

**Annual General Meeting
of Allianz AG at June 12, 2002**

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

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I. Welcome

Dear Ladies and Gentlemen,
Dear Shareholders,

In the name of my colleagues on the Board of Management, I too would like to extend a warm welcome to you at this year's Annual General Meeting of Allianz AG. I am delighted that once again so many of you have come to the Olympia hall this year.

It could almost be described as a venerable hall, given the many splendid achievements it has witnessed – especially in sports – since it was built for the Olympic Games in 1972.

At this very moment, we are captivated by sport as we follow the football World Cup. Of course, we can't tell how far the German national team will get in this competition among the best footballing nations. But, Ladies and Gentlemen, we do know one thing:

- As hosts, they will definitely be participants in the next World Cup, and
- the opening will take place in this new Munich Stadium "Allianz Arena" in four years time.

Naturally, we have at times been asked – not always without a critical undertone – why we have committed ourselves to this "Allianz Arena". Our main aim is to raise the profile of our brand name outside Germany. Anyone who has been traveling in other parts of the world – and not just during these weeks – will know very well that many millions of people follow games such as those of the European Champions League on television right across the world.

Moreover, games and other competitive sports have always been particularly valued in the history of our company. In a few weeks time, 1,600 active Allianz sportsmen

and women from 34 different countries will take part in the fourth Allianz Olympics in Milan. They will prove their sporting prowess in 13 different athletic and field events. This great sports festival is held every four years, and it has made a greater contribution than almost anything else toward the integration of our international group.

But, Ladies and Gentlemen, let us return to the subject that has brought us together today:

It is a particular pleasure for me to see the many new Allianz shareholders and former Dresdner Bank shareholders who accepted our tender offer last year. They are with us today for the first time and I would like to extend a very warm welcome to them. I know that many of you have been loyal to this bank with a proud tradition for many years or even decades. We now ask you to extend your confidence to the new expanded group. We will devote all our efforts to justify your trust in us in the same way that we have proved ourselves to existing Allianz shareholders.

Taken overall, the circle of our shareholders has significantly expanded to nearly 450,000 and we are very pleased about this. Even as recently as 1996, there were only 46,000 shareholders.

Ladies and Gentlemen,

Last year we did everything in our power to make the Allianz Group future-proof.

We set the parameters so that

- Allianz can continue to grow and create value,
- exploit the opportunities that are presented in a globalized world,
- develop opportunities consistently, and
- be among the leading companies providing financial services worldwide in the world of tomorrow.



II. 2001 – A stormy year

The extraordinary conditions prevailing during the last fiscal year have not made our task particularly easy.

In business terms, 2001 was one of the most difficult years in our recent past. When we came together just one year ago, nobody could have imagined how stormy it was yet to be. Neither could anyone have imagined what challenges we would be confronted with soon afterward.

The terror attack on September 11 changed the world – from a political, business and social perspective. Almost 3,000 people fell victim to a murderous attack that impacted not only on the United States. It affected the western world overall and the global financial markets. This day did not just bring unimaginable suffering to human beings. It also accelerated the business downturn and dealt a substantial blow to the financial markets in what was already an environment of recession. These markets are only now beginning a slow process of recovery.

From our perspective as insurers, the terrorist attack on the *World Trade Center* represented the biggest claim of all times. The financial consequences of the attack dwarfs everything else on the insurance scene. It goes far beyond the devastating natural catastrophes of recent years, such as Hurricane *Andrew* in 1992 with claims totaling around US\$ 20 billion.

Total underwriting claims, that is to say property, liability, and personal accident claims, including consequential loss from business interruption, are currently estimated at around 30–50 billion US dollars.

III. Earnings, dividend and share performance

This terrorist worst-case scenario has left significant traces in our balance sheet – claims expenses after reinsurance amount to around 1.5 billion EUR. Then there are indirect charges that we have incurred as a big institutional investor owing to the weakness in the financial markets following on from September 11. Even within a few trading days after September 11, the value of the share portfolio in the property and casualty businesses of our group fell by more than 4 billion EUR. This means that September 11 dealt Allianz and other insurers involved a double blow. This was a new and painful experience for us.

In view of the magnitude of these events, our ambitious goals for earnings in the year 2001 were unattainable following on from September 11. Net income was 1.6 billion EUR and came out 32% lower than the figure for 2000 adjusted to take account of non-recurrent fiscal effects. Earnings fell by 52% before adjustment. Earnings per share are 6.66 EUR.

Earnings before taxes and amortization of goodwill totaled 2.6 billion EUR, only half the amount for the previous year.

Three key factors were responsible for this unfavorable development:

- apart from unscheduled expenses for claims resulting from the terrorist attack
- the weakness of the capital and financial markets exerted a negative impact, because they contributed to the decline in investment earnings in the insurance business, and
- also had a substantial impact on banking business.

Amortization of goodwill went up to 808 million EUR, with 108 million EUR originating from the acquisition of the Dresdner Bank Group. Nicholas-Applegate and PIMCO also contributed to this increase.

The terrorist attacks and the realized gains on investments already reported free of tax in IAS accounts resulted in significant fiscal losses for the Allianz Group. Under IAS rules these have to be capitalized as assets and offset against future gains. This gave rise to tax income of 840 million EUR in fiscal 2001. But this doesn't mean that we got a refund from the treasury or that the Allianz Group failed to pay taxes last year. This misrepresentation carefully fostered by some politicians has no factual basis. The Allianz Group paid taxes last year amounting to 691 million EUR.

Despite the significantly reduced net income for the year generated by the group, we are submitting a proposal to the Annual General Meeting to pay a dividend of 1.50 EUR per share. This means that the dividend remains unchanged over the previous year – following six consecutive rises from the year 1995 onward. Our intention is to send out a signal of continuity. This has always been acknowledged to be fundamental to the Allianz brand, in common with characteristics like steadfastness, solidity and predictability. We are doing this not least because we are assuming that even during the course of the fiscal year 2002, we will be returning to the good income performance typical of previous years.

I would now like to give a short summary of the individual segments:

Sales performance in the course of 2001 was extremely satisfactory and indicates a strong upward trend. Premium income in **property and casualty insurance** increased by almost 10% to 42.1 billion EUR.

The following factors contributed to this performance:

- increases in insurance rates in automotive insurance in Germany, Great Britain, Spain and France
- higher prices in industrial and corporate client business, although the level here remains unsatisfactory.

The combined ratio – that is the ratio of losses and expenses to premiums earned – increased over the previous year by 3.9 percentage points to 108.8%. However, if this figure is adjusted by the claims relating to the World Trade Center, which we estimate at 1.5 billion EUR after reinsurance, the combined ratio is 0.5 percentage points up on the previous year.

Investment earnings dropped by 5.4 percentage points to 21.3% in relation to net premiums earned. This reduction was mainly brought about by write-downs on equity portfolios that were necessary as a result of the negative stock market performance.

Net income increased during the previous year by 6.2% to 2.4 billion EUR, compared with net income adjusted by the un-scheduled fiscal effect for the year 2000.

Total sales in **life and health insurance** advanced by 8.6% to 33.7 billion EUR. More than 40% of these sales were generated by investment-oriented products. This business is almost exclusively associated with variable annuities and despite the poor conditions in the capital markets, we succeeded in increasing this business by 25% to 13.5 billion EUR. Business in investment-oriented products is already significantly outstripping the sale of traditional life insurance products in Italy, France, and the USA.

Exceptionally weak financial markets impacted negatively on investment earnings.

They fell by a massive 5.5 billion EUR to 8.6 billion EUR. This also exerted a negative effect on the profit participation of our clients and net income.

Net income at 229 million EUR was 63% less than in 2000.

Banking business also fell short of our expectations. Results were affected by the following factors:

- low interest rates,
- weak equity trading,
- above-average loan loss provisions, and
- increased administrative expenses. These included bonus guarantees from the previous year, which are now being reduced massively. The cost-cutting program at Dresdner Bank is already beginning to have an effect, but it will only yield clearly tangible benefits in the 2002 financial statements.

A loss of 220 million EUR was calculated for banking business after amortization of goodwill, taxes and minority interests, of which 213 million EUR were attributable to the Dresdner Bank Group.

The **Asset Management** segment closed the fiscal year 2001 with a loss of 348 million EUR. This negative result was due above all to high expenses totaling 647 million EUR related to acquisitions. Aside from amortization of goodwill, these comprised performance-related purchase-price payments and retention payments that constituted an element of the purchase agreements for the acquisitions of PIMCO and Nicholas-Applegate. We have reported these expenses in the income statement to create a fiscal benefit. If the asset management income statement is adjusted by these items and minority interests, asset management turns in a positive operating result of 313 million EUR before taxes.

Global assets under management totaled 1,172 billion EUR at year-end. 53% of these assets are attributable to asset management for third parties.

Ladies and Gentlemen,
Naturally the enormous financial burdens arising from the terrorist attacks were also reflected in the **price of our shares**. The weak stock-market environment exerted a particularly negative effect, especially since the Allianz portfolio has a high proportion of equities. The share price had fallen by 33.3% at the close of the year, even though this was after a year in which shareholders had enjoyed exceptionally high gains.

The actual price collapse we had experienced in September was naturally an exaggeration – the price fell to slightly over 200 EUR. This negative hype was primarily due to the massive uncertainty generated during the course of these days and had virtually nothing to do with long-term perspectives. These remain extremely favorable.

Over a period of 5 years our share has essentially floated within the spread of the DJ EURO STOXX 50, and has in fact done rather better than the DAX.

IV. Non-recurrent charge and long-term perspectives

However, apparently the markets have still not fully realized that a non-recurrent charge does not substantially reduce the medium and long-term potential for growth and income – even if it is in the order of magnitude of September 11. In fact, the scope for increased premiums had increased substantially even before the terrorist attack, and that trend indeed accelerated

after the attack. In any case, our strategic orientation and our focus on continuing profitable growth remains unchanged.

Allianz is and remains an extremely stable and dependable company. It combines a strong financial base with substantial potential for growth and an extremely dynamic approach. We believe that these sustained strengths will gain prominence once more in the sentiment expressed by the financial markets and their assessment. This is particularly likely in the wake of disenchantment with certain investment favorites that have fired the imagination of adventurous investors in recent years. Especially in view of the recent increase in general uncertainty we need to follow our principle: Do what has to be done, and continue undeflectedly on the chosen path. Experience shows that successful companies almost always emerge from crises with renewed strength.

The difficulties of the past year certainly provide us with an additional stimulus to maintain our course and place our trust in our strengths and core competencies. I am also convinced that income will soon return to past growth rates and continue the successful history of growth in recent years.

We are fortunate in being able to place confidence in the sheer competence and frequently demonstrated commitment of our staff. They were particularly challenged in the course of 2001, especially since those affected by the process of integration with Dresdner Bank bore a double burden. I would like to take this opportunity to express my profound appreciation both of their contribution and that of the committees of the Works Council, and to proffer my heartfelt thanks.

V. The first quarter of 2002

Ladies and Gentlemen,

I would now like to review the first quarter of 2002.

The results show that the right course has been set and we have been making good progress overall.

Strong growth continued in insurance business. Global premium income rose by 10.6% to 22.8 billion EUR. Life insurance business experienced particularly dynamic development. This development corresponds to our strategic objectives and was mainly supported during the first quarter by welcome rate increases in Germany, Italy, France, Korea and the USA.

The exceptionally high increase in consolidated net income for the group during the first quarter is based mainly on the capital gains arising from transactions that we had already agreed in the previous year, particularly in connection with the takeover of Dresdner Bank.

But we also made progress in our operational activities, particularly in the areas we are concentrating on.

In **property and casualty insurance** we succeeded in reducing the combined ratio by 1 percentage point to 103.4% by comparison with the whole of 2001, excluding claims arising from the World Trade Center. This strengthens our resolve to achieve our benchmark of 100% within the next three years.

Banking business continues to suffer from the difficult market conditions. It is an acknowledged fact that these conditions are causing substantial difficulties for the entire sector in Germany. A key factor is the unsatisfactory development of revenues

in the Corporates & Markets division, and the operating result lagged behind budget as a result.

The action taken by the bank to improve performance began to exert a stronger influence during the first quarter, and this proved especially important given the unfavorable context. I shall be returning to this issue later on.

Administrative expenses fell back by 10% over the comparable period in the previous year, and loan loss provisions were also reduced.

The operating result in **Asset Management** improved significantly. Particularly in the USA we succeeded in expanding our market position, supported by the sustained good performance of our group company PIMCO. The PIMCO Total Return Fund was the best-sold mutual fund in the USA during the first quarter.

Overall, we believe that developments during the first quarter have confirmed the expectations we announced earlier in the year for the year as a whole.

Provided there are no substantially unfavorable developments on the claims front and in the capital markets during the remainder of the year, we continue to anticipate growth for gross premium income in excess of 4% in the insurance segment and net income of over 3 billion EUR for the group as a whole.

VI. Reorganization to create an integrated financial services provider

Ladies and Gentlemen,
after the downturn in earnings last year, we are directing all our efforts toward

returning the operations of your company to a path of consistent income growth.

At the same time, our objective must also be to find the right answers to all the medium-term and long-term strategic challenges so that we can establish our group in an optimal position for the future.

The acquisition of Dresdner Bank last year was a key factor in this process. We are developing Allianz into an integrated financial services provider by bundling the competence and market position of Allianz on the insurance side with the investment and capital market know-how of Dresdner Bank. On the basis of our new business model

- we can react to changes in the markets, and
- position ourselves at an early stage in front of our competitors in the growth markets of the future.

We have already been exploiting this competitive advantage since we joined forces and we will continue to extend it further.

We perceive particularly favorable opportunities for asset management and capital accumulation, and in the market for private and company pension provision. This is an area where joining forces with Dresdner Bank has enabled us to reap benefits in the new market created by the pension reform. We have achieved a market share in excess of 20% and have already taken up pole position. To date, we have sold over 470,000 so-called "Riester" pension contracts.

We expect cost synergies from intelligent interplay with Dresdner Bank. However, income synergies are our primary goal. By 2006 we want to achieve an annual increase in income of more than one billion EUR.

VII. The model works!

Ladies and Gentlemen,
Last year, I presented the Annual General Meeting with a detailed assessment of the advantages offered by the **model of the integrated financial services provider**. Our experiences since July 23, when Dresdner Bank officially became part of Allianz, have confirmed our view: This model is already allowing us to achieve significantly improved results by comparison with the old joint-venture models with Dresdner Bank and HypoVereinsbank. *Moreover*, the model is being accepted by clients and the capital market. A survey just carried out in recent weeks confirms that clients have welcomed the concept of the integrated financial services provider. And that's what it's all about, after all. They have also embraced Dresdner Bank as a member of the Allianz Group.

Nearly 60% of our clients believe that this step is good or very good. There are only a few who are explicitly against the move. This kind of feedback acts as a stimulus to our daily work.

I would like to highlight two examples.

In the first instance we are offering

- insurance and banking products from a single source, and
- joint use of the existing sales channels.

Previous sales successes clearly point to the *"integrated"* approach as the most favorable option. A quantum leap has been made in life and property insurance business by comparison with the old sales joint ventures. I would like to present you with a few figures.

Let us first look at life insurance business channeled through Dresdner Bank alone. We acquired on average 34 million EUR of new business every month from Dresdner Bank in the period between January and July 2001. After the takeover by Allianz,

production rose substantially. In the period between August and December 2001, this figure had tripled to around 108 million EUR per month. If we compare January to April 2002 with the equivalent period in the previous year, monthly production has indeed increased more than threefold. If the number of policies sold is taken as the benchmark, the increase rises to almost eightfold.

The same picture emerges if the sales earnings of Dresdner Bank from January to April 2002 are compared with the aggregated figures of Dresdner Bank and HypoVereinsbank in the joint-venture model during the first four months of the year 2001. Based on the number of policies sold, sales have almost quadrupled.

My second example illustrating sales successes is consortium leadership by Allianz of the *"MetallRente"* union pension fund for the metalworking and electrical industries. This pension fund has good prospects for becoming the biggest cross-company pension fund in Germany.

This success is also strategically important in the area of old-age provision. We have been successful in introducing this concept not least because we are an insurance company, bank, and asset manager operating together in the marketplace. So far, we are the only full service provider offering all five options for purchasing pensions. This is *concrete added value* as I imagine it. And that is precisely where our strengths lie: joint presence in the market, offering joint solutions, and implementing them in tandem.

The importance of our success quickly becomes evident if you stop to consider the size of the potential here. There are some 3.6 million people working in the metalworking and electrical industries.

VIII. Integration

Ladies and Gentlemen, we are doing everything in our power to meet the challenges of this developing market and in particular the need to provide consultancy services for our clients. Our clients should benefit from the advantages of our joint structure. At the same time they should barely notice we are concurrently carrying out a number of integration projects in the background.

At this point, I would like to give you a short overview of the most important projects and the advances achieved:

- We had already fired the starting pistol for the joint sales offensive at the beginning of August. Since then, insurance and pension specialists – 862 at present – have been working in the branch network of Dresdner Bank. By the same token, 112 securities advisers from the bank have been assigned to Allianz agencies.
- We founded Advance Holding to manage a direct bank and the financial planners as operational units. It is being expanded as a third, independent sales channel for expert financial advice.
- The worldwide merging of asset management is almost complete. In fact, this is the only genuine merger in connection with the takeover of Dresdner Bank. *Allianz Dresdner Asset Management* – ADAM for short – is already working within the new structure.
- We founded ADPC – *Allianz Dresdner Pension Consult GmbH* – as a center of competence for company pension provision. This played a key role in the success of the mandate for the MetallRente pension fund. It coordinates the various activities of Allianz Dresdner Asset Management, Allianz Leben and Dresdner Bank.

- We are right on schedule with the ambitious cost-cutting measures in the individual areas.

All these processes are accompanied by communication and training measures to promote transparency, speed and motivation, and generally enhance successful integration. This has contributed significantly to the high level of acceptance in both companies, despite different corporate cultures.

I myself have taken part in a series of dialog events and was impressed by the open and constructive exchange of ideas. Based on these and other experiences and impressions, I know that our staff are right behind us in our ambitious project.

This combines with success in the marketplace to strengthen all those of us who are directly involved. We are confident that we can carry out all the remaining tasks associated with integration based on the same thoroughness and speed we have achieved to date.

IX. Other projects

Ladies and Gentlemen,

While we have been committing considerable energy to developing our profile as an integrated financial services provider and keeping to schedule, this has not of course been our exclusive focus. Naturally, we also tilled other fields of activity last year from which we hope to reap the benefits.

- We have strategically continued to make our business more international. We have also consistently restructured it where necessary.
- We have initiated the buyout offers for the shareholders in some of our subsidiaries like Dresdner Bank, Hermes Kreditversicherung and Vereinte Versicherung, and

- We have actively restructured our equity portfolio.

We have occasionally been subject to the accusation that we have not been radical enough in using the favorable tax situation to reduce our shareholdings. The opposite is true. We have “moved” equity participations totaling around 20 billion EUR, of which around 16 billion EUR were related to the purchase of Dresdner Bank. I think this allows us to hold our heads high, because according to reports in the press, a large number of the companies listed in the DAX-30 have carried out or announced transactions totaling 80 to 90 billion EUR. The proportion transacted by Allianz is not exactly insignificant by comparison.

We will continue to pursue a policy of active management for the equity portfolio and to focus investments of liquid assets primarily in our core businesses, i.e. insurance, asset management, and banking. This will make a significant contribution toward strengthening our competitiveness.

However, a proportion of the resources to be invested will continue to be plowed into major equity holdings that will be held over the medium and long term. This has nothing whatsoever to do with the buzzword “Deutschland AG”, but accords with our role as a major institutional investor. Why should a different rule apply to us compared with investors like, say Warren Buffet, whose long-term investment policy is geared to overperformance and is generally reckoned to be a shining example of entrepreneurial success?

X. Internationalization

Ladies and Gentlemen,

I would now like to pursue some of my points in greater detail, starting with the issue of **internationalization**. It remains one of the priorities of our business policy.

We already have a presence in more than 70 countries with our own companies.

Our 60 million clients worldwide include

- 20 million living in Germany, and
- 40 million spread around the globe.

In many countries we have carved out a competitive market position. In this process, the strong position of Allianz in risk management has proved a big advantage. We now have a favorable basis for ongoing expansion in these countries.

- In more than 20 countries we number among the five leading insurers, including Europe’s biggest markets.
- We have an outstanding position in the growth markets of Asia and Latin America as the second biggest non-local insurer.
- In Central and Eastern Europe we are Number One among foreign insurers.

Happily, there is a whole range of markets that are not yet saturated and whose growth potential is far from exhausted. We remain committed to our maxim of **think global, act local**. Only those companies that act local can be truly close to the client. This gives them the capability to act with the speed and flexibility that is necessary today. If a local provider can additionally draw on the resources of a global player, the link between *global and local* can be extremely effective.

The consistent internationalization of the Allianz Group that we continued to pursue last year is not an end in itself, but the means to the end of **value-added growth**. Moreover, our strategy is geared toward

distributing risks more favorably on an international scale – in insurance and investment. This improves performance and profitability over the long term.

We have taken this principle to heart and continued to implement it during the fiscal year 2001:

- In **Russia** we took a 45% stake in Rosno, the third biggest insurer.
- In **Croatia**, we have a successful joint venture with Zagrebacka banka in pension business, and a market share of 40% makes this the Number One in pension provision.
- In the **Slovak Republic**, we received the go-ahead for a stake of more than 90% in market leader Slovenska poistovna.
- In **India**, we started writing property and life insurance in 2001 with our partner Bajaj Auto.
- In **Thailand**, we took a stake in the fastest growing insurer, Ayudhya CMG in September 2001.
- In **Malaysia**, we submitted a successful takeover bid for Malaysia British Assurance Berhad (MBA) in July 2001.
- In **China**, where we are already writing life insurance business, we are scheduled to take up property insurance in late summer.
- In **Spain**, we have increased our stake in Banco Popular to nearly 10 percent, with the aim of strengthening our cooperation.

XI. Restructuring

Ladies and Gentlemen,
Apart from expansion into new areas of business and across geographical borders, we are focusing on systematic improvement of our structures. They have to be subject to a continual process of harmonization in order to respond to rapidly changing market conditions, and need to be optimized as far as possible.

I would like to take the example of **Dresdner Bank** to highlight how a new structure was created toward the end of last summer. The so-called *two-pillar structure* will enable it to develop its potential more favorably and be more effective in the marketplace.

All banking business is now concentrated in two pillars designated *Private Clients and Business Clients*, and *Corporates & Markets*. These two divisions are potent entities:

- they have a clear strategic profile,
- they are well established in the market,
- they have substantial potential, and
- they have the capital market as a common link.

Business with *corporate clients* and *investment banking* has been subsumed under *Corporates & Markets*. This is intended to make even better use of the combined effects and synergy potentials between corporate clients and investment banking.

Dresdner Bank has also devoted particular attention to the issue of **costs**. Since May 2000, 300 branches have been merged. Apart from radically cutting non-personnel expenses, further reductions in personnel have been agreed. Overall, Dresdner Bank will cut 7,800 jobs. 50% have already gone. In investment banking alone, we anticipate that additional savings in general expenses will yield an annual reduction in costs of around 500 million EUR.

We are pleased to report that these tough and regrettably unavoidable cuts are beginning to show the first evidence of success. The massive increase in costs over recent years flattened out significantly in 2001. As already mentioned, there was a reduction of more than 10% in the first quarter of 2002. Cost synergies arising from integration also brought about a significant improvement on the cost side.

In order to bring about a sustained increase in the profitability of Dresdner Bank, the Board of Management of Dresdner Bank embarked on an 8-point program in the fall designed to optimize structures, processes and procedures.

The **central initiatives** include

- establishing a new management structure and organizational structure,
- slimming down the Corporate Center of Dresdner Bank,
- realigning credit and risk processes,
- optimizing the entire spectrum of information technology, and
- introducing EVA a value-oriented control system that has been implemented in the Allianz Group worldwide.

Ladies and Gentlemen, as you can see, the bank has tackled everything over which it can exert an influence courageously and consistently. These far-reaching and radical measures are now being implemented step-by-step. What is needed now is the stimulus of improved conditions in capital markets.

The **Allianz Group** has also enjoyed other restructuring successes, for example in Great Britain, Austria, and with our subsidiary in the USA.

- After a difficult year in 2000, our subsidiaries *Cornhill* and *Allianz Elementar* have achieved an upswing in earnings for property insurance business amounting to nearly 150 million EUR.
- The restructuring program is beginning to have tangible effects at Fireman's Fund. The cost structure has been improved, unprofitable business has been shed.

All these measures are designed to help Allianz return to the strong profitability of the past. To what extent our profits really will increase naturally also depends on the

development of the global economy and the performance of international financial markets.

As far as the **economy** is concerned, Ladies and Gentlemen, I am quite optimistic. There have after all been a number of bright spots in recent months. Whether the economy really gets going, and the German economy starts to show tangible evidence of growth, doesn't simply depend on the overall international climate and the US economy. It also depends on whether German politicians succeed in addressing the **reform backlog** that has been restricting developments in Germany for far too long.

XII. Taking responsibility

Ladies and Gentlemen,

"Reformstau" (reform backlog) now appears to have become an intrinsically German concept, rather like "Angst". Problems are mounting on the labor market, in health-care, and the social system in general. The education system, too, is no exception. But instead of tackling them with courage and resolution, the government is only tinkering with the symptoms. Yet, more and more people are noticing that this is not sufficient, and we are being left behind – with unforeseeable consequences. That's why we now have to tackle the root causes of the problems and find a cure for them.

One of the most promising therapies is called **"less government, more private responsibility"**. Despite high taxes and social security contributions, the welfare state has long since reached the limits of its capabilities. This isn't just about lack of money. The entire system is suffering from excessive bureaucracy, lack of transparency and inefficiency. Although many things are *well intentioned*, they are not *being done well*, indeed a lot of things are *counter-productive*.

This is where we need to make a start. *Less government* means less bureaucracy, a less patronizing welfare state, and above all lower taxes.

Taxes

Even Benjamin Franklin knew that “**in this world nothing is certain but death and taxes**”.

Nothing has changed on that front. Despite the reduction in tax rates in the last two tax reforms, the tax burden is still too high for individuals. It needs to be reduced further.

I already have big problems from the perspective of first principles that **insurance tax** was increased with effect from January 1, 2002 alongside other taxes on consumption. And the current ideas that are being bandied around in some political circles on taxing **capital gains** again are just as questionable.

I do not propose to go into detail and present individual reasons why reintroducing taxation on capital gains would lead to a collapse in the system (key word: half-income system). I also don't wish to go into more detail on

- why this kind of new taxation fails to address the perceived difficulties at the expense of partnerships, and
- why the existing tax exemption has nothing to do with the reduced volume of corporate income taxes
- and why the whole issue is not about a perceived tax privilege, but would be about selective introduction of double taxation.

I only want to say one thing in this forum: Our entrepreneurial credibility as a predictable business location, our freshly gained attractiveness as a location for holding companies achieved on the basis of tax exemption would be seriously put at risk if we were to take long-term corporate decisions on such delicate tax issues at the pace of a quick step.

What we need in Germany is **more scope for initiative and dynamism!**

Tax exemption for capital gains was and remains the kind of scope that we urgently need in order to inject more energy into our economy. That's why we need to bring this pointless debate to an end.

Instead of *more government* we need *more responsibility* for the individual.

More responsibility – that is not always easy and convenient, but it is without doubt the right road. In the final analysis, there simply are no other alternatives. I am certain: this is the *only* way our society can

- overcome the sclerosis afflicting Germany, and
- regain the dynamism that we so urgently need in order to avoid coming last in the rankings for European economic growth.

Against this background, the **Riester pension reform** is particularly significant. It signifies a basic change that is going in the right direction. Because the welfare state security system overall is no longer in **equilibrium**, the weights need to be rebalanced:

- the balance between solidarity and subsidiarity,
- the balance between state care and private provision,
- the balance between collective allocation and individual saving.

The pension reform has made a key contribution as a model that we hope will be extended to other areas of social policy in similar need of reform.

Its significance doesn't only lie in the fact that the pension has once more been placed on a solid foundation, but that we have gone down the path **from passive care to active provision**.

There's no doubt that some aspects could have been simplified. Perhaps there would

then have been less reticence with regard to *Riester products*. But most debates on this matter get lost in the detail. It is particularly important for the government to resist the temptation of introducing an **obligatory system**. In my view, that would contradict the entire project. Instead, the basic idea of the pension reform should be disseminated to other problem areas in the arena of social policy, in particular to healthcare.

Healthcare

Although the problems in this area are perhaps even more serious than in pensions, our political protagonists appear to be afflicted by a lack of will to implement genuine reform. The governing coalition currently appears to want to circumvent a fundamental reform of healthcare and instead

- make it more difficult to take out private insurance, and
- compel more policyholders with private insurance to participate in the statutory health insurance system.

This is undoubtedly the wrong route. Simply shifting the threshold for mandatory insurance and the inevitable increase in the upper limit of assessment for contributions will get us nowhere.

A step of this nature would shift the **“peace line”** between statutory and private health insurance that has remained sacrosanct for so many years. This would be at the expense of the private health insurance industry (currently 10% market share) which is undoubtedly more efficient. Patients would bear the brunt of such a change. They would once again be the victims of the rhetoric of the welfare state and delay in reform. This approach would also destroy a large number of jobs in the private health insurance industry.

In my view, we should go down quite a different route. A similar route to that demonstrated by the initiative with the Riester pension. I believe in a radical, new health model that is tailored to actual requirements, for example the model presented by a subsidiary of Allianz, **Vereinte Krankenversicherung AG**. It links up with the success of the fully-funded system of private health insurance.

Of course, an initiative of this kind requires a forum for intensive debate. But in the end we will have to go down this route. The only question is, whether politicians will come to life before it is five minutes to midnight.

XIII. Thanks

Ladies and Gentlemen,

We do not propose to wait until it is five minutes to midnight. Whenever we see that there are problems with our business, we attempt to deal with them as quickly and thoroughly as possible. We proved this during the course of last year. 2001 was unquestionably a particularly difficult year. But we reacted quickly to the new challenges and moved forward in the right direction.

Now **we are focused on the future**. I believe that we will begin to see signs of the dynamic growth we have known and enjoyed in the past. I am very encouraged by the fact that you have remained so loyal even in difficult times. I would therefore like to conclude by extending my warmest thanks to you – the shareholders –

- for your support,
- for your loyalty to Allianz, and
- for your trust in our work.

Thank you, too, for listening once again to my speech with such attention and patience.

(The spoken word shall prevail)

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Certain of the statements contained herein may be statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words "may, will, should, expects, plans, intends, anticipates, believes, estimates, predicts, potential, or continue" and similar expressions identify forward-looking statements.

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