Allianz Group

Annual Report 2003

3 + One

ALLIANZ GROUP		2003	Change from previous year in %	2002	2001	2000	1999	1998	*More details on page*
Earnings									
Earnings before taxes[1]	€ mn	2,528	–	– 1,309	1,768	4,913	4,804	4,910	44
Property/casualty insurance	€ mn	5,509	– 27.1	7,554	2,409	3,899	3,639	3,747	48
Life/health insurance	€ mn	757	–	– 91	412	1,626	1,229	1,137	64
Banking Business	€ mn	– 2,200	43.1	– 1,537	227	124	56	–	75
Asset management	€ mn	– 103	– 68.7	– 329	– 393	45	108	98[2]	80
Taxes	€ mn	– 130	–	768	861	– 176	– 1,513	– 1,920	154
Minority interest in earnings	€ mn	– 782	13.7	– 688	– 1,044	– 1,277	– 974	– 814	139
Net income	€ mn	1,616	–	– 1,229	1,585	3,460	2,317	2,176	44
Total premium income	€ bn	85.0	2.8	82.7	75.1	68.7	60.6	51.0	44
Net revenue from banking	€ bn	6.5	– 13.9	7.6	3.9	0.2	0.2	–	44
Net revenue from asset management	€ bn	2.2	– 2.8	2.3	2.0	1.1	0.5	–	44
Balance sheet									
Investments	€ bn	295	3.3	285	345	281	271	240	130
Trading assets	€ bn	146	17.1	125	128	–	–	–	134
Receivables	€ bn	321	16.7	275	301	35	31	39	132
Shareholders' equity	€ bn	29	31.9	22	32	36	30	25	104
Minority interest in equity	€ bn	8	0.6	8	17	16	13	12	139
Participation certificates, subordinated liabilities	€ bn	12	– 13.7	14	12	1	1	1	139
Insurance provisions	€ bn	311	1.9	306	300	285	268	238	141
Liabilities	€ bn	333	17.0	285	313	15	14	16	143
Balance sheet total	€ bn	936	9.8	852	943	440	411	364	102
Return									
Return on equity after taxes	%	6.4	–	– 4.6	4.7	10.6	8.5	9.8	45
Return on equity before amortization of goodwill	%	12.1	–	– 0.3	7.1	12.1	10.2	10.9	45
Per share									
Earnings per share	€	4.77	–	– 4.44	5.71	12.32	8.29	7.87	27
Earning per share before amortization of goodwill	€	8.92	–	– 0.24	8.62	14.09	10.03	8.76	29
Dividend per share	€	1.50	–	1.50	1.50	1.50	1.25	1.12	28
Dividend payment	€ mn	551	47.3	374	364	367	307	276	28
Share price at year-end[3]	€	100.1	23.9	80.8	237.1	355.3	297.7	282.1	26
Market capitalization at year-end[4]	€ bn	36.7	66.8	22.0	64.2	98.0	81.8	77.6	27
Other									
Employees		173,750	– 4.3	181,651	179,946	119,683	113,472	105,676	92
Assets under management	€ bn	996	0.7	989	1,126	700	382	343	80

[1] 1997 without IAS SIC 12 and SEC adjustment
[2] Including banking business
[3] Adjusted for capital measures (capital increase)
[4] Excluding treasury shares

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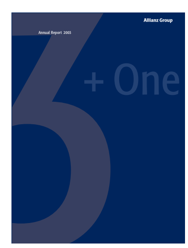
Cover



The year 2003 was essentially shaped by our "Three Plus One" program. You will find more information about this program in the Letter to the Shareholder on the next page and in the "Strategy" chapter on pages 22 to 23.

Allianz at a glance

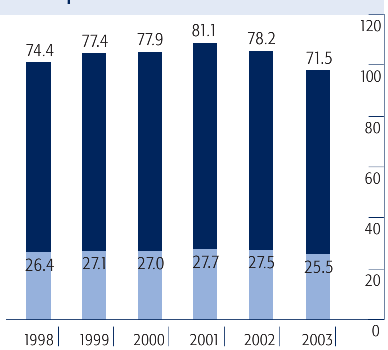
Allianz is one of the leading global services providers in insurance, banking and asset management. We serve our customers in more than 70 countries. The solidity, service and competence of our Group are backed by the commitment of close to 174,000 employees worldwide.

In 2003, we focused our efforts on the following activities: we strengthened our capital base, improved our operating profitability and reduced the complexity of our business portfolio. The progress we made is considerable.

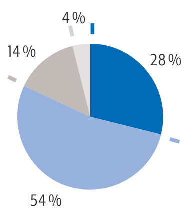
PROPERTY AND CASUALTY INSURANCE

Premium income from property and casualty insurance was up 0.3 percent to 43.4 billion euros. Before currency and consolidation effects, growth came to 4.0 percent. This represented 50.2 percent of total revenues. The combined ratio decreased 8.7 percentage points to 97.0 percent. Net income of the segment came to 4.5 billion euros.

Development of the combined ratio in %



Claims ratio
Expense ratio



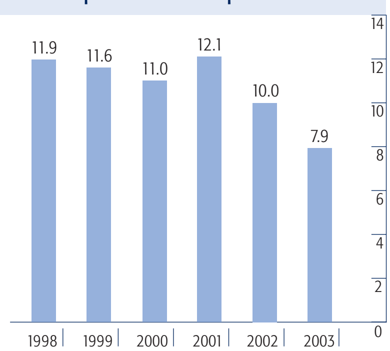
Germany
Rest of Europe
North/South America
Asia-Pacific/Africa

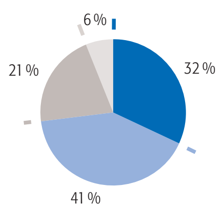
Premium income by regions € 43.4 bn

LIFE AND HEALTH INSURANCE

In life and health insurance, total revenues increased 5.3 percent to 42.3 billion euros. Before currency and consolidation effects, growth even came to 10.9 percent. The share of premium income from investment-oriented products amounted to 51.1 percent. The success of our cost-cutting efforts is also reflected in the expense ratio, which – in relation to total net premiums earned – once again improved considerably to 7.9 (10.0) percent. Investment income rose from 7.4 to 9.8 billion euros. We posted a net loss of 48 million euros for the year, compared to net income of 19 million euros in the previous year.

Development of the expense ratio in %





Germany
Rest of Europe
North/South America
Asia-Pacific/Africa

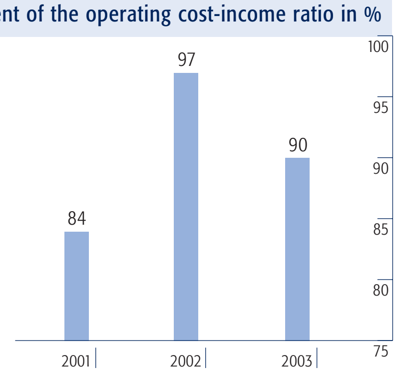
Premium income by regions € 42.3 bn

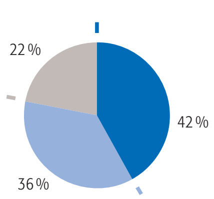
Segment overview

BANKING BUSINESS

Aided by rising stock prices and the gradual recovery of the economy, we significantly improved the operating result by 1.6 billion euros. Loan loss provisions fell to half the prior-year figure. We also made substantial progress in cost management: administrative expenses dropped by 1.2 billion euros, and the operating cost-income ratio declined from 96.7 to 90.3 percent. However, restructuring measures had a substantial impact on the non-operating result, so that the segment posted an overall loss of 1.3 billion euros for the year.

Development of the operating cost-income ratio in %





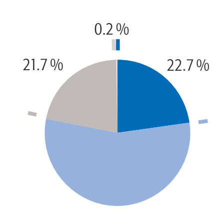
Net interest income
Net fee and commission income
Trading income

Net revenues from banking by category € 6.7 bn

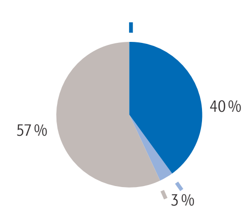
ASSET MANAGEMENT

Allianz is one of the five leading asset managers in the world. Net inflows to assets under management for third-party investors reached 25 billion euros. The gradual depreciation of the U.S. dollar in the course of the year diminished the true dimension of these inflows, which grew by only 1 percent in euro accounts to 565 billion euros. The operating result amounted to 733 million euros. After deduction of acquisition-related expenses as well as taxes and minority interests, the segment posted a loss of 270 million euros, which was less than we had expected.

Investment structure by segments € 399 bn



Property/casualty
Life/health
Banking Business
Asset management



Group investments
Investments for unit-linked life insurance
Investments for third-party investors

Assets under management € 996 bn

Dear Shareholder,

When I took over as chairman of your company on May 1, 2003, the day after our Annual General Meeting, your outspoken criticism of our disappointing results was still ringing in my ears. Equally great was the disappointment among those investors with whom my colleagues and I had already met before the General Meeting in order to convince them of the appropriateness of the planned capital increase. I could understand your discontent and I take this message very seriously.

My colleagues on the Board of Management and I know that there is no task more important for the management team, our employees and myself than to restore the stability of the company and to bring it back into the league of the most respected international financial services providers. That is why we promised you at that time that we would not shy away from making hard, unpleasant changes. As Allianz shareholders, you must be able to rely on the company to grow its earnings and revenues so that your investment will generate solid, sustainable profits.

By proposing a capital increase, we asked you to support us in this process. And you agreed. I hope that you are satisfied with your decision and the results that the company has achieved since then. We are back in the black, and our share price has followed the upturn in our earnings. At the end of the year, the Allianz share broke through the 100-euro threshold.

Although the Company is much stronger today than it was in the crisis year 2002, and we are certainly pleased to have reached the first milestone on the path to sustainable, profitable growth, it must also be said that we have been helped not only by the indisputable operating improvements but also by the recovery of the financial markets.

Nevertheless we have made considerable progress. The risk position has clearly improved. Our financial position has stabilized. Our business models have been strengthened. Allianz is again winning respect. And each day, we are working with greater momentum.

That is directly attributable to our nearly 174,000 employees world-wide as well as to our agents and to our business partners. To all of them, I would like to express my sincere thanks for their outstanding effort and their trust. The business success of 2003 also demonstrates the ability of the company as a whole to carry out the decisions that were necessary to restore its competitiveness. At the same time, the turnaround in the earnings performance shows that, while Allianz continues to face great challenges, it already has the necessary potential that will continue to make it attractive in the future.

After the loss in 2002, which was one of the worst years in our proud history, we generated a profit of 1.6 billion euros. At the end of the year, our market capitalization stood at 36.7 billion euros. In view of this turnaround, we propose to distribute a dividend on each ordinary share in the same amount as last year. Due to the higher number of Allianz shares, the dividend payout will increase 47 percent to 551 million euros.

Since we live in an age where simple numbers have lost much of their meaning as indicators of success, I would like to explain to you the crucial components of our results and to point out what they mean for the future of the company.

The fundamental improvements stem from the efficiency gains in all four business segments and in essentially all Group companies. Cost savings in the reporting year alone came to an impressive 2.4 billion euros. This development is important because its effects are for the most part long lasting. Its true significance is borne out by the fact that it is now, in the first quarter of 2004, already becoming more difficult to impose rate increases for all our products. By way of price adjustments and a very disciplined underwriting policy, mainly in the property and casualty business, we were able to bring down the claims ratio worldwide. This trend was also supported by a favorable loss experience. In asset management and at Dresdner Bank, we significantly improved the cost-income ratio, even though the overall earnings performance of the bank did not meet our expectations. Nevertheless, the progress in the operating business of Dresdner Bank is considerable, in view of where we started. In addition, Dresdner Bank's balance sheet has been adjusted in material areas to reflect the current risk environment. But the results also show very clearly that we still have some distance to go. In view of the improvements already visible at this time, I am convinced that the implementation of the "New Dresdner" program will be successful as planned and the bank will again earn its cost of capital in 2005.

There are two additional aspects that are important for understanding the results of 2003. First of all, in life and health insurance we had to absorb retroactive changes in the German tax law. At the same time, we cleaned up the balance sheet by taking an unscheduled write-down on our South Korean life insurer. And secondly we succeeded, along with improving profitability and the risk profile of our business portfolio, in once again increasing our market share in a number of important markets.

The uncompromising implementation of the “Three Plus One” program by 2005 is the most important task for our management team, for every individual employee of Allianz, and for me. This “Three Plus One” program includes four initiatives designed to promote our business model and to achieve sustainable, profitable growth. Three of these initiatives are primarily aimed at restoring our financial strength by protecting and strengthening our capital base, by substantially improving operating profitability and by reducing complexity. The fourth point of the program has farther-reaching implications. With this point, we are focusing on the fundamental strengthening of our competitiveness and increasing value with the aim of regaining our position as one of the world’s leading financial services providers. In the “Strategy” chapter on pages 22 and 23 of this Annual Report, we outline the progress we have made in this endeavor during the reporting year.

For me personally, the continuing development of our corporate culture is extremely important. I want to see us work together as a team, to be truly customer-focused and to offer the best products. Furthermore, I would like for us to concentrate on the right businesses and markets and to work efficiently in every respect. To this end, we have built up our team noticeably in many key positions of the Allianz Group because only that will enable us to be really at the top of the international financial services market. That is why we introduced binding “Leadership Values” worldwide in the reporting year. As benchmarks for orientation and evaluation, they are designed to promote a corporate culture that is based on commitment to implementation, team work and customer orientation.

The path to further strengthen our financials is outlined in the first three points of the “Three Plus One” program. But can we maintain profitable growth beyond that? Yes, I think so, and I will give two reasons why I am so certain of that.

First of all, demographic and economic data show without a doubt that the era in which everyone could count on an adequate state pension is coming to an end. Reflecting the paradigm shift, the public debate about the future of our social security systems started very late, but it has now moved to the top of the agenda all across Europe. Our broad-based study “Life Goals” reveals that people are very much interested in long-term financial planning and want a financial services provider whose advice they can trust over a long period of time. If we analyze the business environment of financial services providers, one thing becomes clear: almost everything indicates that this industry stands at the beginning of a growth cycle rather than at the peak of its maturity. When it comes to your company, Allianz, I am absolutely certain that this is so. Our local companies are trusted partners of their customers because they stand for strength and solidity in their markets.

My optimism also stems from the fact that, in one Group, we have everything that is needed for a successful insurance, private pension and asset management business, including the strategic asset of Dresdner Bank. We have the right strategies and are committed to execute them. We have the resources to implement these strategies, including solid and well-positioned operating units worldwide, motivated and committed employees, capital, customer-oriented multi-channeled distribution organizations, and product development capacities that combine our expertise in insurance and financial markets. Finally, the last few years have given us the added experience that will help us to capitalize on these strengths. In that pursuit, we are guided by the following insights.

We must earn trust, customer by customer, project by project, and day after day.

We know that the preoccupation with sheer size can become the enemy of excellence.

Our strategy also includes the ability to say no, in those cases where the balance between risk and earnings is no longer acceptable.

We limit and control the overall risk and make full use of all value drivers in our sphere of influence to generate a sustainable profit.

We are guided not just by our internal benchmarks; we are also determined to become the best in our industry. In a time of great uncertainty, we want Allianz to be the one brand that stands for trust. That is an ambitious goal, particularly in view of declining guaranteed interest rates and profit participation, and the positioning of Allianz to create more value for you, the owners of this company. And yet, this goal can be reached if we continue to strive relentlessly for efficiency and to motivate our outstanding employees, agents and intermediaries.

There is still a lot of work ahead of us, if we wish to make use of all the possibilities. But I believe in the ability of our people to develop business opportunities and execute them, and I feel the strong change in attitude since the outbreak of the crisis. Your company has become “hungrier” and more enterprising. We want to be the leading international financial services provider for insurance, private pensions and asset management; we want to be the company that people really trust. Please stay with us on this path and keep your faith in Allianz. I am confident that our business model will stand the test of time and that our actions will increase the value of your investment in this company.

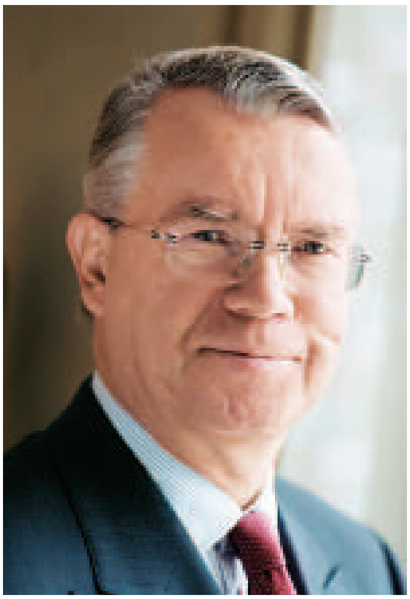
Sincerely yours,

Michael Diekmann
Chairman of the Board of Management

Ladies and Gentlemen,

In the course of 2003, the members of the Supervisory Board dealt in depth with the situation of the company, against the background of a continuing difficult economic environment. We advised the Board of Management with respect to the management of the company, oversaw its conduct of business and were directly involved in decisions of fundamental importance.

The Supervisory Board held four meetings during the reporting period. Between meetings, the Board of Management informed us in writing on important matters. In addition, the Chairman of the Supervisory Board was kept up-to-date on major developments and decisions.



The Board of Management regularly provided us with timely, comprehensive information on the economic and financial development of the Allianz Group, including the risk situation, important business transactions and corporate strategy. We discussed in detail the company planning for the year 2004 and asked for explanations of the deviations in the course of business from the stated plans and objectives.

Improvement of the operating result and strengthening of the capital base Our deliberations were centered on the measures taken by the Board of Management to improve operating profitability.

In all meetings, the Board of Management informed us about the development of the Group's revenues and earnings, developments in the individual business segments and the financial situation. We were able to ascertain that operations were improved in all business areas, in some cases significantly.

In several meetings, the Group's capital resources were discussed. In April 2003, we approved the capital increase with subscription rights for the shareholders. In a difficult market context, this increase was successfully completed with proceeds of 4.4 billion euros, thereby strengthening the company's equity base and securing the Group's high rating.

To reduce the dependency of the company's shareholders' equity and earnings on fluctuations in the capital markets, the Board of Management substantially reduced the share of equity investments. Among others, this was done through a significant reduction of the shareholdings in Münchener Rückversicherungs-Gesellschaft AG (Munich Re) and Beiersdorf AG. The Supervisory Board considers these measures to be appropriate.

Successful restructuring efforts In two special reports, we were given detailed information about the progress in the implementation of the turnaround program at Dresdner Bank. We noted that important intermediary objectives towards restoring the profitability of the bank had already been achieved. We were also able to ascertain that the integration of the bank into the Allianz Group has made good progress. In this context, we were informed of the merger of the IT service activities of Allianz and Dresdner Bank, which are now combined in AGIS Allianz Dresdner Informationssysteme GmbH.

The previously launched program to improve the business performance of the French AGF Group was also pursued with increasing intensity. We will closely monitor its further progress.

In addition, the ongoing success of the restructuring of the Group's U.S. company Fireman's Fund was presented to us. The same applies to Allianz Global Risks Rückversicherungs-AG, the company that controls the Group's industrial insurance business.

Other topics of discussion The Board of Management presented its "Three Plus One" program to us, which summarizes the Group's objectives and initiatives through 2005. The program calls for strengthening the capital base of the company, improving its operational profitability, making its structures less complex and bringing about a sustainable increase of its value. To reach the latter objective, the Holding makes growth capital available to its Group companies. One of the essential criteria for allocating capital is a company's ability to make a lasting contribution to the Group's economic value added.

We followed and approved the restructuring of the relations between Allianz and Münchener Rückversicherungs-Gesellschaft (Munich Re). We acknowledged the dismantling of the cross-holdings and the fact that the principles of cooperation, which had applied for decades, were rescinded.

We obtained a status report on the lawsuit filed in connection with the settlement of the World Trade Center loss. We critically examined the effects of the tax bill presented by the German Federal Government on the life insurance business. In addition, we welcomed the Board of Management's decision to relaunch the stock purchase plan for employees of the Allianz Group in 2003. More than 33,000 employees in 22 countries have accepted this offer and acquired a total of about 965,000 Allianz shares at preferential conditions.

Committees of the Supervisory Board of Allianz AG

As of December 31, 2003

CHAIRMAN OF THE SUPERVISORY BOARD

Dr. Henning Schulte-Noelle

DEPUTY CHAIRMAN OF THE SUPERVISORY BOARD

Norbert Blix

AUDIT COMMITTEE

Dr. Manfred Schneider (Chairman)
Dr. Gerhard Cromme
Prof. Dr. Rudolf Hickel
Frank Ley
Dr. Henning Schulte-Noelle

PERSONNEL COMMITTEE

Dr. Henning Schulte-Noelle (Chairman)
Norbert Blix
Dr. Gerhard Cromme

STANDING COMMITTEE

Dr. Henning Schulte-Noelle (Chairman)
Norbert Blix
Dr. Gerhard Cromme
Peter Haimerl
Dr. Manfred Schneider

MEDIATION COMMITTEE

Dr. Henning Schulte-Noelle (Chairman)
Norbert Blix
Hinrich Feddersen
Prof. Jürgen E. Schrempp

Corporate Governance and Declaration of Compliance We discussed in depth the implementation of the recommendations of the German Corporate Governance Codex and the effects of the U.S. Sarbanes-Oxley Act on the Allianz Group. In December 2003, the Board of Management and the Supervisory Board signed the annual Declaration of Compliance with the German Corporate Governance Codex. This statement confirms that the Allianz Group complies with the recommendations of the code, with two exceptions.

In the December meeting, we examined the efficacy of our work in the absence of the Board of Management. The subjects of our examinations were, in particular, the timely transmission of comprehensive information to the Supervisory Board, its composition and organization, and the flow of information between the committees and the plenary meeting.

More detailed information on corporate governance within the Allianz Group can be found in the report on pages 10 to 13 of the present Annual Report. That report was jointly approved by the Board of Management and the Supervisory Board. Detailed information on this subject is also available at the Allianz website at www.allianzgroup.com/corporate-governance. Information on the measures taken to implement the provisions of the Sarbanes-Oxley Act can also be found at that location.

Activities of the committees The members of the Supervisory Board formed the Audit Committee, the Standing Committee, the Personnel Committee and the Mediation Committee as called for by the German Codetermination Act. The current composition of the committees is shown on the accompanying list.

At its four meetings held in the course of the year, the Standing Committee primarily addressed the capital increase with shareholder subscription rights as well as questions of corporate governance. The Personnel Committee also convened four times. It dealt with personnel matters of the members of the Board of Management and the structure and amount of the remuneration of the Board of Management, as well as the determination of the variable and stock-related remuneration components. There was no need for the Mediation Committee to convene.

The Audit Committee held five meetings in the course of 2003. In the presence of the auditors, it discussed the annual financial statements of Allianz AG and of the Group, the audit reports and the 20-F filing required in the U.S.A. It also examined the quarterly reports and dealt with the assignment of the mandate to the Auditor and setting priorities for the Audit. Other subjects of the deliberations of the Audit Committee were ascertaining the independence of the Auditor and the implementation of further dispositions of the Sarbanes-Oxley Act. The Supervisory Committee appointed the chairman of the Audit Committee, Dr. Manfred Schneider, as Audit Committee Financial Expert in accordance with the purpose of this law.

The Supervisory Board was regularly informed about the work of the Committees.

Annual accounts and consolidated financial statements KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Munich, audited the financial statements of Allianz AG and the Allianz Group as well as the respective management reports and issued their certification without any reservations. The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS). The independent auditors have confirmed that the consolidated financial statements and the management report meet the conditions required to exempt the company from its obligation to prepare consolidated financial statements in accordance with German law.

The financial statements and the auditor's reports submitted by KPMG were made available to all members of the Supervisory Board in due time. These documents were discussed in depth by the Audit Committee on March 5, 2004, as well as by the Supervisory Board at a meeting held for this purpose on March 17, 2004. The independent auditors participated in these discussions. They presented the results of the audits and were available to provide supplementary information.

On the basis of our own review of the financial statements of Allianz AG and the Allianz Group, the corresponding management reports and the recommendation for appropriation of profit, we concurred with the findings of the audit by KPMG and approved the financial statements of Allianz AG and the Allianz Group prepared by the Board of Management. The Supervisory Board hereby adopts the individual accounts. We consent to the appropriation of earnings as proposed by the Board of Management.

Members of the Supervisory Board and the Board of Management The five-year mandate of the members of the Supervisory Board elected in 1998 ended with the General Meeting on April 29, 2003. A new Supervisory Board was elected for the term of office from 2003 to 2008. For reasons of age, Dr. Klaus Liesen was not available for re-election. In addition, Ms. Roswitha Schiemann as well as Messrs. Dr. Uwe Haasen, Horst Meyer, Uwe Plucinski, Reinhold Pohl, Jörg Thau and Dr. Bernd W. Voss departed from the Supervisory Board.

Mr. Jürgen Dormann resigned his mandate as member of the Supervisory Board with effect from the end of the Annual General Meeting on May 5, 2004. Mr. Dormann's seat on the Board will be filled by Dr. Albrecht Schäfer as elected substitute member.

We thanked the departing members for their constructive and trusting collaboration in our body during the past term of office. Our special thanks go to Dr. Liesen, who was a member of the Supervisory Board for almost two decades and presided as its judicious and highly respected chairman for seven years.

At the constitutive meeting of the new Supervisory Board in April 2003, Dr. Henning Schulte-Noelle was elected as its chairman and Mr. Norbert Blix as its deputy chairman.

For reasons of age, Dr. Horst Müller retired from the Board of Management on December 31, 2003. He had been responsible for Group Financial Risk Management. This function will be assumed at Group level by Dr. Perlet in addition to his present responsibilities. We expressed our thanks to Dr. Müller for the committed work he performed for many years at Dresdner Bank and, since 2001, also at Allianz.

In our capacity as members of the Supervisory Board, we would like to take this opportunity to thank all members of the Allianz Group companies for their personal effort and commitment.

Munich, March 17, 2004

For the Supervisory Board:

Dr. Henning Schulte-Noelle
Chairman

Supervisory Board

DR. HENNING SCHULTE-NOELLE since April 29, 2003
Chairman
Former Chairman of the Board of Management Allianz AG

NORBERT BLIX
Deputy Chairman since April 29, 2003
Employee, Allianz Versicherungs-AG

DR. WULF H. BERNOTAT since April 29, 2003
Chairman of the Board of Management E.ON AG

DR. DIETHART BREIPOHL
Former member of the Board of Management Allianz AG

BERTRAND COLLOMB
Président du Conseil d'Administration Lafarge

DR. GERHARD CROMME
Chairman of the Supervisory Board ThyssenKrupp AG

JÜRGEN DORMANN until May 5, 2004
Chairman and CEO, ABB Ltd.

CLAUDIA EGGERT-LEHMANN since April 29, 2003
Employee, Dresdner Bank AG

HINRICH FEDDERSEN
Member of the Federal Steering Committee
ver.di – Vereinte Dienstleistungsgewerkschaft

PETER HAIMERL
Employee, Dresdner Bank AG

PROF. DR. RUDOLF HICKEL
Professor of finance

PROF. DR. RENATE KÖCHER since April 29, 2003
Chairman Institut für Demoskopie Allensbach

FRANK LEY
Employee, Allianz Lebensversicherungs-AG

KARL NEUMEIER since April 29, 2003
Employee, Allianz Versicherungs-AG

HERBERT PFENNIG since April 29, 2003
Employee, Dresdner Bank AG

SULTAN SALAM since April 29, 2003
Employee, Dresdner Bank AG

DR. MANFRED SCHNEIDER
Chairman of the Supervisory Board Bayer AG

MARGIT SCHOFFER since April 29, 2003
Employee, Dresdner Bank AG

DR. HERMANN SCHOLL
Chairman of the Supervisory Board Robert Bosch GmbH

PROF. JÜRGEN E. SCHREMPP
Chairman of the Board of Management Daimler Chrysler AG

MEMBERS WHO RESIGNED DURING THE PERIOD

all as of April 29, 2003

DR. UWE HAASEN
Former member of the Board of Management Allianz AG

DR. KLAUS LIESEN
Chairman
Chairman of the Supervisory Board E.ON AG

HORST MEYER
Employee, Euler Hermes Kreditversicherungs-AG

UWE PLUCINSKI
Employee, Dresdner Bank AG

REINHOLD POHL
Employee, Allianz Immobilien GmbH

ROSWITHA SCHIEMANN
Branch Manager, Allianz Versicherungs-AG

JÖRG THAU
Employee, Allianz Private Krankenversicherungs-AG

DR. BERND W. VOSS
Deputy Chairman
Member of the Supervisory Board Dresdner Bank AG

Board of Management

MICHAEL DIEKMANN
Chairman of the Board of Management,
since April 29, 2003

DR. PAUL ACHLEITNER
Group Finance

DETLEV BREMKAMP
Europe II

JAN R. CARENDI
since May 1, 2003,
Americas

DR. JOACHIM FABER
Allianz Dresdner Asset Management

DR. REINER HAGEMANN
Europe I,
Director responsible for Labor Relations

DR. HELMUT PERLET
Group Controlling, Accounting,
Taxes, Compliance

DR. GERHARD RUPPRECHT
Group Information Technology,
Life Insurance Germany

DR. HERBERT WALTER
since March 19, 2003,
Allianz Dresdner Banking

DR. WERNER ZEDELIUS
Growth Markets

MEMBERS WHO RESIGNED DURING THE PERIOD

DR. BERND FAHRHOLZ
until March 25, 2003,
Allianz Dresdner Banking

DR. HORST MÜLLER
until December 31, 2003,
Group Financial Risk Management

DR. HENNING SCHULTE-NOELLE
until April 29, 2003,
Chairman of the Board of Management

We take our responsibility for good management and control very seriously.

To meet our goal of sustainable, transparent and efficient corporate governance, we continually incorporate current developments into the improvement process. This applies to the work of the Board of Management and the Supervisory Board as well as to questions of financial reporting and disclosure.

The requirements of good corporate management and control continued to be one of our foremost concerns in 2003. We want to make our decision-making and control structures highly transparent and efficient. In this pursuit, the Board of Management and the Supervisory Board cooperate closely and in a climate of mutual trust. We always disclose information relevant to our company in a timely manner, and we regularly report on our corporate structure, business developments and financial situation. The consolidated financial statements, as well as our quarterly reports, are established in accordance with international accounting standards. We offer our shareholders the possibility of following our Annual General Meeting on the Internet and to exercise their voting rights by proxy instruction.

In the past twelve months, corporate governance continued to be the subject of intense public debate. Increasingly, the debate has focused on individual details, particularly the question of remuneration for the members of corporate organs. At times, this gave rise to the impression that good corporate governance hinged on only this criteria. But Allianz is convinced that responsible management and control require a comprehensive approach that must take into account a multitude of aspects.

The central elements of our understanding of corporate governance are explained in this Annual Report. On pages 14 to 16 we comply with the demand for a transparent presentation of the remuneration for the Board of Management and the Supervisory Board by presenting a detailed remuneration report.

German Corporate Governance Code and Declaration of Compliance

On May 21, 2003, the German Corporate Governance Code was enhanced by a decision of the competent commission of the German Government. An essential part of the revision deals with the remuneration of the Board of Management. In section 4.2 of the Code, the following recommendations were added:

- individualized reporting of the remuneration for the Board of Management,
- an upper limit for stock options,
- publication of the value of stock options,
- publication of the system of remuneration on the Internet and
- information to the Annual General Meeting concerning the basic structure of the system of remuneration.

The Code now also recommends individualized reporting for the remuneration of the Supervisory Board. The new version of the Code was applicable for the first time to the annual Declaration of Compliance in accordance with § 161 of the German Stock Corporation Law (AktG). The Board of Management and the Supervisory Board decided to follow the recommendation of the German Corporate Governance Code in its version of May 21, 2003, with two exceptions. These concern the individualized reporting of remuneration for members of the Board of Management and the Supervisory Board. We are of the opinion that reporting remuneration on an individual basis would not provide any more information relevant to the capital markets than a detailed collective reporting. In addition, past experience indicates that individual reporting tends to level out individual board members' remuneration, which is not in the interests of the company and the shareholders. We declared that Allianz AG has, in the past, met all recommendations of the previous version of the Code. For this reason, reservations to the effect that the maximum number of group-external mandates had been exceeded are irrelevant.

The Declaration of Compliance with the German Corporate Governance Code in accordance with § 161 of the German Stock Corporation Law (AktG) was published on December 17, 2003 and reads as follows:

1. Allianz AG will comply with the recommendations made by the Government Commission on the German Corporate Governance Code (Code version as of May 21, 2003) with the following exceptions:

a) The compensation of the members of the Board of Management is published in the Notes to the Consolidated Financial Statements subdivided according to fixed, performance-related and long-term incentive components; however, it is not published individualized (section 4.2.4, sentence 2 of the Code). An individualized breakdown would not provide more information with relevance for the capital markets than a detailed publication of the overall compensation. Furthermore, practice shows that an individualized publication tends to result in a leveling of the individual compensation of the members of the Board of Management. This is not desirable from the company's as well as from the shareholders' perspective.

b) The compensation of the members of the Supervisory Board is published in the Notes to the Consolidated Financial Statements subdivided according to components; however, it is not published individualized (section 5.4.5, paragraph 3, sentence 1). The structure of the Supervisory Board's compensation is disclosed in Allianz's Articles of Association and the Annual Report. An individualized statement on the compensation would not provide additional information with relevance for the capital markets.

2. Since the last Declaration of Compliance as of December 18, 2002, which referred to the German Corporate Governance Code as amended on November 7, 2002, Allianz AG has complied with all the recommendations made by the Government Commission on the German Corporate Governance Code then in force.

This declaration is available on our website at www.allianzgroup.com/corporate-governance.

In addition, we applied most of the non-binding recommendations of the German Corporate Governance Code. For example, in relation to the work of the Supervisory Board this applies to the composition and competences of the Audit Committee or the tasks of the Personnel Committee. An exception exists to the extent that the shareholders' representatives on the Supervisory Board of Allianz AG are on principle not elected for different periods of time (Code section 5.4.4), but are all elected every five years in a regular election. Substitute members are elected at the same time and, should they succeed a departing member, they remain in office only until the end of the current election period. Another exception concerns the suggestion that the performance-based remuneration of the Supervisory Board should contain components based on the long-term performance of the company (Code section 5.4.5, paragraph 2, sentence 2). We do not follow this recommendation. However, the Supervisory Board's remuneration contains a component based on the dividend policy of Allianz. Further details on our position with respect to the recommendations of the Code can also be found on our website at the address given above.

The two listed Group companies Allianz Lebensversicherungs-AG and Oldenburgische Landesbank AG issued a Declaration of Compliance on December 15 and 18, 2003, respectively. Allianz Lebensversicherungs-AG states therein the deviations from the recommendation concerning the individual publication of remuneration for the Board of Management and the Supervisory Board as well as deviations from the recommendation of a performance-oriented remuneration component for the Supervisory Board. Oldenburgische Landesbank AG also states a deviation from the recommendation concerning the individual publication of remuneration for the Board of Management and the Supervisory Board and explains why it does not follow the recommendation for a retention in Directors & Officers Liability Insurance.

The Sarbanes-Oxley Act

As a German company listed on the New York Stock Exchange, Allianz AG is subject to U.S. corporate governance rules to the extent that these are applicable to foreign issuers.

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002, which is aimed at restoring the trust of investors in the capital markets. For this purpose, the law expands the disclosure obligations of corporations and formalizes the processes that precede corporate reporting. Companies are obliged to establish internal control systems that must be maintained and reexamined on a regular basis. By way of certification, certain corporate officers must personally attest to the exactitude and completeness of reporting. Management must also certify that certain requirements concerning the internal control systems have been met. In addition, the law raises the requirements for the independence of auditors and contains detailed rules concerning the Audit Committee.

The Sarbanes-Oxley Act also has considerable implications for Allianz AG. The new disclosure rules require some amendments of our reporting. The Audit Committee is given comprehensive rights and duties. We have adapted the procedural rules of the Audit Committee accordingly.

The Supervisory Board of Allianz AG has determined that the chairman of the Audit Committee, Dr. Manfred Schneider, has the attributes that the SEC implementation ruling requires of the Audit Committee Financial Expert. In addition, Allianz AG has adopted a "Code of Ethics" addressed to the members of the Board of Management and senior financial officers. It sets standards of ethical and righteous behavior in the personal and professional area, particularly regarding the handling of conflicts of interest and the application of the highest corporate disclosure standards. The Audit Committee has adopted new procedures which make sure that the independence of auditors is specially controlled. These procedures meet the stricter independence requirements of the SEC.

The NYSE also enacted new Corporate Governance Rules last year. As an issuer headquartered outside the U.S.A., Allianz AG is solely held to disclose the material differences between its own corporate governance standards and the new NYSE rules. This disclosure will be made on our website as of the date of this year's Annual General Meeting.

The Supervisory Board and its committees

Last year, the Supervisory Board was newly elected for a period of five years. A total of eight new members were appointed to the Supervisory Board. Among other departing members, the previous chairman of the Supervisory Board, Dr. Klaus Liesen, was no longer available for reasons of age. In the constitutive meeting of the newly elected Supervisory Board on April 29, 2003, Dr. Henning Schulte-Noelle was elected as its chairman.

An essential part of the Supervisory Board's work is performed by its committees. The **Audit Committee** constituted in September 2002 is composed of three shareholder representatives and two employee representatives. In its constitutive meeting, the Supervisory Board elected Dr. Manfred Schneider as chairman of the Audit Committee and named Messrs. Dr. Gerhard Cromme, Prof. Dr. Rudolf Hickel, Frank Ley and Dr. Henning Schulte-Noelle as its other members. The main task of the Audit Committee is the preliminary examination of the Group's Annual Financial Statements and Consolidated Financial Statements as well as the Management Report and the Recommendation for Appropriation of Profit. In addition, it examines the quarterly reports and the 20-F filing required in the U.S.A. The Audit Committee also prepares the appointment of the Auditor by the plenary Meeting of the Supervisory Board, ascertains the required independence of the Auditor, assigns the mandate to the Auditor and sets priorities for the Audit. Its tasks also include the examination of the risk control system. In fiscal 2003, the Audit Committee held five meetings.

The **Standing Committee** has a total of five members, two of which are employee representatives. Its essential function is the approval of matters for which Supervisory Board approval is required, to the extent that such matters do not fall under the competency of the Personnel Committee or must be decided by the plenary meeting of the Supervisory Board. In particular, this concerns the approval of capital market measures and of the acquisition or divestiture of companies or shareholdings in companies. It is also in charge of drafting the respective Declaration of Compliance in accordance with § 161 of the German Stock Corporation Law concerning compliance with the German Corporate Governance Code as well as the regular examination of corporate governance and the efficiency of the work of the Supervisory Board.

The **Personnel Committee** is composed of the Chairman of the Supervisory Board as well as one representative each of the shareholders and employees on the Supervisory Board. It prepares the appointment of members of the Board of Management, tends to ongoing personnel matters of members of the Board of Management and handles questions concerning their compensation. It is also involved in the long-term succession planning for the Board of Management.

The statutory **Mediation Committee** meets only if the Supervisory Board, in a vote on the appointment or recall of a member of the Board of Management, fails to obtain the two-thirds majority required by law.

At the end of 2003, the Supervisory Board conducted an efficiency review in accordance with a recommendation of the German Corporate Governance Code. For this purpose, every member of the Supervisory Board received a questionnaire, requesting evaluations and suggestions concerning individual aspects of the Supervisory Board's work. The questionnaire had previously been approved by the Standing Committee, which compiled the results, condensed them into recommendations as to how the work of the Supervisory Board could be further improved and proposed these to the Supervisory Board in a meeting on December 17, 2003.

Outlook

At the national and European levels, there are a number of supplementary initiatives for the further development of the corporate governance culture. The E.U. Commission is working on the implementation of an "Action Plan" on corporate governance. This plan is intended to more fully harmonize corporate legal rules within the E.U. and set a standard of transparency. In the framework of its "Ten-Point- Program," the German Federal Government has presented draft laws on corporate integrity and a reform of financial reporting as well as a new balance sheet monitoring bill (enforcement). It is our opinion that future initiatives should focus more strongly on maintaining the international competitiveness of the German corporate governance system.

The corporate governance practice of Allianz AG was also the subject of various media analyses in 2003, and the company received one of the top rankings among DAX 30 companies. We take this as an incentive and an obligation to continue our examination and development of corporate governance in the interest of serving our shareholders, customers and employees and in the interests of our sense of social responsibility.

Up-to-date information on corporate governance is also available on our website at www.allianzgroup.com/corporate-governance.

The remuneration of the Board of Management of Allianz AG supports sustainable value-oriented management.

In the last several years, the remuneration instruments were increasingly differentiated, in parallel to the continued development of the control instruments. The objective of this differentiation is to arrive at a remuneration system that is balanced in its structure, and appropriate and competitive in terms of its amount.

The remuneration of the Board of Management is determined by the Personnel Committee of the Supervisory Board. The remuneration structure is regularly discussed and examined in the plenary meetings of the Supervisory Board. The remuneration paid to members of the Board of Management from mandates at Group companies is turned over to the company. Of the remuneration received from mandates in companies outside the Group, 50 percent is turned over to the company. Indications on the amount of remuneration are provided in the appendix to this Annual Report on pages 171 and 172.

Structure of remuneration for the Board of Management

In order to meet the above objectives for the remuneration for the Board of Management, this remuneration is made up of several components, which are explained in the following table:

Remuneration component	Related to	Mode of payment	Variability	Share if objective is met 100 %
Fixed remuneration				
Basic salary, compensation in kind and ancillary compensation	Function, Responsibility	Monthly	Fixed	23 %
Variable remuneration				
Annual bonus	Success of Group/company and individual performance	Annually in the following year	0 – 165 %	27 %
3-year-bonus	Achievement of a 3-year-objective	In the 4th year after the grant	0 – 120 %	12 % (annual share)
Stock-based remuneration				33 %
Stock-appreciation rights (SAR)	Participation in share price gains	After a two-year vesting period	0 – 150 %	(calculated value at time of grant)
Restricted stock units (RSU)	Creation of a long-term equity position	After a five-year vesting period	1:1 Share price	(calculated value at time of grant)
Provision				
Corporate retirement plan, pension	Length of service, retirement provision, benefits	Disability or retirement age	Fixed	5 % (actual expense)

If the performance targets are attained, the ratio between fixed and variable remuneration is approximately one-fourth to three-fourths, based on the mathematical value of the stock-based remuneration at the date of grant.

The valuation of the stock-based remuneration is merely a mathematically calculated reference value. Whether and when the stock-based remuneration will actually lead to a payment depends on the future development of the share price, the strike price and the date of exercise. Stock appreciation rights (SAR) can be exercised at the earliest upon expiration of a two-year vesting period, for restricted stock units (RSU) the vesting period is five years. The exercise, the number of rights issued and the development of the value of stock-based remuneration are shown in the income statement and are subject to a detailed annual report.

Variable remuneration and stock-based remuneration together form a three-tier incentive system.

Annual bonus (annual)	3-year-bonus (medium-term: 3 years)	Equity-based remuneration (long-term: 5 to 7 years)
Target categories Group objectives Group/department objectives Individual objectives	Target categories Meeting pre-defined strategic three-year objectives Sustained achievement of annual EVA® (Economic Value Added) objectives	Target category Sustained increase of the share price

In order to ensure a competitive remuneration structure, comparative market analyses are performed. The insights derived from these studies are incorporated into the design of the remuneration components.

The individual remuneration components include:

Fixed remuneration The amount of the fixed remuneration is, on the one hand, determined by the delegated function or responsibility. On the other hand, it is influenced by external market conditions.

Income-equivalent ancillary benefits are also reported as part of fixed remuneration. These benefits vary with the function and position of the recipient and are subject to personal income tax. They essentially include the insurance coverage and preventive health care benefits generally granted in the industry and the use of a company car.

Variable remuneration This component consists of an annual and a mid-term 3-year bonus, each of which is performance- and success-related and limited to a maximum amount. Together with the stock-based remuneration, they form a three-tier incentive system. Assuming that objectives have been met 100 percent, what is the ratio between fixed and variable remuneration? For the annual bonus, the ratio is approximately 55 to 45 percent; for the annual share of the 3-year bonus, it is approximately 50 to 50 percent.

Stock-based remuneration This component consists of stock appreciation rights (SAR) and restricted stock units (RSU). More detailed information on the stock-based remuneration components can be found on pages 167 and 168 of this Annual report or on the Internet at www.allianzgroup.com/investor-relations.

Corporate retirement provision and comparable benefits The pension agreements for members of the Board of Management stipulate retirement benefits of a fixed amount that is not linked to the development of the fixed or variable remuneration components. The agreements are examined and revised at irregular intervals. If the amount is raised, the reserves must be increased on a pro-rata basis in relation to the number of years of employment.

EVA® is a registered Trademark of Stern Steward & Co.

Allocations to the budget available for increases of agreed pension benefits are primarily dependent on the economic performance of the company. When a member of Board of Management retires from the Board at the end of his mandate, old-age pension is paid no earlier than upon completion of the 60th year of age, except for cases of professional disability or general disability for medical reasons, or payments to a beneficiary in the case of death. If the mandate is terminated for other reasons before the retirement age has been reached, a non-expiring pension claim is maintained. But this claim does not include a right to the immediate payment of benefits.

Amount of compensation

The amount of the total compensation for a given year depends on the relative success of the Group as a whole and on the Board member's respective area of responsibility, as well as on the development of the share price. If one establishes a ranking of the average remuneration paid to the Board of Management at comparable German and European companies in recent years, the compensation of the Board of Allianz AG would fall approximately into the second third. If this listing takes into account criteria such as market capitalization, number of employees or complexity of the company, the average compensation of the Board of Allianz AG falls into the mid range.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board was decided by the Annual General Meeting and is defined in article 9 of the Articles of Association.

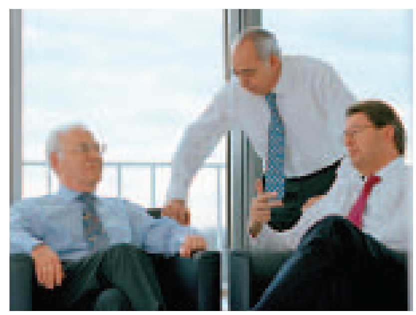
The remuneration of the Supervisory Board is based on the size of the company, the functions and responsibilities of the members of the Supervisory Board and the economic situation of the company. For the most part, it is related to the dividend paid. The chairman and the deputy chairman of the Supervisory Board as well as the chairmen and members of its committees receive an additional remuneration.

The remuneration of the members of the Supervisory Board includes two components: a fixed amount of 4,000 euros and a variable amount dependent on the dividend. This amount is calculated as follows: for each cent by which the dividend per share exceeds the amount of 15 cents, an additional remuneration of 500 euros is paid. The amount of the dividend is determined by the appropriation of profit decided by the Annual General Meeting. The chairman of the Supervisory Board receives double, and his deputy one and a half times the amount of this remuneration. The remuneration of the members of the Personnel Committee and of the Standing Committee is increased by 25 percent, that of the chairmen of these committees by 50 percent. To prevent a conflict of interest on the part of the members of the Audit Committee with respect to the dividend proposal of the Supervisory Board, these members merely receive a fixed annual remuneration of 30,000 euros for their work in this committee, while the chairman receives a fixed amount of 45,000 euros.

The additional remuneration of the committee members is capped by an upper limit. This limits takes effect when the remuneration of the chairman of the Supervisory Board has reached triple and that of the other members of the Supervisory Board double the basic remuneration. Since the dividend policy of the Allianz Group is oriented toward the long-term, the remuneration of the Supervisory Board contains no additional component that is based on the long-term performance of the company.

International Executive Committee

In addition to members of Allianz AG's Board of Management, the International Executive Commitee includes the heads of the major subsidiaries. Chaired by Michael Diekmann, this body discusses overall strategic issues at Group level.



WOLFRAM LITTICH
Allianz Elementar, Vienna

MICHAEL DIEKMANN
Allianz AG, Munich

THOMAS PLEINES
Allianz Suisse, Zurich

HELMUT PERLET
Allianz AG, Munich

WILLIAM S. THOMPSON
PIMCO, Newport Beach

JOACHIM FABER
Allianz AG, Munich

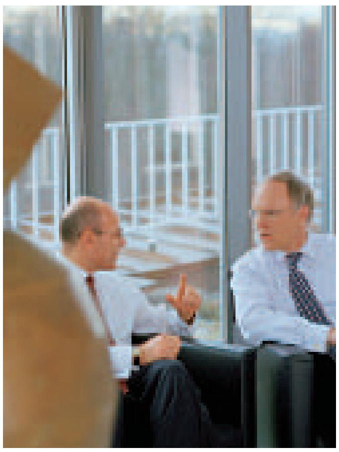
DETLEV BREMKAMP
Allianz AG, Munich

VICENTE TARDÍO BARUTEL
Allianz Compañía de Seguros
y Reaseguros, Barcelona

JEAN-PHILIPPE THIERRY
AGF, Paris

PAUL ACHLEITNER
Allianz AG, Munich

WERNER ZEDELIUS
Allianz AG, Munich



MARIO GRECO
RAS, Milan
GERHARD RUPPRECHT
Allianz AG, Munich

MARK ZESBAUGH
Allianz Life Insurance, Minneapolis
JAN R. CARENDI
Allianz AG, Munich,
since May 1, 2003
JEFFREY H. POST
Fireman's Fund, Novato

HERBERT WALTER
Dresdner Bank, Frankfurt/Main,
since March 19, 2003
ANDREW TORRANCE
Allianz Cornhill Insurance, London,
since July 1, 2003
REINER HAGEMANN
Allianz AG, Munich

International Presence

Allianz is one of the leading global services providers in insurance, banking and asset management. We serve our customers in more than 70 countries. The solidity, service and competence of our Group are backed by the commitment of our approximately 174,000 employees worldwide.

GERMANY

- ADAM International GmbH
- Allianz Capital Partners GmbH
- Allianz Dresdner Asset Management AG
- Allianz Dresdner Bauspar AG
- Allianz Global Risks Rückversicherungs-AG
- Allianz Lebensversicherungs-AG
- Allianz Marine & Aviation Versicherungs-AG
- Allianz PIMCO Capital Managers GmbH
- Allianz Private Krankenversicherungs-AG
- Allianz Versicherungs-AG
- Bayerische Versicherungsbank AG
- DEGI Deutsche Gesellschaft für Immobilienfonds mbH
- Deutsche Lebensversicherungs-AG
- DEUTSCHER INVESTMENT-TRUST Gesellschaft für Wertpapieranlagen mbH
- Dresdner Bank AG
- Dresdner Bank Investment Management Kapitalanlagegesellschaft mbH
- Euler Hermes Kreditversicherungs-AG
- Eurohypo AG
- Frankfurter Versicherungs-AG
- Oldenburgische Landesbank AG
- Reuschel & Co. Kommanditgesellschaft

AMERICA

Argentina
- AGF Allianz Argentina Compañia de Seguros Generales S. A.

Brazil
- AGF Brasil Seguros S. A.

Canada
- Allianz of Canada, Inc.

Chile
- AGF Allianz Chile Compañia de Seguros Generales S. A.

Colombia
- Colseguros Generales S. A.

Mexico
- Allianz México S. A. Compañía de Seguros

U.S.A.
- Allianz Dresdner Asset Management of America LP
- Allianz Global Risks US Insurance Company
- Allianz Life Insurance Company of North America
- Cadence Capital Management LLC
- Fireman's Fund Insurance Company
- NFJ Investment Group LP
- Nicholas Applegate
- PEA Capital LLC
- PIMCO Advisors Distributors LLC
- RCM Capital Management

Venezuela
- Adriática de Seguros C. A.

AFRICA

Burkina Faso
- Foncias

Egypt
- Arab International Insurance Company S. A. E.
- Arab International Life Assurance Company S. A. E.

Ivory Coast
- SAFARRIV

Selected

- Group companies
- Associated enterprises
- Joint ventures

Regional insurance centers
Representative offices
Representative agencies

The addresses of all Allianz companies can be found at www.allianzgroup.com/companies

EUROPE (EXCLUDING GERMANY)

Austria
- Allianz Elementar Lebensversicherungs-Aktiengesellschaft
- Allianz Elementar Versicherungs-Aktiengesellschaft

Belgium
- AGF Belgium Insurance

Bulgaria
- Allianz Bulgaria Insurance and Reinsurance Company Ltd.
- Allianz Bulgaria Life Insurance Company Ltd.
- Commercial Bank Allianz Bulgaria Ltd.

Croatia
- Allianz Zagreb d.d.

Czech Republic
- Allianz pojišťovna, a.s.

France
- AGF Asset Management
- Assurances Générales de France
- Assurances Générales de France IART S. A.
- Assurances Générales de France Vie S. A.
- Banque AGF
- Euler Hermes S.F.A.C. S. A.
- Mondial Assistance S. A.

Great Britain
- Allianz Cornhill Insurance plc
- RCM (UK) Ltd.

Greece
- Allianz General Insurance Company S. A.
- Allianz Life Insurance Company S. A.

Hungary
- Allianz Hungária Biztosító Rt.

Ireland
- Allianz Irish Life Holdings p.l.c.
- Allianz Worldwide Care Ltd.

Italy
- Allianz Subalpina Società di Assicurazioni e Riassicurazioni S. p. A.
- Lloyd Adriatico S. p. A.
- Riunione Adriatica di Sicurtà S. p. A.

Luxembourg
- Allianz Dresdner Asset Management Luxembourg S. A.
- Dresdner Bank Luxembourg S. A.
- International Reinsurance Company S. A.

Netherlands
- Allianz Nederland Levensverzekering N. V.
- Allianz Nederland Schadensverzekering N. V.
- Zwolsche Algemeene Schadeverzekering N. V.

Poland
- T.U. Allianz Polska S. A.
- T.U. Allianz Polska Zycie S. A.

Portugal
- Companhia de Seguros Allianz Portugal S. A.

Romania
- Allianz Ţiriac Insurance S. A.

Russian Federation
- Ost-West Allianz Insurance Company
- Russian People's Insurance Society "Rosno"

Slovakia
- Allianz-Slovenská poist'ovna a. s.

Spain
- Allianz Compañía de Seguros y Reaseguros, S. A.
- Eurovida, S. A. Compañía de Seguros y Reaseguros
- Euler Credito y Caution

Switzerland
- Allianz Risk Transfer AG
- Allianz Suisse Lebensversicherungs-Gesellschaft
- Allianz Suisse Versicherungs-Gesellschaft
- Dresdner Bank (Schweiz) AG
- ELVIA Reiseversicherungs-Gesellschaft AG

Turkey
- Koç Allianz Hayat ve Emeklikik A. S.
- Koç Allianz Sigorta T. A. S.

ASIA

Brunei
- National Insurance Company Berhad

China
- Allianz Asset Management Ltd.
- Allianz Dresdner Asset Management Hong Kong Ltd.
- Allianz Insurance Company – Guangzhou Branch
- Allianz Insurance (Hong Kong) Ltd.

Indonesia
- P. T. Asuransi Allianz Utama Indonesia

Japan
- Allianz Fire and Marine Insurance Japan Ltd.
- Dresdner Kleinwort Wasserstein (Japan) Ltd.

Laos
- Assurances Générales du Laos

Malaysia
- Allianz General Insurance Malaysia Berhad
- Allianz Life Insurance Malaysia Sdn Berhad

Pakistan
- Allianz EFU Health Insurance Ltd.

Singapore
- Allianz Insurance Company of Singapore Pte. Ltd.

South Korea
- Allianz Life Insurance Company Ltd.

Taiwan
- Allianz President General Insurance Co. Ltd.
- Allianz President Life Insurance Co. Ltd.

Thailand
- Allianz CP General Insurance Company, Ltd.

United Arab Emirates
- Allianz Versicherungs-AG (Dubai Branch)

AUSTRALIA

- Allianz Australia Ltd.

We have learned the lessons from last year's loss and adapted our strategy to the new market and risk situation.

The result is our "Three Plus One" program. It continues the earlier Allianz initiatives for securing and increasing profits, makes them more precise and defines the framework for our actions until 2005. It is designed to sharpen the focus of the Group's business activities, boost its competitiveness and strengthen its orientation towards the sustainable creation of value.

The "Three Plus One" program comprises four mutually complementary, cross-linked initiatives that are implemented simultaneously. The first three are aimed at restoring the known financial strength and performance of Allianz in all relevant entrepreneurial dimensions. The fourth point, the "Plus One," goes beyond these initiatives. Its purpose is to make sure that our future competitiveness is the key driver in the implementation of all these measures.

The four strategic concepts of "Three Plus One" are the following:

The "Three" stands for protecting and strengthening our capital base, for a significant boost of our operating profitability and for a focused portfolio – and thus a reduction of complexity. That is the program with which we will fortify the foundation of our business activity. In the "Plus One" concept, we are focusing on the fundamental strengthening of our competitiveness and increasing value.

What stands behind this program and what progress has already been achieved?

1 Protecting and strengthening our capital base

If we want to remain a reliable business partner for our customers and be able to implement our ambitious growth and profitability plans, we must have adequate equity and risk capital. That was the purpose of our substantial capital increase in April 2003. We are pressing ahead with the extension of a company-wide risk management system that protects the capital base by setting risk standards and limits that are applicable worldwide. At the same time, all business activities are brought into line with our internal risk capital model, which places particular emphasis on diversification. This is based on the fact that the risk capital required for an entire risk portfolio is less than the sum of the capital needs of all the individual risks it contains, because the probability that various worst-case scenarios will occur at the same time is extremely low. To limit our exposure to stock market fluctuations, we scaled down shareholdings such as those in Beiersdorf and Munich Re, which concentrated risk because of their size, and reduced the overall share of stocks in our investment portfolio from 19 to 16.4 percent. At the same time, the proceeds from these transactions and from the sale of sub-critical activities strengthened our shareholders' equity. Overall, our equity capital grew by 6.9 billion euros to 28.6 billion euros.

2 Significant boost of our operating profitability

Here, it is a matter of making sure that Allianz operates and grows profitably. We adjusted the prices and conditions in the insurance business to the actual risk situation, exposed ourselves to fewer additional capital market risks, continually ramped up the efficiency of our operations and eliminated those risks from our existing portfolio which were not matched by an adequate profit potential. The major successes in the reporting year were the acceleration and deepening of the turnaround programs at Fireman's Fund, Allianz Global Risks, AGF and Dresdner Bank, as well as the improvement of the combined ratio in property and casualty insurance from 105.7 to 97.0 percent. In Life insurance, we brought down the expense ratio, and we reduced the cost-income ratio in asset management and at Dresdner Bank. These indicators are the most effective levers for improving operating income.

Important prerequisites were rigorous cost management in all segments, especially in life insurance, and, where necessary, a radical reform of our business models with a clear profitability target. Having already completed this work in the U.S.A., Australia and Austria, we continued to pursue it vigorously in the reporting year in Switzerland, in our asset management segment, at Dresdner Bank and in France. Divesting subcritical activities and risks with no corresponding profit opportunities is another key element of the "Three Plus One" program.

3 A leaner portfolio and reduction of complexity

In the past decades, we have used openings in the market to build up a far-reaching international business portfolio. That made good sense, because such opportunities can vanish with unexpected speed. Now, we are subjecting this portfolio to a painstaking analysis with the objective of disposing of those interests which did not meet our original expectations.

By now, the number of disposals has reached 18. That freed up approximately 0.9 billion euros in risk capital and 1.9 billion euros in liquidity. But our primary concern is not just to free up risk capital; rather, we are striving for proximity to the customer and efficient management. We do not want to tie up valuable resources in businesses that offer no prospects of achieving our ambitious goal of sustainable profitable growth.

Down the line, the reduction of complexity will increase efficiency, for example by pooling IT procurement worldwide. In the reporting year, we generated savings of about 55 million euros from the part of our global purchasing volume analyzed thus far (160 million euros). That is 35 percent of the budget considered. Increased efficiency and better service are also the objectives of merging similar businesses or placing them under central control. Allianz Marine & Aviation and Allianz Risk Transfer, Mondial and Euler Hermes, as well as Allianz Global Risks, are units that were born of this logic.

The reduction of complexity and the concomitant increase of earnings are also served by efficient synergy management. That is why last year we regrouped the units Allianz Knowledge Management, International Department Health, and Synergy Projects in "Allianz Group Business Services". The mission of this Group Center is to support the operating units worldwide in increasing their earnings power through an even more targeted transfer of know-how, best practice exchanges, and the exchange of experts.

Plus 1 Sustainable increase of our competitive strength and value

This element of our strategy, the "Plus One," is our "On Top Fitness and Outperformance Program". By that we mean the sustainable increase of our competitiveness and our company value beyond the usual parameters: by strengthening our core business, refining management instruments and accelerating profitable growth. The efficiency gains from the first three program components of "Three Plus One" are invested in business areas that are best suited to reaching these objectives. These can be individual markets, our sales organization or the sharpening of our customer focus.

The central concepts linked to this component are "Customer Satisfaction" and "Sales Culture". The quality of our services and products, our marketing drives, our customer interfaces and the back office processes supporting them must all converge in one point: we want to be the consumer's first choice and not compete on price alone. Our objective is to create life-long customer relations that are beneficial to both partners.

In order to reinforce the entrepreneurial outlook of the company, we have changed the process of capital allocation (more about this topic on page 25 of this Annual Report). The holding has now taken on the role of a capital market in which each operating unit competes for additional capital. And only those units that present the best business plans and can prove the highest creation of added value will qualify for more risk capital. In keeping with this concept, we have reduced the volume of risk capital in those units of Dresdner Bank that are non-strategic or unprofitable, for example in the credit restructuring unit IRU and in the investment portfolio. Instead, this risk capital was allocated to segments that generated higher income. Overall, this redirection of capital resources has strengthened the profitability of Allianz and increased the normalized return on capital employed across all segments from 3.1 to 12.6 percent [*)]. The internal capital market thus created will enhance the entrepreneurial spirit of the entire organization, because it rewards those whose local strategies are successful with their customers while at the same time generating an attractive return on investment. And that is very much in the interest of our shareholders.

We are convinced that this customer relations oriented approach creates added value and secures the basis for sustainable profitable growth. That makes it the decisive vector for the implementation of the entire "Three Plus One" initiative, right up to our highest strategic objective: we want to be the leading international financial services provider for insurance, private pensions and asset management, we want to be the one company that people can really trust.

*) In this calculation, investment income is determined by means of a normalized performance rate. We thereby smooth out the influence of fluctuations in the capital markets and of profit taking. At present, we are normalizing stock performance at 8.5 percent.

The Allianz Group is managed and controlled according to the principle of value-based management.

The goal of our corporate policy is to consistently meet the expectations of our shareholders over the long term. We want shareholders, employees, customers and our social surroundings to profit from the value our company creates.

What do we mean when we talk about the creation of wealth? The capital that is employed by the company must yield a higher return than a comparable alternative investment. In order to reach this objective, we apply the EVA® (Economic Value Added) concept company-wide. Adapted to the specific requirements of our industry and the needs of Allianz, EVA® determines our company's economic goals. It provides a measure of our performance and plays an important role in setting the remuneration of management.

Basic idea

The basic idea behind EVA® involves comparing profit with the cost of capital. EVA® – whether positive or negative – is the difference between the two. It tells us whether or not our profits exceed the return expected by our shareholders. Thus, EVA® is the result of the following calculation:

EVA® = Profit – (Capital employed x Cost of capital)

The cost of capital represents the return an investor can expect from an alternative investment with comparable risk. An EVA® greater than zero indicates that an added value for the shareholder has been created. If, on the other hand, the EVA® becomes negative, that means a shareholder would have received a greater return from another risk adequate investment than from Allianz shares. In this case, his investment has destroyed value instead of increasing it.

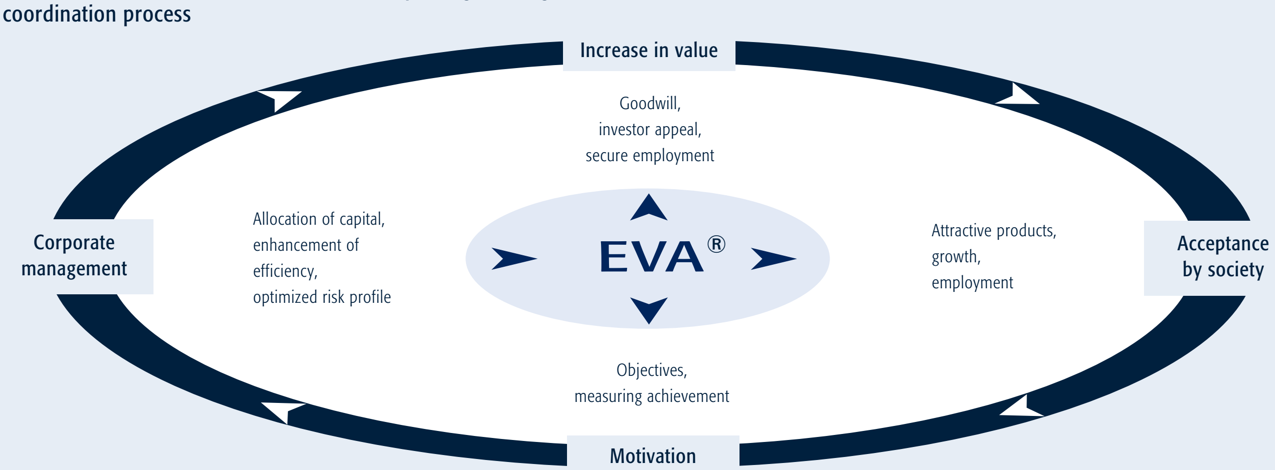
With EVA®, we have a measuring instrument that

- takes into account our industry-specific risks, and
- establishes a relationship between corporate profit and the minimum return our investors expect from the capital they have invested.

Central and decentral elements

These considerations are important because they support value-based management of the Allianz Group and at the same time allow us to retain a decentralized structure. Why do we need decentralization? We are convinced that the management of our business entities worldwide is in the best position to determine what measures are appropriate for making their companies more profitable. They have to decide what risks they can take – for example, when they write insurance policies, extend loans, invest funds or make other managerial decisions – to generate a specific profit.

Economic Value Added (EVA®): An all-encompassing steering and coordination process



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The Group, on the other hand – and this is where the central management instrument comes in – must look after the interests of shareholders and make sure that the sum total of the risks entered into remains acceptable for the company as a whole and that the actual profit realized justifies the investment of capital.

Risk capital

In order to do this, we start by determining the amount of capital each individual operational entity requires to cover the financial risks involved in ongoing business activities. On the one hand, the required capital depends upon the risks that are typical for the products of our Group companies, i.e., premium, reserve and credit risks plus risks in connection with capital investment and operational risks. On the other hand, the amount of capital needed is geared to the mandatory level of security that is centrally prescribed for the group as a whole. Uniform standards are also applied when determining risk capital. For this purpose, risk was up to now measured by means of the Standard & Poor's model. Beginning in fiscal 2004, we will apply our internal risk model, which permits a more precise valuation of company-specific risk factors.

Value added

As holding company, we assign available capital to our operational entities on the basis of efficiency and risk. In this process, only those units can count on growth capital

- which operate in a profitable market or business segment,
- which transform their market position into sustainable creation of value and become a market leader,
- whose orientation and competency fit in with the long-term strategic orientation of the Allianz Group, and
- which are in a position to pay dividends that are at least equal to their capital costs.

Profits that exceed capital costs can be retained by the companies to finance their internal growth. That means: our most profitable companies have direct access to considerable funds to finance their growth. This dividend model, which applies as of 2004, provides for two exceptions:

- When a group company must be restructured, it can temporarily be exempted from the dividend rule in order to be able to build equity.
- Certain units which are building up business in strategically important future markets are, for the time being, not held to pay dividends – for example our organizations in China and India.

The liquidity from divided payments is used by the holding to meet external obligations, i.e. servicing debt and paying dividends to shareholders. In addition, the remaining capital can be used to finance growth.

All Group companies are thus responsible for generating a return on their risk capital that covers at least the cost of capital. Added value results only when this threshold is exceeded. But that is only the minimum we demand. Over the medium term, we expect our business units to generate a return of 15 percent or more on the capital employed. That means that the units must know which business activities will increase the value of their companies and concentrate on these activities. New value drivers must also be built up, for example, through new products, more cost-effective processes and optimized distribution channels. Local management must also prevent value from being destroyed along the value added chain. If this happens, countermeasures must be adopted immediately.

The Group Center supports the business units in this continuous optimization process. The jointly acquired experience then flows into mandatory operational targets. For example, this involves determining the cost and claim quotas a unit will have to achieve in future periods to attain a sustainable increase in EVA® and thereby meet, if not exceed, the expectations of our shareholders. In measuring our success, we minimize the impact of capital market fluctuations by basing our calculations on "normalized" long-term average returns.

Management remuneration

Since EVA® is the key indicator that shows us whether or not we are generating a profit, the remuneration of senior management is based to a significant extent upon this factor. That means we have opted for an incentive system that helps make the continuous increase in the value of the company a priority concern that cuts across our entire organization.

Our plan for achieving economic value added primarily benefits our shareholders. However, our customers, employees and the society in which we operate benefit just as much. After all, sustainable success can only be achieved by offering excellent products at attractive prices that satisfy our customers, generate sales to secure jobs and produce profits that allow us to continue and increase our involvement in society.

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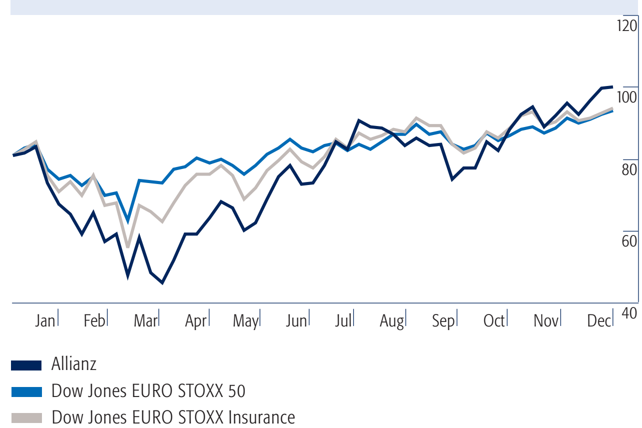
After three bearish years, confidence has returned to the stock market.

The surprisingly quick end of the war in Iraq allayed many fears on the part of the investors and paved the way for widespread market optimism. This change in mood also drove up stock market indicators. Considered over the entire year, the Allianz share price went up 23.9 percent and outperformed the corresponding Dow Jones EURO STOXX Insurance Index. Above all, we take this increase in value as a recognition of our decisive improvements in the operating business and we are pleased that after the very bad year of 2002, investors' confidence is once again growing. The broad-based recovery of our business incited us to once again propose to distribute a dividend of 1.50 euros per share for the year 2003, even though the number of our shares is now significantly higher.

The Allianz share gets back on track

After the difficult stock market years 2001 and 2002, the Allianz share got back on track in the reporting year. Parallel to the escalation of the crisis in Iraq, however, our share price suffered another steep decline until March. But thereafter, it recovered very well and started a sustained catch-up rally, which ended with an annual plus of 23.9 percent. At that level, the Allianz share outperformed both the Dow Jones EURO STOXX Insurance (+ 16.5 percent) as well as the cross-industry Dow Jones EURO STOXX 50 (+ 15.7 percent); but the recovery was weaker than that of the German stock index DAX (+ 37.1 percent). The rise of the Allianz share price after the capital increase is a convincing proof of trust and an indication that the market is well aware of our financial strength and our marked improvements in operations.

Development of the Allianz share price versus Dow Jones EURO STOXX 50 and Dow Jones EURO STOXX Insurance
indexed on the Allianz share price (Xetra)*) in €



*) Adjusted for capital measures (capital increase)
Source: Thomson Financial Datastream
Current information on the development of the Allianz share price is available on the Internet at www.allianzgroup.com/investor-relations.

Since this recovery of our share price followed a massive deterioration over more than two years, it was not sufficient to post a positive performance in the ten-year comparison, which stands at an annual average minus 1.9 percent. If we extend the observation period and look at the development of the Allianz share price over the last twenty years, the average increase comes to 8.2 percent per year.

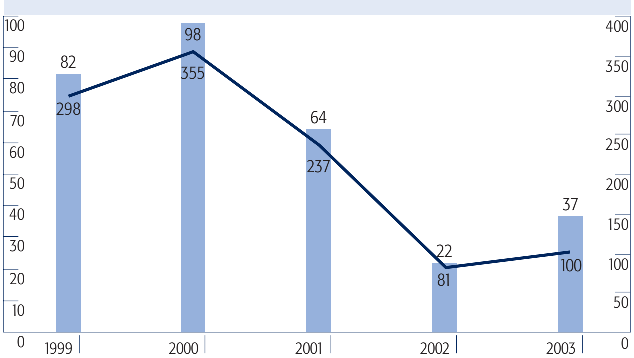
Allianz share performance in comparison
Average annual performance in %

Performance	1 year 2003	5 years 1999 – 2003	10 years 1994 – 2003
Allianz (excl. dividends)[*]	23.9	– 18.7	– 1.9
Allianz (incl. dividends)[*]	26.3	– 18.0	– 1.3
DAX	37.1	– 4.6	5.8
Dow Jones EURO STOXX 50	15.7	– 3.8	6.8
Dow Jones EURO STOXX Insurance	16.5	– 12.5	2.4

[*] Adjusted for capital measures (capital increase)
Source: Thomson Financial Datastream

With a market capitalization of 37 billion euros at the end of the year, Allianz remains one of the most highly valued financial services providers in Europe. Our share is listed in all the major indexes: Germany's DAX, Dow Jones STOXX 50 and MSCI Europe, and it is used in calculating the FTSE Eurotop 100 and the MSCI World Index. The Allianz share is also included in the Dow Jones Sustainability Index. This index only lists the top 10 percent of companies in a given industry that have obtained the best rankings in a sustainability rating. The ranking is based on economic, ecological and social criteria. More information on this is available at www.allianzgroup. com/ sustainability.

Market capitalization and share price
Market capitalization[1] in € bn — Price[2] in €



Market capitalization
Year-end price

[1] Market capitalization calculated without treasury shares
[2] Adjusted for capital measures (capital increase)
Source: Thomson Financial Datastream

Weighting of the Allianz share in major indexes on December 31, 2003 in %

DAX (fourth largest single share)	8.0
Dow Jones EURO STOXX 50 (13th largest single share)	2.4
Dow Jones EURO STOXX Insurance (largest single share)	19.8
MSCI Europe Index (34th largest single share)	0.7
MSCI Europe Insurance Index (largest single share)	14.2
MSCI World Index (96th largest single share)	0.2

Sources: Bloomberg, Thomson Financial Datastream, Morgan Stanley Capital International

Successful capital increase
In April 2003, we increased our capital with subscription rights and issued 117 million new shares for this purpose. Fifteen old Allianz shares entitled their holders to acquire seven new shares at a price of 38 euros each, so that the transaction strengthened our capital with 4.4 billion euros. On this basis, we are better able to bring our competitive advantages into play. The capital increase was well received: close to 100 percent of shareholders accepted the very attractive offer and subscribed new shares.

Key figures on the capital increase

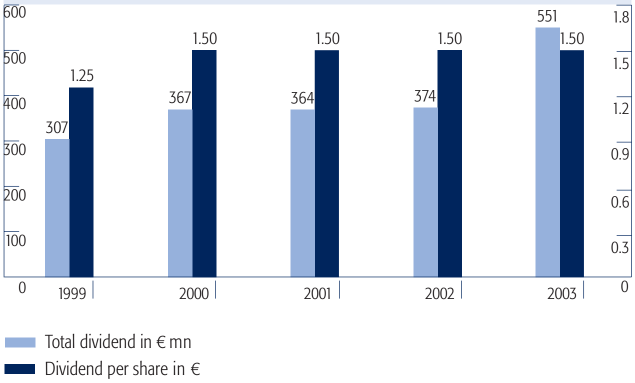
Subscription period	April 15, 2003 – April 29, 2003
Subscription ratio	15 : 7
Subscription price	38 euros
Shares issued	117.2 million
Proceeds	4.4 billion euros
Trading in subscription rights	April 15, 2003 – April 25, 2003
High/low subscription rights	9.40 euros / 7.27 euros
Closing price subscription rights	7.40 euros

Earnings per share back to a solid plus
Earnings per share followed the progress in the operating business and improved clearly from – 4.44 euros to 4.77 euros.

Higher dividend payout

We maintain the continuity of our dividend policy and propose to our shareholders at the Annual General Meeting to distribute a dividend of 1.50 euros per share for 2003, unchanged from last year. Due to the higher number of Allianz shares, the dividend payout will increase 47 percent to 551 million euros.

Total dividend and dividend per share



Public offer to holders of profit participation certificates

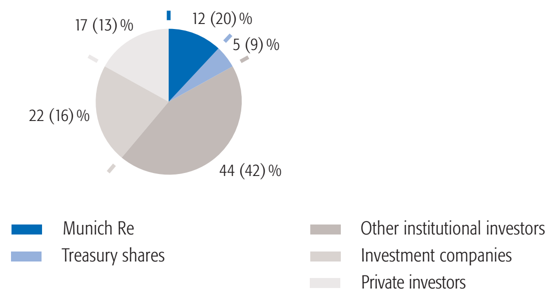
In a voluntary public offer, we invited the holders of Allianz profit participation certificates to exchange their certificates for Allianz shares. This offer was designed to restructure our capital. The exchange was completed in January and ended with a satisfactory acceptance ratio of 86 percent. We issued a total of 6.1 million shares from treasury stock to holders of profit participation certificates. Additional information on the exchange of profit participation certificates is provided on pages 139 and 140 of this Annual Report. Following this offer, the terms for the certificates still outstanding remain in force. We do not intend to issue a call for their redemption as of December 31, 2006.

Free float now over 83 percent

The free float percentage of our share continued to rise in 2003, from 71 percent in the previous year to the current 83 percent. The increase is mainly attributable to Munich Re, which reduced its stake in Allianz from about 20 percent to close to 12 percent. This makes Allianz one of the largest publicly held corporations in Europe. A higher free float percentage raises the liquidity of our share and upgrades its weighting in most major indexes. Up-to-date information on our shareholder structure is available on the Internet at www.allianzgroup.com/investor-relations.

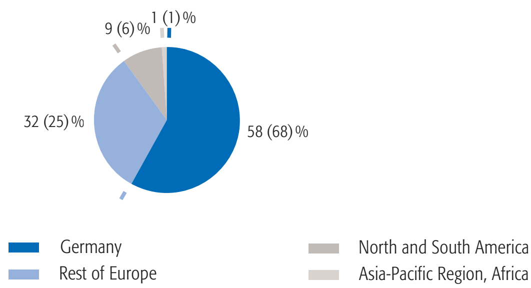
Shareholder structure on December 31, 2003

Free float: 83 %, Long-term investments: 17 %



Source: Allianz AG share register

Regional distribution of share ownership on December 31, 2003



Source: Allianz AG share register

The higher free float and the capital increase also led to a rise of the number of shareholders, from 510,000 to over 570,000. Trading volumes went up as well. On an average day, approximately 3.9 million Allianz shares are bought and sold through the electronic trading system Xetra. That put the trading volume of our share in second position among the thirty DAX stocks.

Since the end of 2000, Allianz shares have also been traded on the New York Stock Exchange in the form of American Depositary Receipts (ADR). Ten ADRs are the equivalent of one Allianz share.

Allianz share key indicators at a glance

		2003	2002	2001
Subscribed capital on December 31	€	984,880,000	682,408,000	682,055,680
Number of shares on December 31		384,718,750	266,565,625	266,428,000
Number of shares on December 31 (excluding treasury shares)		367,139,707	243,124,517	241,189,535
Average number of shares in the fiscal year[2]		338,201,031	276,854,382	277,763,292
Average number of shares traded per day on Xetra	mn	3.9	1.7	1.0
Share price on December 31[2]	€	100.1	80.8	237.1
High for the year[2]	€	101.5	255.6	355.3
Low for the year[2]	€	40.5	68.4	183.0
Market capitalization on December 31[1]	€ bn	36.7	22.0	64.2
Share price performance in the year (excluding dividend)[2]	%	23.9	– 65.9	– 33.3
Dividend per share	€	1.50	1.50	1.50
Earnings per share[2]	€	4.77	– 4.44	5.71
Earnings per share, before depreciation of goodwill[2]	€	8.92	– 0.24	8.62
Return on equity	%	6.4	– 4.6	4.7
Return on equity, before depreciation of goodwill	%	12.1	– 0.3	7.1

[1] Excluding treasury shares
[2] Adjusted for capital measures (capital increase)

Value-oriented management

Our foremost objective is profitable growth. That is why we use "Economic Value Added" (EVA®) as the key indicator for controlling our business. For more information on this subject, see pages 24 and 25 of this Annual Report.

Performance-based remuneration

Our "Group Equity Incentive Plan" gives top-level management an additional incentive for increasing the Allianz market capitalization. It combines two instruments through which management participates in the development of the Allianz share price. On the one hand, the stock appreciation rights (SAR) known from previous years continue to exist. On the other hand, restricted stock units (RSU) were issued for the first time. The number issued to each senior manager depends mainly on the EVA created; in addition, the achievement of individual objectives is taken into account. The combination of stock appreciation rights and restricted stock units balances earnings and risk and reduces the leverage effect that comes about especially with a relatively low share price. The new system also meets the demands of shareholder representatives and of corporate governance bodies. These had expressed their objection to having senior management participate in the development of the company's value solely by issuing stock options. In 2003, approximately 550 senior managers were entitled to stock-based remuneration. Due to the unsatisfactory share price development in the past years, the stock appreciation rights for the years 1999 to 2002 are far out of the money, so that the participants were not yet able to derive any benefits from them. For detailed information about the Group Equity Incentive Plan, see pages 167 and 168 of this Annual Report.

Basic Allianz share information

Share type	Registered share
Denomination	Share with no par value
Stock exchanges	All German stock exchanges, London, Paris, Zurich, New York
Security codes	WKN 840 400 ISIN DE 000 840 400 5 Common code 001182013 CUSIP 018805 10 1
Reuters	ALVG.DE
Bloomberg	ALV GY

Growing interest in the Annual General Meeting

Our Annual General Meeting for fiscal 2002 was attended by approximately 7,500 shareholders, 1,800 more than in the previous year. At the same time, the voting share capital represented decreased approximately 7 percentage points to about 40 percent. This was mainly due to our growing free float and to shares held by investors outside Germany. To nonetheless reach as many investors as possible, we directly addressed German asset management companies and advertised attendance by Internet. As in the previous year, online participants were

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able to change their instructions during the meeting, as long as voting had not yet begun. For the first time, we offered to send out the documentation for the Annual General Meeting by e-mail. This service was widely used. Detailed information on the Annual General Meeting is available at www.allianzgroup.com/agm.

Strengthening investor relations

We continued to strengthen our investor communication, particularly in view of the capital increase. After the announcement, we approached our investors in the leading European financial centers, informed them about current business developments and showed them the importance of the capital increase for the future return on their investment. Overall, we held about 250 meetings with analysts and institutional investors in the reporting year.

The information and communication offerings for our private investors are continually expanded, mainly through the Internet. On our website, investors find additional details on our Annual Report, they can download the most important Allianz publications, and now they can also subscribe to the Allianz Newsletters. This material provides up-to-date information about business developments as well as current topics or events. Private investors can follow our telephone conferences live on the Internet. And they continue to have access to the Investor Line that answers their questions on Allianz and the Allianz share 24 hours a day, seven days a week. Altogether, the investor relations team answered around 5,000 inquiries from private investors.

Financial Calendar for 2004/2005

Important dates for shareholders and analysts

May 5, 2004	Annual General Meeting
May 14, 2004	Interim report first quarter of 2004
August 16, 2004	Interim report first half of 2004
November 12, 2004	Interim report first three quarters of 2004
March 17, 2005	Financial press conference for the 2004 fiscal year
March 18, 2005	Analysts' conference for the 2004 fiscal year
May 4, 2005	Annual General Meeting
May 13, 2005	Interim report first quarter of 2005
August 12, 2005	Interim report first half of 2005
November 11, 2005	Interim report first three quarters of 2005

Comprehensive service

We want to keep you up-to-date and provide you with a comprehensive information service. Simply call us or submit your questions by mail. The Allianz Investor Line +49 1802 2554269 is available around the clock, seven days a week. Our Investor Relations Team will be delighted to answer your questions.

Additional information concerning Allianz and the Allianz share is available on our website at www.allianzgroup.com/investor-relations. From that site, you can also download a special Internet version of our Annual Report.

We will be pleased to send you our interim reports as well as any other Allianz Group publications.

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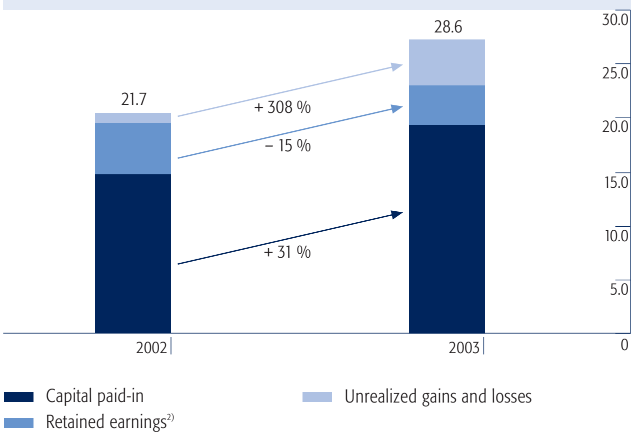
As a provider of financial services, our fundamental assets are our capital strength and solvency.

Securing our capital base was our foremost task in the reporting year. Strengthening our shareholders' equity by 6.9 billion euros, we achieved a satisfactory interim result.

Shareholders' equity, reserves and solvency

On December 31, 2003, the **shareholders' equity** of the Allianz Group amounted to 28.6 (21.7) billion euros, not including 18,246,052 treasury shares acquired at a purchase price of 4.5 billion euros. Shareholders' equity was thus 6.9 billion euros higher than in the previous year, which is mainly due to our capital increase, reserves on securities whose prices recovered, and the exchange of Allianz participation certificates against treasury shares.

Development of shareholders' equity[1] in € bn



[1] For further details see "Changes in shareholder's equity" on page 104

[2] Revenue reserves include currency translation effects (2002: – 342 million euros; 2003: – 1,916 million euros)

The objective of the capital increase was to strengthen the financial solidity of Allianz after an extremely turbulent and challenging fiscal year 2002. We offered our shareholders the subscription of 7 new shares per 15 old shares at a price of 38 euros per share. The subscription period began on April 15, 2003 and ended on April 29, 2003. 99.7 percent of our shareholders exercised their subscription rights. A total of 117 million shares were issued, which, after deduction of transaction costs, strengthened our shareholders' equity with 4.4 billion euros.

As was already stated in our Annual Report 2002, we offered the holders of Allianz profit participation certificates an exchange of these certificates into Allianz shares at a rate of eight certificates for ten Allianz shares. When the exchange period ended on January 16, 2003, 86 percent of the certificates issued had been exchanged for shares. The share certificates issued were taken from treasury stock. This outflow increased our shareholders' equity by 426 million euros after taxes.

The balance of **unrealized gains and losses** from securities held for sale is part of shareholders' equity. Following the increase of valuations in the capital markets in the second half of 2003, this balance grew to 4.3 (1.1) billion euros.

Shareholders' equity does not include **valuation reserves** for our real estate holdings nor participations consolidated at equity. After deduction of taxes, minority interests and interests of policyholders, these amounted to 1.6 (5.1) billion euros at the end of 2003.

As of December 31, 2003, Allianz Group calculated the capital elements eligible for the legally required **solvency** margin of insurance groups to have a total value of 26.0 (21.7) billion euros. At the end of 2003, the solvency margin of insurance groups required by law is expected to be 12.6 billion euros, which corresponds to a cover ratio of 206.3 (152.8) percent. However, the solvency margin directive applies only to the insurance segment and contains no capital requirements for the banking business. Until the Financial Conglomerates Directive takes effect in fiscal 2005, multiple gearing of regulatory capital is still possible in part.

In addition, all entities of the Allianz Group had sufficient own funds and met local solvency requirements.

Ratings

	Standard & Poor's	Moody's	A. M. Best
Category			
Insurer Financial Strength	AA–	not rated	A+
Outlook	Negative		Negative
Counterpart Credit	AA–	not applicable	not applicable
Outlook	Negative		
Senior Unsecured Debt	AA–	Aa3	aa–
Outlook		stable	Negative
Subordinated Debt	A	A2	not rated
Outlook		stable	
Commercial Paper (Short Term)	A-1+	P-1	not rated

In the spring and summer of 2003, the Allianz Group's ratings were slightly downgraded by several rating agencies. This was a reaction to the reticent attitude of the capital markets and our weak prior-year operating result. The deterioration of our capital base in the previous year was also reflected in this evaluation.

But the rating agencies did acknowledge the substantial increase of our shareholders' equity after the capital increase in April 2003. While ratings across the insurance industry were generally declining, our ratings stabilized. Standard & Poor's, for example, attests to our "very strong" financial status and continues to maintain its "AA–" rating. A. M. Best assigns Allianz Group an "A+", the second highest rating. But Standard & Poor's still links this evaluation to a negative outlook. We are striving to change this perception through lasting improvements of our earnings performance.

Borrowing

In the reporting year, we repaid a first tranch (50 percent) of the index-linked convertible MILES bond by exchanging these bonds for shares of Munich Re. The number of shares to be repaid related to the average level of the German stock index DAX and the average share price of Munich Re during a twenty-day reference period. On August 25, 2003, 5.5 million Munich Re shares were delivered to MILES investors. This transaction lowered our interest in Munich Re by approximately 3 percent. The bonds still outstanding, were repaid in cash on March 2, 2004.

In February 2003, the Deutsche Bank convertible bond reached maturity. Since the share price of Deutsche Bank was below the striking price, the 1-billion euro bond was repaid in cash. Another 767-million euro bond, which reached maturity in May 2003, was repaid on time.

The Allianz Group still has recourse to short-term financing instruments, predominantly commercial papers. At the end of the year, these liabilities added up to approximately 3 billion euros. Interest paid on commercial papers amounted to 53.4 million euros in 2003.

Outstanding bonds of Allianz AG*) – overview

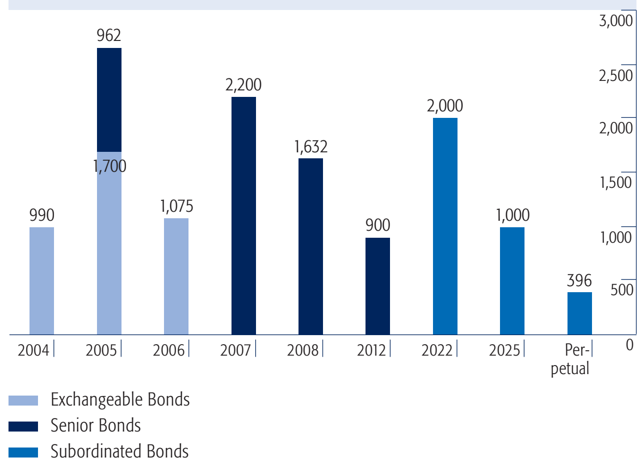
	Volume € bn	Interest paid in 2003 € mn
Senior straight bonds	5.7	303
Convertible bonds	3.8	155
Subordinated bonds	3.4	223

See table in note 32 "Interest and similar expenses", table 15 "Participation certificates and subordinated liabilities", table in note 19 "Certificated liabilities" in the Notes to the Consolidated Financial Statements.

*) Bonds and convertible bonds issued or guaranteed by Allianz AG in the capital market.

Certificated liabilities by maturity

Nominal values in € mn



In February 2004 we issued a perpetual subordinated bond with a nominal value of 1.5 billion euros. We thereby took advantage of the low interest environment and the high liquidity in the market to refinance short-term by long-term debt at attractive conditions. The bond is issued as part of the Debt Issuance Program launched in December 2003. This program provides a framework for issuing debt, and in particular long-term debt; the technical processing is considerably simplified by standardized documentation requirements.

The following table provides an overview of bonds issued by Allianz AG[1]:

Allianz AG bond issues[1]

		Interest paid in 2003
1. Senior Bonds		
5.75 % bond issued by Allianz Finance B. V., Amsterdam		
Volume	€ 1.1 bn	
Year of issue	1997/2000	
Maturity date	7/30/2007	
SIN	194 000	
ISIN	DE 000 194 000 5	
Interest cost		**€ 63.7 mn**
5.0 % bond issued by Allianz Finance B. V., Amsterdam		
Volume	€ 1.6 bn	
Year of issue	1998	
Maturity date	3/25/2008	
SIN	230 600	
ISIN	DE 000 230 600 8	
Interest cost		**€ 84.5 mn**
3.0 % bond issued by Allianz Finance B. V., Amsterdam		
Volume	CHF 1.5 bn	
Year of issue	1999/2000	
Maturity date	8/26/2005	
SIN	830 806	
ISIN	CH 000 830 806 3	
Interest cost		**€ 34.1 mn**
4.625 % bond issued by Allianz Finance II B. V., Amsterdam		
Volume	€ 1.1 bn	
Year of issue	2002	
Maturity date	11/29/2007	
SIN	250 035	
ISIN	XS 015 878 835 5	
Interest cost		**€ 52.5 mn**
5.625 % bond issued by Allianz Finance II B. V., Amsterdam		
Volume	€ 0.9 bn	
Year of issue	2002	
Maturity date	11/29/2012	
SIN	250 036	
ISIN	XS 015 879 238 1	
Interest cost		**€ 51.2 mn**
Total interest cost for senior bonds		**€ 286.0 mn**
2. Subordinated Bonds		
6.125 % bond issued by Allianz Finance II B. V., Amsterdam		
Volume	€ 2 bn	
Year of issue	2002	
Maturity date	5/31/2022	
SIN	858 420	
ISIN	XS 014 888 756 4	
Interest cost		**€ 123.6 mn**
7.25 % bond issued by Allianz Finance II B. V., Amsterdam		
Volume	$ 0.5 bn	
Year of issue	2002	
Maturity date	Perpetual Bond	
SIN	369 290	
ISIN	XS 015 915 072 0	
Interest cost		**€ 33.0 mn**
6.5 % bond issued by Allianz Finance II B. V., Amsterdam		
Volume	€ 1 bn	
Year of issue	2002	
Maturity date	1/13/2025	
SIN	377 799	
ISIN	XS 015 952 750 5	
Interest cost		**€ 66.1 mn**
Total interest cost for subordinated bonds		**€ 222.6 mn**

		Interest paid in 2003
3. Exchangeable Bonds		
2.0 % exchangeable bond issued by Allianz Finance B. V., Amsterdam		
Exchangeable for	Siemens AG shares	
Volume	€ 1.7 bn	
Year of issue	2000	
Maturity date	3/23/2005	
Current exchange price	€ 149.64	
SIN	452 540	
ISIN	DE 000 452 540 7	
Interest cost[2]		**€ 84.2 mn**
Received option premium at issue	€ 256.8 mn	
Index-linked exchangeable bond (Miles) issued by Allianz Finance II B. V., Amsterdam		
At the issuer's discretion, exchangeable or repayable in shares of	E.ON AG, BASF AG, Münchener Rückversicherungs-Gesellschaft AG or certain other shares	
Volume	€ 1.0 bn	
Year of issue	2001	
Maturity date	2/20/2004	
Exchange ratio	Relevant DAX reference price divided by the relevant reference price of the shares selected	
Outperformance bonus	1.25% p.a. of the relevant DAX reference price	
SIN	600 385	
ISIN	DE 000 600 385 8	
Interest cost		**€ 17.7 mn**
1.25 % exchangeable bond issued by Allianz Finance B. V., Amsterdam		
Exchangeable for	RWE AG shares	
Volume	€ 1.1 bn	
Year of issue	2001	
Maturity date	12/20/2006	
Current exchange price	€ 50.16	
SIN	825 371	
ISIN	XS 013 976 180 2	
Interest cost[2]		**€ 49.6 mn**
Received option premium at issue	€ 178.1 mn	
Total interest cost for exchangeable bonds		**€ 151.6 mn**
4. Participation certificate		
Allianz AG participation certificate		
Nominal amount	€ 31.2 mn	
Payout per certificate for 2002	€ 3.60	
Current redemption price	€ 72.39	
SIN	840 405	
ISIN	DE 000 840 405 4	
Issues that reached maturity in 2003		
6.0 % bond issued by Allianz Finance B. V., Amsterdam		
ISIN	DE 000 132 275 8	
Matured on	5/14/2003	
Interest cost		**€ 17.4 mn**
3.0 % exchangeable bond issued by Allianz Finance B. V., Amsterdam		
ISIN	DE 000 197 280 0	
Matured on	2/4/2003	
Interest cost		**€ 3.7 mn**
Total interest cost 2003 for matured issues		**€ 21.1 mn**
Total interest cost		**€ 681.4 mn**

[1] Bonds and exchangeable bonds issued or guaranteed by Allianz AG, excluding private placements
[2] Includes coupon payment and option premium at amortized cost

To go directly to any chapter, simply click ➤➤
on the headline or the page number.

Index Group Management Report

In 2003, the world economy once again suffered from exceptional adversity.

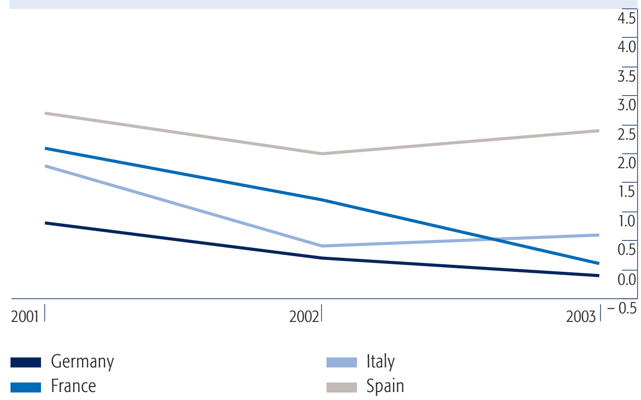
At the beginning of the year, the smoldering Iraq crisis and the subsequent war paralyzed economic growth in almost all industrialized nations. Political unrest in other oil producing countries outside Iraq, terrorist attacks worldwide, and the SARS outbreak were causes of additional uncertainty and initially prevented the world economy from regaining its footing. In the second half, however, a worldwide recovery got underway.

A weak start

The economic expectations of companies and consumers alike were not met in the year under review. Germany experienced stagnation for the third year in a row, and economic growth in the European Union came to a meager 0.7 percent. The main reason for this economic slowdown was the Iraq conflict. It prevented the nascent optimistic undercurrent from budding, and put brakes on consumption and investment plans, even though the consolidation in businesses and households had well progressed. The job market situation in the industrialized countries also remained tense and improved only in the second half of 2003, albeit very gradually in most cases.

And yet, from a global perspective, there were hopeful signs of an impending recovery. At 2.2 percent, economic growth in Japan outpaced that of Europe (0.7 percent) for the first time in many years. With the economy expanding by 3.1 percent in the U.S.A., 2.7 percent in Australia and 1.7 percent in Canada, the industrial nations across all continents reached an average expansion rate of 2.0 percent which is, on the whole, a tolerable figure. Positive impulses also came from the economies of Asia, which are rapidly catching up. Above all, robust growth in China (8.8 percent) radiated throughout the entire region, which increased its performance by an average of 5.8 percent. With a solid 5 percent growth, the East European economy also made remarkable progress. The lion's share of this expansion, however, was due to a special effect in Russia, where growth accelerated to 6.4 percent, mainly as a result of higher oil prices. On the other hand, many other East European economies which are exporting to the West, felt the full impact of virtual stagnation in the European Union and registered only moderate growth. Latin America, which is still coping with internal problems and suffered from the political crisis in Venezuela, rebounded after the slump in 2002 and expanded by a modest 1.5 percent.

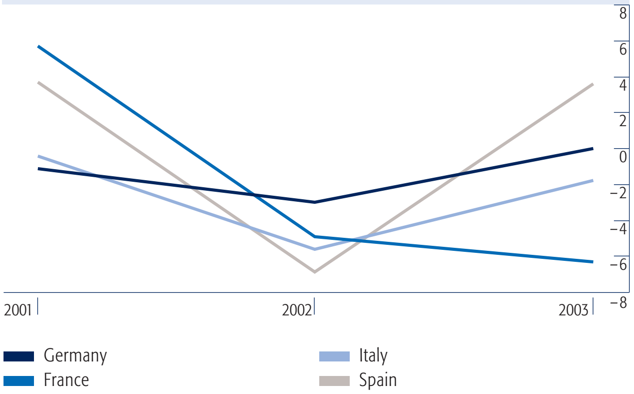
Real GDP growth in %



Sputtering recovery stifles financial services providers

Property and Casualty insurance This business segment was able to carry over its positive outlook from the previous year into 2003. It is favored by risk aversion on the part of customers and their readiness to sign up for insurance protection. Under these circumstances, property and casualty insurers in most business lines were able to impose rate adjustments corresponding to the actual risk. Higher premium income paired with only moderate increases of the claims ratio improved earnings across the market. But it became clear in the course of the year that property and casualty insurance continues to be an area of highly intensive competition, which in some cases made it impossible to enforce the necessary rate increases. Nonetheless, most insurers were able to improve their combined ratio. Disciplined cost management, risk-adequate pricing and, to some extent, more restrictive contractual conditions with clear coverage limits instead of unlimited risk transfers all helped to lower the combined ratio. Higher underwriting capacities on the part of reinsurers allowed primary insurers to spread their risks over a broader base. The most important property and casualty line, automobile insurance, developed quite differently in various markets: in Germany, it grew by about 2 percent after close to 3 percent in the previous year, mainly due to the lower number of new car registrations (see chart). At the same time, Spanish automobile insurers enjoyed an extraordinarily dynamic upsurge of over 6 percent.

New car registrations Change over previous year in %



Life and Health insurance In most industrialized countries, citizens are becoming increasingly aware of the problems of an aging population and the strains that it puts on state pension systems. Additional private and corporate retirement insurance has finally become a widely discussed topic, and frequently, life insurance plays a predominant role in this discussion. So it is not surprising that this business segment continues to attract strong demand, as is the case in Germany, for example. But this demand is concentrated on the major, financially strong providers. That is a reaction to the turbulence in the capital markets, which made it very difficult for a number of smaller insurers to generate the returns on investment that their customers expected. Another drop in stock performance at the beginning of the year and persistently low interest rates put noticeable pressure on the investment income of many life insurers. And while interest rates went up slightly in the second half, they are still at a very low level, which will be a daunting challenge for the financial management of life insurers for some time to come.

But there were positive impulses as well. In Germany, they came from the pension reform and the concomitant reevaluation of company retirement provision schemes. At the same time, the sale of private provision instruments, such as the state-subsidized “Riester” pension plans, left much to be desired. Overall, industry-wide premium income was up 3 percent. The development in other important Allianz markets such as Italy and France, however, was extremely dynamic. On the whole, the life insurance industry still felt the reluctance of customers with respect to unit-linked life insurance, which is a natural reaction to the development of the financial markets.

Mandatory health insurance is also undergoing a financial crisis, at least in Germany. The resulting discussion about future financing concepts and the curtailed scope of benefits, which ultimately brought about a change of law, is a boon to the private insurance business, at least for the time being. Driven by rate adjustments and rising health care costs, they outpaced the already good growth of the prior year by a solid 6 percent. The introduction of a higher income limit for mandatory health insurance, which reduced the number of voluntarily insured policyholders likely to opt for private insurance, had a negative effect.

Asset Management The fund management industry felt the turbulence in the capital markets in 2003 as well. Investor confidence only returned in the second half of the year. The unsteady price development in the stock and fixed-interest markets made money market funds as popular as they had been in the previous year. Total fund assets were up after having suffered a decline in each of the two previous years. That rekindled the hope of a return to the growth rates of the past, a hope that is born out by the fundamentals of this business segment, which are quite good.

In nearly all industrialized nations, citizens have to make private retirement insurance arrangements to compensate for the cut in benefits provided by state pension systems. In a number of countries such as Sweden and nearly all the Central and Eastern European countries that are joining the European Union, workers are required by law to make retirement provisions by paying into pension funds. A part of these contributions is directly invested in pension funds that are managed by institutional asset managers and not by the state. The funds industry also benefits from the fact that the baby boomer generation is now growing into a phase of life where retirement planning is receiving increasing attention. This effect was observed in nearly all major markets, although there are some significant time lags. Overall, providing for the baby boomers' retirement needs is a particularly strong growth engine for asset management in Europe and the U.S.A., and to an increasing extent also in Asia.

Banks After the serious difficulties of 2002, the German banking sector was dominated by such buzzwords as consolidation and restructuring. Now, it is in a process of fundamental transformation. The liberalization of the financial market and, even more, technical progress, are opening the door to vast economies of scale and thereby increase the pressure towards consolidation. To a growing extent, the banks are concentrating their efforts on profitable core business areas, a process that is accelerated by the prospect of new equity rules ("Basel II"). They are reducing vertical integration and breaking up the value-creation chain to make more effective use of their capital. In parallel, they are cutting costs through process automation, product standardization, outsourcing and other efficiency drivers. Risk management is being improved so that risk costs are leveling off, despite the still high number of insolvencies. These measures have strengthened the operating base of the banking business.

At the same time, the general business context is showing signs of improvement. While the gradual recovery of the economy in the second half was not sufficient to bring about a decisive revitalization of the retail business, the overall brighter picture in the capital markets had a positive impact on trading income and lent support to the securities business. But whether the current year will bring a palpable revival in the IPO business and in merger and acquisitions consulting remains to be seen.

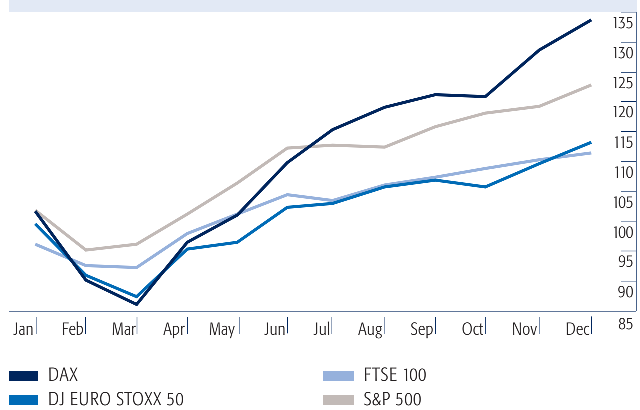
German Banks continue to suffer from the structural deficits of their home market which, by international standards, is still highly fragmented. Even the four biggest institutions together have a market share of no more than 16 percent. In other European countries, the corresponding figure is three or four times as high. That deprives German banks of the strong domestic earnings base that their international competitors have. But the current restructuring and cost cutting drives show that, helped by economic recovery, they are well on their way to making up for this deficiency.

Capital markets

For the business of Allianz – insurance, asset management and banking – the development of the capital markets plays a preponderant role. It is reflected in its turnover as much as in its earnings positions, but also influences shareholders' equity because the valuation reserves fluctuate along with market performance. In view of the uncertainties in the first half of 2003, customers remained cautious and preferred low-risk investments.

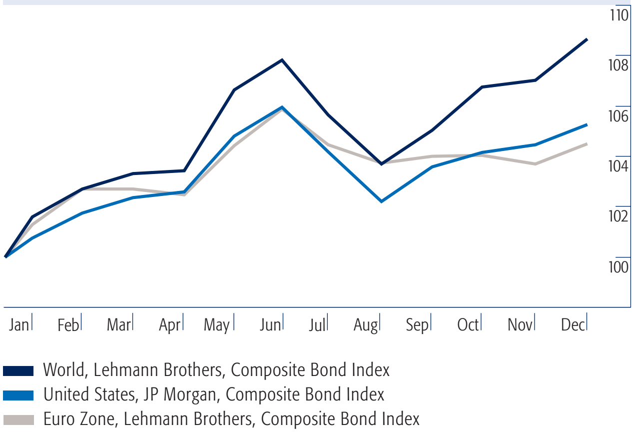
Stock markets The stock indexes moved on a rollercoaster throughout the reporting year. After a three-year slump, they once again came under heavy pressure in the spring of 2003, mainly due to the Iraq crisis and the subsequent war. In this situation, investors shied away from risk more than they had in a long time. The result of this attitude was clearly shown by the indexes in March 2003: the German stock index DAX slipped to 2,200 points, Standard & Poor's to 800 points. When it became clear that the military confrontation in Iraq was going to come to a quick end, a steep recovery began. Surprisingly positive economic indicators and corporate profits in the U.S.A. gave the turnaround considerable traction, which sustained these through the end of the year. Over the full year, the DAX rose 37 percent. Standard & Poor's closed with a plus of 26 percent.

Stock market performance 2003
December 31, 2002 = 100



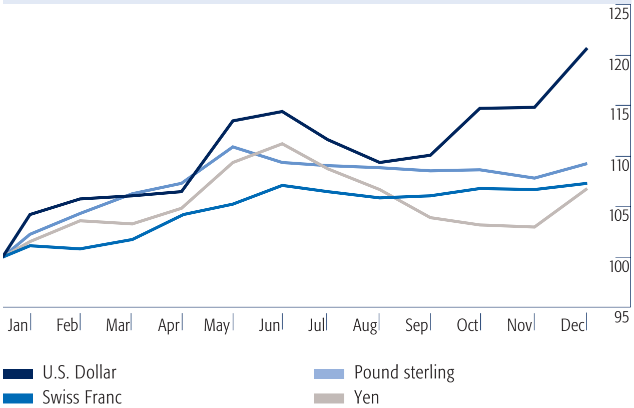
Bond markets The markets for fixed-interest securities essentially moved in the opposite direction of the stock markets. Until March 2003, investors decidedly clamored for quality bonds. The main beneficiaries of this aversion to risk were government bonds. Their yields for ten-year maturities slipped to historic lows: 3.3 percent in Germany and 3.1 percent in the U.S.A. This trend was supported by the central banks' cheap money policy: The U.S. Federal Reserve lowered its funds rate to 1 percent, while the European Central Bank cut its prime rate to 2 percent. Fears of deflation helped to accelerate the decline in yield of fixed-interest paper. When these fears had vanished and the word "inflation" once again made the rounds in the second half of the year, fixed-interest securities came under heavy pressure. In only six weeks, yields climbed 130 basis points in the U.S.A. and 80 in Germany. At the end of the year, bond markets closed with a slight plus at the long end.

Performance of Fixed Income Indexes 2003
December 31, 2002 = 100



Currencies Despite the insecurity at the beginning of 2003 over the course of events in Iraq, the U.S. dollar was relatively weak with respect to the euro. After the proclamation of the end of the war, a strong revaluation of the euro got underway. While the exchange rate dipped slightly in the summer, it came back with renewed force in September and climbed to new heights over the dollar. Over the entire reporting year, the value of the euro increased more than 15 percent with respect to the dollar. The euro also gained 8.3 percent on the pound sterling and 7 percent on the Swiss franc.

Development of foreign currencies relative to the euro
December 31, 2002 = 100



Overall Business Development

Consolidated balance sheet (short version)

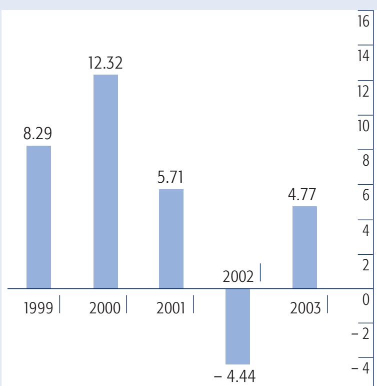
ASSETS	2003 € bn	2002 € bn	EQUITY AND LIABILITIES	2003 € bn	2002 € bn
Intangible assets	16.3	18.3	Shareholders' equity	28.6	21.7
Investments in affiliated enterprises	6.4	11.3	Minority interests in shareholders' equity	8.4	8.3
Investments	295.1	285.3	Participation certificates and subordinated liabilities	12.2	14.2
Investments held on account and at risk of life insurance policy holders	32.5	25.7	Insurance reserves	311.5	305.8
Loans and advances to banks	117.5	86.8	Insurance reserves for life insurance where the investment risk is carried by policyholders	32.5	25.7
Loans and advances to customers	203.3	188.1	Liabilities to banks	178.3	137.3
Trading assets	146.2	124.8	Liabilities to customers	154.7	147.3
Amounts ceded to reinsurers from insurance reserves	25.1	28.4	Certificated liabilities	63.3	78.8
Other assets	93.7	83.4	Other liabilities	146.4	113.2
Total assets	936.0	852.2	**Total equity and liabilities**	936.0	852.2

Consolidated income statement (short version)

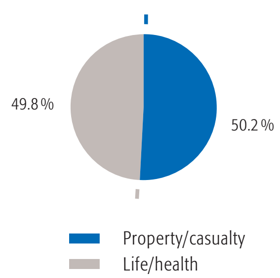
	2003 € bn	2002 € bn
Premiums earned (net)	56.0	55.1
Net interest from banking	2.8	4.0
Income from investments and affiliated enterprises	15.6	13.2
Trading income	0.2	1.5
Fee and commission income, and income resulting from service activities	6.1	6.1
Insurance benefits	– 50.0	– 50.2
Loan loss provisions	– 1.0	– 2.2
Acquisition costs and administrative expenses	– 22.1	– 24.5
Other income/expenses	– 3.7	– 3.1
Amortization of goodwill	– 1.4	– 1.2
Income before taxes	2.5	– 1.3
Taxes	– 0.1	0.8
Minority interests in earnings	– 0.8	– 0.7
Net income	1.6	– 1.2
Earnings per share in €	4.77	– 4.44

- In fiscal 2003, total premium income from the insurance business increased 2.8 percent. After adjustment for currency and consolidation effects, growth came to 7.3 percent.
- After a loss of 1.2 billion euros in the previous year, we returned to the profit zone and posted net income of 1.6 billion euros.
- The reporting year was marked by the following initiatives: we strengthened our capital base, mainly through the capital increase in spring of 2003, but also supported by the price gains in our investment portfolio. The improvements we made across all segments in the operating business, quickly returned the company to sustainable profitability. We also divested non-strategic activities and thereby reduced the complexity of our business portfolio.

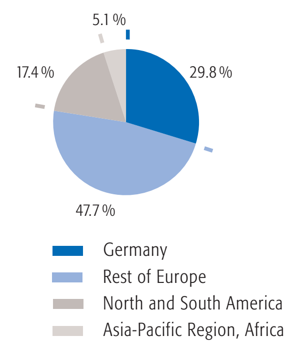
Earnings per share
in €



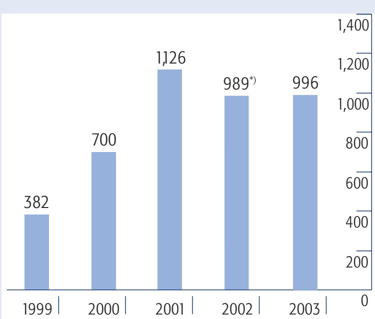
Total premium income by business segments (€ 85.0 bn)



Total premium income by regions (€ 85.0 bn)

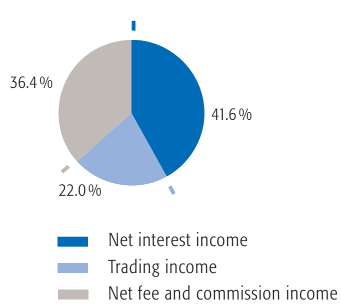


Assets under management
in € bn

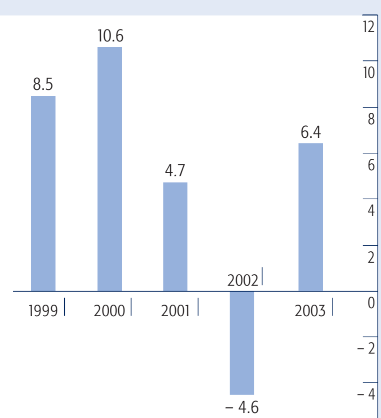


*) For the first time, Group investments also include trading liabilities

Revenues from banking by category (€ 6.5 bn)



Return on equity after taxes
in %



In 2003, the Allianz Group succeeded in strengthening its equity base with 6.9 billion euros and raising its net income to 1.6 (– 1.2) billion euros. In addition, we began to reduce the complexity of our business portfolio.

- In our initiatives aimed at strengthening our competitiveness, we placed particular emphasis on restoring the solid capital base of our company and on limiting risk. For this purpose, we launched a capital increase and reduced the equity quota in our investment portfolio.
- Of equal importance to us was a speedy return to sustained profitability in the operating business.
  - The combined ratio in property and casualty insurance improved to 97.0 (105.7) percent, aided by the success of the turnaround programs at Fireman's Fund, Allianz Global Risks and AGF.
  - In life and health insurance, we improved the expense ratio and at the same time increased total premium income by 5.3 percent to 42.3 billion euros.
  - The operating loss in the banking business was reduced by 1.6 billion euros to 357 million euros.
  - In asset management, we increased the operating result by 48 percent to 733 million euros.
- At the same time, we critically examined our business portfolio and discontinued a number of supporting activities as well as activities that did not fit in with the strategic orientation of their respective parent companies.

At the beginning of 2003, we were confronted with several important challenges: we had to strengthen our capital base and restore the profitability of our operations. After a period of expansion including major acquisitions, we also decided to launch a consolidation phase. We want to rebuild the strength of the Allianz Group by concentrating on businesses in which we have reached a future-oriented market position and by streamlining overly complex organizational structures without compromise. But we do not intend to stop at consolidation. In parallel, we are launching initiatives designed to ensure the sustained, profitable growth of our Group. In that process, we capitalize on our excellent starting position in major attractive markets, while at the same time expanding our global product lines. We want to fully leverage this potential for the creation of added value.

Shareholders' equity increased by a total of 6.9 billion euros in fiscal 2003. This is primarily attributable to the capital increase in the spring of 2003. In addition, unrealized gains from our investments grew by 2.5 billion euros. The rising value of the euro, particularly with respect to the U.S. dollar, depressed our shareholders' equity by 1.7 billion euros at the end of 2003. To limit the influences of strong fluctuations in the capital markets on our shareholders' equity, we continually reduced our stock portfolio. With a cover ratio of 206.3 (152.8) percent, we clearly surpassed the legally required **solvency margin.** All entities of the Allianz Group had adequate own funds and met local solvency requirements. Our solid financial resources are also acknowledged by the ratings agencies. Standard & Poor's, for example, attests to our "very strong" financial status and continues to maintain its "AA–" rating.

Operating improvements across all segments brought the Allianz Group back on track towards profitability within a short time. We are nonetheless aware of the fact that we still have a considerable way to go to reach the profitability targets we have set ourselves, particularly in the banking business and also in some insurance units. That the progress achieved in the operating business in 2003 is not fully reflected in our earnings performance is mainly due to the following influences:

- Restructuring charges at Dresdner Bank amounting to 840 million euros.
- New tax laws that increased the tax charges in our German life and health insurance business by 428 million euros.
- An unscheduled amortization of the activated goodwill of our South Korean subsidiary amounting to 224 million euros.

We also made considerable progress in **reducing the complexity** of our corporate structures. Our activities in marine and aviation insurance were combined in the Allianz Marine & Aviation Group. Structures and workflows at Allianz Global Risks, our international industrial insurer, and at the Global Equity Platform, an administrative and organizational unit of Allianz Dresdner Asset Management. A total of 18 Group companies to which we assign no strategic importance were sold, wound up, or, as in the case of Advance Bank, reintegrated into existing units. We also reduced our stakes in Münchener Rückversicherungs-Gesellschaft (Munich Re) and Beiersdorf AG. In the course of 2003, we cut our interest in Munich Re from 22.4 percent to 12.4 percent. In the fourth quarter of 2003, we agreed on the disposal of most of our interest in Beiersdorf AG; after completion of the transaction, we only hold 7.4 percent of the share capital of this company. With these initiatives, we not only reduced the complexity and the risks of concentration in our equity portfolio but also gained an additional measure freedom for its management.

To make sure that the prerequisites for a sustained improvement of **competitiveness** and **value creation** are met, we have changed the rules for the allocation of capital within the Group. On principle, our operating units are held to meet the following conditions in order to receive growth capital. They must:

- operate in a profitable market or business segment;
- transform their market position into sustainable creation of value and become a market leader;
- fit in with the long-term strategic orientation of the Allianz Group; and
- be in a position to pay dividends that are at least equal to their capital costs.

For these new requirements, exceptions may apply for a limited period of time, for example for the units we are currently positioning in future growth markets such as China and India, or in turnaround cases.

In addition, the remuneration systems were more strongly oriented towards our Leadership Values (see page 92 of this Annual Report) and towards meeting financial performance objectives. These are consistent with the increase of net income generated in excess of capital costs and distributable profits. With that, we want to encourage our senior management to work towards a sustainable increase of the competitiveness and value creation of the Allianz Group.

Overview

		2003	2002
Gross premium income	€ bn	85.0	82.7
Operating revenues from banking	€ bn	6.5	7.6
Operating revenues from asset management	€ bn	2.2	2.3
Total revenues	€ bn	93.8	92.6
Earnings before taxes and amortization of goodwill	€ bn	3.9	–0.1
Net income	€ bn	1.6	–1.2
Earnings per share	€	4.77	–4.44
Return on equity after taxes*)	%	6.4	–4.6

*) Calculated as net income in percent of average shareholders' equity

Earnings

Premium income from the **insurance business** grew 2.8 percent to 85.0 (82.7) billion euros. After adjustment for consolidation and currency effects, growth came to 7.3 percent. In IFRS accounts, which only recognize the risk and cost elements in premiums from investment-oriented products, we increased our revenues 0.4 percent to 63.4 billion euros.

Operating revenues from the banking business declined by 10.9 percent to 6.7 billion euros. Adjusted for consolidation and currency effects, the decrease came to only 3.1 percent.

In the **asset management** segment, we increased **investments for third-party investors** in euro accounts by 4 to 565 billion euros. At constant exchange rates, the increase would have amounted to 72 billion euros. The **operating result** grew 48 percent to 733 million euros. Adjusted for currency effects, mainly due to the weaker U.S. dollar with respect to the euro, the operating result would have grown 73 percent to 855 million euros.

Group investments generated income of 16.9 billion euros. While current income fell to 15.5 (17.8) billion euros, the balance of realized gains and losses – essentially from the sale of shares in Beiersdorf AG – increased by 1.6 billion euros to 5.7 billion euros. Despite the recovery in the financial markets, the balance of write-ups and write-downs was still clearly negative (3.4 billion euros). Amortization of goodwill increased to 1.4 (1.2) billion euros, mainly due to an unscheduled write-down of 224 million euros on our company in South Korea.

The **claims ratio** in the property and casualty insurance business improved by 6.7 percentage points to 71.5 percent, boosted by our portfolio restructurings and the success of our turnaround programs, and additionally favored by relatively low payouts for major and elementary losses.

Distribution **costs** and administrative expenses came to 22.1 billion euros in 2003 and were thus 2.4 billion euros or 9.7 percent lower than in the previous year, despite higher revenues. In each individual segment, absolute costs were reduced in comparison to the previous year. They amounted to 549 million euros in property and casualty insurance, to 550 million euros in life and health insurance, to 991 million euros in banking and to 173 million euros in the asset management segment.

Earnings before taxes and amortization of goodwill came to 3.9 billion euros, following a loss of 147 million euros in the previous year. The amount of taxes actually paid reached 1,565 (918) million euros. But this was offset by deferred tax assets of 1,435 (1,686) million euros, which resulted in a tax charge of 130 (tax income of 768) million euros. After deduction of minority interest, which increased from 688 million to 782 million euros, we posted **net income** of 1.6 billion euros. Earnings per share amounted to 4.77 (– 4.44) euros.

Financial assets

At the end of the year, the current value of the **Group's investments** was 398.8 billion euros. This figure also includes 86.4 billion euros of investments from banking business. On the whole, Group investments declined by 1.0 percent from the previous year (403.0 billion euros). To reduce the exposure of our earnings to fluctuations in the capital markets we further reduced the equity share of our investments from 19 percent to the current 16.4 percent, despite higher stock market prices.

Outstanding **financial liabilities** of Allianz AG (for further details please refer to page 33 of the Annual Report) totaled 12.9 (15.2) billion euros. The corresponding interest came to 681 million euros in the reporting year. In February 2004 we issued a subordinated bond with a nominal value of 1.5 billion euros. We thereby took advantage of the low interest environment and the high liquidity in the market to refinance short-term by long-term debt at attractive conditions.

At the end of 2004, **shareholders' equity** of Allianz amounted to 28.6 (21.7) billion euros. The 6.9 billion euro increase includes 4.6 billion euros from the issue of new shares. The remaining increase of 2.3 billion euros essentially reflects higher unrealized gains of 2.5 billion euros on securities held-for-sale.

Return on equity

At 6.4 percent, the IFRS return on equity improved substantially from the previous year, when it had amounted to – 4.6 percent. Before amortization of goodwill, we thus reached a return on equity of 12.1 (– 0.3) percent. But the improvement of this indicator was still limited by the increase of unrealized gains from our equity portfolio, since these valuation reserves increase shareholders' equity but are not recognized as profit in the income statement.

Market capitalization and the Allianz share

The market capitalization of Allianz AG, adjusted for treasury shares, was 36.7 billion euros on December 31, 2003. The Allianz share was quoted at 80.8 euros at the beginning of 2003. In the first quarter of 2003, its price fell to 40.5 euros, but it recovered to 100.1 euros by the end of the year. If, in addition to the increase of the share price, one takes into account the dividend paid and assumes a participation in our capital increase on the basis of an "operation blanche", our shareholders obtained a total return on investment of 26.3 percent. The recovery thus lagged behind that of the German stock index DAX (+ 37.1 percent), but it was stronger than that of the Dow Jones EURO STOXX Insurance index (16.5 percent).

Human resources

The number of employees worldwide declined from 181,651 to 173,750 in 2003. This is the result of our extensive efforts towards streamlining our business processes and of the consolidation of certain business areas.

Property and Casualty Insurance

		2003	2002	2001
Gross premiums	€ mn	43,420	43,294	42,137
Premiums earned (net)	€ mn	37,277	36,458	34,428
Claims ratio	%	71.5	78.2	81.1
Expense ratio	%	25.5	27.5	27.7
Investment income	€ mn	6,495	11,734	7,325
Net income	€ mn	4,506	7,207	2,364
Investments	€ mn	143,042	137,113	141,388
Insurance reserves	€ mn	83,946	87,557	90,432

In the following breakdown according to countries and regions, transactions between reporting units are not consolidated. In order to present a clear picture of our business operations, we have adjusted the results reported for the individual regions by eliminating the amortization of goodwill as well as minority interests.

Total revenues *)

	2003 € mn	2002 € mn	2001 € mn
Germany	12,627	12,314	12,644
France	5,367	4,941	5,392
Italy	5,117	4,938	4,585
Great Britain	2,519	2,699	2,492
Switzerland	1,250	1,235	1,244
Spain	1,681	1,490	1,278
Rest of Europe	5,262	4,836	4,258
NAFTA Region	5,344	5,992	6,822
Asia-Pacific Region	1,654	1,599	1,344
South America	614	768	962
Allianz Global Risks Re	1,346	1,136	–
Credit insurance	1,564	1,579	1,589
Travel insurance and assistance services	818	808	732
Allianz Marine & Aviation	1,073	1,424	–

*) Before cross-border consolidation

Premiums earned (net)

	2003 € mn	2002 € mn	2001 € mn
Germany	10,478	10,265	10,075
France	4,453	4,066	4,083
Italy	4,645	4,490	4,181
Great Britain	1,838	1,881	1,766
Switzerland	1,143	1,143	1,127
Spain	1,337	1,171	1,027
Rest of Europe	4,203	3,897	3,451
NAFTA Region	4,037	4,689	5,177
Asia-Pacific Region	1,171	1,134	768
South America	408	494	610
Allianz Global Risks Re	1,038	559	–
Credit insurance	845	857	901
Travel insurance and assistance services	784	740	669
Allianz Marine & Aviation	417	578	–

- Premium income in property and casualty insurance grew 4.0 percent to 43.4 billion euros, before currency and consolidation effects. In IFRS accounts, the increase in premium income was 0.3 percent.
- The combined ratio fell 8.7 percentage points to 97.0 percent.
- The segment generated net income of 4.5 billion euros.

Earnings after taxes

	2003 € mn	2002 € mn	2001 € mn
Germany	4,101	9,235	3,772
France	294	383	31
Italy	402	842	395
Great Britain	199	237	69
Switzerland	19	31	121
Spain	97	62	32
Rest of Europe	128	118	111
NAFTA Region	221	–702	–889
Asia-Pacific Region	92	–17	10
South America	13	47	29
Allianz Global Risks Re	77	–257	–
Credit insurance	119	16	91
Travel insurance and assistance services	18	21	3
Allianz Marine & Aviation	64	17	–

Investments

	2003 € mn	2002 € mn	2001 € mn
Germany	106,223	101,384	100,600
France	22,123	20,468	20,579
Italy	10,449	10,402	9,985
Great Britain	3,071	2,879	2,753
Switzerland	3,084	3,195	3,735
Spain	1,855	1,523	1,420
Rest of Europe	8,942	9,236	9,797
NAFTA Region	10,358	12,334	14,111
Asia-Pacific Region	2,740	2,199	1,737
South America	622	642	652
Allianz Global Risks Re	1,227	219	–
Credit insurance	2,669	2,420	2,562
Travel insurance and assistance services	509	476	445
Allianz Marine & Aviation	1,378	1,163	–

In property and casualty insurance, premium income rose 4.0 percent to 43.4 billion euros, after adjustment for currency and consolidation effects.

Total revenues increased 0.3 percent. The combined ratio was brought down 8.7 percentage points to 97.0 percent. Net income of the segment came to 4.5 billion euros.

The 4.0 percent premium growth (after consolidation and exchange rate effects) is the result of the following influences:

- we rigorously eliminated unprofitable business from our portfolio;
- we imposed more risk-adequate rates, particularly in Germany, France, Spain and the U.S.A.; and
- expanded our business, particularly in the growth markets of Central and Eastern Europe.

We were able to bring down the **claims ratio** to 71.5 (78.2) percent. In particular, we attribute this improvement to:

- portfolio-restructurings throughout the company;
- successful turnarounds at our companies Fireman's Fund, Allianz Global Risks and AGF; and
- a more favorable development of major and elementary losses.

Insurance reserves decreased by 3.6 billion euros in comparison to last year. The largest part of this decrease is attributable to currency effects. In addition, the positive development of the claims situation resulted in lower reserves. The ratio of reserves for claims in the year under review to total claims expenses in the year under review remained unchanged.

The **expense ratio** eased off 2.0 percentage points to 25.5 percent because we were able to keep absolute costs at constant levels, or even lower them in a number of countries, while revenues went up. Acquisition costs and administrative expenses in this segment dropped by a total of 0.5 billion euros.

Investments generated a net income of 6.5 (11.7) billion euros. Current income fell to 4.3 (5.9) billion euros. Realized gains and losses came to 6.4 billion euros (8.8 billion euros, including 3.9 billion euros from Group-internal transactions) and were essentially determined by the sale of shares of Beiersdorf AG, which contributed 2.8 billion euros to income. The balance of write-ups and write-downs decreased 17 percent to – 1.4 billion euros.

Earnings before taxes and amortization of goodwill came to 5.9 billion euros. Amortization of goodwill increased to 383 (370) million euros. Tax expenses came to 619 million euros in the reporting year. After deduction of minority interests in earnings (– 384 million euros) **net income** in property and casualty insurance amounted to 4.5 billion euros. That is a significant improvement over the prior-year figure which, after adjustment for Group-internal transactions, amounted to 3.4 billion euros.

GERMANY

_ **With revenues of 10.1 billion euros, Allianz Sachgruppe Deutschland (SGD) is number one in the German property and casualty insurance market.**

_ **In addition to being the holding company, Allianz AG is also the Group's reinsurer. Its premium income amounted to 5.5 billion euros.**

Gross premiums

	2003 € mn	2002 € mn	2001 € mn
Allianz Sachgruppe Deutschland	10,109	9,782	10,075
Allianz AG	5,485	5,600	5,687
Consolidation property and casualty insurance, Germany	−2,967	−3,068	−3,118
Property and casualty insurance in Germany	12,627	12,314	12,644

Earnings after taxes and before amortization of goodwill

	2003 € mn	2002 € mn	2001 € mn
Allianz Sachgruppe Deutschland	392	1,883	1,660
Allianz AG	4,815	9,513	2,516
Subtotals	5,207	11,396	4,176
Consolidations			
Profit transfer	602	1,373	284
Dividends, others	504	788	120
Property and casualty insurance in Germany	4,101	9,235	3,772

Sachgruppe Deutschland

		2003	2002	2001
Gross premiums	€ mn	10,109	9,782	10,075
Premiums earned (net)	€ mn	6,858	6,471	6,662
Claims ratio	%	68.1	73.5	70.9
Expense ratio	%	24.9	28.0	26.8
Earnings after taxes	€ mn	392.0	1,883.5	1,659.9
Investments	€ mn	22,349	21,298	22,007
Employees		32,001	32,862	31,384

Total **premium income** in Germany increased by 313 million euros or 2.5 percent to 12.6 billion euros.

At 4.1 (9.2) billion euros, **earnings after taxes** were substantially lower than in 2002, which is in particular attributable to exceptionally high disposition gains in the previous year.

Sachgruppe Deutschland

Premium income of SGD grew by 3.4 percent to 10.1 billion euros, driven mainly by premium growth in automobile insurance (2.7 percent), casualty insurance (3.9 percent) and liability insurance (4.5 percent).

The **claims ratio** clearly improved to 68.1 (73.5) percent. In the previous year, the high claims expenses caused by the flooding disasters had pushed up this indicator by 5.1 percentage points. Putting this aside as one separate occurance, the improvement comes to 0.3 percentage points. Comprehensive cost cutting, mainly in administrative expenses and IT costs, which had already been launched in the previous year, brought down the **expense ratio** to 24.9 (28.0) percent.

SGD's **investments** totaled 22.3 (21.3) billion euros at the end of the year. The corresponding income of 565 million euros remained clearly below the year 2002 figure of 2.4 billion euros. This figure, however, reflected the one-off special effect produced by the substantial gains. As a result, **earnings after taxes** fell to 0.4 (1.9) billion euros.

In the **current fiscal year**, we expect SGD to be able to sustain its improvement of the combined ratio, even while it is pursuing its risk and earnings-oriented rate and underwriting policy. We project premium growth of approximately 1 percent.

Allianz AG

In fiscal 2003, **gross premiums** of Allianz AG fell by 2.1 percent to 5.5 (5.6) billion euros, which was essentially due to the fact that certain Group companies increased their retentions.

Allianz AG

		2003	2002	2001
Gross premiums	€ mn	5,485	5,600	5,687
Premiums earned (net)	€ mn	3,607	3,781	3,477
Claims ratio	%	77.7	75.3	86.3
Expense ratio	%	27.4	28.8	26.9
Earnings after taxes	€ mn	4,815.3	9,512.9	2,516.4
Investments	€ mn	92,273	88,431	83,751

The **claims ratio** increased to 77.7 (75.3) percent. At 27.4 percent, the **expense ratio** also improved from the previous year (28.8 percent).

The **combined ratio** was down to 105.1 (104.1) percent. In property and casualty reinsurance, i. e. excluding reinsurance business in life and health insurance, the combined ratio was 100.2 (102.9) percent.

Investment income fell to 4.8 (9.5) billion euros, even though it includes the greater part of the capital gains from the disposal of shares of Beiersdorf AG. The extraordinarily high investment income of the previous year was the result of a series of transactions in connection with the takeover of Dresdner Bank as well as other stock disposals. The use of a macro hedge to reduce our equity exposure depressed investment income by 1.3 billion euros. Earnings after taxes amounted to 4.8 (9.5) billion euros.

In the **current fiscal year**, Allianz AG's reinsurance business should generate premium income of the same amount as last year, provided that rates stay at acceptable levels. In the absence of extraordinary loss developments, the underwriting result will again be positive.

FRANCE

_ Premium income at AGF amounted to 5.4 (4.9) billion euros.

_ AGF thus maintained its third place ranking among French property and casualty insurers.

Premium growth of 8.6 percent is primarily attributable to rate adjustments. All business lines contributed to this increase. Premium growth in the private insurance lines came primarily from automobile and household insurance. In international corporate business, we mainly increased rates in liability insurance. While we also increased rates in the business with small- and medium-sized companies, our very restrictive underwriting policy meant that the number of contracts slightly decreased. AGF's cooperation with Crédit Lyonnais continues to develop well. Premium income at our joint subsidiary, Assurances Fédérales, climbed 15.8 percent to 94.6 (81.7) million euros.

Despite high payouts amounting to 24.3 million euros in connection with the fire and flood catastrophes in the South of France, the measures introduced as part of our turnaround program were able to bring down the **claims ratio** by 4.7 percentage points to 79.8 percent. In particular, these measures included rate adjustments, agreements on higher retentions, the introduction of a stricter underwriting policy and the elimination of unprofitable business from our portfolio. Substantial increases in the international corporate business also helped to improve the claims ratio. The efforts of the French authorities to enforce road discipline, for example through more rigorous speed checks, clearly reduced the loss frequency in automobile insurance, which was also reflected in the lower claims ratio. Significant savings in information technology and administration brought down the **expense ratio** by 2.0 percentage points to 24.4 percent.

Investment income amounted to 751 (701) million euros.

Earnings after taxes decreased to 294 million euros. The previous year's results of 383 million euros had been increased through a tax yield.

France

		2003	2002	2001*)
Gross premiums	€ mn	5,367	4,941	5,392
Premiums earned (net)	€ mn	4,453	4,066	4,083
Claims ratio	%	79.8	84.5	83.0
Expense ratio	%	24.4	26.4	29.3
Earnings after taxes	€ mn	293.6	383.0	30.9
Investments	€ mn	22,123	20,468	20,579
Employees		13,345	13,797	14,313

*) 2001 including Allianz Marine & Aviation

In the **current fiscal year**, AGF is expected to expand business in line with the market by 3.5 percent. Leaner and more efficient workflows should help to bring down the expense ratio once again. The continuation of the reassessment of the portfolio adjustments started last year as well as additional rate increases are expected to further improve the claims ratio.

ITALY

_ We are represented in the Italian market by our property and casualty insurers RAS Group and Lloyd Adriatico.

_ Together, these companies jointly increased revenues by 3.6 percent to 5.1 billion euros.

_ We therefore rank number three in Italy.

Premium income of the RAS Group grew 3.5 percent to 3.8 billion euros. Lloyd Adriatico – which mainly sells automobile insurance – increased revenues by 3.8 percent to 1.3 billion euros. Rate adjustment in automobile insurance and generally good new business continued to fuel the growth of our Italian companies. At the same time they maintained their selective underwriting policy.

The strong surge in business at our Italian direct insurer Genialloyd continued to gather momentum as its growth rate jumped by over 54 percent to 170 million euros. At present, almost 40 percent of its premium volume is generated through the Internet, which once again strengthenes Genialloyd's position as Italy's undisputed leader in this market segment.

The **claims ratio** of our Italian companies continued to improve to 65.0 (69.3) at Lloyd Adriatico and to 73.1 (76.8) percent at RAS. This is the result of our risk-oriented underwriting policy and our continued efforts to eliminate bad risks from our portfolio, aided by the market-wide decline of loss figures. The lower claims ratio at RAS also reflects a revised rate structure and portfolio restructurings in liability insurance.

Rigorous cost management kept the **expense ratio** of RAS Group at previous year's level of 23.9 (23.9) percent, despite weaker growth and continued investments aimed at strengthening brand awareness. Higher IT expenses pushed the expense ratio of Lloyd Adriatico to 19.8 (18.9) percent. However, even with this figure, cost management at RAS Group is still one of the best in the Italian insurance industry.

RAS Group

		2003	2002	2001
Gross premiums	€ mn	3,793	3,663	3,396
Premiums earned (net)	€ mn	3,389	3,295	3,063
Claims ratio	%	73.1	76.8	79.7
Expense ratio	%	23.9	23.9	23.7
Earnings after taxes	€ mn	278.1	741.8	284.9
Investments	€ mn	7,782	7,975	7,735
Employees		5,105	5,029	5,300

Lloyd Adriatico

		2003	2002	2001
Gross premiums	€ mn	1,323	1,275	1,189
Premiums earned (net)	€ mn	1,256	1,195	1,118
Claims ratio	%	65.0	69.3	68.5
Expense ratio	%	19.8	18.9	19.2
Earnings after taxes	€ mn	124.3	100.6	109.7
Investments	€ mn	2,667	2,427	2,250
Employees		1,260	1,316	1,321

Net investment income of the RAS Group returned to normal levels at 381 (1,033) million euros. The much higher income in the previous year was attributable to the sale of part of the company's real estate holdings. **Net investment income** at Lloyd Adriatico came to 69 (69) million euros.

Earnings after taxes of our Italian operations came to 402 (842) million euros. Of this amount, 278 (742) million euros were generated by RAS Group, while Lloyd Adriatico contributed 124 (101) million euros.

We expect our Italian property and casualty insurance business to continue its growth in the **current year** while the claims and expense ratios remain stable or show slight improvement. However, this forecast is contingent upon the positive effects that the legal reform aimed at greater discipline in road traffic (driver's permit with point system, for example) is expected to have on automobile insurance.

GREAT BRITAIN

- Our subsidiary Allianz Cornhill ranks sixth in the British property and casualty insurance market.
- At 2.5 (2.7) billion euros, premium income did not quite come up to previous year's figure, which is attributable to the declining exchange rate of the pound sterling with respect to the euro.

In local currency, we achieved **revenue growth** of 2.7 percent. The increase came mainly from commercial business and specialties such as the "Petplan" health insurance for animals. In automobile insurance for private customers, we reduced the volume of our portfolio because there are indications that prices will fall in the medium term and thus will no longer be risk-adequate. At the same time, we restructured our portfolio and underwrote more profitable business, for example in building insurance.

Due to a risk-adequate pricing policy and the absence of major and elementary losses, the **claims ratio** improved 1.9 percentage points to 66.9 percent. The **expense ratio** fell to 28.7 (29.5) percent. To maintain strict cost control in the future, we founded a company for the provision of IT development services in India. In the current fiscal year, its task will be expanded to policy administration.

Lower realized gains than in the previous years depressed **net investment income** to 181 (248) million euros.

Earnings after taxes went down to 199 (237) million euros, the overall result of our continued improvements in underwriting techniques.

Allianz Cornhill

		2003	2002	2001
Gross premiums	€ mn	2,519	2,699	2,492
Premiums earned (net)	€ mn	1,838	1,881	1,766
Claims ratio	%	66.9	68.8	73.2
Expense ratio	%	28.7	29.5	30.6
Earnings after taxes	€ mn	198.6	236.9	69.0
Investments	€ mn	3,071	2,879	2,753
Employees		4,347	4,121	3,992

In the **current fiscal year**, we are concentrating our efforts on maintaining our profitability by expanding the business with commercial customers and by scaling down automobile insurance. Overall, we expect this reorientation to slow down revenue growth in pound sterling.

SWITZERLAND

_ Our property and casualty insurer in Switzerland is Allianz Suisse Versicherungs-Gesellschaft.

_ With revenues of 1.3 (1.2) billion euros, it ranks fourth in the Swiss market.

While we continued the restructuring of both our group health insurance and accident insurance businesses, **premium income** was slightly higher than in the previous year at 1.3 (1.2) billion euros.

A lower claims frequency and the restructuring of the group health insurance business reduced the **claims ratio** to 74.3 (76.3) percent. Despite investments in new IT systems to improve the efficiency of our workflows, the **expense ratio** remained nearly stable at 24.7 (24.3) percent.

Investment income increased to 88 (0) million euros, mainly because lower write-downs of equities were required.

Despite improvements in the operating business, **earnings after taxes** fell to 19 (31) million euros, because deferred tax liabilities from earlier years were dissolved and recognized as income.

In the **current fiscal year**, we will continue our restructuring efforts and improve the efficiency of our distribution system. Both measures have the objective of further improving our earnings performance.

Allianz Switzerland

		2003	2002	2001
Gross premiums	€ mn	1,250	1,235	1,244
Premiums earned (net)	€ mn	1,143	1,143	1,127
Claims ratio	%	74.3	76.3	79.8
Expense ratio	%	24.7	24.3	27.2
Earnings after taxes	€ mn	19.4	31.0	120.5
Investments	€ mn	3,084	3,195	3,735
Employees		2,604	2,887	3,186

Allianz Risk Transfer

		2003	2002	2001
Gross premiums	€ mn	492	512	506
Premiums earned (net)	€ mn	457	468	472
Claims ratio	%	62.7	55.5	77.5
Expense ratio	%	26.6	22.6	26.2
Earnings after taxes	€ mn	37.9	32.8	34.3
Investments	€ mn	1,005	1,153	1,139
Employees		31	30	28

Revenues at our **Allianz Risk Transfer** (ART) company were down 3.9 percent to 492 million euros. Of this amount, 344 million euros were generated by conventional reinsurance, while 148 million euros came from the sale of alternative risk solutions. Revenues in this business line increased 1.8 percent. This area involves comprehensive risk management solutions for companies in the service, financial and industrial sectors. The corresponding products bundle financial and insurance expertise.

At 62.7 (55.5) percent, the **claims ratio** continues to stay at a very advantageous level. The **expense ratio** increased 4.0 percentage points to 26.6 (22.6) percent, mainly as a result of higher commissions.

At the bottom line, **earnings after taxes** improved to 38 (33) million euros, primarily due to higher investment income.

With the expiration of two high-volume contracts in the traditional reinsurance business, revenues are expected to decline by about 130 million euros in 2004.

SPAIN

_ We serve the Spanish market through our two companies Allianz Seguros and Fénix Directo, a direct insurer.

_ Premium income rose to 1.7 (1.5) billion euros. This makes us number two in Spain.

With a clearly structured product portfolio and an expanded agency network, our companies generated **premium growth** of 12.8 percent and thus again outstripped the estimated market average (plus 9.4 percent). All insurance lines and business areas contributed to this success.

This strong premium growth is all the more appreciable if one takes into account that we continued our selective underwriting policy and eliminated unprofitable risks from our portfolio. This brought down the **claims ratio** to 75.9 (77.0) percent. At the same time, claims expenses in our industrial and commercial lines were substantially lower. The **expense ratio** declined to 19.6 (20.6) percent. The fact that our expenses increased more slowly than our revenues demonstrates our ability to achieve economies of scale and to further optimize our workflows.

Net investment income rose to 89 (49) million euros, mainly due to exchange rate and capital gains. Compared to 2002, the impairment charges on our investments were considerably lower. Higher net investment income and successful operations boosted **earnings after taxes** to 97 (62) million euros.

Spain

		2003	2002	2001
Gross premiums	€ mn	1,681	1,490	1,278
Premiums earned (net)	€ mn	1,337	1,171	1,027
Claims ratio	%	75.9	77.0	78.7
Expense ratio	%	19.6	20.6	21.2
Earnings after taxes	€ mn	96.7	61.7	31.7
Investments	€ mn	1,855	1,523	1,420
Employees		2,262	2,248	2,030

In the **current fiscal year**, the Spanish market for property and casualty insurance will probably grow less dynamically than in 2003. We expect our companies to match this growth rate or even exceed it; our brand and competence have a good reputation in the market, and we have continuously expanded our distribution network. We aim to further boost efficiency and lower the expense ratio. All in all, we feel confident that we can again improve our results in Spain.

REST OF EUROPE

_ We are one of the five leading insurers in the following markets: Austria, Ireland, the Netherlands, Portugal as well as Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Russia and Slovakia.

_ In addition, we provide property and casualty insurance in Belgium, Luxembourg and Greece.

Premium income in the rest of Europe increased 8.8 percent to 5.3 billion euros. The highest revenues came from the Netherlands, with 1.1 billion euros, followed by Austria with 906 million euros and Ireland with 856 million euros. In the Netherlands in particular, we registered strong premium growth. This was due to rate adjustments and the expansion of our industrial insurance business for local and international customers, as well as brisk new business in automobile insurance. Net premiums earned in the rest of Europe increased 7.9 percent to 4.2 billion euros.

In Central and Eastern Europe, Allianz was able to garner an exceptionally high share of market growth. We are the leading international insurer in this region. Except for Poland, all other Allianz companies in the region are among the top three in their markets; in Hungary, Slovakia and Bulgaria we are number one. Overall revenue growth in Central and Eastern Europe came to 24.3 percent. For the first time, this figure includes the premium income of Allianz-Slovenska in Slovakia for a full fiscal year. Because of this addition and its organic growth, the premium income of the company jumped to 324 (158) million euros. The company was first consolidated on July 22, 2002.

Due to a very favorable loss situation and effective cost management, actual earnings were better than our budget projections.

Rest of Europe
Gross premiums by country

	2003 € mn	2002 € mn	2001 € mn
Netherlands	1,093	1,023	873
Austria	906	852	844
Ireland	856	860	738
Belgium	374	362	391
Portugal	305	263	235
Luxembourg	142	194	176
Greece	75	66	62
Subtotal western and southern Europe	3,751	3,620	3,319
Hungary	546	511	411
Slovakia	324	158	45
Czech Republic	227	213	173
Poland	158	128	137
Romania	131	93	71
Bulgaria	64	56	45
Croatia	40	38	37
Russia	20	17	18
Subtotal central and eastern Europe	1,510	1,214	937
Total	5,262	4,836	4,258
Total premiums earned (net)	4,203	3,897	3,451

Earnings after taxes
by country

	2003 € mn	2002 € mn	2001 € mn
Netherlands	– 50.9	11.0	34.0
Austria	32.0	– 32.6	16.2
Ireland	99.7	170.3	– 4.2
Belgium	55.0	– 56.5	7.7
Portugal	7.3	– 18.7	0.3
Luxembourg	– 110.6	– 8.2	51.0
Greece	– 1.8	2.1	– 11.5
Subtotal western and southern Europe	30.8	67.5	93.5
Hungary	53.6	34.9	31.3
Slovakia	5.1	– 6.9	4.0
Czech Republic	5.2	– 9.6	– 9.3
Poland	7.3	13.9	– 10.9
Romania	13.9	5.4	2.1
Bulgaria	9.7	10.3	7.4
Croatia	0.2	0.7	– 3.7
Russia	2.0	1.3	– 3.0
Subtotal central and eastern Europe	97.0	50.2	17.9
Total	127.8	117.6	111.4

Earnings after taxes improved to 128 (118) million euros. The losses in the Netherlands and Luxembourg come from security write-offs.

For the **current fiscal year**, we expect premium income in Central and Eastern Europe to continue its strong growth. On May 1, 2004, Hungary, Poland, the Czech Republic and Slovakia will join the European Union. This historic event is likely to give an additional boost to our future business. We are confident that increasing revenues paired with strict cost management will enable us to further improve our earnings performance in these countries.

NAFTA REGION

- Fireman's Fund Insurance Company (FFIC) provides insurance to private and commercial customers in the U.S.A.
- Allianz Global Risks U.S.A., formerly Allianz Insurance Company, specializes in business with major clients.
- In Canada, we are represented by Allianz Insurance Company of Canada and Trafalgar Insurance Company of Canada; their focus is on private client business.
- Allianz México Compañía de Seguros S.A. operates in Mexico. It is mainly active in commercial business.

In 2003 our companies in the North American Free Trade Agreement (NAFTA) region continued on their consolidation course. **Premium income** declined by 10.8 percent to 5.3 billion euros. In local currency terms, premiums dropped by 6.4 percent.

FFIC, our largest company in this region, generated revenues of 3.9 (4.5) billion euros or a three percent increase in original currency. Having eliminated unprofitable activities from the portfolio, the company is concentrating solely on business with commercial clients and high net worth individuals, on transportation and crop insurance as well as on professional liability insurance. FFIC scored impressive results in the continuing core business.

The **combined ratio** improved 29.2 percentage points to 99.4 percent, despite the considerable impact of a single large claim amounting to 198 million euros in the discontinued area of surety. The combined ratio in the continued insurance lines clearly improved to 88.3 (105) percent. In each of the core insurance lines, the combined ratio was 103.5 percent or better.

The progress in the combined ratio is, on the one hand, the result of a better **claims ratio**, which was inflated in the previous year by a substantial increase of our reserves for asbestos-related and environmental risks (A&E reserves). In the absence of this charge, rate increases and a risk-oriented underwriting policy brought down the combined ratio to 69.9 (94.1) percent. Moreover, the **expense ratio**, which improved to 29.5 (34.5) percent, also helped to improve the combined ratio. In addition to a substantial reduction of restructuring costs, stringent cost management initiatives, including the shedding of 721 jobs, also had a positive impact on this figure.

FFIC has again reduced the percentage of equities in its investment portfolio to 4 (8) percent in order to further dilute the influence of equity market fluctuations on our capital and earnings. **Net investment income** to improve to 401 (411) million euros.

After the turnaround, the company generated **earnings after taxes** of 155 million euros, compared to a loss of 666 million euros in the previous year.

Fireman's Fund Insurance Company

		2003	2002	2001
Gross premiums	€ mn	3,919	4,547	5,366
Premiums earned (net)	€ mn	3,503	4,139	4,518
Claims ratio	%	69.9	94.1	84.7
Expense ratio	%	29.5	34.5	29.6
Earnings after taxes	€ mn	155.1	–666.1	–356.7
Investments	€ mn	8,642	10,198	12,053
Employees		4,986	5,707	7,093

NAFTA

		2003	2002	2001
Gross premiums	€ mn	5,344	5,992	6,822
Premiums earned (net)	€ mn	4,037	4,689	5,177
Claims ratio	%	70.0	94.6	99.9
Expense ratio	%	28.2	32.9	29.2
Earnings after taxes	€ mn	221.1	–702.4	–889.4
Investments	€ mn	10,358	12,334	14,111
Employees		6,464	7,140	8,585

At **Allianz Global Risks US**, formerly Allianz Insurance Company, premium income fell by 11.4 percent to 677 (765) million euros, which is mainly attributable to the selective underwriting policy pursued by the company. This insurer specializes in the major client segment. In the twelve months under review, it returned to the profit zone, generating earnings after taxes of 36 million euros.

Allianz Insurance Company of Canada generated premium income of 568 (549) million euros.

In **Mexico**, premiums amounted to 210 (132) million euros.

Overall, we succeeded in restoring the profitability of our operating businesses in the NAFTA region and to turn the previous year loss of 702 million euros into **after-tax earnings** of 221 million euros.

In the **current fiscal year**, we expect our comprehensive restructuring efforts and our prudent underwriting policy to bring about further improvements.

ASIA-PACIFIC REGION

- The operating business in China was launched in the reporting year.
- Premium income in the Asia-Pacific region increased by 3.4 percent and our total revenues amounted to 1.7 billion euros.

Allianz Australia – by far our largest company in this region – increased its premium income to 1.3 (1.2) billion euros and improved the combined ratio to 95.6 (104.2) percent. The contributing factors were both a lower claims ratio of 73.9 (81.8) percent and a reduced expense ratio of 21.7 (22.4) percent.

After the Chinese authorities granted us the requisite license, we started business operations in **China** in March 2003. For the time being, the license is limited to the city of Guang Zhou (Canton) and to the industrial business only. We are working towards expanding our business without restrictions throughout China over the medium-term.

In **India**, an insurance market with very strong growth rates, our joint venture is already, in terms of revenues, one of the three leading private providers of property and casualty insurance.

We had to close down our property and casualty insurer in **South Korea**. The company had been set up the previous year, with the intention of selling products mainly across bank counters. Withdrawal from the market became necessary after the South Korean government announced that the distribution of property insurance through banks would not be authorized until 2006, rather than 2003.

Overall, our companies in the Asia-Pacific region returned to profitability and posted **earnings after taxes** of 92 million euros, following a loss of 17 million euros in the previous year. Our company in Australia reported earnings after taxes of 74 million euros.

In view of the economic recovery in this region and our operating success in its markets, we are confident that we will be able to further improve our earnings performance in the **current fiscal year**.

Asia-Pacific Region
Gross premiums by country

	2003 € mn	2002 € mn	2001 € mn
Australia	1,254	1,163	1,048
Malaysia	116	133	48
Taiwan	96	101	89
Indonesia	58	65	55
Japan	44	52	46
China	38	42	35
Singapore	38	33	17
Laos	8	7	6
Korea	2	3	–
Total	1,654	1,599	1,344
Total premiums earned (net)	1,171	1,134	768
Total earnings after taxes	92.3	– 17.3	10.1

SOUTH AMERICA

_ In South America, we have a presence in Argentina, Brazil, Chile, Columbia and Venezuela.

_ Total premium income from the region came to 614 (768) million euros in 2003.

South America
Gross premiums by country

	2003 € mn	2002 € mn	2001 € mn
Brazil	270	336	355
Colombia	164	222	267
Venezuela	84	106	126
Chile	53	61	76
Argentina	43	43	138
Total	614	768	962
Total premiums earned (net)	408	494	610
Total earnings after taxes	12.8	46.8	29.1

Adjusted for currency effects, **premium income** in the region grew 7 percent. The biggest contribution to premium income came with 270 million euros from Brazil. Second was our company in Columbia, which posted a premium income of 164 million euros.

The countries of Latin America have repeatedly suffered from economic crises and currency problems in the recent past. This difficult market context is also reflected in the combined ratio of our insurance portfolio in the region, despite an improvement of the expense ratio, which increased to 103.9 (101.8) percent. Except for Chile, all companies posted an after-tax profit. Total **earnings after taxes** came to 13 (47) million euros.

In the **current fiscal year**, Argentina and Brazil showed the first signs of an economic recovery, but it is very difficult to predict the further course of events at this time. Venezuela is in the grip of political instability that could aggravate the economic situation further. Columbia, on the other hand, managed to enter a stabilization phase.

We have introduced measures designed to reduce our risk in this region and will closely follow further developments.

ALLIANZ GLOBAL RISKS RÜCKVERSICHERUNGS-AG

_ Allianz Global Risks Rückversicherungs-AG (AGR Re) handles all business with our major international clients.

_ Gross premium income increased to 1.3 (1.1) billion euros.

The 18.4 percent **growth in revenues** is primarily attributable to rate increases. With a share of 66 percent property insurance contributed the largest portion to the revenues and grew by 7.3 percent.

The **claims ratio** improved to 70.9 (100.8) percent. A selective underwriting policy and additional portfolio restructuring measures decreased the claims frequency. Lower claims expenses for elementary losses also helped to bring down the claims ratio. The further optimization of our reinsurance program permitted a substantial reduction of expenses for passive reinsurance. The **expense ratio**, which had been driven up by the high expenses of building up business, noticeably improved in the year under review from 41.7 percent to 27.9 percent. This resulted in a combined ratio of 98.8 (142.5) percent.

Allianz Global Risks is a virtual business unit which, in addition to the reinsurance activities of AGR Re, also includes the worldwide industrial clients business of Allianz Group. We were able to lower its combined ratio to 93.8 (126.3) percent.

Allianz Global Risks Rückversicherungs-AG returned to profitability in the reporting year and posted **earnings after taxes** of 77 million euros, compared to a loss of 256.7 million euros in the previous year.

Allianz Global Risks Rückversicherungs-AG

		2003	2002
Gross premiums	€ mn	1,346	1,136
Premiums earned (net)	€ mn	1,038	559
Claims ratio	%	70.9	100.8
Expense ratio	%	27.9	41.7
Earnings after taxes	€ mn	77.1	–256.7

In the **current fiscal year**, the company will further diversify its portfolio. We expect the company to enhance its earnings performance.

CREDIT INSURANCE

_ We provide worldwide credit insurance through Euler Hermes S. A.

Premium income declined 0.9 percent to 1.6 (1.6) billion euros. What were the determining factors in this downturn? The lackluster economic climate hurt our clients' business, while we set tighter standards for the risk-oriented underwriting policy and eliminated bad risks from our portfolio. In addition, currency effects diminished revenues in euro accounts.

Due to the absence of major losses and the improved risk quality of the portfolio, the **claims ratio** fell 22.8 percentage points to 49.3 percent. At the same time, the **expense ratio** improved to 32.7 (34.2) percent, even though revenues declined and administrative cost-cutting programs in many countries required considerable expenditures. This success is the result of significant cost reductions in the IT area due to synergies achieved through the integration of Euler and Hermes.

Investment income fell 39 million euros to 58 million euros.

Earnings after taxes improved significantly to 119 (16) million euros.

Credit insurance

		2003	2002	2001
Gross premiums	€ mn	1,564	1,579	1,589
Premiums earned (net)	€ mn	845	857	901
Claims ratio	%	49.3	72.1	68.0
Expense ratio	%	32.7	34.2	44.0
Earnings after taxes	€ mn	119.3	16.1	90.5
Investments	€ mn	2,669	2,420	2,562
Employees		5,057	5,687	5,849

The integration of Euler and Hermes has given us access to a pool of information and data whose breadth and depth will enable us to make even better underwriting decisions in the future. For this reason, and assuming the world economy will continue to pick up speed on its path to recovery, we expect the claims ratio to remain favorable in the **current fiscal year**. The expense ratio should continue its downward course because of impending further anticipated synergies, particularly in information technology. On the whole, we expect earnings after taxes to remain stable.

TRAVEL INSURANCE AND ASSISTANCE SERVICES

- Total revenues of the Mondial Assistance Group, the leading provider of assistance services and travel insurance worldwide, declined slightly to 995 million euros.
- Insecurities and risk aversion strongly depressed travel, which led to a loss of revenues throughout the industry. Our company was no exception. At the same time, however, our new health management business produced its first successful results.

Premium income increased 1.2 percent to 818 million euros. With this result, the company maintained itself at a high level and went against the market trend, although the crises and wars in Afghanistan and in Iraq, as well as the SARS outbreak, severely hampered the travel industry, while falling automobile sales in the major European markets put the travel assistance industry under heavy pressure.

The **claims ratio** in the travel insurance business improved to 60.6 (62.0) percent. The **expense ratio** also declined 1.2 percentage points to 31.3 percent – a result of the continuing streamlining of processes and structures as well as targeted cost management.

Together, travel insurance and assistance services generated **earnings after taxes** amounting to 18 (21) million euros.

Although the worldwide business climate continues to be difficult, we expect higher revenues and improved earnings for the **current fiscal year**.

Travel insurance and assistance services

		2003	2002	2001
Gross premiums	€ mn	818	808	732
Premiums earned (net)	€ mn	784	740	669
Claims ratio	%	60.6	62.0	64.4
Expense ratio	%	31.3	32.5	33.4
Earnings after taxes	€ mn	17.7	20.6	2.7
Investments	€ mn	509	476	445
Employees		7,506	7,083	6,498

ALLIANZ MARINE & AVIATION

- Allianz Marine & Aviation is our European specialist insurer for transportation, shipping and aviation risks.
- Premium income declined to 1.1 (1.4) billion euros.

Allianz Marine & Aviation combines activities in Germany, France and Great Britain. It is the parent company of Allianz Marine & Aviation Versicherungs-AG (Germany) and Allianz Marine & Aviation (France).

The 24.7 percent **drop in revenues** is mainly attributable to the depreciation of the U.S. dollar with respect to the euro and the restrictive underwriting policy of Allianz Marine & Aviation (France). These measures were taken to avoid cumulated risk. The expanded business of Allianz Marine & Aviation Versicherungs-AG (Germany) was not able to compensate for the extremely prudent underwriting in France.

The thorough reorganization of the portfolio that eliminated claims-prone, unprofitable business and the fact that we were spared major claims in the previous year combined to bring the **claims ratio** down to 65.5 (75.2) percent. The **expense ratio** remained unchanged from the previous year at 21.8 percent.

Earnings after taxes jumped to 64 (17) million euros.

Allianz Marine & Aviation

		2003	2002
Gross premiums	€ mn	1,073	1,424
Premiums earned (net)	€ mn	417	578
Claims ratio	%	65.5	75.2
Expense ratio	%	21.8	21.2
Earnings after taxes	€ mn	64.0	17.0
Investments	€ mn	1,378	1,163

Despite the resurgence of intense competition, Allianz Marine & Aviation is sticking to its selective underwriting policy in the **current fiscal year**. We expect earnings to remain unchanged from the previous year.

Life and Health Insurance

		2003	2002	2001
Total revenues	€ mn	42,319	40,176	33,687
Gross premiums	€ mn	20,689	20,663	20,145
Premiums earned (net)	€ mn	18,701	18,675	18,317
Expense ratio*)	%	7.9	10.0	12.1
Investment income	€ mn	9,769	7,445	8,565
Net income	€ mn	– 48	19	229
Investments	€ mn	232,036	221,313	212,757
Insurance reserves	€ mn	233,868	224,673	215,217

*) In relation to total premiums earned (net).

Total revenues*)

	2003 € mn	2002 € mn	2001 € mn
Germany	13,406	12,565	11,672
Italy	9,014	7,717	5,944
France	4,438	4,283	4,864
Switzerland	1,197	1,197	1,174
Spain	611	551	940
Rest of Europe	2,130	1,745	1,871
U.S.A.	8,566	9,530	4,982
Asia-Pacific Region	2,603	2,298	1,817
South America	130	237	356

*) Before cross-border consolidation

Premiums earned (net)

	2003 € mn	2002 € mn	2001 € mn
Germany	11,747	11,043	10,545
Italy	1,169	1,219	1,247
France	1,509	1,449	1,515
Switzerland	542	624	557
Spain	530	493	873
Rest of Europe	1,203	1,130	1,020
U.S.A.	598	924	1,068
Asia-Pacific Region	1,303	1,605	1,202
South America	51	139	233

- Total revenues increased 5.3 percent to 42.3 (40.2) billion euros. After adjustment for consolidation and currency effects, revenues grew by 10.9 percent.
- The revenues from investment-oriented life insurance products contained therein increased 10.8 percent to 21.6 billion euros. Their share of total revenues was 51.1 percent.
- The expense ratio, in relation to total premium income, improved significantly to 7.9 (10.0) percent.
- Investment income grew 31.2 percent to 9.8 billion euros.
- A change in the tax law resulted in an income tax charge amounting to 428 million euros for German life and health insurers.
- Net income fell to – 48 (19) million euros.

Earnings after taxes

	2003 € mn	2002 € mn	2001 € mn
Germany	– 48	137	127
Italy	221	289	261
France	191	– 223	97
Switzerland	– 9	– 80	– 17
Spain	33	30	28
Rest of Europe	7	– 77	12
U.S.A.	165	– 18	– 24
Asia-Pacific Region	2	– 9	– 5
South America	4	5	– 20

Investments

	2003 € mn	2002 € mn	2001 € mn
Germany	125,017	119,786	117,199
Italy	19,049	17,413	15,122
France	43,954	40,256	43,313
Switzerland	7,736	8,819	8,066
Spain	4,327	3,956	3,564
Rest of Europe	10,596	10,080	9,335
U.S.A.	16,774	15,903	11,825
Asia-Pacific Region	4,288	4,675	3,945
South America	150	352	389

In life and health insurance, our growth continued. After adjustment for currency and consolidation effects, revenues were up 10.9 percent. In IFRS accounts, which only recognize the risk and cost elements in premiums from investment-oriented products, premium income increased 0.1 percent to 20.7 billion euros.

The business portfolio of unit-linked life insurance and other investment-oriented life insurance products grew 10.8 percent after adjustment for currency effects, and contributed 51.1 percent of total revenues amounting to 42.3 (40.2) billion euros. The following table shows the revenues we generated from investment-oriented products in the various countries.

Revenues from investment-oriented life insurance products

	2003 € mn	2002 € mn	2001 € mn
Italy	7,776	6,419	4,608
U.S.A.	7,488	8,119	3,504
France	2,866	2,790	3,308
Switzerland	641	546	590
Germany	522	331	12
South Korea	474	652	583
Netherlands	259	103	252
Belgium	129	100	105
Spain	71	49	61
Other countries	1,405	404	519
Total	21,630	19,513	13,542

The **expense ratio**, in relation to total revenues, i. e. including investment-oriented products, improved once again from 10.0 to 7.9 percent. In IFRS accounts, the expense ratio also declined from 19.3 to 17.1 percent. In absolute terms, net expenses decreased by 0.6 billion euros.

Net **investment income** rose to 9.8 (7.4) billion euros. This increase is mainly attributable to the fact that – parallel to the recovery of the financial markets – the balance of write-ups and write-downs on our investment portfolio improved significantly to – 1.3 billion euros, compared to – 2.3 billion euros in the previous year. But the balance of realized gains and losses also improved to – 0.3 (– 1.1) billion euros.

Earnings before taxes and amortization of goodwill came to 1,155 (83) million euros. Our subsidiary, Allianz Life Korea, required an unscheduled amortization of goodwill in the amount of 224 million euros, a measure that reflects current estimates of net interest yields in South Korea. This increased total amortization of goodwill to 398 million euros. Taking this expense into consideration, and after deduction of tax (589 million euros) which increased substantially as a result of a change in German tax law, and minority interests of 216 million euros, we posted a **loss** of 48 (profit of 19) million euros.

GERMANY

- In this market, we provide life insurance products through Allianz Leben, which includes the companies Allianz Lebensversicherungs-AG, Deutsche Lebensversicherungs-AG and Allianz Pensionskasse AG.
- Our health insurer is Allianz Private Krankenversicherungs-AG.
- We are number one in life insurance business and number three in health insurance.

The breakdown for total premium income is as follows: 10.4 billion euros or 77.9 percent came from the life insurance business and 3.0 billion euros or 22.1 percent from the sale of health insurance products. Total segment revenues increased 841 million euros or 6.7 percent to 13.4 billion euros.

Changes in tax law resulted in both a one-time tax charge for previous years and higher tax charges for the coming years.

Life insurance

Total **premium income** increased 7.7 percent to 10.4 billion euros. In IFRS accounts, which recognize only the risk and cost components of premiums from investment-oriented life insurance products, premium income came to 9.9 (9.4) billion euros.

With an increase of 25.9 percent in premium income from new business, Allianz Leben outperformed the market and increased its market share in new business from 19.0 to 20.4 percent. This success demonstrates that customers apportion particular importance to the security and financial strength of a market-leading life insurer, especially in times of uncertain capital markets. All distribution channels contributed to new business: more than half of new business was generated by our tied-agents network, which is our most important sales channel. Sales through Dresdner Bank were up 28 percent.

Corporate retirement provision plans give our life insurers excellent business opportunities, particularly since we offer all five available options for such plans. Soaring by 65.9 percent, new premiums registered vigorous growth and rose to 1.4 billion euros. Over 40 percent of total new business came from this area. Our most successful company was Allianz Pensionskasse, which nearly tripled its new business.

The **expense ratio** declined from 9.4 to 6.8 percent, mainly as a result of changed assumptions and because of strong premium growth as well as lower administrative expenses. Administrative expenses were pared to 2.5 (2.8) percent – a figure that is significantly better than the market average.

Our **investments** increased to 112.1 (107.9) billion euros. The income they produced rose by 11 percent or 441 million euros to 4.4 billion euros. In part, this was due to the positive development of the stock market, which reduced the need for write-downs on the investment portfolio.

In view of the continuing low-interest environment, the German legislature has lowered the maximum notional interest rate for guaranteed insurance benefits from 3.25 to 2.75 percent, effective January 1, 2004. Like nearly all our competitors, we decided to lower the interest rate for current profit participation by 0.8 percentage points. As a result, we will credit our customers' accounts with a current total interest of 4.5 percent as of the beginning of 2004.

Earnings after taxes fell to – 50 (80) million euros, mainly due to significantly higher taxes, which increased from 38 million euros to 241 million euros. The higher tax charge is primarily due to the changes in tax law, which retrospectively no longer permits the deduction of disposal losses and write-downs on investment fund shares, if the impairment was caused by stocks that are part of the funds' assets.

Allianz Leben

		2003	2002	2001
Total revenues	€ mn	10,446	9,700	8,981
Gross premiums	€ mn	9,924	9,369	8,969
Premiums earned (net)	€ mn	8,788	8,249	7,929
Expense ratio*)	%	6.8	9.4	13.7
Earnings after taxes	€ mn	– 49.6	80.0	64.7
Investments	€ mn	112,144	107,887	106,425
Employees		5,863	5,736	6,440

*) In relation to total premiums earned (net).

Our analyses show that the population is increasingly accepting the necessity of assuming individual responsibility for old-age provision. For this reason, we expect new business to continue its growth in the **current fiscal year**. To some extent, that is contingent upon the fiscal environment. Against this backdrop, we are expanding our product offerings, particularly in two areas: in view of the upcoming Law on the taxation of pensions and annuities (Alterseinkünftegesetz), we will develop new retirement provision products. We will also substantially expand our offer for three target groups, namely children, families and senior citizens. Given a stable development of the capital markets, and on the basis of thorough risk management, we expect three-digit after-tax earnings.

Health insurance

Premium income of Allianz Private Krankenversicherungs-AG rose 3.3 percent to 3.0 billion euros. The main contributing factors to premium growth of 4.4 percent in the core health insurance business were rate adjustments to compensate for higher health care costs, new business and the legal premium supplement. Revenues from mandatory care insurance dropped off 9.1 percent to 209 million euros, due to a market-wide rate cut. The number of policyholders increased by 2.9 percent to some 2.3 million. The higher income limit for mandatory health insurance that took effect on January 1, 2003, and the uncertainty on the part of potential customers as a result of the ongoing debate about a reform of the German health care system reduced the number of contracts for comprehensive insurance packages. Inversely, supplementary insurance sales picked up noticeably.

The **claims ratio** improved to 68.7 percent, compared to 71.0 percent in the previous year. Given the constant rise of health care costs, an increase in the claims ratio might have been expected. That it did not occur is due to the success of our claims and health management. Through the optimization of our operating and distribution structures, we improved the **expense ratio** to 10.4 (10.6) percent.

Net investment income was up 133 to 554 million euros.

Earnings after taxes dropped to 5 (64) million euros, essentially due to the new tax laws. Total tax charge amounts to 200 million euros.

Allianz Private Krankenversicherung

		2003	2002	2001
Gross premiums	€ mn	2,960	2,865	2,691
Premiums earned (net)	€ mn	2,959	2,794	2,616
Claims ratio	%	68.7	71.0	73.1
Expense ratio	%	10.4	10.6	9.9
Earnings after taxes	€ mn	5.4	63.6	48.0
Investments	€ mn	13,309	12,132	10,940
Employees		3,966	3,947	3,926

Due to a moderate rise in the claims trend in past years, we expect lower rate adjustments in the **current fiscal year** and little change in premium income at Allianz Private Krankenversicherungs-AG.

ITALY

_ Through the RAS Group and Lloyd Adriatico, we have an excellent position in the Italian life insurance market.

_ Together, these two companies increased their revenues to 9.0 (7.7) billion euros, making them number two in the Italian market.

Our total **premium income** increased 16.8 percent to 9.0 billion euros. Of this amount, 7.5 billion euros was generated by RAS Group and 1.5 billion euros by Lloyd Adriatico. The strongest growth driver was once again bank-based distribution, for which we have 3,700 outlets in Italy. The biggest contributor to this success was the Unicredito Group, the bancassurance partner of RAS, who sold contracts representing 5.3 billion euros across its counters. Antoniana Veneta Popolare Vita, a fully consolidated joint venture of Lloyd Adriatico, once again boosted its sales and posted revenues of 1 billion euros.

In addition to the success of the bank distribution channel, RAS increased its revenues by selling new products via its agents in the field, and through the promising start of its Darta Saving subsidiary, which specializes in the sale of unit-linked insurances with non-recurring premiums.

The **expense ratio** fell to 3.5 (5.0) percent.

Investment income, which had been exceptionally high in the previous year because of the sale of a real estate company, returned to normal and fell to 748 (868) million euros. After taxes, we posted net income of 221 (289) million euros in Italy.

Italy

		2003	2002	2001
Total revenues	€ mn	9,014	7,717	5,944
Gross premiums	€ mn	1,239	1,298	1,336
Premiums earned (net)	€ mn	1,169	1,219	1,247
Expense ratio*)	%	3.5	5.0	4.8
Earnings after taxes	€ mn	221.0	288.6	260.7
Investments	€ mn	19,049	17,413	15,122

*) In relation to total premiums earned (net).

If the recovery of the financial markets continues, we consider it likely that we will succeed in further increasing our revenues from unit-linked life insurance in the **current fiscal year**.

FRANCE

_ AGF Group ranks eighth in the French life insurance market.

_ We are number two in health insurance in France.

_ Total revenues in life insurance came to 4.4 (4.3) billion euros.

Total **premium income** increased by 3.6 percent as a result of two developments:

_ In private customer business, we registered slight revenue growth of 1.2 percent. Revenues from the sale of guaranteed interest products declined but were more than compensated by the successful sale of unit-linked life insurance.

_ Revenues from group insurance sales were also on the rise, mainly due to contracts with high non-recurring premiums. This business segment posted a 5.2 percent growth.

Rate adjustments to compensate for growing health care costs (which rose by 11 percent) increased premium income from health insurance by 12 percent.

Substantial cost reductions and efficiency gains, particularly in information technology, drove down the **expense ratio** 1.4 percentage points to 16.5 percent. But we are not yet satisfied with these improvements and will continue our cost-cutting efforts.

Net investment income rose to 1.9 (0.7) billion euros, mainly due to gains from the disposal of our interest in Crédit Lyonnais as well as other stock disposals as part of the systematic downsizing of our equity portfolio.

After taxes, our company returned to the profit zone and posted **earnings** of 191 million euros, following a loss of 223 million euros in the previous year.

France

		2003	2002	2001
Total revenues	€ mn	4,438	4,283	4,864
Gross premiums	€ mn	1,572	1,493	1,556
Premiums earned (net)	€ mn	1,509	1,449	1,515
Expense ratio*)	%	16.5	17.9	16.3
Earnings after taxes	€ mn	191.3	– 223.1	97.4
Investments	€ mn	43,954	40,256	43,313

*) In relation to total premiums earned (net).

In the **current fiscal year**, premium income should grow at the same rate as the overall market. After adjusting our product lines to the needs of our agents, our field representatives and their customers, we expect clear gains from sales through these channels. The upcoming reform of the French social security system in 2004 is likely to sustain further growth in health insurance.

SWITZERLAND

_ Allianz Suisse Lebensversicherungs-Gesellschaft posted revenues of 1.2 billion euros.

_ That makes the company number six in the Swiss market.

Total premium income remained at 1.2 billion euros. It came mainly from the consumer life insurance business, which includes a high percentage of non-recurring premiums. Revenues were boosted by the introduction of unit-linked products. Premium income from group health insurance plans also posted 2 percent growth. Revenues in IFRS accounts, which only recognize the risk and cost components of premiums from investment-oriented life insurance products, total premium income declined to 557 (651) million euros.

The **expense ratio** improved 3.7 percentage points to 8.6 percent. Write-downs of deferred acquisition costs were lower than in the previous year, and our cost-cutting measures in distribution began to show palpable results.

Lower realized losses and write-downs on the investment portfolio pushed up **investment income** to 205 (31) million euros.

But despite operating improvements and higher investment income, our Swiss company once again posted an after-tax loss. This **loss** came to 9 (loss of 80) million euros and is again attributable to an excessive guaranteed interest in the Swiss life insurance business. This interest rate had been lowered from 4 to 3.25 percent at the beginning of 2003, but even that level cannot be sustained under the prevailing conditions in the financial markets. Swiss government bonds, for example, have a yield of 2.5 percent. A further cut of the interest rate to 2.25 percent was decided, effective January 1, 2004. In the group insurance business, this new rate also applies to the insurance portfolio.

This regulatory measure enables us to once again underwrite profitable new business. In addition, we have introduced comprehensive measures aimed at revising our product portfolio, standardizing our administrative systems and implementing new requirements due to changes in the regulatory environment.

Allianz Suisse

		2003	2002	2001
Total revenues	€ mn	1,197	1,197	1,174
Gross premiums	€ mn	557	651	584
Premiums earned (net)	€ mn	542	624	557
Expense ratio*)	%	8.6	12.3	10.9
Earnings after taxes	€ mn	– 8.5	– 79.6	– 17.1
Investments	€ mn	7,736	8,819	8,066

*) In relation to total premiums earned (net).

With a uniform and modernized product portfolio, we anticipate a return to the profit zone in the **current fiscal year**.

SPAIN

- In Spain, our life insurance activities are handled by Allianz Seguros and Eurovida, a bancassurance joint venture.
- Together, they increased their premium income by 10.8 percent to 611 million euros.
- They rank eighth in the Spanish market.

Allianz Seguros generated premium income of 466 (424) million euros. The company focused its activities mainly on the expansion of the private customer business through its own distribution network. Despite the generally sluggish market, it managed to reach this objective by enhancing the productivity of its sales force. With premium growth of 9.8 percent, the company clearly outperformed the market. We also succeeded in further increasing our market share in sales through independent agents. Newly developed retirement products boosted sales of individual life insurance contracts and raised premium income in this business line by 12.7 percent.

Eurovida increased its premium income by 14 percent to 145 (127) million euros.

The **expense ratio** declined to 6.3 (6.7) percent.

Earnings after taxes improved to 33 (30) million euros.

Spain

		2003	2002	2001
Total revenues	€ mn	611	551	940
Gross premiums	€ mn	540	502	879
Premiums earned (net)	€ mn	530	493	873
Expense ratio*)	%	6.3	6.7	3.9
Earnings after taxes	€ mn	33.1	29.5	27.5
Investments	€ mn	4,327	3,956	3,564

*) In relation to total premiums earned (net).

In the **current fiscal year**, we will continue to build up our private customer business in Spain. We are upgrading the local coverage of our distribution network and investing to improve the quality of the advice and service provided by our representatives. These initiatives are expected to bring about a further improvement to our earnings performance.

REST OF EUROPE

Rest of Europe
Total revenues by country

	2003 € mn	2002 € mn	2001 € mn
Belgium	453	413	421
Netherlands	396	247	409
Austria	316	303	282
Great Britain	297	263	337
Luxembourg	166	125	129
Greece	82	80	71
Portugal	90	74	69
Subtotal western and southern Europe	1,800	1,505	1,718
Slovakia	126	73	16
Hungary	66	66	53
Poland	66	45	38
Czech Republic	45	36	35
Croatia	19	14	8
Bulgaria	8	6	3
Subtotal central and eastern Europe	330	240	153
Total revenues	2,130	1,745	1,871
Total premiums earned (net)	1,203	1,130	1,020
Total earnings after taxes	6.6	– 77	12

Total **revenues** from the life and health insurance business in the other European markets came to 2.1 (1.7) billion euros. Due to the development of the capital markets over the course of the past years, many clients turned away from unit-linked products. In contrast there was growing demand for traditional life insurance products. In IFRS accounts, premium income increased to 1.4 (1.3) billion euros.

Whilst growth slowed down in the markets of Central and Eastern Europe, we were nonetheless able to boost our revenues by 38.4 percent, mainly due to the first-time consolidation of Allianz Slovenska over a full fiscal year. The company contributed premiums of 126 (73) million euros to total premium income.

In the rest of Europe, we returned to profitability in 2003, generating **earnings after taxes** of 7 million euros, following a loss of 77 million euros in the previous year.

In the **current fiscal year,** we expect continued growth of premium income and improved earnings performance. With Hungary, Poland, the Czech Republic and Slovakia joining the European Union in 2004, our business prospects for the coming years should be even more successful.

U.S.A.

_ Our life insurer in the United States of America is Allianz Life of North America.

_ Total premium income dropped from 9.5 billion euros to 8.6 billion euros.

In local currency, revenues increased by 6.3 percent compared to 2002. We attribute this impressive success to the following factors:

- Allianz Life presides over a high-performance distribution network. In 2003, we further strengthened our ties to independent agents and brokers. We regard these salespeople as clients and realize the importance of strengthening our ties to them through high-quality training and exceptional service. Even more than in the past, brokers and other financial intermediaries are paying attention to the financial strength and rating of the companies whose life insurance products they are selling. As a financially strong company, this is advantageous to us.
- Product portfolio and flexibility enable our company to respond at all times to fluctuations in demand between classic retirement insurance and unit-linked retirement insurance and thus gear its activities to client needs.

Although fixed annuity sales in the U.S.A. were down significantly over the previous year, the sales volume at Allianz Life was down only 2 percent. This expanded our market share and moved us up to the number two position in fixed annuity sales in 2003. The interest rate environment posed substantial challenges to us as well as fixed annuity writers in general. We responded with lower profit participation, lower commissions for our agents and by withdrawing products from the market, if their profitability could not be maintained at acceptable levels. In the third quarter of 2003, we lowered the guaranteed interest rate for all fixed annuity products, which enabled us to restore reasonable profitability levels across the board.

The continuing expansion of our distribution network and the revival of the U.S. equity market gave our variable annuities business an uplift. In local currency, variable annuity sales increased by 41 percent, thereby strengthening our market share. After the sustained growth of the past years, we are now poised to reach critical mass in the unit-linked life insurance segment.

The **expense ratio** declined from 4.8 percent to 4.6 percent, the fruit of our continuing efforts to improve organizational structures and workflows.

Net investment income increased to 1,024 (561) million euros. It profited from a significantly larger investment portfolio and an upturn in the financial markets, which led to lower write-offs on securities as well as higher realized gains.

Earnings after taxes reflect a pronounced turnaround in profits: after the previous year's loss of 18 million euros, Allianz Life generated a profit of 165 million euros in the reporting year.

Our life reinsurance activities in the U.S.A. were sold in response to our decision to concentrate on our core divisions. The transaction was concluded in the fourth quarter of 2003. Proceeds amounting to 264 million dollars were deferred and will be allocated to profit in tranches over the coming years.

Allianz Life

		2003	2002	2001
Total revenues	€ mn	8,566	9,530	4,982
Gross premiums	€ mn	1,078	1,411	1,478
Premiums earned (net)	€ mn	598	924	1,068
Expense ratio*)	%	4.6	4.8	11.5
Earnings after taxes	€ mn	164.9	– 17.7	– 23.7
Investments	€ mn	16,774	15,903	11,825
Employees		2,218	1,997	1,750

*) In relation to total premiums earned (net).

In the **current fiscal year**, we expect a moderate expansion of premium income. We have confidence in a business policy that does not hesitate in adjusting the range of products and tariffs to new market conditions.

ASIA-PACIFIC REGION

- We also offer life and health insurance in Asia and are steadily expanding our business in the rapidly developing markets of this region.
- Total premium income from this region amounted to 2.6 billion euros.

This translates into a 13.3 percent growth of **revenues**.

With a premium volume of 1.6 (1.9) billion euros, or 62 percent of total revenues in the Asia-Pacific region, Allianz Life Insurance Korea is our biggest life insurer in this area. Since August 2003, **South Korea** has permitted the sale of life insurance over the bank counter. We participate in this business through Hana Life, our joint venture with the South Korean Hana Bank. With premium income of 87 million euros, this business is off to a very promising start.

In **Taiwan**, the methodical restructuring of our joint venture Allianz President Life resulted in very successful sales of unit-linked life insurance products and pushed premium income up to 827 million euros. This boosted our market position from fourteenth to fifth place.

In **Thailand**, our joint venture Ayudhya Allianz CP Life increased its premium income which put it in third place among Thailand's life insurers. In new business, it ranks second.

In **India**, our joint venture continued its growth and raised its premium income.

In **Malaysia**, our life insurer posted 35 percent growth in new business; in **Indonesia** premium income was up 57 percent.

We abandoned the life insurance business in **Singapore** because even long-term earnings prospects were unsatisfactory.

With **earnings after taxes** of 2 (–9) million euros, our business in the region returned to profitability. Our subsidiary Allianz Life Korea required an unscheduled amortization of 224 million euros of goodwill.

The combination of a low-interest environment and high guaranteed minimum interest rates has brought South Korea to the point where income generated by the current portfolio no longer corresponds to the assumptions we made at the time of acquisition. Whilst the interest rates in the market dropped from 7 percent at the start of 2003 to 5.5 percent at the end of the year (and fell as low as 4.5 percent in between), the guaranteed interest for new business stayed at 5 percent. To shore up our earnings potential, we had to act without delay. We therefore embarked on the reorientation of our company:

- We revised the product portfolio and will primarily launch capital market-oriented products as well as products with low guaranteed minimum interest.
- Parallel to the strengthening of our distribution organization through restructuring and training programs, we revised our commission system and put it in on a stronger performance-oriented footing.
- A far-reaching cost cutting program with considerable savings in the back office will substantially improve our cost situation.

Asia-Pacific Region
Total revenues by country

	2003 € mn	2002 € mn	2001 € mn
Korea	1,609	1,894	1,642
Taiwan	827	277	127
Indonesia	74	47	25
Malaysia	72	54	13
China	18	16	8
Pakistan	3	2	2
Phillippines	–	8	–
Total	2,603	2,298	1,817
Total premiums earned (net)	1,303	1,605	1,202
Total earnings after taxes	2	–9	–5

We expect earnings to improve in the **current fiscal year**.

SOUTH AMERICA

In view of the prevailing uncertainties, we have abandoned most our life insurance activities in this region and sold our companies in Brazil and Chile. In Columbia, we are expanding the sale of investment-oriented products, for which there is a strong demand. The other life insurance activities were discontinued in this market as well. Total **revenues** in South America came to 130 million euros.

South America
Total revenues by country

	2003 € mn	2002 € mn	2001 € mn
Brazil	84	122	178
Colombia	43	73	107
Argentina	2	2	61
Chile	1	39	1
Venezuela	1	1	9
Total	130	237	356
Total premiums earned (net)	51	139	233
Total earnings after taxes	4	5	– 20

Our banking business again experienced a difficult fiscal year 2003: while managing to significantly improve the operating result, the non-operating result was lower because of adjustment measures.

In the banking business, that is essentially driven by the business performance of Dresdner Bank Group, we managed to significantly improve the operating result by 1.6 billion euros compared to the previous year. This turnaround came about in a business environment characterized by a recovery in share prices and a gradual improvement in economic development in the second half of 2003. At the same time we streamlined the business portfolio of Dresdner Bank and eliminated risks from the balance sheet.

In fiscal year 2003, the banking business recorded an **operating result** of – 357 million euros. An operating loss from the Institutional Restructuring Unit of Dresdner Bank of 728 million euros was partly compensated by a positive operating result of 371 million euros in the other banking business. Overall, operating income declined in fiscal year 2003 by 10.9 percent to 6.7 billion euros. This is essentially due to consolidation and exchange rate effects. Adjusted for these effects, the decline is only 3.1 percent. At the same time, we managed to reduce administrative expenses by altogether 16.8 percent to 6.1 billion euros. Adjusted for consolidation and exchange rate effects, the cost reduction was 12.7 percent. We were thus able to surpass our cost cutting goals. In addition, we made significant progress in reducing loan loss provisions. The **non-operating business** was charged by 1.6 billion euros especially due to write-downs and restructuring expenses. Overall, our banking business reported a **net loss for the year** of 1,279 million euros.

Banking Business

		2003	2002
Net interest income	€ mn	2,805	3,827
Net fee and commission income	€ mn	2,452	2,658
Trading income	€ mn	1,486	1,081
Operating income	€ mn	6,743	7,566
Administrative expenses	€ mn	– 6,086	– 7,314
Loan loss provisions	€ mn	– 1,014	– 2,222
Operating result	€ mn	– 357	– 1,970
Other income/expenses	€ mn	– 1,580	675
Net income for the year	€ mn	– 1,279	– 1,358
Operating cost/income ratio	%	90.3	96.7
Loans and advances to customers and banks	€ bn	289	246
Liabilities to customers and banks	€ bn	325	278

The decline in the **operating income** resulted primarily from a lower **net interest income** which dropped 26.7 percent to 2.8 billion euros. This is mostly attributable to the de-consolidation of Deutsche Hyp in the third quarter 2002. Adjusted for consolidation and exchange rate effects, net interest income fell by 10.4 percent. This reduction is to be looked at with the following background: between year-end 2002 and year-end 2003, the risk weighted assets at Dresdner Bank were reduced by 30.8 billion euros – a cut of some 20 percent – to 111.7 billion euros. Given that the adjusted net interest income declined less sharply, our measures to improve portfolio quality are yielding results. In addition, net interest income in 2003 was charged by – 365 (– 119) million euros as a result of valuation effects from applying IAS 39.

At the same time, **loan loss provisions** went down very noticeably: at 1.0 billion euros, they were 54.4 percent lower than for the previous year. In spite of the persistently high number of insolvencies in the corporate customer business, we still managed to significantly cut back net additions to loan loss provisions which for the most part relate to Germany. As a result, the ratio of loan loss provisions to net interest income improved significantly, from 58 to 36 percent.

Net fee and commission income decreased by 7.8 percent to 2.5 billion euros as some of our customers were responding to the market development in a reserved manner. At the same time, the **trading income** showed an exceptionally encouraging development, improving by 37.4 percent to 1.5 billion euros. The main boost came from stock trading as well as currencies and interest products.

We reduced **administrative expenses** noticeably to 6.1 (7.3) billion euros thus succeeding in surpassing our cost reduction goals. The savings divide up almost equally between personnel and operating costs. The strong decline in **personnel costs** can be attributed on the one hand to the cutback in employees and on the other hand to the reduction in guaranteed boni. The reduction in **operating costs** is the result of tighter cost controls in all areas. The operating cost-income ratio, which shows the relation of administrative expenses to operating income, indicates the success of these measures: compared to 2002, the ratio improved by 6.4 percentage points to 90.3 percent.

After deducting administrative expenses and loan loss provisions from the operating income, the banking business posted an **operating loss** of 357 (operating loss 1,970) million euros. The positive operating result of 371 million euros in the strategic business was offset by an operating loss from the Institutional Restructuring Unit of 728 million euros. Overall, we managed to significantly improve the operating result even though we failed to meet our original goal of a balanced operating result.

The balance of **other income and expenses** amounted to –1,580 (675) million euros. On the one hand, this item includes write-offs, with 714 million euros relating to write-downs on financial assets. On the other hand, it encompasses restructuring expenses of 892 million euros, with the "Neue Dresdner" program accounting for 380 million euros of this amount.

Taxes generated income of more than 1 billion euros, which was predominantly due to deferred tax assets. In part, these were generated in the reporting year, in part they were due to the capitalization of tax losses carried forward from previous years already written off. As a result of a structured transaction, these are now considered to carry value.

Overall, the banking business reported a **net loss for the year** of 1,279 (net loss 1,358) million euros. This result reveals that – regardless of the progress achieved to date – we must continue to work hard in order to break even. With this goal in mind, the turnaround program "Neue Dresdner" was presented in August 2003. Its aim is to secure the bank's economic basis, ensure a more efficient use of the employed capital and thus grow profitably. A further unavoidable step towards improving earnings are additional cost reductions amounting to 1 billion euros (gross) until 2005; this includes reducing the number of employees by 4,700.

Segment reporting according to the 2003 reporting structure

Below we report the two operating divisions of Allianz Group's banking business for the last time in the old structure. The remaining activities not assigned to either one of these divisions essentially include Corporate Items (including Corporate Investments) of Dresdner Bank, as well as Entenial, which was sold at the beginning of 2004. Together, the remaining activities contributed an **after-tax result** of – 466 (803) million euros. One of the most important positions therein were restructuring expenses of 402 million euros.

We provide an explanation of the new reporting structure further on in this section.

Private & Business Clients

In persistently difficult market conditions, our Private & Business Clients generated **operating income** of 3.2 (3.2) billion euros. **Administrative expenses** were once again significantly reduced by 0.2 to 2.8 billion euros. As at the same time **loan loss provisions** were lowered to 429 (561) million euros, we recorded a slightly positive **operating result**. The balance of other income and expenses amounted to – 262 million euros and contained restructuring expenses of 270 million euros. Overall, the segment Private & Business Clients posted a **loss after taxes** of 173 (loss after taxes 304) million euros.

Private & Business Clients

		2003	2002
Operating income	€ mn	3,229	3,198
Administrative expenses	€ mn	– 2,791	– 3,010
Loan loss provisions	€ mn	– 429	– 561
Operating result	€ mn	9	– 373
Other income/expenses	€ mn	– 262	– 52
Earnings after taxes	€ mn	– 173	– 304
Operating cost/income ratio	%	86.4	94.1

Corporates & Markets

The Corporates & Markets (C&M) segment being commented here encompasses Corporate Banking, the division Dresdner Kleinwort Wasserstein and the business shares from C&M that were transferred to the Institutional Restructuring Unit (IRU). In the year under review, these three segments were separated. Here, we are reporting for the last time according to the old structure.

The **operating income** in Corporates & Markets stabilized at 3.7 billion euros. **Administrative expenses** were pared by 25.8 percent to 2.6 billion euros. As a result, the cost-income ratio improved from 91.6 to 70.7 percent. **Loan loss provisions** were significantly reduced to 874 million euros compared to 1,592 million euros in 2002. Therefore, a positive **operating result** of 219 million euros was recorded. If other income and expenses – the balance amounted to – 418 million euros – are taken into account, a **loss after taxes** was recorded of 273 (loss after taxes 1,642) million euros.

Corporates & Markets

		2003	2002
Operating income	€ mn	3,727	3,877
Administrative expenses	€ mn	– 2,634	– 3,551
Loan loss provisions	€ mn	– 874	– 1,592
Operating result	€ mn	219	– 1,266
Other income/expenses	€ mn	– 418	– 534
Earnings after taxes	€ mn	– 273	– 1,642
Operating cost-income ratio	%	70.7	91.6

Segment reporting after the transfer of business activities of Dresdner Bank to the IRU (reporting structure 2004)

At the beginning of 2003, the Institutional Restructuring Unit (IRU) commenced its activities. To this segment were transferred the non-strategic domestic and foreign loan portfolios, the private equity business as well as selected restructuring activities of Dresdner Bank. This way, we eased the pressure on the company's operating segments Private & Business Clients (PBC), Corporate Banking and Dresdner Kleinwort Wasserstein (DrKW). Looking ahead to the 2004 reporting, we provide a commentary here according to the new structure.

Segment reporting after the transfer of business activities of Dresdner Bank to the IRU as of December 31, 2003

		PBC	Corporate Banking	DrKW	IRU	Other[1]	Total[2]
Operating income	€ mn	3,019	1,065	2,185	578	– 553	6,293
Administrative expenses	€ mn	– 2,524	– 499	– 1,875	– 422	– 418	– 5,738
Loan loss provisions	€ mn	– 247	– 118	45	– 884	188	– 1,015
Operating result	€ mn	248	447	354	– 728	– 782	– 460
Other income/expenses	€ mn	– 175	– 102	7	– 527	– 848	– 1,645
Earnings after taxes	€ mn	53	208	238	– 933	– 597	– 1,030
Operating cost-income ratio	%	83.6	46.9	85.8	73.1	n.m.	91.2

[1] Other = Corporate items and corporate investments of Dresdner Bank as well as consolidations
[2] Total = Dresdner Bank contribution to banking business of Allianz Group

Private & Business Clients (reporting structure 2004)

In a fiercely contested market, the Private & Business Clients division of Dresdner Bank recorded **operating income** of some 3 billion euros. This amount divides up almost equally between net interest income and net fee and commission income. However, developments differed: **net fee and commission income** improved due to a successful brokerage business and the successful cooperation between Allianz and Dresdner Bank. Both revenues and profit improved. In contrast, **net interest income** contracted because the market allowed only lower margins in the deposit business. **Administrative expenses** were significantly reduced thanks to rigorous cost management and further staff reductions, especially in the back office area. By continuously cleaning-up the loan portfolio, we lowered the **loan loss provisions** strongly to 247 million euros. Overall, the Private & Business Clients segment recorded an **operating result** of 248 million euros. After taking other income and expenses into account (essentially restructuring expenses of 174 million euros), **earnings after taxes** were 53 million euros.

Corporate Banking (reporting structure 2004)

In persistently difficult economic conditions, the Corporate Banking division of Dresdner Bank recorded **operating income** of 1.1 billion euros, with all earnings components – in spite of declining risk weighted assets – showing a stable trend. The projects to streamline the support and service functions that were almost entirely implemented in the year under review, led to a significant decline in **administrative expenses** to 0.5 billion euros. In response to a new record in company insolvencies, **loan loss provisions** were raised to 118 million euros. Overall, the **operating result** climbed to 447 million euros. After other income/expenses, especially restructuring expenses of 90 million euros, **earnings after taxes** were 208 million euros.

Dresdner Kleinwort Wasserstein (reporting structure 2004)

The division Dresdner Kleinwort Wasserstein (DrKW) encompasses the Capital Markets and Corporate Finance & Advisory businesses of Dresdner Bank. At DrKW, **operating income** of 2.2 billion euros was almost at last year's level. The earnings development in Capital Markets was especially encouraging. We cut **administrative expenses** to 1.9 billion euros largely because of early and consistent restructuring measures, and the reduction of staff, primarily in the Corporate Finance & Advisory business. As a result, DrKW achieved the turnaround with an **operating result** of 354 million euros and **earnings after taxes** of 238 million euros.

Institutional Restructuring Unit (reporting structure 2004)

In the Institutional Restructuring Unit (IRU), the **operating loss** amounted to 728 million euros. This loss was mainly attributable to loan loss provisions of 884 million euros, more than four fifths of the **loan loss provisions** for the entire group. There were two main drivers behind net additions to loan loss provisions. First, we had to record discounts on book value from the sale of loans which were carried out more quickly than planned; second, we made additions to the loan loss provisions for loans at risk. The share of these loans is far higher in the IRU than in the strategic business. The IRU recorded a loss after taxes of 933 million euros. This contains a balance of other income/expenses of –527 million euros.

Allianz is one of the 5 leading asset managers in the world.

Net inflow to assets under management for third-party investors reached 25 billion euros. In spite of the currency-related fall in the value of our investments, most of which are managed in U.S. dollars, the assets managed for third parties grew by 4 billion euros or 1 percent to 565 billion euros. The operating result amounted to 733 million euros. After deduction of acquisition-related expenses as well as taxes and minority interests, the segment reported a lower-than-expected loss of 270 million euros.

Assets under management comprise both assets managed for third parties as well as investments used to cover insurance reserves, equity capital and liabilities.

Assets under management

	current values 12/31/2003 € bn	current values 12/31/2002 € bn	current values 12/31/2001 € bn
Group investments	399	403	481
Investments for unit-linked life insurance	32	25	25
Investments for third-party investors	565	561	620
Assets under management	996	989	1,126

Asset management for third party investors

Approximately 57 percent or 565 billion euros of our assets are managed for third party investors. The value of this portfolio increased by 4 billion euros. This includes 25 billion euros in net inflows as well as market-related growth of 47 billion euros. This increase in the value of investments managed for third party investors overcompensated the negative exchange rate effect of 68 billion euros which stemmed in particular from the weakness of the U.S. dollar.

Approximately 70 percent of our third-party investments come from the U.S.A. and roughly 18 percent from Germany. As a result, we enjoy a very strong position in both markets. In terms of total volume, institutional customers account for 59 percent. We are thus operating in a market environment with very high demands on the quality of our products and services. This constellation also benefits our private customers.

In 2003 we achieved a number of successes:

- With net inflows of 33 billion euros, our fixed-income fund business achieved extraordinarily strong growth. The fixed-income share of our portfolio amounts to 72 percent; equity funds account for 26 percent.
- Our PIMCO Total Return Fund increased its investment volume to 74 billion U.S. dollars by the end of the year and has established itself as the largest actively-managed investment fund in the world.
- Its European equivalent, dit-Euro Bond Total Return Fund "powered by PIMCO", recorded net inflows in 2003 of more than 1.7 billion euros. It was once again one of Germany's best selling fixed-income funds.
- With net inflows to mutual funds of 3.5 billion euros, ADAM Deutschland GmbH managed to secure itself a market share in 2003 of over 19 percent and thus ranks third among the German investment trusts.
- In the institutional customer business in Germany, ADAM Deutschland still ranks first. In special funds, the company's institutional asset manager dbi recorded growth of 5.4 billion euros.
- Our joint venture Guotai Junan Allianz Fund Management Co., the first fund manager with foreign participation to be granted a business license in China in 2002, commenced business operations very successfully with the launch of the Desheng Stable Balanced Fund and a sales volume of 3.7 billion Chinese renminbi (398 million euros).

The **operating result** amounted to 733 million euros, an increase on the previous year of 238 million euros or 48 percent. Adjusted for exchange rate effects, the result would have been 122 million euros higher. Thanks to an improved cost structure on the back of high net inflows and benign market conditions, the **cost-income ratio** improved from 78.5 to 67.2 percent. In 2004, we aim to complete the current restructuring program at our DRCM unit which mainly manages our equity portfolios.

Acquisition-related expenses totaled 836 million euros. In agreement with KPMG, the accounting procedure has been adjusted here with effect from September 30, 2003. It concerns the agreement to acquire the PIMCO management's shares in the company over a period of time (also see note 5 "Intangible assets" on page 129 of the Notes to the Consolidated Financial Statements). The acquisition-related expenses include amortization of goodwill of 369 million euros as well as 137 million euros for the amortization of loyalty bonuses for the PIMCO management. These bonuses were agreed upon in 2000 as a component of the purchase price and are amortized over five years. A further 330 million euros are primarily "retention payments" for the management and employees of PIMCO and Nicholas Applegate; these, too, were agreed upon at the time of purchase of the fund companies.

Minority interests in earnings amounted to 183 million euros. PacLife – which still holds a 15 percent interest in PIMCO – accounts for 66 million euros of this amount.

After a tax income in the amount of 16 million euros, the segment reported a **loss** of 270 million euros; a year earlier, the loss had still been 467 million euros.

Our business model is based on spreading income and risks, both in respect of the different asset classes as well as the regional structure of our business. Nonetheless, business **this fiscal year** will depend to a great extent on the way in which capital and currency markets develop. We expect inflows in the fixed-income business to continue at a satisfactory level and demand in the equity business to pick up further. The radical cost cutting measures taken in the year under review should also produce results in 2004 and we therefore expect the operating result to improve once again. However, due to high acquisition-related expenses, our after-tax result will again be negative. For the most part, though, these expenses will phase out in 2004.

Investments

The current value of **Group investments** was 398.8 billion euros at December 31, 2003. This amount also comprises the investments from the banking business, including Dresdner Bank, which amounted to 86.4 billion euros. Total Group investments decreased on the previous year (403.0 billion euros) by 1.1 percent.

Group investment structure

	12/31/2003		12/31/2002
	Current values in € bn	Weighting in %	Weighting in %
Interests in affiliated enterprises, joint ventures and associated enterprises	7.1	1.8	3.7
Investments	298.4	74.8	71.8
Securities held-to-maturity	4.7	1.2	1.6
Securities available-for-sale	277.9	69.6	66.0
Real estate used by third parties	13.8	3.5	3.7
Funds held by others under reinsurance contracts assumed	2.0	0.5	0.5
Trading portfolio	61.3	15.4	17.7
Trading assets	146.1	36.7	31.0
Trading liabilities	–84.8	–21.3	–13.3
Other investments	32.0	8.0	6.8
Total investments	398.8	100.0	100.0

The current value of **investments in affiliated enterprises, joint ventures and associated enterprises** decreased by 7.9 billion euros to 7.1 billion euros. Most of these investments were in associated enterprises (i. e. companies in which we hold a share of between 20 and 50 percent) which are valued by the equity method. The decline on the prior-year period is essentially due to the de-consolidation of Münchener Rück AG and Beiersdorf AG. Our holding in Münchener Rück AG was reduced from 22.4 percent at year-end 2002 to 12.4 percent, and in Beiersdorf AG from 43.6 to 16.6 percent. Both participations will be further reduced in 2004.

In addition, we held **investments** with a current value of 298.4 billion euros. Of these, 4.7 billion euros were in **securities held-to-maturity** and 277.9 billion euros in **securities available-for-sale**. The latter included 17 (18) percent stocks and 83 (82) percent fixed-income securities. The difference with respect to the previous year can be explained first and foremost by our decision to lower the equity allocation in our portfolios. Unrealized gains and losses from dividend-bearing equities increased to 5.3

billion euros, those from fixed-income securities fell to 7.5 billion euros. A list of companies in which we hold at least 5 percent of the capital or in which our investment exceeds 100 million euros can be found in the Notes to the Consolidated Financial Statements on pages 179 and 180. The list also provides information on the percentage of our interest in each company and the market capitalization of our holdings. At the end of 2003, the market value of these holdings totaled 18.4 billion euros.

Real estate used by third parties was valued at 13.8 billion euros in fiscal 2003, and **funds held by others under reinsurance contracts assumed** amounted to 2.0 billion euros.

The **balance of trading assets and trading liabilities** amounted to 61.3 billion euros at December 31, 2003. Trading assets (146.1 billion euros) consist of fixed-income securities (76 percent), dividend-earning equity securities (11 percent) and derivatives (13 percent). Trading liabilities (– 84.8 billion euros) essentially include derivatives (24 percent) and obligations to deliver securities (72 percent). These items are primarily attributable to the banking business.

Other investments mainly include **loans issued by Group enterprises** (21.3 billion euros) and **bank deposits** (10.7 billion euros).

Investment structure by type of investment and segment as of December 31, 2003
Current values in € bn

	Property/Casualty	Life/Health	Banking Business	Asset Management	Group
Real estate	4.7	8.0	1.1	–	13.8
Dividend-earning equity securities	19.0	26.2	10.1	0.1	55.4
Fixed-income securities	55.0	184.6	15.2	0.5	255.3
Other investments	10.8	2.1	–	–	13.0
Subtotal	89.5	220.9	26.5	0.6	337.5
Trading portfolio	1.1	0.1	59.9	0.2	61.3
Total investments	90.6	221.0	86.4	0.8	398.8

Investment income in fiscal 2003 came to 16.9 billion euros, down 0.3 billion euros on the previous year.

Current income decreased from 17.8 to 15.5 billion euros. Two effects are essentially responsible for the decline. First, Eurohyp AG was de-consolidated in 2003. Secondly, we accounted for Munich Re by the equity method until the end of the first quarter of 2003 and therefore recognized the pro-rata share of its fourth-quarter loss as current income. Realized profits and losses amounted to 5.7 (4.1) billion euros. It results above all from transactions within the framework of our equity reduction program and from the sale of the Beiersdorf shares. Write-downs totaled 5.4 (5.9) billion euros in fiscal 2003, with securities available-for-sale accounting for 4.8 (5.5) billion euros of this amount. The weak equity markets in the first quarter of the year in particular had made these write-downs necessary. At year-end we extended our write-down regulations and also wrote off equities that had been in a loss position for longer than a year. The write-downs in 2003 were compensated by write-ups of 2.0 (0.7) billion euros. These were mainly thanks to the sustained recovery on equity markets after the second quarter 2003.

Income from trading activities, including earnings contributions from trading liabilities, amounted to 0.2 (1.5) billion euros. The positive trading income from the banking segment of 1.5 (1.1) billion euros surpassed our expectations. In contrast, a charge accrued in property and casualty insurance from the use of derivatives amounted to a total of 1.4 billion euros. Essentially, the charge relates to a macro hedge for hedging the equity exposure. The hedge was achieved by means of forward sales and put options on indices. By selling equities and actually reducing the equity exposure, this macro hedge has been lowered again in the same degree. IFRS accounting regulations require that the change in the market value of the derivatives of this macro hedge is affecting net income, while the contrary market value changes of the underlying equities are directly charged to the equity capital without affecting the operating result, and are affecting net income when they are realized on the capital market. As a result of this different treatment of market value changes, a charge resulted from the derivatives of 1.3 billion euros as a consequence of the recovery on equity markets. To compensate this charge, we have partially realized the correspondingly higher revaluation reserves in the equity capital. The realized gains from the sale of equities amounted in 2003 to altogether 9.5 billion euros for the Allianz Group, which compared with losses of 5.4 billion euros.

Expenses for the management of investments and for interest amounted to 1.3 (1.7) billion euros.

Investment from the insurance business contributed 14.6 (13.8) billion euros to the investment income (also see table 38 "Supplementary information on insurance business – Investment income" on page 157 of the Notes to the Consolidated Financial Statements). An additional 2.2 (2.7) billion euros of investment income came from the banking business.

As providers of financial services, we consider risk management one of our core competencies.

Risk management is therefore an integrated part of our controlling process. We identify and measure, aggregate and manage risks. The result of this process determines how much capital is allocated to the Group's various divisions.

Responsibilities

In our business, successful management essentially means controlling risks in order to increase the value of the Allianz Group on a sustained basis. Therefore, the Board of Management of Allianz AG formulates the business objectives and allocates the capital resources of the Allianz Group according to return-on-investment and risk criteria. Our risk-control strategy assigns responsibility for risk management to the local entities, so that these can adjust to changing risk situations in a timely manner and in close proximity to their markets. At the same time, the operating units thereby meet the applicable legal requirements at their respective locations.

This decentralized approach is complemented by centralized responsibility. Thereby, we account for the fact that in addition to local risks, we must also control global risks. Their accumulation can result in a considerable increase of our potential risk exposure. They are therefore centrally controlled by Group Risk Control. Our cumulated control covers all business segments of the Allianz Group.

In addition, Group Risk Controlling develops methods and processes for risk assessment and control on a group-wide basis. On this basis, Group Controlling assesses the Allianz Group's risk exposure on the basis of local and global risks. Risk management activities are supervised by both internal and external auditors.

In the reporting year, we introduced the Group Risk Policy, which strengthens our decentralized risk controlling. This policy established minimum requirements that are binding for all operational units.

Since the beginning of 2003, a Group Risk Committee makes sure that the capital allocations and the risk profile of the Allianz Group are fully transparent. It is composed of members of the Board of Management of Allianz AG and chaired by our Chief Risk Officer. The mission of this committee is to promote the development of a comprehensive risk culture in the Allianz Group and to further improve our risk controlling processes. Its tasks also include the timely information of the Board of Management about risk-relevant developments and the coordination of appropriate countermeasures.

Management of the Allianz Group through risk capital

We control our activities through our respective local companies. The most important parameters used in our risk-oriented controlling process are Economic Value Added (EVA®) and risk capital.

Risk capital is used as a hedge against unexpected losses. In fiscal 2003, a risk model based on the concept developed by the Standard & Poor's rating agency was used for the value-oriented control of our insurance companies. For the control of Dresdner Bank, we used our own internal model.

In fiscal 2003, we further improved and tested our internal model for insurance companies. It enables us to systematically evaluate internal data by means of models based on the theory of probability. This process takes into account the special characteristics of our local units as well as the specific nature of their risks. Portfolio effects are also incorporated into our risk analyses. In the course of fiscal 2004, we will convert the value-oriented control of our insurance companies to risk capital, which will be calculated by means of our internal model.

Risk controlling in the insurance business

Premium risks Premium risks are controlled primarily with the help of actuarial models used to calculate premiums and monitor claim patterns. In addition, we issue guidelines for concluding insurance contracts. In life insurance, we essentially concentrate on biometric risks – e. g., life expectancy, disability and illness. We also focus on risks that could arise from future policy cancellations.

Natural disasters such as earthquakes, storms and floods represent a special challenge for risk management. To control such risks, we use special modeling techniques. They involve the compilation of data about our portfolio, for instance the geographic distribution of insurance amounts, with natural disaster scenarios in order to estimate the potential damage. The use of these simulation techniques was further expanded in the reporting year.

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Reserve risks We control reserve risks by constantly monitoring the development of the provisions for insurance claims that have been submitted but not yet settled. The information obtained is used in current estimates of these reserves. In life insurance, reserves are calculated by using actuarial methods. In addition to other criteria, these calculations take into account the biometric data of the insured populations.

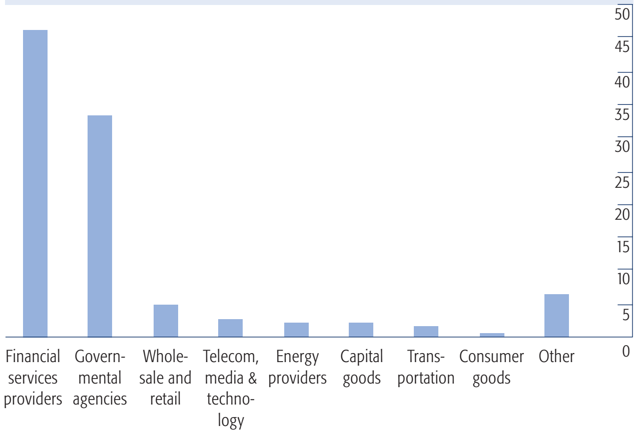
Credit and counterparty risks The Allianz Group limits its liability from insurance business by ceding part of the risks it assumes to the international reinsurance market. When selecting our reinsurance partners, we consider only companies that offer excellent security. To control this credit risk, we compile group-wide data on receivables from insurance losses. Approximately 97 percent of the Allianz Group's receivables is distributed over reinsurers who were assigned at least an "A" rating by Standard & Poor's.

Investment risks We monitor market risks by means of sensitivity analyses and stress testing. As protection against exchange rate fluctuations, we back our insurance commitments to a very large extent by funds in the same currency. If the average share prices of a stock portfolio carried as available for sale had dropped 10 percent by the end of fiscal 2003, the shareholders' equity of the Allianz Group would have decreased by 2.1 billion euros. Taking into account fixed-interest securities available for sale, a parallel upward shift of the interest curve by 100 basis points would have decreased our shareholders' equity by 2.6 billion euros. Both indications do not take into account the possible influence of derivatives.

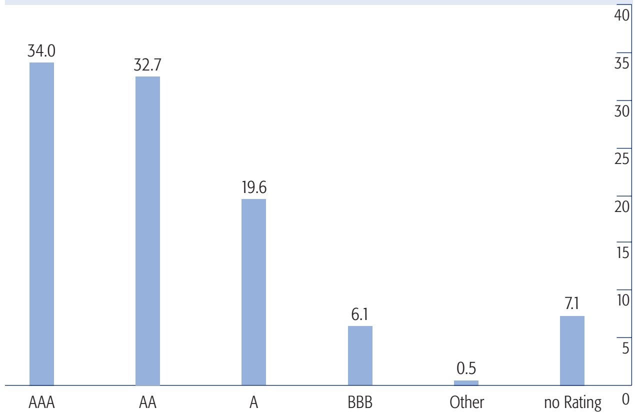
In certain insurance lines, there is a direct link between investments and obligations to our customers. Life insurance, for example, must generate the guaranteed interest payment agreed upon. The tight link between insurance obligations and investment of the capital related to these obligations is investigated by using specific models. This also enables us to control risks arising from interest guarantees provided to our customers.

We limit credit risks by setting high requirements on the creditworthiness of our debtors and by spreading the risk. Through our central credit risk management, we consolidate our exposure according to debtors and across all investment categories and business segments, and we use monthly limit lists to monitor exposure. Approximately 92 percent of the fixed-interest investments of the insurance companies of Allianz Group have an investment grade rating. More than 86 percent are distributed over debtors that have been assigned at least an "A" rating by Standard & Poor's.

Distribution of fixed-interest investments by industry in %



Distribution of fixed-interest investments by rating classes in %



In individual cases, we use derivative financial instruments to hedge against changes in prices or interest rates. Our internal investment and monitoring rules are considerably stricter than the regulations imposed by supervisory authorities.

Market and counterparty risks arising from the use of derivative financial instruments are subject to particularly strict control procedures:

- Credit risks are assessed by calculating replacement values.
- Market risks are monitored by means stress tests and limited by specifying stop-loss limits.

We limit liquidity risks by reconciling our investment portfolio with our insurance commitments. In addition, we plan our cash flow from ordinary activities.

Operational risks These risks are limited by a wide range of technical and organizational measures. We intend to minimize such risks by installing a comprehensive system of internal controls and security systems in each operating unit. In the future, data on internal losses attributable to operational risks are to be compiled and analyzed for use in our internal model for the calculation of risk capital. The testing phase for such a system for the insurance and asset management segments was successfully completed in the reporting year. It will be installed in the first units in 2004.

Legal risks The limitation of legal risks is an important task of the Group's Legal Department. This is done, for example, by using internationally recognized standard documentation and, if necessary, by obtaining legal opinions. Contracts for established products are continuously reviewed to include any amendments required by changes in legislation or jurisdiction.

Organizational controlling of investment risks In terms of organization, we limit our investment risks through a clear separation of management and controlling functions. Within the Allianz Group, risk management is implemented in cooperation with the local units in a top-down bottom-up process. The Allianz Group Finance Committee, which is made up of members of the Board of Management of Allianz AG, delegates far-reaching decision-making authority to the regional Finance Committees, which monitor activities in their respective regions or countries. The duties and responsibilities at each decision-making level are defined by guidelines issued at Group level. These guidelines are then applied by the regional Finance Committees, which formulate specific local investment guidelines. Operational responsibility for investment portfolios lies within the local units.

Risk capital At the end of fiscal 2003, risk capital calculated according to the Standard & Poor's model, and before minority interests, was composed as follows: in property and casualty insurance, 16.1 billion euros were allocated for actuarial risks, 1.1 billion euros for credit and counterparty risks and 3.5 billion euros for investment risks. Risk capital in life insurance amounted to 10.8 billion euros.

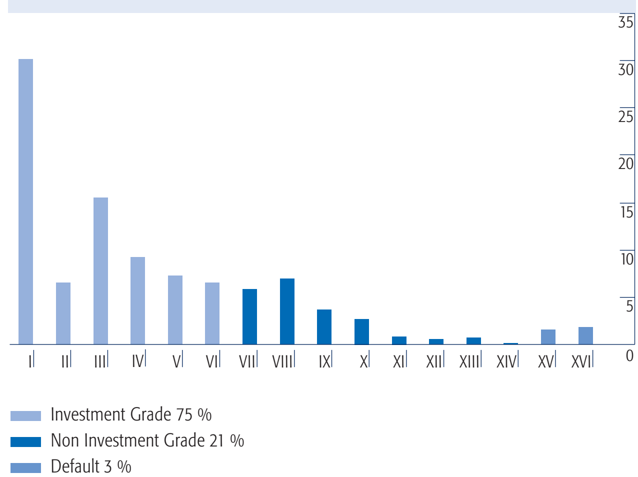
As a minimum, the capital we allocate to our local units meets the requirements for an "A" rating from Standard & Poor's.

Risk controlling in the banking business

Credit and counterparty risks These risks are directly linked to granting credits in the banking business. The bank controls these risks through guidelines and credit risk committees. The central element in the approval, supervisory and control process is the rating of our customers. In this process, the various creditworthiness characteristics of the customers are presented in the form of rating classes. As quality control for these rating methods, validation benchmarks were introduced in the reporting year.

To categorize the default probability of a borrower, a system with 16 different rating classes is used. The first six classes correspond to "investment grade", classes VII to XIV signify "non investment grade". Rating classes XV and XVI are default classes according to the Basel II Definition. At the end of fiscal 2003, about 75 percent of all counterparty risks in the trading and banking portfolios of the Dresdner Bank Group fell into rating classes I to VI.

Credit and counterparty risks by rating classes in %

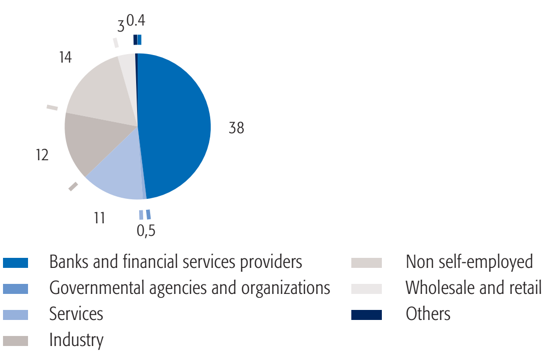


The volume of the overall portfolio is to a great extent determined by the bank's trading business, which involves primarily transactions with counterparties in rating classes I to VI, i. e. with state and local agencies and financial services providers. These counterparties account for approximately 93 percent of the bank's trading business and 63 percent of its total portfolio.

Counterparty risks are centrally controlled by Dresdner Bank's Risk Executive Committee (REC), which is headed by the Chief Risk Officer of Dresdner Bank. This body issues the appropriate guidelines and standards for the risk strategy and risk control. In addition, the Risk Executive Committee decides on essential projects involving a credit risk and has a decisive influence on the modalities of the bank's risk management. The REC is also responsible for the regular audit of the overall portfolio.

The Group Credit Committee was set up to decide on credits which do not fall under the responsibility of the risk management units in the divisions and for which no decision by the Board of Management is required. It will help to further improve the credit approval process.

Loan and trading portfolio by industry in %



In the past fiscal year, credits were transferred from the business segments to the Institutional Restructuring Unit (IRU). These are loans which are not of strategic importance or which are exposed to higher risks. Mainly concerned are credit lines in North and South America and in Germany, as well as commitments in the areas of private equity and commercial real estate. The IRU has the task of reducing these commitments in order to free up risk capital.

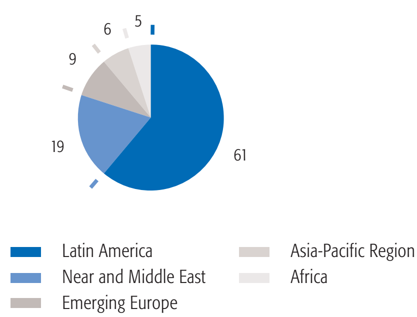
We account for the development of risks in the lending business by making allowances for individual risks and country risks. In setting up risk provisions, we consider the creditworthiness of the borrower, the general economic environment and risk-reducing measures, for example securities. Total risk provisions in the banking business amounted to about 6 billion euros as of December 31, 2003.

	12/31/2003 € mn	12/31/2002 € mn
Specific loan loss allowances/reserves	5,019	6,069
Country risk allowance	269	367
General loan loss allowance	664	813
Total	5,952	7,249

Counterparty risk from trading activities: in the credit-sensitive trading business with OTC derivatives, the selection of counterparties plays a decisive role. The selection process is aimed at counterparties with top-quality credit ratings. In the rated derivatives portfolios of Dresdner Bank, 97 percent of the positive replacement values involve counterparties in risk classes I to VI and are thus of "investment grade".

Country risks We control these risks by using internal country ratings. These ratings are based upon macroeconomic data and key qualitative indicators. The latter take into account the economic, social and political environment. At present, Dresdner Bank's country rating system includes eight risk groups. To establish a parallel to the category system used to determine individual creditworthiness in the lending business, the country rating system will be expanded to 16 rating classes in the current year. At the end of 2003, Dresdner Bank's country risk provisions totaled 269 million euros.

Country risk provision by region in %



Market risks Dresdner Bank uses a proprietary value-at-risk model that takes into account all aspects of general and specific risks. Value-at-risk is defined as the potential loss which may occur during a specific period of time and with a given confidence level. In 1998, the German Federal Supervisory Authority for Financial Service Providers (BaFin) first approved Dresdner Bank's value-at-risk model for purposes of reporting in accordance with Principle I of the German Banking Act. It also approved the improvements made in 2001 and 2002. The value-at-risk data used to calculate capital adequacy requirements for regulatory purposes must take into account potential market movements within a confidence level of 99 percent, based on an assumed holding period of 10 trading days. The value-at-risk model is complemented by stress testing.

Value-at-risk statistics
(99 % confidence level, 10-day holding period)

	Year-end 2003 € mn	2003 annual statistics Mean value € mn	Maximum € mn	Minimum € mn	Year-end 2002 € mn
Aggregate risk	96	120	185	79	81
Interest rate risk	88	117	188	66	65
Equity risk	29	26	58	11	45
Currency/ commodity risk	19	11	28	1	13
Diversification effect[1]	– 40	– 54	–	–	– 42

[1] No diversification effect can be taken into account since the maximum and minimum values were measured at different dates.

For purposes of setting internal limits and risk determination, we calculate value-at-risk with a confidence level of 95 percent and a one-day holding period. Unlike the value-at-risk calculation required by the supervisory authority, which is based on market data from the past, we thus assign greater weight to the most recent market fluctuation. This ensures that value-at-risk data more accurately reflect current market developments.

Maturities of the derivatives portfolio

Derivatives (Trading and non-trading)[*]					
Market segments	Principal amounts at maturity				Positive replacement values[*]
	≦ 1 year € mn	1 – 5 years € mn	> 5 years € mn	Total € mn	€ mn
Interest-based derivatives	1,504,577	860,397	550,761	2,915,735	38,050
FX-based derivatives	339,596	258,328	50,691	648,615	13,122
Stock index derivatives	89,072	101,305	10,039	200,416	5,879
Credit derivatives	11,735	65,550	7,211	84,496	1,321
Other transactions	2,161	3,403	1,992	7,556	548
Total	1,947,141	1,288,983	620,694	3,856,818	58,920

[*] Before netting

Value-at-risk is only one of the instruments used to characterize and control the risk profile of the Dresdner Bank Group. In addition, the bank also uses operational risk indicators and limits, which are specifically adapted to the risk situation of the trading units. Trading is controlled by setting value-at-risk and operational market risk limits. Current limit utilization is determined and monitored by Risk Controlling on a daily basis. Limit breaches are immediately indicated to the management concerned so that corrective action can be taken.

Derivatives business by market segment

Counterparties by industry segment	Positive replacement values	
	12/31/2003 € mn	12/31/2002 € mn
Banks	38,611	47,738
Other financial services providers	16,063	11,673
Insurance companies	411	484
Small industry	741	327
Telecommunication, media, technology	489	745
Transportation	457	276
Raw materials	148	667
Real estate	108	112
Government	1,119	676
Other	773	1,714
Total – before netting	58,920	64,412
Total – after netting and security	14,251	17,212

Market risks in the trading portfolio: the risks from Dresdner Bank's trading activities increased slightly compared to the previous year. This is mainly due to the fact that positions for interest-bearing instruments were built up moderately.

Market risks in the non-trading portfolio: this risk mainly comprises the risk of interest changes and is analyzed on the basis of sensitivity and value-at-risk indicators. As in the case of trading, the bank controls this risk by setting value-at-risk limits. At the end of 2003, the value-at-risk for interest rate risks in the banking portfolio of Dresdner Bank Group decreased slightly by 2 percent to 31.2 million euros.

Currency risks at Dresdner Bank are limited by applying the following principle: all loans and deposits in foreign currencies are refinanced or reinvested in the same currency with matching maturities.

Liquidity risks As part of the Group liquidity policy, Treasury and Risk Controlling of Dresdner Bank established principles for liquidity management. This liquidity policy meets both regulatory requirements and internal standards. The liquidity risk limits set include a reporting process for limit breaches and provisions for emergency planning. Liquidity control and liquidity risk management are tasks attended to by the treasury.

Liquidity risk measurement is based on the liquidity management system. This system models the maturities of all cash flows and draws up a scenario-based liquidity balance sheet, taking into account available prime-rated securities.

Operational risks Dresdner Bank has a system for the systematic identification, measuring and controlling of operational risks. The essential risk factors are evaluated in the framework of a structured self-assessment.

Business risks These risks stem from an unexpected variance of results, which can arise when a downturn in earnings, for example as a result of changes in the competitive situation or in customer behavior, can not be compensated by a corresponding reduction of expenses.

Organizational risk controlling At the organizational level, risk management and risk controlling are strictly separated on the basis of the principle of dual control. Dresdner Bank's risk management sets the limits for the company's different activities that are exposed to risks. This is done in accordance with a general framework approved by the Board of Management.

Risk capital At the end of fiscal 2003, the risk capital of Dresdner Bank, before risk-reducing diversification effects, was composed as follows: 0.7 billion euros were allocated for market risks, 4.8 billion euros for credit and counterparty risks, 3 billion euros for risks from private equity and other investments, 1.4 million billion euros for operational risks and 0.7 billion euros for other business risks. After deduction of diversification effects, total risk capital amounted to 8.3 billion euros.

Required risk capital by type of risk

	12/31/2003 € bn	12/31/2002 € bn
Market risks	0.7	1.0
Credit and counterparty risks	4.8	7.5
Private equity/investments	3.0	3.0
Operating risks	1.4	1.4
Business risks	0.7	0.7
Total (before diversification effect)	10.7	13.6
Diversification	–2.4	–2.6
Total	8.3	11.0

Risk control in asset management

Risk control in asset management is an integral part of the processes of the local units or the investment platform. The Corporate Center ensures that Group-wide standards for asset management are applied at the local level. The individual asset management companies continually monitor the portfolio risks of the customer assets they manage by using analytical tools specifically adapted to the risk profile of the product concerned. At the same time, the performance of the various product lines is periodically monitored and analyzed at the Group level. At the end of fiscal 2003, risk capital in the asset management segment – calculated according to the Standard & Poor's model and before minority interests – amounted to 1.8 billion euros.

Risk monitoring by third parties

Supervisory authorities and rating agencies are additional risk monitoring bodies. Supervisory authorities specify the minimum precautions that must be taken in individual countries and at the international level. Rating agencies determine the relationship between the required risk capital of a company and the available safeguards. In their evaluation of capital resources, the rating agencies include equity shown in the balance sheet, minority interests and other items representing additional securities in times of crisis. At the end of the year, this total was at a level that corresponds to our current ratings. At the end of fiscal 2003, the financial strength of the Allianz Group was rated by Standard & Poor's as "AA–" and by A. M. Best as "A+". The Allianz Group's credit risk was rated by Moody's as "Aa3".

Outlook

In the course of the current fiscal year, we will introduce special minimum standard, which will further strengthen the risk management of our local units. These complement and specify the Group risk policy with respect to certain risk categories or processes.

In addition, we will improve the process and organization of local risk management by introducing such enhancements as solvability stress tests and uniform procedures for the control and limitation of risks from natural events. For credit risks, a comprehensive limit system will be used, which limits counterparty risks both locally and at the Group level.

Dresdner Bank is continually refining its system for the assessment of creditworthiness in the lending and trading business, as well as its authorization, supervision and control processes. These measures are based on the future Basel Capital Accord ("Basel II"), which is currently being revised. In order to implement Basel II with respect to credit risks, Dresdner Bank plans to use the advanced "internal rating method". The operational risk capital, which, for regulatory purposes in accordance with Basel II, must for the first time be shown separately, will be calculated by means of the "advanced measurement method".

The customer orientation, commitment and professionalism of its employees have helped the Allianz Group obtain the rank it holds today.

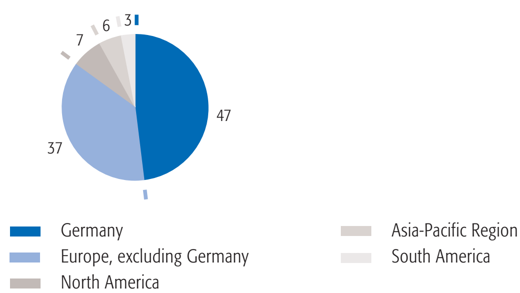
The human resources policy of the Allianz Group is based on two organizational principles: delegation of operating responsibility to the individual company units, and close coordination in core areas. In human resources, this coordination primarily covers leadership values, development and training of junior managers, succession planning and the transfer of know-how between business units.

On December 31, 2003 we had 173,750 (181,651) employees in over 70 countries. The reduction of staffing levels is primarily attributable to the measures taken in the course of the restructuring or reorientation of our activities at Dresdner Bank Group, Fireman's Fund, in Slovakia, Switzerland, Mexico and South Korea. Slightly more than half of our employees work outside Germany. A detailed overview is provided by the table and the chart below.

Employees by country

	2003	2002
Germany	82,245	87,398
France	19,639	21,167
U.S.A.	11,058	11,270
Great Britain	9,801	9,003
Italy	7,467	7,474
Austria	3,246	3,130
Australia	3,187	3,099
Switzerland	3,117	3,739
Hungary	3,056	3,000
Slovakia	3,039	3,890
Spain	2,735	2,680
Brazil	2,304	2,203
South Korea	1,735	2,438
Romania	1,332	1,039
Colombia	1,122	1,403
Ireland	1,075	1,106
Other	17,592	17,612
Total	173,750	181,651

Employees by region in %



Leadership Values

Our exchanges with customers, managers and employees have again and again shown the enormous development potential of the Allianz Group. To capitalize on this opportunity in a better and more expeditious manner in the future, we have developed a set of Leadership Values in collaboration with top-level managers from our subsidiaries. They are intended to provide our managers world-wide with behavioral principles and they give our stakeholders a good idea of what they can expect from the management of Allianz Group in the future. In December 2003, the Leadership Values were introduced world-wide, in conjunction with a broad-based survey of our managers' attitude towards the corporate and leadership culture of their respective companies. The results of this study are used by each Group company as a basis on which they can implement our Leadership Values at the local level and harmonize them with business objectives.

International personnel marketing

To further strengthen our position as a leading "integrated financial services provider" we are continually looking for highly qualified and internationally oriented young professionals with management potential. We are talking about this challenging task to recent university graduates as well as junior managers with first professional experience.

In the future, interested applicants will have an even easier way to learn about vacant positions. Our electronic job application platform, an essential part of the expanded "Talent Management System", facilitates global access to information and makes the application processes more efficient. The system is being tested since the end of the reporting year, before it will go online world-wide. Through this platform, each group company can constitute its own "talent pool" in which the profiles of both external and internal applicants are compiled. Upon conclusion of the pilot phase, the "Talent Management System" will give applicants a more coherent overview of career opportunities within the Allianz Group, independent of the group company to which they are currently applying online. In addition, the new tool accelerates the application process through automation, thereby reducing its costs.

Expatriation and international training programs

As an international financial services group, we demand and promote an international orientation and intercultural competency on the part of our employees. We are committed to filling newly available positions primarily through internal promotions. That is why we are continually expanding our junior management pool with qualified employees who can be assigned to international positions.

We provide international training programs for our management trainees. One of them is, for example, the "Global Development Program" of Allianz Dresdner Asset Management, which combines a posting abroad with accompanying intercultural training. We like to assign young talents to projects abroad at the beginning of their career, or we encourage them to participate as knowledge managers in internationally staffed teams, to the extent that this supports their individual career development plan.

Experienced specialists and managers can apply for expatriate positions which are assigned for several years and are designed to give them a deeper understanding of new markets and an unfamiliar cultural context. For reliable planning, we have international expatriate guidelines that provide answers to questions about integration assistance, remuneration and social security in the host country as well as the modalities of returning home. This not only helps our employees and their families; it also enables the respective supervisors to adjust better to the expatriate situation.

Management training

The Allianz Management Institute (AMI), our corporate university for management training, has a central role in the Group's learning and knowledge network. AMI disseminates current specialist and management know-how and facilitates access to the Group's strategy. This is done in campus programs, for example. In these programs, top-level managers from Group companies meet with Board Members of the Holding to jointly examine strategies and refine them in a constructive dialogue. Subjects in the reporting year were "Leadership Values", "Turnaround Management", "Asset Management and Old Age Provision", "Building an Entrepreneurial Organization", "Human Ressources Global Strategy", "Integration after a Merger", and "Financial Services: Making your Assets work harder".

In developing its curriculum, AMI works with leading universities, international business schools and research institutes, giving our management access to renowned experts and the latest research in the field. Specialists from the organization share their specific experiences, which enhances the practical relevance of the AMI offerings, promotes best practices and gives the entire teaching program an unmistakable Allianz feel. That makes it easier for all participants to apply what they have learned to their own daily business. This practical relevance is highly appreciated by the course participants. Abit 90 percent of AMI participants evaluate its programs as "good" or "outstanding".

AMI also rates highly in external comparisons. As the first European corporate university it was accredited in 2003 by the European Foundation for Management Development (EFMD). This international organization, which is headquartered in Brussels, is made up of 400 member companies that are actively promoting outstanding performance in management training and development.

Beyond its commitment to AMI, Allianz is one of the founders (and sponsors) of the European School of Management and Technology (ESMT) in Berlin. The courses offered by this school are also attended by our management trainees. The spectrum of available seminars ranges from "Finance", "Risk Management" and "Strategy" to "Change Management" and "Human Resources".

Performance orientation and remuneration

Our performance and result-based remuneration is based on management by agreed-upon individual objectives. In the reporting year, this tool was more closely integrated with our value-oriented management control and planning strategy. Remuneration of upper- and mid-level management is tied to meeting objectives and to the success with which our strategy for increasing the value of the company is implemented.

Total wages and salaries paid by the Group to its employees worldwide amounted to 8.8 (9.7) billion euros in 2003. Social security contributions, pensions and other employee benefits amounted to 2.2 (2.3) billion euros.

In 2003, we once again launched an employee stock purchase plan, which offered Allianz shares at preferential conditions to over 140,000 employees in 22 (24) countries.

Our top-level management participates in the new Group Equity Incentive Plan, which replaced the previous Long-term Incentive Plan. The new program is based on stock appreciation rights (SAR) and restricted stock units (RSU), which provide for a balanced incentive structure. The potential yield depends on the development of the Allianz AG share price. The calculation of grants takes into account the Economic Value Added (EVA®) of the Allianz Group, the EVA® of the respective Group companies. Objectives reached are measured the cost of capital. The Group Equity Incentive Plan meets all requirements and recommendations of the German Corporate Government Code.

More detailed information on stock-based remuneration is provided on pages 14 and 16 of this Annual Report.

Thank you!

We would like to thank the employees and representatives of our Group companies for their dedication and effort in the difficult year 2003. We also thank the members of the works council, the elected speakers of our management team and the representative bodies of our independent sales force for their constructive and successful cooperation.

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The economic prospects for 2004 are significantly better than in recent years.

Growth is likely to accelerate in all regions of the world. That will also give new impetus to financial services providers, even though sizeable risks persist.

Positive economic outlook with persisting risks

After most of the developed economies were either caught in stagnation or showed only modest growth in the last three years, the economic compass at the beginning of 2004 points to growth across all continents. Many of the overwhelming risks of the recent past – terror, war, SARS and accounting scandals – can by now be better assessed or pose no present danger. The relatively low prime interest rates in Europe and in the U.S.A. foster growth and lend it support. Fueled by a more propitious economic environment and an overall positive mood, long delayed investment decisions are put into practice, which lends even more substance to the economic upswing.

But this does not mean that we can expect the growth rates of the late nineties to return in 2004. At this time, it looks like the recovery will be curbed by considerable burdens of economic relevance, particularly the severe deficits in the U.S. budget and trade balance, and the high and still rising debt of American private households. On the whole, the U.S. economy should grow by at least 3 percent in the current year. For Europe, we see an expansion rate of 2 percent, an average that even Germany – Europe's weakest performer in recent years – should be able to reach. After the kick-start of the Japanese economy in 2003, we expect the country's economy to grow by about 2 percent, i. e. considerably more than the average of the last ten years. The economic forecasts of the leading economic research institutes are by and large comparable. But we do have to be prepared for the eventuality that unpredictable events, such as a major terrorist attack, could obscure the currently bright picture.

Good prospects for financial services providers

These are positive conditions for the success of financial services providers, even though they will have no immediate effect on further business developments. Overall, the economic recovery and the surge in the stock markets reduce the need for write-downs and offer improved business opportunities. The banks in particular should benefit from this situation.

Asset management and the life insurance business are favored by the worldwide demographic aging of societies and the problems it presents for state pension systems. Uncertainties about the future fiscal treatment of life insurance, for instance in Germany, are likely to provide an additional uplift for this business, at least in 2004. Equally uncertain from today's perspective is the further development of mandatory health insurance in Germany. While the private health insurers are negatively affected by the recently raised income limit for obligatory insurance, the new supplementary insurance plans introduced by the reform of the health care system have a positive effect. In general, the rising demand for property and casualty insurance opens up new business opportunities. But we do have to be prepared for the possibility that the adjustment of margins in industrial insurance will not keep pace with the positive trend of the previous years – an outgrowth of intensive competition.

In Central and Eastern Europe, we expect economic growth to be almost twice that of the fifteen E.U. countries, i. e. about 4 percent. The enlargement of the E.U. to the east will enable the economies concerned to reduce the wealth gap with the west faster than before. In this adjustment phase, which will continue over many years, the demand for insurance protection, asset management and banking services will grow significantly, supported by the fact that the majority of these countries has introduced mandatory retirement savings plans.

Asia should grow even faster than Central and Eastern Europe, by about 6 percent. In this region, the pace and extent of the liberalization in China is a key factor for the business opportunities of financial services providers. In Latin America, economic fundamentals will also improve. We expect an expansion of just under 4 percent in this region.

Business outlook for the Allianz Group

In 2004, the Allianz Group is going forward with the implementation of its “Three Plus One” strategy. We will continue to build up our operating strengths and grow profitably. We expect total premium income to increase by about 4 percent. Our disciplined underwriting policy and our strict cost management should enable us to push the combined ratio in property and casualty insurance below 97 percent, provided that there are no major natural catastrophes or other major claims and that no acute changes in our business context occur. In life insurance, we will continue the redesign of our products and rate structures, with the objective of tapping additional earnings potentials. If the recovery of the capital markets continues, we expect clearly improved results in this segment. In banking, we expect drastic cost-cutting to help us achieve modest growth in operating income. In asset management, we want to increase third-party assets under management by 10 percent and continue to bring down the cost-income ratio.

Munich, February 20, 2004
Allianz Aktiengesellschaft

The Board of Management

Diekmann	Dr. Achleitner
Bremkamp	Carendi
Dr. Faber	Dr. Hagemann
Dr. Perlet	Dr. Rupprecht
Dr. Walter	Dr. Zedelius

APPROPRIATION OF PROFIT

The Board of Management and the Supervisory Board propose that the available unappropriated profit of Allianz AG in the amount of 580,000,000 euros be appropriated as follows:

- Distribution of a dividend of 1.50 euros per eligible share 550,709,560.50 euros
- Allocation to other appropriated retained earnings 29,290,439.50 euros

The recommendation for appropriation of earnings takes into account own shares held directly or indirectly by the company, which in accordance with the German Stock Corporation Act (article 71 b AktG) are not entitled to receive a dividend. Further purchases or sales of own shares during the period prior to the Annual General Meeting may increase or decrease the number of shares eligible for dividends. In this case, an amended proposal for the appropriation of profit based upon an unchanged dividend in the amount of 1.50 euros per eligible share will be submitted to the Annual General Meeting for ratification.

Munich, March 17, 2004
Allianz Aktiengesellschaft

Allianz Group is among the signatories of the Global Compact, an initiative by UN Secretary General Kofi Annan. This document establishes nine principles for businesses, pertaining to human rights, labor standards and the protection of the environment. That makes the Global Compact our system of reference against which we measure the extent to which we meet our entrepreneurial responsibility.

Under "responsibility," we subsume four central themes that are of relevance to both our business and to society.

- Our entrepreneurial and economic role, which, in particular, relates to demographics and the future of the social security systems dependent thereon, as well as to risk management and to our function as an integrated financial services provider.

  We operate in a business that lends support in all situations in life and creates the prerequisites for independent action. Individuals and companies alike need a minimum of planning security and capital in order to assume business risks, invest, drive innovations and thereby bring about a broad-based welfare effect. We protect against the material consequences of unpredictable events that damage or destroy property, health and life. We make provisions for our customers so that they and their families can sustain the desired standard of living in any phase of their life. We cover health risks and offer products with which our customers can build assets and increase their wealth. As lenders, we supply our customers with the liquidity they need for their private and business undertakings. In addition, we offer corporate customers comprehensive know-how in investment banking.

- Transparency and efficiency in corporate governance. More information on this topic is provided on pages 10 to 13 of our Annual Report.

- Sustainable action and economic activity. In our activities, we are committed to ensuring the respect of ecological and social precepts. An international "sustainability" strategy team advises the business lines and reports directly to the Chairman of the Board of Management of Allianz AG and the heads of its major subsidiaries. This commitment is honored by agencies that evaluate sustainable development: for third time in three years, Allianz has obtained one of the top rankings in the Dow Jones Sustainability Index. More information on this subject is available on the Internet at www.allianzgroup.com/sustainability.

- Our corporate citizenship that goes beyond our business activities and extends to all countries in which we offer our services. One example is the promotion of financial and economic know-how in China, another the voluntary work our employees do in the slums of São Paulo. Many other projects are supported by the foundations of the Allianz companies.

How do we apply the new Global Compact principles? Here is a representative but by no means exhaustive selection.

Human Rights

Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence; and

Principle 2 make sure that they are not complicit in human rights abuses.

Labor Standards

Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4 the elimination of all forms of forced and compulsory labor;

Principle 5 the effective abolition of child labor; and

Principle 6 eliminate discrimination in respect of employment and occupation.

Socially Responsible Investment

Allianz Dresdner Asset Management (ADAM) offers private and institutional clients investment funds that are structured in accordance with ethical criteria. Together with the United Nations Association Trust in London, ADAM is developing the corresponding standards for investment decisions.

Equator Principles

Dresdner Bank has signed the so-called Equator Principles, which were developed by the International Finance Corporation, a subsidiary of the World Bank. By signing these principles, banks are committed to making sure that the projects they finance respect environmental and social standards. Dresdner Bank now holds borrowers to thoroughly examine the environmental impact of their projects. They must avoid the use of dangerous substances and see to it that health, cultural property and endangered species remain protected.

Code of Conduct

The Code of Conduct of the Allianz Group prohibits any kind of discrimination on grounds of racial origin, religion, gender or disability. The observation of the Code is enforced by means of a Compliance System.

Diversity

Our “Leadership Values” state that we respect and promote diversity. In that, we place special emphasis on continuing education and training and a well-established feedback culture. We also launched a number of programs that make it possible to reconcile family life and working activities, for example through flexible working time models or by providing care for children or other family members.

Freedom of association and collective bargaining

Allianz respects the freedom of association and the right to collective bargaining within the framework of the respective national legislation.

Child labor

Allianz appeals to the social commitment of its employees and supports them in their activities in this area. One example is the initiative of the employees of our Brazilian subsidiary, which is aimed at giving better prospects in life to the street children in the poverty-stricken favelas of São Paulo. The program not only provides children and young adults with financial assistance but also with educational support and care that keeps them off the streets and helps them get a better start in an orderly environment. Another project in Romania is devoted to the job training of children in orphanages.

Environment

Principle 7 Businesses should support a precautionary approach to environmental challenges;

Principle 8 undertake initiatives to promote greater environmental responsibility; and

Principle 9 encourage the development and diffusion of environmentally friendly technologies.

Carbon Disclosure Project

Together with 86 other institutional investors, ADAM participates in the Rockefeller Foundation's Carbon Disclosure Project. In this project, the 500 largest companies in the world by market capitalization are asked what they are doing to limit greenhouse gas emissions. The results of the most recent survey will be published in May 2004.

United Nations Environment Program (UNEP)

Dresdner Bank has been a member of the "Financial Initiative" of the United Nations Environment Program (UNEP), Working Group Climate Change, since 1992. In the meantime, it has supplemented its membership by an environmental program of its own, which calls for the further extension of the financing of environment-friendly products and services and commits the bank to a more efficient use of resources. Among others, the bank has set itself the target of lowering CO_2 emissions by 28 percent by the year 2012.

Allianz Environment Foundation

The Allianz Environment Foundation supports projects aimed at helping to reconcile human activity with environmental concerns. In that, it primarily focuses on the protection of waterways and species, landscape conservation, gardening arts, environmental communication and the extension of green spaces in cities. Current examples of its work are the repair of flood damages in the biosphere reservation "middle-reaches of the Elbe river," a project aimed at rerouting "lesser white-fronted geese" to safer migratory flight paths, and another dealing with new concepts of bird-watching.

Allianz Center for Technology

Risk research and risk management are among the core competences of a financial services provider. The risk experts of the Allianz Center for Technology develop waste management and recycling concepts, work for the efficient use of non-renewable energies and analyze the environmental impact of the activities of their customers in trade and industry.

To go directly to any chapter, simply click ➤➤
on the headline or the page number.

Contents Consolidated Financial Statements

Consolidated Balance Sheet for the Year Ended December 31

To read the notes, simply click ➤➤ on the number

ASSETS	➤➤ Note	2003 € mn	2002 € mn
A. Intangible assets	5	16,262	18,273
B. Investments in affiliated enterprises, joint ventures, and associated enterprises	6	6,442	11,345
C. Investments	7	295,067	285,340
D. Investments held on account and at risk of life insurance policyholders		32,460	25,657
E. Loans and advances to banks	8	117,511	86,822
F. Loans and advances to customers	8	203,259	188,084
G. Trading assets	9	146,154	124,842
H. Cash and cash equivalents	10	25,528	21,008
I. Amounts ceded to reinsurers from insurance reserves	11	25,061	28,420
J. Deferred tax assets	37	14,403	13,311
K. Other assets	12	53,804	49,070
Total assets		935,951	852,172

EQUITY AND LIABILITIES	➤➤ Note	2003 € mn	2002 € mn
A. Shareholders' equity	13	28,592	21,673
B. Minority interests in shareholders' equity	14	8,367	8,315
C. Participation certificates and subordinated liabilities	15	12,230	14,174
D. Insurance reserves	16	311,471	305,763
E. Insurance reserves for life insurance where the investment risk is carried by policyholders		32,460	25,687
F. Liabilities to banks	17	178,316	137,332
G. Liabilities to customers	18	154,728	147,266
H. Certificated liabilities	19	63,338	78,750
I. Trading liabilities	20	84,835	53,520
J. Other accrued liabilities	21	13,908	13,069
K. Other liabilities	22	31,725	31,425
L. Deferred tax liabilities	37	13,548	12,188
M. Deferred income	23	2,433	3,010
Total equity and liabilities		935,951	852,172

Consolidated Income Statement for the Period from January 1 to December 31

	Note	2003 € mn	2002 € mn	2001 € mn
1. Premiums earned (net)	24	55,978	55,133	52,745
2. Interest and similar income	25	22,562	28,210	24,224
3. Income (net) from investments in affiliated enterprises, joint ventures, and associated enterprises	26	3,030	4,398	1,588
4. Other income from investments	27	9,914	9,355	8,502
5. Trading income	28	243	1,507	1,592
6. Fee and commission income, and income from service activities	29	6,060	6,102	4,827
7. Other income	30	3,780	2,971	2,172
Total income (1. to 7.)		101,567	107,676	95,650
8. Insurance benefits (net)	31	– 50,033	– 50,229	– 50,154
9. Interest and similar expenses	32	– 6,437	– 10,651	– 7,861
10. Other expenses for investments	33	– 10,492	– 14,102	– 8,923
11. Loan loss provisions	34	– 1,027	– 2,241	– 596
12. Acquisition costs and administrative expenses	35	– 22,117	– 24,502	– 19,383
13. Amortization of goodwill	5	– 1,413	– 1,162	– 808
14. Other expenses	36	– 7,520	– 6,098	– 6,157
Total expenses (8. to 14.)		– 99,039	– 108,985	– 93,882
15. Earnings from ordinary activities before taxes		2,528	– 1,309	1,768
16. Taxes	37	– 130	768	861
17. Minority interests in earnings	14	– 782	– 688	– 1,044
18. Net income		1,616	– 1,229	1,585

		€	€	€
Earnings per share	43	4.78	– 4.44	5.71
Diluted earnings per share	43	4.77	– 4.44	5.71

Statement of Changes in Shareholders' Equity

	Paid-in capital € mn	Revenue reserves € mn	Translation differences € mn	Unrealized gains and losses € mn	Shareholders' equity € mn
As of 12/31/2000	7,994	13,145	1,005	13,448	35,592
Translation differences			– 129	38	– 91
Changes in the group of consolidated companies		– 554			– 554
Capital paid in	6,775				6,775
Treasury stock		– 5,801			– 5,801
Unrealized investment gains and losses				– 5,210	– 5,210
Net income for the year		1,585			1,585
Shareholders' dividend		– 367			– 367
Miscellaneous		– 316			– 316
As of 12/31/2001	14,769	7,692	876	8,276	31,613
Translation differences			– 1,218	– 29	– 1,247
Changes in the group of consolidated companies		364			364
Capital paid in	16				16
Treasury stock		– 157			– 157
Unrealized investment gains and losses				– 7,198	– 7,198
Net income for the year		– 1,229			– 1,229
Shareholders' dividend		– 364			– 364
Miscellaneous		– 125			– 125
As of 12/31/2002	14,785	6,181	– 342	1,049	21,673
Translation differences			– 1,574	– 125	– 1,699
Changes in the group of consolidated companies		– 1,117		876	– 241
Capital paid in	4,562				4,562
Treasury stock		1,413			1,413
Unrealized investment gains and losses				2,454	2,454
Net income for the year		1,616			1,616
Shareholders' dividend		– 374			– 374
Miscellaneous		– 812			– 812
As of 12/31/2003	19,347	6,907	– 1,916	4,254	28,592

The column "translation differences" shows the currency translation differences accrued since January 1, 1997 (conversion to IFRS accounting), which are recorded in shareholders' equity and not recognized in net income.

Cash Flow Statement

	2003 € mn	2002 € mn	2001 € mn
Current business activities			
Net income for the year	1,616	– 1,229	1,585
Change in unearned premiums	596	542	949
Change in aggregate policy reserves[1]	12,051	6,039	6,859
Change in reserves for loss and loss adjustment expenses	1,016	2,530	3,375
Change in other insurance reserves[2]	– 951	– 4,241	– 4,007
Change in deferred acquisition costs	– 2,460	– 1,211	– 662
Change in funds held by others under reinsurance business assumed	32	1,349	– 171
Change in funds held under reinsurance business ceded	234	– 192	– 278
Change in accounts receivable/payable on reinsurance business	219	232	– 4
Change in trading securities[3]	8,909	14,064	– 12,544
Change in loans and advances to banks and customers	– 47,109	– 5,846	3,442
Change in liabilities to banks and customers	48,648	– 8,215	– 5,456
Change in certificated liabilities	– 14,387	– 1,727	3,130
Change in other receivables and liabilities	– 4,250	– 1,370	3,871
Change in deferred tax assets/liabilities[4]	– 730	– 1,321	– 2,202
Non-cash investment income/expenses	– 807	175	112
Amortization of goodwill	1,413	1,162	808
Other	1,115	– 1,499	359
Net cash flow provided by (used in) operating activities	5,155	– 758	– 834
Investment activities			
Change in securities available for sale	– 8,708	– 7,073	– 3,465
Change in securities held to maturity	1,754	1,092	383
Change in real estate	155	2,226	112
Change in other investments	4,238	1,681	2,692
Change in cash and cash equivalents from the acquisition of consolidated affiliated companies	– 1,450	– 10,787	12,114
Other	1,241	– 919	– 441
Net cash flow provided by (used in) investing activities	– 2,770	– 13,780	11,395
Financing activities			
Change in participation certificates and post-ranking liabilities	– 1,943	2,784	– 770
Change in investments held on account and at risk of life insurance policyholders	– 7,856	– 2,154	– 1,465
Change in aggregate policy reserves for life insurance products according to SFAS 97	7,819	10,808	8,089
Cash inflow from capital increases	4,562	16	275
Dividend payouts	– 675	– 682	– 673
Other from shareholders' equity and minority interests[5]	348	3,643	996
Net cash flow provided by financing activities	2,255	14,415	6,452
Effect of exchange rate changes on cash and cash equivalents	– 120	– 109	18
Change in cash and cash equivalents[6]	4,520	– 232	17,031
Cash and cash equivalents at beginning of period	21,008	21,240	4,209
Cash and cash equivalents at end of period	25,528	21,008	21,240

[1] Without aggregate policy reserves for life insurance products in accordance with SFAS 97
[2] Without change in the reserves for latent premium refunds from unrealized investment gains and losses
[3] Including trading liabilities
[4] Without change in deferred tax assets/liabilities from unrealized investment gains and losses
[5] Without change in revenue reserves from unrealized investment gains and losses
[6] Cash and cash equivalents

The data for the cash flow statement were prepared in accordance with International Financial Reporting Standards (IFRS). It excludes the effects of major changes in the scope of consolidation, which in 2003 included in particular influences from the deconsolidation of Pioneer Allianz Life Assurance Corporation, Metro Manila. The deconsolidation led to a decrease in the value of investments held (excluding funds held by others) by € 24 mn (2002: € 43,558 mn decrease; 2001: € 77,978 mn increase), and the net total of other assets and liabilities increased by € 24 mn (2002: € 51,416 mn increase; 2001: € 88,568 mn decrease). Cash outflows in connection with the acquisition amounted to € 1,450 (2002: 10,764; 2001: 12,450) mn. Changes in the scope of consolidation did not result in a change in cash funds (2002: € 23 mn decrease; 2001: € 24,564 mn increase). Outflow for taxes on income amounted to € 2,665 mn (2002: € 1,196 mn outflow; 2001: € 306 mn inflow).

Consolidated Balance Sheet by Business Segments for the Year Ended December 31

ASSETS	Property/Casualty		Life/Health	
	2003 € mn	2002 € mn	2003 € mn	2002 € mn
A. Intangible assets	2,520	2,960	4,351	4,817
B. Investments in affiliated enterprises, joint ventures, and associated enterprises	48,385	51,448	5,717	6,183
C. Investments	80,920	76,855	196,335	189,172
D. Investments held on account and at risk of life insurance policyholders	–	–	32,460	25,657
E. Loans and advances to banks	9,693	5,219	2,103	3,490
F. Loans and advances to customers	3,033	2,882	28,155	24,747
G. Trading assets	1,375	1,404	1,646	1,177
H. Cash and cash equivalents	1,769	2,880	1,103	2,267
I. Amounts ceded to reinsurers from insurance reserves	14,400	17,188	16,875	17,623
J. Deferred tax assets	7,174	7,463	3,386	2,601
K. Other assets	23,628	21,482	19,747	17,320
Total segment assets	192,897	189,781	311,878	295,054

EQUITY AND LIABILITIES	Property/Casualty		Life/Health	
	2003 € mn	2002 € mn	2003 € mn	2002 € mn
A. Participation certificates and subordinated liabilities	4,006	4,342	65	–
B. Insurance reserves	83,946	87,557	233,868	224,673
C. Insurance reserves for life insurance where the investment risk is carried by policyholders	–	–	32,460	25,687
D. Liabilities to banks	8,687	5,166	1,662	1,708
E. Liabilities to customers	–	–	–	–
F. Certificated liabilities	17,757	19,031	90	263
G. Trading liabilities	353	544	1,396	825
H. Other accrued liabilities	5,594	5,626	1,242	850
I. Other liabilities	15,503	18,312	20,528	20,555
J. Deferred tax liabilities	7,495	7,356	4,161	2,551
K. Deferred income	135	104	557	354
Total segment liabilities	143,476	148,038	296,029	277,466

Banking		Asset Management		Consolidation Adjustments		Group	
2003 € mn	2002 € mn	2003 € mn	2002 € mn	2003 € mn	2002 € mn	2003 € mn	2002 € mn
2,847	3,509	6,544	6,987	–	–	16,262	18,273
3,303	4,349	6	20	– 50,969	– 50,655	6,442	11,345
27,732	28,965	565	993	– 10,485	– 10,645	295,067	285,340
–	–	–	–	–	–	32,460	25,657
106,794	76,748	160	1,863	– 1,239	– 498	117,511	86,822
182,304	168,919	24	228	– 10,257	– 8,692	203,259	188,084
143,167	122,139	125	156	– 159	– 34	146,154	124,842
22,987	16,322	365	940	– 696	– 1,401	25,528	21,008
–	–	–	–	– 6,214	– 6,391	25,061	28,420
3,768	3,161	75	86	–	–	14,403	13,311
13,837	15,416	3,744	3,735	– 7,152	– 8,883	53,804	49,070
506,739	439,528	11,608	15,008	– 87,171	– 87,199	935,951	852,172

Banking		Asset Management		Consolidation Adjustments		Group	
2003 € mn	2002 € mn	2003 € mn	2002 € mn	2003 € mn	2002 € mn	2003 € mn	2002 € mn
8,263	9,846	–	–	– 104	– 14	12,230	14,174
35	–	–	–	– 6,378	– 6,467	311,471	305,763
–	–	–	–	–	–	32,460	25,687
168,770	130,568	111	177	– 914	– 287	178,316	137,332
156,390	146,945	378	2,754	– 2,040	– 2,433	154,728	147,266
51,371	64,569	72	435	– 5,952	– 5,548	63,338	78,750
83,307	52,152	–	–	– 221	– 1	84,835	53,520
6,611	5,984	461	609	–	–	13,908	13,069
7,295	5,468	1,509	1,304	– 13,110	– 14,214	31,725	31,425
1,836	2,220	56	61	–	–	13,548	12,188
1,738	2,545	3	7	–	–	2,433	3,010
485,616	420,297	2,590	5,347	– 28,719	– 28,964	898,992	822,184
				Equity*)		36,959	29,988
				Total equity and liabilities		935,951	852,172

*) Shareholders' equity and minority interests

Consolidated Income Statement by Business Segments for the Period from January 1 to December 31

	Property/Casualty			Life/Health		
	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn	2001 € mn
1. Premiums earned (net)	37,277	36,458	34,428	18,701	18,675	18,317
2. Interest and similar income	4,165	4,473	5,068	11,106	11,215	10,765
3. Income (net) from investments in affiliated enterprises, joint ventures, and associated enterprises	3,611	8,494	889	712	445	525
4. Other income from investments	4,850	3,652	4,307	4,234	4,932	3,562
5. Trading income	– 1,490	207	1,451	218	244	– 117
6. Fee and commission income, and income from service activities	522	521	1,425	234	200	268
7. Other income	1,795	1,751	1,202	1,427	825	772
Total income (1. to 7.)	50,730	55,556	48,770	36,632	36,536	34,092
8. Insurance benefits (net)	– 26,923	– 28,974	– 28,200	– 23,256	– 21,284	– 21,979
9. Interest and similar expenses	– 1,566	– 1,564	– 1,323	– 368	– 434	– 492
10. Other expenses for investments	– 3,319	– 3,567	– 2,888	– 5,933	– 8,656	– 5,537
11. Loan loss provisions	– 10	– 7	– 4	– 3	– 10	– 4
12. Acquisition costs and administrative expenses	– 9,972	– 10,521	– 10,042	– 3,713	– 4,263	– 4,259
13. Amortization of goodwill	– 383	– 370	– 349	– 398	– 174	– 146
14. Other expenses	– 3,048	– 2,999	– 3,555	– 2,204	– 1,806	– 1,263
Total expenses (8. to 14.)	– 45,221	– 48,002	– 46,361	– 35,875	– 36,627	– 33,680
15. Earnings from ordinary activities before taxes	5,509	7,554	2,409	757	– 91	412
16. Taxes	– 619	469	701	– 589	– 67	– 99
17. Minority interests in earnings	– 384	– 816	– 746	– 216	177	– 84
18. Net income	4,506	7,207	2,364	– 48	19	229

Banking			Asset Management			Consolidation Adjustments			Group		
2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn	2001 € mn
–	–	–	–	–	–	–	–	–	55,978	55,133	52,745
8,089	13,336	9,085	60	119	129	–858	–933	–823	22,562	28,210	24,224
27	2,071	1,016	10	–12	–3	–1,330	–6,600	–839	3,030	4,398	1,588
765	1,430	628	16	35	44	49	–694	–39	9,914	9,355	8,502
1,486	1,081	244	30	–1	10	–1	–24	4	243	1,507	1,592
2,956	2,925	1,474	2,892	2,918	2,479	–544	–462	–819	6,060	6,102	4,827
521	432	308	51	126	79	–14	–163	–189	3,780	2,971	2,172
13,844	21,275	12,755	3,059	3,185	2,738	–2,698	–8,876	–2,705	101,567	107,676	95,650
–	–	–	–	–	–	146	29	25	–50,033	–50,229	–50,154
–5,284	–9,509	–6,766	–29	–89	–82	810	945	802	–6,437	–10,651	–7,861
–926	–2,225	–465	–6	–22	–57	–308	368	24	–10,492	–14,102	–8,923
–1,014	–2,222	–588	–	–2	–	–	–	–	–1,027	–2,241	–596
–6,590	–7,581	–3,446	–2,300	–2,473	–1,954	458	336	318	–22,117	–24,502	–19,383
–263	–241	–70	–369	–377	–243	–	–	–	–1,413	–1,162	–808
–1,967	–1,034	–1,193	–458	–551	–795	157	292	649	–7,520	–6,098	–6,157
–16,044	–22,812	–12,528	–3,162	–3,514	–3,131	1,263	1,970	1,818	–99,039	–108,985	–93,882
–2,200	–1,537	227	–103	–329	–393	–1,435	–6,906	–887	2,528	–1,309	1,768
1,025	154	6	16	92	189	37	120	64	–130	768	861
–104	25	–453	–183	–230	–182	105	156	421	–782	–688	–1,044
–1,279	–1,358	–220	–270	–467	–386	–1,293	–6,630	–402	1,616	–1,229	1,585

PROPERTY/CASUALTY[1]	Premiums earned (net)			Net claims ratio[2]		
	2003 € mn	2002 € mn	2001 € mn	2003 %	2002 %	2001 %
1. Europe						
Germany	10,478	10,265	10,035	71.4	74.2	75.2
France	4,453	4,066	3,746	79.8	84.5	82.3
Great Britain	1,827	1,875	1,765	67.1	68.1	73.2
Italy	4,645	4,490	4,181	70.9	74.8	76.7
Switzerland	1,599	1,611	1,599	71.0	70.3	79.1
Spain	1,337	1,171	1,027	75.9	77.0	78.7
2. America						
NAFTA Region	4,037	4,689	5,177	70.0	94.6	99.9
South America	408	494	610	71.3	67.0	63.7
3. Asia-Pacific Region	1,171	1,134	768	71.7	78.5	79.9

Specialty lines	Premiums earned (net)			Net claims ratio[2]		
	2003 € mn	2002 € mn	2001 € mn	2003 %	2002 %	2001 %
Allianz Global Risks Rückversicherungs-AG	1,038	559	–	70.9	100.8	–
Credit insurance	845	857	901	49.3	72.1	68.0
Travel insurance and assistance	784	740	669	60.6	62.0	64.4
Allianz Marine & Aviation	417	578	450	65.5	75.2	108.1

LIFE/HEALTH	Premiums earned (net)		
	2003 € mn	2002 € mn	2001 € mn
1. Europe			
Germany Life	8,788	8,249	7,929
Germany Health	2,959	2,794	2,616
France	1,509	1,449	1,515
Italy	1,169	1,219	1,247
Switzerland	542	624	557
Spain	530	493	873
2. U.S.A.	598	924	1,068
3. Asia-Pacific Region	1,303	1,605	1,202

BANKING	Operating income			Administrative expenses		
	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn	2001 € mn
Private and Business Clients	3,229	3,198	1,429	– 2,791	– 3,010	– 1,379
Corporates & Markets	3,727	3,877	1,820	– 2,634	– 3,551	– 1,852
Other business divisions	– 214	490	648	– 660	– 753	– 30

[1] Excluding Specialty lines
[2] The net claims ratio represents net claims and claim adjustment expenses as a percentage of net premiums earned
[3] The net expense ratio represents net underwriting costs as a percentage of net premiums earned
[4] The net expense ratio represents net underwriting costs as a percentage of net premiums earned (statutory)
[5] Before amortization of goodwill and minority interests

Net expense ratio[3]			Net income			Investments	
2003 %	2002 %	2001 %	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn
25.7	28.3	26.9	4,017	8,917	3,243	33,398	30,347
24.4	26.4	30.0	66	129	– 62	9,131	8,771
29.0	30.0	31.0	186	233	68	2,647	2,617
22.9	22.7	22.5	308	524	318	8,704	8,780
25.3	23.8	26.9	21	26	81	3,252	3,438
19.6	20.6	21.2	57	36	18	1,677	1,398
28.2	32.9	29.2	– 136	– 964	– 1,064	8,358	9,878
32.6	34.8	39.7	3	24	12	190	337
23.8	24.8	27.3	47	– 62	– 25	2,359	1,829

Net expense ratio[3]			Net income			Investments	
2003 %	2002 %	2001 %	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn
27.9	41.7	–	445	– 257	–	416	1
32.7	34.2	44.0	60	33	70	2,167	2,000
31.3	32.5	33.4	2	4	– 8	311	269
21.8	21.1	22.5	53	17	– 54	1,200	1,011

Net expense ratio[4]			Net income			Investments	
2003 %	2002 %	2001 %	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn
6.8	9.4	13.7	– 101	65	27	90,698	85,651
10.4	10.6	9.9	– 22	36	21	12,322	11,379
16.5	17.9	16.3	85	– 10	132	37,891	38,282
3.5	5.0	4.8	107	152	133	18,087	16,630
8.6	12.3	10.9	– 14	– 59	– 20	5,806	6,851
6.3	6.7	3.9	16	13	12	3,565	3,342
4.6	4.8	11.5	145	– 40	– 46	15,533	13,693
10.8	13.5	11.8	– 288	– 40	– 32	3,662	4,046

Loan loss provisions			Other income/expenses			Earnings after taxes[5]		
2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn	2001 € mn
– 429	– 561	– 233	– 262	– 52	– 26	– 173	– 304	– 160
– 874	– 1,592	– 361	– 418	– 534	– 480	– 273	– 1,642	– 797
289	– 69	6	– 900	1,262	755	– 466	803	1,259

1 Issuance of the Declaration of Compliance with the German Corporate Governance Code according to § 161 AktG

On December 17, 2003, the Board of Management and the Supervisory Board of Allianz AG issued the Declaration of Compliance according to § 161 AktG and made it available on a permanent basis to the shareholders on the company's website. The text of the Declaration of Compliance is also reproduced in the section Corporate Governance beginning on page 11 of this Annual Report.

The Declaration of Compliance of the two publicly traded group companies Allianz Lebensversicherungs-AG and Oldenburgische Landesbank AG were issued on December 15 and 18, 2003, respectively, and were made available to the shareholders.

2 Accounting regulations

In accordance with § 292 a of the German Commercial Code (HGB), the consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS). All standards currently in force for the years under review have been adopted in the presentation of the consolidated financial statements.

Since 2002, the designation IFRS applies to the overall framework of all standards approved by the International Accounting Standards Board (IASB). Already approved standards continue to be cited as International Accounting Standards (IAS).

IFRS do not provide specific guidance concerning the reporting of insurance transactions in annual financial statements. In such cases as envisioned in the IFRS Framework, the provisions embodied under accounting principles generally accepted in the United States of America (U.S. GAAP) have been applied.

In the course of 2004, the IASB will publish a definitive standard based on the Exposure Draft (ED) 3 Business Combinations. When this standard is applied, goodwill will be written down only if it is impaired (impairment-only approach). When this standard is applied, scheduled amortization of goodwill will be discontinued, as is the case under U.S. GAAP. For existing goodwill, the standard is expected to be first applicable for the fiscal year beginning after March 31, 2004. However, the standard will also permit early application.

In 2003, the IASB published a draft standard for the evaluation and accounting of insurance contracts (ED5 insurance contracts). The IASB project for the introduction of this new standard is divided into two phases. Material changes in valuation and accounting will most likely arise in phase 2, for which no definitive content or date of application has yet been defined.

In July 2003, the American Institute of Certified Public Accountants (AICPA) published Statement of Position (SOP) 03-1, Accounting and Reporting by Insurance Enterprises for certain Nontraditional Long-Duration Contracts and for Separate Accounts. SOP 03-1 became effective for the Allianz Group on January 1, 2004. Some of the major provisions of SOP 03-1 include, but are not limited to:

- Separate account assets and liabilities (Investments held on account and at risk of life insurance policyholders and insurance reserves for life insurance where the investment risk is carried by policyholders) are reported and valuated as assets and liabilities of the Allianz Group when specified criteria are not met; and
- Establishing an additional liability for guaranteed minimum death and similar mortality and morbidity benefits in certain cases.

When acquiring PIMCO in 2000, it was agreed that PIMCO management would acquire PIMCO equity annually through 2004 subject to a vesting arrangement, and, following a blackout period, PIMCO management and Allianz would hold reciprocal rights to put or call such equity, enabling Allianz to increase its economic interest in the earnings of PIMCO in future periods.

As of September 30, 2003, we adjusted the accounting for this arrangement. Previously, we had intended to recognize compensation expense associated with these equity transactions only following a vesting period. However, the accounting and valuation provisions of Accounting Principles Board Opinion (APB) 25 and Statement of Financial Accounting Standards (SFAS) 123 require that such expense be recognized ratably over the vesting period. The adjustment of the accounting was made in the 3rd quarter of 2003. For the past, the following effects have been recognized: revenue reserves and, accordingly, shareholders' equity as of December 31, 2001 and December 31, 2002 were reduced by € 51 mn and € 99 mn respectively. Net income for 2001 and 2002 were adjusted for an after-tax charge of € 38 mn and € 62 mn, respectively. This change also resulted in an after-tax charge of € 112 mn for fiscal 2003. Of this amount, € 80 mn was recognized for the first 9 months of 2003.

This accounting adjustment had no effect on Allianz's cash position.

Beginning in the 3rd quarter of 2003, we adopted SFAS 123 to account for all stock-based employee compensation plans. Compensation expense measured according to the fair value method of SFAS 123 for the PIMCO arrangements described above approximates that measured under APB 25. The present report otherwise follows the same accounting and valuation principles as the most recent annual financial statements. The Group's stock-based remuneration plans are described in note 43.

For reasons of comparability with the reporting year, some prior-year figures were adjusted in the balance sheet and the income statement through reclassifications that do not affect net income or shareholders' equity.

The financial statements were prepared in euros (€).

3 Consolidation

Scope of consolidation

In addition to Allianz AG, 193 (2002: 213; 2001: 163) German and 972 (2002: 1,045; 2001: 1,021) foreign enterprises have been consolidated in full. In addition, 61 (2002: 74; 2001: 73) German and 39 (2002: 79; 2001: 85) foreign investment funds were also consolidated.

Of the entities that have been consolidated in full, 10 (2002: 12; 2001: 19) certain subsidiaries have been consolidated where Allianz AG owns less than a majority of the voting power of the subsidiary, including CreditRas Vita S. p. A. and Antoniana Veneta Popolare Vita S. p. A., in all periods presented. Allianz AG exercises control over these entities by its ability to govern the financial and operating policies of the enterprise through management agreements.

13 (2002: 12; 2001: 13) joint ventures have been accounted for using the equity method; each of these enterprises is managed by Allianz AG together with a third party not included in the consolidated financial statements.

170 (2002: 198; 2001: 146) associated enterprises have been accounted for using the equity method.

Certain enterprises have not been consolidated or accounted for using the equity method in cases where their value is not material to the presentation of the financial statements as a whole.

All affiliated companies, joint ventures, and associated companies that are included in or excluded from the consolidated financial statements are individually listed in the disclosure of equity investments filed with the Commercial Register in Munich. All private companies are also listed and identified separately in this disclosure of equity investments, for which the consolidated financial statements and the Allianz Group management report are an exempt effect in accordance with the application of the § 264 b of the German Commercial Code (HGB). Selected affiliated and associated enterprises are shown on pages 175 to 178.

New acquisitions

The principal first-time consolidated companies for the years 2003, 2002 and 2001 are listed in the following overview:

	Effects on the consolidated financial statements[1]				
Principal acquisitions	Date of first-time consolidation	Gross premiums € mn	Net income € mn	Goodwill[2] € mn	Amortization of goodwill € mn
2003					
–	–	–	–	–	–
2002					
Slovenská poist'ovna a. s., Bratislava	7/22/2002	125	– 8	138	– 7
2001					
Dresdner Bank AG, Frankfurt/Main	7/23/2001	–	– 300	3,977	– 108
Nicholas Applegate, San Diego	1/31/2001	–	– 29	1,042	– 47

[1] Consolidated in the business segments
[2] On the date of first-time consolidation

New acquisitions 2003

In the course of the year, no major subsidiaries were acquired or consolidated for the first time.

We acquired the following additional interests in already consolidated subsidiaries:

- On February 17, 2003, we increased our interest in Riunione Adriatica di Sicurtà S.p.A., Milan, by 4.4 % to 55.5 % (acquisition cost for additional shares € 810 mn). This transaction produced additional goodwill amounting to € 146 mn.
- On December 2, 2003, we increased our interest in Münchener und Magdeburger Agrarversicherung AG, Munich, by 6.1 % to 58.5 % (acquisition cost for additional shares € 0.2 mn).
- In April 2003, July 2003 and October 2003, we increased our interest in PIMCO Advisors L.P., Delaware, by a total of 14.4 % to 83.9 % (acquisition cost for additional shares € 640 mn). This transaction produced additional goodwill amounting to € 624 mn.

Deconsolidations 2003

The principal companies deconsolidated in the course of the year are presented in the following table:

	Effects on the consolidated financial statements for 2003[1]			
	Date of Deconsolidation	Gross premiums € mn	Net income € mn	Disposed goodwill charged to income[2] € mn
AFORE Allianz Dresdner S. A. de C. V., Mexico City	11/11/2003	–	10	117
AGF AZ Chile Vida, Santiago de Chile	4/29/2003	–	–	–
AGF Belgium Bank S. A., Brussels	12/15/2003	–	– 5	–
Allianz Parkway Integrated Care Pte Ltd., Singapore	9/30/2003	7	–	–
Merchant Investors Assurance Company Ltd., Bristol	10/3/2003	3	–	–
Pioneer Allianz Life Assurance Corporation, Metro Manila	1/14/2003	–	–	–

[1] Consolidated in the business segments
[2] At the date of deconsolidation

New acquisitions 2002

The following principal acquisitions were consolidated for the first time:

The Slovak insurance company Slovenská poist'ovna a. s. (as of 2003: Allianz-Slovenská poist'ovna a.s.), Bratislava, operates in both the property/casualty and the life/health insurance business segments. On July 22, 2002, Allianz Group acquired 66.8 % of the shares of Slovenská poist'ovna for a purchase price of € 66.3 mn. An additional 25.8 % of the shares were acquired on August 22, 2002, and a further 6.5 % on December 20, 2002. The total acquisition cost for our 99.1 % shareholding amounted to € 216.2 mn.

We also acquired the following additional ownership interests in already consolidated subsidiaries:

- On January 15, 2002, we increased our interest in Allianz Lebensversicherungs-AG, Stuttgart, by 40.5 % to 91.0 % (acquisition cost for additional shares € 2,586.6 mn). This transaction produced additional goodwill amounting to € 633 mn.
- On June 28, 2002, we increased our interest in Frankfurter Versicherungs-AG, Frankfurt/Main, by 50.0 % to 100.0 % (acquisition cost for additional shares € 929.5 mn). This transaction produced additional goodwill amounting to € 57 mn.
- On June 28, 2002, we increased our interest in Bayerische Versicherungsbank AG, Munich, by 45.0 % to 90.0 % (acquisition cost for additional shares € 857.9 mn). This transaction produced additional goodwill amounting to € 94 mn.
- On January 15, 2002, June 28, 2002, July 2, 2002 and August 23, 2002, we successively increased our interest in Dresdner Bank AG, Frankfurt/Main, by a total of 21.5 % to 100.0 % (acquisition cost for additional shares € 6,338.2 mn). This transaction produced additional goodwill amounting to € 2,002 mn.

Deconsolidations 2002

In August 2002, Deutsche Hyp Deutsche Hypothekenbank AG was merged into Eurohypo AG, a company into which Commerzbank AG, Deutsche Bank AG and Dresdner Bank AG merged their mortgage lending subsidiaries. Proceeds from the sale of Deutsche Hyp Deutsche Hypothekenbank AG amounted € 1,411 mn.

New acquisitions 2001

The following principal acquisitions were consolidated for the first time:

- Dresdner Bank AG, Franfurt/Main and its subsidiaries. With its purchase of 56.7 % on July 23, 2001, the Allianz Group acquired a majority stake at a price of € 17,227 mn. A further 1.0 % of the stock was purchased in the period to December 31, 2001. Total acquisition costs for the majority holding of 78.5 % amounted to € 19,561 mn. The goodwill reported in connection with the first-time consolidation of Dresdner Bank Group amounted to € 3,977 mn. An additional € 659 mn for the value of the brand name was recognized as intangible assets.
- the U.S. asset manager Nicholas Applegate, San Diego. The 100.0% holding was acquired on January 31, 2001 at a purchase price of € 1,111 mn. The transaction also includes possible further performance-related purchase price payments. Further payments from the retention programs amounting to € 31 mn were made up to this time; for the years 2004 and 2005, additional payments amounting to a total of USD 40 mn will become due. Incentive programs potentially require payments amounting to USD 75 mn.

4 Accounting and valuation policies

Principles of consolidation

The consolidated financial statements include the annual financial statements of Allianz AG and all principal subsidiaries. All the financial statements included are uniformly prepared in conformity with IFRS accounting and valuation standards as of December 31, 2003. We have used interim financial statements for those entities whose fiscal year ends are other than December 31, 2003.

Equity consolidation is carried out on the basis of the benchmark method in conformity with IAS 22. The acquisition costs are offset against the Group's proportion of the shareholders' equity in the subsidiaries at the date of acquisition. Any net assets and liabilities attributable to the Allianz Group are carried at their fair value at the date of acquisition of subsidiary enterprises; for the proportion attributable to minority interests, the pre-acquisition carrying amounts are used. When foreign subsidiaries are consolidated for the first time, their net assets are translated at the exchange rates in force on the date of their acquisition.

Positive differences arising on first-time consolidation are capitalized as goodwill and amortized over their estimated useful life. In the case of acquisitions prior to January 1, 1995, such differences have been recorded directly in revenue reserves within shareholders' equity in accordance with the transitional provisions in force under IAS 22.

The earnings generated by subsidiaries after their first-time consolidation or, where appropriate their acquisition adjusted for consolidation effects, are allocated to revenue reserves of the Group based on the Group's ownership percentage in the subsidiaries.

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

Intra-Group receivables and payables, income and expenses, and profits have been eliminated.

Foreign currency translation

Allianz AG's reporting currency is the euro (€). Foreign currency is translated in accordance with IAS 21 by the method of functional currency. The functional currencies for Group companies are usually the local currencies of the relevant companies, e.g. the prevailing currency in the environment where the enterprise carries out its ordinary activities. In accordance with the functional currency method, assets and liabilities are translated at the closing rate on the balance sheet date, and expenses and income are translated at an annual average rate for financial statements of subsidiaries not reporting in €. Any translation differences, including those arising in the process of equity consolidation, are recorded directly in shareholders' equity without affecting earnings.

Assets and liabilities of the Group's insurance companies which are subject to exchange rate fluctuations are normally safeguarded against such fluctuations by the fact that individual foreign subsidiaries have most of their assets and liabilities in the same currency.

Currency gains/losses arising from foreign currency transactions (transactions in a currency other than the functional currency of the entity) are reported in other income or other expenses.

The principal exchange rates are summarized in the following table:

Currency	€ closing rates		€ average rates		
	2003	2002	2003	2002	2001
Australian Dollar (AUD)	1.674	1.851	1.738	1.735	1.732
Japanese Yen (JPY)	133.699	124.389	131,001	118.094	108.749
Pound Sterling (GBP)	0.705	0.651	0.692	0.629	0.622
Swiss Franc (CHF)	1.560	1.454	1.521	1.473	1.510
South Korean Won in thousands (KRW)	1.498	1.249	1.348	1.178	1.155
U.S. Dollar (USD)	1.250	1.042	1.131	0.945	0.896

Recognition principles

Financial assets or financial liabilities are recognized in the balance sheet from the time at which the recognizing Group enterprise becomes a contractual partner to the contract governing the financial instrument. A financial asset is derecognized when the enterprise loses control of the contractual rights that characterize the financial asset. Financial liabilities are derecognized when the liability is amortized, settled, discharged, cancelled or expired.

Use of estimates and assumptions

The preparation of consolidated financial statements requires the Group to make estimates and assumptions that affect items reported in the consolidated balance sheet and income statement, and under contingent liabilities. The actual values may differ from those reported. The most important of such items are the reserve for loss and loss adjustment expenses, the aggregate policy reserves, deferred acquisition costs and the loan loss allowance. In addition, management makes certain assumptions in connection with the impairment reviews of goodwill, brand names and deferred tax assets.

Supplementary information on assets

Intangible assets

Goodwill represents the difference between the purchase price of subsidiaries and the Group's proportionate share of their net assets valued at the current value of all assets and liabilities at the time of acquisition. Minority interests are generally valued at amortized historical cost. Goodwill is amortized over its useful life, which is normally 10 years for property and casualty insurance enterprises, 20 years for life and health insurance enterprises, 10 years for banks, and 20 years for asset management companies.

Under current IAS rules, activated goodwill must be amortized on a regular basis over the useful life of the asset. In addition, we conduct an annual impairment review of activated goodwill. In the first step of the goodwill impairment review, the present value of a unit is compared to its balance sheet value, including goodwill. If the present value is higher, there is no impairment of goodwill. If the balance sheet value is higher, the present value of the goodwill must be determined in a second step and the goodwill must be written down to this value.

Present value of future profits (PVFP) is the present value of net cash flows anticipated in the future from insurance policies written at the point in time of first-time consolidation after the life/health insurance portfolio was purchased. Expected future cash flows used in determining the PVFP of life/health insurance portfolios are based on actuarial determinations of future premium income, mortality, disease and surrender probabilities, in addition to underwriting costs and returns on assets that were invested in order to be able to meet the obligations arising under the respective insurance contracts. The discount rate used to determine the PVFP corresponds to the opportunity costs for the risk capital used. In determining the discount rate applied, the Allianz Group considers the magnitude of the risks associated with the type of business being acquired, actuarial factors described above, cost of capital available to the Allianz Group to fund the acquisition and compatibility with other Allianz Group activities that may favorably affect future profits.

Interest accrues on the unamortized PVFP balance based upon the policy liability rate or contract rate. This interest is offset against the amortization of the PVFP. PVFP is amortized over the years that such profits are anticipated to be received in proportion to the estimated gross margins or estimated gross profits for traditional participating insurance products that follow the contribution principle and financial or investment products, respectively, and over the premium paying period in proportion to premiums for other traditional insurance products.

Software includes software purchased from third parties or developed internally, which is amortized over its useful life or on a straight-line basis over a maximum of 5 years.

Intangible assets also include capitalized **loyalty bonuses** for senior management of the PIMCO Group, Delaware, that are amortized on a straight-line basis over 5 years, as well as the value of the **brand names** of Dresdner Bank Group that are amortized on a straight-line basis over 20 years. The fair value for the names "Dresdner Bank" and "dit" (Deutscher Investment-Trust), registered as trade names, was determined using a royalty savings approach.

Other intangible assets are subject to an impairment review at least once a year. If there are indications that other intangible assets are impaired, their recoverable amounts are determined. If the recoverable amounts of other intangible assets are less than their carrying amount, an impairment charge is recognized.

Investments in affiliated enterprises, joint ventures, and associated enterprises

Investments in unconsolidated affiliated enterprises, joint ventures, and associated enterprises are generally valued in accordance with the equity method and the Group's valuation principles, at the Group's proportionate share of their net assets based on information. The Allianz Group accounts for all material investments in associates on a time lag of no more than 3 months for IFRS. In the case of investments in enterprises that prepare their own consolidated financial statements, the valuation is based on their consolidated equity. Accordingly, our share of net income or loss of such investments is included in consolidated net income. The effects of profits and losses from intercompany transactions have been eliminated.

Investments in unconsolidated affiliated enterprises, joint ventures, and associated enterprises that are not valued using the equity method because they are not material, are accounted for at cost. Associated enterprises are all those enterprises in which the Group has an interest of between 20 % and 50 %, for all of which significant influence is presumed.

Income from investments in affiliate enterprises, joint ventures and associated enterprises is included as a separate component of total income as the Allianz Group considers income earned from such investments to be consistent with revenues such as realized gains, interest, and dividends earned from other investments.

Investments

Investments include securities held-to-maturity, securities available-for-sale, real estate used by third parties, and funds held by others under reinsurance contracts assumed. Derivatives used for hedge transactions are included with the classification of the item hedged.

Securities held-to-maturity include fixed-income securities that the Group has the ability and intent to hold until maturity. They are valued at amortized cost. Premiums or discounts are amortized over the life of the instrument using the effective yield method. The amortization of premiums or discounts is booked as interest income. These securities are recognized at the trade date.

Securities available-for-sale are securities that are not classified as held-to-maturity or trading assets. Available-for-sale securities are valued at fair value at the balance sheet date. Unrealized gains and losses, which are the difference between fair value and cost (amortized cost in the case of fixed income securities), are included as a separate component of shareholders' equity, net of deferred taxes, or, for amounts that would be due to participating policyholders if realized, taken to the latent reserve for premium refunds within other insurance reserves. Realized gains and losses on securities are generally determined by applying the average cost method. These securities are recognized at the trade date.

Securities held-to-maturity, securities available-for-sale, and equity method investments are subject to regular impairment reviews. An impairment charge is recorded if a decline in fair value below the asset's carrying value is deemed to be other than temporary.

Impairment policy Under IFRS, a decline in market value requires a write-down of financial assets such as debt securities and shares to the recoverable amount, unless this decline in market value is deemed by management to be not permanent.

In the Allianz Group, an impairment charge is systematically recorded in the presence of one of the following impairment criteria (cited as examples):

- Significant financial difficulties of the issuer.
- Bankruptcy or high probability of bankruptcy or another situation requiring financial rescue measures.
- Disappearance of an active market for the financial assets due to financial difficulties.

For equities the first indicator of an impairment is present if the market value of the equities has remained more than 20 % below the average amortized cost during a period of more than 6 months prior to the period balance sheet date. Unless further analyses cause management to come to a different conclusion, an impairment charge is recorded if the 6-months/20 % criteria has been met.

Independent of the application of the 6-months /20 % criteria, all equities having an unrealized loss status are also examined to determine whether the market value at the period balance sheet date has remained permanently below the group-wide amortized IRFS cost for a period of more than 12 months. If this is the case, an impairment charge is systematically recorded. This rule was first applied at the end of 2003.

If the market value of the equity was more than 80 % below amortized cost at the period balance sheet date, an impairment charge was systematically recorded, independent of the length of the period during which the market value has remained below amortized cost at this time.

An impairment charge is recorded on debt instruments if financial difficulties on the part of the issuer, a default or delay in interest service or repayment of principal or an impending or actual insolvency indicate that repayment of the principal can no longer be expected.

Debt securities for which the recoverable amount remains continually at least 20 % below their carrying amount for a period of at least 6 months are examined more closely and an impairment charge is recorded, if other impairment criteria occur.

In the event that the justification for impairment write-downs in previous periods is no longer applicable, impairments are reversed through the income statement. The maximum amount up to which such reversals of impairment may occur is the acquisition cost or amortized cost, as applicable, or book value.

Real estate used by third parties (i.e. real property and equivalent rights and buildings, including buildings on leased land) is carried at cost less accumulated scheduled depreciation and impairment write-downs. Buildings used by third parties are depreciated using the straight-line method on the basis of their cost of acquisition over a maximum of 50 years. Real estate used by third parties is valued at the lower of cost or market. In order to determine the need for impairment write-downs on real estate used by third parties the discounted cash flow method is used. Expenditures to restore the future economic benefits of the assets are capitalized if they extend the useful life of the asset, otherwise they are recognized as an expense.

Funds held by others under reinsurance contracts assumed relate to cash deposits to which the Allianz Group is entitled, but which the ceding insurer retains as collateral for future obligations of the Allianz Group. The cash deposits are recorded on the balance sheet at face value, less any for balances that are deemed to not be fully recoverable.

Investments held on account and at risk of life insurance policyholders

These investments are comprised of investments funding unit-linked life insurance policies and investments covering obligations under policies where the benefits are index-linked. They are valued at market value on the balance sheet date. Group enterprises maintain and invest these investments separately from the Group's own investments. Unrealized gains and losses arising from market valuations lead to a corresponding increase or decrease in the related insurance reserves. Policyholders are entitled to all gains and losses pertaining to these investments and therefore to the total amount of all the investments shown under this heading.

Derivatives

The Group's insurance companies use derivative financial instruments in the course of their investment activities. In particular, they are used for the efficient management of price, interest rate and currency risks. In the Group's banking business, derivatives are used both for trading purposes and to hedge against movements in interest rates, currency and other price risks of investments, loans, deposit liabilities and other interest sensitive assets and liabilities.

For derivatives used for hedging purposes, the Allianz Group designates its derivative instruments with respect to their purpose as a fair value, cash flow, or hedge of a net investment in a foreign entity.

Fair value hedges The risk of changes in the fair value of reported assets or liabilities is hedged by a fair value hedge. Changes in the fair value of a hedging instrument are recognized in current income, and classified together with the corresponding changes in fair value of the hedged instruments in the income statement.

Cash flow hedges Cash flow hedges reduce the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or attributable to future cash flows from a firm commitment or a forecasted transaction. Any value changes in derivative instruments that constitute an effective hedge are recorded under shareholders' equity, and recognized in income when the offsetting gain or loss associated with the hedged item is recognized. The ineffective part of the hedge is recognized directly in the income statement.

Hedges of a net investment in a foreign entity Hedge accounting may be applied to a hedge of a net investment in a foreign entity. Financial instruments are used to hedge currency risk. The proportion of gains or losses arising from the valuation of the hedging instrument that qualifies as an effective hedge is recognized in shareholders' equity, while the ineffective part is recognized in the income statement.

Pursuant to IAS 39, the Allianz Group documents the hedge relationship, as well as its risk management objective and strategy for entering into various hedge transactions. The Allianz Group also assesses, both at the hedge's inception and on an on-going basis, whether the derivatives that are used for hedging transactions are, as required by IAS 39, highly effective in offsetting changes in fair values or cash flows of the hedged items.

The Allianz Group discontinues hedge accounting when it is determined that the derivative is no longer highly effective, the derivative or the hedged item expires, or is sold, terminated or exercised, or when management determines that the designation of the derivative as a hedging instrument is no longer appropriate. When a fair value hedge is discontinued, the Allianz Group continues to carry the derivative on the balance sheet at its fair value, and no longer adjusts the hedged item for changes in fair value. The adjustment of the carrying amount of the hedged item is accounted for in the same manner as other components of the carrying amount of that item. When hedge accounting for a cash flow hedge is discontinued, the Allianz Group continues to carry the derivative on the balance sheet at its fair value and any net unrealized gains and losses accumulated in shareholders' equity are recognized immediately in net income. When a hedge of a net investment in a foreign entity is discontinued, the Allianz Group continues to carry the derivative on the balance sheet at its fair value and any net unrealized gains or losses accumulated in shareholders' equity remain in shareholders' until the disposal of the foreign entity.

Pursuant to IAS 39, derivative financial instruments that do not meet the criteria for hedge accounting are reported at fair value as financial assets or liabilities held for trading. Gains or losses on these instruments arising from valuation at fair value are, on principle, included in the Allianz Group's consolidated income statement under trading income. This treatment is applicable to derivatives used independently, not in connection with hedge transactions, and for separated embedded derivatives of a hybrid financial instrument. In contrast, derivatives used in hedge transactions are recognized and classified as follows:

For fair value and cash flow hedges of investment securities or loans, the hedge instrument is classified in the same balance sheet category as the hedged item when the hedge instrument has a positive fair value, and in other liabilities when the hedge instrument has a negative fair value. For fair value and cash flow hedges of debt issued and for hedges of a net investment in a foreign entity, the hedge instrument is included in other assets or other liabilities.

Loans and advances to banks and customers

Loans and advances to banks and customers originated by the Group are generally carried at their outstanding unpaid principal balance net of the allowance for loan losses, deferred fees and costs on origination, and unamortized premiums or discounts. Interest revenues are accrued on the unpaid principal balance. Net deferred fees and premiums or discounts computed by using the effective interest method are recognized as interest income/interest expense over the lives of the related loans.

Included in loans and advances to banks and customers are outstanding reverse repurchase ("repo") transactions. A reverse repo transaction involves the purchase of securities with the simultaneous obligation to sell these securities at a future date at an agreed-upon price. If control of the securities remains with the Allianz Group over the entire lifetime of the transaction, the securities concerned are included in the Allianz Group's consolidated balance sheet and are valued in accordance with the accounting principles for trading assets or investments. Interest income on reverse repo agreements is, as a rule, reported as trading income in the Allianz Group's consolidated income statement.

Allowance for loan losses, loan impairments and provisions

Impaired loans are loans for which, based upon current information and events, it is probable that the Allianz Group will not be able to collect all interest and principal amounts due in accordance with the contractual terms of the loan agreements.

Non-accrual loans consist of loans on which interest income is no longer recognized on an accrued basis, and loans for which a specific provision is recorded for the entire amount of accrued interest receivable. Loans are placed on non-accrual status when management determines that the payment of principal or interest is doubtful. Management's judgement is applied based on its credit assessment of the borrower. When a loan is placed on non-accrual status, any accrued but unpaid interest previously recorded is reversed against current period interest revenues. Loans can only be restored to accrual status when interest and principal payments are made current (in accordance with the contractual terms), and in management's judgement, future payments in accordance with those terms are reasonably assured. When there is a doubt regarding the ultimate collectibility of the principal of a loan placed in non-accrual status, all cash receipts are applied as reductions of principal amount of the loan is reduced to zero, future cash receipts are recognized as interest income.

The allowance for loan losses represents management's estimate of probable losses that have occurred in the loan portfolio and other lending-related commitments as of the date of the consolidated financial statements. The allowance for loan losses is reported as a reduction of assets, the provisions for contingent liabilities, such as guarantees, loan commitments and other obligations are carried as liabilities.

To allow management to determine the appropriate level of the allowance for loan losses, all significant counterparty relationships are periodically reviewed. A specific allowance is established to provide for specifically identified counterparty risks. Specific allowances are established for impaired loans. The amount of the impairment is based on the present value of expected future cash flows or based on the fair value of the collateral if the loan is collateralized and foreclosure is probable. If the amount of the impairment subsequently increases or decreases due to an event occurring after the initial measurement of impairment, a change in the allowance is recognized in earnings by a charge or a credit to net loan loss provisions.

A lump-sum specific allowance is established to provide for incurred but unidentified losses that are inherent in the loan portfolio as of the balance sheet date. The amount of the allowance is based on historical loss experience and management's evaluation of the loan portfolio under current events and economic conditions.

A country risk allowance is established for transfer risk. Transfer risk is a measure of the likely ability of a borrower in a certain country to repay its foreign currency-denominated debt in light of the economic or political situation prevailing in the country. Country risk allowances are based on a country risk rating system that incorporates current and historical economic, political and other data to categorize countries by risk profile.

Loans are charged-off when, based on management's judgement, all economically sensible means of recovery have been exhausted. At the point of charge-off, the loan as well as any specific allowance associated with the loan must be removed from the balance sheet and a charge may be recorded to directly charge-off the loan. A charge-off may be full or partial. Subsequent to a charge-off, recoveries, if any, are recognized in the income statement as a credit to net loan loss provisions.

The provision for loan loss, which is charged to net income, is the amount necessary to adjust the allowance to a level determined through the process described above.

Lease financing transactions

Loans and advances to banks and customers include the Group's gross investment in leases, less unearned finance income relating to lease financing transactions for which the Group is the lessor. The gross investment in leases is the aggregate of the minimum lease payments and any unguaranteed residual value accruing to the Group. Lease financing transactions include direct financing leases and leveraged leases. The unearned finance income is amortized over the period of the lease so as to produce a constant periodic rate of return on the net investment outstanding in respect of the finance lease.

Trading assets

These consist of debt and equity securities, derivatives with positive market values, promissory note loans and precious metal holdings that have been acquired solely for sale in the near term. They are classified as "Held for trading" on account of their purpose and are reported at fair value. Changes in fair value are recognized directly in the income statement. Exchange-traded financial instruments are valued at the exchange prices prevailing on the last exchange trading day of the year. To determine the market values of unlisted financial instruments, quotations of similar instruments or acknowledged valuation models (in particular present value models or option pricing models) are used. Creditworthiness, settlement costs and market liquidity are also taken into account as integral components of the valuation process. Realized gains and losses on securities are in all cases calculated on the basis of the average cost method.

Cash and cash equivalents

This item includes balances with banks payable on demand, balances with central banks, checks and cash on hand, treasury bills (to the extent that they are not included in trading assets), and bills of exchange which are eligible for refinancing at central banks, subject to a maximum term of 6 months from the date of acquisition. Cash funds are stated at their face value, with holdings of foreign notes and coins valued at year-end closing prices.

Deferred tax assets

The calculation of deferred taxes is based on temporary differences between the carrying amounts of assets or liabilities in the published balance sheet and their tax bases, and on differences arising from the application of uniform valuation policies for consolidation purposes as well as consolidation in the income statement. The tax rates used for the calculation of deferred taxes are the local rates applicable in the countries concerned; changes to tax rates already adopted as of the balance sheet date are taken into account. Deferred tax assets are recognized if sufficient future taxable income is available for realization. Safety margins are applied if appropriate.

Other assets

Other assets include real estate owned by Allianz and used for its own activities, equipment, inventories, accounts receivable on direct insurance business, accounts receivable on reinsurance business, and other receivables. This caption also includes other assets, deferred acquisition costs and prepaid expenses.

Real estate owned by Allianz and used for its own activities (e.g., real property, and buildings, including buildings on leased land) is carried at cost less accumulated scheduled and unscheduled depreciation. The capitalized cost of buildings is calculated on the basis of acquisition cost and depreciated over a maximum of 50 years in accordance with their expected useful lives. Expenditures to restore the future economic benefit are capitalized if they extend the useful, as are improvements. Costs for repairs and maintenance are expensed. An impairment loss is recognized when the recoverable amount of these assets is less than their carrying amount.

Equipment is carried at cost, less accumulated scheduled and unscheduled amortization. Depreciation is generally computed using the straight-line method over the estimated useful lives of the assets. The estimated useful life of equipment is 2 to 10 years and for purchased information technology equipment is 2 to 8 years. Expenditures to restore the future economic benefit are capitalized if they extend the useful, as are improvements. Costs for repairs and maintenance are expensed. An impairment loss is recognized when the recoverable amount of these assets is less than their carrying amount.

Receivables are recorded at face value less any payments made, net of appropriate valuation allowances.

Deferred policy acquisition costs related to universal life, investment products and traditional participating business that follow the contribution principle are amortized in relation to expected gross profits or estimated gross margins over the life of the policy. Deferred policy acquisition costs related to other traditional life business are deferred and amortized over the premium paying period of the policy in proportion to premium revenues. Deferred policy acquisition costs primarily include commissions paid, as well as other costs, which vary with and are incurred in connection with the acquisition or renewal of insurance policies. All other policy acquisition costs are charged to income as incurred.

In the case of property and casualty insurance enterprises, the amortization period is calculated for each insurance portfolio, based on the average term of the relevant policies, and varies between 1 and 5 years.

All deferred policy acquisition costs are reviewed regularly to determine if they are recoverable from future operations, including anticipated investment income. Deferred policy acquisition costs which are not deemed to be recoverable based on the Allianz Group's review, are charged to income.

Securities borrowing and lending The Allianz Group enters into securities borrowing and lending transactions on behalf of its customers and to fulfill its own obligations to deliver or take delivery of securities and to maximize returns on the investment portfolios of its insurance companies. Such transactions involve the transfer of securities from one market participant (lender) to another counter-party (borrower), for a certain period of time. If the lender retains control, the lender continues to report the securities involved on its balance sheet, whereas borrowed securities are not reported. Securities borrowed and securities loaned are recorded at the amount of cash advanced and received, respectively, and are collateralized primarily by equity and fixed income securities. Securities borrowed transactions generally require the Allianz Group to deposit cash collateral with the securities lender. In a securities loaned transaction, the Allianz Group generally receives cash collateral in an amount equal to or in excess of the market value of the securities loaned. The Allianz Group monitors the fair value of securities borrowed and securities loaned and additional collateral is obtained if necessary. Income and expenses from securities borrowing and lending transactions are recognized on an accrual basis and reported under interest and similar income or interest and similar expenses in the Allianz Group's consolidated income statement.

In cases where securities lending transactions are combined with forward contracts with the same counter-party ("structured securities lending transactions"), both the securities lending transaction and derivative instrument are considered collectively in assessing whether the Allianz Group has surrendered control of the securities, resulting in the derecognition of securities. Upon derecognition, gains and losses are recognized as the difference between the value of consideration received and the carrying value of the securities.

Asset securitizations

The Allianz Group transfers financial assets to certain special purpose entities (SPEs) in revolving securitizations of commercial mortgage or other loan portfolios. The Allianz Group consolidates these SPEs as the Allianz Group continues to control the financial assets transferred and retains the servicing of such loans.

Leases

Property and equipment holdings are used by the Group under operating leases, whereby the risks and benefits relating to ownership of the assets remain with the lessor, and are not recorded on the Group's consolidated balance sheet. Payments made under operating leases to the lessor are charged to administrative expenses using the straight-line method over the period of the lease. When an operating lease is terminated before the lease period has expired, any penalty is recognized in full as an expense at the time when such termination takes place.

Supplementary information on equity and liabilities

Shareholders' equity

Treasury shares held for account of Group companies are treated like unissued shares and are deducted from shareholders' equity at average cost. Gains and losses arising from trading in treasury shares held by the company are added to revenue reserves after income tax has been deducted.

Insurance reserves

These include unearned premiums, the aggregate policy reserves, reserves for loss and loss adjustment expenses, and other insurance reserves. Premiums written attributable to income of future years are accrued in **unearned premiums**. These premiums are distributed to the current fiscal year and subsequent years in relation to the exact risk coverage period. However, if there is no temporal proportionality between risk and premium, account must be taken of the varying development of risk over time.

Unearned premiums for reinsurance business assumed are generally based on the calculations of the cedant.

Aggregate policy reserves, including the reserve for advancing age in health insurance, is calculated on actuarial principles using the present value of future benefits less the present value of premiums still to be received.

The calculation of aggregate policy reserves is in accordance with various U.S. GAAP Statements of Financial Accounting Standards (SFAS), including SFAS 60, SFAS 97, and SFAS 120. The calculation of aggregate policy reserves depends on the extent to which policyholders benefit from any surpluses earned on insurance policies. The assumptions on which the calculation is based vary as a function of the year in which the contract was signed. This applies in particular with regard to mortality, morbidity, interest rates and the treatment of deferred policy acquisition costs. A distinction is drawn between the following situations:

- Policyholders participate in surpluses in the same proportion as their policies have contributed to these surpluses. Policyholders do not participate in losses. This is referred to as the contribution principle. In this case, assumptions for mortality, interest and costs are conservative and contractually agreed, so there is a strong probability that surpluses will arise, most of which have to be distributed to policyholders. Policy acquisition costs are deferred over the terms of the policies in the same proportion as the surpluses in individual years contribute to the surplus on the portfolio concerned (SFAS 120).
- Policyholders participate in a surplus on the basis of a mechanical non-contributory system, and policyholders are guaranteed fixed benefits and do not participate in any profits. All other benefits and risks are carried by the insurer. In these cases, assumptions based on experience are used, including provisions for adverse deviations, which are based on values at the time when the policy is taken out. In health insurance, the insurer has the option of adjusting premiums when the assumptions change. Policy acquisition costs are also recognized over the terms of these policies, but in the same proportion as premiums written for the year concerned compared to the total premium income (SFAS 60).
- Policyholders carry not only the investment risk and corresponding opportunities for benefit, but also losses (e. g. unit-linked insurance policies). The aggregate reserve for these policies is shown under insurance reserves for life insurance where the investment risk is carried by policyholders. In this case, the aggregate reserve is not calculated actuarially, but rather it moves in line with the value of the related investments (SFAS 97).
- Policyholders are entitled, within certain limits, to vary the level of premium payments, and the life insurance enterprise does not generally give any contractual guarantees about minimum rate of return or the level of management fees (e. g. universal life policies). In this case, the aggregate reserve is not calculated actuarially, but rather it moves in line with the policyholders' account balances (SFAS 97).

The interest rate assumptions were as follows:

	Policies using the contribution principle	Other policies (FAS 60)
Aggregate policy reserves	3 – 4 %	2.5 – 7 %
Deferred acquisition costs	5 – 6 %	5 – 7 %

The Group's life insurance subsidiaries offer a wide range of traditional life insurance, financial and investment products. Traditional life insurance products consist of both short and long-duration policies with participating and non-participating features. Short-duration traditional life insurance products include term, accident and health contracts. Long-duration traditional life insurance products include individual and group whole-life, endowment, guaranteed renewable term and accident and health, and annuity contracts. Financial and investment products consist, among others, of universal life, unit-linked products (variable annuities), single premium annuities, and guaranteed investment contracts.

The **reserve for loss and loss adjustment expenses** is for future payment obligations under insurance claims where normally the amount of benefits to be paid and/or the date when payments must be made are not yet fixed. The reserve for loss and loss adjustment expenses is calculated at the estimated amount considered necessary to settle future claims in full. It is calculated using recognized actuarial methods. Unusual cases are calculated on an individual basis. Past experience is taken into account as well as current and future anticipated social and economic factors. With the exception of annuity reserves, claims reserves are not discounted. The necessary estimates may mean that the payment obligations calculated may differ from the ultimate cost.

The reserve for loss and loss adjustment expenses includes

- claims reported at the balance sheet date,
- claims incurred but not yet reported at the balance sheet date,
- claims settlement expenses.

There is, as of yet, no adequate statistical data available for some risk exposures in liability insurance, such as environmental and asbestos claims and large-scale individual claims, because some aspects of these types of claims are still evolving. Appropriate provision has been made for such cases following an analysis of the portfolio in which such risks occur.

Loss reserves of subsidiaries purchased (sold) are included (excluded) as of the date of transaction (disposition).

Other insurance reserves include the reserve for premium refunds. This item includes experience-rated and other premium refunds in favor of policyholders.

The reserve for premium refunds includes the amounts allocated under the relevant local statutory or contractual regulations to the accounts of the policyholders and the amounts resulting from differences between these IFRS-based financial statements and the local financial statements (latent reserve for premium refunds), which will be reversed in the future and which affect future calculations of profit participation. These differences are recognized on a future accrual basis and reported in profit participation accounts.

Unrealized gains and losses in connection with the valuation of investments are recognized in the latent reserve for premium refunds to the extent that the policyholder will participate in such gains and losses on the basis of statutory or contractual minimum regulations when they are realized.

The methods and corresponding percentages for participation in profits by the policyholders are set out below for the most significant countries:

Country	Base	Percentage
Germany		
Life	all sources of profit	90 %[1]
Health	all sources of profit	80 %[2]
France		
Life	investments	85 %
Italy		
Life	investments	85 %

[1] Following local accounting rules for contracts signed beginning at July 1, 1994, the policyholder is entitled to at least 90 % of net investment income and to an appropriate share of income from all other sources of profit

[2] Following local accounting rules, policyholders are to be credited with at least 90 % of net interest income and at least 80 % of gross income respectively

If the profit participation is attributed to individual policyholders, the corresponding amount is transferred from the reserve for premiums refunds to the aggregate policy reserve.

Other insurance reserves also include the premium deficiency reserve, which is calculated individually for each insurance portfolio on the basis of estimates of future claims, costs, premiums earned and proportionate investment income. For short duration contracts, a premium deficiency is recognized if the sum of expected claim costs and claim adjustment expenses, expected dividends to policyholders, unamortized acquisition costs, and maintenance expenses exceeds related unearned premiums while considering anticipated investment income. For long duration contracts, if actual experience regarding investment yields, mortality, morbidity, terminations or expense indicate that existing contract liabilities, along with the present value of future gross premiums, will not be sufficient to cover the present value of future benefits and to recover unamortized acquisition costs, then a premium deficiency is recognized.

Reinsurance

Reinsurance premiums ceded and reinsurance recoveries on benefits and claims incurred are deducted from the respective income and expense accounts. Assets and liabilities related to reinsurance ceded are reported on a gross basis. Prepaid reinsurance represents the ceded portion of unearned premiums. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured risks. Accordingly, revenues and expenses related to reinsurance agreements are recognized consistently with the underlying risk of the business reinsured.

Liabilities to banks and customers, and certificated liabilities

Interest-bearing liabilities are accounted for at their nominal value, i.e. at the amount to be repaid. Where liabilities are subject to a discount, such discounts are reported as prepaid expenses and amortized over the life of the respective liabilities, using the effective yield method. Non-interest-bearing liabilities such as zero-coupon bonds are valued at their present value on initial recognition and written up in accordance with the effective yield method at the contracted interest rate. Costs relating to the issuance of debt securities, such as fees relating to placement, underwriting commitments, subscription, management or syndication are recognized in the year that they are incurred, and are reported in "Other expenses".

Liabilities to banks and customers also include repurchase ("repo") transactions.

Trading liabilities

This item primarily includes derivatives with negative market values and obligations to deliver assets arising from short sales of securities, which are carried out in order to benefit from short-term price fluctuations. The securities required to close out short sales are obtained through securities borrowing or repurchase agreements. The valuation of trading liabilities is analogous to that of trading assets.

Other accrued liabilities

Pension and similar reserves are calculated taking local circumstances into account as well as current mortality, morbidity and employee turnover projections. Expected future trends in salaries and wages, retirement rates and pension increases are also taken into account. The notional interest rate used is based on the rate for long-term high-grade corporate or government bonds.

Accrued taxes are calculated in accordance with the relevant local tax regulations.

Miscellaneous accrued liabilities primarily include restructuring provisions, provisions for anticipated losses arising from non-insurance business, provisions for contingent liabilities, for litigation, and for employees (e.g. early retirement, phased retirement, employee awards for long service, and vacation) and agents (e.g. unpaid commissions).

Other liabilities

These include funds held under reinsurance business ceded, accounts payable on direct insurance business, accounts payable on reinsurance business, and miscellaneous liabilities. These are reported at the redemption value.

Deferred tax liabilities

The calculation of deferred taxes is based on temporary differences between the carrying amounts of assets or liabilities in the published balance sheet and their tax basis, and on differences arising from the application of uniform valuation policies for consolidation purposes as well as consolidation in the income statement. The tax rates used for the calculation of deferred taxes are the local rates applicable in the countries concerned; changes to tax rates already adopted as of the balance sheet date are taken into account.

Information on profit

Premiums

Premiums for property and casualty insurance are reported proportionately as income over the term of the insurance contract in relation to the exact risk coverage period. Unearned premiums are calculated separately for each policy, in order to determine the portion of premium income that has not yet been earned.

Premiums from short-term personal accident and health insurance policies are recorded proportionately over the term of the insurance policy. Premiums from long-term personal accident and health insurance policies are reported as earned when due. Unearned premiums are calculated separatly for each individual policy to cover the unexpired portion of written premiums.

In the case of premiums for life insurance products where the policyholder carries the investment risk (e.g. variable annuities), only those parts of the premiums used to cover the risks insured and related costs are treated as premium income.

Life insurance premiums on traditional life insurance policies are recognized as earned when due. Premiums on short duration life insurance policies are recognized as revenues over a period of the contract in proportion to the amount of insurance protection provided. In both cases, unearned premiums are calculated separatly for each individual policy to cover the unexpired portion of written premiums. Benefits and expenses are provided for against such revenues to recognize profits over the estimated life of the policies.

Revenues for financial and investment policies, such as universal life and variable annuity contracts, represent charges assessed against the policyholders' account balances for the cost of insurance, surrenders and policy administration and are included within premiums earned on the Allianz Group's consolidated income statement. Benefits charged to expense include benefit claims incurred during the period in excess of policy account balances and interest credited to policy account balances.

Interest and similar income/expenses

Interest income and interest expenses are recognized on an accrual basis. Interest income from lending business is recognized using the effective yield method. This item also includes dividends from available-for-sale equity securities and interest recognized on finance leases. Dividends are recognized in income when declared. Interest on finance leases is recognized in interest income over the term of the respective lease so that a constant yield based on the net investment is attained.

Trading income

Trading income comprises all realized and unrealized gains and losses from trading assets and trading liabilities. In addition, commissions and all interest and all dividend income attributable to trading operations and related refinancing costs are included in trading income.

Fee and commission income

In addition to traditional commission income received on security transactions, fee and commission income in the securities business also includes commissions received in relation to private placements, syndicated loans and financial advisory services. Other fees reflect commissions received for trust and custody services, for the brokerage of insurance policies, credit cards, home loan and savings contracts and real estate. Fee and commission income is recognized in banking business when the corresponding service is provided.

In its banking business, the Group receives fees from transactions in connection with assets and liabilities held by the Group in its own name, but for the account of third parties. These are shown as ”Fee and commission income” in the income statement.

Investment advisory fees are recognized as the services are performed. Such fees are primarily based on percentages of the market value of the assets under management. Investment advisory fees receivable for private accounts consist primarily of accounts billed on a quarterly basis. Private accounts may also generate a fee based on investment performance which are recognized at the end of the respective contract period if the prescribed performance hurdles have been achieved.

Distribution and servicing fees are recognized as the services are performed. Such fees are primarily based on percentages of the market value of assets under management.

Administration fees are recognized as the services are performed. Such fees are primarily based on percentages of the market value of assets under management.

Supplementary information

Consolidated cash flow statement

The consolidated statement of cash flows shows the structure of and changes in cash and cash equivalents of Allianz Group during the financial year from the cash flows arising from operating activities, investing activities and financing activities. The cash flows from investing activities primarily comprise changes in investment securities (such as securities available-for-sale or held-to-maturity). Financing activities include all cash flows from transactions involving the issuing of own shares, participation certificates and subordinated liabilities. Cash flows from operating activities contain all other activities, which belong to the principal revenue-generating activities.

Equity remuneration plans

The Allianz Group accounts for its stock-related remuneration plans under the fair value recognition provisions of SFAS 123, whereby stock-based compensation cost is measured at the grant date based on the fair value of the awards granted and is recognized as expense over the vesting period. For rights redeemed by the issue of shares, the fair value is determined at the date of grant. The corresponding compensation cost is accrued over the vesting period and increases revenue reserves in shareholders’ equity. At each subsequent valuation date, the new valuation is determined on the basis of the share price at the valuation date. Compensation expense for these rights is accrued over the vesting period and reported under the heading “Other accrued liabilities” until paid. Compensation expense is reversed in the period in which an unvested award is forfeited. The Allianz Group stock-based compensation plans are more fully described in Note 43.

Segment reporting

Information on segments is reported separately in the Annual Report. Segment reporting has been prepared on the basis of the accounting regulations used to prepare the consolidated financial statements as a whole. In determining the segments of the Allianz Group, management evaluates the organization of the Allianz Group, its revenue generating activities of internal management reporting process and the level of financial information available and utilized by the Management Board in reviewing performance.

As a result of the Allianz Group’s worldwide organization, the business activities of the Allianz Group are first segregated by product and type service: insurance activities, banking activities and asset management activities. Due to differences in the nature of products, risks and capital allocation, insurance activities are further divided between property/casualty and life/health categories. Thus, the operating segments are structured as Property/Casualty, Life/Health, Banking, and Asset Management.

Based on various legal, regulatory and other operational issues associated with operating entities in jurisdictions worldwide, the insurance segments of the Allianz Group are also further analyzed by geographical areas or regions in a matrix that comprises a number of profit and service-center segments. This geographic analysis is performed to provide further understanding of trends and results underlying the segment data.

Property/Casualty The Allianz Group's property/casualty segment provides automobile, homeowners, liability, travel insurance and assistance services and other personal lines insurance products. Additionally, the Allianz Group provides commercial, industrial and credit coverages to business enterprises of all sizes.

Life/Health The Allianz Group's life/health segment provides endowment, fixed and variable annuities and traditional life insurance and a wide range of health, disability and related coverages to individual insureds. Additionally, the Allianz Group offers group-life, group-health and pension products to employers.

Banking The Allianz Group's banking segment provides traditional commercial banking products and services such as deposit-taking, lending (including mortgage lending), cash management and transaction banking, as well as corporate finance advisory services, mergers and acquisitions advisory services, capital and money market services, securities underwriting and securities trading and derivatives business on its own account and for its customers.

Asset Management The Allianz Group's asset management segment provides equity, fixed income, money market, sector, geographic and a variety of other products and alternative investment vehicles to retail and institutional customers.

Explanation of the accounting and valuation policies differing from German law

The most important differences are summarized below:

Assets

The definition of an asset is broader under IFRS rules than under the German Commercial Code (HGB). By its reference to the creation of future commercial benefit for the company without the prerequisite of an acquisition against payment, items such as brand names and software developed in-house also must be reported in the accounts under IFRS as assets.

Special funds

Under IAS-SIC 12 all investment funds in which the Group has shareholdings in excess of 50.0% are included within the scope of consolidation. Under the German Commercial Code (HGB) the units of special funds held are recognized in the balance sheet.

Shareholders' equity

Shareholders' equity increases overall because

- trading assets and large proportions of the investments are shown in the balance sheet at market value, and
- insurance reserves in property and casualty insurance are lower under IFRS because they are not calculated in accordance with the prudence concept but are based on best-estimate future claims experience.

Calculation of profit

There are substantial differences between accounting treatment under IFRS rules and the German Commercial Law (HGB) in the case of investments, trading activities and reserves. The following summary explains the most important aspects of IFRS which differ from HGB:

Claims equalization reserves Claims equalization reserves and major risk reserves are not allowed under IFRS because they do not represent a present obligation toward third parties. The net result for the year is not affected by transfers to or from such reserves.

Claims reserves Claims reserves tend to be somewhat lower under IFRS because they are not calculated in accordance with the prudence concept but at the best estimate of the ultimate cost.

Acquisition costs Under IFRS acquisition costs are capitalized and amortized over the term of the policy.

Valuation at equity All participations of between 20 % and 50 % are valued using the equity method, i.e. at the corresponding proportion of the shareholders' equity. It is therefore irrelevant whether a significant influence is actually exercised or not. This means that the valuation includes a proportion of the net profit of the enterprises concerned.

Fund for general banking risks According to German Commercial Law (HGB), provisions may be made for general banking risks pursuant to clause § 340 f of the German Commercial Code (HGB), setting aside a special item pursuant to clause § 340 g of the German Commercial Code. This is, however, not permitted for consolidated financial statements under IFRS rules.

Treasury shares Under IFRS rules, treasury shares held for account of Group companies are deducted from shareholders' equity. Gains or losses from trading in own shares are added to, or subtracted from, equity with no impact on the income statement. According to the German Commercial Code, own shares must be reported as assets, with reserves for treasury shares set aside at the same time. Also, in financial statements prepared according to the German Commercial Code, gains or losses from trading in own shares would be transferred to the income statement and reported under trading income.

Goodwill Goodwill is amortized against income over its useful life under IFRS as follows:

- Over 10 years for property and casualty insurance companies,
- over 20 years for life and health insurance companies,
- over 10 years for banking companies,
- over 20 years for asset management companies.

In accordance with the German Commercial Code, goodwill was charged against revenue reserves without affecting earnings.

SUPPLEMENTARY INFORMATION ON GROUP ASSETS

5 Intangible assets

Intangible assets comprise the following:

	12/31/2003 € mn	12/31/2002 € mn
Goodwill	12,370	13,786
Capitalized value of life/health insurance portfolios	1,658	1,768
Software	1,064	1,281
Loyalty bonuses	158	329
Brand name	782	829
Others	230	280
Total	16,262	18,273

Goodwill

Changes in goodwill were as follows:

	2003 € mn	2002 € mn
Gross amount capitalized as of 12/31 prior year	17,262	14,963
Accumulated amortization as of 12/31 prior year	– 3,476	– 2,314
Value stated as of 12/31 prior year	13,786	12,649
Translation differences	– 560	– 532
Value stated as of 1/1	13,226	12,117
Reclassification	–	– 228
Additions	782	3,059
Disposals	– 225	–
Impairment	– 224	–
Amortization	– 1,189	– 1,162
Value stated as of 12/31	12,370	13,786
Accumulated amortization as of 12/31	– 4,889	– 3,476
Gross amount capitalized as of 12/31	17,259	17,262

The additions essentially include goodwill from increasing our interests in

- PIMCO Advisors L.P. by 14.4 % to 83.9 %,
- Riunione Adriatica di Sicurtà S. p. A. by 4.4 % to 55.5 %.

The disposals essentially include goodwill from reducing our interests in

- AFORE Allianz Dresdner S.A. de C.V. from 95.0 % to 0.0 %,
- Allianz-Slovenska poist’ovna a.s. by 15.0 % to 84.6 %.

In addition, the disposals include an adjustment of the goodwill of Allianz-Slovenska poist’ovna a.s. in accordance with IAS 22.71 and SIC-22.

The impairment charge of € 224 mn concerns Allianz Life Insurance Company Ltd., Seoul. In the course of the annual goodwill impairment review the amount of the required impairment write-downs was determined on the basis of an evaluation of future cash flows from the existing contract portfolio and new business. This amount reflects the effects of persistently lower interest rates in the capital markets and the overall unsatisfactory earnings performance of the company.

The reclassification in 2002 concerns the goodwill of associated enterprises, which have been included under investments in associated enterprises since the beginning of fiscal 2002.

Amortization of goodwill is shown in the income statement under item 13 as a separate heading.

Capitalized value of life/health insurance portfolios

	2003 € mn	2002 € mn
Gross amount capitalized as of 12/31 prior year	2,619	1,999
Accumulated amortization as of 12/31 prior year	– 851	– 625
Value stated as of 12/31 prior year	1,768	1,374
Translation differences	– 33	– 25
Value stated as of 1/1	1,735	1,349
Additions	–	608
Revaluations	129	37
Amortization	– 206	– 226
Value stated as of 12/31	1,658	1,768
Accumulated amortization as of 12/31	– 1,057	– 851
Gross amount capitalized as of 12/31	2,715	2,619

The capitalized value of life/health insurance portfolios was determined using discount rates ranging from 12.0 % to 15.0 %. Interest rates between 3.5 % and 8.5 % were applied for interest not yet due.

The capitalized value of life/health insurance portfolios is amortized over the lives of the policies concerned as surpluses are realized or as premiums are earned. Scheduled amortizations of the capitalized value are included under acquisition costs and administrative expenses. Unscheduled amortizations of or additions to the capitalized value of life/health insurance portfolios are recognized as other expenses/income. The amount of interest accrued on unamortized PVFP in 2003 was € 102 (2002: 78; 2001: 99) mn. The percentage of PVFP as of December 31, 2003 that is expected to be amortized in 2004 is 8.65 % (7.68 % in 2005, 6.94 % in 2006, 5.74 % in 2007 and 5.18 % in 2008).

Software

	2003 € mn	2002 € mn
Gross amount capitalized as of 12/31 prior year	2,692	2,439
Accumulated amortization as of 12/31 prior year	– 1,411	– 1,003
Value stated as of 12/31 prior year	1,281	1,436
Translation differences	– 20	– 19
Value stated as of 1/1	1,261	1,417
Additions	713	497
Changes in the group of consolidated companies	– 69	– 68
Disposals	– 233	– 157
Amortization	– 608	– 408
Value stated as of 12/31	1,064	1,281
Accumulated amortization as of 12/31	– 2,019	– 1,411
Gross amount capitalized as of 12/31	3,083	2,692

The balance sheet value amounting to € 1,064 (2002: 1,281) mn includes € 598 (2002: 630) mn for internally developed software € 466 (2002: 651) mn for software purchased from third parties.

Amortization of software is included in the income statement. For the insurance companies, it is allocated to the various functional areas. The companies of the banking segment report amortization of software under administrative expenses.

Loyalty bonuses and brand names

Other intangible assets also include capitalized loyalty bonuses for senior management of the PIMCO Group, Delaware, amounting to € 158 (2002: 329) mn that were recognized as assets in the annual statement 2000 in the amount of € 713 mn and are amortized on a straight-line basis over 5 years. During 2001, assets of € 659 mn were recognized for the value of the brand names “Dresdner Bank” and “dit” (Deutscher Investment-Trust) and these are amortized on a straight-line basis over 20 years. The purchase of additional shares of Dresdner Bank AG in 2002 increased the carrying amount of the brand names by € 224 mn. After scheduled depreciation of € 47 (2002: 39; 2001: 15) mn in the fiscal year, the brand names are recognized at balance sheet date in the amount of € 782 (2002: 829) mn.

6 Investments in affiliated enterprises, joint ventures, and associated enterprises

	12/31/2003 € mn	12/31/2002 € mn
Investments		
in affiliated enterprises	900	939
in joint ventures	144	22
in associated enterprises	5,398	10,384
Total stated value	6,442	11,345
Total market value	7,135	15,013

The market value is based on stock exchange quotations and internal valuations.

The balance sheet value of investments in banks amounts to € 2,686 (2002: 4,349) mn.

7 Investments

Investments comprise the following:

	12/31/2003 € mn	12/31/2002 € mn
Securities held-to-maturity	4,683	6,533
Securities available-for-sale	277,871	265,997
Real estate used by third parties	10,501	10,747
Funds held by others under reinsurance contracts assumed	2,012	2,063
Total	295,067	285,340

Securities held-to-maturity

	Amortized costs	
	12/31/2003 € mn	12/31/2002 € mn
Government bonds	1,747	2,284
Corporate bonds	2,597	2,301
Other	339	1,948
Total	4,683	6,533

The fair value of individual securities can fall temporarily below their carrying value but, provided there is no risk resulting from changes in financial standing, such securities are not impaired.

Write-downs (impairments) on securities held-to-maturity totaled € 10 (2002: 31; 2001: 35) mn and are included in other expenses for investments. Reversal of impairments on securities held-to-maturity totaled € 3 (2002: 2; 2001: 7) mn and are included in other income from investments.

	Amortized cost		Market values	
	12/31/2003 € mn	12/31/2002 € mn	12/31/2003 € mn	12/31/2002 € mn
Contractual term to maturity				
due in 1 year or less	363	1,505	365	1,558
due after 1 year and in less than 5 years	1,963	1,341	2,015	1,409
due after 5 years and in less than 10 years	1,874	2,626	1,944	2,662
due after 10 years	483	1,061	508	1,132
Total	4,683	6,533	4,832	6,761

Securities available-for-sale

	Amortized cost		Unrealized gains		Unrealized losses		Market values	
	12/31/2003 € mn	12/31/2002 € mn	12/31/2003 € mn	12/31/2002 € mn	12/31/2003 € mn	12/31/2002 € mn	12/31/2003 € mn	12/31/2002 € mn
Equity securities	43,014	53,045	6,363	5,193	1,107	10,067	48,270	48,171
Government bonds	131,486	120,913	4,744	5,972	627	106	135,603	126,779
Corporate bonds	86,238	81,353	3,722	3,727	300	326	89,660	84,754
Other	4,280	6,061	69	256	11	24	4,338	6,293
Total	265,018	261,372	14,898	15,148	2,045	10,523	277,871	265,997

	Proceeds of sales			Realized gains			Realized losses		
	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn	2001 € mn
Equity securities	34,809	39,371	37,844	5,544	6,124	6,632	4,711	7,210	6,153
Government bonds	62,137	50,063	43,724	980	1,040	768	259	354	295
Corporate bonds	29,986	22,451	21,690	829	768	238	271	487	363
Other	7,751	3,289	7,404	20	40	100	10	12	77
Total	134,683	115,174	110,662	7,373	7,972	7,738	5,251	8,063	6,888

	Amortized cost		Market values	
	12/31/2003 € mn	12/31/2002 € mn	12/31/2003 € mn	12/31/2002 € mn
Contractual term to maturity				
due in 1 year or less	15,897	20,761	16,231	21,091
due after 1 year and in less than 5 years	79,921	75,092	82,558	79,500
due after 5 years and in less than 10 years	93,040	86,652	96,754	90,113
due after 10 years	33,146	25,822	34,058	27,122
Total [*]	222,004	208,327	229,601	217,826

[*] Without treasury shares

Impairments on securities available-for-sale totaled € 4,823 (2002: 5,523; 2001: 1,507) mn and are included in other expenses for investments. The first-time application of the rule requiring the immediate write down of an equity if its market value at the balance sheet date has remained permanently below group-wide amortized cost for more than 12 months resulted in an impairment charge of € 409 mn. Reversal of impairments on securities available-for-sale totaled € 2,030 (2002: 679; 2001: 184) mn and are included in other income from investments.

The actual maturities may deviate from the contractually defined maturities, because certain security holders/borrowers have the right to serve notice on or repay certain obligations ahead of schedule, with or without redemption or early repayment penalties.

Securities lending

Certain entities within the Group participate in securities lending arrangements whereby specific securities are loaned to other institutions for short periods of time. On December 31, 2003, the volume of securities loaned out by the Group was € 34,941 (2002: 20,396) mn.

Real estate used by third parties

The gross capitalized values totaled € 13,621 mn at the beginning of the year and € 13,672 mn at the end of the year. Accumulated depreciation amounted to € 2,874 mn at the beginning of the year and € 3,171 mn at the end of the year. Assets pledged as security and other restrictions on title amount to € 60 (2002: 61) mn.

Changes in the total carrying value of real estate used by third parties

	2003 € mn	2002 € mn
Value stated as of 12/31 prior year	10,747	12,004
Translation differences	– 184	– 80
Reclassifications	345	–
Value stated as of 1/1	10,908	11,924
Additions	712	1,117
Changes in the group of consolidated companies	– 228	– 712
Disposals	– 594	– 1,249
Depreciation	– 297	– 333
Value stated as of 12/31	10,501	10,747

Depreciation includes impairment write-downs of € 30 (2002: 104; 2001: 86) mn.

Commitments outstanding at the balance sheet date to purchase real estate amounted to € 51 (2002: 161) mn.

The fair value of real estate used by third parties was € 13,804 (2002: 14,818) mn at the balance sheet date. Rental income for the fiscal year 2003 was € 986 (2002: 1,141; 2001: 1,108) mn.

8 Loans and advances to banks and customers

Loans and advances to banks

	12/31/2003 € mn	12/31/2002 € mn
Loans	4,439	5,213
Reverse repos	91,201	59,061
Other advances	22,171	22,956
Loans and advances to banks	117,811	87,230
Less loan loss allowance	300	408
Loans and advances to banks, net of loan loss allowance	117,511	86,822

Receivables due within 1 year total € 115,455 (2002: 84,074) mn, those due after more than 1 year total € 2,356 (2002: 3,156) mn.

Loans and advances to customers

Loans and advances to customers by customer category (before loan loss allowance) are as follows:

	12/31/2003 € mn	12/31/2002 € mn
Corporate customers	136,360	123,082
Public authorities	3,270	2,989
Private customers	69,054	68,572
Loans and advances to customers	208,684	194,643
Less loan loss allowance	5,425	6,559
Loans and advances to customers, net of loan loss allowance	203,259	188,084

Loans and advances to customers by type of loan (before loan loss allowance) are as follows:

	12/31/2003 € mn	12/31/2002 € mn
Loans	120,717	148,253
Reverse repos	63,296	39,002
Other advances	24,671	7,388
Total	208,684	194,643

Loans and advances due within 1 year total € 131,471 (2002: 106,603) mn, those due after more than 1 year total € 77,213 (2002: 88,040) mn.

Loans and advances to customers include amounts receivable under finance leases at their net investment value totaling € 933 (2002: 1,104) mn. The corresponding gross investment value of these leases amounts to € 1,030 (2002: 1,224) mn, the associated unrealized finance income is € 97 (2002: 120) mn. The residual values of the entire leasing portfolio were fully insured, both in the reporting year and in the preceding year. Lease payments received have been recognized as income in the amount of € 80 (2002: 141) mn. The allowance for uncollectable lease payments amounted to € 42 (2002: 4) mn at the balance sheet date. The total amounts receivable under leasing arrangements include € 114 (2002: 122) mn due within 1 year, € 450 (2002: 714) mn due within 1 to 5 years, and € 466 (2002: 388) mn due after more than 5 years.

Lending volume

In contrast to the reporting of loans and advances, lending volume does not include reverse repos or other advances. However, this item does comprise loans extended on bills of exchange which, in turn, are not reported under loans and advances to customers or loans and advances to banks.

	12/31/2003 € mn	12/31/2002 € mn
Loans to banks	4,439	5,213
Loans to customers*)	120,851	148,530
Total lending volume	125,290	153,743
Less loan loss allowance	5,725	6,967
Lending volume after loan loss allowance	119,565	146,776

*) Including bills of exchange amounting to € 134 (2002: 277) mn, unless these are included under loans and advances to banks or customers

Allowance for loan losses

The overall volume of risk provisions includes allowances for loan losses deducted from loans and advances to banks and customers in the amount of € 5,725 (2002: 6,967) mn and provisions for contingent liabilities included in other accrued liabilities in the amount of € 549 (2002: 633) mn.

	Counterparty risks			Country risks			General risks			Total		
	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn	2001 € mn
As of 1/1	6,415	7,200	304	367	428	–	818	933	23	7,600	8,561	327
Additions												
Additions charged to the income statement	2,154	2,927	1,087	42	111	–	4	90	110	2,200	3,128	1,197
Changes in the group of consolidated companies	– 60	– 928	6,596	–	–	544	– 3	– 63	855	– 63	– 991	7,995
Total	2,094	1,999	7,683	42	111	544	1	27	965	2,137	2,137	9,192
Reductions												
Charge-offs	– 2,034	– 1,893	– 445	– 7	–	–	–	–	–	– 2,041	– 1,893	– 445
Amounts released	– 858	– 575	– 424	– 95	– 208	– 92	– 150	– 34	– 77	– 1,103	– 817	– 593
Total	– 2,892	– 2,468	– 869	– 102	– 208	– 92	– 150	– 34	– 77	– 3,144	– 2,710	– 1,038
Other additions/reductions	– 67	– 97	38	4	54	– 29	34	– 102	18	– 29	– 145	27
Translation differences	– 246	– 219	44	– 41	– 18	5	– 3	– 6	4	– 290	– 243	53
As of 12/31	5,304	6,415	7,200	270	367	428	700	818	933	6,274	7,600	8,561

The effects of the deconsolidation of Deutsche Hyp Deutsche Hypothekenbank AG are shown in the line „Changes in the group of consolidated companies" 2002.

The loan portfolio contains non-accrual loans of € 8,374 (2002: 10,452) mn. The total amount of loans with provisions against the principal include € 3,068 (2002: 2,556) mn of loans on which the Group continues accruing interest with a specific allowance against the total interest accrued. The interest income not recognized from loans on non-accrual status amounted to € 367 (2002: 470; 2001: 448) mn.

The amount of interest collected and recorded on non-accrual loans was approximately € 49 (2002: 66; 2001: 45) mn.

At December 31, 2003 the Group had € 9,498 (2002: 12,221) mn of impaired loans of which € 8,722 (2002: 10,742) mn had a related valuation allowance. For the year ended December 31, 2003 the average balance in impaired loans was € 11,780 (2002: 12,773) mn and the interest income recognized on impaired loans was € 117 (2002: 131, 2001: 67) mn.

9 Trading assets

	12/31/2003 € mn	12/31/2002 € mn
Equities	15,553	9,166
Fixed-income securities	111,529	91,718
Derivatives	18,947	22,529
Other trading assets	125	1,429
Total	146,154	124,842

The majority of equities and fixed-income securities held in trading assets are marketable and listed securities. The fixed-income securities include € 67,300 (2002: 50,038) mn from public-sector issuers, and € 44,229 (2002: 41,680) mn from other issuers.

The positive market values of derivative financial instruments are shown on a net basis, i. e. taking into account existing netting agreements.

10 Cash and cash equivalent

	12/31/2003 € mn	12/31/2002 € mn
Balances with banks payable on demand	19,021	14,979
Balances with central banks	4,053	3,139
Checks and cash on hand	1,520	1,763
Treasury bills, discounted treasury notes and similar treasury securities	799	850
Bills of exchange	135	277
Total	25,528	21,008

Compulsory deposits on accounts with the national central banks under restrictions due to required reserves from the European Central Bank totaled € 3,357 mn for the credit institutions.

Balances with central banks include balances held with the Deutsche Bundesbank of € 3,321 (2002: 1,205) mn, which also have the function of meeting minimum reserve requirements.

11 Amounts ceded to reinsurers from insurance reserves

	12/31/2003 € mn	12/31/2002 € mn
Unearned premiums	1,242	1,507
Aggregate policy reserves	10,923	11,350
Reserve for loss and loss adjustment expenses	12,765	15,334
Other insurance reserves	131	179
Subtotal	25,061	28,370
Insurance reserves for life insurance where the investment risk is carried by policyholders	–	50
Total	25,061	28,420

The amounts ceded to reinsurers from insurance reserves stated under assets include rights of recourse against reinsurers. The credit risk is partly covered by funds held for others under reinsurance contracts, securities portfolios and bank guarantees.

The Group reinsures a portion of the risks it underwrites in an effort to control its exposure to losses, and protect capital resources. Each subsidiary, where applicable, has its own reinsurance program and determines its own risk limits. A large portion of the business ceded by the Group's subsidiaries is assumed by Allianz AG, which acts as the reinsurer for the Group, although the subsidiaries also cede business to companies outside of the Group. Allianz AG retains a portion of the intercompany business it assumes and retrocedes the remainder to companies outside of the Group. Some of the business ceded by the subsidiaries and Allianz AG is ceded to associated companies (see Note 41 for related party transactions).

The majority of the business ceded by Allianz AG is placed on a quota-share basis. For its property and casualty business, Allianz AG retained € 50 mn in 2003 and € 38 mn each in 2001 and 2002. The limits for cat events are € 75 mn for 2003 and € 50 mn each for 2002 and 2001.

The reinsurance department of Allianz AG compiles a list of approved reinsurers, provides the subsidiaries with orientation guidelines for reinsurance contracts on a per-event basis and collects cession data from the subsidiaries to avoid concentration of risk with particular reinsurers and to ensure that the aggregate risk retention of the Group is within the Group's guidelines. Reinsurance is placed with companies based on an evaluation of the financial strength of the reinsurers, terms of coverage, and price.

The Group pays premiums to reinsurers based upon the risk and exposure of the policies subject to such reinsurance. On most of the premium the Group cedes, the reinsurer pays a commission to the Group, which includes a reimbursement of the cost of acquiring the portion of the premium that is ceded.

Reinsurance involves credit risk and is subject to aggregate loss limits. Reinsurance does not legally discharge the Group from primary liability under the reinsured policies. Although the reinsurer is liable to the Group to the extent of the reinsurance ceded, the Group remains primarily liable as the direct insurer on all risks reinsured, including the amounts ceded. The Group monitors the financial condition of its reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically in order to evaluate the reinsurer's ability to fulfill its obligations to the Group under respective existing and future reinsurance contracts.

12 Other assets

	12/31/2003 € mn	12/31/2002 € mn
Real estate used by Allianz for its own activities	5,020	5,432
Equipment and inventories	1,626	1,952
Accounts receivable on direct insurance business	8,096	8,846
Accounts receivable on reinsurance business	2,522	3,116
Other receivables	16,596	11,092
Other assets	4,084	3,486
Deferred acquisition costs	12,497	10,528
Prepaid expenses	3,363	4,618
Total	53,804	49,070

Changes in the total carrying value of real estate owned by Allianz Group and used for its own activities

	2003 € mn	2002 € mn
Value stated as of 12/31 prior year	5,432	5,097
Translation differences	– 77	– 56
Reclassifications	– 345	–
Value stated as of 1/1	5,010	5,041
Additions	877	883
Changes in the group of consolidated companies	– 1	– 17
Disposals	– 765	– 131
Depreciation	– 101	– 344
Value stated as of 12/31	5,020	5,432

The accounts receivable on direct insurance business stated under other assets and accounts receivable on reinsurance business are due within 1 year. Other receivables stated under other assets due within 1 year amount to € 7,299 (2002: 4,881) mn, those due after more than 1 year total € 9,297 (2002: 6,211) mn.

During 2003, the subsidiary Allianz Life Insurance Company of North America, Minneapolis (AZ Life), made the decision to exit the traditional life reinsurance business. As a result of this decision, effective July 1, 2003, the Company entered into a 100 % coinsurance agreement with Reinsurance Group of America, Inc., to coinsure this block of business. In connection with this agreement, the Company recognized a recoverable on future policy benefit reserves of USD 425,684, received a ceding commission of USD 310,000, and transferred net assets of USD 129,283. The resulting gain of USD 264,095 was deferred and will be amortized into operations over the revenue-producing period of the related reinsured policies. During 2003, USD 18,223 was recognized as income.

Real estate used by Allianz for its own activities

The gross capitalized values totaled € 6,854 mn at the beginning of the year and € 6,543 mn at the end of the year. Accumulated depreciation amounted to € 1,422 mn at the beginning of the year and € 1,523 mn at the end of the year. Assets pledged as security and other restrictions on title amount to € 28 (2002: 30) mn.

As in the previous year, no impairments were recorded in 2003.

At the balance sheet date, commitments outstanding to purchase real estate amounted to € 39 (2002: 28) mn.

The market value of real estate used by Allianz for its own activities amounted to € 5,741 (2002: 6,245) mn.

Equipment and inventories

The gross capitalized values totaled € 6,658 mn at the beginning of the year and € 6,919 mn at the end of the year. Accumulated depreciation amounted to € 4,706 mn at the beginning of the year and € 5,293 mn at the end of the year.

At the balance sheet date, commitments outstanding to purchase items of equipment and inventories amounted to € 111 (2002: 22) mn. Depreciation is apportioned between the relevant cost headings in the income statement for insurance companies. Reversals of impairments are credited to "Other income".

Accounts receivable on direct insurance business

These amount to € 4,349 (2002: 5,114) mn for policyholders and € 3,747 (2002: 3,732) mn for agents.

Other receivables

These include tax refunds amounting to € 2,381 (2002: 2,484) mn, interest and rental receivables amounting to € 5,394 (2002: 3,496) mn, and accounts receivable on banking and asset management business amounting to € 348 (2002: 327) mn. Of the tax refunds, € 1,821 (2002: 2,011) mn are attributable to tax on income.

Other assets

These include non-trading derivatives used for hedging totaling € 868 (2002: 815) mn.

Deferred acquisition costs

Property/Casualty

	2003 € mn	2002 € mn
Value stated as of 12/31 prior year	3,158	3,156
Translation differences	– 86	– 110
Value stated as of 1/1	3,072	3,046
Additions	450	375
Changes in the group of consolidated companies	2	– 36
Amortization	– 120	– 227
Impairments	– 24	–
Value stated as of 12/31	3,380	3,158

Life/Health

	2003 € mn	2002 € mn
Value stated as of 12/31 prior year	7,370	8,036
Translation differences	– 521	– 342
Value stated as of 1/1	6,849	7,694
Additions	2,525	1,624
Changes in the group of consolidated companies	153	– 1,551
Amortization	– 410	– 397
Value stated as of 12/31	9,117	7,370

Changes in the scope of consolidation in life/health in the year 2002 include the effect of the reclassification of deferred acquisition costs to the capitalized value of life/health insurance portfolios, which was caused by the additional acquisition of 40.5 % of Allianz Lebensversicherungs-AG, Stuttgart. Changes in deferred acquisition costs are detailed in note 35.

SUPPLEMENTARY INFORMATION ON GROUP LIABILITIES AND EQUITY

13 Shareholders' equity

The shareholders' equity comprises the following:

	12/31/2003 € mn	12/31/2002 € mn
Issued capital	985	683
Capital reserve	18,362	14,102
Revenue reserves	11,453	12,139
Less treasury stock	4,546	5,958
Translation differences	– 1,916	– 342
Other reserves	4,254	1,049
Total	28,592	21,673

Issued capital

In April 2003, 117,187,500 shares with participation rights were issued from authorized capital in connection with a capital increase for cash. The new shares were offered to shareholders at a ratio of 15:7 and a price of € 38.00. Expenses from the capital increase amounting to € 116 mn after taxes diminish revenue reserves.

In November 2003, 965,625 shares were issued at a price of € 82.95 each, enabling employees of Allianz Group enterprises in Germany and abroad to purchase 944,625 shares at prices ranging from € 58.07 to € 70.51. The remaining 21,000 shares were sold on the stock exchange at an average price of € 92.07. The difference between the issue price and the sale price was recorded in revenue reserves.

All shares issued in 2003 are qualifying shares from the beginning of the year of issue.

The issued capital at December 31, 2003 amounted to € 984,880,000 divided into 384,718,750 registered shares. The shares have no par value but a mathematical value of € 2.56 each as a proportion of the issued capital.

At the end of the year under review, there was **authorized unissued capital** with a notional principal amount of € 300,000,000 (117,187,500 shares), which can be issued at any time up to April 28, 2008 (authorized unissued capital 2003/II). If shares are issued against a non-cash consideration, the Board of Management, with the approval of the Supervisory Board, is authorized to exclude the pre-emptive rights of shareholders. In the case of capital increases against a cash consideration, pre-emptive rights can be partially excluded, if the issue price is not significantly less than the stock-market price. In addition, there was authorized capital with a notional principal amount of € 10,000,000 (3,906,250 shares), which can also be issued until April 28, 2008 (authorized unissued capital 2003/I).

This authorized capital serves as protection against dilution for the holders of conversion or subscription rights. At the end of the year under review, there was a further € 5,369,188 (2,097,339 shares) of Authorized Unissued Capital 2001/II which can be issued up to July 10, 2006. The pre-emptive rights of shareholders can be excluded in order to offer the new shares to employees of Allianz AG or its Group companies.

The company had **conditionally authorized capital** 2001 amounting to € 50,000,000 (19,531,250 shares) on which bonds with subscription or conversion rights, with pre-emptive rights for company shares, can be issued up to July 10, 2006.

The **capital reserve** includes the premium received on the issuance of shares.

Treasury stock

In connection with an exchange offer to the holders of participation certificates, a total of 6,148,110 treasury shares were exchanged for participation certificates of Allianz AG as of January 16, 2003.

The Annual General Meetings on April 29, 2003 authorized Allianz AG to acquire own shares for miscellaneous purposes pursuant to clause § 71 (1) no. 8 of the Corporation Law (Aktiengesetz). The authorization was used to acquire 293,686 shares.

In order to enable Dresdner Bank AG to trade in shares of Allianz AG following the takeover of the bank, the Annual General Meeting on April 29, 2003 authorized the banks in which Allianz AG has a majority holding to acquire treasury stock for purposes of securities trading pursuant to § 71 (1) no. 7 of the Corporation Law (Aktiengesetz). In accordance with this authorization, the banks in the Group purchased 32,891,597 of the company's own shares in the course of 2003. An average price of € 76.67 per share is calculated, including the initial inventory. 32,339,227 shares were disposed of in the course of 2003 at an average price of € 77.74 per share.

The gains from these transactions in the amount of € 7 mn were allocated to revenue reserves.

At year-end, treasury stock is comprised as follows:

	12/31/2003			12/31/2002		
	Acquisition costs € mn	Number of shares	% of issued capital	Acquisition costs € mn	Number of shares	% of issued capital
Shares held by						
Allianz AG	50	424,035	0.11	1,510	6,286,100	2.36
affiliated enterprises	4,496	17,822,017	4.63	4,448	17,302,311	6.49
(of which Dresdner Bank Group)	(4,495)	(17,814,376)	4.63	(4,448)	(17,302,311)	(6.49)
Total	4,546	18,246,052	4.74	5,958	23,588,411	8.85

Changes to the number of issued shares outstanding

	2003 Number of shares	2002 Number of shares
As of 1/1	242,977,214	241,189,535
Additions		
Exchange against participation certificates	6,148,110	
Capital increase for cash	117,187,500	–
Capital increase for employee shares	965,625	137,625
Transfer to the exchange company	–	1,797,357
Reductions		
Acquisition for other purposes	293,686	–
Acquisition for purposes of securities trading	512,065	147,303
As of 12/31	366,472,698	242,977,214

In addition to the reserves in the financial statements of Allianz AG required by law, **revenue reserves** include the retained earnings of consolidated subsidiaries and amounts resulting from consolidated net income for the year. Revenue reserves also include foreign currency translation adjustments in the equity section. In the case of acquisitions prior to January 1, 1995, differences arising on first-time consolidation have been taken to revenue reserves.

Other reserves represent unrealized gains and losses on investments available-for-sale and derivatives used to hedge a net investment in a foreign entity.

The Board of Management will propose to shareholders at the Annual General Meeting the distribution of a dividend of € 1.50 (2002: 1.50; 2001: 1.50) per qualifying share for fiscal year 2003. Details on the recommendation for appropriation of profit are given in the Group management report.

14 Minority interests in shareholders' equity/earnings

The primary subsidiaries included are the AGF Group, Paris, the RAS Group, Milan and the PIMCO Group, Delaware.

The interests of minority shareholders are made up as follows:

	12/31/2003 € mn	12/31/2002 € mn
Other reserves		
unrealized gains and losses	646	– 76
Share of earnings	782	688
Other equity components	6,939	7,703
Total	8,367	8,315

15 Participation certificates and subordinated liabilities

	12/31/2003 € mn	12/31/2002 € mn
Participation certificates	1,596	1,955
Subordinated liabilities	10,634	12,219
Total	12,230	14,174

Participation certificates include € 85 (2002: 450) mn in respect of those issued by Allianz AG. The balance of "Participation certificates" represents the guaranteed total redemption price that Allianz AG has to pay upon redemption, by the holders of the 1,175,554 "profit participation certificates" issued by the company, which are still outstanding. The distributions payable on the profit participation certificates for the last fiscal year are included in "Other liabilities". A total of 4,923,111 own participation certificates, which are not recalled, are deducted from participating capital.

In November 2002, Allianz AG made a voluntary public offer to holders of the then outstanding 5,723,154 participation certificates to exchange their certificates for Allianz shares. The exchange ratio was 10 shares for 8 participation certificates; by the end of the exchange period on January 16, 2003, a total of 4,918,488 participation certificates had been exchanged for 6,148,110 shares. The shares for the exchange offer came from Allianz treasury stock.

In connection with the increase of the share capital with participation rights in April 2003, the participation capital was increased in accordance with the participation certificate conditions from nominally € 29,302,548.48 by € 13,674,521.60 to € 42,977,070.08 by issuing to the holders of profit participation certificates 2,670,805 new participation certificates with profit participation rights. The new participation certificates were offered to the holders of participation certificates at a price of € 59.20 per participation certificate. The 2,295,294 new participation certificates with a nominal value of € 11,751,905.28, which were attributable to the participation certificate holdings of Allianz AG, were subsequently recalled. Since then, the participation capital amounts to € 31,225,164.80, subdivided into 6,098,665 participation certificates.

The terms of the profit participation certificates provide for an annual cash distribution of 240.0 % of the dividend paid by the company per one Allianz ordinary share. If certain conditions are met, the holders of profit participation certificates may also subscribe to new profit participation certificates; to this extent, the preemptive subscription rights of Allianz AG shareholders are excluded. Holders of profit participation certificates do not have voting rights, or any rights to convert the said certificates into Allianz AG shares, or rights to liquidation proceeds. Profit participation certificates are unsecured and rank pari passu with the claims of other unsecured creditors.

Profit participation certificates can be redeemed by holders upon 12 months' prior notice, beginning December 31, 2001, and every 5th year thereafter. Upon redemption by holders, the terms of the profit participation certificates provide for a redemption price equal to the weighted average of the issue prices of all profit participation certificates. Since the last issue of April 2003, the price has been uniformly € 72.39 per participation certificate.

The company may call the profit participation certificates for redemption, upon 6 months' prior notice, beginning December 31, 2006, and each year thereafter. Upon redemption by the company, the cash redemption price per certificate would be equal to 122.9 % of the then current price of 1 Allianz ordinary share during the last 3 months preceding the recall of the participation certicate. In lieu of redemption for cash, the company may offer 10 Allianz ordinary shares per 8 profit participation certificates. Allianz AG has consistently stated at its Annual General Meeting that the company is not legally required to call the profit participation certificates for redemption on December 31, 2006 or at another date.

Participation certificates also include € 1,511 (2002: 1,505) mn issued by the Dresdner Bank Group which entitle holders to annual interest payments, which take priority over Dresdner shareholders' dividend entitlements. They are subordinated to obligations for all other creditors of the issuer, except those similarly subordinated, and share in losses of the respective issuers in accordance with the conditions attached to the certificates. The profit participation certificates will be redeemed subject to the provisions regarding loss sharing.

Details of the 2 largest participation certificate issues are provided below:

Year of issue	Nominal amount*)	Issuer	Inerest rate	Maturity
1996	€ 511 mn	Dresdner Bank AG	8.0 %	2007
1997	€ 767 mn	Dresdner Bank AG	7.0 %	2008

*) Nominal amount minus amounts held by Dresdner Bank.

Breakdown of subordinated liabilities

	12/31/2003 € mn	12/31/2002 € mn
Non-voting interests		
CreditRas Vita S.p.A.	45	–
Dresdner Bank Group	1,561	1,732
Total	1,606	1,732
Other subordinated liabilities		
AGF Group	797	864
Allianz Finance II B. V.	3,377	3,445
Dresdner Bank Group	4,854	6,178
Total	9,028	10,487
Subordinated liabilities	10,634	12,219

Subordinated liabilities include € 3,377 mn from subordinated liabilities, which Allianz Finance II B. V. issued in 2002 and which have been guaranteed by Allianz AG on a subordinated basis. The guarantee provided by Allianz for the redemption of these subordinated debt issue is also subordinated, which means that in case of the insolvency or liquidation of Allianz AG, subordinated creditors will be paid back only after all claims by holders of non-subordinated debt have been settled.

In the event of bankruptcy proceedings or liquidation, the subordinated liabilities of Dresdner Bank Group may not be redeemed until all non-subordinated creditors have been satisfied. There is no obligation to redeem such liabilities prior to maturity.

The non-voting interests were issued for the first time in May 1999, in the amount of approximately € 1.5 bn by Dresdner Bank. These non-voting interests include 2 issues of Dresdner Bank AG in the nominal amount of € 500 mn (interest rate 5.79 %, maturity 2011) and USD 1,000 mn (interest rate 8.15 %, maturity 2031). Additionally Dresdner Bank AG issued 2 non-voting interests in the nominal amount of € 159 mn (interest rate 7.00 %, maturity 2013) and JPY 15,000 mn (interest rate 3.50 %, maturity 2033) in 2001. Interest paid on non-voting interests amounted to € 119 (2002: 118; 2001: 128) mn for the year.

Fixed-rate subordinated liabilities of Dresdner Bank Group have coupons between 4.0 % and 8.4 %; in addition, there are variable-rate issues linked to a reference interest rate and zero-coupon bonds. The average interest rate comes to 4.1 %. Interest paid on these subordinated liabilities amounted to € 222 (2002: 463; 2001: 473) mn in the reporting year.

16 Insurance reserves

	12/31/2003 € mn	12/31/2002 € mn
Unearned premiums	12,198	12,248
Aggregate policy reserves	217,895	210,109
Reserves for loss and loss adjustment expenses	62,782	65,961
Reserves for premium refunds	17,338	16,190
Premium deficiency reserves	538	385
Other insurance reserves	720	870
Total	311,471	305,763

Aggregate policy reserves

The Group's life insurance companies offer a wide range of traditional life insurance, financial and investment products. Traditional life insurance products consist of both short and long-duration policies with participating and non-participating features. Short-duration traditional life insurance products include term, accident and health contracts. Long duration traditional life insurance products include individual and group whole-life, endowment, guaranteed renewable term and accident and health, and annuity contracts. Financial and investment products consist of universal life, unit-linked products (variable annuities), single premium annuities, and guaranteed investment contracts.

Aggregate policy reserves at the balance sheet date – split by the various profit participation systems – were as follows:

	Contribution principle (SFAS 120)		Variable annuities and unit-linked life insurance (SFAS 97)		Other (SFAS 60)	
	12/31/2003 € mn	12/31/2002 € mn	12/31/2003 € mn	12/31/2002 € mn	12/31/2003 € mn	12/31/2002 € mn
Property/Casualty	7,513	7,403	–	–	–	–
Life/Health	107,663	104,976	99,777	89,051	35,402	34,366
Total	115,176	112,379	99,777	89,051	35,402	34,366

Reserves for loss and loss adjustment expenses

The gross reserves for loss and loss adjustment expenses of the Group's insurance business are as follows:

	12/31/2003 € mn	12/31/2002 € mn
Property/Casualty	56,244	59,654
Life/Health	6,538	6,307
Total	62,782	65,961

The reserves for loss and loss adjustment expenses (loss reserves) have changed in Property/Casualty insurance during the year under review as follows:

	2003 € mn	2002 € mn
1. Loss reserve as of 1/1		
a. Gross	59,654	61,476
b. Amount ceded to reinsurers	–14,588	–16,156
c. Net	45,066	45,320
2. Plus claims (net)		
a. Claims in the year under review	25,712	27,130
b. Previous years' claims	279	646
c. Total	25,991	27,776
3. Less claims paid (net)		
a. Claims in the year under review	–11,860	–12,642
b. Previous years' claims	–13,155	–12,143
c. Total	–25,015	–24,785
4. Currency translation adjustments	–1,822	–3,367
5. Change in the group of consolidated companies	–25	122
6. Loss reserve as of 12/31		
a. Net	44,195	45,066
b. Amount ceded to reinsurers	12,049	14,588
c. Gross	56,244	59,654

In 2003, there were no extraordinary insured events that had a material effect on the Group's shareholders' equity, investments or earnings. The settlement of the special events of the previous year, in particular the examination and subsequent increase of the reserves for asbestos-related claims in 2002 as well the claims stemming from the terrorist attack of September 11, 2001, did not show any unusual development in 2003.

No retrospective back-payments of premiums have been demanded. No exceptional events have occurred since the balance sheet date which would have material affects on the net worth, financial position or results of the Group. The balance sheet amount includes € 2,650 (2002: 2,664) mn in annuity reserves for existing annuity agreements. The discount rate for such cases varies between 3.0 % and 6.5 %.

Reserve for premium refunds

The reserve for premium refunds includes the amounts to which policyholders are entitled under the relevant local statutory or contractual regulations in the form of experience-rated or other participation in profits. In addition, the reserve for premium refunds includes amounts arising from the valuation of certain assets and liabilities of the Group's life and health insurance enterprises at market value (the "latent" reserve for premium refunds).

The reserve for premium refunds has changed as follows:

	12/31/2003 € mn	12/31/2002 € mn
a) Amounts already allocated under local regulations		
As of 1/1	7,131	10,088
Translation differences	–35	–14
Changes in the scope of consolidation	–7	81
Change	237	–3,024
As of 12/31	7,326	7,131
b) Latent reserves		
As of 1/1	9,059	11,501
Translation differences	–24	4
Change due to fluctuations in market value	1,960	–928
Changes in the scope of consolidation	1,031	233
Changes due to valuation differences credited to income	–2,014	–1,751
As of 12/31	10,012	9,059
c) Total	17,338	16,190

In addition to the amounts allocated under a), amounts totaling € 3,514 (2002: 3,680; 2001: 3,670) mn were directly credited to policyholders of the Allianz Group from the surplus.

17 Liabilities to banks

	12/31/2003 € mn	12/31/2002 € mn
Payable on demand	13,427	12,401
Other term liabilities	164,889	124,931
(Including: registered bonds issued)	(3,045)	(2,608)
Liabilities to banks	178,316	137,332

Liabilities due within 1 year totaled € 165,125 (2002: 126,757) mn, those due after more than 1 year totaled € 13,191 (2002: 10,575) mn.

Liabilities to domestic banks amounted to € 81,635 (2002: 53,105) mn and to foreign banks amounted to € 96,681 (2002: 84,227) mn.

18 Liabilities to customers

	12/31/2003 € mn	12/31/2002 € mn
Savings deposits	2,667	3,386
Home-loan savings deposits	3,116	3,035
Savings and Home-loan savings deposits	5,783	6,421
Payable on demand	57,132	53,421
Other term liabilities	91,813	87,424
(including: registered mortgage bonds issued)	(6,747)	(5,639)
Other liabilities	148,945	140,845
Liabilities to customers	154,728	147,266

Liabilities due within 1 year total € 139,698 (2002: 133,793) mn, those due after more than 1 year total € 15,030 (2002: 13,473) mn.

Liabilities to customers are classified according to the following customer groups:

	12/31/2003			12/31/2002		
	Germany € mn	Other countries € mn	Total € mn	Germany € mn	Other countries € mn	Total € mn
Corporate customers	41,620	70,867	112,487	38,409	57,363	95,772
Public authorities	1,122	3,365	4,487	1,501	6,848	8,349
Private customers	29,448	8,306	37,754	34,023	9,122	43,145
Liabilities to customers	72,190	82,538	154,728	73,933	73,333	147,266

19 Certificated liabilities

The Group issues fixed and floating rate debt denominated in various currencies, although predominantly in euros.

Fixed and floating rate debt outstanding as of December 31, 2003 matures at various dates through 2039 and carries contractual interest rates ranging from 1.25 % to 7.42 %. Certificated liabilities include Allianz Finance B. V. in an amount of € 5,311 (2002: 7,130) mn and Allianz Finance II B. V. in an amount of € 3,849 (2002: 4,915) mn. The interest rates for the floating rate debt issues are generally based on the London Inter-Bank Offered Rate (LIBOR), although in certain instances they are subject to minimum interest rates as specified in the agreements governing the respective issues.

The following table provides an overview of the Group's certificated liabilities according to maturity:

	Due 2004 € mn	Due 2005 € mn	Due 2006 € mn	Due 2007 € mn	Due 2008 € mn	Due after 2008 € mn	12/31/2003 Total € mn	12/31/2002 Total € mn
Mortgage bonds	–	–	6	–	–	–	6	–
Public-sector bonds	–	–	–	–	–	–	–	–
Debentures	8,847	6,537	5,097	5,051	4,523	4,412	34,467	48,220
Total bonds issued	8,847	6,537	5,103	5,051	4,523	4,412	34,473	48,220
Money market securities	18,844	45	–	5	–	–	18,894	28,217
Other	3,810	2,646	1,058	1,107	–	1,350	9,971	2,313
Certificated liabilities	31,501	9,228	6,161	6,163	4,523	5,762	63,338	78,750

20 Trading liabilities

	12/31/2003 € mn	12/31/2002 € mn
Derivatives	20,391	21,401
Obligations to deliver securities	61,476	29,742
Other trading liabilities	2,968	2,377
Total	84,835	53,520

The negative market values of derivative financial instruments are shown on a net basis, i. e. taking into account existing netting agreements.

The increase of obligations to deliver securities is due to the substantially higher volume of short sales of fixed-interest securities by Dresdner Bank.

21 Other accrued liabilities

	12/31/2003 € mn	12/31/2002 € mn
Reserves for pensions and similar obligations	5,669	5,715
Accrued taxes	2,066	1,775
Miscellaneous accrued liabilities	6,173	5,579
Total	13,908	13,069

Of the accrued taxes, € 1,488 mn is attributable to taxes on income.

Pension and similar reserves

	12/31/2003 € mn	12/31/2002 € mn
Reserves for pensions	5,303	5,312
Reserves for similar obligations	366	403
Total	5,669	5,715

The Allianz Group maintains various defined benefit and defined contribution pension plans covering its employees worldwide. Allianz Group companies normally have pension plans covering their employees, and in Germany, their agents. In Germany, these plans are primarily based on fixed benefits (defined benefit pension plans), while in other countries there are both defined benefit and defined contribution pension plans.

Under **defined benefit pension plans,** the beneficiary is promised a particular level of retirement benefit by the enterprise or by a pension fund, while the premiums payable by the enterprise are not fixed in advance.

The primary pension fund is Allianz Versorgungskasse VVaG, Munich, which covers most of the employees of Group enterprises in Germany. It is not included in the consolidated financial statements.

The pension fund assets are invested mainly in equity securities, investment fund units, fixed income securities and registered bonds. The need to recognize actuarial gains or losses is reviewed using the corridor approach for each individual pension plan.

Funded status of the main defined benefit pension plans

	12/31/2003 € mn	12/31/2002 € mn
Actuarially calculated present value of pension rights accrued		
direct commitments of Group enterprises	5,880	5,749
commitments through pension funds	5,442	4,930
in total	11,322	10,679
Pension fund assets	5,243	4,830
Pension obligations less pension fund assets	6,079	5,849
Unrecognized gains/losses	– 765	– 530
Unrecognized (past) service cost	– 11	– 7

Reductions of the notional interest rate resulted in an increase of the actuarial present value of accrued pension rights by € 325 mn. This increase is only partially compensated by an increase of the independent pension fund assets, which increases unrecognized losses by € 235 mn.

The reserve for defined benefit pension plans changed in the year under review as follows:

	2003 € mn	2002 € mn
Value stated as of 12/31 prior year	5,312	5,268
Translation differences	– 8	– 9
Value stated as of 1/1	5,304	5,259
Changes in the scope of consolidation	– 22	33
Expenses	621	666
Payments	– 600	– 646
Value stated as of 12/31	5,303	5,312

The net periodic benefit cost (expenses minus income) include the following components:

	2003 € mn	2002 € mn
Current service cost	314	274
Interest cost	606	591
Expected return on pension fund assets	– 312	– 329
Gains/losses recognized	6	5
Past service cost recognized	26	123
Income/expenses of plan curtailments or settlements	– 19	2
Total	621	666

Most of the amounts expensed are charged to the income statement of insurance companies as acquisition and administrative expenses, and loss and loss adjustment expenses (claims settlement expenses). Companies in the banking and asset management segment are recognizing these expenses under personnel expenses as part of administrative expenses.

The actual income from the pension funds amounted to € 379 mn (2002: loss of € 256 mn). The reserve for other post-retirement obligations was € 366 mn as of December 31, 2003 (2002: € 403 mn). The reserve for other post-retirement obligations is primarily composed of obligations for health care benefits in the U.S.A. amounting to € 122 (2002: 148) mn and termination indemnities (e.g. severance pay) in Austria and Italy amounting to € 64 (2002: 65) mn and € 102 (2002: 98) mn, respectively.

The assumptions for actuarial computation of the obligations depend on the circumstances in the particular country where a plan has been established.

The actuarial assumptions for the main pension plans are as follows:

	2003 %	2002 %
Discount rate	5–6	5–7
Expected rate of return on pension fund assets	6–9	6–9
Retirement rates	2–5	2–5
Benefit levels	2–3	2–3

The calculations are based on current actuarially determined mortality estimates. Projected fluctuations depending on age and length of service have also been used, as well as internal Group retirement projections.

Defined contribution pension plans are funded through independent pension funds or similar organizations. Contributions fixed in advance, based e. g. on salary, are paid to these institutions and the beneficiary's right to benefits exists against the pension fund. The employer has no obligation beyond payment of the contributions (premiums). The main pension fund is the Versicherungsverein des Bankgewerbes a. G., Berlin, which insures most of the banking employees in Germany.

Amounts totaling € 105 (2002: 123; 2001: 108) mn were expensed in the year under review.

Miscellaneous accrued liabilities

Miscellaneous accrued liabilities primarily include reserves of € 845 (2002: 404) mn for restructuring, reserves for the lending business in the amount € 549 (2002: 633) mn, reserves for employee expenses amounting to € 2,224 (2002: 2,259) mn, loss reserves from the non-insurance business amounting to € 319 (2002: 316) mn, reserves for litigation amounting to € 142 (2002: 125) mn, and commission reserves for agents amounting to € 198 (2002: 159) mn.

Activity in the provisions for restructuring measures was as follows:

	2003 € mn	2002 € mn
Value stated as of 1/1	404	478
Changes in the scope of consolidation	–	– 18
Additions for supplementary restructuring measures	575	199
Additions to existing provisions	153	89
Release of provisions via payments	– 219	– 234
Amounts released	– 54	– 87
Translation differences	– 14	– 23
Value stated as of 12/31	845	404

Dresdner Bank restructuring plans

Reserves for restructuring essentially concern Dresdner Bank and mainly cover future liabilities from the personnel area and from leasing contracts, which will arise in connection with the implementation of the respective initiatives. For the "New Dresdner" program announced in August 2003, reserves of € 345 mn were set up. In addition, the reserves were increased by € 44 mn for "further measures 2003". For the program started in 2002, for which restructuring reserves of € 299 mn are recorded as of December 31, 2003, all measures have now been determined. Additionally, there still are reserves from past restructuring programs which are used to cover liabilities from early retirement and phased retirement provisions. These were agreed upon in connection with the implementation of the restructuring measures. Existing liabilities from leasing arrangements are also taken into account in the reserves.

As part of the project control process, the adequacy of the reserves constituted is regularly examined and adjusted if required. The resulting impact on income is taken into account in the additions or releases. The adjustments required are determined, on the one hand, by the concrete application of the personnel instruments used and, on the other hand, by adjusting the expected income from subleases to the development of the real estate market.

22 Other liabilities

	12/31/2003 € mn	12/31/2002 € mn
Funds held under reinsurance business ceded	8,608	8,562
Accounts payable on direct insurance business	7,813	7,972
Accounts payable on reinsurance business	1,878	2,257
Other liabilities	13,426	12,634
Total	31,725	31,425

Other liabilities primarily include liabilities arising from tax charges on income totaling € 1,601 (2002: 1,099) mn, interest and rental liabilities amounting to € 472 (2002: 178) mn, social security liabilities of € 197 (2002: 229) mn, derivative liabilities of € 933 (2002: 827) mn, and unprocessed sales totaling € 577 (2002: 616) mn. Of the tax liabilities, € 979 (2002: 310) mn are attributable to taxes on income.

Accounts payable on direct insurance business and accounts payable on reinsurance are due within 1 year. Of the remaining liabilities stated under other liabilities, € 8,593 (2002: 8,044) mn are due within 1 year, and € 4,833 (2002: 4,590) mn are due after more than 1 year.

23 Deferred income

This item includes miscellaneous deferred income positions amounting to € 2,433 (2002: 3,010) mn, which is primarily comprised of deferred interest of € 1,681 (2002: 2,423) mn.

SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED INCOME STATEMENT[1)]

24 Premiums earned (net)

	Property/Casualty[2)]			Life/Health[2)]			Total		
	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn	2001 € mn
Gross premiums written:									
from direct insurance	40,675	40,447	38,942	20,002	19,961	19,389	60,677	60,408	58,331
from reinsurance assumed	2,034	2,095	2,517	676	650	740	2,710	2,745	3,257
Total	42,709	42,542	41,459	20,678	20,611	20,129	63,387	63,153	61,588
Reinsurance ceded	– 5,404	– 6,150	– 6,669	– 1,240	– 1,207	– 1,169	– 6,644	– 7,357	– 7,838
Premiums written (net)	37,305	36,392	34,790	19,438	19,404	18,960	56,743	55,796	53,750
Premiums earned									
from direct insurance	40,111	39,823	37,797	19,968	19,961	19,396	60,079	59,784	57,193
from reinsurance assumed	1,993	2,119	2,564	676	650	751	2,669	2,769	3,315
Total	42,104	41,942	40,361	20,644	20,611	20,147	62,748	62,553	60,508
Reinsurance ceded	– 5,528	– 6,219	– 6,595	– 1,242	– 1,201	– 1,168	– 6,770	– 7,420	– 7,763
Premiums earned (net)	36,576	35,723	33,766	19,402	19,410	18,979	55,978	55,133	52,745

In the case of life insurance products where the policyholder carries the investment risk (e. g. variable annuities), only those parts of the premiums used to cover the risks insured and costs involved are treated as premium income.

25 Interest and similar income

	2003 € mn	2002 € mn	2001 € mn
Income from			
securities held-to-maturity	329	384	467
securities available-for-sale	12,355	13,747	13,055
real estate used by third parties	986	1,141	1,108
lending, money market transactions and loans	8,079	11,058	8,566
leasing agreements	80	141	68
other interest-bearing instruments	733	1,739	960
Total	22,562	28,210	24,224

Interest and similar income includes dividend income of € 1,512 (2002: 1,806; 2001: 2,147) mn.

Net interest margin from banking business[2)]

	2003 € mn	2002 € mn	2001 € mn
Interest and current income	8,042	13,299	9,073
Interest expenses	– 5,225	– 9,292	– 6,668
Net interest margin	2,817	4,007	2,405
Less loan loss allowance	1,014	2,222	588
Net interest margin after loan loss allowance	1,803	1,785	1,817

[1)] The figures for 2001 include the Dresdner Bank Group only from the time of its initial consolidation (July 23, 2001 to December 31, 2001)
[2)] After eliminating intra-Group transactions between segments

26 Income (net) from investments in affiliated enterprises, joint ventures, and associated enterprises

	2003 € mn	2002 € mn	2001 € mn
Income			
Current income	35	736	657
Write-ups	5	3	27
Realized gains from investments in affiliated enterprises, joint ventures, and associated companies	3,966	4,381	1,319
Total	4,006	5,120	2,003
Expenses			
Depreciation	– 237	–	– 243
Realized losses on investments in affiliated enterprises, joint ventures, and associated enterprises	– 727	– 708	– 119
Miscellaneous expenses	– 12	– 14	– 53
Total	– 976	– 722	– 415
Income (net)	3,030	4,398	1,588

Associated enterprises account for € 2,774 (2002: 3,432; 2001: 1,388) mn of the income (net) from investments in affiliated enterprises, joint ventures, and associated companies.

27 Other income from investments

	2003 € mn	2002 € mn	2001 € mn
Realized gains on			
securities held-to-maturity	–	2	2
securities available-for-sale	7,373	7,972	7,738
real estate used by third parties	494	670	303
other investments	12	10	72
Subtotal	7,879	8,654	8,115
Income from revaluations of			
securities held-to-maturity	3	2	7
securities available-for-sale	2,030	679	184
real estate used by third parties	2	14	87
other investments	–	6	109
Subtotal	2,035	701	387
Income	9,914	9,355	8,502

Income from revaluations includes income from the reversal of impairment charges.

28 Trading income

Trading income includes expenses amounting to € 1,359 mn (2002: income € 412 mn; 2001: income € 1,385 mn) from derivative financial instruments used by insurance companies for which hedge accounting is not applied under IAS 39. These include gains on derivative financial instruments embedded in exchangeable bonds issued amounting to € 2 (2002: 387; 2001: 880) mn. In fiscal 2003, equity exposure was substantially reduced through the use of derivatives and direct sales. Futures and put options on indexes were used for hedging. The change in the market value of the derivatives of this macro hedge are recognized as trading income in the income statement, while the corresponding changes in the fair value of the underlying equities are directly recognized in shareholders' equity with no impact on the income statement. They are recognized in the income statement only at the time of their realization in the capital market. The use of derivatives for macro hedges resulted in a loss of € 1,351 mn. Also included are losses totaling € 10 mn (2002: income € 25 mn; 2001: losses € 461 mn) arising from the use of other derivative financial instruments by insurance companies.

Trading income amounting to € 243 (2002: 1,507; 2001: 1,592) mn includes income from trading activities of banking business*) totaling € 1,485 (2002: 1,081; 2001: 244) mn.

This is comprised as follows:

	2003 € mn	2002 € mn	2001 € mn
Trading in interest products	632	738	131
Trading in equity products	178	– 49	– 72
Foreign exchange/precious metals trading	358	301	49
Other trading activities	317	91	136
Total	1,485	1,081	244

*) After eliminating intra Group transactions between segments

29 Fee and commission income, and income from service activities

Of the total fee and commission income, and income from service activities, € 2,705 (2002: 2,784; 2001: 1,383) mn are attributable to banking business*) and € 2,815 (2002: 2,816; 2001: 2,429) mn are attributable to asset management.*)

Net fee and commission income from banking business*)

	2003 € mn	2002 € mn	2001 € mn
Fee and commission income	2,705	2,784	1,383
Fee and commission expenses	– 461	– 245	– 162
Net fee and commission income	2,244	2,539	1,221

Net fee and commission income from banking business comprises income from:

	2003 € mn	2002 € mn	2001 € mn
Securities business	1,027	812	713
Underwriting business	104	103	84
Mergers and Acquisitions advisory	110	237	125
Foreign commercial business	64	66	28
Payment transactions (domestic and foreign)	372	368	167
Other	567	953	104
Net fee and commission income	2,244	2,539	1,221

30 Other income

Other income is comprised of the following items:

	2003 € mn	2002 € mn	2001 € mn
Foreign currency gains	1,010	664	114
Fees	729	647	473
Income from releasing or reducing miscellaneous accrued liabilities	433	414	387
Income from reinsurance business	254	190	485
Income from other assets	73	86	101
Gains from the disposal of real estate used for own activities and of property, plant and equipment	29	115	12
Other	1,252	855	600
Total	3,780	2,971	2,172

*) After eliminating intra-Group transactions between segments

31 Insurance benefits

Insurance benefits in Property/Casualty*) comprise the following:

	Gross			Ceded in reinsurance			Net		
	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn	2001 € mn
Claims									
Claims paid	–29,048	–30,055	–29,966	4,033	5,270	5,609	–25,015	–24,785	–24,357
Change in reserves for loss and loss adjustment expenses	429	–2,659	–5,871	–1,405	–332	2,857	–976	–2,991	–3,014
Subtotal	–28,619	–32,714	–35,837	2,628	4,938	8,466	–25,991	–27,776	–27,371
Change in other reserves									
Aggregate policy reserves	–239	–274	–428	38	1	227	–201	–273	–201
Other	–75	84	227	4	–9	15	–71	75	242
Subtotal	–314	–190	–201	42	–8	242	–272	–198	41
Expenses for premium refunds	57	–236	–167	3	27	22	60	–209	–145
Total	–28,876	–33,140	–36,205	2,673	4,957	8,730	–26,203	–28,183	–27,475

Insurance benefits in Life/Health*) comprise the following:

	Gross			Ceded in reinsurance			Net		
	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn	2001 € mn
Benefits paid	–18,353	–16,689	–15,576	1,268	1,148	1,135	–17,085	–15,541	–14,441
Change in reserves									
Aggregate policy reserves	–5,219	–5,805	–6,526	–140	–145	231	–5,359	–5,950	–6,295
Other	–376	–453	–196	45	205	122	–331	–248	–74
Subtotal	–23,948	–22,947	–22,298	1,173	1,208	1,488	–22,775	–21,739	–20,810
Expenses for premium refunds	–1,071	–325	–1,873	16	18	4	–1,055	–307	–1,869
Total	–25,019	–23,272	–24,171	1,189	1,226	1,492	–23,830	–22,046	–22,679

32 Interest and similar expenses

	2003 € mn	2002 € mn	2001 € mn
Interest expenses for			
deposits	–2,859	–3,533	–610
certificated liabilities	–1,764	–4,480	–4,607
Subtotal	–4,623	–8,013	–5,217
Other interest expenses	–1,814	–2,638	–2,644
Total	–6,437	–10,651	–7,861

The figures for the reporting year include interest expenses for certificated liabilities of Allianz Finance B. V. € 288 (2002: 363; 2001: 0) mn and Allianz Finance II B. V. € 171 (2002: 80; 2001: 0) mn.

*) After eliminating intra-Group transactions between segments

33 Other expenses for investments

	2003 € mn	2002 € mn	2001 € mn
Realized losses on			
securities held-to-maturity	– 3	– 4	– 12
securities available-for-sale	– 5,251	– 8,063	– 6,888
real estate used by third parties	– 102	– 131	– 19
other investments	– 2	– 6	– 79
Subtotal	– 5,358	– 8,204	– 6,998
Depreciation and write-downs on investments:			
securities held-to-maturity (impairment write-downs)	– 10	– 31	– 35
securities available-for-sale (impairment write-downs)	– 4,823	– 5,523	– 1,507
real estate used by third parties	– 297	– 333	– 378
other investments	– 4	– 11	– 5
Subtotal	– 5,134	– 5,898	– 1,925
Expenses	– 10,492	– 14,102	– 8,923

Depreciation and write-downs on real estate used by third parties include € 30 (2002: 104; 2001: 86) mn of unscheduled write-downs.

34 Loan loss provisions

	2003 € mn	2002 € mn	2001 € mn
Additions to allowances including direct write-offs	– 2,200	– 3,128	– 1,204
Less amounts released	1,103	817	593
Less recoveries on loans previously impaired	70	70	15
Loan loss provisions	– 1,027	– 2,241	– 596

35 Acquisition costs and administrative expenses

	Property/Casualty*)			Life/Health*)		
	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn	2001 € mn
Acquisition costs						
Payments	– 6,676	– 6,978	– 6,642	– 3,900	– 3,975	– 3,341
Change in deferred acquisition costs	205	194	270	1,768	1,438	620
Subtotal	– 6,471	– 6,784	– 6,372	– 2,132	– 2,537	– 2,721
Administrative expenses	– 3,907	– 4,101	– 4,482	– 1,305	– 1,358	– 1,269
Underwriting costs (gross)	– 10,378	– 10,885	– 10,854	– 3,437	– 3,895	– 3,990
Less commissions and profit-sharing received on reinsurance business ceded	918	1,001	1,389	195	179	198
Underwriting costs (net)	– 9,460	– 9,884	– 9,465	– 3,242	– 3,716	– 3,792
Expenses for management of investments	– 433	– 510	– 484	– 414	– 553	– 457
Acquisition costs and administrative expenses	– 9,893	– 10,394	– 9,949	– 3,656	– 4,269	– 4,249

	Banking Business*)			Asset Management*)		
	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn	2001 € mn
Personnel costs	– 3,636	– 4,335	– 2,045	–1,219	– 1,337	– 1,161
Operating costs	– 2,416	– 2,982	– 1,198	– 316	– 475	– 141
Fee and commission costs	– 461	– 245	– 162	– 520	– 465	– 478
Acquisition costs and administrative expenses	– 6,513	– 7,562	– 3,405	– 2,055	– 2,277	– 1,780

Acquisition costs and administrative expenses in the insurance business include the personnel and operating costs of the insurance business allocated to the functional areas “Acquisition of insurance policies”, “Administration of insurance policies” and “Asset management”. Other personnel and operating costs are reported under insurance benefits (claims settlement expenses) and other expenses.

All personnel and operating costs in the banking business are reported under Acquisition costs and administrative expenses.

An overview of personnel expenses is provided in a table in note 43.

*) After eliminating intra-Group transactions between segments

36 Other expenses

Other expenses are comprised of the following:

	2003 € mn	2002 € mn	2001 € mn
Overhead expenses	– 1,129	– 1,279	– 1,214
Integration expenses	– 942	– 261	– 548
Expenses for increasing miscellaneous or accrued liabilities	– 671	– 648	– 168
Foreign transaction currency losses	– 676	– 624	– 137
Expenses for service activities	– 577	– 525	– 971
Fees	– 388	– 286	– 281
Expenses resulting from reinsurance business	– 348	– 541	– 562
Amortization and impairments of other intangible assets	– 261	– 308	– 413
Direct credit to aggregate policy reserves	– 171	– 256	– 257
Amortization of capitalized loyalty bonuses to senior management of the PIMCO Group	– 137	– 155	– 173
Fire protection tax	– 118	– 104	– 93
Interest on accumulated policyholder dividends	– 108	– 110	– 108
Expenses for assistance to victims under joint and several liability and road casualties	– 97	– 117	– 127
Other	– 1,897	– 884	– 1,105
Expenses	– 7,520	– 6,098	– 6,157

37 Taxes

Consolidated Group income before taxes and minority interests is composed as follows:

	2003 € mn	2002 € mn	2001 € mn
Germany	702	– 765	3,013
Other countries	1,771	– 618	– 1,319
Total	2,473	– 1,383	1,694

Group taxes are comprised of the following:

	2003 € mn	2002 € mn	2001 € mn
Current taxes	– 1,510	– 844	– 617
Deferred taxes	1,435	1,686	1,552
Subtotal	– 75	842	935
Other taxes	– 55	– 74	– 74
Total	– 130	768	861

The actual tax charge for the reporting year includes a charge of € 531 mn (2002: gain of € 175 mn) relating to prior periods.

Of the deferred tax income for the reporting year, € 272 mn (2002: charge of € 221 mn) are attributable to the recognition of deferred taxes on temporary differences. The change of applicable tax rates due to changes in tax law produced deferred tax income of € 26 (2002: 16) mn.

The tax rates used in the calculation of deferred taxes are the applicable national rates, which in 2003, as in 2002, ranged from 12.5 % to 45.5 %. Changes to tax rates already adopted on the balance sheet date are taken into account. For reasons of commensurability and because of our current tax loss situation in Germany, we refrained from applying the increased corporate tax rate of 26.5 %, which was adopted as part of the Flood Victim Solidarity law and concerns the year 2003 only.

Tax deferrals are recognized if a future reversal of the difference is expected. Deferred taxes on losses carried forward are recognized as an asset if sufficient future taxable profits are available for realization. Safety margins are used where appropriate.

Due to the use of tax losses carried forward for which no deferred tax was recognized as an asset, the actual tax charge on earnings diminished by € 33 (2002: 31) mn. The recognition of deferred tax claims on losses carried over from earlier periods, for which no deferred taxes had yet been recognized or which had been devalued, resulted in deferred tax income of € 443 (2002: 55) mn.

The non-recognition of deferred taxes on tax losses for the current fiscal year increased tax charges by € 254 (2002: 794) mn. The above-mentioned effects are shown in the reconciliation statement as "effects of tax losses".

Unused tax losses carried forward at the balance sheet date of € 17,633 (2002: 18,322) mn have been recognized as deferred tax assets where there is sufficient certainty that the unused tax losses will be utilized. € 11,301 (2002: 10,376) mn of the tax losses carried forward can be utilized indefinitely.

Losses carried forward can be utilized subject to restrictions and are scheduled in subsequent years as follows:

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	> 10 years	Unrestricted	Total
€ mn	224	233	350	125	619	368	49	11	12	6	4,335	11,301	17,633

The recognized tax charge for 2003 is € 699 (2002: 391) mn less than the anticipated tax charge. The following table shows the reconciliation of the anticipated tax charge on income with the effectively recognized tax charge.

The Group reconciliation statement is a summary of the individual company-related reconciliation statements which are based on the respective country-specific tax rate after consolidation effects are taken into account.

The tax rate for domestic Group companies applied in the reconciliation statement includes corporate tax and the solidarity surcharge and amounts to 27.96 (2002: 26.38) %.

	2003 € mn	2002 € mn	2001 € mn
Anticipated tax rate in %	31.3	32.6	18.6
Anticipated tax charge on income	– 774	451	– 315
Municipal trade tax and similar taxes	219	138	276
Tax-free income	1,492	1,416	1,314
Amortization of goodwill	– 437	– 285	– 211
Effects of tax losses	222	– 801	– 63
Effects of German tax law changes	– 794	–	–
Other tax settlements	– 3	– 77	– 66
Current tax charge	– 75	842	935
Effektive tax rate in %	3.1	– 60.9	– 55.2

The changes in German tax law passed in December 2003 have abolished the tax-exempt status of dividends and gains from the sale of interests in corporations for life and health insurance companies. In some cases, this also resulted in retroactive changes in the taxation of investment funds.

Due to the "moratorium" introduced by the "law for the dismantling of tax benefits", the dividend distribution proposed for fiscal 2003 will not lead to a reduction of corporate taxes (2002: € 62 mn).

Deferred tax assets and liabilities comprise the following balance sheet headings:

	12/31/2003 € mn	12/31/2002 € mn
Deferred tax assets		
Intangible assets	127	114
Investments	1,645	2,628
Trading assets	415	562
Deferred acquisition costs	254	53
Tax loss carried forward	5,753	4,910
Other assets	1,462	896
Insurance reserves	2,866	2,226
Pensions and similar reserves	373	364
Deferred income	1,508	1,558
Total	14,403	13,311
Deferred tax liabilities		
Intangible assets	638	268
Investments	3,640	3,879
Trading assets	1,210	1,826
Deferred acquisition costs	2,375	1,798
Other assets	811	738
Insurance reserves	2,547	1,610
Pensions and similar reserves	28	12
Deferred income	2,299	2,057
Total	13,548	12,188
Net deferred tax asset	855	1,123

A deferred tax charge recognized in equity in fiscal 2003 amounts to € 443 mn (2002: income € 589 mn).

The Allianz management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize its deferred tax assets.

SUPPLEMENTARY INFORMATION ON INSURANCE AND BANKING BUSINESS

38 Supplementary information on insurance and banking business

Investments*)

	Property/Casualty		Life/Health		Total	
	12/31/2003 € mn	12/31/2002 € mn	12/31/2003 € mn	12/31/2002 € mn	12/31/2003 € mn	12/31/2002 € mn
I. Real estate	5,256	5,647	7,058	7,496	12,314	13,143
(including real estate owned by Allianz and used for its own activities)	(1,868)	(1,953)	(1,042)	(1,102)	(2,910)	(3,055)
II. Investments in affiliated enterprises, joint ventures, and associated enterprises	1,487	5,087	1,734	1,888	3,221	6,975
III. Loans	2,520	2,289	18,780	16,373	21,300	18,662
IV. Other securities						
1. Held-to-maturity	389	596	4,174	5,199	4,563	5,795
2. Available-for-sale	69,641	64,711	185,693	177,269	255,334	241,980
3. Trading (Trading assets)	1,363	1,404	1,460	1,144	2,823	2,548
Total IV.	71,393	66,711	191,327	183,612	262,720	250,323
V. Other investments	10,578	7,111	2,078	3,576	12,656	10,687
Total	91,234	86,845	220,977	212,945	312,211	299,790

Investment income*)

	Property/Casualty			Life/Health			Total		
	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn	2001 € mn	2003 € mn	2002 € mn	2001 € mn
Income from investments									
Current income	3,805	4,755	5,278	10,924	10,862	10,516	14,729	15,617	15,794
Income from revaluations	739	1,137	1,329	1,495	618	614	2,234	1,755	1,943
Realized investment gains	7,893	6,602	4,458	4,445	5,487	3,605	12,338	12,089	8,063
Subtotal	12,437	12,494	11,065	16,864	16,967	14,735	29,301	29,461	25,800
Investment expenses									
Amortization and impairments on investments	– 2,439	– 2,273	– 1,104	– 2,714	– 2,853	– 1,319	– 5,153	– 5,126	– 2,423
Realized investment losses	– 3,439	– 1,887	– 2,193	– 4,806	– 6,595	– 4,909	– 8,245	– 8,482	– 7,102
Investment management, interest charges and other investment expenses	– 885	– 1,131	– 1,061	– 390	– 550	– 526	– 1,275	– 1,681	– 1,587
Subtotal	– 6,763	– 5,291	– 4,358	– 7,910	– 9,998	– 6,754	– 14,673	– 15,289	– 11,112
Investment income	5,674	7,203	6,707	8,954	6,969	7,981	14,628	14,172	14,688

*) Presentation of investments and investment income is made in conformity with the European Union insurance accounting guideline and after eliminating Allianz Group transactions between segments

39 Supplementary information on banking business*)

Volume of foreign currency exposure from banking business

The amounts reported constitute aggregate euro equivalents of a wide variety of currencies outside the European Monetary Union. Any differences between the amounts of assets and liabilities result from differing valuation principles. Loans and advances and liabilities are reported at amortized cost, while all derivative transactions are accounted for at fair value.

	USD in € mn	GBP in € mn	Other in € mn	12/31/2003 € mn	12/31/2002 € mn
Assets	78,732	54,128	25,636	158,496	163,861
Liabilities	88,589	56,259	23,255	168,103	177,919

Collateral pledged for own liabilities of banking business

For the following liabilities and contingencies, assets having the indicated value were pledged as collateral:

	12/31/2003 € mn	12/31/2002 € mn
Liabilities to banks	108,925	84,081
Liabilities to customers	55,578	40,411
Contingent liabilities	7	70
Other commitments	431	8,863
Total collateralized liabilities	164,941	133,425

The total amount of collateral pledged consists of the following assets:

	12/31/2003 € mn	12/31/2002 € mn
Loans and advances to banks	37,943	24,648
Loans and advances to customers	22,681	23,843
Trading assets	104,123	65,430
Investments	187	19,483
Property and equipment	7	21
Total value of collateral pledged	164,941	133,425

*) After eliminating intra-Group transactions between segments

Structure of residual terms for banking business

The following presents loans and advances and liabilities in the banking business according to their final maturity or call date.

	12/31/2003				
	Total € mn	Up to 3 months € mn	> 3 months to 1 year € mn	> 1 year to 5 years € mn	More than 5 years € mn
ASSETS					
Term loans and advances to banks	107,094	68,919	35,899	1,765	511
Loans and advances to customers[1]	187,315	99,519	19,410	27,501	40,885
Term loans and advances	294,409	168,438	55,309	29,266	41,396
LIABILITIES					
Participation certificates and subordinated liabilities	8,255	97	139	3,975	4,044
Term liabilities to banks[2]	154,793	125,042	17,434	6,736	5,581
Liabilities to customers[2]					
Savings deposits and home-loan savings deposits	5,474	1,421	184	2,567	1,302
Other term liabilities to customers	91,762	73,921	6,762	3,740	7,339
Certificated liabilities	51,299	17,858	10,024	19,421	3,996
Term liabilities	311,583	218,339	34,543	36,439	22,262

Trustee business in banking business

The table below presents a breakdown of trustee business in banking business not reported in the balance sheet:

	12/31/2003 € mn	12/31/2002 € mn
Loans and advances to banks	3,426	5,217
Loans and advances to customers	2,319	4,247
Investments	828	7
Other	–	–
Assets held in trust[3]	6,573	9,471
Liabilities to banks	997	955
Liabilities to customers	5,576	8,516
Liabilities incurred as a trustee	6,573	9,471

Other banking information

- Loans and advances (after loan loss allowance) to banks and customers include reverse repos totaling € 154,441 (2002: 98,063) mn. Liabilities to banks and customers include repo transactions amounting to € 92,876 (2002: 63,573) mn.
- Subordinated assets amounted to € 282 (2002: 473) mn.
- At the balance-sheet date there were commitments to repurchase assets sold under repurchase agreements with a net book value of € 103,860 (2002: 61,068) mn.
- An amount of € 134 (2002: 287) mn eligible for refinancing with the central bank is held in cash funds.

40 Use, treatment and reporting of derivative financial instruments

Derivatives derive their market values from one or more underlying assets or specified reference values.

Examples of derivatives include contracts for future delivery in the form of futures or forwards, options on shares or indices, interest rate options such as caps and floors, and swaps relating to both interest rates and non-interest rate markets. The latter include agreements to exchange previously defined assets or payment series.

The use of derivatives by individual enterprises in the Allianz Group is in compliance with the relevant supervisory regulations and the Group's own internal guidelines. In addition to local management supervision, comprehensive financial and risk management systems are in force across the Group. Further information on the risks hedged and the Group's risk management systems is included in the Management Report under "Risk Management".

[1] Loans and advances to customers with residual terms of up to 3 months include € 7,706 (2002: 8,510) mn of undated claims. These claims include credit lines available until further notice, overdraft facilities, loans called or overdue, unauthorized overdrafts, call money and internal account balances
[2] Excluding balances payable on demand
[3] Including € 5,101 (2002: 8,847) mn of trustee loans

Insurance companies in the Allianz Group use derivatives to manage their investments efficiently on the basis of general investment targets. The most important aspect of these instruments is hedging against adverse market movements for selected securities or for parts of a portfolio. In our banking business, derivatives are used particularly for trading purposes and to hedge interest-rate, currency and other price risks of the banking book.

The settlement risk is virtually excluded in the case of exchange-traded products, which are standardized products. By contrast, over-the-counter products, which are individually traded contracts, carry a theoretical credit risk amounting to the positive market values. The Allianz Group therefore closely monitors the credit rating of counterparties for OTC derivatives.

The following table shows the distribution of derivative positions on the balance sheet date:

Notional principal amounts and market values of open derivative positions as of December 31*)

Insurance Segments Property/Casualty and Life/Health

	Maturity as of 12/31/2003			2003			2002		
	Up to 1 year € mn	1 – 5 years € mn	Over 5 years € mn	Notional principal amounts € mn	Positive market values € mn	Negative market values € mn	Notional principal amounts € mn	Positive market values € mn	Negative market values € mn
Interest rate contracts	3,721	9,967	4,767	18,455	113	– 139	13,011	133	– 172
OTC									
Forwards	–	–	–	–	–	–	1,258	2	– 6
Swaps	191	2,994	1,134	4,319	96	– 84	3,293	104	– 93
Swaptions	3,530	106	–	3,636	14	–	136	11	–
Caps	–	6,867	3,288	10,155	3	– 50	7,581	–	– 62
Options	–	–	325	325	–	– 4	383	1	– 10
Exchange traded									
Futures	–	–	–	–	–	–	340	3	–
Options	–	–	20	20	–	– 1	20	12	– 1
Swaps	–	–	–	–	–	–	–	–	–
Equity/Index contracts	15,948	11,038	274	27,260	1,059	– 1,432	25,027	1,565	– 1,217
OTC									
Forwards	56	19	–	75	14	– 2	2,581	1,105	– 24
Swaps	760	587	–	1,347	–	– 25	1,352	2	– 388
Options	12,652	7,518	214	20,384	650	– 1,366	16,414	323	– 776
Warrants	–	–	60	60	5	– 1	–	–	–
Exchange traded									
Futures	299	–	–	299	3	– 7	2,084	80	– 1
Options	1,192	2,911	–	4,103	9	– 31	2,596	55	– 28
Forwards	989	–	–	989	375	–	–	–	–
Warrants	–	3	–	3	3	–	–	–	–
Foreign exchange contracts	1,729	1,278	93	3,100	179	– 60	5,227	282	– 62
OTC									
Forwards	1,712	–	–	1,712	22	– 52	3,322	135	– 59
Swaps	17	1,278	93	1,388	157	– 8	1,787	146	– 3
Options	–	–	–	–	–	–	94	–	–
Exchange traded									
Futures	–	–	–	–	–	–	24	1	–
Credit contracts	–	–	48	48	10	– 7	79	3	– 13
OTC									
Swaps	–	–	48	48	10	– 7	79	3	– 13
Total	21,398	22,283	5,182	48,862	1,361	– 1,638	43,344	1,983	– 1,464

*) Positive and negative market values are shown on a gross basis, i.e. not taking into account netting effects

The major exposures in equity trading are in the form of options used for hedging the portfolio against market fluctuations. In managing interest rate risk long-term interest income is primarily controlled by the use of interest rate caps.

In addition, exchange rate fluctuations are hedged by synthetically transforming financial assets and liabilities in foreign currencies into euro-denominated financial instruments through foreign exchange deals and currency swaps.

Notional principal amounts and market values of open derivative positions as of December 31*)

Banking and Asset Management Segments

	Maturity as of 12/31/2003			2003			2002		
	Up to 1 year € mn	1 – 5 years € mn	Over 5 years € mn	Notional principal amounts € mn	Positive market values € mn	Negative market values € mn	Notional principal amounts € mn	Positive market values € mn	Negative market values € mn
Interest rate contracts	1,515,201	901,471	571,487	2,988,159	38,826	– 37,563	2,509,613	46,500	– 44,794
OTC									
Forwards	90,570	9,224	–	99,794	35	– 30	107,487	90	– 101
Swaps	1,277,414	795,547	509,556	2,582,517	37,403	– 35,519	2,105,324	44,994	– 42,585
Swaptions	202	18,291	45,091	63,584	597	– 1,472	59,987	562	– 1,571
Caps	13,896	34,173	8,626	56,695	267	– 120	56,073	296	– 105
Floors	10,708	16,899	6,441	34,048	479	– 376	36,427	518	– 413
Options	56	313	1,396	1,765	17	– 2	249	17	–
Other	20	69	377	466	6	– 28	–	–	–
Exchange traded									
Futures	86,958	22,599	–	109,557	8	– 7	133,509	14	– 12
Options	35,377	4,346	–	39,723	14	– 9	10,557	9	– 7
Swaps	–	10	–	10	–	–	–	–	–
Equity/Index contracts	86,963	101,705	10,059	198,727	5,873	– 6,711	128,598	7,113	– 6,770
OTC									
Swaps	3,341	6,069	762	10,172	617	– 564	3,980	520	– 426
Options	36,219	83,435	8,379	128,033	3,731	– 4,421	74,169	4,586	– 4,399
Warrants	–	–	20	20	2	–	–	–	–
Other	88	19	–	107	5	– 11	32	–	–8
Exchange traded									
Futures	9,504	2	20	9,526	1	– 38	7,363	3	– 9
Options	37,811	12,180	878	50,869	1,517	– 1,677	43,054	2,004	– 1,928
Forwards	–	–	–	–	–	–	–	–	–
Foreign exchange	341,885	258,302	50,690	650,877	13,185	– 14,459	517,099	11,911	– 13,439
OTC									
Forwards	232,927	57,447	1,144	291,518	6,237	– 8,393	351,204	7,570	– 9,031
Swaps	47,083	167,241	43,654	257,978	5,578	– 4,025	78,710	3,306	– 3,091
Options	60,741	33,533	5,892	100,166	1,351	– 2,032	84,123	979	–1,284
Other	–	–	–	–	–	–	–	–	–
Exchange traded									
Futures	1,134	81	–	1,215	13	– 9	3,062	56	– 33
Options	–	–	–	–	–	–	–	–	–
Forwards	–	–	–	–	6	–	–	–	–
Credit contracts	11,735	65,550	7,213	84,498	1,322	– 1,794	65,923	1,320	– 1,354
OTC									
Credit default swaps	9,204	64,560	6,642	80,406	979	– 981	56,760	807	– 657
Total return swaps	2,531	990	571	4,092	343	– 813	9,163	513	– 697
Other contracts	2,161	3,403	1,991	7,555	548	– 470	8,126	417	– 264
OTC									
Precious metals	1,921	2,685	1,746	6,352	417	– 344	7,841	416	– 263
Other	169	718	245	1,132	131	– 122	241	1	– 1
Exchange traded									
Futures	6	–	–	6	–	–	–	–	–
Options	65	–	–	65	–	– 4	44	–	–
Total	1,957,945	1,330,431	641,440	3,929,816	59,754	– 60,997	3,229,359	67,261	– 66,621

*) Positive and negative market values are shown on a gross basis, i.e. not taking into account netting effects

The primary derivative financial instruments used are interest rate derivatives, in particular interest rate swaps which are primarily entered into in the course of trading activities.

Pursuant to IAS 39, derivative financial instruments are reported under financial assets or liabilities held-for-trading. Gains or losses arising from valuation at fair value are included under trading income.

This applies to free standing derivatives and for bifurcated embedded derivatives of hybrid financial instruments that are not used for hedge transactions recognized in the consolidated balance sheet. In contrast, derivatives used in hedge transactions are in principle recognized in accordance with the classification of the hedged item.

Derivative financial instruments used for hedge transactions are classified as follows:

The Allianz Group principally uses fair value hedging. Important hedging instruments are interest rate swaps and futures. Hedging instruments may be implemented for individual transactions (micro hedge) or for a portfolio of similar assets or liabilities (portfolio hedge). The derivative financial instruments used for fair value hedges had a fair value of € 55 (2002: 33; 2001: 1,925) mn. Ineffectiveness in hedge transactions produced a gain of € 1 mn (2002: € 10 mn loss, 2001: € 66 mn gain).

Additionally, cash flow hedges were used to hedge variable cashflows exposed to interest rate fluctuations. The swaps utilized had a fair value of € 5 mn; other reserves decreased by € 41 mn. Ineffectiveness amounted to – € 4 mn.

41 Related party disclosures

Allianz Group companies maintain various types of business relations (particularly in the area of insurance, banking and asset management) to related enterprises. Those relations are based on ordinary market terms. In particular, the business relations with associated companies which are active in the insurance business take on various forms and may also include special service, computing, reinsurance, cost-sharing and asset management agreements whose terms are deemed appropriate by management. Similar relationships may exist with pension funds, foundations, joint ventures and companies which provide services to Allianz Group companies.

The following report relates to material business relationships with associated enterprises and enterprises in which the Allianz Group held ownership interest between 10.0 % and 20.0 % during the last fiscal year and enterprises which held such ownership interest in Allianz AG and transactions with associated natural persons which require disclosure.

Münchener Rückversicherungs-Gesellschaft AG in Munich (Munich Re)

At the beginning of fiscal year 2003 the ownership interest of Allianz Group in Munich Re's share capital was above 20 %. The ownership interest was reduced in the course of the first quarter 2003 to below 20 %. As a result, Munich Re was as of that time no longer an associated company of the Allianz Group. During the course of fiscal 2003 Allianz Group further reduced its ownership interest in Munich Re and as of December 31, 2003 held only approximately 12.4 % of Munich Re's share capital. On March 2, 2004 a further reduction of ownership interest will occur as a result of the exchange of the MILES-bond in Munich Re shares so that Allianz Group's ownership interest in Munich Re's share capital will be reduced to 9.4 %. Pursuant to German insurance group solvency rules, Allianz's interest in Munich Re is no longer considered as a participation.

Munich Re has also reduced its ownership interest in Allianz AG during 2003 and as of December 31, 2003 Munich Re held 12.2 % of Allianz AG's share capital. Taking into account the treasury shares held by Allianz Group as of this date this corresponds to an ownership percentage of 12.8 %.

The relationship between Allianz AG and Munich Re was set forth in the past in the so-called Principles of Cooperation of May 2000. After several transactions during 2001 and 2002, including the reduction of mutual participation in each other and the mutual participations in other insurance companies, this contract became irrelevant and was formally canceled with effect from December 31, 2003. Also, mutual board interlocks had been terminated. Certain reinsurance relationships between both enterprises will continue. Furthermore, a continuing quota share agreement provides that Munich Re shall provide reinsurance for 10.5 % of the gross self-retention of the insurance business of the companies of Allianz's German Property-Casualty Group via Allianz AG. According to an agreement dated December 2001 the mutually ceded reinsurance volume is to be adjusted on a step-by-step basis by 2008. The reinsurance relationship between Munich Re and Allianz Leben will also continue on the basis of the old agreements until 2010. In addition, a variety of reinsurance and retrocession agreements exists between specific subsidiaries of the Allianz Group and Munich Re which determine, which insurance business the Munich Re Group or the Allianz Group will receive. The conditions of those reinsurance arrangements between the Groups are subject to ams-length, third party terms.

The Allianz Group premiums that were ceded to or assumed from companies of the Munich Re Group are shown in the following table:

	2003 € mn	2002 € mn	2001 € mn
Ceded premiums	2,250	2,300	2,400
Assumed premiums	650	600	850

EXTREMUS Versicherungs-AG (EXTREMUS)

In the aftermath of the terrorist attacks of September 11, 2001, a terror risk insurance company was founded in Germany to address the existing shortage of direct insurance and reinsurance coverage for major risks in the international markets. Allianz Versicherungs-AG holds a 16 % interest in EXTREMUS. On the basis of the € 10 bn state guarantee granted by the Federal Republic of Germany, EXTREMUS is able to provide excess coverage of up to € 13 bn for terror risks encountered in Germany. Companies of the Allianz Group take insurance coverage that is granted at market terms.

Loans to Members of the Management Board and the Supervisory Board

In the normal course of business, and subject to applicable legal restrictions, members of the Management Board and the Supervisory Board may be granted loans by Dresdner Bank and other Group companies, which are subject to usual conditions in the industry. No additional loans were granted in 2002 and 2003. On December 31, 2003, loans to Management Board members granted in previous years by subsidiaries of Allianz AG and amounting to € 0.086 (2002: € 0.5) mn were still outstanding.

Publication and notification of securities' transactions as required by § 15 a WpHG (Securities Trading Law) (indications according to section 6.6 of the German Corporate Governance Code)

Transactions in Allianz securities for which publication is required by § 15 a WpHG were notified during fiscal 2003 by 2 members of the Supervisory Board of Allianz AG. The members concerned were Mr. Jürgen Dormann who acquired 1,000 shares of the company for a price of € 49.40 per share on March 31, 2003, and Dr. Wulf Bernotat, who sold 600 Eurex calls on shares of the company for a base price of € 65 per unit on July 18, 2003.

42 Contingent liabilities and other commitments

Legal Proceedings

Allianz Group companies are involved in legal, regulatory and arbitration proceedings in Germany and a number of foreign jurisdictions, including the United States, involving claims by and against them, which arise in the ordinary course of their businesses, including in connection with their activities as insurance- banking and asset management companies, employers, investors and taxpayers. It is not feasible to predict or determine the ultimate outcome of the pending or threatened proceedings. Management does not believe that the outcome of these proceedings, including those discussed below, will have material adverse effects on the financial position or results of operations of Allianz Group, after consideration of any applicable reserves.

In May 2001, a consolidated class action complaint seeking class action status, In re Deutsche Telekom Securities Litigation, was brought against Dresdner Bank and other defendants in the United States District Court for the Southern District of New York by purported purchasers of Deutsche Telekom American Depositary Shares (ADS). The securities were issued pursuant to a registration statement filed with the Securities and Exchange Commission on May 22, 2000 and pursuant to a prospectus dated June 17, 2000. Dresdner Bank, which was one of the underwriting syndicate's joint global coordinators, is one of the named defendants. The complaint alleges that the offering prospectus contained material misrepresentations and/or omissions relating to Deutsche Telekom. In October 2002, the court granted the plaintiffs' motion for class certification. The action seeks rescission of the sales and damages in an as yet unspecified amount. Management of Dresdner Bank believes the complaint against Dresdner Bank is without merit .

In July 2002, the German Federal Cartel Office (Bundeskartellamt) commenced an investigation against several property-casualty insurance companies in Germany, in connection with alleged coordinated behavior to achieve premium increases for the commercial and industrial property and liability insurance business and submitted official complaints to several insurance companies, among them Allianz Versicherungs-AG, on July 19, 2003. Allianz Versicherungs-AG commented in writing on the complaint. Based on current knowledge, a decision of the Federal Cartel Office is not to be expected before the 2nd quarter 2004.

In December 2001 the European Commission commenced a preliminary investigation against several insurance companies operating in London, including a subsidiary of Allianz AG, in connection with alleged anticompetitive behavior related to aviation war risk insurance in the London market. It is currently not possible to predict the outcome of this proceeding.

On November 5, 2001, a lawsuit, Silverstein v. Swiss Re International Business Insurance Company Ltd., was filed in the United States District Court for the Southern District of New York against certain insurers and reinsurers, including a subsidiary of Allianz AG which is now named Allianz Global Risks U.S. Insurance Co. The complaint seeks a determination that the terrorist attack of September 11, 2001 on the World Trade Center constituted two separate occurrences under the alleged terms of various coverages. Allianz Global Risks U.S. Insurance Co. has also filed a suit against Silverstein on January 2, 2002, in connection with the coverage issues arising from the September 11, 2001 attack on the World Trade Center.This suit and other related suits have been consolidated for discovery and other purposes. On January 30, 2003, the court rejected a motion for assessment by Allianz Global Risks U.S. Insurance Co. and referred this issue to the jury. Based on the policy wording of the respective insurance contract, management believes that Silverstein's claims will not succeed as far as they are based on the theory of 2 occurrences. In connection with the terrorist attack of September 11, 2001 Allianz Group recorded net claims expense of approximately € 1.5 bn in 2001 for the Allianz Group on the basis of one occurrence. In the event that liability is premised under a two occurrence theory, Allianz AG estimates that the Allianz Group may have an additional net exposure of approximately € 200 mn.

On December 19, 2002, the insolvency administrator of Kirch Media GmbH & Co. KGaA ("KirchMedia") made a formal demand on Dresdner Bank to return a pledged shareholding to the insolvency assets (Insolvenzmasse) or to make payments to the insolvency assets to compensate for the loss of the shareholding. The shareholding, a 25 % stake in the Spanish television group Telecinco, had been pledged by subsidiaries of KirchMedia to Dresdner Bank as collateral for a loan of € 500 mn from Dresdner Bank to KirchMedia's holding company, TaurusHolding GmbH & Co. KG (or TaurusHolding). Following TaurusHolding's default on the loan in April 2002 and insolvency in June 2002, Dresdner Bank enforced its security interest and acquired through a subsidiary the Telecinco shareholding in a forced auction sale. The insolvency administrator contends that the pledge was created under circumstances that cause it to be invalid or void and may initiate legal action against Dresdner Bank. The management of Dresdner Bank believes that there is no valid basis for the insolvency administrator's demand.

On May 24, 2002, pursuant to a statutory squeeze-out procedure, the general meeting of Dresdner Bank AG resolved to transfer shares from its minority shareholders to Allianz AG as principal shareholder in return for payment of a cash settlement amounting to € 51.50 per share. The amount of the cash settlement was established by Allianz AG on the basis of an expert opinio, and its adequacy was confirmed by a court-appointed auditor. Some of the former minority shareholders applied for a court review of the appropriate amount of the cash settlement in a mediation procedure (Spruchverfahren), which is pending with the district court (Landgericht) of Frankfurt. Allianz AG believes that a claim to increase the cash settlement does not exist. In the event that the court were to determine a higher amount as an appropriate cash settlement, this would affect all approximately 16 mn shares which were transferred to Allianz AG.

The U.S. Securities and Exchange Commission and the State of New Jersey have made allegations against Allianz Dresdner Asset Management of America L.P. and some of its subsidiaries (the "ADAM of America companies") in relation to purported tolerance of market timing. Market timing is the repeated buying and selling of participations in funds to benefit from movements and as such it is not illegal, unless it violates the boundaries laid down in the respective fund prospectus. The State of New Jersey has filed a complaint with the Superior Court of New Jersey on February 17, 2004 relating thereto. With similar reproaches in relation to market timing, certain private investors have initiated claims for damages against ADAM of America companies and filed motions for class action certification. The outcome of the proceedings can not be predicted at this stage. Another investor has filed a claim in the United States District Court, District of Connecticut, against various ADAM of America companies, among others in relation to the utilization of securities commissions for the distribution of funds and has requested compensation for damages. He has also filed a motion for certification as class action. The outcome of this proceeding cannot be predicted at this stage.

Other contingent liabilities and other commitments

Other contingent liabilities and other commitments resulting primarily from our banking business include the Group's potential future liabilities under loan commitments to customers not yet drawn upon, with the term of such commitments being limited. The Group engages in providing open credit facilities to allow customers quick access to funds required to meet their short-term obligations as well as their long-term financing needs. Such credit facilities can take the form of guarantees, whereby the Group might guarantee repayment of a loan taken out by a client with a third party, stand-by letters of credit which are credit enhancement facilities enabling customers to engage in trade finance at lower cost, documentary letters of credit which are payments related to foreign trade finance made on behalf of a customer and reimbursed to the Group later, note issuance facilities and revolving underwriting facilities which allow customers to issue money-market paper or medium-term notes when required without engaging in the normal underwriting process on each occasion. Revenue for guarantees is recognized under "Fee and commission income" and is determined by application of agreed rates on the nominal amount of the guarantees.

Other contingent liabilities and other liabilities comprise:

	12/31/2003 € mn	12/31/2002 € mn
Contingent liabilities on endorsed bills of exchange settled with customers	–	1
Including: rediscounted at central banks	(–)	(–)
Contingencies on guarantees and warranties		
Credit guarantees	1,476	1,878
Other guarantees and warranties	16,223	16,234
Letters of credit	1,583	2,092
of which:		
letters of credit opened	(919)	(1,107)
letters of credit confirmed	(664)	(985)
Subtotal	19,282	20,205
Liability on collateral pledged for third-party liabilities	8	–
Other contingent liabilities	63	385
Total contingent liabilities	19,353	20,590

	12/31/2003 € mn	12/31/2002 € mn
Underwriting commitments	–	7
Irrevocable loan commitments		
Advances	25,595	31,321
Stand-by facilities	7,909	11,567
Guarantee credits	2,817	2,942
Discount credits	40	75
Mortgage loans/Public-sector loans	229	307
Total other commitments	36,590	46,219

The figures disclosed in the accompanying tables represent the amounts at risk should customers draw fully on all facilities and then default, excluding the effect of any collateral. The majority of these commitments may expire without being drawn upon and are not representative of actual future credit exposure or liquidity requirements for such commitments.

As of December 31, 2003 there were no underwriting commitments drawn.

On the balance sheet date commitments to pay up shares, bonds and other capital interests totaled € 76 (2002: 85) mn; secondary liability under clause § 24 of the German Limited Liability Companies Act (GmbH-Gesetz) were € 16 (2002: 16) mn, and obligations arising from hire, rental and leasing agreements existed in an aggregate amount of € 2,845 (2002: 2,920) mn.

Liquiditäts-Konsortialbank GmbH (LIKO) is a bank founded in 1974 in order to provide funding for German banks which experience liquidity problems.

The shares in LIKO are owned 30 % by Deutsche Bundesbank, with the rest of the shares being held by other German banks and banking associations. The shareholders have provided capital of € 200 mn to fund LIKO; Dresdner Bank's participation is € 12.1 mn (6.05 %). The Dresdner Bank Group is contingently liable to pay in further assessments to LIKO up to € 60.5 mn. In addition, under clause § 5 (4) of the Articles of Association of LIKO, Dresdner Bank is committed to a secondary liability which arises if other shareholders do not fulfill their commitments to pay their further assessment. In all cases of secondary liability, the financial status of the other shareholders involved is sound.

The liability arising from Dresdner Bank's interest in Bankhaus Reuschel & Co. is unlimited due to the legal form in which this enterprise is organized. The financial status of the other partners involved is sound.

In addition, Dresdner Bank is a member of the German banks' Joint Fund for Securing Customer Deposits, which covers liabilities to each creditor up to specified amounts. As a member of the Joint Fund, which is itself a shareholder in LIKO, Dresdner Bank is severally liable with the other members of the Fund for additional capital contributions, with the maximum being the amount of Dresdner Bank's annual contribution. In the year 2003, the Joint Fund did not levy a contribution (2002 and 2001: no contribution). Under clause § 5 (10) of the Statutes of the Joint Fund for Securing Customer Deposits we have undertaken to indemnify the Federal Association of German Banks (Bundesverband deutscher Banken e.V.) for any losses it may incur by reason of measures taken on behalf of any banks in which we own a majority interest.

In addition to the amounts stated in the table, there are guarantees of our credit insurance companies with a volume of € 9,582 (2002: 9,621) mn.

For Allianz of America Inc., Wilmington, Allianz AG posted a surety declaration for obligations in connection with the acquisition of PIMCO Advisers L.P. The Allianz Group had originally acquired a 69.5 % interest in PIMCO, whereby minority partners had the option of offering their share to Allianz of America, Inc. On December 31, 2003, the remaining interest of Pacific Life in PIMCO was 15.0 %, and corresponding commitment to Pacific Life amounted to USD 1.09 bn on December 31, 2003.

With respect to the buyers of one of our former private equity investments there is a guarantee obligation in the amount of € 302 mn.

Allianz Lebensversichungs-AG has an obligation to Protektor Lebensversicherungs-AG to pay in additional own funds of up to € 499 mn. This payment has not yet been called.

From investments on the part of various Group companies in private equity funds, there are open investment commitments amounting to € 750 mn.

In the course of the purchase of Nicholas Applegate, San Diego, an agreement was reached that part of the purchase price would fall due in 2005 and that the amount would depend on the income growth of Nicholas Applegate:

- If average income growth during this period is at least 25.0 %, this purchase price component will be USD 1.09 bn, with bonus payments of USD 150 mn.
- If average income growth is between 10 % and 25 % payments will be scaled down.
- If average income growth is below 10 %, no payments will be made.

The Group occupies leased space in many locations under various long-term operating leases and has entered into various operating leases covering the long-term use of real estate, motor vehicles, data processing equipment and other office items. Rental expense for 2003 was € 296 (2002: 185; 2001: 180) mn.

As of December 31, 2003, the future minimum lease payments under non-cancelable operating leases were as follows:

	€ mn
2004	270
2005	224
2006	194
2007	164
Thereafter	1,209
Total	2,061
Less: Subleases	39
Total (net)	2,022

OTHER INFORMATION

43 Other information

General information about the parent company

The parent company of the Group is Allianz AG, Munich. The company is an "Aktiengesellschaft" (public stock corporation) incorporated in Germany. It is recorded in the German Commercial Register under its registered address at Koeniginstrasse 28, 80802 Munich. Besides serving as holding company for the Group, Allianz AG also acts as reinsurance carrier for the Group.

Number of employees

At the end of 2003, the Group employed a total of 173,750 (2002: 181,651) people. 82,245 (2002: 86,768) were employed in Germany and 91,505 (2002: 94,883) abroad. The number of employees undergoing training decreased by 1,525 (2002: 657) to 6,063 (2002: 7,588).

Personnel expenses

	2003 € mn	2002 € mn	2001 € mn
Salaries and wages	8,832	9,664	6,819
Social security contributions and employee assistance	1,548	1,532	1,208
Expenses for pensions and other post-retirement benefits	634	811	405
Total	11,014	12,007	8,432

Stock related remuneration

The Group applies the fair value recognition provisions of FAS 123 in accounting for its stock related remuneration plans. Refer to Note 4 for further discussion of the Group's accounting and valuation policies.

Stock purchase plans for employees

Shares in Allianz AG are offered to qualified employees in Germany and abroad within pre-defined timeframes at favorable conditions. In order to be qualified, employees must have been employed in continuous service, or had a position as an apprentice, for a period of 6 months prior to share offer and notice of termination of employment must not have been served. Share purchase plans also include restrictions relating to the amount that the employee can invest in purchasing shares. All participating enterprises in Germany and abroad impose restrictions on the disposal of shares, though the length of time varies from a minimum of 1 year to a maximum of 5 years, depending on the country involved. The shares are freely disposable after the expiration of the minimum holding period. The number of shares sold to employees under these plans was 944,625 in 2003 (2002: 136,222; 2001: 361,235). The difference between the exercise price and the market price of Allianz shares of € 16 mn in 2003 (2002: € 5 mn; 2001: € 27 mn) was reported as part of compensation expense.

Stock-based compensation plans in the Group

Group equity incentive plans

Group Equity Incentives support the orientation of senior management, and in particular the Board of Management, toward the long-term increase of the value of the company.

In 1999, Allianz AG introduced Stock Appreciation Rights (SAR) through which part of total remuneration is directly tied to the development of the Allianz share price. In 2003, Restricted Stock Units (RSU) with a 5-year vesting period were issued for the first time. The relative volume of SAR issued in 2003 was reduced accordingly.

Allianz senior management worldwide is entitled to participate in these Group equity incentives. In fiscal 2003, more than 550 senior managers in 28 countries and 74 companies received a corresponding offer.

Awards were granted by the respective companies in accordance with uniform group-wide conditions. The grant price for SAR and RSU applicable for the award is calculated on the basis of the average daily closing price of the Allianz share in Xetra trading on the 10 trading days following the Annual General Meeting of Allianz AG. The grant price for fiscal 2003 was € 65.91.

The number of SAR and RSU offered is set individually for each participant and is determined on the basis of the grant price, the economic development of the value of Allianz AG and the respective responsible company in accordance with the Economic Value Added (EVA®) concept, a capital-cost-based target performance of the Allianz share and individual elements such as fixed remuneration and performance.

The volume of the rights granted, and thus the potential gain for the participant depends essentially on the economic performance.

Of the Group equity incentives, half of the value determined at the grant date is allocated to SAR and RSU, respectively. Depending on the different values calculated per SAR and RSU at the grant date, participants in the plan receive a different number of SAR and RSU.

In fiscal 2003, the following number of SAR and RSU was granted to senior managers of the Allianz Group worldwide:

SAR	1,508,209 units
RSU	542,141 units

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Stock Appreciation Rights plans (SAR plans)

Following a 2-year vesting period, the stock appreciation rights may be exercised at any time between the 2nd and the 7th anniversary of the effective date of the relevant plan, provided that

- during their contractual term, the price of Allianz AG shares has outperformed the Dow Jones Europe STOXX Price Index (600) at least once for a period of 5 consecutive stock exchange days, and
- the Allianz share price outperforms the reference price by at least 20.0 % at the time when the rights are exercised. The reference price for the 2003 SAR plan award (€ 65.91) is the average closing price of Allianz shares for the first 10 trading days after April 29, 2003, the date of the Annual General Meeting 2003.

Under the conditions of the SAR plans, Group companies are obligated to pay, in cash, the difference between the stock market price of Allianz shares on the day the rights are exercised and the reference price as specified in the respective plan. The maximum difference is capped at 150 % of the reference price. Upon exercise of the appreciation rights, payment is made in the relevant local currency by the company granting the stock appreciation rights. Stock appreciation rights not exercised by the last day of a plan will be exercised automatically where the necessary conditions have been met. Where these conditions have not been met or a plan participant ceases to by employed, the plan participant's appreciation rights are forfeited.

SAR plan awards have been granted as follows:

Grant date	Vesting period years	Reference price €	SARs granted	SARs forfeited
April 1999	2	264.23	294,341	13,405
April 2000	2	332.10	303,169	41,095
April 2001	2	322.14	445,462	38,831
April 2002	2	239.80	681,778	76,177
May 2003	2	65.91	1,508,209	1,778

The fair value as of the grant date of the SARs granted in 2003 was € 41 (2002: 69; 2001: 31) mn based on standard valuation methods (Black-Scholes or Binomial Method).

No rights were exercised for any SAR plan grant as of December 31, 2003. As of year end 2003, none of the awards currently exercisable have met the second condition defined above (20 % increase of the share price). As of December 31, 2003, a total of 3,061,673 (2002: 1,507,414; 2001: 825,979) appreciation rights were outstanding under SAR award grants.

The total compensation expense related to the SAR plan is calculated as the amount by which the quoted Allianz AG share price exceeds the SAR reference price. The total compensation expense is remeasured at each reporting period based on changes in the Allianz AG share price and is accrued over the 2-year vesting period. As of December 31, 2003 the total compensation expense related to the 3,061,673 outstanding appreciation rights was € 54 mn. Taking into account the expired portion of the vesting period, a reserve of € 18 mn was established on December 31, 2003, and reported under the heading "Other accrued liabilities", with a corresponding € 18 mn of expense recognized in 2003. No liability or expense was recorded in 2001 and 2002, as the Allianz AG share price did not exceed the reference price of outstanding appreciation rights at that time.

The Group has entered into call options on Allianz AG stock to hedge its future obligations under the SAR plans.

Restricted Stock Units Plan (RSU plans)

In 2003, the Group established a Restricted Stock Unit (RSU) incentive compensation plan. The RSU plan is designed to increase corporate value and to align shareholders' and managements' interests by linking the remuneration of key personnel to the performance of Allianz AG's share price. As of December 31, 2003, there was one RSU award authorized, the 2003 award grant.

Under this plan, 542,141 RSUs have been granted to senior management as of May 13, 2003, 541,394 of which remain outstanding as of December 31, 2003. The Group will exercise these rights uniformly for all plan participants on the first stock exchange day that succeeds the 5-year vesting period. At the date of exercise, the Group can choose to settle the plan by:

- Cash payment to the grantees in the amount of the average closing price of Allianz AG's share in the 10 trading days preceding the end of the vesting period, or by
- issuing 1 Allianz AG share, or other equivalent equity instrument(s), per RSU to the beneficiaries.

The fair value as of the grant date of the 542,141 RSUs granted in 2003 was € 36 mn based on standard option valuation methods (Black-Scholes or Binomial Method).

The total compensation expense related to the RSU plan is calculated as the amount of the quoted Allianz AG share price and is remeasured at each reporting period based on changes in the Allianz AG share price and is accrued over the 5-year vesting period. As of December 31, 2003, the total compensation expense related to the 541,394 outstanding RSUs was € 55 mn. Taking into account the expired portion of the vesting period, a reserve of € 6 mn was established on December 31, 2003, and reported under the heading "Other accrued liabilities".

Stock option and shareholding plans of subsidiaries

PIMCO LLC Class B Unit Purchase Plan

When acquiring PIMCO Advisors L.P. (subsequently renamed ADAM LP) in 2000, Allianz caused ADAM LP to enter into a Class B Purchase Plan for the benefit of members of the management of Pacific Investment Management Company LLC (the "Plan"). Under such Plan the plan participants acquire Class B equity units annually through 2004 up to a total of 150,000 units. The holders of the Class B units have rights to a 15 % priority claim on the adjusted operating profits of PIMCO LLC.

Units issued under the Plan vest over 3 to 5 years and are subject to repurchase by ADAM LP upon death, disability or termination of the participant. In addition, beginning in 2005, ADAM LP will have the right to repurchase, and the participants will have the right to cause ADAM LP to repurchase, a portion of the vested Class B unites each year. The repurchase price will be based upon the then determined value of the Class B units being repurchased.

In 2003, plan participants acquired 35,375 (2002: 30,000; 2001: 30,000) Class B units (5,375 of which were units being re-sold after having been forfeited in 2002 by a participant upon termination of employment). In accordance with the provisions of FAS 123, the value of the units issued in 2003 as of the grant date was determined by the Group to be € 235 (2002: 178; 2001: 137) mn. The total number of Class B units held by plan participants as of year end 2003 is 120,000. A compensation expense of € 172 mn was recognized in 2003 (2002: € 95 mn; 2001: € 59 mn) related to the Plan.

AGF Group stock option plan

AGF Group has awarded stock purchase options on AGF shares to eligible AGF Group executives and managers of subsidiaries, as well as to certain employees, whose performance justified grants. The primary objective of the stock option plan is to encourage the retention of key personnel of AGF Group and link their compensation to the performance of AGF Group. These options are independent of the remuneration plans of the Allianz Group.

Stock options have been offered as follows:

Grant date	Vesting period years	Options granted	Options exercised	Options expired/ forfeited
December 1994 and February 1996	2	1,218,855	1,069,729	127,594
December 1996	2	798,993	537,318	115,146
September 1997, October 1998 and October 1999	5	2,748,213	699,279	178,973
October 2000	2	1,020,240	3,000	83,132
October 2001	2	1,043,317	–	64,288
September 2002	2	850,000	1,220	–
September 2003	1	1,118,250	–	–

All of the options granted have an exercise price of at least 85 % of the market price on the day of grant. The maximum term for these options is 8 years. The following table provides the weighted average fair value of options granted as of the grant date and the assumptions used in calculating their fair value by application of the Black-Scholes option pricing model.

		2003	2002	2001
Weighted average fair value of options granted	€	12.04	4.93	13.90
Weighted average assumptions:				
Risk free interest rate	%	4.0	4.4	4.8
Expected volatility	%	30.0	30.0	20.0
Dividend yield	%	2.5	4.0	3.7

AGF Group stock option activity during the periods indicated was as follows:

	Number of AGF shares	Weighted-average exercise price €
Balance as of 12/31/2001	5,137,468	45.07
Granted	850,000	33.66
Exercised	– 775,818	31.34
Forfeited/expired	– 321,996	46.85
Balance as of 12/31/2002	4,889,654	45.15
Granted	1,118,250	42.64
Exercised	– 81,028	23.34
Forfeited/expired	– 8,687	23.39
Balance as of 12/31/2003	5,918,189	44.31

The following table summarizes information about AGF Group stock options outstanding and exercisable as of December 31:

	Options outstanding			Options exercisable	
Range of exercise price €	AGF options outstanding as of December 31, 2003	Weighted-average remaining contractual life years	Weighted-average exercise price €	AGF options exercisable as of December 31, 2003	Weighted-average exercise price €
20.00–29.99	168,061	0.8	23.32	168,061	23.32
30.00–39.99	892,437	6.5	33.57	43,657	31.92
40.00–49.99	3,923,583	3.3	33.05	1,861,521	45.20
50.00–59.99	934,108	4.8	55.80	934,108	55.80
Total	5,918,189	5.2	44.31	3,007,347	46.92

AGF Group recorded compensation expense of € 15 mn in 2003 related to these stock option awards.

RAS Group stock option plan

RAS Group, Milan has awarded eligible members of senior management with stock purchase options on RAS ordinary shares. Under these plans, options have been granted on January 31 of each of the years 2001 through 2003. Each of these award grants is subject to a vesting period of 18 months to 2 years and the options expire after a period of 6.5 to 7 years after the grant date.

Options may be exercised at any time after the vesting period and before expiration, provided that

- at the time of exercise, the RAS share price is at least 20% higher than the average share price in January of the grant year (for the 2001 award grant the hurdle is 10%), and
- the performance of the RAS share in the year of grant beats the Milan Insurance Index (MIBINSH Index) in the same year.

Stock options have been offered as follows:

Grant date	Vesting period years	Options granted	Options exercised	Options expired/ forfeited
January 2001	1.5	730,000	–	53,000
January 2002	1.5	793,000	–	45,000
January 2003	2	850,000	–	49,000

The fair value as of the grant date of options granted 2003 was € 4.68 (2002: 5.47; 2001: 7.92) per option. RAS Group stock option activity during the periods indicated was as follows:

	Number of AGF shares	Weighted-average exercise price €
Balance as of 12/31/2001	730,000	15.35
Granted	793,000	12.93
Exercised	–	–
Forfeited/expired	– 23,000	14.82
Balance as of 12/31/2002	1,500,000	14.08
Granted	850,000	11.51
Exercised	–	–
Forfeited/expired	– 124,000	13.05
Balance as of 12/31/2003	2,226,000	13.16

The average remaining period until expiration of the 2,226,000 options still outstanding at the end of 2003 was 4.8 years. On December 31, 2003, 1,425,000 options were exercisable which had a weighted average exercise price of € 14.08.

RAS Group recorded compensation expense of € 3 mn in 2003 related to these stock option awards.

Other stock option and shareholding plans

The Group has other local share-based compensation plans, including stock option and employee stock purchase plans, none of which, individually or in the aggregate, are material to the consolidated financial statements. The total expense, in the aggregate, recorded for these plans in 2003 was € 5 mn.

Earnings per share

The earnings per share figure is calculated by dividing the consolidated net income by the weighted average number of common shares outstanding.

The weighted average number of shares does not include 18,766,949 (2002: 23,658,308) shares held by the company.

		2003	2002	2001
Net income	€ mn	1,616	– 1,229	1,585
Weighted average number of shares	units	338,201,031	276,854,382	277,763,292
Number of shares (not including shares held by the company)	units	366,472,698	242,977,214	241,189,535
Earnings per share[1]	€	4.78	– 4.44	5.71
Diluted earnings per share	€	4.77[2]	– 4.44	5.71

[1] Adjusted for the capital increase in April, 2003 and the PIMCO accounting change
[2] Incl. outstanding participation certificates

Events after the balance sheet day

- In February 2004, Allianz AG placed a subordinated bond with a total volume of € 1.5 bn. This transaction successfully concludes a series of measures to strengthen the capital base.
  The bond attracted a great deal of interest among domestic and foreign investors. To meet this demand, the volume was increased from the original € 1 bn to € 1.5 bn.
  The bond has an unlimited maturity and will pay a fixed coupon of 5.5 % for the first 10 years. Allianz has the right to redeem the bond after 10 years. If it does not exercise the right, the interest rate will convert to a floating rate with a step-up of 100 basis points over the initial credit spread.
  The bond was issued under the joint management of Dresdner Kleinwort Wasserstein and Merrill Lynch. RASFIN, an Italian subsidiary of Allianz, Crédit Agricole and West LB were also involved in the transaction.
  The issue, which was announced last spring within the context of the capital increase and, was part of a long-term plan for strengthening the capital base of Allianz.
  The high demand meant that the interest rate was set at the lower end of the price range after a short bookbuilding phase. Overall demand for the bond amounted to nearly € 6 bn. Standard & Poor's has assigned a rating of "A–" and Moody's of "A2".

- In a contract signed October 21, 2003, AGF sold its 72.05 % interest in the bank Entenial to Crédit Foncier.
  The required authorization by the French supervising authority was granted on February 4, 2004. As of this date, the Group deconsolidated Entenial.

- On January 29, 2004, the full Management Board of Dresdner Bank AG decided a reorientation of the open-ended real estate fund GRUNDWERT-FONDS managed by DEGI GmbH (of which Dresdner Bank AG holds 94% of the nominal capital). In the course of this reorientation, Dresdner Bank AG and its subsidiaries acquire a real estate portfolio from the fund with a total volume of € 1.8 bn.

- In Dresdner Bank's DrKW unit, the existing deferred cash compensation plan, under the terms of which performance-oriented bonus payments awarded to an employee were, in the past, paid over a period of 3 years, is being replaced by a stock-based plan.
  The annual payment in stock or cash is contingent upon the employee's continued employment with the company. If the employee leaves the company during the 3-year vesting period, the shares not transferred, or any cash amounts not paid, to him at that time will be forfeited without substitute benefits.
  The expenses incurred in connection with the plan will be accrued on a pro-rated basis over the 3-year vesting period, beginning in 2004.

- In December 2003, the minority shareholders of PIMCO exercised their option of offering for sale a further tranche with a volume of USD 250 mn. The settlement of this transaction in January 2004 has further increased the Allianz Group's interest in PIMCO.

Compensation for the Board of Management

Allianz AG and its affiliated enterprises paid 23 (2002: 17) mn to the active members of the Board of Management. As of December 31, 2003, the Board of Management had 11 (2002: 11) members. The information on compensation concerns the members of the Board of Management who were active at the end of the year, and, on a pro-rated basis, 2 members who retired from the Board in the course of the year.

Compensation of the Board of Management includes the basic salary as a fixed component as well as an annual bonus and a medium-term 3-year bonus as variable components. Other components consist of stock appreciation rights (SAR) and restricted stock units (RSU).

A detailed description of the compensation of the Board of Management is provided in the Remuneration Report on pages 14 to 16 of the present annual report. Information on equity-based compensation components is provided on pages 167 and 168 of the present annual report.

Compensation for the Board of Management

	2003 € thou	2002 € thou
Fixed remuneration	7,336	7,956
Variable remuneration	15,525	9,491
Total fixed and variable remuneration	22,861	17,447
Group equity incentives (at grant date)	9,474	5,237

Fixed remuneration

In the reporting year, fixed remuneration of the Board of Management amounted to € 7.3 mn. This amount includes payment in kind and ancillary compensation amounting to € 0.2 mn. The percentage of fixed remuneration with respect to total fixed and variable remuneration was 32 (2002: 45) %.

Variable remuneration

Variable remuneration also includes allocations to the reserves for the 3-year bonus amounting to € 3.9 mn. Whether the amounts set aside are actually paid to the Members of the Board of Management upon expiration of the 3-year period, depends on whether the objectives for the entire underlying 3-year period have been reached. For members of the Board of Management who retired in the course of the year, a pro-rated bonus right was set in connection with the termination of the mandate.

In the reporting year, no payments for the medium-term 3-year bonus were made.

Group equity incentives

Group equity incentives are granted by the Allianz Group in the form of stock appreciation rights (SAR) and in the form of restricted stock units (RSU).

The granting price of the Group equity incentive programs for 2003 was € 65.91 (average of the the daily closing rate of the Allianz share in Xetra trading on the 10 trading days following the Annual General Meeting for fiscal 2002).

The following table contains essential information on the current Group equity incentive plans (SAR and RSU) of active board members:

Group Equity Incentives – volumes in the consolidated financial statements

	Granted	Changes[1]	Outstanding at the end of fiscal 2003	Intrinsic value at the end of fiscal 2003 €
2003				
SAR	172,160	–	172,160	6,127,174
RSU	72,306	–	72,306	7,339,059
2002				
SAR	52,160[2]	– 12,267	39,893[2]	–
2001				
SAR	43,999[2]	– 14,482	29,517[2]	–
2000				
SAR	21,980[2]	– 5,070	16,910[2]	–
1999				
SAR	29,588[2]	– 9,067	20,521[2]	–

[1] Includes changes due to the expiration or exercise of rights and to personnel changes such as departures from or appointments to the Board of Management
[2] Adjusted for the capital increase of April 15, 2003

The value of the rights granted in the reporting year was € 9.5 mn at the date of grant. Of this total, € 4.7 mn correspond to the value of the stock appreciation rights (SAR) granted and € 4.8 mn to the value of the restricted stock units (RSU) granted.

No payouts on SAR granted in previous years were made.

Outstanding Group equity incentives are valued on a quarterly basis and posted on the Allianz Group website.

Pensions and similar benefits

The Group paid € 1.1 (2002: 8.7) mn to increase pension reserves and reserves for similar benefits for active members of the Board of Management. As of December 31, 2003, the pension reserves and reserves for similar benefits for the then active members of the Board of Management amounted to € 21.4 (2002: 27.9) mn.

Former members of the Board of Management

In 2003, pensions and other benefit payments for former members of the Board of Management amounted to € 8.2 (2002: 13) mn. € 4.2 (2002: 7) mn were set aside in 2003 for compensating the claims of former members of the Board of Management. Reserves for current and future pension benefits of former members of the Board of Management and their beneficiaries amount to € 39.8 (2002: 29.0) mn.

Remuneration for the Supervisory Board

In fiscal 2003, remuneration for the Supervisory Board amounted to € 2 mn. This body has 20 members, 10 of which are elected by the shareholders and 10 by the employees.

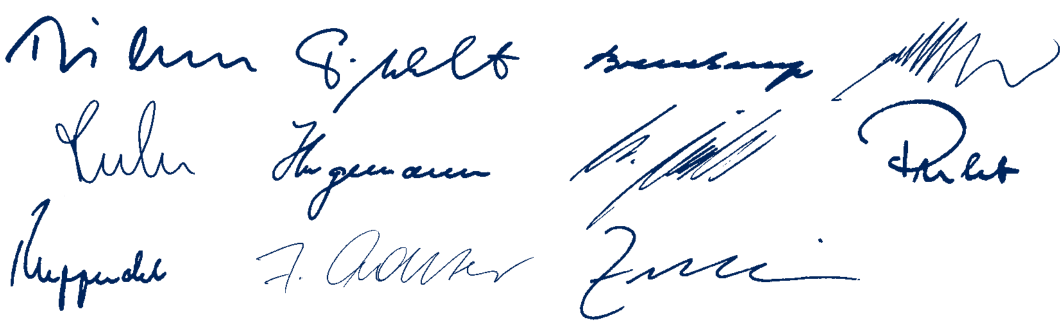
Breakdown of remuneration:

	€	%
Fixed remuneration	90,667	5
Variable remuneration	1,817,667	95
Total	1,908,334	100

In connection with exercise of Supervisory Board mandates or comparable mandates in other companies of the Allianz Group, Claudia Eggert-Lehmann was paid € 45,000, Peter Haimerl € 45,000, Uwe Plucinski € 67,500, Sultan Salam € 45,000, Margit Schoffer € 33,750 and Dr. Diethart Breipohl € 52,000.

Munich, February 20, 2004

Allianz Aktiengesellschaft
The Board of Management



SELECTED PARTICIPATIONS AND EQUITY INVESTMENTS

Operating subsidiaries	Equity in € mn	% owned [*)]
ADAM International GmbH, Frankfurt/Main	3	100.0
AGIS Allianz Dresdner Informationssysteme GmbH, Unterföhring	212	99.9
Allianz Capital Partners GmbH, Munich	520	100.0
Allianz Dresdner Asset Management AG, Munich	2,213	100.0
Allianz Dresdner Bauspar AG, Bad Vilbel	77	100.0
Allianz Global Risks Rückversicherungs-AG, Munich	602	100.0
Allianz Immobilien GmbH, Stuttgart	5	100.0
Allianz Lebensversicherungs-AG, Stuttgart	1,276	91.0
Allianz Marine & Aviation Versicherungs-AG, Hamburg	122	100.0
Allianz PIMCO Capital Managers GmbH, Munich	7	100.0
Allianz Private Krankenversicherungs-AG, Munich	310	100.0
Allianz ProzessFinanz GmbH, Munich	0.4	100.0
Allianz Versicherungs-AG, Munich	2,577	100.0
Allianz Zentrum für Technik GmbH, Munich	0.2	100.0
Bayerische Versicherungsbank AG, Munich	665	90.0
DEGI Deutsche Gesellschaft für Immobilienfonds mbH, Frankfurt/Main	15	94.0
Deutsche Lebensversicherungs-AG, Berlin	32	100.0
Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH, Frankfurt/Main	101	100.0
Dresdner Bank AG, Frankfurt/Main	11,516	100.0
Dresdner Bank Investment Management Kapitalanlagegesellschaft mbH, Frankfurt/Main	24	100.0
Euler Hermes Kreditversicherungs-AG, Hamburg	106	100.0
Frankfurter Versicherungs-AG, Frankfurt/Main	485	100.0
Lombardkasse AG, Berlin	45	100.0
Münchener und Magdeburger Agrarversicherung AG, Munich	6	58.5
Oldenburgische Landesbank AG, Oldenburg	431	89.3
Reuschel & Co. Kommanditgesellschaft, Munich	140	97.5
Vereinte Spezial Krankenversicherung AG, Munich	8	100.0
Vereinte Spezial Versicherung AG, Munich	45	100.0

[*)] Percentage includes equity participations held by dependent enterprises in full, even if the Group's share in this dependent enterprise is under 100%

Operating subsidiaries	Equity in € mn	% owned [1]
Adriática de Seguros C. A., Caracas	21	97.0
AGF Allianz Chile Compañia de Seguros Generales S. A., Santiago de Chile	14	99.9
AGF Asset Management, Paris	49	99.9
AGF Belgium Insurance, Brussels	341	100.0
AGF Brasil Seguros S. A., Sao Paulo	87	69.4
AGF La Lilloise, Paris	29	100.0
Alba Allgemeine Versicherungs-Gesellschaft, Basel	17	100.0
Allianz Asset Management Ltd., Hong Kong	3	100.0
Allianz Australia Ltd., Sydney	459	100.0
Allianz Bulgaria Insurance and Reinsurance Company Ltd., Sofia	17	77.9
Allianz Bulgaria Life Insurance Company Ltd., Sofia	5	99.0
Allianz Compañía de Seguros y Reaseguros S. A., Barcelona	387	99.0
Allianz Cornhill Insurance plc, London	1,018	98.0 [2]
Allianz Dresdner Asset Management Luxembourg S. A., Luxembourg	40	100.0
Allianz Dresdner Asset Management of America LP, Delaware	552	83.9
Allianz EFU Health Insurance Ltd., Karachi	1	76.0
Allianz Elementar Lebensversicherungs-Aktiengesellschaft, Vienna	91	100.0
Allianz Elementar Versicherungs-Aktiengesellschaft, Vienna	369	100.0
Allianz Europe Ltd., Amsterdam	809	100.0
Allianz Fire and Marine Insurance Japan Ltd., Tokio	6	100.0
Allianz General Insurance Company S. A., Athens	7	100.0
Allianz General Insurance Malaysia Berhad p.l.c., Kuala Lumpur	58	98.6
Allianz Global Risks US Insurance Company, Burbank	4,244	100.0
Allianz Hungária Biztosító Rt., Budapest	118	100.0
Allianz Insurance Company of Singapore Pte. Ltd., Singapur	35	100.0
Allianz Insurance (Hong Kong) Ltd., Hong Kong	8	100.0
Allianz Ireland p.l.c., Dublin	62	100.0
Allianz Irish Life Holdings p.l.c., Dublin	138	66.4
Allianz Life Insurance Co. Ltd., Seoul	341	100.0
Allianz Life Insurance Company of North America, Minneapolis	2,360	100.0
Allianz Life Insurance Company S. A., Athens	5	100.0
Allianz Life Insurance Malaysia Berhad p.l.c., Kuala Lumpur	24	100.0
Allianz Marine & Aviation France, Paris	107	100.0
Allianz México S. A. Compañía de Seguros, Mexico-City	51	100.0
Allianz Nederland Levensverzekering N.V., Utrecht	276	100.0
Allianz Nederland Schadeverzekering N.V., Rotterdam	184	100.0
Allianz of America, Inc., Wilmington	7,864	100.0
Allianz of Canada, Inc., Toronto	169	100.0
Allianz poistòvna a. s., Prague	24	100.0
Allianz President General Insurance, Taipeh	34	50.0 [3]
Allianz President Life Insurance, Taipeh	35	50.0 [3]
Allianz Re Dublin Ltd., Dublin	13	100.0
Allianz Risk Transfer AG, Zurich	387	100.0
Allianz-Slovenská poist'ovna a. s., Bratislava	165	84.6

[1] Percentage includes equity participations held by dependent enterprises in full, even if the Group's share in this dependent enterprise is under 100 %
[2] 99.78% of the voting share capital
[3] Controlled by Allianz

Operating subsidiaries	Equity in € mn	% owned *)
Allianz Subalpina Società di Assicurazioni e Riassicurazioni S. p. A., Turin	189	97.9
Allianz Suisse Lebensversicherungs-Gesellschaft, Zurich	266	99.9
Allianz Suisse Versicherungs-Gesellschaft, Zurich	574	100.0
Allianz Tiriac Insurance S. A. , Bukarest	8	51.6
Allianz Underwriters Insurance Company, Los Angeles	45	100.0
Allianz (UK) Ltd., London	658	100.0
Allianz Worldwide Care Ltd., Dublin	12	100.0
Allianz Zagreb d.d., Zagreb	10	52.1
Arab International Insurance Company S. A. E., Cairo	7	80.0
Arab International Life Assurance Company S. A. E., Cairo	6	100.0
Assurances Générales de France, Paris	6,080	63.5
Assurances Générales de France IART, Paris	2,231	99.9
Assurances Générales de France Vie, Paris	2,971	100.0
Banque AGF, Paris	449	100.0
Cadence Capital Management LLC, Boston	5	75.9
Colseguros Generales S. A., Bogota	12	99.9
Commercial Bank Allianz Bulgaria Ltd., Sofia	12	99.4
Compagnie d’Assurance de Protection Juridique S. A., Zug	6	100.0
Companhia de Seguros Allianz Portugal S. A., Lissabon	63	64.8
Dresdner Bank Luxembourg S. A., Luxembourg	572	100.0
Dresdner Bank (Schweiz) AG, Zurich	37	99.8
Dresdner International Management Services Ltd., Dublin	3	100.0
Dresdner Kleinwort Wasserstein (Japan) Ltd., Hongkong	3	100.0
Dresdner Kleinwort Wasserstein Securities SIM S. p. A., Milan	23	100.0
Dresdner Kleinwort Wasserstein (South East Asia) Ltd., Singapore	135	100.0
ELVIA Reiseversicherungs-Gesellschaft AG, Zurich	18	100.0
Euler Credito y Caution, Madrid	8	100.0
Euler Hermes S.F.A.C. S. A., Paris	318	100.0
Eurovida, S. A. Compañia de Seguros y Reaseguros, Madrid	36	51.0
Fireman’s Fund Insurance Company, Novato	3,578	100.0
GENIALLOYD S. p. A., Milan	32	99.9
International Reinsurance Company S. A., Luxembourg	32	100.0
Lloyd Adriatico S. p. A., Trieste	702	99.7
Mondial Assistance S. A., Paris Cedex	46	100.0
NFJ Investment Group LP, Dallas	2	100.0
Nicholas Applegate, San Diego	43	100.0
Oppenheimer Capital LLC, Delaware	16	100.0
Orbis Group Ltd., St. Peter Port/Guernsey	20	100.0
Ost-West Allianz Insurance Company, Moscow	2	100.0
Pacific Investment Management Company LLC, Delaware	131	91.0
PEA Capital LLC, New York City	3	100.0
PIMCO Advisors Distributors LLC, Delaware	35	100.0
Privatinvest Bank AG, Salzburg	14	74.0
P. T. Asuransi Allianz Utama Indonesia p.l.c., Jakarta	13	75.4

*) Percentage includes equity participations held by dependent enterprises in full, even if the Group’s share in this dependent enterprise is under 100 %

Operating subsidiaries	Equity in € mn	% owned [1]
RAS Tutela Giudiziaria S. p. A., Milan	7	100.0
RB Vita S. p. A., Milan	143	100.0
RCM Capital Management, San Francisco	25	100.0
RCM (UK) Ltd., London	26	100.0
Riunione Adriatica di Sicurtà S. p. A., Milan	4,562	55.5
Treewalk Health Care Ltd., London	25	100.0
T. U. Allianz Polska S. A., Warsaw	35	100.0
T. U. Allianz Polska Zycie S. A., Warsaw	5	100.0
Veer Palthe Voûte N. V., Gouda	2	100.0
Wm. H McGee & Co. Inc., New York	44	100.0
Zwolsche Algemeene Schadeverzekering N. V., Nieuwegein	44	100.0

Associated enterprises[2]	Equity in € mn	% owned [1]
Autobahn Tank & Rast Holding GmbH, Bonn	15	30.6
Bilfinger Berger Bauaktiengesellschaft, Mannheim	1,785	25.0
Eurohypo AG, Frankfurt/Main	6,017	28.5
Kommanditgesellschaft Allgemeine Leasing GmbH & Co., Grünwald	98	40.5
Allianz CP General Insurance Company Ltd., Bangkok	3	25.0
EUROPENSIONES S. A., Entidad Grestora de Fondos de Pensiones, Madrid	59	49.0
Koç Allianz Hayat ve Emeklikik A. S. (Koç Allianz Life and Pension Company), Istanbul	27	38.0
Koç Allianz Sigorta T.A.S., Istanbul	50	37.1
National Insurance Company Berhad, Brunei	2	25.0
Russian People's Insurance Society „Rosno", Moscow	26	45.3
Sophia, Paris	1,361	28.4

[1] Percentage includes equity participations held by dependent enterprises in full, even if the Group's share in this dependent enterprise is under 100 %

[2] Associated enterprises are all those enterprises other than affiliated enterprises or joint ventures, in which the Group has an interest of between 20 % and 50 % regardless of whether a significant influence is exercised or not

Other selected holdings in listed companies[1]	Market value € mn	%[2] owned	Group equity € mn	Net profit € mn	Balance sheet date
AMB Generali Holding AG, Munich	183	5.8	2,934	– 231	12/31/2002
Banco Popular Espanol S. A., Madrid	1,014	9.4	3,258	778	12/31/2003
Banco Portuguès de Investimento (BPI – SGPS) S. A., Porto	189	8.9	1,227	164	12/31/2003
BASF AG, Ludwigshafen	643	2.6	16,942	1,599	12/31/2002
Bayer AG, Leverkusen	960	5.6	15,455	1,063	12/31/2002
Bayerische Motorenwerke AG, Munich	951	3.8	13,871	2,020	12/31/2002
Beiersdorf AG, Hamburg	1,339	16.6	1,727	290	12/31/2002
Bollore Investissement S. A., Puteaux	172	16.0	1,346	102	12/31/2002
Crédit Agricole S. A., Paris	930	3.3	15,814	1,061	12/31/2002
E.ON AG, Düsseldorf	1,275	3.6	32,164	3,414	12/31/2002
Hana Bank, Seoul	236	8.2	1,832	214	12/31/2002
HeidelbergCement AG, Heidelberg	510	15.1	3,692	262	12/31/2002
Heidelberger Druckmaschinen AG, Heidelberg	316	12.0	1,950	– 138	3/31/2003
KarstadtQuelle AG, Essen	244	10.5	1,746	169	12/31/2002
Linde AG, Wiesbaden	591	11.6	4,119	241	12/31/2002
mg technologies ag, Frankfurt/Main	218	10.1	1,991	– 31	12/31/2002
Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München, Munich	2,767	12.4	14,480	1,150	12/31/2002
RWE AG, Essen	898	5.1	8,924	1,355	12/31/2002
Schering AG, Berlin	917	11.8	2,949	869	12/31/2002
Siemens AG, Munich	777	1.4	23,715	2,541	9/30/2003
Total S. A., Paris	742	1.2	31,070	7,219	12/31/2003
Unicredito Italiano S. p. A., Milan	1,337	4.9	11,632	1,801	12/31/2002
Worms et Cie, Paris	292	14.8	2,157	190	12/31/2002

[1] Market value > = € 100 mn and percentage of shares owned > = 5 %, or market value > = € 500 mn, without trading portfolio of banking business

[2] Percentage includes equity participations held by dependent enterprises in full, even if the Group’s share in this dependent enterprise is under 100 % (including consolidated investment funds)

Other interests

Associated or other non-consolidated asset management companies hold the following shareholdings in the listed companies shown below:

	Equity investments held by asset management companies				Interest of the Allianz Group in the asset management companies	
	Market value € mn	% owned	Group equity € mn	Net profit € mn	Balance sheet date	% owned
Deutsche Lufthansa AG, Cologne	508	10.0	4,172	722	12/31/2002	50
MAN AG, Munich	856	24.2	2,891	147	12/31/2002	50

Disclosure of equity investments

Information is filed separately with the Commercial Register in Munich (HRB 7158) and published on our website together with the documentation for the Annual General Meeting.

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by Allianz Aktiengesellschaft, Munich, for the business year from January 1 to December 31, 2003. The preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW, Institute of Independent Auditors), and in supplementary compliance with auditing standards generally accepted in the United States of America (U.S. GAAS). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and the evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with International Financial Reporting Standards (IFRS).

Our audit, which also extends to the group management report prepared by the Company's management for the business year from January 1 to December 31, 2003, has not led to any reservations. In our opinion, on the whole, the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1 to December 31, 2003, satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Munich, March 2, 2004

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Gottfried Wohlmannstetter	Dr. Frank Pfaffenzeller
Independent Auditor	Independent Auditor

Joint Advisory Council of the Allianz Companies

DR. HENNING SCHULTE-NOELLE since January 1, 2004, Chairman
Chairman of the Supervisory Board Allianz AG

DR. KLAUS LIESEN until December 31, 2003, Chairman
Honorary Chairman of the Supervisory Board of Ruhrgas AG

FRANZ FEHRENBACH since March 1, 2003
Chairman of the Board of Management Robert Bosch GmbH

GERHARD FULL until December 31, 2003
Former Chairman of the Board of Management Linde AG

PROF. DR. PETER GRUSS since January 1, 2004
President Max-Planck-Gesellschaft

DR. JÜRGEN HAMBRECHT
Chairman of the Board of Management BASF Aktiengesellschaft

PROF. DR. H.C. HANS-OLAF HENKEL
President Wissenschaftsgemeinschaft Gottfried Wilhelm Leibniz e. V.

DR. JÜRGEN HERAEUS
Chairman of the Supervisory Board Heraeus Holding GmbH

DR. DIETER HUNDT
Senator h. c., Managing Partner ALLGAIER WERKE GmbH

DR. JÜRGEN F. KAMMER
Chairman of the Board of Management SÜD-CHEMIE AG

PROF. DR. HUBERT S. MARKL until December 31, 2003
University of Konstanz, department of biology

DR. HARTMUT MEHDORN
Chairman of the Board of Management Deutsche Bahn AG

DR. GEORG OBERMEIER until December 31, 2003
Former Chairman of the Board of Management RHI AG

DR. H.C. BERND PISCHETSRIEDER
Chairman of the Board of Management Volkswagen AG

PROF. DR. KLAUS POHLE
Former Deputy Chairman of the Board of Management Schering Aktiengesellschaft

HARRY ROELS since April 1, 2003
Chairman of the Board of Management RWE Aktiengesellschaft

DR. H.C. RUDOLF RUPPRECHT
Chairman of the Board of Management MAN Aktiengesellschaft

DR. DIETER SCHADT until December 31, 2003
Former Chairman of the Board of Management Franz Haniel & Cie. GmbH

DR. H.C. WALTER SCHEEL
Former President of the Federal Republic of Germany

PROF. DR. EKKEHARD D. SCHULZ until December 31, 2003
Chairman of the Board of Management ThyssenKrupp AG

PROF. DR. DR. H.C. HORST SIEBERT
Former President, Institute for World Economics, Kiel University

DR. RON SOMMER
Former Chairman of the Board of Management Deutsche Telekom AG

HANS PETER STIHL until December 31, 2003
Former President, Association of German Chambers of Industry and Commerce

HOLGER STRAIT since January 1, 2004
Managing Partner J. G. Niederegger GmbH & Co. KG

DR. H.C. HEINRICH WEISS
Chairman of the Board of Management SMS Aktiengesellschaft

BERND WREDE until December 31, 2003
Former Chairman of the Board of Management Hapag-Lloyd Aktiengesellschaft

International Advisory Board

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President and CEO Siemens AG, Chairman

DR. UMBERTO AGNELLI
Chairman Fiat S. p. A.

DONALD R. ARGUS AO
Chairman BHP Billiton Group

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Presidente Sonae S.G.P.S., S. A.

ANTONY BURGMANS
Chairman Unilever N. V.

ALFONSO CORTINA DE ALCOCER
Chairman and CEO Repsol S. A.

DR. FRANZ B. HUMER
Chairman and CEO F. Hoffmann-La Roche AG

RAHMI KOÇ
Honorary Chairman of the Board of Directors Koç Holding A. S.

AARNOUT LOUDON
Chairman Supervisory Board Akzo Nobel

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Chairman Mitsubishi Corporation

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Senior Partner One Equity Partners LLC

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Chairman and CEO Pirelli S. p. A.

ANTHONY SALIM
President and CEO Salim Group

LOUIS SCHWEITZER
Président Directeur Général de Renault

PETER SUTHERLAND
Chairman BP plc

SIR IAIN VALLANCE
Vice Chairman The Royal Bank of Scotland Group plc

JAVIER VALLS TABERNER
Presidente del Consejo Banco Popular Español

Membership of Supervisory Board members in other corporate management bodies

DR. HENNING SCHULTE-NOELLE since April 29, 2003

Membership in other statutory supervisory boards in Germany
E.ON AG, Siemens AG, ThyssenKrupp AG

NORBERT BLIX

Membership in other statutory supervisory boards in Germany
Allianz Versorgungskasse VVaG (Deputy Chairman)

DR. WULF H. BERNOTAT since April 29, 2003

Membership in other statutory supervisory boards in Germany
METRO AG, RAG AG (Chairman)
Membership in Group bodies E.ON Energie AG (Chairman), Ruhrgas AG (Chairman)

Membership in comparable*) supervisory bodies
Membership in Group bodies Powergen Limited (Chairman)

DR. DIETHART BREIPOHL

Membership in other statutory supervisory boards in Germany
Beiersdorf AG, Continental AG, KarstadtQuelle AG, KM Europa Metal AG (Chairman)

Membership in comparable*) supervisory bodies
Assurances Générales de France, Banco Popular Español, BPI Banco Português de Investimento, Crédit Lyonnais, EULER HERMES

BERTRAND COLLOMB

Membership in comparable*) supervisory bodies
ATCO, Total, Vivendi Universal
Membership in Group bodies Lafarge (Chairman)

DR. GERHARD CROMME

Membership in other statutory supervisory boards in Germany
Axel Springer Verlag AG, Deutsche Lufthansa AG, E.ON AG, Ruhrgas AG, Siemens AG, ThyssenKrupp AG (Chairman), Volkswagen AG

Membership in comparable*) supervisory bodies
BNP PARIBAS S. A., Suez S. A.

JÜRGEN DORMANN until May 5, 2004

Membership in other statutory supervisory boards in Germany
LION bioscience AG (Chairman)

Membership in comparable*) supervisory bodies
ABB Ltd. (Chairman), Aventis S. A. (Chairman)

CLAUDIA EGGERT-LEHMANN since April 29, 2003

Membership in other statutory supervisory boards in Germany
Dresdner Bank AG

HINRICH FEDDERSEN

Membership in other statutory supervisory boards in Germany
Basler Versicherung Beteiligungsgesellschaft mbH, Deutscher Ring Lebensversicherungs-AG

PETER HAIMERL

Membership in other statutory supervisory boards in Germany
Dresdner Bank AG (Deputy Chairman)

PROF. DR. RUDOLF HICKEL

Membership in other statutory supervisory boards in Germany
GEWOBA AG Wohnen und Bauen in Bremen, Howaldtswerke Deutsche Werft AG, Salzgitter AG Stahl und Technologie

PROF. DR. RENATE KÖCHER since April 29, 2003

Membership in other statutory supervisory boards in Germany
BASF AG, MAN AG

FRANK LEY

KARL NEUMEIER since April 29, 2003

As of December 31, 2003 or (with members who resigned) day of resignation

*) We regard foreign memberships as "comparable", if the foreign company is listed on a stock exchange or has more than 500 employees.

HERBERT PFENNIG since April 29, 2003

Membership in other statutory supervisory boards in Germany
Boerse-Stuttgart AG

SULTAN SALAM since April 29, 2003

Membership in other statutory supervisory boards in Germany
Dresdner Bank AG

DR. MANFRED SCHNEIDER

Membership in other statutory supervisory boards in Germany
Bayer AG (Chairman), DaimlerChrysler AG, Linde AG (Chairman), METRO AG, RWE AG, TUI AG

MARGIT SCHOFFER since April 29, 2003

Membership in other statutory supervisory boards in Germany
Dresdner Bank AG

DR. HERMANN SCHOLL

Membership in other statutory supervisory boards in Germany
BASF AG, Robert Bosch GmbH (Chairman)

Membership in comparable*) supervisory bodies
Robert Bosch Corporation, Robert Bosch Internationale Beteiligungen AG

PROF. JÜRGEN E. SCHREMPP

Membership in other statutory supervisory boards in Germany
Membership in Group bodies DaimlerChrysler Services AG (Chairman)

Membership in comparable*) supervisory bodies
Compagnie Financière Richemond S. A., South African Coal, Oil and Gas Corporation (Sasol) Ltd., Vodafone Group plc
Membership in Group bodies DaimlerChrysler Corporation (Chairman), DaimlerChrysler of South Africa (Pty) Ltd. S. A. (Chairman)

MEMBERS WHO RESIGNED DURING THE PERIOD
all as of April 29, 2003

DR. UWE HAASEN

DR. KLAUS LIESEN

Membership in other statutory supervisory boards in Germany
E.ON AG (Chairman), TUI AG, Volkswagen AG

HORST MEYER

Membership in other statutory supervisory boards in Germany
Allianz Versorgungskasse VVaG, Euler Hermes Kreditversicherungs-AG (Deputy Chairman)

UWE PLUCINSKI

Membership in other statutory supervisory boards in Germany
BVV-Versicherungsverein des Bankgewerbes a. G.

REINHOLD POHL

ROSWITHA SCHIEMANN

JÖRG THAU

Membership in other statutory supervisory boards in Germany
Allianz Private Krankenversicherungs-AG (Deputy Chairman)

DR. BERND W. VOSS

Membership in other statutory supervisory boards in Germany
Allianz Lebensversicherungs-AG, Continental AG, Dresdner Bank AG, E.ON AG, KarstadtQuelle AG, Osram GmbH, TUI AG, Wacker Chemie GmbH

Membership in comparable*) supervisory bodies
ABB Ltd., Bankhaus Reuschel & Co. (Chairman)

As of December 31, 2003 or (with members who resigned) day of resignation
*) We regard foreign memberships as "comparable", if the foreign company is listed on a stock exchange or has more than 500 employees.

Membership of Board of Management members in other corporate management bodies

MICHAEL DIEKMANN

Membership in other statutory supervisory boards in Germany
BASF AG, Linde AG (Deputy Chairman), Lufthansa AG
Membership in Group bodies Allianz Dresdner Asset Management AG (Chairman), Allianz Lebensversicherungs-AG (Chairman), Allianz Versicherungs-AG (Chairman), Dresdner Bank AG (Chairman)

Membership in comparable*) supervisory bodies
Membership in Group bodies Assurances Générales de France (Vice President), Riunione Adriatica di Sicurtà S. p. A. (Vice President)

DR. PAUL ACHLEITNER

Membership in other statutory supervisory boards in Germany
Bayer AG, MAN AG, RWE AG
Membership in Group bodies Allianz Dresdner Asset Management AG, Allianz Immobilien GmbH (Chairman)

Membership in comparable*) supervisory bodies
ÖIAG

DETLEV BREMKAMP

Membership in other statutory supervisory boards in Germany
ABB AG (Germany), Hochtief AG
Membership in Group bodies Allianz Global Risks Rückversicherungs-AG (Chairman), Allianz Marine & Aviation (Germany) Versicherungs-AG (since February 3, 2004)

Membership in comparable*) supervisory bodies
Membership in Group bodies Allianz Compañia de Seguros y Reaseguros S. A. (Chairman), Allianz General Insurance Company S. A. Griechenland, Allianz Global Risks US Insurance Company (since March 1, 2004), Allianz Life Insurance Company S. A. Griechenland, Allianz Nederland Groep N. V., Allianz Portugal S. A. Companhia de Seguros, Assurances Générales de France, Elmonda (Chairman), Lloyd Adriatico S. p. A., Riunione Adriatica di Sicurtà S. p. A.

JAN R. CARENDI

Membership in comparable*) supervisory bodies
Anticimex AB (Deputy Chairman) (until April 2004)
Membership in Group bodies Allianz Insurance Company of Canada (Chairman), Allianz Life Insurance Company of North America (Chairman), Fireman's Fund Insurance Company (Chairman)

DR. JOACHIM FABER

Membership in other statutory supervisory boards in Germany
Bayerische Börse AG, Infineon Technologies AG
Membership in Group bodies ADVANCE Holding AG, DBI Dresdner Bank Investment Management Kapitalanlagegesellschaft mbH (Chairman), DEGI Deutsche Gesellschaft für Immobilienfonds mbH (Chairman), Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH (Chairman)

Membership in comparable*) supervisory bodies
Società Metallurgica Italiana S. p. A.
Membership in Group bodies AGF Asset Management, RASbank S. p. A. (until December 31, 2003)

DR. REINER HAGEMANN

Membership in other statutory supervisory boards in Germany
E.ON Energie AG, Schering AG, Steag AG
Membership in Group bodies ADVANCE Holding AG (Chairman), Allianz Global Risks Rückversicherungs-AG, Allianz Private Krankenversicherungs-AG (Chairman), Bayerische Versicherungsbank AG (Chairman), Euler Hermes Kreditversicherungs-AG (Chairman), Frankfurter Versicherungs-AG (Chairman)

Membership in comparable*) supervisory bodies
Membership in Group bodies Allianz Cornhill Insurance plc, Allianz Elementar Lebensversicherungs-AG (Deputy Chairman), Allianz Elementar Versicherungs-AG (Chairman), Allianz Investmentbank AG, Allianz Irish Life, Allianz Suisse Lebensversicherungs-AG, Allianz Suisse Versicherungs-AG, EULER HERMES

DR. HELMUT PERLET

Membership in other statutory supervisory boards in Germany
Membership in Group bodies Allianz Dresdner Asset Management AG, Allianz Global Risks Rückversicherungs-AG, Dresdner Bank AG

Membership in comparable*) supervisory bodies
Membership in Group bodies Fireman's Fund Insurance Co., Lloyd Adriatico S. p. A., Riunione Adriatica di Sicurtà S. p. A.

As of December 31, 2003 or (with members who resigned) day of resignation

*) We regard foreign memberships as "comparable", if the foreign company is listed on a stock exchange or has more than 500 employees.

DR. GERHARD RUPPRECHT

Membership in other statutory supervisory boards in Germany
Heidelberger Druckmaschinen AG, Quelle AG, ThyssenKrupp Automotive AG

Membership in comparable*) supervisory bodies
Membership in Group bodies Allianz Elementar Lebensversicherungs-AG, Allianz Elementar Versicherungs-AG, Allianz Life Insurance Co. Ltd. Seoul, Allianz Life Insurance Company of North America

DR. HERBERT WALTER

Membership in other statutory supervisory boards in Germany
Deutsche Börse AG, TSV München von 1860 GmbH & Co. KG aA

DR. WERNER ZEDELIUS

Membership in other statutory supervisory boards in Germany
SMS AG (until December 31, 2003)

Membership in comparable*) supervisory bodies
Allianz C. P. Life Insurance Co. Ltd., Rosno
Membership in Group bodies Allianz Australia Ltd., Allianz Hungária Biztositó Rt. (Chairman), Allianz Life Insurance Co. Ltd. Seoul (Chairman), Allianz pojistovna a. s. (Chairman), Allianz-Slovenska poistovna a. s. (Chairman), T. U. Allianz Polska S. A. (Chairman), T. U. Allianz Zycie Polska S. A. (Chairman)

MEMBERS WHO RESIGNED DURING THE PERIOD

DR. BERND FAHRHOLZ as of March 25, 2003

Membership in other statutory supervisory boards in Germany
Bayerische Motorenwerke AG, Fresenius Medical Care AG, HeidelbergCement AG

DR. HORST MÜLLER as of December 31, 2003

Membership in other statutory supervisory boards in Germany
BVV-Versicherungsverein des Bankgewerbes a. G. (Chairman)
Membership in Group bodies Allianz Immobilien GmbH (until December 31, 2003)

DR. HENNING SCHULTE-NOELLE as of April 29, 2003

Membership in other statutory supervisory boards in Germany
BASF AG (until May 6, 2003), E.ON AG, Linde AG (Deputy Chairman) (until May 27, 2003), Siemens AG, ThyssenKrupp AG

Membership in comparable*) supervisory bodies
Membership in Group bodies Assurances Générales de France (Vice President) (until April 30, 2003), Riunione Adriatica di Sicurtà S. p. A. (Vice President) (until April 30, 2003)

As of December 31, 2003 or (with members who resigned) day of resignation
*) We regard foreign memberships as "comparable", if the foreign company is listed on a stock exchange or has more than 500 employees.

The accounting terms explained here are intended to help the reader understand this Annual Report. Most of these terms concern the balance sheet or the income statement. Terminology relating to particular segments of the insurance or banking business has not been included.

Acquisition cost
The amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition.

Affiliated enterprises
The parent company of the Group and all consolidated subsidiaries. Subsidiaries are enterprises where the parent company can exercise a dominant influence over their corporate strategy in accordance with the control concept. This is possible, for example, where the parent Group holds, directly or indirectly, a majority of the voting rights, has the power to appoint or remove a majority of the members of the Board of Management or equivalent governing body, or where there are contractual rights of control.

Aggregate policy reserves
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.

Allowance for loan losses
The overall volume of provisions includes allowance for credit loss – deducted from the asset side of the balance sheet – and provisions for risks associated with hedge derivatives and other contingencies, such as guarantees, loan commitments or other obligations, which are stated as liabilities.

Identified counterparty risk is covered by specific credit risk allowances. The size of each allowance is determined by the probability of the borrower's agreed payments regarding interest and installments, with the value of underlying collateral being taken into consideration.

General allowances for loan losses have been established, on the basis of historical loss data.

Country risk allowances are established for transfer risks. Transfer risk is a reflection of the ability of a certain country to serve its external debt. These country risk allowances are based on an internal country rating system which incorporates economic data as well as other facts to categorize countries.

Where it is determined that a loan cannot be repaid, the uncollectable amount is written off against any existing specific loan loss allowance, or directly recognized as expense in the income statement. Recoveries on loans previously written off are recognized in the income statement under net loan loss provisions.

Assets under management
The total of all investments, valued at current market value, which the Group has under management with responsibility for maintaining and improving their performance. In addition to the Group's own investments, they include investments held for variable annuity policyholders, bank loans and advances, and investments held under management for third parties.

Associated enterprises
All enterprises, other than affiliated enterprises or joint ventures, in which the Group has an interest of between 20 % and 50 %, regardless of whether a significant influence is actually exercised or not.

At amortized cost
Under this accounting principle the difference between the acquisition cost and redemption value (of an investment) is added to or subtracted from the original cost figure over the period from acquisition to maturity and credited or charged to income over the same period.

Benefits (net) payable to policyholders
The expense of policyholder benefits (less amounts ceded in reinsurance) comprises loss and loss adjustment expenses, premium refunds, and the net change in insurance reserves.

Capital relating to participating certificates
Amount payable on redemption of participating certificates issued. The participating certificates of Allianz AG carry distribution rights based on the dividends paid, and subscription rights when the capital stock is increased; but they carry no voting rights, no rights to participate in any proceeds of liquidation, and no rights to be converted into shares.

Cash flow statement
Statement showing movements of cash and cash equivalents during an accounting period, classified by three types of activity:

- normal operating activities
- investing activities
- financing activities

Certificated liabilities
Certificated liabilities comprise debentures and other liabilities for which transferable certificates have been issued.

Consolidated interest (%)
The consolidated interest is the total of all interests held by affiliated enterprises and joint ventures in affiliated enterprises, joint ventures, and associated enterprises.

Contingent liabilities
Financial obligations not shown as liabilities on the balance sheet because the probability of a liability actually being incurred is low. Example: guarantee obligations.

Corridor approach
Under this approach to pension plans, actuarial gains and losses are not recognized immediately. Only when the cumulative gains or losses fall outside the corridor is a specified portion recognized in the income statement from the following year onwards. The corridor is 10 % of the present value of the pension rights accrued or of the independent pension fund assets at market value, if greater.

Credit risk
The risk that one party to a contract will fail to discharge its obligations and thereby cause the other party to incur financial loss.

Current service cost
Net expense in connection with a defined benefit pension obligation, less any contributions made by the beneficiary to the independent pension fund.

Current value
The current value of an investment is normally the same as the market value. If the market value cannot be calculated directly, fair market value is used.

Deferred acquisition costs
Expenses of an insurance company which are incurred in connection with the acquisition of new insurance policies or the renewal of existing policies. They include commissions paid and the costs of processing proposals.

Deferred tax assets/liabilities
The calculation of deferred tax is based on temporary differences between the carrying amounts of assets or liabilities in the published balance sheet and their tax base, and on differences arising from applying uniform valuation policies for consolidation purposes. The tax rates used for the calculation are the local rates applicable in the countries of the enterprises included in the consolidation; changes to tax rates already adopted on the balance sheet date are taken into account.

Defined benefit pension plans
Under these retirement plans the enterprise promises the beneficiary a particular level of benefit. The contribution payable is based on the age of the beneficiary and depends on the level of benefit promised.

Defined contribution pension plans
The central feature of these post-employment benefit plans is the contribution which an enterprise pays into an independent pension fund. The enterprise has no further obligations beyond the amount that it agrees to contribute to the fund and has no interest in the financial results of the independent pension fund. Benefits have to be claimed from the independent pension fund.

Derivative financial instruments (derivatives)
Financial contracts, the values of which move in relationship to the price of an underlying asset. Derivative financial instruments can be classified in relation to their underlying assets (e.g. interest rates, share prices, exchange rates or prices of goods). Important examples of derivative financial instruments are options, futures, forwards and swaps.

Earnings from ordinary activities
Pre-tax profit or loss from activities which an enterprise undertakes in the normal course of business. This does not include extraordinary items, i.e. income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and are therefore not expected to recur frequently or regularly.

Earnings per share (basic/diluted)
Ratio calculated by dividing the consolidated profit or loss for the year by the average number of shares issued. For calculating diluted earnings per share the number of shares and the profit or loss for the year are adjusted by the dilutive effects of any rights to subscribe for shares which have been or can still be exercised. Subscription rights arise in connection with issues of convertible bonds or share options.

Equity consolidation
The relevant proportion of cost for the investment in a subsidiary is set off against the relevant proportion of the shareholders' equity of the subsidiary.

Equity method
Investments in joint ventures and associated companies are accounted for by this method. They are valued at the Group's proportionate share of the net assets (= shareholders' equity) of the companies concerned. In the case of investments in companies which prepare consolidated financial statements of their own, the valuation is based on the sub-group's consolidated net assets. The valuation is subsequently adjusted to reflect the proportionate share of changes in the company's net assets, a proportionate share of the company's net earnings for the year being added to the Group's consolidated income.

Expense ratio
Underwriting costs (including change in deferred acquisition costs) as a percentage of premiums earned.

Fair value
The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

FAS
U.S. Financial Accounting Standards on which the details of U.S. GAAP (Generally Accepted Accounting Principles) are based.

Forwards
The parties to this type of transaction agree to buy or sell at a specified future date. The price of the underlying assets is fixed when the deal is struck.

Funds held by/for others under reinsurance contracts
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 business ceded."

Futures
Standardized contracts for delivery on a future date, traded on an exchange. Normally, rather than actually delivering the underlying asset on that date, the difference between closing market value and the exercise price is paid.

Goodwill
Difference between the purchase price of a subsidiary and the relevant proportion of its net assets valued at the current value of all assets and liabilities at the time of acquisition. Minority interests are always valued at carried-forward historical cost. Goodwill is amortized over its useful life.

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"). In connection with income from interests in affiliated enterprises, joint ventures and associated enterprises, the term "net" is used where the relevant expenses (e.g. depreciations and losses on the disposal of assets) have already been deducted. In the context of investments the term "net" is used where the relevant expenses (e.g. for investment management or valuation write-downs) have already been deducted from the income. This means that investment income (net) from investments in affiliated enterprises, joint ventures and associated enterprises signifies the net result from these investments.

Hedging
The use of special financial contracts, especially derivative financial instruments, to reduce losses which may arise as a result of unfavorable movements in rates or prices.

IAS
International Accounting Standards.

IFRS
International Financial Reporting Standards. Since 2002, the designation IFRS applies to the overall framework of all standards approved by the International Accounting Standards Board. Already approved standards will continue to be cited as International Accounting Standards (IAS).

IFRS Framework
The framework for International Financial Reporting Standards (IFRS) which sets out the concepts that underlie the preparation and presentation of financial statements for external users.

Investments held on account and at risk of life insurance policyholders
Mainly investments funding variable annuities plus investments to cover obligations under policies where the benefits are index-linked. Policyholders are entitled to the gains recorded on these investments, but also have to carry any losses.

Issued capital and capital reserve
This heading comprises the capital stock, the premium received on the issue of shares, and amounts allocated when option rights are exercised.

Joint venture
An enterprise which is managed jointly by an enterprise in the Group and one or more enterprises not included in the consolidation. The extent of joint management control is more than the significant influence exercised over associated enterprises and less than the control exercised over affiliated enterprises.

Loss frequency
Number of losses in relation to the number of insured risks.

Loss ratio
Loss and loss adjustment expenses as a percentage of premiums earned.

Market value
The amount obtainable from the sale of an investment in an active market.

Minority interests in earnings
That part of net earnings for the year which is not attributable to the Group but to others outside the Group who hold shares in affiliated enterprises.

Minority interests in shareholders' equity
Those parts of the equity of affiliated enterprises which are not owned by companies in the Group.

New cost basis
Historical cost adjusted by depreciation to reflect permanent diminution in value.

Options
Derivative financial instruments where the holder is entitled – but not obliged – to buy (call option) or sell (put option) the underlying asset at a predetermined price sometime in the future. The grantor (writer) of the option, on the other hand, is obliged to transfer or buy the asset and receives a premium for granting the option to the purchaser.

OTC derivatives
Derivative financial instruments which are not standardized and not traded on an exchange but are traded directly between two counterparties via over-the-counter (OTC) transactions.

Pension and similar reserves
Current and future post-employment benefits payable to current and former employees under company pension schemes, accrued as a liability.

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 coverage in that year. In the case of life insurance products where the policyholder carries the investment risk (e.g. variable annuities), only that part of the premiums used to cover the risk insured and costs involved is treated as premium income.

Reinsurance
Where an insurer transfers part of the risk which he has assumed to another insurer.

Repurchase and reverse repurchase agreements
A repurchase ("repo") transaction involves the sale of securities by the Group to a counterparty, subject to the simultaneous agreement to repurchase these securities at a certain later date, at an agreed price. The securities concerned are retained in the Group's balance sheet for the entire lifetime of the transaction, and are valued in accordance with the accounting principles for trading assets or investment securities, respectively. The proceeds of the sale are reported in liabilities to banks or to customers, as appropriate.

A reverse repo transaction involves the purchase of securities with the simultaneous obligation to sell these securities at a future date, at an agreed price. Such transactions are reported in loans and advances to banks, or loans and advances to customers, respectively.

Interest income from reverse repos and interest expenses from repos are accrued evenly over the lifetime of the transactions and reported under interest income/interest expenses and similar income/expenses.

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.

Revenue reserves
In addition to the reserve required by law in the financial statements of the Group parent company, this item consists mainly of the undistributed profits of Group enterprises and amounts transferred from consolidated net income.

Securities available-for-sale
Securities available-for-sale are securities which are neither held with the intent that they will be held-to-maturity nor have been acquired for sale in the near term; securities available-for-sale are shown at their market value on the balance sheet date.

Securities held-to-maturity
Securities held-to-maturity comprise debt securities held with the intent and ability that they will be held-to-maturity. They are valued at amortized cost.

Segment reporting
Financial information based on the consolidated financial statements, reported by business segments (life/health, property/casualty, banking business and asset management) and by regions and products.

Subordinated assets
Assets are recorded as subordinated assets if, in the case of liquidation or bankruptcy, the related claim cannot be realized before the claims of other creditors are realized.

Subordinated liabilities
Liabilities which, in the event of liquidation or bankruptcy, are not settled until after all other liabilities.

Swaps
Agreements between two counterparties to exchange payment streams over a specified period of time. Important examples include currency swaps (in which payment streams and capital in different currencies are exchanged) and interest rate swaps (in which the parties agree to exchange normally fixed interest payments for variable interest payments in the same currency).

Trading assets
Trading assets are debt issues and stocks as other financing instruments (essentially derivatives, note loans und precious metals holding) which have been acquired solely for sale in the near term. They are shown in the balance sheet at fair value.

Trading income
Trading income includes all realized and unrealized profits and losses from trading assets and trading liabilities. In addition, it includes commissions as well as any interest or dividend income from trading activities as well as refinancing costs.

Trading liabilities
Trading liabilities include primarily negative market values from derivatives and short selling of securities. Short sales are made to generate income from short-term price changes. Shorts sales of securities are recorded at market value on the balance sheet date. Derivatives shown as trading liabilities are valued the same way as trading assets.

Underwriting costs
Commissions, salaries, general expenses and other expenses relating to the acquisition and ongoing administration of insurance policies. The net figure is after expenses recovered from reinsurers have been deducted.

Unearned premiums
Premiums written attributable to income of future years. The amount is calculated separately for each policy and for every day that the premium still has to cover.

Unrecognized gains/losses
Amount of actuarial gains or losses, in connection with defined benefit pension plans, which are not yet recognized as income or expenses (see also “corridor approach”).

Unrecognized past service cost
Present value of increases in pension benefits relating to previous years’ service, not yet recognized in the pension reserve.

U.S. GAAP
U.S. Generally Accepted Accounting Principles.

Variable annuities
The benefits payable under this type of life insurance depend primarily on the performance of the investments in a mutual fund. The policyholder shares equally in the profits or losses of the underlying investments.

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