1996: DM 197 million). Write-downs at the balance sheet date of DM 1.6 billion (1996: DM 1.5 billion) were at the same low level as in the previous year as a result of the favorable development in capital markets. DM 781 million (1996: DM 831 million) was attributable to securities, DM 772 million (1996: DM 586 million) to real estate and DM 13 million (1996: DM 34 million) to investments in affiliated and associated companies. Other investment expenses amounted to DM 1.4 billion (1996: DM 1.2 billion), comprising a net transfer to special untaxed reserves of DM 84 million (1996: DM 67 million), investment management expenses of DM 1,032 million (1996: DM 831 million) and interest charges amounting to DM 289 million (1996: DM 307 million).

Total net income from investments came to DM 22.4 billion (1996: DM 18.8 billion), comprising DM 15.5 billion (1996: DM 13.1 billion) from life and health insurance and DM 6.9 billion (1996: DM 5.7 billion) from property and casualty business. The net return on the average book value of investments was 7.7 percent (1996: 7.3 percent).

Financial services business made an initial contribution of DM 19 million to consolidated group earnings in the year under review.



Allianz Kapitalanlagegesellschaft (KAG) – Allianz's investment management company – came out top in all three group categories in the “DM Micropal Awards 1997” for smaller companies (up to 9 funds under management). These annual awards presented by the “DM” financial magazine and the “Micropal” fund database service are the equivalent of Oscars for outstanding performance in the fund management sector.

## ■ Looking Ahead

### Acquisition of the AGF group

The main event in the current fiscal year was the acquisition of a 51 percent holding in *Assurances Générales de France (AGF)*, the parent company of the second largest private-sector French insurance group. This acquisition takes the Allianz Group a significant step closer to the attainment of its strategic objectives.

In October 1997 Generali made the shareholders in AGF a takeover offer. The management of AGF recommended to its shareholders not to accept this offer. At the same time the management embarked on a search for other more advantageous alternatives for the company and its shareholders. The result was an agreement with Allianz which made an offer supported by AGF with the objective of gaining control of 51 percent of the shares. The offer provided shareholders with two options:

- Sale of shares at a price of FRF 320 per share (principal offer)
- Offer to sell the share and receipt of contingent value rights (CVR) that can be exercised between June 1 and June 15, 2000 (alternative offer) structured as follows:
  - If the share price of AGF is FRF 320 or lower within a given period, the shareholders have the option of offering their shares together with the CVR to Allianz at FRF 360.
  - If the share price of AGF is between FRF 320 and FRF 360 during the given period, the holders of the CVR receive the difference between the actual share price and FRF 360.

An agreement was reached in discussions with Generali which permitted that company to achieve its objective of attaining a significantly improved position in Europe without taking over AGF. The agreement is as follows:

- Sale to Generali of the French companies Groupe des Populaire d'Assurances (GPA) and Proxima as well as of the shares in AMB held by AGF and Allianz.
- Sale of the participation of AMB in the Royal Nederland to AGF.

Overall Allianz was offered 1.6 percent of the capital stock in the principal offer and 77.1 percent in the alternative offer. In accordance with the terms of our takeover offer, we exercised the right to transfer to the principal offer as many bids from the alternative offer as were required until we had a majority of 51.0 percent of the capital stock. Contingent value rights had to be issued for the remaining bids of the alternative offer for 27.7 percent of the capital stock. If the price of AGF shares is FRF 320 or below during the given period, this holding of shares and rights could be offered to Allianz. The total expenditure for this could be up to FRF 18.6 billion.

We anticipate that AGF will have gross premium income of DM 28 billion by the year 2000 and a return of 9 percent after taxes on our purchase price. The prerequisite for this scenario is rapid and efficient integration of AGF into the Allianz Group.

### New business areas

Allianz Asset Management GmbH was founded at the beginning of 1998 in our new core business area of asset management. The aim of this company is to ensure enhanced provision of the services of professional asset management to third parties in the future. Investment funds and pension fund management will be a particular focus of attention. The new company will also play a role in linking more closely all investment activities within the Group.

On March 1, 1998 we founded Allianz Capital Partners GmbH in order to be in a better position to provide venture capital. This company will invest in unlisted companies in Europe. Creative advisory services combined with long-term financial models will make us an attractive partner for small and medium-sized companies and for industry.

Finally we should like to complete our range of services with in-house mortgage products, particularly targeted at German private customers. This will be the task of Allianz Bauspar AG (formerly mh-Bausparkasse) which we have taken over together with the Vereinte group from Swiss Re.

## **Legal action against European Insurers**

A suit was filed against 16 European insurers in New York last year, including four subsidiaries of Allianz AG. The companies were accused of enriching themselves by failing to pay out on life insurance policies to the survivors of victims of Nazi persecution.

We consider these accusations to be unjustified. But despite this, we have taken the issue extremely seriously and immediately started an investigation. We commissioned accountants Arthur Andersen to secure and evaluate the relevant policy files which are in the archives of Allianz Lebensversicherungs-AG. We set up helplines in Europe, North America and Israel so that any claims that may have remained open could be registered with a minimum of bureaucracy. Despite a massive response only a handful of cases were found to have any connection with our subsidiary companies. In only 12 cases was it possible to find any evidence that there might have been an insurance policy on which no payment had been made in the aftermath of the war and for which no compensation had been paid by the Federal Republic of Germany. In these cases we offered goodwill payments.

We sought contacts with Jewish organizations immediately after the accusations were levelled against us. In April 1998, following intensive discussions with these organizations and American insurance regulatory authorities, four European insurance companies, including Allianz AG, signed a declaration of intent. An independent commission will be set up to examine the accusations and regulate any claims that may still be open.

Independently of this we have asked Professor Gerald D. Feldman of the University of California (Berkeley) to investigate the history of Allianz during the periods of the late Weimar Republic, the Nazi period and the postwar phase of compensation for wrongs committed under the Nazi regime. A team of historians under his direction is currently carrying out research in state archives located in Germany, Poland, Hungary, Russia

and other countries. The results of this research – a book on the history of Allianz – is scheduled for publication in 1999.

## **New capital**

In early 1998 we made use of the continuing favorable climate in the stock market and the low level of interest rates to improve our capital base and structure. We made the following issues:

- Cum rights 1-for-34 capital increase in Allianz AG at an issue price of DM 220 per share. This increased the equity capital overall by DM 1.5 billion.
- Capital increase in Allianz AG excluding cum rights – in accordance with the legal requirements of § 186(3), sentence 4, of the German Corporation Act (AktG). Shares in a volume of approximately DM 1.3 billion were placed with national and international investors.
- 3 percent convertible bond on shares of Deutsche Bank AG by Allianz Finance B.V., Amsterdam. This bond of DM 2 billion is guaranteed by Allianz AG and has a term of 5 years.
- 5 percent bond by Allianz Finance B.V., Amsterdam. This bond of DM 2 billion is guaranteed by Allianz AG and has a term of 10 years.
- 5 percent bond by Allianz Finance B.V., Amsterdam. This bond of 4 billion French francs is guaranteed by Allianz AG and has a term of 10 years.

## **Earnings forecast**

Excluding the earnings contribution from the AGF group we anticipate that current business activities will again generate double-digit growth in profits. This assumes the following:

- that the generally favorable claims trend continues
- that there will be no exceptional burdens due to natural catastrophes or major damage and
- that there will be no major collapses in capital markets.

We expect an additional positive contribution to earnings from the pro rata integration of the AGF group.

### **Premium income projection**

For the current fiscal year we anticipate consolidated gross premium income in the order of DM 107 billion. This is based on the following assumptions:

- that the premium income of the AGF group will only be included in the consolidated financial statements for the period from April to December 1998, and
- that the premium volumes of our existing Group companies increase by nearly 4 percent on the basis of constant exchange rates.

### **New accounting standards**

The above premium and earnings projections are still based on the accounting principles laid down in the German Commercial Code which have been used in the past to prepare the consolidated financial statements. Following the establishment of the relevant legal requirements in 1998 we shall prepare the financial statements for 1998 in accordance with International Accounting Standards for the first time. We believe this will create:

- more transparency for our shareholders
- more opportunities for comparing our financial statements with those of international competitors
- increased competitiveness in international capital markets.

There will be considerable changes compared with previous financial statements. We will provide information on this towards the end of the year.

## **Recommendation for Appropriation of Profit Allianz Aktiengesellschaft**

Unappropriated earnings of DM 588,495,478.60 are at the disposal of the Annual Meeting of shareholders. We propose that this amount be used to distribute a dividend of DM 1.90 on each of the Company's 230,787,094 shares of DM 5 par value which are entitled to participate in the dividend, and that DM 150,000,000 be transferred to other appropriated retained earnings.

Munich, May 4, 1998

Allianz Aktiengesellschaft

The Board of Management

Dr. Schulte-Noelle	Dr. Breipohl
Bremkamp	Dr. Hagemann
Hansmeyer	Dr. Rupprecht
Dr. Perlet	

## Allianz in the euro zone

■ **Well-prepared  
for the euro**

### **Additional opportunities for income**

Conversion to the euro affects nearly all areas of an insurance company, although at different points in time. Insurance products, their rates and conditions are affected by monetary union in the same way as transactions, accounting and sales. The effect on investments is especially great. After the introduction of the euro we will be able to make use of additional opportunities for income.

We are confident that we are well prepared to meet the challenges of monetary union, and we are convinced that we will be successful in continuing to increase the profitability and value of the Allianz Group.

### **Leading player in the euro zone**

The euro zone is our domestic market. We started to expand our business at an early stage. During the period when Allianz was developing into a multi-local insurance group many companies joined us who were well positioned in their national markets. The acquisition of a majority shareholding in Assurances Générales de France (AGF) in April 1998 provided a well-positioned company in France, undoubtedly one of the core countries of the European Union. In conjunc-

Since 2 May 1998 there has been clarity: the euro will be introduced on schedule in 11 of the 15 EU countries on 1 January 1999. The realization of European monetary union (Emu) brings big opportunities for Allianz. We are already Europe's leading insurer. This market position in the euro zone creates a significant competitive advantage for us. Customers and shareholders will benefit from the introduction of the euro.

Initially the euro can only be used for cashless transactions, for example giro transfers. The euro will then be introduced as coins and banknotes after a further three years. During this transition period until the end of 2001 the national currencies will still be legal tender. The euro will become legal tender in the year 2002.

	Market population (1) 1996 in millions	per capita GDP (2) in \$	Unemploy- ment (3) in %	stock market capitalization (4) in \$ billions
Austria	8.1	25,583	7.3	36.8
Belgium	10.2	23,875	12.5	136.8
Finland	5.1	22,927	13.7	73.8
France	58.4	23,875	12.0	674.2
Germany	81.9	25,836	11.5	825.0
Ireland	3.6	20,077	9.4	48.9
Italy	57.5	19,943	12.2	345.2
Luxembourg	0.4	37,081	3.4	33.8
Netherlands	15.5	23,422	5.1	468.8
Portugal	9.9	9,814	6.5	38.9
Spain	39.3	13,583	20.2	290.7
EU-11	289.9	21,751	12.3	2,972.9
USA	265.6	29,434	4.7	10,687.6

(1) Source: OECD. (2) Source: OECD. (3) current status in each case; Source: national statistical authorities  
(4) Status 12/31/1997. Source: German stock exchange, Factbook



tion with this important Group and its numerous investments abroad, our positions in other European markets are also being strengthened. We will be among, or close to, the first five leading insurers in nine out of eleven euro countries.

We now achieve 72.5 percent of our premium volume in member states of the European Union. This year that will amount to around DM 61 billion. This position and the local know-how of the individual insurance companies in the Allianz Group establish us as the leading insurer in the euro zone.

### **Data-processing conversion**

We are well advanced with technical preparations for the new currency. Conversion of data-processing systems represents the biggest expenditure. A "big bang" scenario with conversion of all systems throughout the Group on a single day would be too risky and we will therefore adjust our data-processing systems over a period of time. The transition period of three years gives us the necessary room for manoeuvre in order to convert the business units to the euro at different points in time.

### **An investment in the future**

We estimate that the preparations for the euro will require an investment volume of approximately DM 210 million throughout Europe in the period up to 2002.

According to our calculations some DM 110 million will be borne by the Group companies in Germany. 70% of the expenditure in Germany will be channelled into data-processing systems. However, these amounts include investments relating to conversion for the millennium. There are savings to be made here since all applications systems have to be tested anyway.

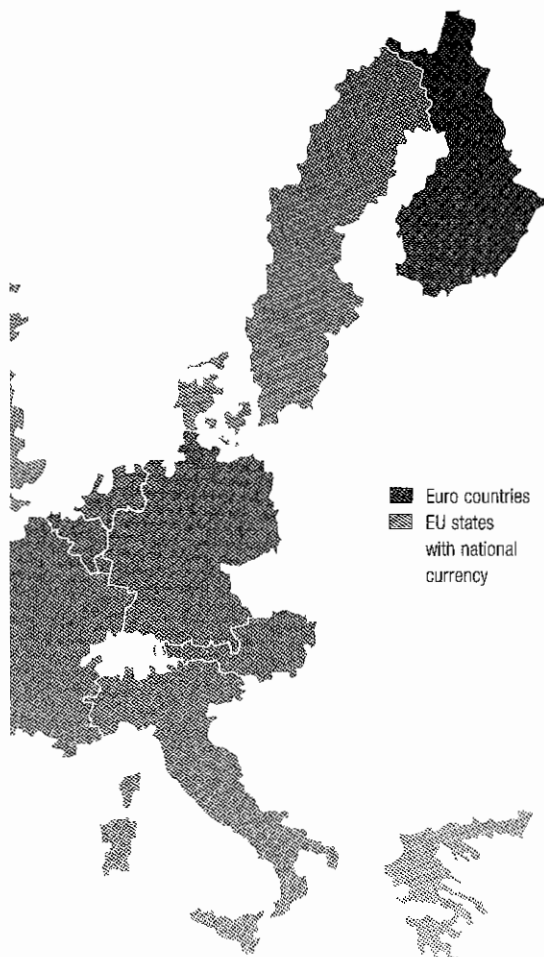
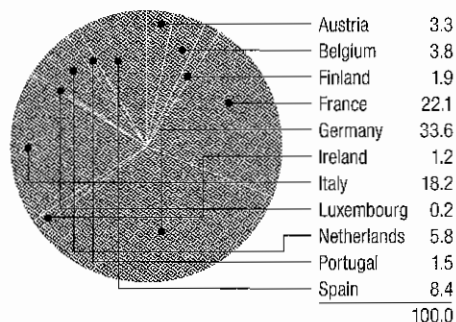
### **Capability for multi-currency transactions**

In virtually all the affected Group companies we have ensured that from the beginning of 1999, transactions can be carried out in euros as well as in existing national currencies. For our customers this means that payments can be made for services and premiums, including direct debit payments, in both the national currency and the euro. This is why it is not essential to convert existing insurance contracts to the euro at the beginning of 1999. Many private customers who first have to get used to the new currency will welcome this.

### **Accounting in euros**

Financial systems are already geared up for multi-currency capability: from 4 January 1999 share prices will be quoted in euros on stock exchanges. We are taking account of the emergence of a uniform euro valuation zone and will prepare the annual financial statements for the 1999 financial year in euros.

**GDP share for EU 11 in %**



## ■ Currency conversion of insurance rates

Like all long-term contracts in the commercial arena, contracts in insurers' portfolios will have to be converted to the euro by 1 January 2002. In the meantime the conversion can take place earlier with the agreement of both parties. The following distinctions should be drawn when converting to the euro:

- the purely arithmetical conversion of amounts in the national currencies to the euro,
- the offer of genuine euro rates and
- international euro products.

### **First step: conversion to the euro**

Our Group companies in the euro zone will be prepared, sector by sector, to convert or transfer insurance policies from the national currency to the euro at the request of the customer. Automatic transfer of the entire portfolio will for the most part be carried out only during 2001.

### **Industrial insurance in the vanguard**

In industrial business and partly also in commercial business, big insurers in particular will conclude contracts in euros for indemnity insurance from 1999. Some have already given notice that they will be preparing a euro balance sheet from 1999. We will be offering these customers insurance contracts converted to euros in the first year of the single currency, for example in Germany, France, Italy, Austria and Spain.

### **Varied demand among private customers**

We expect that in property insurance there will be a trend for private customers only to convert their contracts to euros once the currency is available in cash. The majority of contracts in the portfolio of most of the Group companies will therefore only be transferred once genuine euro rates

have been introduced from 2002 (see below). In some Allianz companies the insurance contracts can be converted earlier to the euro if required.

By contrast it is anticipated that private customers will also wish to conclude life and casualty insurance in the new currency before euro cash is introduced because these insurances are geared to the long-term. This is because the euro will be in force for the main term of the contract and by maturity the national currency will have been consigned to the history books. All our big life and casualty insurance companies in the euro zone are geared up for this development.

### **Rounding off insurance premiums**

When transferring existing contracts, the premiums will have to be rounded off after conversion to euros, and this must be in favour of the customer. Although this benefit is not really important for individual customers, rounding down lots of small amounts adds up to substantial amounts of money. We anticipate a requirement for reserves running into millions.

### **Outstanding legal rulings**

Life insurers are dependent on the establishment of legal terms of reference. For example, in Germany this affects the flat-rate limit for direct insurance (to provide company direct pension insurance plans). At present the maximum amount is DM 3,408. At the current euro rate of DM 1.97711 this amount rounded to two decimal places would give 1,723.74 euros. As yet, there is no legal ruling on establishing a round figure. Legislators also need to take into account that it must be possible to divide the new euro amount by twelve so that monthly payments are possible.

### **Second step: euro rates**

In the case of euro rates for new contracts, the conditions and rates are geared to round euro amounts and they must therefore be calculated and laid down anew. At Allianz we are

pursuing a pragmatic policy geared to the needs of the customer.

The need for making changes to existing and new contracts varies in individual classes of insurance and is also dependent on the legal framework. For some insurance sectors there is as yet no evidence of a precise schedule.

Our big units are preparing for comprehensive transfer to the euro with the objective of offering euro rates at the latest by the end of 2001.

### ***Third step: products valid throughout Europe***

The provision of international euro products is another issue. Here it is not simply a case of recalculating the rates of a basically unchanged and familiar national product into euros that is only valid in one country. This concerns products that are sold in several EU countries calculated on the same basis, providing the same service, at the same price.

### ***Low demand initially***

We believe that social and tax legislation in the member states, as well as legislation relating to insurance contracts, is currently too diverse to permit such products and that this is likely to remain so in the near future. In automobile insurance, for example, there are no European regulations on minimum sums insured and deductibles.

### ***Development work in progress***

Euro products will only begin to compete with existing products when there is increased harmonization of the legal framework and cross-border standards of cover have been established.

We are already working on the concept of a European product range in some areas, for example in international industrial insurance. We are here deriving benefit from the experience of our local European Group companies. As a euro insurer we will have a broadly-based body of experience on the content and standard of

cover. Europe-wide statistical databases for structuring rates that provide adequate cover for risks are also easily available to our Group. The development phase for our euro products will, however, last for the entire transition period because of the big differences in social and tax systems.

### ***■ Improved returns on investments***

The euro zone provides big opportunities especially for additional income on investments, which will primarily benefit our shareholders and life-insurance customers. The bond and equity markets will enter completely new dimensions with the euro, and we anticipate considerable benefits as the leading insurer in the euro zone.

### ***Expanded investment area***

The national standards for investing on the principle of matching currencies will be redefined with the introduction of the euro. We are here referring to the obligation laid down in national legislation for the main proportion of insured sums to be invested in the same currency as the service to be provided.

The advent of monetary union on 1 January 1999 will make the entire euro zone "domestic" for purposes of an investment on the principle of matching currencies.

### ***Expanding bond markets***

The euro pensions market will be bigger, more broadly based, more liquid and more transparent than the bond markets separated by currencies have been up to now.

### ***Bigger volume***

The DM pensions market had a volume at the end of 1995 equivalent to 2.3 billion US dollars, while all the currencies of the 11 member states had two and a half times this amount with the equivalent of 5.9 billion US dollars. Taken on size, the euro pensions market is worth nearly 70 per-



cent of the US bond market but is already 1.5 times the size of the Japanese pensions market.

### **A more broadly-based market**

The breadth of the euro pensions market will be characterized by the wide range of issues depending on the issuer groups, classes of credit standing, maturities and bond structure.

Corporate bonds will also be part of the issues which will expand our range of investments under the sign of the euro. These bonds are virtually irrelevant for the German market, but are an established market segment in France and the Netherlands. We have great hopes for an upswing in this market with the associated big opportunities for income. Correspondingly, the German mortgage bond will provide a welcome addition to the range of high-quality investments available in other countries.

### **Higher levels of liquidity**

An integrated euro pensions market will increase the liquidity of issues as a result of increasingly frequent high-volume issues replacing several small to medium-sized issues. This change in the nature of issues will be accompanied by the increased capacity of the euro pensions market.

### **Allianz issues the first euro bond**

As an issuer we have already taken account of the new reality. In 1998 we issued two corporate bonds with identical maturities, coupons and interest due dates in French francs and DM. These can be merged after the introduction of the euro to form a euro bond with a bigger volume and more liquidity. This is therefore the first euro bond issued by Allianz.

### **Competitive advantage in evaluation of credit standing**

The disappearance of currency risk with the introduction of the euro will increase the relative importance of other types of risk for pricing. Apart from the interest level, credit stand-

ing will become the most important determining factor for the prices of securities. This increases the importance of independent ratings, which gives us a competitive advantage. Our Group companies already have professional analysis departments in all the important euro member states which know their markets extremely well.

### **Euro equity market optimizes return-risk profile**

Following the introduction of European monetary union we are free to undertake greater diversification of our equity investments in the euro zone. Sector diversification is therefore more possible and national imbalances can be reduced. An equity investment broadly diversified across the euro zone allows us to improve significantly the return-risk profile of our investments.

### **Sector diversification**

Entire economic sectors are virtually or completely absent from some national stock exchanges. For example, in Germany this applies to oil, food and media. The lack of opportunities to invest in these fields of activity has two consequences: no opportunities for income, and insufficient diversification of risk across different sectors.

The lack of opportunities for sector diversification will be considerably reduced when we consider the future European equity market. Market capitalization in the euro zone (at values of the end of 1997) will be 3.5-fold that of German market capitalization at DM 4.9 billion.

### **Higher liquidity**

A further advantage of the euro equity market is the significantly higher level of liquidity. Our German companies are particularly affected because their high investment volumes have been hampered by a domestic equity market that is too small.

Trading volumes are so high in a maximum of 20 shares in the DAX-30 that even big positions can be purchased or sold without undesired

price effects occurring. The opportunity presented by the euro zone of diversifying the equity investment to a greater number of more liquid securities will significantly increase the liquidity of our share portfolio.

Investment strategies directed along national lines will also be less relevant in our Group under the sign of the euro. We will therefore transfer the most important components of the investment function from the individual insurance companies in our Group to an independent asset management company, Allianz Asset Management GmbH. Only integration of important investment functions throughout the Group will create the organizational scope for a consistent, internationally oriented investment process.

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The euro and the associated opportunities for the insurance and capital markets permit us to view the future with optimism. As the leading insurer in the euro zone we are well equipped to make optimum use of this opportunity for further increases in income.







**Consolidated Financial Statements  
Allianz Group**

## ■ Consolidated Balance Sheet at December 31, 1997

### Assets

		DM in thousands	
	1997	1997	1996
<b>A. Receivables from subscriptions to capital stock</b>		5,425	6,272
<b>B. Intangible assets (4*)</b>		5,360,066	2,912,406
<b>C. Investments (1) - (2)</b>			
I. Real estate	20,027,794		17,952,047
II. Investments in affiliated and associated companies	4,863,285		8,671,592
III. Other investments	288,638,829		234,159,428
IV. Funds held by others under reinsurance business assumed	5,531,610		6,105,033
		319,061,518	266,888,100
<b>D. Investments held on account and at risk of life insurance policyholders</b>		24,007,693	18,509,241
<b>E. Investments held for financial services business</b>		4,476,158	
<b>F. Receivables (2)</b>			
I. Accounts receivable on direct insurance business	8,545,397		7,376,923
II. Accounts receivable on reinsurance business	2,468,446		1,818,579
III. Other receivables	4,092,973		3,780,496
		15,106,816	13,475,998
<b>G. Other assets</b>			
I. Tangible fixed assets and inventories	973,680		905,793
II. Cash with banks, checks and cash on hand	1,686,209		1,470,973
III. Assets of financial services business other than investments	277,781		-
IV. Miscellaneous	1,203,791		618,369
		4,141,461	2,995,135
<b>H. Prepaid expenses (5)</b>			
I. Accrued interest and rents	5,823,824		4,840,650
II. Other prepaid expenses	2,240,743		1,894,826
		8,064,567	6,735,476
		<b>380,223,704</b>	<b>311,522,628</b>

\*) see headings with corresponding numbers in the Notes

## Liabilities

	DM in thousands			
	1997	1997	1997	1996
<b>A. Stockholders' equity ⑥</b>				
I. Capital stock		1,153,936		1,147,282
II. Additional paid-in capital		10,027,057		9,670,787
III. Appropriated retained earnings				
1. required by law	2,403			2,403
2. other	5,468,806			4,158,202
including excess of book value over underlying net equity of consolidated subsidiaries: 587,612 (1996: 581,870)				
including excess of underlying net equity over book value of consolidated subsidiaries: 191,278 (1996: 115,270)				
		5,471,209		4,160,605
IV. Unappropriated retained earnings		588,496		390,076
V. Minority interests		5,778,092		4,987,388
			23,018,790	20,356,138
<b>B. Participating certificates ⑦</b>			909,956	864,956
<b>C. Post-ranking liabilities</b>			51,500	102,147
<b>D. Special untaxed reserve ⑧</b>			301,125	178,132
<b>E. Insurance reserves ⑨</b>				
I. Unearned premiums				
1. Gross	15,891,018			14,633,371
2. less:				
amounts ceded	2,761,126			2,730,885
		13,129,892		11,902,486
II. Aggregate reserve				
1. Gross	198,422,334			160,079,400
2. less:				
amounts ceded	15,845,247			11,468,650
		182,577,087		148,610,750
III. Reserve for loss and loss adjustment expenses				
1. Gross	73,792,500			62,926,943
2. less:				
amounts ceded	14,790,082			11,509,869
		59,002,418		51,417,074
IV. Reserve for experience-rated and other premium refunds				
1. Gross	20,092,944			15,767,980
2. less:				
amounts ceded	301,565			186,572
		19,791,379		15,581,408
V. Claims equalization and similar reserves		5,726,273		4,567,558
VI. Other insurance reserves				
1. Gross	1,552,631			1,627,755
2. less:				
amounts ceded	39,264			58,830
		1,513,367		1,568,925
			281,740,416	233,648,201

	DM in thousands		
	1997	1997	1996
<b>F. Insurance reserves for life insurance where the investment risk is carried by policyholders</b>			
I. Aggregate reserve			
1. Gross	24,207,599		18,623,734
2. less:			
amounts ceded	98,135		87,409
		24,109,464	18,536,325
<b>G. Other accrued liabilities ⑩</b>		7,687,750	6,493,808
<b>H. Liabilities of financial services business</b>		4,502,522	
<b>I. Funds held under reinsurance business ceded</b>		11,987,444	10,416,217
<b>J. Other liabilities ⑪</b>			
I. Accounts payable on direct insurance business	10,491,831		8,230,061
II. Accounts payable on reinsurance business	1,556,945		1,193,317
III. Debentures	3,952,296		2,516,343
including convertible 950,168 (1996: 1,008,618)			
IV. Liabilities to banks	496,236		1,577,736
V. Miscellaneous liabilities	8,404,913		6,761,304
including:			
taxes of 666,253 (1996: 526,417)			
social security 196,114 (1996: 227,397)			
		24,902,221	20,278,761
<b>K. Deferred income ⑫</b>		1,012,516	647,943
		380,223,704	311,522,628

**■ Consolidated Income Statement**  
for the period from January 1 to December 31, 1997

	DM in thousands			
	1997	1997	1997	1996
<b>I. Underwriting account for property and casualty insurance business</b>				
1. Premiums earned – net				
a) Gross premiums written <sup>(13)</sup>	48,312,761			43,979,073
b) Premiums ceded	- 7,954,038			- 7,548,291
		40,358,723		36,430,782
c) Change in unearned premiums – gross	86,923			- 370,926
d) Change in unearned premiums ceded	- 174,839			39,435
		- 87,916		- 331,491
			40,270,807	36,099,291
2. Allocated interest return – net			844,950	735,581
3. Other underwriting income – net			74,990	274,335
4. Loss and loss adjustment expenses – net				
a) Claims paid				
aa) Gross	-32,982,358			- 28,159,310
bb) Amounts ceded in reinsurance	5,084,695			4,600,506
		-27,897,663		-23,558,804
b) Change in reserve for loss and loss adjustment expenses				
aa) Gross	- 3,660,714			- 3,554,973
bb) Amounts ceded in reinsurance	1,647,420			398,346
		- 2,013,294		- 3,156,627
			-29,910,957	-26,715,431
5. Change in other insurance reserves – net <sup>(14)</sup>			- 462,426	542,192
6. Expenses for experience-rated and other premium refunds – net <sup>(15)</sup>			- 372,272	- 259,498
7. Underwriting expenses – net <sup>(16)</sup>			-10,471,944	- 9,256,936
8. Other underwriting expenses – net			- 491,052	- 553,341
9. Subtotal			- 517,904	- 218,161
10. Change in claims equalization and similar reserves			- 738,845	- 1,188,875
11. Underwriting result in property and casualty insurance – net of reinsurance			- 1,256,749	- 1,407,036

	DM in thousands			
	1997	1997	1997	1996
<b>II. Underwriting account for life and health insurance business</b>				
1. Premiums earned – net				
a) Gross premiums written <sup>(13)</sup>	33,612,630			27,692,257
b) Premiums ceded	- 2,547,687			- 1,968,558
		31,064,943		25,723,699
c) Change in unearned premiums – net		- 184,352		- 212,340
			30,880,591	25,511,359
2. Premiums earned from gross reserve for premium refunds			3,656,577	2,958,810
3. Allocated investment return from non-underwriting account			15,535,276	13,102,552
4. Unrealized gains on investments held on account and at risk of life insurance policyholders			2,478,628	1,507,057
5. Other underwriting income – net			728,241	600,532
6. Loss and loss adjustment expenses – net				
a) Claims paid				
aa) Gross	-23,078,132			-18,221,835
bb) Amounts ceded in reinsurance	- 122,266			1,230,853
		-23,200,398		-16,990,982
b) Change in reserve for loss and loss adjustment expenses				
aa) Gross	- 300,205			- 159,709
bb) Amounts ceded in reinsurance	129,035			69,504
		- 171,170		- 90,205
			-23,371,568	- 17,081,187
7. Change in other insurance reserves – net				
a) Aggregate reserve				
aa) Gross	-19,123,766			-16,030,941
bb) Amounts ceded in reinsurance	2,508,918			627,816
		- 16,614,848		- 15,403,125
b) Other insurance reserves – net		- 11,639		2,071
			- 16,626,487	- 15,401,054
8. Expenses for experience-rated and other premium refunds – net <sup>(15)</sup>			- 6,155,959	- 5,164,443
9. Underwriting expenses – net <sup>(16)</sup>			- 4,039,966	- 3,382,965
10. Unrealized losses on investments held on account and at risk of life insurance policyholders			- 6,204	- 20,921
11. Other underwriting expenses – net			- 1,640,167	- 1,371,162
12. Underwriting result in life and health insurance – net of reinsurance			1,438,962	1,258,578

	DM in thousands		
	1997	1997	1996
<b>III. Non-underwriting account</b>			
1. Underwriting result net of reinsurance			
a) in property and casualty insurance	- 1,256,749		- 1,407,036
b) in life and health insurance	1,438,962		1,258,578
		182,213	- 148,458
2. Investment income <sup>(17)</sup>	25,612,306		21,667,611
3. Investment expenses <sup>(17) - (18)</sup>	- 3,171,659		- 2,875,642
4. Allocated investment return transferred to the underwriting account for property and casualty insurance business	- 932,748		- 824,717
5. Allocated investment return transferred to the underwriting account for life and health insurance business	- 15,535,276		- 13,102,552
		5,972,623	4,864,700
6. Other income <sup>(19)</sup>	869,140		994,750
7. Other expenses <sup>(20)</sup>	- 2,028,940		- 1,547,403
		-1,159,800	- 552,653
8. Earnings from financial services business		19,015	-
9. Earnings from ordinary activities before taxation		5,014,051	4,163,589
10. Income taxes	- 2,084,607		- 1,720,133
11. Other taxes	- 233,750		205,704
		-2,318,357	- 1,925,837
12. Net income <sup>(21)</sup>		2,695,694	2,237,752

## Notes to the Consolidated Financial Statements

### Legal Regulations

The consolidated financial statements and the Group Management Report have been prepared in accordance with the regulations contained in the German Commercial Code (HGB) 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.

For reasons of simplicity and clarity, as in the previous year, advantage has been taken of the option to combine certain headings in the consolidated balance sheet and in the consolidated income statement. The detailed information is disclosed in the Notes. In addition, net investment income from property and casualty insurance and from life and health insurance is shown in total in the non-underwriting account. The allocated investment return is then taken out and transferred to the underwriting accounts, comprising the net allocated interest return attributable to property and casualty insurance business and the total investment income and expenses attributable to life and health insurance business.

All amounts in the consolidated financial statements are stated in and rounded out to DM thousands.

### New features in the consolidated financial statements

To make it easier for the reader to refer to the Notes from the financial statements and vice versa we have numbered the explanatory comments on individual headings in the Notes consecutively and cross-referenced the relative items in the consolidated balance sheet and income statement with the same numbers.

In new of the inclusion of Allianz Bauspar AG (formerly mh Bausparkasse until December 31, 1997), Munich, and Augsburger Aktienbank AG, Augsburg, in the consolidated financial statements for the first time, additional headings to reflect the relevant financial services business have been included in the consolidated balance sheet and statement of income and

the appropriate accounting and valuation policies explained in the Notes. The current market values and hidden reserves in the valuation of investments are shown in the Group Management Report from page 51. In order to give a better view of the net worth, financial position and results, the figures are analyzed on a voluntary basis between:

- the investment categories of investment comprising real estate, dividend-bearing stocks and bearer bonds
- the business areas life/health and property/casualty.

The methods for calculating current market value are also explained in each case on page 72.

### Companies Consolidated

In principle, all domestic and foreign subsidiaries are included in the consolidation.

In addition to Allianz AG, 55 (1996: 37) German and 249 (1996: 224) foreign companies have been consolidated in full and 52 (1996: 51) subsidiaries included at equity. The most important companies consolidated for the first time were Vereinte Holding AG, Munich, and its subsidiaries, Adriática de Seguros C. A., Caracas, Allianz Risk Transfer, Zürich, and Allianz Bauspar AG, Munich, as well as Augsburger Aktienbank AG, Augsburg.

An additional 106 (1996: 81) affiliated companies have not been included in the consolidation or accounted for at equity as their aggregate values are not material to the presentation of the financial statements as a whole.

All five (1996: 5) joint ventures have been consolidated on a proportional basis; each of these companies is managed jointly by Allianz AG together with a company not included in the consolidation.

25 of the 29 (1996: 31) associated companies have been accounted for in the consolidated financial statements by the equity method, whilst four associated companies have not been included at equity because their aggregate values are not material.

Selected affiliated and associated



companies, joint ventures and other long-term equity investments are listed on pages 76 through 79. All affiliated companies, joint ventures and associated companies, whether included in the consolidated financial statements or not, are listed individually in the disclosure of equity investments filed with the Commercial Register.

### **Consolidation Principles**

The financial statements of Allianz AG and its subsidiaries and joint ventures included in the consolidation provide the basis for the consolidated financial statements. All financial statements included are uniformly prepared as of December 31, 1997. Interim financial statements have been used for those entities whose accounting periods end on a different date.

The equity consolidation was based on the book value method, i.e. by netting the cost of the investment with the Group's share of the underlying subsidiary's stockholders' equity of the subsidiary or joint venture at the time of its first inclusion in the consolidation or at the time of acquisition. With regard to differences arising on first-time consolidation: to the extent they did not represent understated values of the underlying assets other than intangibles and therefore were added to the asset values, they were taken to appropriated retained earnings or capitalized as goodwill.

The income generated by subsidiaries and joint ventures after their first consolidation or, respectively, date of acquisition was allocated to the appropriated retained earnings of the Group, as was the Group's portion of the unappropriated retained earnings of subsidiaries and joint ventures and the effects of the consolidation. The unappropriated retained earnings in the consolidated financial statements are thereby identical to the unappropriated retained earnings in the financial statements of Allianz AG.

The proportion of net income or losses attributable to minority interests has been calculated on the basis of the net income or loss for the year.

There is no profit balance brought forward from the previous year because unappropriated retained earnings are shown only in the financial statements of Allianz AG and have been distributed in full.

Receivables and payables between companies included in the consolidation have been set off against each other. Intercompany profits and expenses and income earned on transactions within the Group have been eliminated.

### **Accounting and Valuation Policies**

The financial statements of Allianz AG and its consolidated German and foreign subsidiaries and joint ventures, which provide the basis for the consolidated financial statements, have been prepared uniformly according to the accounting and valuation policies applied by Allianz AG. Valuations in the financial statements of the consolidated companies based on accounting and valuation rules specific to insurance companies have generally been retained unchanged in the consolidated financial statements. Exchange transactions are generally treated as earnings neutral.

*Intangible assets* acquired for valuable consideration are recorded at cost less amortization. Goodwill carried as an asset is amortized against appropriated retained earnings over a period of 15 years (including the year when first capitalized).

*Real estate* (i.e. real property and equivalent rights and buildings including buildings on leased land) is recorded at cost less accumulated ordinary and extraordinary depreciation. If the reasons for extraordinary depreciation having been charged no longer exist, the lower valuations are retained if they are allowable for tax purposes.

*Investments in unconsolidated affiliated and associated companies* are recorded at the proportionate book value of the underlying equity. The values at the date of acquisition or at the balance sheet date were used for the first-time application of this

method to the additions in 1997, giving an excess of underlying net equity over the book value of the additions amounting to TDM 17,246 (1996: excess of book value over underlying net equity TDM 1,778). The uniform valuation policies of Allianz AG were not extended to the companies included at equity.

*Other long-term equity* investments and investments in unconsolidated affiliated and associated companies not recorded at equity are recorded at cost less related ordinary and extraordinary write-downs.

*Stocks, investment fund units, bearer bonds and other fixed income and variable income securities* are recorded at the lower of cost or market at the balance sheet date. If the reasons for write-downs to the lower of cost or market having been made no longer exist, the lower valuations are retained if they are allowable for tax purposes. An average cost has been established in most cases where securities of the same kind were purchased at different cost.

#### *Valuation of investments at current market value*

The following methods have been used for *calculating the current market values* shown in the Group Management Report on Page 51:

##### *Real estate*

Land and buildings as a rule at capitalized earnings value, new buildings at cost, in each case at December 31, 1997.

##### *Dividend-bearing stocks*

Quoted companies at the stock exchange price quoted on the last trading day of 1997. Non-quoted companies at their net worth calculated by the DVFA method or, on acquisition, at cost.

##### *Bearer bonds and other fixed income securities*

At the stock exchange price quoted on the last trading day of 1997.

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

1. Loans to unconsolidated affiliated companies
2. Loans to other companies in which long-term equity investments are held
3. Mortgages and annuities
4. Registered bonds
5. Debentures and loans
6. Loans and advance payments on policies
7. Other loans
8. Bank deposits
9. Funds held by others under reinsurance contracts assumed
10. Accounts receivable on direct insurance business
11. Accounts receivable on reinsurance business
12. Other receivables.

*Investments held on account and at risk of life insurance policyholders* are recorded at current market value. The corresponding income and expenses are shown in the underwriting account for life and health insurance business under the headings "Unrealized gains on investments held on account and at risk of life insurance policyholders" and "Unrealized losses on investments held on account and at risk of life insurance policyholders".

*Investments held for financial service business* consist mainly of the following balance sheet items:

1. Cash reserve
2. Claims on banks
3. Claims on customers
4. Bonds and other fixed income securities
5. Stocks and other variable income securities.

The cash reserve consists of cash on hand and balances at the German Bundesbank and is shown at full face value.

Loans and advances to banks and customers are shown at face value less appropriate write-downs.

Loans, stocks and other fixed and variable income are recorded at the lower of cost or market value at the date of the balance sheet. If the rea-

sons for writing down the balance sheet value to a lower market value are no longer relevant, the lower valuation is generally retained for tax purposes.

**Tangible fixed assets and inventories** are recorded at cost less depreciation. Assets of low value are written off immediately in full.

**Insurance reserves** consist of the following:

- I. Unearned premiums
- II. Aggregate reserve
- III. Reserve for loss and loss adjustment expenses
- IV. Reserve for premium refunds (experience-rated and other)
- V. Claims equalization and similar reserves
- VI. Other insurance reserves
- VII. Insurance reserves for life insurance where the investment risk is carried by policyholders.

In principle, the insurance reserves are included in the consolidated financial statements in the same amount as in the individual financial statements.

**Other accrued liabilities** include pension accruals calculated and included in the consolidated financial statements on the basis of the proper actuarial methods applicable at the individual consolidated subsidiaries. The pension liabilities are accrued in full in the financial statements. Miscellaneous accrued liabilities have been recorded as projected.

**Liabilities of financial service business** consist mainly of:

1. Deposits from banks
2. Amounts owed to other customers
3. Accrued liabilities.

The liabilities to banks and other customers are recorded at the amounts payable on maturity.

Pension accruals are calculated actuarially; other accrued liabilities are recorded as projected.

**Funds held under reinsurance business ceded and other liabilities** are recorded at the amounts payable on maturity. Annuities are recorded at present value.

The *deferred tax calculations* were taken from the individual financial statements of subsidiaries and joint ventures. In addition, deferred taxes were calculated on the differences arising from applying uniform valuation policies for the consolidated financial statements and from consolidation procedures affecting net income.

#### **Foreign currency translation**

The financial statements of foreign subsidiaries and joint ventures were translated into DM at the middle exchange rate in effect on the balance sheet date. This translation method was applied to all consolidated balance sheet and income statement items, resulting in no currency translation adjustments.

## ■ Supplementary Information on Group Assets

### Changes under asset headings B., C.I. and C.II. in 1997 ①

Asset Heading	Values stated at 12/31/1996	Values stated at <sup>1)</sup> 1/1/1997	Additions <sup>2)</sup>
<b>B. Intangible assets</b>			
1. Purchased goodwill	2,798,348	2,798,348	2,902,865
2. Other intangible assets	114,058	141,216	37,019
3. Total B.	2,912,406	2,939,564	2,939,884
<b>C.I. Real estate</b>	17,952,047	18,201,966	3,188,191
<b>C.II. Investments in affiliated and associated companies</b>			
1. Investments in affiliated companies	4,727,619	4,712,128	79,139
2. Loans to affiliated companies	28,291	27,501	7,066
3. Investments in other companies	3,896,125	3,917,160	499,446
4. Loans to other companies in which long-term equity investments are held	19,557	20,834	15,348
5. Total C.II.	8,671,592	8,677,623	600,999
<b>Total</b>	29,536,045	29,819,153	6,729,074

<sup>1)</sup> translated at closing rates 12/31/97

<sup>2)</sup> including assets of companies included/excluded for the first time

#### Intangible assets (Assets B.)

This item includes principally the goodwill arising on the consolidation of group companies included for the first time in 1991, 1995 and 1997. Additions for 1997 relate to Vereinte Holding and its subsidiaries.

#### Real estate (Assets C.I.)

Land and buildings owned by the Allianz Group and used for its own activities were carried at TDM 2,968,561.

DM in thousands				
Transfers	Disposals <sup>2)</sup>	Revaluation	Depreciation	Values stated at 12/31/97
-	-	-	480,629	5,220,584
-	6,400	-	32,353	139,482
-	6,400	-	512,982	5,360,066
-	597,128	1,722	766,957	20,027,794
802	4,246,414	87,975	3,268	630,362
-	5,366	-	-	29,201
- 20,209	243,840	46,542	7,397	4,191,702
- 996	23,241	75	-	12,020
- 20,403	4,518,861	134,592	10,665	4,863,285
- 20,403	5,122,389	136,314	1,290,604	30,251,145

## Selected subsidiaries and other long-term equity investments ②

Subsidiaries	Currency	Equity in thousands	Percent owned <sup>1)</sup>
ABVG Anteilsbesitz Verwaltungsgesellschaft mbH, Frankfurt am Main	DM	212,335	70.0
Alico-Beteiligungsgesellschaft mbH, Munich	DM	361,446	100.0
Allianz Bauspar AG (until 12/31/1997 mh Bausparkasse AG), Munich	DM	82,626	85.0
Allianz Beteiligungsgesellschaft mbH, Munich	DM	1,449,526	89.2
Allianz Globus Marine Versicherungs-Aktiengesellschaft, Hamburg	DM	30,586	100.0
Allianz Grundstücks-GmbH, Stuttgart	DM	13,099	100.0
Allianz Kapitalanlagegesellschaft mbH, Stuttgart	DM	15,219	100.0 <sup>2)</sup>
Allianz Lebensversicherungs-AG, Berlin/Munich	DM	1,431,500	46.5 <sup>3)</sup>
Allianz Unternehmensbeteiligungsgesellschaft AG, Munich	DM	110,434	100.0
Allianz Vermögensverwaltungsgesellschaft mbH, Munich	DM	1,030,624	100.0
Allianz Versicherungs-AG, Munich	DM	2,790,768	100.0
Allianz Verwaltungsgesellschaft mbH, Munich	DM	2,039,975	100.0
Allianz Zentrum für Technik GmbH, Munich	DM	272	100.0
Apollon-Vermögensverwaltungsgesellschaft mbH, Munich	DM	26,200	100.0
Aquila Beteiligungsgesellschaft mbH, Munich	DM	54,596	100.0
Ares-Vermögensverwaltungsgesellschaft mbH, Munich	DM	797,690	100.0
Assecuranz-Compagnie Mercur AG, Bremen	DM	2,013	50.0 <sup>3)</sup>
Augsburger Aktienbank AG, Augsburg	DM	44,644	100.0
Bayerische Versicherungsbank AG, Munich	DM	483,542	45.0 <sup>3)</sup>
Beta-Vermögensverwaltungsgesellschaft mbH, Munich	DM	68,829	100.0
Decima-Vermögensverwaltungsgesellschaft mbH, Munich	DM	807,231	100.0
Deutsche Lebensversicherungs-AG, Berlin	DM	96,000	100.0
Deutsche Versicherungs-AG, Berlin	DM	720,656	100.0
Eta-Vermögensverwaltungsgesellschaft mbH, Munich	DM	186,937	100.0
Finanz- und Versicherungskontor für Heilberufe GmbH, Stuttgart	DM	50	100.0
Frankfurter Versicherungs-AG, Frankfurt am Main	DM	581,628	49.9 <sup>3)</sup>
Gamma-Vermögensverwaltungsgesellschaft mbH, Berlin	DM	115,050	100.0
Grundstücksgesellschaft der Vereinten Versicherungen mbH & Co. Besitz- und Betriebs KG, Munich	DM	224,408	100.0
Hermes Beteiligungen GmbH, Hamburg	DM	46,317	100.0
Hermes Kreditversicherungs-AG, Hamburg	DM	259,910	89.0
Hermes Versicherungsbeteiligungen GmbH, Hamburg	DM	58,504	100.0
Jota-Vermögensverwaltungsgesellschaft mbH, Munich	DM	36,615	100.0
Komet Automobil-Beteiligungsgesellschaft mbH, Munich	DM	98,349	100.0
Kraft Versicherungs-AG, Berlin/Munich	DM	15,768	99.5
Lambda-Vermögensverwaltungsgesellschaft mbH, Munich	DM	1,506,050	58.9
Magdeburger Hagelversicherung AG, Hanover	DM	4,065	99.7
Menza Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Grünwald	DM	27,746	100.0
Nona-Vermögensverwaltungsgesellschaft mbH, Munich	DM	1,781,066	100.0
Perseus-Vermögensverwaltungsgesellschaft mbH, Munich	DM	1,033,340	100.0
Prima-Vermögensverwaltungsgesellschaft mbH, Munich	DM	227,533	69.4
Quarta-Vermögensverwaltungsgesellschaft mbH, Munich	DM	1,094,457	57.2
Quinta-Vermögensverwaltungsgesellschaft mbH, Munich	DM	1,325,934	100.0
Septima-Vermögensverwaltungsgesellschaft mbH, Munich	DM	143,023	100.0
Sexta-Vermögensverwaltungsgesellschaft mbH, Munich	DM	185,077	100.0
Vereinte Holding AG, Munich	DM	1,725,803	100.0
Vereinte Krankenversicherung AG, Munich	DM	418,892	100.0
Vereinte Lebensversicherung AG, Munich	DM	107,511	96.7
Vereinte Rechtsschutzversicherung AG, Munich	DM	19,660	100.0

<sup>1)</sup> including shares held by dependent subsidiaries  
calculated according to § 271 HGB

<sup>2)</sup> not consolidated

<sup>3)</sup> management control agreement

<sup>4)</sup> percentage of voting capital owned: 90.0%

<sup>5)</sup> percentage of voting capital owned: 100.0%



Subsidiaries	Currency	Equity in thousands	Percent owned <sup>1)</sup>
Vereinte Spezial Krankenversicherung AG, Munich	DM	15,163	100.0
Vereinte Spezial Versicherung AG, Munich	DM	2,580	100.0
Vereinte Versicherung AG, Munich	DM	461,377	98.7
Adriática de Seguros C. A., Caracas	VEB	7,656,582	56.3
Ajax Insurance Holdings Limited, London	GBP	1,251	100.0
Alba Allgemeine Versicherungs-Gesellschaft, Basel	CHF	23,128	100.0
Allianz Assurances, Charenton-le-Pont	FRF	1,544,993	100.0
Allianz Bice Compañía de Seguros de Vida S.A., Santiago de Chile	CLP	9,018,813	50.0
Allianz Compañía de Seguros S.A., Santiago de Chile	CLP	6,442,015	100.0
Allianz Cornhill Insurance (Far East) Ltd., Hong Kong	HKD	52,246	100.0
Allianz Elementar Lebensversicherungs-Aktiengesellschaft, Vienna	ATS	879,130	100.0
Allianz Elementar Versicherungs-Aktiengesellschaft, Vienna	ATS	2,433,109	99.2
Allianz Europe Ltd., Amsterdam	NLG	2,291,694	100.0
Allianz Finance B.V., Amsterdam	NLG	4,801,500	100.0
Allianz Fire and Marine Insurance Japan Ltd., Tokyo	JPY	1,752,585	100.0
Allianz General Insurance Company S.A., Athens	GRD	2,633,015	95.0
Allianz Holding France, Charenton-le-Pont	FRF	5,460,439	100.0
Allianz Insurance (Singapore) Pte. Ltd., Singapore	SGD	34,063	80.0
Allianz Insurance Company, Los Angeles	USD	221,959	100.0
Allianz Lebensversicherung (Schweiz) AG, Zurich	CHF	53,372	100.0
Allianz Life Insurance Company of North America, Minneapolis	USD	1,217,592	100.0
Allianz Life Insurance Company S.A., Athens	GRD	3,375,680	80.6
Allianz México S.A. Compañía de Seguros, Mexico City	USD	54,864	100.0
Allianz Nederland N.V., Rotterdam	NLG	298,014	100.0
Allianz of America, Inc., Wilmington	USD	4,200,391	84.4 <sup>4)</sup>
Allianz of Canada, Inc., Toronto	CAD	145,743	100.0
Allianz of South Africa (Proprietary) Ltd., Johannesburg	ZAR	47,270	100.0
Allianz pojišťovna a.s., Prague	CZK	342,032	100.0
Allianz RAS Argentina S.A. de Seguros Generales, Buenos Aires	ARS	8,854	100.0
Allianz Risk Transfer, Zurich	CHF	514,433	100.0
Allianz Underwriters Insurance Company, Los Angeles	USD	40,584	100.0
Allianz Versicherung (Schweiz) AG, Zurich	CHF	85,318	100.0
Allianz Vie, Charenton-le-Pont	FRF	1,254,311	100.0
Allianz-RAS Seguros y Reaseguros S.A., Madrid	ESP	13,242,952	100.0
Allianz-RAS Tutela Giudiziaria S.p.A., Milan	ITL	6,340,000	100.0
Berner Allgemeine Holdinggesellschaft AG, Bern	CHF	91,616	51.2
Berner Allgemeine Versicherungs-Gesellschaft, Bern	CHF	127,245	100.0
Berner Lebensversicherungs-Gesellschaft, Bern	CHF	27,520	100.0
Colón Compañía de Seguros Generales S.A., Buenos Aires	ARS	2,073	100.0
Cornhill Insurance PLC, London	GBP	599,400	97.9 <sup>5)</sup>
Credit and Guarantee Insurance Company plc., Tonbridge	GBP	10,423	70.0
ELVIA Assurances S.A., Brussels	BEF	517,471	100.0
ELVIA ASSURANCES, Charenton-le-Pont	FRF	106,892	97.4
ELVIA Levensverzekeringen N.V., Amsterdam	NLG	21,981	100.0
ELVIA Reiseversicherungs-Gesellschaft, Zurich	CHF	97,680	100.0
ELVIA Schadeverzekeringen N.V., Amsterdam	NLG	97,362	100.0
ELVIA Leben Schweizerische Lebensversicherungs-Gesellschaft, Geneva	CHF	114,783	96.6

<b>Subsidiaries</b>	Currency	Equity in thousands	Percent owned <sup>1)</sup>
ELVIA Schweizerische Versicherungs-Gesellschaft, Zurich	CHF	536,066	99.8
ELVIA Verzekeringen N.V., Amsterdam	NLG	122,373	100.0
ELVIA Zorgverzekeringen N.V., Amsterdam	NLG	3,030	100.0
Eurovida S.A. Compañía de Seguros y Reaseguros, Madrid	ESP	3,074,278	51.0
Fireman's Fund Insurance Company, Novato	USD	3,610,767	100.0
Hungária Biztosító Rt, Budapest	HUF	15,317,712	100.0
International Reinsurance Company S.A., Luxemburg	USD	18,349	100.0
LES ASSURANCES FEDERALES IARD, Paris	FRF	153,988	95.0
Lloyd Adriatico S.p.A., Trieste	ITL	698,651,242	99.7
P.T. Asuransi Allianz Utama Indonesia, Jakarta	IDR	25,738,039	54.4
Pet Plan Health Care Ltd., London	GBP	6,003	100.0
Portugal Previdente Companhia de Seguros S.A., Lisbon	PTE	14,742,161	60.0
RHIMO HOLDING, Strasbourg	FRF	813,039	100.0
RHIN ET MOSELLE ASSURANCES FRANÇAISES Compagnie d'Assurances sur la vie, Strasbourg	FRF	1,339,239	100.0
Riunione Adriatica di Sicurtà S.p.A., Milan	ITL	6,653,041,641	48.3 <sup>2)</sup>
<b>Joint ventures</b>			
Antoniana Veneta Popolare Vita, Trieste	ITL	21,706,700	50.0
Bernese Assicurazioni Compagnia Italo-Svizzera di Assicurazioni e Riassicurazioni S.p.A., Rome	ITL	16,223,745	49.8
Bernese Assicurazioni Finanziaria S.p.A., Rome	ITL	7,500,886	50.0
Bernese Vita Compagnia Italo-Svizzera di Assicurazioni e Riassicurazioni sulla Vita S.p.A., Rome	ITL	12,010,751	49.8
BV Insurance Holding, Bern	CHF	17,612	50.0
<b>Associated companies</b>			
TELA Versicherung AG, Berlin/Munich	DM	304,276	25.0
Allianz-Bradesco Seguros S.A., Rio de Janeiro	BRL	79,450	49.0
Şark Hayat Sigorta A.Ş., Istanbul	TRL	1,784,463,344	40.0
Şark Sigorta T.A.Ş., Istanbul	TRL	7,704,122,847	37.1
<b>Other investments in insurance companies</b>			
AMB Aachener und Münchener Beteiligungs-AG, Aix-la-Chapelle	DM	3,206,111	8.1
Berlinische Lebensversicherung AG, Berlin/Wiesbaden	DM	86,059	30.0
Ergo Versicherungsgruppe AG, Hamburg	DM	3,734,000	10.1
Karlsruher Lebensversicherung AG, Karlsruhe	DM	195,819	36.1
Münchener Hagelversicherung AG,	DM	11,595	47.1
Münchener Rückversicherungs-Gesellschaft AG, Munich	DM	3,535,411	25.0
American Re Insurance Company, New York	USD	2,586,346	6.9
MMI General Insurance Limited, Sydney	AUD	294,060	40.6
The Navakij Insurance Public Company Ltd., Bangkok	THB	729,527	15.0

<sup>1)</sup> including shares held by dependent subsidiaries  
calculated according to § 271 HGB

<sup>2)</sup> percentage of voting capital owned: 51.44 %

Other long-term holdings in quoted companies	Currency	Market value in DM millions	Percent owned <sup>1)</sup>
Barmag AG, Remscheid	DM	80	15.0
BASF AG, Ludwigshafen	DM	4,173	10.4
Bayer AG, Leverkusen	DM	2,256	4.7
Bayerische Hypotheken- und Wechsel-Bank AG, Munich	DM	5,636	24.4
Bayerische Vereinsbank AG, Munich	DM	2,811	8.0
Beiersdorf AG, Hamburg	DM	2,462	38.3
Berliner Kraft- und Licht (Bewag)-AG	DM	265	4.4
Berliner Handels- und Frankfurter Bank KGaA, Frankfurt/Berlin	DM	635	15.1
Continental AG, Hanover	DM	194	4.2
Daimler-Benz AG, Stuttgart	DM	1,242	1.9
Deutsche Bank AG, Frankfurt am Main	DM	3,365	5.0
DLW AG, Bietigheim-Bissingen	DM	32	11.0
Dresdner Bank AG, Frankfurt a. M.	DM	8,958	21.4
IKB Deutsche Industriebank AG, Düsseldorf/Berlin	DM	373	12.0
AG Kühnle Kopp & Kausch, Frankenthal	DM	7	4.9
Lahmeyer AG für Energiewirtschaft, Frankfurt am Main	DM	655	10.0
Leifheit AG, Nassau (Lahn)	DM	29	10.1
Linde AG, Wiesbaden	DM	1,011	11.0
Mannesmann AG, Düsseldorf	DM	269	0.8
Metallgesellschaft AG, Frankfurt	DM	177	4.0
Monachia Grundstücks-AG, Munich	DM	297	46.2
RWE AG, Essen	DM	4,868	10.1
Schering AG, Berlin	DM	1,187	10.0
Schloßgartenbau-AG, Stuttgart	DM	11	7.0
Siemens AG, Munich	DM	1,702	2.7
Süd-Chemie AG, Munich	DM	154	19.0
VEBA AG, Düsseldorf	DM	6,173	10.1
VIAG AG, Bonn	DM	1,547	5.9
Banco Popular Español, S. A., Madrid	ESP	61,557	5.2
Banco Português de Investimento, Lisbon	PTE	30,816	8.9
Crédit Foncier et Communal d'Alsace et de Lorraine S.A., Strasbourg	FRF	26	10.9
Credito Italiano S.p.A., Milan	ITL	781,902	5.0
Generale Industrie Metallurgiche S.p.A., Florence	ITL	3,699	2.0
Istituto Mobiliare Italiano S.p.A., Rome	ITL	291,388	2.3
Immob. Batiball SA, Paris	FRF	21	1.7
Mediobanca S.p.A., Milan	ITL	132,576	2.0
Pirelli & Co. S.p.A., Milan	ITL	35,425	3.0
Rolo Banca 1473 S.p.A., Bologna	ITL	456,042	4.2
Société Internationale Pirelli SA, Basel	CHF	31	1.4

## Other interests

Equity positions held via trusts in which Allianz AG and its group companies do not own a majority interest include the following:

Hapag-Lloyd AG (Hamburg),  
Heidelberger Druckmaschinen AG (Heidelberg),  
Hochtief AG (Essen),  
MAN AG (Munich),  
Thyssen AG (Duisburg).

## Disclosure of equity investments

The information required by the German Commercial Code (§ 313(2) HGB) is filed with the Commercial Register in both Berlin-Charlottenburg and Munich.

**Other investments (Assets C.III.)** ④

		DM in thousands	
		1997	1996
<b>C.III. Other Investments</b>			
1.	Stocks, investment fund units and other variable income securities	57,043,132	40,104,006
2.	Bearer bonds and other fixed income securities	93,658,136	87,507,850
3.	Mortgages and annuities	22,891,009	20,233,498
4.	Other loans		
a)	Registered bonds	71,973,296	55,508,022
b)	Debentures and loans	35,334,498	24,720,421
c)	Loans and advance payments on policies	2,424,102	2,189,054
d)	Other loans	427,430	501,103
		110,159,326	82,918,600
5.	Bank deposits	4,298,599	3,048,750
6.	Miscellaneous investments	588,627	346,724
		288,638,829	234,159,478

**Accounts receivable on direct insurance business (Assets F.I.)** ④

The amount shown under this heading comprises TDM 5,559,373 (1996: TDM 5,119,645) receivable from policyholders and TDM 2,986,024 (1996: TDM 2,757,278) from agents.

**Prepaid expenses (Assets H.II.)** ⑤

This heading includes TDM 1,837,371 for tax relief anticipated in future years in accordance with the German Commercial Code (§ 274(2) and § 306 HGB). It also includes debt discount carried forward amounting to TDM 255,970.

## ■ Supplementary Information on Group Liabilities

### Stockholders' equity

(Liabilities A.) ⑥

Stockholders' equity consists of the capital stock and additional paid-in capital of Allianz AG as well as the appropriated and unappropriated retained earnings of the consolidated group. It also includes the positive and negative consolidation differences which have been set off against each other, and goodwill set off against retained earnings. Foreign currency translation adjustments in the equity section are also included.

Minority interests represent the portion of the equity of Allianz subsidiaries owned by others.

### Participating certificates

(Liabilities B.) ⑦

This heading consists with TDM 864,956 of the participating certificates issued by Allianz AG.

### Special untaxed reserve

(Liabilities D.) ⑧

The special untaxed reserve includes reserves established in accordance with German income tax law (§ 6b EStG) and foreign subsidiaries' stated amounts based on comparable local regulations.

### Insurance reserves - net (Liabilities E.I. - VI.) ⑨

Type of reserve		DM in thousands		
		Life/Health	Property/ Casualty	Total
		12/31	12/31	12/31
Unearned premiums	1997	2,737,416	10,392,476	13,129,892
	1996	2,457,401	9,445,085	11,902,486
Aggregate reserve	1997	170,679,325	11,897,762	182,577,087
	1996	137,675,431	10,935,319	148,610,750
Reserve for loss and loss adjustment expenses	1997	2,707,679	56,294,739	59,002,418
	1996	1,553,147	49,863,927	51,417,074
Reserve for experience-rated and other premium refunds	1997	19,120,389	670,990	19,791,379
	1996	15,098,682	482,726	15,581,408
Claims equalization and similar reserves	1997	-	5,726,273	5,726,273
	1996	-	4,567,558	4,567,558
Other insurance reserves	1997	206,107	1,307,260	1,513,367
	1996	203,365	1,365,560	1,568,925

### Other accrued liabilities (Liabilities G.) ⑩

	DM in thousands	
	1997	1996
Other accrued liabilities include:		
I. Pension and similar reserves	5,074,086	4,453,133
II. Accrued taxes	1,005,337	761,424
III. Miscellaneous accrued liabilities	1,608,327	1,279,251
	7,687,750	6,493,808

### Liabilities

(Liabilities C., I., J.) ⑪

Liabilities due after more than five years amount to TDM 3,569,835 in total.

Liabilities secured by consolidated companies by means of liens or similar charges amount to TDM 36,796 in total.

Accounts payable on direct insurance business comprise TDM

9,445,452 (1996: TDM 7,400,915) payable to policyholders and TDM 1,046,379 (1996: TDM 829,146) payable to agents.

### Deferred income (Liabilities K.) ⑫

Discount on loans amounting to TDM 504,481 is included under this heading.

## ■ Supplementary Information on the Consolidated Income Statement

### Gross premiums written (Income Statement I.1a and II.1a) 13

		DM in thousands			
		Life	Health	Property/ Casualty	Total
		12/31	12/31	12/31	12/31
Direct insurance business					
Germany	1997	15,093,619	4,664,940	19,144,434	38,902,993
	1996	13,231,624	2,911,868	17,284,144	33,427,636
Outside Germany (total)					
	1997	12,772,660	-	25,707,609	38,480,269
	1996	10,612,838	243,794	23,622,962	34,479,594
of which:					
Other European countries	1997	5,700,860	-	14,091,598	19,792,458
	1996	4,876,814	243,794	13,791,099	18,911,707
Other countries	1997	7,071,800	-	11,616,011	18,687,811
	1996	5,736,024	-	9,831,863	15,567,887
Subtotal					
	1997	27,866,279	4,664,940	44,852,043	77,383,262
	1996	23,844,462	3,155,662	40,907,106	67,907,230
Reinsurance business assumed					
	1997	1,081,205	206	3,460,718	4,542,129
	1996	685,827	6,306	3,071,967	3,764,100
Consolidated gross premiums written					
	1997	28,947,484	4,665,146	48,312,761	81,925,391
	1996	24,530,289	3,161,968	43,979,073	71,671,330

### Change in other insurance reserves – net (Income Statement I.5.) 14

This heading includes a change of TDM 478,580 (1996: TDM 517,109) in the net aggregate reserve and TDM -16,154 (1996: TDM 25,083) in miscellaneous net insurance reserves.

### Expenses for experience-rated and other premium refunds – net (Income Statement I.6. and II.8.) 15

The expenses for experience-rated premium refunds amount to TDM 6,246,750 (1996: TDM 5,298,742), including TDM 5,898,902 attributable to life and health business.

The expenses for non-experience-rated premium refunds amount to TDM 281,481 (1996: TDM 125,199), including TDM 257,057 attributable to life and health business.

### Underwriting expenses (Income Statement I.7. and II.9.) 16

				DM in thousands				
		Life/Health		Property/Casualty				
		1997	1996	1997	1996			
Acquisition costs	-	3,121,942	2,537,173	-	7,149,706	-	6,436,196	
Administrative expenses	-	1,278,606	-	1,099,069	-	5,588,502	-	4,968,810
<b>Gross underwriting expenses</b>	-	<b>4,400,548</b>	-	<b>3,636,242</b>	-	<b>12,738,208</b>	-	<b>11,405,006</b>
less commission and profit-sharing on reinsurance ceded		360,582	253,277	2,266,264	2,148,100			
<b>Underwriting expenses – net</b>	-	<b>4,039,966</b>	-	<b>3,382,965</b>	-	<b>10,471,944</b>	-	<b>9,256,906</b>

## Investment income/expenses (Income Statement III.2. and 3.) ⑪

						DM in thousands
		Life/Health		Property/Casualty/ Other business		Total
		1997	1996	1997	1996	1997
						1996
<b>Investment income</b>						
a) Income from long-term equity investments		412,997	62,460	287,189	239,442	700,186
including from affiliated companies	(	17,914)	(	15,686)	(	12,189)
						(
b) Income from other investments						
ba) Income from real estate		865,553	879,840	831,687	783,515	1,697,240
bb) Income from other investments		13,569,756	11,673,671	5,873,378	5,184,041	19,443,134
including from affiliated companies	(	-)	(	648)	(	2)
						(
c) Income from revaluations		1,542	13,681	5,056	33,350	6,598
d) Realized investment gains		1,849,711	1,303,453	1,909,593	1,471,035	3,759,304
e) Income from the release of special untaxed reserve		158	-	5,686	23,123	5,844
						23,123
<b>Total investment income</b>		<b>16,699,717</b>	<b>13,933,105</b>	<b>8,912,589</b>	<b>7,734,506</b>	<b>25,612,306</b>
						<b>21,667,611</b>
<b>Investment expenses</b>						
a) Investment management, interest charges and other investment expenses	-	462,472	-	402,005	-	858,015
						-
						736,024
						-
						1,320,487
						-
						1,138,029
b) Depreciation and write-downs on investments	-	646,483	-	358,146	-	919,873
						-
						1,092,880
						-
						1,566,356
						-
						1,451,026
c) Realized investment losses	-	55,500		63,101	-	139,841
						-
						133,703
						-
						195,341
						-
						196,804
d) Losses assumed under profit/loss transfer agreements	-	-	-	-	109	-
						-
						109
e) Allocation to special untaxed reserve		14	-	7,301	-	89,489
						-
						82,373
						-
						89,475
						-
						89,674
<b>Total investment expenses</b>	-	<b>1,164,441</b>	-	<b>830,553</b>	-	<b>2,007,218</b>
						-
						2,045,089
						-
						3,171,659
						-
						2,875,642
<b>Net investment income</b>		<b>15,535,276</b>	<b>13,102,552</b>	<b>6,905,371</b>	<b>5,689,417</b>	<b>22,440,647</b>
						<b>18,791,969</b>

## Depreciation and write-downs on investments

(Income Statement III.3.) ⑫

Depreciation and write-downs on investments include unscheduled write-downs totaling TDM 232,792 (1996: TDM 189,491).

## Other expenses

(Income Statement III.7.) ⑬

The main items under this heading are the costs of outside services amounting to TDM 229,894 (1996: TDM 171,006) and net currency exchange losses of TDM 121,981.

## Other income

(Income Statement III.6.) ⑭

Income from services totalled TDM 254,254 (1996: 288,175).



**Net income** (Income Statement III.12.) ②

	DM in thousands	
	1997	1996
Net income	2,695,694	2,237,752
Transfer to appropriated retained earnings		
to other appropriated retained earnings	1,442,624	1,259,845
Net income due to minority interests	717,157	603,990
Losses to be assumed by minority interests	52,583	16,159
Consolidated net income	588,496	390,076

**Contingent liabilities**

Guarantee obligations outstanding totaled TDM 53,411 (including TDM 0 towards unconsolidated affiliated companies), other contingent liabilities TDM 368,015 (including TDM 0 towards unconsolidated affiliated companies).

In December 1997 Allianz AG made an agreed takeover offer for Assurances Générales de France (AGF).

The terms of the offer and the financial commitments entered into by Allianz AG in connection therewith are detailed in the Group Management Report on Page 54.

**Effects of adjustments for tax purposes**

Special tax-allowable depreciation charges and the creation of a special untaxed reserve had only a marginal effect overall on consolidated net income for the year.

Amounts totaling TDM 686,158 have not been added back to the valuation of investments in fiscal 1997; the investments concerned are mainly fixed income securities on which the amounts not written back will be realized as gains and included in consolidated net income when they fall due for redemption in future years.

### Average number of employees over the year

(excluding members of the Board of Management, trainees, interns and employees on parental leave or on mandatory military or alternative civilian service)

	1997	1996
Employees in Germany	36,913	30,404
Employees outside Germany	36,377	35,432
Total	73,290	65,836

### Personnel expenses

	DM in thousands	
	1997	1996
Salaries and wages	5,665,131	4,758,823
Social security contributions and employee assistance	1,189,693	981,887
Expenses for pensions and other post-retirement benefits	454,791	455,797
Total	7,309,615	6,196,507

### Compensation for the Board of Management and the Supervisory Board

The compensation by Allianz AG and its affiliated companies to the Board of Management for the year under review was TDM 9,693 (1996: TDM 8,085). Former members of the Board and their beneficiaries were paid TDM 6,379 (1996: 7,212).

TDM 34,165 (1996: 34,519) has been set aside for current and future pension benefits of former members of the Board of Management and their beneficiaries.

Supervisory Board fees for the year, including remuneration based on financial performance, totaled TDM 1,252 (1996: 1,102).

Munich, May 4, 1998

Allianz Aktiengesellschaft

The Board of Management

*Ant. Kull* *Steipohl*  
*Brennmeier* *F. J. J. J. J.*  
*Hausmeyer* *Huppert*  
*R. R.*

## **Independent Auditors' Report Allianz Group**

The consolidated financial statements, which we have audited in accordance with professional standards, comply with the German legal regulations. The consolidated financial statements present a true and fair view of the net worth, financial position and results of the Allianz Group in compliance with accounting principles generally accepted in Germany. The Group Management Report is consistent with the consolidated financial statements.

Munich, May 12, 1998

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Dr. Gerd Geib,	Dr. Frank Ellenbürger,
(independent	(independent
auditor)	auditor)

**Management Report**  
**Allianz Aktiengesellschaft**

## Allianz AG

### Lines of reinsurance written

Life insurance  
Health insurance  
Personal accident insurance  
General liability insurance  
Automobile insurance  
Aviation insurance  
Legal expenses insurance  
Fire insurance  
Burglary, theft and robbery insurance  
Water damage insurance  
Glass insurance  
Storm insurance  
Household effects insurance  
Homeowners insurance  
Hail insurance  
Animal (livestock) insurance  
Engineering insurance  
Omnium insurance  
(comprehensive cover for goods during the manufacturing process)  
Marine insurance  
Credit and bond insurance  
Extended coverage  
Business interruption insurance  
Emergency assistance insurance  
Aircraft and spacecraft liability insurance  
Other property and casualty insurance

## Reinsurance

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

Premiums written went down by 1.7 percent to DM 9.7 billion in 1997 (1996: DM 9.9 billion). Net premiums were also down slightly on the previous year at DM 6.0 billion (1996: DM 6.1 billion).

This negative growth in premium revenue is attributable mainly to two factors:

■ Allianz's property and casualty insurance companies in Germany had less premium income than in the previous year. As 61.3 percent of our premiums came from business ceded by these original insurers, this fall in revenue had an adverse effect on our premium income.

■ Elsewhere the reorganization of shareholdings in the United States had a major effect. Transferring the Munich American Reinsurance Company to the American Re Company resulted in reinsurance contracts being revised or canceled. This reduced the US proportion of total premiums to 2.8 percent (1996: 5.7 percent). This in turn

changed the ratio between premium income earned in Germany and premiums written in other countries. Whereas in the previous year 15 percent of premium income was written outside Germany, the equivalent figure in 1997 was 13.1 percent.

Reinsurance premiums written by companies in Asia, Australia and Africa again showed double-digit growth rates.

The net result from reinsurance business was better than in the previous year. The underwriting result improved by a good DM 75 million to a loss of just DM 10.2 million. The reason for the improvement was that DM 140 million less had to be transferred to the claims equalization reserve than in the previous year. Before transfers to the claims equalization reserve the underwriting profit was down DM 65 million at DM 229 million. Most of the downturn in profit was attributable to the automobile and fire lines of business, both of which were subject to severe competition.

The loss ratio on own account (excluding surrenders and premium returns) showed an increase over the exceptionally good level achieved in previous years to 63.0 percent (1996: 58.9 percent).

The expense ratio amounted to

## Allianz AG

### Gross premiums written and results by insurance line in 1997

	Gross premiums written		Net underwriting result	
	1997	Change	1996	Change
	DM mn	%	DM mn	DM mn
Automobile	2,478.5	- 6.4	112.7	39.8
Fire	1,034.9	-10.6	7.8	50.9
Liability	831.9	- 5.3	- 72.4	- 1.6
Personal accident	759.4	- 0.6	34.0	- 7.8
Engineering	558.5	4.8	- 1.2	1.6
Homeowners	242.6	6.5	- 18.4	3.9
Household effects	215.1	3.8	20.8	2.4
Business interruption	180.0	-11.7	- 6.1	0.9
Marine	199.2	- 2.5	12.5	1.8
Legal expenses	257.6	33.3	5.5	14.8
Life	1,554.0	1.7	67.7	- 0.5
Health	334.8	29.5	5.6	- 3.2
Other	1,046.1	0.5	46.7	-27.2
Total	9,692.6	- 1.7	-10.2	75.8



24.7 percent (1996: 23.9 percent) of gross premium income. It is influenced mainly by reinsurance commissions paid.

The various lines of reinsurance reported the following results:

Gross premiums in *automobile reinsurance* are written mainly in Germany. In this line of business the ceding insurers experienced a marked decline in revenue, which affected our premium income as reinsurer accordingly. Changes in the rate structure of the ceding insurers – granting more favorable terms to categories of policy holders with good risk records – were the main reason for the reduction in premium income, and also affected overall earnings in this line of reinsurance. The profits growth in automobile physical damage reinsurance was not sufficient to counterbalance the losses in automobile liability reinsurance. The overall loss was reduced to DM 112.7 million (1996: DM 152.5 million).

The erosion in premium income from *fire reinsurance* business is mainly due to increased competition worldwide. The tendency for customers to want to retain a larger portion and carry some of the risk themselves also reduced the value of premiums written. The higher loss ratio compared with the previous year was still good compared with the average of recent years. We attribute this mainly to the selective underwriting policies of the ceding insurers and to the relatively modest cost of major claims. We again moved back into the black with a profit of DM 7.8 million on fire reinsurance business, compared with a loss of DM 43.1 million in 1996.

Premiums written for *liability reinsurance* went down by 5.3 percent to DM 831.9 million. Reinsurance contracts with companies in the United States were not renewed in 1997. Increased premium income in Germany was unable to compensate for the loss of that business. The overall result showed a marginal deterioration of DM 1.6 million to a loss of DM 72.4 million. DM 111.4 million had to be transferred to the claims equalization reserve.

Premiums written in *personal accident reinsurance* fell slightly com-

pared with the previous year. Earnings went down to DM 34.0 million (1996: DM 41.8 million).

Premium income from the *reinsurance of engineering business* increased in nearly all markets, amounting to growth of 4.8 percent overall. The earnings result showed a marginal improvement to a net loss of DM 1.2 million (1996: –DM 2.8 million).

*Homeowners reinsurance* and *household effects reinsurance* benefited from the very good performance of these lines of business in Germany. Premium growth amounted to 6.5 percent and 3.8 percent respectively. Both accounts again reported an improved underwriting result.

*Business interruption reinsurance* was also heavily influenced by the course of events in Germany. This line of business suffers from premium rates being eroded by competition, which also reduced our premium income as reinsurer by 11.7 percent. The favorable record of major claims meant that this line of reinsurance business produced an improved result overall.

Premium income from *marine reinsurance* declined by 2.5 percent. This underwriting account showed a profit of DM 12.5 million (1996: DM 10.7 million).

*Legal expenses reinsurance* recorded growth of 33.3 percent. This was due to the acquisition of reinsurance business with companies in which Allianz has recently acquired an equity interest and to the very successful performance of the companies in the Property and Casualty Insurance Group in Germany. The underwriting account moved back into profit after showing a loss in the previous year.

Premiums written in *life reinsurance* increased because the ceding insurers succeeded in stimulating more new business in Germany. The underwriting profit was down slightly at DM 67.7 million (1996: DM 68.2 million).

Premium income from *health reinsurance* rose by 29.5 percent. Most of the growth came from Germany, thanks to the increase in new business as well as the acquisition of new reinsurance policies. The underwriting result was marginally reduced.



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 in these lines totaling DM 1,046.1 million (1996: DM 1,051.6 million) came almost entirely from Germany. The main lines of business contributing to this total were the "other" property and casualty lines, with premium income of DM 652.1 million, and credit and bond reinsurance with DM 129.6 million. The underwriting loss from credit and bond reinsurance was reduced by DM 20.6 million to DM 6.0 million. The overall result from these other lines of business was a profit of DM 46.7 million, down on the previous year's figure of DM 73.9 million.

## ■ Investments

The *book value of investments* held by Allianz AG increased by 19.2 percent in 1997 from DM 44.3 billion to DM 52.8 billion.

Holdings of *real estate* went down by DM 55 million to DM 649 million.

Additions to investments in *affiliated and associated companies* were valued at DM 8.2 billion, raising the total under that heading to DM 30.1 billion. Investments in insurance companies were increased mainly by:

- ▶ taking over the Vereinte Holding company from Allianz Finance B.V.
- ▶ purchasing additional shares and increasing the capital of Allianz Holding France; and
- ▶ increasing the shareholding in Riunione Adriatica di Sicurtà S.p.A.

The formation of Allianz Risk Transfer in Zurich with capital of 500 million Swiss francs also deserves special mention. Increasing the shareholding in Bayerische Vereinsbank AG from 4 to 8 percent raised the book value of investments by DM 1.1 billion. The shareholding in Augsburger Aktienbank AG was increased from 50 percent to 100 percent and that in Allianz Bauspar AG (formerly mh Bausparkasse) from 40 percent to 85 percent.

The book value of *other investments* went up by DM 0.3 billion to DM 6.5 billion. This heading includes stocks and other equity interests of DM 2.7 billion (1996: DM 2.7 billion), fixed income securities totaling DM 2.9 billion (1996: DM 2.7 billion) and

## Allianz AG

Balance sheet structure 1997 in DM millions

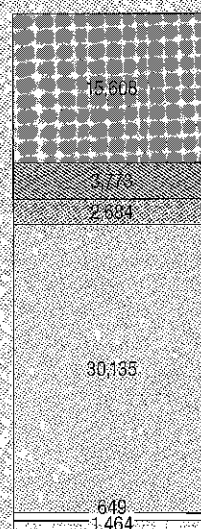
### Assets

Funds held by others under reinsurance business assumed

Fixed income securities, debentures, fixed term deposits  
Equity holdings

Investments in affiliated and associated companies

Real estate  
Other assets



### Liabilities

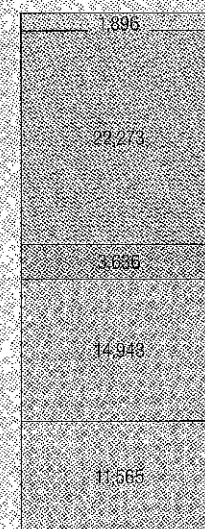
Funds held under reinsurance business ceded

Insurance reserves

Company pension reserves

Stockholders' equity

Other liabilities





bank deposits of DM 0.8 billion (1996: DM 0.7 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 December 31, 1997 amounted to DM 83.0 billion. The corresponding balance sheet valuation of these investments was DM 35.9 billion.

**Funds held by others** under reinsurance business assumed showed a marginal increase from DM 15.5 billion to DM 15.6 billion.

**Current income** from investments rose sharply to DM 2,648.9 million (1996: DM 2,089.7 million). The growth came from:

- an increase of DM 179.9 million in the profit transferred from Allianz Versicherungs AG, to DM 577.1 million;
- an increase of DM 173.9 million in income from equity investments, to DM 547.5 million; and
- an increase of DM 205.4 million in income from other investments, to DM 1,524.3 million. The total also includes interest of DM 985.0 million (1996: DM 901.3 million) on funds held by others.

Realized **investment gains** totaled DM 783.7 million (1996: DM 220.7 million), including DM 481.7 million from transferring the Munich American Reinsurance Company (MARC) at its current market value to the American Re Company. The remaining DM 302.0 million under this heading comprised DM 174.5 million from securities, DM 76.0 million from the sale of investments in affiliated companies, and DM 51.5 million from sales of real estate. Realized investment losses amounted to DM 7.2 million (1996: DM 1.9 million).

**Depreciation** and write downs totaling DM 420.8 million (1996: DM 58.0 million) included DM 350.0 million on the book value of Allianz Holding France. The investment has been written down by this amount in order to bring its book value into line with the selling price for Allianz Holding France envisaged under the terms of the takeover offer made to the shareholders of AGF. DM 60.9 million of the total under this head-

ing represented depreciation on holdings of real estate.

After charging investment management expenses of DM 193.1 million (1996: DM 135.1 million) and interest charges of DM 219.4 million (1996: DM 117.3 million), releasing DM 5.7 million (1996: DM 15.2 million) from special untaxed reserves and allocating DM 32.7 million (1996: DM 58.5 million) to those reserves, **investment income** amounted to DM 2,566.3 million (1996: DM 1,954.8 million).

DM 976.7 million (1996: DM 895.3 million) of this amount has been credited to the underwriting account as the allocated interest return.

## ■ Total Earnings

Non-underwriting activities in total showed a profit of DM 1,171.3 million (1996: DM 754.4 million). After deducting the underwriting loss of DM 10.2 million (1996: DM 86.0 million) there was a pre-tax profit of DM 1,161.1 million (1996: DM 668.4 million). Taxes recovered from other companies in the Group which are taxed as a single entity with Allianz AG, coupled with the refund of corporate income tax which the proposed distribution of profit would entail, resulted in a net credit for taxation. Net income for the year accordingly amounted to DM 1,175.5 million (1996: DM 601.6 million). DM 587.0 million (1996: DM 211.5 million) of this amount has been transferred to "other appropriated retained earnings", leaving unappropriated retained earnings of DM 588.5 million (1996: DM 390.1 million). The Annual Meeting of shareholders to be held on July 8, 1998 will be asked to approve a further transfer of DM 150 million from unappropriated to appropriated retained earnings. An increased dividend of DM 1.90 (1996: DM 1.70) is to be distributed on each of the Company's shares entitled to participate in the dividend.

## ■ 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 premiums for reinsurance business ceded by our German companies account for a very large proportion of our total business, future progress will be heavily influenced by the state of the insurance market in Germany, where there is little prospect of competition becoming any less severe in 1998. Especially in the strong-selling lines of automobile and fire reinsurance business we expect premium income to decline further. Better growth rates abroad will not be sufficient to compensate for this erosion in premiums.

In the absence of major claims and especially of natural catastrophes, the underwriting result after transfers to claims equalization reserves will show further improvement.

The pattern of events on capital markets at the beginning of 1998 has seen share prices rising further and interest rates at a low level. Provided these favorable conditions do not take any significant turn for the worse over the rest of the year, investment income in 1998 can be expected to match the high level recorded in 1997.



**Financial Statements**  
**Allianz Aktiengesellschaft**

## ■ Balance Sheet at December 31, 1997

### Assets

	1997	1996	DM in thousands
<b>A. Investments (1) - (4)*</b>			
I. Real estate	649,151	703,837	
II. Investments in affiliated and associated companies	30,135,380	21,948,172	
III. Other investments	6,456,409	6,152,272	
IV. Funds held by others under reinsurance business assumed	15,607,672	15,325,120	
		52,848,612	44,329,401
<b>B. Receivables</b>			
I. Accounts receivable on reinsurance business	618,927	421,298	
including 163,891 (1996: 157,063) from affiliated companies			
including 355,918 (1996: 213,718) from other companies in			
which long-term equity investments are held			
II. Other receivables	734,379	450,880	
including 669,146 (1996: 429,135) from affiliated companies			
including 121 (1996: 448) from other companies in			
which long-term equity investments are held			
		1,353,306	872,159
<b>C. Other assets</b>			
I. Tangible fixed assets and inventories	657	592	
II. Cash with banks, checks and cash on hand	39,981	34,976	
		40,638	35,574
<b>D. Prepaid expenses (5)</b>			
I. Accrued interest and rents	52,453	47,443	
II. Other prepaid expenses	17,997	11,861	
		70,450	59,304
		54,313,006	45,296,437

\*) see headings with corresponding numbers in the Notes

## Liabilities

	DM in thousands			
	1997	1997	1997	1996
<b>A. Stockholders' equity</b> <sup>(16)</sup>				
I. Capital stock		1,153,936		1,147,282
II. Additional paid-in capital		10,027,057		9,670,788
III. Appropriated retained earnings				
1. required by law	2,403			2,403
2. other	3,171,267			2,584,267
		3,173,670		2,586,670
IV. Unappropriated retained earnings		588,496		390,076
			14,943,159	13,794,816
<b>B. Participating certificates</b> <sup>(17)</sup>			864,956	864,956
<b>C. Special untaxed reserve</b> <sup>(18)</sup>			123,609	96,630
<b>D. Insurance reserves</b>				
I. Unearned premiums				
1. Gross	1,631,029			1,696,922
2. less:				
amounts ceded	614,361			633,732
		1,016,668		1,063,190
II. Aggregate reserve				
1. Gross	14,866,589			14,836,240
2. less:				
amounts ceded	1,686,471			1,248,026
		13,180,118		13,588,214
III. Reserve for loss and loss adjustment expenses				
1. Gross	10,807,925			10,353,592
2. less:				
amounts ceded	4,495,371			4,442,706
		6,312,554		5,910,886
IV. Reserve for non-experience-rated premium refunds				
1. Gross	184,980			161,377
2. less:				
amounts ceded	79,482			71,756
		105,498		89,621
V. Claims equalization and similar reserves		1,275,301		1,036,120
VI. Other insurance reserves				
1. Gross	432,691			398,409
2. less:				
amounts ceded	49,472			52,460
		383,219		345,949
			22,273,358	22,033,980

	DM in thousands		
	1997	1997	1996
<b>E. Other accrued liabilities</b> <sup>(19)</sup>		4,087,765	3,844,229
<b>F. Funds held under reinsurance business ceded</b>		1,896,310	1,425,261
<b>G. Other liabilities</b> <sup>(10)</sup>			
I. Accounts payable on reinsurance business	603,641		359,185
including 490,727 (1996: 288,741) to affiliated companies			
including 26,676 (1996: 13,368) to other companies in which long-term equity investments are held			
II. Liabilities to banks	28		2
III. Miscellaneous liabilities	9,519,445		2,876,601
including taxes of 3,872 (1996: 1,322)			
including 9,230,212 (1996: 2,545,913) due to affiliated companies			
including 175,457 (1996: 1,673) due to other companies in which long-term equity investments are held			
		10,123,114	3,235,788
<b>H. Deferred income</b> <sup>(11)</sup>		735	777
		54,313,006	45,296,437

**Income Statement**  
for the period from January 1 to December 31, 1997

	1997	1997	1997	DM in thousands 1996
<b>I. Underwriting account</b>				
1. Premiums earned – net				
a) Gross premiums written <sup>(12)</sup>	9,692,570			9,855,825
b) Premiums ceded	-3,683,102			-3,739,125
		6,009,468		6,116,700
c) Change in unearned premiums – gross	106,030			1,447
d) Change in unearned premiums ceded	- 32,183			7,913
		73,847		9,360
			6,083,315	6,126,060
2. Allocated interest return – net <sup>(13)</sup>			857,859	804,480
3. Other underwriting income – net			29,987	45,673
4. Loss and loss adjustment expenses – net				
a) Claims paid				
aa) Gross	-6,369,241			-5,981,042
bb) Amounts ceded in reinsurance	2,343,836			2,504,916
		-4,025,405		-3,476,126
b) Change in reserve for loss and loss adjustment expenses				
aa) Gross	- 216,710			- 463,274
bb) Amounts ceded in reinsurance	- 43,903			- 94,105
		- 260,613		- 557,379
			-4,286,018	-4,033,505
5. Change in other insurance reserves – net <sup>(14)</sup>			- 553,092	- 752,077
6. Expenses for non-experience-rated premium refunds – net			- 60,778	- 41,885
7. Underwriting expenses – net <sup>(15)</sup>			-1,390,594	-1,407,431
8. Other underwriting expenses – net			- 451,672	- 446,920
9. Subtotal			229,007	294,395
10. Change in claims equalization and similar reserves			- 239,181	- 380,427
11. Underwriting result – net			- 10,174	- 86,032



DM in thousands			
	1997	1997	1997
			1996
<b>II. Non-underwriting account</b>			
1. Investment income <b>(16)</b>		3,439,486	2,325,618
2. Investment expenses <b>(17) - (18)</b>		873,189	370,803
		2,566,299	1,954,815
3. Allocated interest return	- 976,660		895,308
		1,589,639	1,059,507
4. Other income <b>(19)</b>		257,898	356,444
5. Other expenses <b>(20)</b>	- 676,259		655,544
		418,361	305,100
6. Non-underwriting result		1,171,278	754,407
7. Earnings from ordinary activities before taxation		1,161,104	668,375
8. Income taxes <b>(21)</b>	- 781,365		891,296
less amounts charged to other companies in the Group	806,601		832,080
		25,236	59,216
9. Other taxes	- 38,963		17,006
less amounts charged to other companies in the Group	28,119		9,423
		10,844	7,583
		14,392	66,799
10. Net income <b>(22)</b>		1,175,496	601,576



## Notes to the Financial Statements of Allianz AG

### 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 companies 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 income and variable income securities as well as other 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 fixed assets and inventories* are recorded at cost less tax-allowable depreciation. 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 companies
- b) Loans to other companies 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 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 mortality tables of Dr. K. Heubeck. The present value calculation is in accordance with German income tax law (§ 6a EStG). 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***

Discounts carried forward as deferred income or prepaid expenses are being spread over the remaining life of the related receivables.

#### ***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 nine percent of gross premium income.

#### ***Foreign currency translation***

Investments denominated in foreign currencies are stated at the lower of historical DM 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.

#### ***Change in accounting policies***

Dividend distributions by subsidiaries totaling DM 107 million have been recognized as income by Allianz AG for the first time in the same accounting period. This change in treatment is based on a judgment of the Federal High Court on January 12, 1998.



## ■ Supplementary information on Assets

### Changes under asset headings A.I through A.III. in fiscal 1997 ①

	Values stated at 12/31/1996		Additions
		%	
<b>A.I. Real estate</b>	703,837	2.4	25,335
<b>A.II. Investments in affiliated and associated companies</b>			
1. Investments in affiliated companies	19,090,796	66.3	13,171,018
2. Loans to affiliated companies	844,588	2.9	239,348
3. Investments in other companies	2,012,848	7.0	864,354
4. Loans to other companies in which long-term equity investments are held			8,700
<b>Subtotal A.II.</b>	<b>21,948,172</b>	<b>76.2</b>	<b>14,283,420</b>
<b>A.III. Other investments</b>			
1. Stocks, investment fund units and other variable income securities	2,695,476	9.3	1,313,620
2. Bearer bonds and other fixed income securities	2,696,079	9.4	1,694,559
3. Other loans			
Debentures and loans	2,292	0.0	51,960
4. Bank deposits	752,368	2.6	57,249
5. Miscellaneous investments	15,197	0.1	10
<b>Subtotal A.III.</b>	<b>6,152,272</b>	<b>21.4</b>	<b>3,117,398</b>
<b>Total</b>	<b>28,804,281</b>	<b>100.0</b>	<b>17,426,153</b>

### Market value of investments ②

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 December 31, 1997 amounted to DM 83.0 billion. The corresponding balance sheet valuation of these investments was DM 35.9 billion.

The values are broken down as follows between the individual asset categories:

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

#### *Real estate*

Land and buildings as a rule had capitalized earnings value, new buildings at cost, in each case as at December 31, 1997.

#### *Dividend-bearing stocks*

Quoted companies at the stock exchange price quoted on the last trading day in 1997. 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 1997

	Book value	Market value	Valuation reserve
	12/31/1997	12/31/1997	12/31/1997
	DM in billions	DM in billions	DM in billions
Real estate	0.6	1.9	1.3
Dividend-bearing stocks	32.4	77.9	45.5
Bearer bonds	2.9	3.2	0.3
<b>Total</b>	<b>35.9</b>	<b>83.0</b>	<b>47.1</b>



DM in thousands						
Transfers	Disposals	Revaluation	Depreciation	Net increases (+) disposals (-)	Values stated at 12/31/1997	%
-	20,403	1,259	60,877	- 54,686	649,151	1.8
113,750	4,794,556	-	350,000	+8,140,212	27,230,948	73.1
-	665,546	-	-	- 426,198	418,390	1.1
113,750	281,105	-	255	+ 469,244	2,482,092	6.7
-	4,750	-	-	+ 3,950	3,950	0.0
-	5,745,957	-	350,255	+8,187,208	30,135,380	80.9
-	1,314,566	-	682	- 1,628	2,683,848	7.2
-	1,472,281	-	3,896	+ 218,382	2,915,361	7.8
-	1,609	-	5,080	+ 45,271	47,553	0.1
-	-	-	-	+ 57,249	809,637	2.2
-	15,147	-	-	- 15,137	10	0.0
-	2,803,603	-	9,658	+ 304,137	6,456,409	17.3
-	8,569,963	1,259	420,790	+8,436,659	37,240,940	100.0

#### Miscellaneous investments

(Assets A.III.5.) ③

These consist entirely of holdings in private limited liability companies.

#### Collateral

Assets included in the balance sheet totaling TDM 1,647,798 (1996: TDM 1,467,780) are subject to restricted usage through collateral.

#### Disclosure of equity investments ④

The information required by the German Commercial Code (§ 285 no. 11 HGB) is filed with the Commercial Register in both Berlin-Charlottenberg and Munich.

#### Other prepaid expenses

(Assets D.II.) ⑤

This heading includes TDM 17,270 (1996: TDM 10,870) in respect of debt discount on miscellaneous liabilities.

## ■ Supplementary Information on Liabilities

### Capital (Liabilities A.I.) ⑥

The *capital stock* was increased during the year under review by warrant options being exercised for shares with a par value of DM 4,335,900. A further 463,514 shares with a par value of DM 2,317,570 (0.2 percent of the capital stock) were issued at a price of DM 406, enabling employees of Allianz companies in Germany to take up 267,483 employee shares at a price of DM 243. The remaining 196,031 shares with a par value of DM 980,155 were sold on the stock market at a price of DM 454. At the end of 1997 the Company did not hold any of its own shares. At December 31, 1997, the capital stock amounted to DM 1,153,935,470.

Between the end of the year under review and February 23, 1998 the expiry date for the warrant options issued in 1993 for a five-year period further option warrants have been redeemed for shares with a par value of DM 22,254,500. Then in March 1998 the capital stock was increased by DM 35,000,000 in the ratio one for 34.

In April 1998 the capital stock was increased – under the exclusion of the preemptive rights of existing shareholders – by DM 12,310,030 to the current 1,223,500,000, divided into 244,700,000 restricted shares with a par value of DM 5 per share.

The authorized unissued capital with a par value of DM 265,000,000 remaining after the 1998 rights issue is available to be issued at any time up to September 30, 2000. The preemptive rights of shareholders can be excluded up to an amount of DM 24,593,825 in order to utilize fractions arising from smoothing the amount of the increase or of the capital and offer new shares to the holders of shares issued against options exercised during the period between adoption of the resolution to increase the capital and publication of the subscription offer. There is a further DM 10 million of authorized unissued capital II which can be utilized up to September 30, 1998. The authorized unissued capital II 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 preemptive right to subscribe for new shares. To that extent the preemptive rights of shareholders are excluded.

Following the rights issue in 1998 there is now authorized unissued cap

ital III of DM 87,689,970 which can be issued at any time up to July 10, 2002. The preemptive rights of shareholders can be excluded in order to issue the new shares at a price not materially below the quoted market price. There is still a balance of DM 7,682,430 out of authorized unissued capital IV (available for issue up to July 10, 2002) which can be used – excluding the preemptive rights of existing shareholders – to issue shares to employees of Allianz AG or of other companies in the Group.

The Company has *conditionally authorized capital* with a par value of DM 100 million on which subscription or conversion rights, with preemptive rights for shares, can be issued up to September 30, 1998.

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 stockholders' equity in the Company, has increased its stockholding temporarily to just over 25 percent.

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

	DM in thousands
12/31/1996	9,670,788
+ Transfer from capital increase 1997	185,868
+ Transfer from option warrants exercised	170,401
12/31/1997	10,027,057

### Appropriated retained earnings (Liabilities A.III.)

	DM in thousands		
	12/31/1996	From net income	12/31/1997
1. Required by law	2,403	-	2,403
2. Other	2,584,267	587,000	3,171,267
Total	2,586,670	587,000	3,173,670



### Participating certificates

(Liabilities B.) ⑦

At December 31, 1997, the form of capital known as participating certificates comprises 5,559,983 certificates carrying participation rights, with a par value of DM 55,599,830. 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 of capital stock with a par value of DM 50 (10 shares of DM 5); a minimum yield of 5 percent of the par 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 General 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.

### Special untaxed reserve (Liabilities C.) ⑧

	DM in thousands			
	12/31/1996	Allocated	Released	12/31/1997
Reserve according to § 6 b EStG	96,830	32,665	5,686	123,609

### Other accrued liabilities

(Liabilities E.) ⑨

The pension obligations of all Allianz companies in Germany, except for those of the Vereinte group and Hermes Kreditversicherung AG, 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 3,636,337 (1996: TDM 3,467,677) and accrued taxes of TDM 369,526 (1996: TDM 300,794) the Company has miscellaneous accrued liabilities of TDM 81,902 (1996: TDM 75,758), including TDM 24,471 for costs of the early retirement scheme and employee long-service awards, which are shared throughout the Group, and TDM 16,634 for contingencies.

### Long-term and secured liabilities ⑩

	DM in thousands	
	Period to maturity more than 5 years	
Miscellaneous liabilities	2,600,149	

TDM 1,713 of the miscellaneous liabilities are secured by mortgages or annuity charges.

### Deferred income

(Liabilities H.) ⑪

Debt discount of TDM 8 on miscellaneous loans is shown under this heading.

## ■ Supplementary Information on the Income Statement

### Gross premiums written (Income Statement I.1.a) 12

	DM in thousands	
	1997	1996
Property and casualty insurance	8,138,543	8,328,484
Life insurance	1,554,027	1,527,391
Total	9,692,570	9,855,825

### Allocated interest return – net

(Income Statement I.2.) 13

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).

### Change in other insurance reserves – net

(Income Statement I.5.) 14

This heading includes TDM 532,975 (1996: TDM 657,795) in the net aggregate reserve and TDM 20,117 (1996: TDM 94,282) in miscellaneous net insurance reserves.

### Underwriting expenses – net

(Income Statement I.7.) 15

Gross underwriting expenses of TDM 2,393,383 (1996: TDM 2,357,474) are shown net of commissions and profit-sharing on reinsurance ceded amounting to TDM 1,002,789 (1996: TDM 950,043).

### Investment income (Income Statement II.1.) 16

	DM in thousands	
	1997	1996
a) Income from long-term equity investments	547,470	373,645
including from affiliated companies:		
348,531 (1996: 181,841)		
b) Income from other investments		
including from affiliated companies:		
739,176 (1996: 695,907)		
aa) Income from real estate	124,974	125,176
bb) Income from other investments	1,399,299	1,937,764
	1,524,273	2,062,940
c) Income from revaluations	1,259	
d) Realized investment gains	783,665	220,666
e) Income from profit pooling and profit transfer agreements	577,135	397,155
f) Income from the release of special untaxed reserve	5,686	15,212
Total	3,438,488	2,325,618

### Investment expenses (Income Statement II.2.) 17

	DM in thousands	
	1997	1996
a) Investment management, interest charges and other investment expenses	412,495	252,378
b) Depreciation and write-downs on investments	420,790	58,016
c) Realized investment losses	7,239	1,913
d) Allocation to special untaxed reserve	32,665	58,496
Total	873,189	370,803



### Depreciation and write-downs on investments 18

Write-downs on investments include an extraordinary TDM 363,353 in accordance with § 253(2), 3, HGB.

Real estate has been written down by TDM 32,014 in accordance with German income tax law (§ 6b EStG).

### Other income

(Income Statement II.4.) 19

The most important items under this heading are TDM 216,105 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 7,728.

### Other expenses

(Income Statement II.5.) 20

This heading comprises mainly interest and similar expenses (TDM 239,127); pension costs for the employees of domestic Group companies (TDM 216,105) and foreign currency losses (TDM 193,143).

### Taxes

(Income Statement II.8. and II.9.) 21

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 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.

### Net income (Income Statement II.10.) 22

	DM in thousands	
	1997	1996
Net income	1,175,496	601,576
Transfer to appropriated retained earnings		
to other appropriated retained earnings	587,000	211,500
Unappropriated retained earnings	588,496	390,076

## Contingent liabilities and other financial commitments

At December 31, 1997, 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 with equity warrants attached issued in 1993 by Allianz Finance B.V., Amsterdam, for the debenture issued in 1996 by Allianz International Finance N.V., Amsterdam, and for a deferred annuity agreement signed by Allianz-RAS Seguros y Reaseguros S.A., Madrid.

Since the beginning of 1998, Allianz AG has given guarantees for the debenture bonds for DM 2 billion and FF 4 billion nominal issued by Allianz Finance B.V., Amsterdam, and for the bond issued by the same company exchangeable into shares of Deutsche Bank AG.

Allianz AG has also provided several foreign subsidiaries with a standard indemnity guarantee 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). The terms of the offer and the financial commitments entered into by Allianz AG in connection therewith are detailed in the Group Management Report on page 54.

Potential liabilities amounting to TDM 844,733 were outstanding at the balance sheet date for calls on equity stocks not fully paid up.

Contractual payment commitments totaling to TDM 23,683 had been given in connection with investment projects already started.

The other financial commitments outlined above include TDM 739,131 towards affiliated companies.

## 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 52,879 have not been written back, for tax reasons, in fiscal 1997.

## Personnel expenses

Allianz AG has no employees.

The compensation of the Board of Management for the year totaled TDM 5,691 (1996: TDM 4,606), that of former members of the Board and their beneficiaries TDM 5,235 (1996: TDM 5,642).

Pension costs for the year amounted to TDM 6,190 (1996: TDM 2,208). The amount set aside for current and future pension benefits of former members of the Board of Management and their beneficiaries is TDM 34,165 (1996: TDM 34,519).

Supervisory Board fees for the year, including remuneration based on financial performance, totaled TDM 1,166 (1996: TDM 1,102).

The names of members of the Supervisory Board and of the Board of Management are listed on pages 3 and 6.

Munich, April 8, 1998

Allianz Aktiengesellschaft

The Board of Management

Dr. Schulte-Noelle	Dr. Breipohl
Bremkamp	Dr. Hagemann
Hansmeyer	Dr. Rupprecht
Dr. Perlet	

# **Independent Auditors' Report Allianz Aktiengesellschaft**

The accounting records and the financial statements, which we have audited in accordance with professional standards, comply with the German legal regulations and the articles of association. 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, 1998

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft  
Dr. Gerd Geib, Dr. Frank Ellenbürger  
Wirtschaftsprüfer Wirtschaftsprüfer  
(independent (independent  
auditor) auditor)



**International Advisory Board  
and Joint Advisory Council**

## ■ International Advisory Board

DR. DR. H. C. HEINRICH VON PIERER  
President and Chief Executive Officer  
Siemens AG,  
Germany,  
Chairman

DR. UMBERTO AGNELLI  
Chief Executive Officer  
and Vice Chairman  
IFI S. p. A.,  
Italy

JACQUES CALVET  
Président du Directoire  
Peugeot S. A.,  
France

ROGER FAUROUX  
Ancien Ministre et  
Président d'Honneur de Saint Gobain,  
France

GEORGE FISHER  
Chairman and CEO  
Eastman Kodak Company,  
USA

AARNOUT LOUDON  
Chairman of the Supervisory Board  
Akzo Nobel NV,  
Netherlands

DR. HELMUT MAUCHER  
Managing Director  
Nestlé AG,  
Switzerland

SHINROKU MOROHASHI  
Chairman  
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JOHN B. PRESCOTT  
Managing Director and  
Chief Executive Officer  
The Broken Hill Proprietary Company  
Limited,  
Australia

DR. MARCO TRONCHETTI PROVERA  
Chairman and Managing Director  
Pirelli S. p. A.,  
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PETER SUTHERLAND  
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The British Petroleum Company PLC,  
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SIR IAIN VALLANCE  
Chairman  
British Telecommunications PLC,  
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JAVIER VALLS TABERNER  
Presidente del Consejo  
Banco Popular Español,  
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## ■ Joint Advisory Council of the Allianz Companies

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Ruhrgas AG,  
Chairman

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Member of the Board of Management  
Siemens AG

**ALFRED BAYER**  
Former State Secretary  
Chairman of the Board of Management  
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**DR.-ING. E. H. HEINZ DÜRR**  
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**GERHARD FULL**  
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Linde AG

**DR. REINER MARIA GOHLKE**  
Chairman of the Executive Board  
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**DR. UWE HAASEN**  
Former Chairman of the  
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Allianz Versicherungs-AG

**DR. H. C. HANS-OLAF HENKEL**  
President, Bundesverband  
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RWE AG and RWE Energie AG

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## Glossary

*The specialist accounting terms explained on these pages are intended to help the reader understand this Allianz Annual Report. Most of the terms are from the balance sheet or income statement. Specialist terminology relating to particular lines of insurance business has not been included.*

### **Affiliated companies**

The parent company and all consolidated subsidiaries. Subsidiaries are companies which are under the unified management control of the Group's parent company or in which companies in the Group hold a majority of the voting rights, have the right to appoint or dismiss a majority of the members of the administrative, managerial or supervisory bodies, or have controlling rights.

### **Aggregate reserve**

Policies in force, especially in life, health, and personal accident insurance, give rise to potential liabilities for which funds have to be set aside. The amount required is calculated actuarially.

### **Allocated interest return**

The income from investments relating to certain reserves. This "interest return" is first recorded in the non-underwriting section of the income statement and then credited or "allocated" to the relevant lines of insurance in the underwriting section.

### **Allocated investment return**

The proportion of total net investment income attributable to life and health insurance.

### **Associated companies**

A company is an associated company if the equity interest held in that company enables the holder to exercise a significant influence over the operating and financial policies of that company.

### **Claims equalization and similar reserves**

The purpose of the claims equalization reserve is to smooth out fluctuations in the cost of claims in future years. Similar reserves provide cover for specific risks such as product liability cover in the pharmaceuticals industry or property and liability cover for nuclear plants. These reserves are calculated on the basis of statutory regulations.

### **Earnings per share**

Earnings per share calculated by the DVFA/GDV method is a figure based on published earnings adjusted for special factors and minority interests.

### **Equity consolidation**

The book value of the investment in a subsidiary is set off against the Group's share in its equity.

### **Expense ratio**

Underwriting expenses as a percentage of premiums written.

### **Extended coverage**

An extension to industrial and commercial fire and business interruption insurance providing cover for additional risks such as riots, vandalism, strikes, lockouts, etc.

### **Funds held by others under reinsurance contracts assumed/Funds held under reinsurance contracts ceded**

Funds held by others are funds to which the reinsurer is entitled but which the ceding insurer retains as collateral for future obligations of the reinsurer. The ceding insurer shows these amounts as "funds held under reinsurance contracts ceded".

### **Gross/Net**

In insurance terminology the terms gross and net mean before and after deduction of reinsurance respectively. (Net is also referred to as "for own account".)

### **Joint venture**

A company which is managed jointly by a company in the Group and one or more companies not included in the consolidation. The extent of joint management control is more than the significant influence exercised over associated companies and less than the unified management control exercised over affiliated companies.

### **Loss and loss adjustment expenses**

These expenses comprise the cost of all insurance claims, paid and accrued. They include not just the cost of claims

incurred in the year under review but also the run-off results from prior year claims.

**Loss ratio**

Loss and loss adjustment expenses as a percentage of premiums earned.

**Minority interests**

The portion of a consolidated subsidiary's equity held by stockholders outside the Group.

**Net worth calculated by the DVFA method**

Stockholders' equity as shown in the financial statements, less dividend distributions, receivables from subscriptions to capital stock, minority interests and goodwill, plus special untaxed reserves net of deferred tax, claims equalization and similar reserves, and reserves in the valuation of investments (reduced, in the case of life and health insurance companies, by the statutory minimum rate of policyholders' dividends).

**Non-underwriting result**

The net difference between revenues and expenses not attributable to insurance business as such.

**Notional interest rate**

The minimum yield guaranteed by a life insurer. If the actual return is higher, most of the difference is credited to policyholders in the form of profit participation.

**Premiums written/earned**

Premiums written represent all premium revenues in the year under review. Premiums earned represent that part of the premiums written used to provide insurance cover in that year.

**Prepaid expenses/Deferred income**

Receipts and disbursements prior to the balance sheet date in respect of income or expenditure relating to a period after that date.

**Reinsurance**

Where an insurer transfers part of the risk which he has assumed to another insurer.

**Reserve for loss and loss adjustment expenses**

Reserves for the cost of insurance claims incurred by the end of the year under review but not yet settled.

**Reserve for premium refunds**

That part of the operating surplus which will be distributed to policyholders in the future. This refund of premiums is made on the basis of statutory, contractual, or company by-law obligations, or voluntary undertaking.

**Underwriting expenses**

Commissions, salaries, general expenses and other expenses relating to the acquisition and ongoing administration of insurance policies.

**Underwriting result**

The net difference between revenues and expenses attributable to insurance business, shown separately for property/casualty insurance and life/health insurance. Mainly premium income, loss and loss adjustment expenses and premium refunds, underwriting expenses and – in life/health insurance business – the net investment income attributable and the net change in aggregate reserves (see allocated investment return).

**Unearned premiums**

Premiums written attributable to income of future years.

**Unrealized gains/losses**

Income and expenses arising from changes in the value of investments held on account and at risk of life insurance policyholders. The net balance of such gains and losses is set off against the reserves for this type of business.

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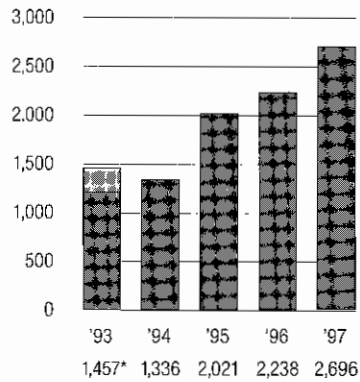
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## ■ Five Years at a Glance

### Net income

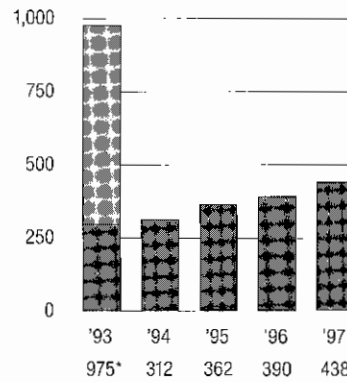
DM in millions



\* Nonrecurrent tax proceeds of DM 253 million out of EK56 special distribution.

### Total dividend payout

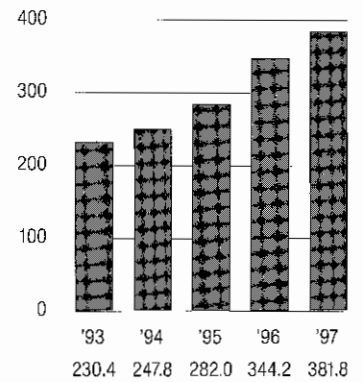
DM in millions



\* Dividend payout = 292.5  
Special distribution = 682.5

### Investments\*

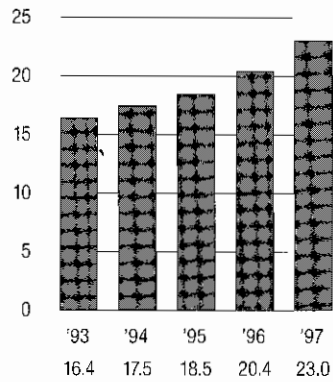
DM in billions



\* Including investments held for variable annuity policyholders and third parties

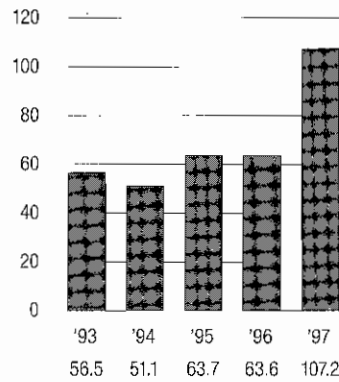
### Stockholders' equity

DM in billions



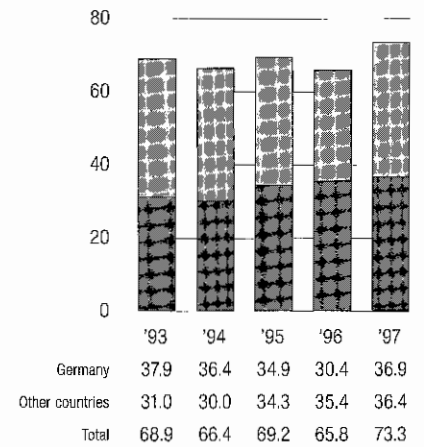
### Stock market value

DM in billions



### Employees

in thousands





**Allianz AG,**  
**its most important group companies**  
**and insurance interests**

Allianz Aktiengesellschaft				
Germany	Europe (excluding Germany)		North and South America	Africa, Asia, Australia
Allianz Versicherungs-AG	Austria	Luxembourg	Argentina	Australia
Frankfurter Versicherungs-AG	Allianz Elementar Versicherungs-AG	International Reinsurance Company S. A.	Colón Compañía de Seguros Generales S. A.	Manufacturers' Mutual Insurance Group (MMI)
Bayerische Versicherungsbank AG	Allianz Elementar Lebensversicherungs-AG	Netherlands	Allianz RAS Argentina S. A. de Seguros Generales	Brunei
Allianz Globus Marine Versicherungs-Aktiengesellschaft	Belgium	Allianz Nederland N. V.	Brazil	National Insurance Company Berhad
Vereinte Versicherung AG	Allianz Nederland N. V.	ELVIA Schadeverzekeringen N. V.	Allianz-Bradesco Seguros S. A.	Egypt
Vereinte Rechtsschutzversicherung AG	ELVIA Assurances S. A.	ELVIA Levensverzekeringen N. V.	Canada	Arab International Insurance Company
Hermes Kreditversicherungs-AG	Czech Republic	ELVIA Zorgverzekeringen N. V.	Allianz Insurance Company of Canada	Hong Kong
Allianz Lebensversicherungs-AG	Allianz pojišťovna, a.s.	Poland	Trafalgar Insurance Company of Canada	Allianz Cornhill Insurance (Far East) Ltd.
Deutsche Lebensversicherungs-AG	Denmark	Allianz BGZ Polska S. A.	Chile	Indonesia
Vereinte Lebensversicherung AG	Allianz Nordeuropa Forsikringsaktieselskabet	Allianz BGZ Polska Zycie S. A.	Allianz Compañía de Seguros S. A.	P.T. Asuransi Allianz Utama Indonesia
Vereinte Krankenversicherung AG	Domus-Forsikringsaktieselskabet	Portugal	Allianz Bice Compañía de Seguros de Vida S. A.	P.T. Asuransi Allianz Aken Life
	France	Portugal Previdente Companhia de Seguros S. A.	Mexico	Japan
	Allianz Assurances	Russian Federation	Allianz México S. A. Compañía de Seguros	Allianz Fire and Marine Insurance Japan Ltd.
	ELVIA ASSURANCES	East-West Allianz	USA	Namibia
	LES ASSURANCES FEDERALES IARD	Slovak Republic	Fireman's Fund Insurance Company	Allianz Insurance of Namibia Ltd.
	Allianz Vie	Allianz poisťovňa, a. s.	Allianz Insurance Company	Philippines
	RHIN ET MOSELLE ASSURANCES FRANÇAISES	Spain	Jefferson Insurance Company of N. Y.	Pioneer Allianz Life Assurance Corporation
	Compagnie d'Assurances sur la vie	Allianz RAS Seguros y Reaseguros S. A.	Allianz Life Insurance Company of North America	Singapore
	COMPAGNIE GÉNÉRALE DE PREVOYANCE	Eurovida S. A. Compañía de Seguros y Reaseguros	Venezuela	Allianz Insurance (Singapore) Pte. Ltd.
	Great Britain	Switzerland	Adriática de Seguros C. A.	South Africa
	Cornhill Insurance PLC	ELVIA Schweizerische Versicherungs-Gesellschaft		Allianz Insurance Ltd.
	Greece	Berner Allgemeine Versicherungs-Gesellschaft		Thailand
	Allianz General Insurance Company S. A.	Allianz Versicherung (Schweiz) AG		The Navakij Insurance Public Company, Ltd.
	Helvetia General Insurance Co. S. A.	Alpa Allgemeine Versicherungs-Gesellschaft		United Arab Emirates
	Allianz Life Insurance Company S. A.	ELVIA Schweizerische Lebensversicherungs-Gesellschaft		Allianz Versicherungs-AG Dubai Branch
	Helvetia Life Insurance Co. S. A.	Berner Lebensversicherungs-Gesellschaft		
	Hungary	Allianz Lebensversicherung (Schweiz) AG		
	Hungária Biztosító Rt.	ELVIA Reiseversicherungs-Gesellschaft		
	Ireland	Allianz Risk Transfer		
	Cornhill Insurance PLC	Turkey		
	Italy	Şark Sigorta T.A.Ş.		
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	Lloyd Adriatico S. p. A.			
	Allianz Subalpina			
	Società di Assicurazioni e Riassicurazioni S. p. A.			

April 1998

## ■ Allianz AG Financial Calendar

- September 17, 1998 Press release on the first half-year 1998  
(interim financial report)
- November 26, 1998 Press release on the third quarter 1998
- February 24, 1999 Press release on preliminary results for 1998
- May 20, 1999 Financial press conference for the 1998 business year  
and the first quarter of 1999
- July 7, 1999 Annual General Meeting
- September 15, 1999 Press release on the first half-year 1999  
(interim financial report)
- November 26, 1999 Press release on the third quarter 1999
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