

Allianz Aktiengesellschaft
Annual Report 1999



Allianz

Allianz Aktiengesellschaft		1999		1998		1997		
Gross premiums written	Mio €	5,180	8.8	4,760	- 3.9	4,956	- 1.7	9
Retention	in %	63.4		62.8		62.0		
Loss ratio on own account	in %	74.9		71.6		70.5		8
Expense ratio (gross)	in %	25.6		26.2		24.7		8
Underwriting result	Mio €	- 123		55		- 5		8
Non-underwriting result	Mio €	1,153	30.7	882	47.3	599	55.3	12
Earnings before tax	Mio €	1,030	10.0	937	57.8	594	73.7	13
Taxes	Mio €	- 321		- 239		7		13
Net income	Mio €	709	1.6	698	16.1	601	95.4	13
Investments under management	Mio €	35,129	10.0	31,927	18.2	27,021	19.2	11
Shareholders' equity	Mio €	10,640	5.2	10,118	32.4	7,640	8.3	28
as percent of net premium income	in %	324.1		338.5		248.7		
Insurance reserves	Mio €	15,991	7.2	14,916	- 0.1	14,929	2.5	
Dividend per share	€	1.25		DM 2.20		DM 1.90		
Total dividend	Mio €	307		276		224		
Allianz share price at year end	€	334		317		238		
Allianz market capitalization at year end	Mrd €	81.8		77.6		54.8		

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We continually monitored the Board of Management's conduct of the Company's affairs in accordance with our responsibilities under the law and the Company's statutes. The Supervisory Board held four regular meetings in 1999. Between these meetings, we were continually informed of the current business situation by means of regular discussions with and written reports from the Board of Management.

Detailed reports regarding the development of the Allianz Group, Allianz AG and its major affiliates in Germany and abroad were submitted to the Supervisory Board. We requested and received extensive information on the Company's business plans for the fiscal year 2000.

We devoted particular attention to the actions of the Board of Management related to the aim of developing the asset management business into the Company's third core business sector. In this regard, we intensively examined the acquisition of a

majority holding in the U.S. asset management firm PIMCO Advisors L.P. This acquisition lifted Allianz to the ranks of the world's leading asset managers.

An extraordinary meeting on March 16, 2000 addressed an agreement in principle between Deutsche Bank, Dresdner Bank and Allianz. The intention was for Allianz to reduce its holdings in the two banks in conjunction with their planned merger and for Allianz to acquire certain activities from the merged bank.

We requested and received continual reports from the Board of Management on the talks being held on the issue of compensation for prewar policies that were not paid out as a result of Nazi persecution. We welcome the accession of the domestic and foreign Allianz companies to the German Industry Foundation Initiative and their cooperation with the International Commission.

We were continually informed about the preparations for the millennium changeover. The date conversion gave rise to no significant problems, neither in the companies of the Allianz Group nor among our customers.

The Supervisory Board also devoted its attention to the issue of risk analysis and capital allocation in the Allianz Group. We examined reports concerning the development of the Allianz Group in South America and in the health insurance sector. The Supervisory Board also deliberated on the initial plan of the German federal government, later rejected, to tax capital-sum life insurance policies.

The Supervisory Board formed the Standing Committee, the Executive Committee and the Mediation Committee required under the German Codetermination Law from among its own members. The Standing Committee held three meetings in 1999, devoted mainly to the capital measures of the Company and other plans requiring the consent of the Supervisory Board. The Executive Committee, which is responsible for monitoring personnel-related matters, met three times in 1999. There was no need for the Mediation Committee to meet.

KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Munich, audited the annual financial statements of Allianz AG and the consolidated financial statements of the Group as of December 31, 1999, as well as the management reports of Allianz AG and the Group, and provided them both with an unqualified auditor's opinion.

The reports of KPMG on its audit of the annual financial statements of Allianz AG and the Group were distributed to all members of the Supervisory Board and discussed extensively in the presence of the independent auditors at the meeting of the Supervisory Board held for this purpose on May 18, 2000. Based on our own examination of the documents submitted by the Board of Management and the independent auditors, we have no objections and concur with the findings of the audit by KPMG. We agree with the Board of Management's recommendation for the appropriation of net earnings. The Supervisory Board has approved the annual financial statements prepared by the Board of Management, which are therefore adopted.

Mr. Alfred Mackert resigned from the Supervisory Board on January 31, 2000. Mr. Jörg Thau, the replacement member elected by the employees, assumed his place on the Supervisory Board. Mr. Bernd Pischetsrieder resigned from the Supervisory Board as of February 29, 2000. Dr. Diethart Breipohl was appointed by the court to replace him on the Supervisory Board.

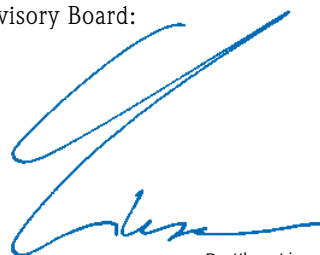
Dr. Breipohl, the board member responsible for finance for over eight years, retired at his own request with effect as of December 31, 1999. The former area of responsibility of Dr. Breipohl was divided into two new Board of Management posts. Responsibility for the post of "Finance" was assumed by Dr. Paul Achleitner, who was appointed to the Board of Management of Allianz AG as of January 1, 2000. Responsibility for the new post of "Asset Management and Other Financial Services" was assumed by Dr. Joachim Faber, who was also appointed to the Board of Management as a regular member with effect as of January 1, 2000.

Dr. Helmut Perlet and Mr. Michael Diekmann, formerly alternate members of the Board of Management, were appointed to the Board as regular members.

We have thanked the departing members of the Supervisory Board and the Board of Management for their contributions.

Munich, May 18, 2000

For the Supervisory Board:



Dr. Klaus Liesen

Dr. Klaus Liesen

Chairman of the Supervisory Board
Ruhrgas AG,
Chairman

Karl Miller

Salaried employee
Frankfurter Versicherungs-AG,
Deputy Chairman

Dr. Alfons Titzrath

Chairman of the Supervisory Board
Dresdner Bank AG
Deputy Chairman

Dr. Karl-Hermann Baumann

Chairman of the Supervisory Board
Siemens AG

Norbert Blix

Salaried employee
Allianz Versicherungs-AG

Dr. Diethart Breipohl

Former member of the
Board of Management
Allianz Aktiengesellschaft,
since March 10, 2000

Klaus Carlin

Trade Union Secretary
Commerce, Bank and Insurance
Workers' Union (HBV)

Bertrand Collomb

Président Directeur Général Lafarge

Renate Daniel-Hauser

Branch Manager,
Allianz Versicherungs-AG,
until February 24, 1999

Jürgen Dormann

Chairman of the Board of Management
Aventis S.A.

Professor Dr. Rudolf Hickel

Commerce, Bank and Insurance
Workers' Union (HBV),
since January 9, 1999

Reiner Lembke

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

Frank Ley

Salaried employee
Allianz Lebensversicherungs-AG

Alfred Mackert

Salaried employee
Vereinte Krankenversicherung AG,
until January 31, 2000

Bernd Pischetsrieder

Member of the Board of Management
Volkswagen AG
until February 29, 2000

Reinhold Pohl

Custodian,
Allianz Lebensversicherungs-AG

Gerhard Renner

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

Roswitha Schiemann

Branch Manager
Allianz Versicherungs-AG

Dr. Albrecht Schmidt

Speaker of the Board of Management
Bayerische Hypo- und Vereinsbank AG

Dr. Manfred Schneider

Chairman of the Board of Management
Bayer AG

Dr. Hermann Scholl

Chairman of the Executive Board
Robert Bosch GmbH

Jürgen E. Schrempp

Chairman of the Board of Management
DaimlerChrysler AG

Jörg Thau

Salaried employee,
Vereinte Krankenversicherung AG,
since February 1, 2000

**Dr. Henning Schulte-Noelle**

Chairman

Dr. Paul Achleitner

Chief Financial Officer
since January 1, 2000

Dr. Diethart Breipohl

Chief Financial Officer
until December 31, 1999

Detlev Bremkamp

Europe, Reinsurance,
ART

Michael Diekmann

Asia-Pacific, Central/Eastern Europe,
Near East, Africa

Dr. Joachim Faber

Asset Management
and Other Financial Services
since January 1, 2000

Dr. Reiner Hagemann

Property and Casualty Insurance,
Germany,
Personnel Director

Herbert Hansmeyer

North and South America

Dr. Helmut Perlet

Controlling, Accounting and Tax

Dr. Gerhard Rupprecht

Life and Health Insurance,
Germany

REINSURANCE

Besides serving as holding company for the Group, Allianz AG also acts as the Group's reinsurer, generating most of its premium income from Allianz subsidiaries and affiliates.

In fiscal year 1999, gross premiums rose by 8.8%, to 5.2 (4.8) billion euros. Net premiums increased by 9.8%, to 3.3 (3.0) billion euros.

The increase in premium income is attributable mainly to the fact that our property and casualty insurance companies in Germany were able to stabilize their premium income, compared to the previous year, while our share of the reinsurance business of the worldwide Allianz companies increased.

The proportion of total premium income contributed by companies outside Germany rose substantially to 16.9% (13.3%). In Singapore, we are currently in the process of establishing an Allianz AG Reinsurance Branch.

Before adjustments to the claims equalization reserve, the underwriting result declined to -124.5 (+12.2) million euros.

The loss ratio for own account (excluding redemptions and premium refunds) increased to 68.8% (65.4%), reflecting above all the negative impact of claims from natural disasters last year, including the earthquakes in Turkey and Greece (August and September 1999, respectively), but especially the earthquake in Taiwan (also September 1999). Extensive damage was also caused by Hurricane "Floyd" in September 1999, followed in December

1999 by Hurricane "Anatol" in northern Europe and the storms "Lothar" and "Martin" in Germany and France. These natural disasters also caused a significant increase in our loss ratio. The net cost of natural disasters in 1999 (after deduction of loss event protection cover) amounted to 114 million euros. Loss expenses in the automobile reinsurance business were also substantially higher. The expenses resulting from individual major-damage claims – primarily in the industrial insurance lines – were hardly changed from the previous year.

The expense ratio was 25.6% (26.2%). This ratio is mainly influenced by the volume of reinsurance commissions.

In spite of the higher loss expenses, the necessary withdrawals from the claims equalization reserves, at 1.9 million euros, were considerably lower in 1999 than in the previous year (42.7 million euros). The underwriting result worsened to -122.6 (+54.8) million euros.

ALLIANZ AG

Gross premiums written and results by insurance line in 1999

	Gross premiums written		Net underwriting result	
	1999	Change	1999	Change
	€ mn	in %	€ mn	in € mn
Automobile	1,287.4	5.6	- 72.4	- 47.1
Fire	529.6	15.2	- 18.8	- 28.4
Liability	496.8	15.7	11.1	12.6
Personal accident	449.7	11.1	- 11.9	- 37.8
Engineering	232.9	- 4.7	- 19.4	7.8
Homeowners	140.1	14.3	- 14.4	- 4.2
Household effects	110.1	- 0.7	10.2	0.0
Business interruption	70.0	- 9.6	- 2.9	- 3.7
Marine	139.8	25.6	- 7.3	- 15.0
Legal expenses	137.0	0.7	7.3	1.5
Life	824.4	9.3	22.2	- 21.1
Health	142.8	21.7	- 6.3	- 7.1
Other	619.6	8.2	- 20.0	- 34.9
Total	5,180.2	8.8	- 122.6	- 177.4

“Other” lines of reinsurance include:

- ▶ emergency assistance,
- ▶ burglary, theft and robbery
- ▶ omnium (comprehensive cover for goods during the manufacturing process),
- ▶ extended coverage,
- ▶ glass,
- ▶ hail,
- ▶ credit and bond,
- ▶ water damage,
- ▶ aviation,
- ▶ aircraft and spacecraft liability,
- ▶ storm,
- ▶ animal (livestock),
- ▶ other property and casualty business.

In the following, we provide an overview of the specific developments affecting the various reinsurance lines:

Premium income from **automobile reinsurance** increased to 1,287.4 (1,219.9) million euros. This line of reinsurance is heavily influenced by developments in the primary insurance market of Germany. Under the effect of stiff competition, the premium income of the Allianz companies continued to fall. Nonetheless, our premium income remained constant at approximately the level of the previous year because we acquired the automobile reinsurance business of Vereinte Versicherung AG. The frequency of claims and the unremitting increase in personal injury expenses weighed down on the underwriting result; this performance indicator, moreover, was also diminished by the existence of stop-loss contracts with Group companies in Australia and Greece. After the prescribed withdrawal of funds

from the claims equalization reserve, the underwriting result came to -72.4 (-25.3) million euros.

Premium income from **fire reinsurance** rose to 529.6 (459.8) million euros. Various factors played a role in this increase. As in the past, intense rate competition in the primary insurance market exerted an adverse effect on premiums in the reinsurance business. Nonetheless, we were successful in our efforts to expand the number of our reinsurance relationships in Asia and generated more business in Europe with Allianz companies that were in the process of reorganizing their reinsurance programs. The underwriting result before adjustments to the claims equalization reserve was diminished by major-damage claims in industrial fire insurance and claims resulting from natural disasters. After transfers to the claims equalization reserve, the underwriting result declined to -18.8 ($+9.6$) million euros.

Premium income from **liability reinsurance** increased yet again in 1999, rising to 496.8 (429.4) million euros, with most of the gains originating in Germany and Asia. The required transfer to the claims equalization reserve amounted to 38.8 million euros. The overall result improved to 11.1 (-1.5) million euros.

Premium income from **personal accident reinsurance** climbed to 449.7 (404.7) million euros. The underwriting result after adjustments to the claims equalization reserve worsened to -11.9 (25.9) million euros, the main reason for which being the stop-loss contract for workers' compensation insurance of our Group company Allianz Australia, which produced effects last year.

Premium income from the **reinsurance of engineering business** retreated to 232.9 (244.5) million euros, this decline being due most of all to fierce rate competition for industrial insurance business. The claims experience in this reinsurance line was adversely affected by natural disasters. We were nonetheless able to narrow the underwriting loss to -19.4 (-27.2) million euros after transfers to the claims equalization reserve.

In the business of **homeowners reinsurance** and **joint household effects reinsurance**, Allianz AG generated total premium income of 250.2 (233.5) million euros. Loss expenses for claims under household effects insurance were approximately the same as in the previous year, but the storms of December 1999 caused loss expenses under homeowners insurance to soar, with the result that the overall underwriting result declined to the level of -4.2 (0.0) million euros.

The erosion of premium rates in **business interruption reinsurance** continued in 1999, with premium income falling to 70.0 (77.4) million euros. After transfers to the claims equalization reserve, this reinsurance line showed a loss of 2.9 (previous year profit: 0.8) million euros.

Premium income from **marine reinsurance** increased to 139.8 (111.3) million euros, specifically as a result of expanded business outside Germany. After transfers to the claims equalization reserve, the underwriting result came to -7.3 (7.7) million euros.

In **legal expenses reinsurance**, premium income rose to 137.0 (136.0) million euros. The underwriting result after adjustments to the claims equalization reserve was 7.3 (5.8) million euros.

In **life reinsurance**, we were able to increase premium income by 9.3% to 824.4 (754.1) million euros. This increase was generated for the most part in the German life insurance business. Due to the fact that primary insurers received a greater share of the profits in 1999, however, the underwriting result declined to 22.2 (43.3) million euros.

Premium income from **health reinsurance** rose to the level of 142.8 (117.3) million euros. Rising premium income in Germany and the business expansion underway in Asia were the driving factors behind the sales gain. Due to the unfavorable claims experience outside Germany, this reinsurance line closed with a loss of 6.3 (previous year profit: 0.8) million euros

Premium income from **other reinsurance lines** in the amount of 619.6 (572.5) million euros originated for the most part in Germany. The largest single item, at 358.7 (347.2) million euros, was in the category of other property reinsurance. The premium income from other reinsurance lines also included 98.5 million euros from extended coverage reinsurance and 76.3 million euros from credit and bond reinsurance. The underwriting result dropped to -20.0 (+15.1) million euros. This loss was mainly the result of claims incurred in connection with the floodwaters that affected southern Bavaria at Whitsuntide 1999, as well as the storms "Anatol" and "Lothar". Many losses resulting from these natural disasters were insured under combined insurance products for business customers.

INVESTMENTS

The **book value of the investments** of Allianz AG increased by 10% to 35.1 (31.9) billion euros in 1999.

Real estate holdings rose by 23 million euros to 346 million euros in 1999.

Net book value additions to **investments in affiliated and associated companies** amounted to 2.6 billion euros, bringing the total under this heading to 22.3 billion euros.

In the following, we provide an overview of the most important transactions of last year:

- ▶ We acquired First Life Insurance in South Korea and launched two joint ventures in Taiwan.
- ▶ The insurance holdings held jointly with Münchener Rückversicherungs-Gesellschaft AG were deglomerated further. In connection with this restructuring, a 15.6% equity interest in Allianz of America was transferred to Allianz AG, so that we now hold 100% of the stock in this company. In exchange, Allianz AG transferred its last remaining holdings in American Re, plus approximately 4.2% of ERGO Versicherungsgruppe AG, to Münchener Rückversicherungs-Gesellschaft AG. The remaining shares in ERGO Versicherungsgruppe were sold on the market.

- ▶ We participated in various capital increases, including one for Deutsche Bank, AG.

- ▶ In conjunction with Dresdner Bank AG and Münchener Rückversicherungs-Gesellschaft AG, we founded a company that offers software for the efficient administration of registered shares. This product has been very well received in the market.

The category of **Other investments** remained virtually unchanged at 3.8 billion euros. This item consisted mostly of

- ▶ stocks and other equity interests in the amount of 1.2 (0.9) billion euros;
- ▶ fixed-income securities with a book value of 2.4 (2.7) billion euros;
- ▶ bank deposits and miscellaneous investments in the amount of 0.2 (0.2) billion euros.

The market value of real estate holdings, dividend-bearing securities (investments in affiliated and associated companies, stocks and investment certificates) and bearer bonds as of December 31, 1999, was 59.5 (51.9) billion euros. They were valued on the balance sheet at 25.5 (22.9) billion euros.

Funds held by others to reinsurance business assumed increased to 8.7 (8.1) billion euros.

Current income from investments edged up slightly, by 42.4 million euros, to 1,665.9 million euros. This result was the product of various opposing developments:

- ▶ At 236.3 million euros, the profit transferred by Allianz Versicherungs-AG was lower than the 1998 figure by 104.2 million euros.
- ▶ Income from equity holdings was slightly lower, at 329.5 million euros.
- ▶ On the other hand, income from other investments rose by 196.7 million euros to 1,100.2 (903.5) million euros. This item also contains interest on funds held by others in the amount of 541.9 (514.3) million euros.

Realized investment gains jumped significantly from 594.9 to 945.8 million euros. The following transactions contributed to the higher profits:

- ▶ Profits of 863.3 million euros were realized on the sale of stocks and equity holdings in affiliated and associated companies. About 80% of these profits resulted from the disposal of the shares held in ERGO Versicherungsgruppe.

- ▶ Gains of 16.6 million euros were realized on the sale of real estate.

- ▶ An additional 55.6 million euros in profits were realized on the sale of fixed-income securities and investment certificates.

Realized investment losses totaled 27.6 (115.0) million euros.

Depreciation and writedowns amounted to 160.5 (73.0) million euros. This amount includes:

- ▶ 127.8 million euros on equity holdings in affiliated companies (Allianz of Asia-Pacific and Africa)
- ▶ 16.3 million euros on securities
- ▶ 16.4 million euros on real estate

As a result of the German tax reform, the company was obligated for the first time in 1999 to reinstate the original values of certain investments, the effect of which was to increase the company's earnings in 1999. The law states that writedowns taken on investments in earlier years must, under certain conditions, and specifically when the current market value of these investments no longer justifies any more writedowns, be reversed and the original value of the investments reinstated. The reversal of all writedowns taken on investments in the past produced an amount of 146.1 million euros, including:

- ▶ 106.6 million euros on equity holdings in affiliated and associated companies;
- ▶ 39.1 million euros on securities;
- ▶ 0.4 million euros on real estate.

The earnings effect of the reinstatement of original values will be distributed over a period of five years. After allocation to the original values reinstatement reserve, therefore, only 29.4 million euros were posted to the income statement in fiscal year 1999.

At 1,979.8 (1,515.0) million euros, **net income from investments** showed a 31% gain.

This figure represents the net result after

- ▶ deduction of investment management expenses in the amount of 97.4 (92.0) million euros;
- ▶ deduction of interest expenses in the amount of 367.9 (360.0) million euros, incurred almost exclusively on loans from Group companies;
- ▶ the allocation of 124.7 (63.5) million euros to the special untaxed reserve. Of this amount, 116.7 million euros related to the original values reinstatement reserve.

Of the net income figure, 538.3 (511.0) million euros were credited to the underwriting account for the allocated interest return.

TOTAL EARNINGS

Non-underwriting activities produced an overall profit of 1,152.7 (881.9) million euros. Added to the underwriting profit of –122.6 (+54.8) million euros, earnings before taxes came to 1,030.1 (936.7) million euros. Tax expenses increased to 321.2 (239.1) million euros. The higher tax expenses are a reflection of the accruals established by the company in the amount of 115.2 million euros in anticipation of the taxation plans of the German federal government. Under these plans, loss reserves will no longer be recognized in their full amount, but only at their discounted value. After tax expenses, net income for the year amounted to 708.8 (697.6) million euros. Of this amount, 354.4 (348.8) million euros were transferred to the reserve for other appropriated retained earnings, leaving 354.4 (348.8) million euros in unappropriated net income. The annual meeting of shareholders to be held on July 12, 2000 will be asked to approve an additional appropriation of 47.8 million euros from net income to retained earnings. The dividend to be paid on each share qualifying for dividends has been increased to 1.25 (1.12) euros.

RISK MANAGEMENT

As an insurer, we are used to handling and mastering risk. Risk management is therefore an integral aspect of our controlling processes. Within risk management, a distinction is made between several types of risk.

- ▶ Premium risk is defined as the danger of insurance premiums not being sufficient to cover loss expenses.
- ▶ Reserve risk is defined as the danger of loss reserves formed in previous years not being sufficient to cover actual claims.
- ▶ Credit risk concerns the risk of default on the part of debtors of the company, mainly reinsurers.
- ▶ Investment risk forms another category.
- ▶ And finally, operating risk arises from factors like hardware, software, or application programs.

What risk-management instruments do we employ to protect ourselves against these dangers?

Premium risks. Our pricing methods and guidelines are the main means of managing premium risks. In addition, the Group limits its own liability by, where necessary, passing on a portion of the assumed risks to the international reinsurance markets. Moreover, we engage in scientific loss prevention, carrying out ongoing studies for the manufacturing industry and in the automobile sector, the sole purpose of which is to reduce the probability of a loss occurring and to minimize loss expenses.

Natural disasters like earthquakes, storms, and floods represent a special kind of challenge for risk management. While they occur less frequently than other loss-causing events, their consequences can often go well beyond the usual level of loss, for instance when entire regions are devastated. We employ modeling techniques to master such risks. This involves collating the data on earthquakes or weather patterns in such a way that natural disaster scenarios can be simulated.

To equalize fluctuations in the claims experience, Allianz AG disposes of claims equalization reserves in the amount of 608 million euros.

Reserve risks. Reserves need to be set up for insurance claims that have been submitted but not yet adjusted. To assess the appropriate amounts, we make use of historic values. In addition, we limit the risk by continually monitoring the development of these reserves. The accumulated know-how is channeled back into current assessments.

Credit risks. When selecting our reinsurance partners, we only consider companies that offer excellent security. To control credit risk, our Group companies employ wide-ranging rating information that is either generally available or acquired through internal studies.

Investment risks. Investment is an integral part of the “insurance protection” service. The function of investments is to guarantee the promised benefits of insurance products. We need to take this close relationship into account when assessing investment risks.

We distinguish between market, credit and liquidity risk when managing the risks arising from our investments.

- ▶ Market risks arise from volatility in stock market and other capital market prices. We use sensitivity analyses and stress tests to monitor the impact of negative developments. The economic risk arising from changes in exchange rates is low because our benefit commitments are backed by funds in the same currency.

- ▶ Credit risks relate to the risk of default by debtors and the possibility of deterioration in their credit-worthiness. We limit this risk by setting high requirements for the financial solidity of our debtors and diversifying exposure.

Derivative financial instruments – such as swaps, options and futures – are also used selectively to hedge against changes in prices and interest rates. Our internal investment and monitoring guidelines tend to be even stricter than the respective regulatory requirements.

Market and credit risks arising from the deployment of derivatives are subject to particularly stringent checks.

- ▶ Credit risks are assessed by measuring gross replacement values.
- ▶ Market risks are monitored using up-to-date value-at-risk calculations and stress tests, and by fixing stop-loss limits.
- ▶ Liquidity risk is monitored by reconciling our portfolio of investments with the obligations arising from our insurance operations. In addition, this risk is limited by planning our cash flows from ordinary activities. This approach ensures that we are able to meet the payment obligations arising from our insurance policies at all times.

Moreover, the composition and diversity of our investments are also to be seen as part of risk management. Our organization limits the risks arising from our investments by strictly separating trading, settlement and controlling.

Operating risks. The millennium changeover was viewed as a central risk for hardware, software and application programs alike. Allianz AG succeeded in averting the dangers, and the transition to the new year passed without a problem. Similarly, no problems have been reported in the course of the present fiscal year – February 29 was thought to be a particularly dangerous date. As a result, we can report a positive outcome of the intense preparations we carried out in previous years.

Legislators, regulatory authorities, rating agencies, and capital markets all represent additional risk-monitoring bodies. Between them they define the minimum level of precautionary measures in the individual countries and internationally. We go beyond the minimum requirements, constantly refining our risk-management models. To do this, we evaluate our risk data systematically, meaning that we are able to enhance the quality and efficiency of our risk management as a result. The international rating agencies Standard & Poor's and A.M. Best awarded their highest AAA and A++ ratings to the Allianz Group.

LONG-TERM INCENTIVE PLAN

Our “Long-term Incentive Plan”, which is in effect for several years at a time, is a prime example of our efforts in this direction. Under this plan, additional compensation is earned only if, after a two-year waiting period, two conditions are met:

- ▶ Our share price must have outperformed the Dow Jones STOXX Index, and
- ▶ it must have risen by more than 20%.

The senior managers of all Group companies are eligible to receive this component of compensation.

OUTLOOK

As the Group's reinsurer, Allianz AG participates in the premium income and earnings performance of the Group subsidiaries and affiliates. Because the greater part of this business still derives from Germany, our sales and earnings forecasts are heavily influenced by the developments in this primary insurance market. Although the higher premiums in the German automobile reinsurance began to reverse the downward trend in this market, we do not yet expect positive results in the year 2000. The industrial insurance market is still subject to intense rate competition. On the whole, we expect that premium income for the current fiscal year will be approximately the same as in the previous year. The losses feared in connection with the millennium changeover have not materialized to date, indicating that the initiatives undertaken by the company to reduce and prevent losses by working closely with customers were indeed successful. Because later claims could still be filed in certain reinsurance lines, however, we are not yet able to rule out loss expenses in relation to the millennium changeover.

Barring extraordinary major-damage claims, natural disasters and turmoil in the capital markets, we predict that earnings for the current fiscal year will remain on the level of the previous year.

**RECOMMENDATION FOR
APPROPRIATION OF PROFIT
ALLIANZ AKTIENGESELLSCHAFT**

Unappropriated earnings of 354,437.500 € are at the disposal of the annual meeting of shareholders. We propose that this amount be appropriated as follows:

1. Distribution of a dividend of 1.25 € per qualifying share, any amount payable on shares held by the company being carried forward to new account;
2. Allocation of 47,850.000 € to other appropriated retained earnings.

Munich, May 2, 2000
Allianz Aktiengesellschaft

The Board of Management

Dr. Schulte-Noelle	Dr. Achleitner
Bremkamp	Diekmann
Dr. Faber	Dr. Hagemann
Hansmeyer	Dr. Perlet
Dr. Rupprecht	

Financial Statements

Allianz Aktiengesellschaft

ASSETS

	Note	1999	1999	1998
		€ 000s	€ 000s	€ 000s
A. Intangible assets	1		821	2 055
B. Investments	1 – 4			
I. Real estate		345,526		322,744
II. Investments in affiliated and associated companies		22,268,051		19,652,862
III. Other investments		3,805,316		3,816,590
IV. Funds held by others under reinsurance business assumed		8,709,931		8,134,722
			35,128,824	31,926,918
C. Receivables				
I. Accounts receivable on reinsurance business		430,905		355,208
including € 000s 124,713 (55,228) from affiliated companies				
including € 000s 234,320 (1,309) from other companies in which long-term equity investments are held				
II. Other receivables		914,747		694,498
including € 000s 841,722 (673,924) from affiliated companies				
including € 000s 303 (156) from other companies in which long-term equity investments are held				
			1,345,652	1,049,706
D. Other assets				
I. Tangible fixed assets and inventories		217		246
II. Cash with banks, checks and cash on hand		63,102		29,840
III. Own shares		237		–
arithmetical value: € 000s 2 (–)				
IV. Miscellaneous assets		449		–
			64,005	30,086
E. Prepaid expenses	5			
I. Accrued interest and rents		55,631		57,706
II. Other prepaid expenses		99,943		118,826
			155,574	176,532
Total assets			36,694,876	33,185,297

EQUITY AND LIABILITIES

	Note	1999	1999	1999	1998
		€ 000s	€ 000s	€ 000s	€ 000s
A. Shareholders' equity	6				
I. Capital stock			627,891		626,113
II. Additional paid-in capital			7,182,716		7,094,520
III. Appropriated retained earnings					
1. required by law		1,229			1,229
2. for own shares		237			–
3. other		2,473,556			2,046,940
			2,475,022		2,048,169
IV. Unappropriated retained earnings			354,437		348,809
				10,640,066	10,117,611
B. Participating certificates	7			449,519	449,519
C. Special untaxed reserve	8			251,349	126,656
D. Insurance reserves					
I. Unearned premiums					
1. Gross		825,901			780,043
2. less:					
amounts ceded		293,801			280,732
			532,100		499,311
II. Aggregate reserve					
1. Gross		8,303,183			7,751,993
2. less:					
amounts ceded		979,120			933,432
			7,324,063		6,818,561
III. Reserve for loss and loss adjustment expenses					
1. Gross		5,924,568			5,456,113
2. less:					
amounts ceded		2,506,071			2,205,545
			3,418,497		3,250,568
IV. Reserve for non-experience-rated premium refunds					
1. Gross		115,228			111,100
2. less:					
amounts ceded		49,773			47,679
			65,455		63,421
V. Claims equalization and similar reserves			607,500		609,395
VI. Other insurance reserves					
1. Gross		214,246			207,495
2. less:					
amounts ceded		23,951			23,452
			190,295		184,043
				12,137,910	11,425,299

	Note	1999	1999	1998
		€ 000s	€ 000s	€ 000s
E. Other accrued liabilities	9		2,657,519	2,540,987
F. Funds held under reinsurance business ceded			1,095,255	1,042,438
G. Other liabilities	10			
I. Accounts payable on reinsurance business		457,100		412,232
including € 000s 405,468 (377,422) to affiliated companies				
including € 000s 6,026 (6,976) to other companies				
in which long-term equity investments are held				
II. Liabilities to banks		–		46
III. Miscellaneous liabilities		9,006,141		7,070,492
including taxes of € 000s 61,749 (38,880)				
including € 000s 8,616,523 (6,839,634) due to affiliated companies				
including € 000s 167,954 (100,841) due to other companies				
in which long-term equity investments are held				
			9,463,241	7,482,770
H. Deferred income			17	17
Total equity and liabilities			36,694,876	33,185,297

For the period from January 1 to December 31, 1999

	Note	1999 € 000s	1999 € 000s	1999 € 000s	1998 € 000s
I. Underwriting account					
1. Premiums earned - net					
a. Gross premiums written	11	5,180,240			4,760,383
b. Premiums ceded		- 1,897,722			- 1,771,719
			3,282,518		2,988,664
c. Change in unearned premiums - gross		- 26,059			42,296
d. Change in unearned premiums ceded		6,285			- 29,302
			- 19,774		12,994
				3,262,744	3,001,658
2. Allocated interest return - net	12			481,778	446,787
3. Other underwriting income - net				19,717	18,136
4. Loss and loss adjustment expenses - net					
a. Claims paid					
aa. Gross		- 3,689,277			- 3,355,950
bb. Amounts ceded in reinsurance		1,324,694			1,252,391
			- 2,364,583		- 2,103,559
b. Change in reserve for loss and loss adjustment expenses					
aa. Gross		- 327,656			21,489
bb. Amounts ceded in reinsurance		249,856			- 68,204
			- 77,800		- 46,715
				- 2,442,383	- 2,150,274
5. Change in other insurance reserves - net	13			- 343,553	- 306,260
6. Expenses for non-experience-rated premium refunds - net				- 28,568	- 34,548
7. Underwriting expenses - net	14			- 811,552	- 728,364
8. Other underwriting expenses - net				- 262,666	- 234,949
9. Subtotal				- 124,483	12,186
10. Change in claims equalization and similar reserves				1,895	42,656
11. Underwriting result - net				- 122,588	54,842

	Note	1999 € 000s	1999 € 000s	1999 € 000s	1998 € 000s
II. Non-underwriting account					
1. Investment income	15		2,766,825		2,218,457
2. Investment expenses	16 – 17		– 787,036		– 703,466
			1,979,789		1,514,991
3. Allocated interest return			– 538,259		– 510,987
				1,441,530	1,004,004
4. Other income	18		246,473		326,677
5. Other expenses	19		– 535,330		– 448,801
				– 288,857	– 122,124
6. Non-underwriting result				1,152,673	881,880
7. Earnings from ordinary activities before taxation				1,030,085	936,722
8. Income taxes	20	– 903,860			– 674,346
less amounts charged to other companies in the Group		584,602			437,429
				– 319,258	– 236,917
9. Other taxes		– 2,303			– 2,584
less amounts charged to other companies in the Group		313			391
				– 1,990	– 2,193
				– 321,248	– 239,110
10. Net income	21			708,837	697,612

Legal Regulations

The financial statements and Management Report have been prepared in accordance with the regulations contained in the German Commercial Code (HGB), the Corporation Law (AktG), the Law on the supervision of insurance enterprises (VAG), and the Government Order on the external accounting requirements of insurance enterprises (RechVersV).

The above-mentioned regulations for the Company as a reinsurance company not only address the special contents of the financial statements and Management Report but also the extended deadlines for their preparation. All amounts in the financial statements are stated in and rounded out to euro thousands (€ 000s), the figures for the previous year being converted accordingly. The rate of exchange is DM 1.95583 for 1 €.

Accounting, Valuation and Calculation Methods

Requirement to restate original values, revaluations and special untaxed reserve

The requirement to restate original values was applied for the first time in fiscal year 1999. This requirement involves amounts being written up on assets, which have been written down to a lower market value in previous years, if a higher market value is attributed to them on the balance sheet date. Assets were written up either to the amount of the amortized cost or to a lower market value or stock-market value. During the year under review, amounts were written back for securities and investments in affiliated enterprises. They were reported as income and 80 per cent was taken to the special untaxed reserve in accordance with fiscal regulations. This reserve will be released over a maximum period of 4 years.

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

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

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

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

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

- ▶ Loans to affiliated enterprises,
- ▶ Debentures and loans,
- ▶ Bank deposits,
- ▶ Funds held by others under reinsurance business assumed,
- ▶ Accounts receivable on reinsurance business,
- ▶ Other receivables,
- ▶ Cash with banks, checks and cash on hand,
- ▶ Accrued interest and rents.

Insurance reserves consist of the following:

- ▶ Unearned premiums,
- ▶ Aggregate policy reserve,
- ▶ Reserve for loss and loss adjustment expenses,
- ▶ Reserve for premium refunds (non-experience-rated),
- ▶ Other insurance reserves.

These reserves were set up according to information provided by the ceding insurers, estimated to a certain extent.

The reinsurers' shares were calculated in accordance with the reinsurance contracts.

The claims equalization reserve, the reserve for nuclear plants and the product liability reserve for major pharmaceutical risks were calculated for the net retention portion according to § 341h of the German Commercial Code in conjunction with § 29 and § 30 of the Government Order on the external accounting requirements of insurance enterprises.

Other accrued liabilities

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

Liabilities consist of:

- ▶ Participating certificates,
- ▶ Funds held under reinsurance business ceded,
- ▶ Accounts payable on reinsurance business,
- ▶ Other liabilities.

These liabilities are recorded at the amounts payable on maturity. Annuities are recorded at present value.

Deferred income

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

Approximation and simplification procedures

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

Foreign currency translation

Investments denominated in foreign currencies are stated at an amount based on the local currency and the exchange rate on the balance sheet date. The modified or strict lower of either cost or market principles is used. The other balance sheet items are valued in accordance with established principles for currency translation for open and – where applicable – closed positions.

1 Changes under asset headings A., B.I. through B.III. in fiscal year 1999

	Values stated at 12/31/1998		Additions
	€ 000s	%	€ 000s
A. Intangible assets			
Other intangible assets	2,055		101
B.I. Real estate	322,744	1.4	40,510
B.II. Investments in affiliated and associated enterprises			
1. Investments in affiliated enterprises	18,518,546	77.8	3,252,166
2. Loans to affiliated enterprises	728,646	3.1	38,031
3. Investments in other enterprises	402,844	1.7	419,118
4. Loans to other enterprises in which long-term equity investments are held	2,826	0.0	128
Subtotal B.II.	19,652,862	82.6	3,709,443
B.III. Other investments			
1. Stocks, investment fund units and other variable income securities	945,864	4.0	618,638
2. Bearer bonds and other fixed income securities	2,684,952	11.3	1,773,114
3. Other loans			
Debentures and loans	97	0.0	612,559
4. Bank deposits	175,446	0.7	57,453
5. Miscellaneous investments	10,231	0.0	17,625
Subtotal B.III.	3,816,590	16.0	3,079,389
Subtotal B.I - B.III.	23,792,196	100.0	6,829,342
Total	23,794,251		6,829,443

2 Market value of investments

The market value of holdings of real estate, dividend-bearing stocks (investments in affiliated and associated enterprises, other shares and investment fund units) and bearer bonds at December 31, 1999 amounted to € 59.5 billion. The corresponding balance sheet valuation of these investments was € 25.5 billion.

The values are broken down as follows between individual asset categories:

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

Real estate

Land and buildings as a rule at capitalized earnings value, new buildings at cost, in each case as at December 31, 1999.

	Book value	Market value	Valuation reserve
	12/31/1999	12/31/1999	12/31/1999
	€ in billions	€ in billions	€ in billions
Real estate	0.3	0.9	0.6
Dividend-bearing stocks	22.8	56.1	33.3
Bearer bonds	2.4	2.5	0.1
Total	25.5	59.5	34.0

Transfers	Disposals	Revaluation	Depreciation	Net Additions (+) Net Disposals (-)	Values stated at 12/31/1999	
€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	%
-	-	-	1,335	- 1,234	821	
-	1,764	400	16,364	+ 22,782	345,526	1.3
7,793	300,934	106,451	127,823	+ 2,937,653	21,456,199	81.2
-	88,539	-	-	- 50,508	678,138	2.6
- 7,793	680,560	128	23	- 269,130	133,714	0.5
-	2,954	-	-	- 2,826	-	-
-	1,072,987	106,579	127,846	+ 2,615,189	22,268,051	84.3
-	375,046	19,643	1,780	+ 261,455	1,207,319	4.6
-	2,109,964	19,472	14,481	- 331,859	2,353,093	8.9
-	600,656	-	-	+ 11,903	12,000	0.0
-	-	-	-	+ 57,453	232,899	0.9
-	27,851	-	-	- 10,226	5	0.0
-	3,113,517	39,115	16,261	- 11,274	3,805,316	14.4
-	4,188,268	146,094	160,471	+ 2,626,697	26,418,893	100.0
-	4,188,268	146,094	161,806	+ 2,625,463	26,419,714	

Dividend-bearing stocks

Quoted companies at the stock exchange price quoted on the last trading day of 1999. Non-quoted companies at their net worth calculated by the DVFA method or at acquisition cost.

Bearer bonds and other fixed income securities

At the stock exchange value quoted on the last trading day of 1999.

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

These consist entirely of holdings in private limited liability companies.

4 Disclosure of equity investments

The information required by the German Commercial Code (§ 285 no. 11 HGB) is filed with the Commercial Register at the Municipal Court in Munich.

5 Other prepaid expenses (Assets E.II.)

This heading includes € 000s 27,083 (26,571) in respect of repayment premiums on loans to affiliated enterprises and € 000s 72,542 (91,986) in respect of debt discount on miscellaneous liabilities.

Collateral

Assets included in the balance sheet totaling € 000s 966 037 (864 149) are subject to restricted usage through collateral.

6 Shareholders' equity (Liabilities A.I.)

In March 1999, the **capital stock** of the Company and all other DM amounts in the statutes were restated in euros. In order for each no-par value share to have a mathematical value of precisely 2.56 euros as a proportion of the capital stock, the capital was increased from Company resources without issuing any new shares by 867,141.04 euros to 626,979,840.00 euros, on the basis of the resolution adopted by the annual meeting of shareholders. In September 1999, a further 356,000 shares with a mathematical value of 911,360 euros (0.1 percent) as a proportion of the capital stock were issued at a price of 250.30 euros each, enabling employees of Allianz Group enterprises in Germany to take up 233,055 employee shares at a price of 150.32 euros. 122,000 shares with a mathematical value of 312,320 euros as a proportion of the capital stock were sold on the stock market at an average price of 289.11 euros in December 1999. The Company held 945 of its own shares with a mathematical value of 2,419.20 euros (less than 0.1 percent) as a proportion of the capital stock at the end of 1999.

The capital stock at December 31, 1999 amounted to 627,891,200 euros, divided into 245,270,000 registered shares. The shares have no par value as such but a mathematical value of 2.56 euros each as a proportion of the capital stock.

At the end of the year under review there was **authorized unissued capital** with a nominal value of 135,492,348.52 euros, which can be issued at any time up to September 30, 2000. The pre-emptive rights of shareholders can be excluded up to an amount of 12,574,623.05 euros in order to utilize fractions arising from smoothing the amount of the increase or of the capital and offer new shares to the holders of shares issued against options exercised during the period between adoption of the resolution to increase the capital and publication of the subscription offer. There was a further 30,677,512.87 euros of authorized unissued capital II which can be utilized up to July 7, 2003. The pre-emptive rights of shareholders can be excluded in order to issue the new shares at a price not materially below the quoted market value. Authorized unissued capital III can be used

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

	€ 000s
12/31/1998	7,094,520
+ Transfer from capital increases in 1999	88,196
12/31/1999	7,182,716

Appropriated retained earnings (Liabilities A.III.)

	12/31/1998	From unappropriated 1998 retail	From 1999 net income	Capital increase from company reserves	Allocation for own interests	12/31/1999
	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s
1. Required by law	1,229	–	–	–	–	1,229
2. For own shares	–	–	–	–	237	237
3. Other	2,046,940	73,320	354,400	– 867	– 237	2,473,556
Total	2,048,169	73,320	354,400	– 867	–	2,475,022

at any time up to July 7, 2003 to issue shares with a nominal value of 51,129,188.12 euros for a non-cash consideration. The pre-emptive rights of shareholders are excluded. Authorized unissued capital IV of 2,469,521.77 euros is available for issue at any time up to July 10, 2002, which can be used – with the pre-emptive rights of existing shareholders excluded – to issue shares to employees of Allianz AG or of other companies in the Group. Authorized unissued capital V of 2,556,459.41 euros is available for issue up to July 7, 2003 and can be used to protect the holders of conversion or subscription rights from dilution in the event of future capital increases for cash by granting them a pre-emptive right to subscribe for new shares. To that extent the pre-emptive rights of shareholders are excluded.

The Company had **conditionally authorized capital** with a nominal value of 10,240.000 euros on which subscription or conversion rights, with pre-emptive rights for shares, can be issued up to June 30, 2003.

7 Participating certificates (Liabilities B.)

At December 31, 1999, Allianz AG had issued 5,723.512 participating certificates. The dividend payable on a participating certificate is 240% of that paid by the Company on an Allianz no-par-value share; a minimum yield of 5% of the nominal value (€ 5.12) of the participating certificate is guaranteed.

Redemption of the participating certificates cannot be demanded by a holder before the end of the year 2001 at the earliest. The guaranteed redemption price in this case for all the participating certificates issued to date is a uniform € 78.54. The total guaranteed redemption price is shown under this item in the Balance Sheet. Profit applicable to participating certificates is reported under Other Liabilities.

8 Special untaxed reserve (Liabilities C.)

	12/31/1998	Allocated	Released	12/31/1999
	€ 000s	€ 000s	€ 000s	€ 000s
Reserve according to § 6b EStG	126,656	16,972	9,014	134,614
Reserve according to § 52 (16) EStG	–	116,735	–	116,735
Total	126,656	133,707	9,014	251,349

9 Other accrued liabilities (Liabilities E.)

The pension obligations of the companies in Allianz's Property and Casualty Insurance Group in Germany, Allianz Lebensversicherungs-AG, Deutsche Lebensversicherungs-AG, Vereinte Lebensversicherung AG, Vereinte Versicherung AG and Vereinte Rechtsschutzversicherung AG are accrued in the financial statements of Allianz AG because the Company has assumed joint liability for the pension obligations and undertaken to fulfil them. In addition to **pension and similar reserves** of € 000s 2,378,642 (€ 000s 2,115,696) and **accrued taxes** of € 000s 198,342 (€ 000s 373,392) the Company has **miscellaneous accrued liabilities** of € 000s 80,535 (€ 000s 51,699), including € 000s 11,484 for costs of the early retirement scheme and employee long-service awards, which are shared throughout the Group, and € 000s 6,709 for contingencies.

10 Long term and secured liabilities

Miscellaneous liabilities amounting to € 000s 2,974,088 have a period to maturity of more than 5 years. € 000s 2,439 of the miscellaneous liabilities are secured by mortgages or annuity charges. Long-term liabilities have increased as a result of new lending arrangements within the Group.

11 Gross premiums written (Income Statement I.1.a)

	1999	1998
	€ 000s	€ 000s
Property and casualty insurance	4,355,834	4,006,312
Life insurance	824,406	754,071
Total	5,180,240	4,760,383

12 Allocated interest return - net

(Income Statement 1.2.)

The amount of investment income transferred under this heading from the non-underwriting section to the underwriting section of the income statement is calculated in accordance with § 38 RechVersV (the Government Order on the external accounting requirements of insurance enterprises).

13 Change in other insurance reserves - net

(Income Statement 1.5.)

This heading comprises € 000s 330 255 (315 206) added to the net aggregate reserve and € 000s 13 298 (– 8 946) released from added to miscellaneous net insurance reserves.

14 Underwriting expenses - net

(Income Statement 1.7.)

Gross underwriting expenses of € 000s 1 326 800 (€ 000s 1 248 539) are shown net of commissions and profit-sharing on reinsurance ceded amounting to € 000s 515 248 (€ 000s 520 175).

15 Investment income (Income Statement II.1.)

	1999	1999	1998
	€ 000s	€ 000s	€ 000s
a. Income from long-term equity investments		329,470	379,592
including from affiliated enterprises: € 000s 313,847 (279,641)			
b. Income from other investments			
including from affiliated enterprises: € 000s 430,613 (384,762)			
aa. Income from real estate	57,323		60,045
bb. Income from other investments	1,042,851		843,444
		1,100,174	903,489
c. Income from revaluations		146,094	–
d. Realized investment gains		945,828	594,926
e. Income from profit pooling and profit transfer agreements		236,245	340,450
f. Income from the release of special untaxed reserve		9,014	–
Total		2,766,825	2,218,457

16 Investment expenses (Income Statement II.2.)

	1999	1998
	€ 000s	€ 000s
a. Investment management, interest charges and other investment expenses	465,296	452,038
b. Depreciation and write-downs on investments	160,471	72,997
c. Realized investment losses	27,562	114,976
d. Allocation to special untaxed reserve	133,707	63,455
Total	787,036	703,466

17 Depreciation and write-downs on investments

Write-downs under this heading include an extraordinary charge of € 000s 127,823 in accordance with the German Commercial Code (§ 253 (2), sentence 3, HGB). Real estate has been written down by € 000s 9,014 in accordance with German income tax law (§ 6b EStG).

18 Other income (Income Statement II.4.)

The most important items under this heading are € 000s 205,520 refunded by domestic Group companies in respect of pension costs for their employees accrued in the financial statements of Allianz AG, and foreign currency gains of € 000s 3,048.

19 Other expenses (Income Statement II.5.)

This heading comprises mainly pension costs for the employees of domestic Group companies € 000s 205,520, interest and similar expenses € 000s 150,396, foreign currency losses € 000s 84,977, and amounts added to non-underwriting reserves € 000s 41,741.

20 Taxes (Income Statement II.8. and II.9.)

The Company has elected not to carry forward any deferred tax on the assets side of the balance sheet, as allowed under the German Commercial Code (§ 274(2) HGB). For calculating deferred taxation the Company has netted future tax benefits against future tax liabilities.

Since the Company files a consolidated tax return together with most of its German subsidiaries, Allianz AG is liable for a material portion of the taxes attributable to the Property and Casualty Insurance Group in Germany.

21 Net income (Income Statement II.10.)

	1999	1998
	€ 000s	€ 000s
Net income	708,837	697,612
Transfer to appropriated retained earnings:		
Other appropriated retained earnings	354,400	348,803
Unappropriated retained earnings	354,437	348,809

Contingent liabilities and other financial commitments

At December 31, 1999, the Company had contingent liabilities under guarantees amounting to € 000s 7,561, matched by rights of relief for the same amount.

Guarantee declarations have been given for

- ▶ the bonds issued in 1996 for DM 1.5 billion by Allianz Finance B.V., Amsterdam,
- ▶ the bonds issued in 1997 for DM 1.5 billion by Allianz Finance B.V., Amsterdam,
- ▶ the debenture bonds issued in 1998 for DM 2 billion nominal by Allianz Finance B.V., Amsterdam,
- ▶ the debenture bonds issued in 1998 for FF 4 billion nominal by Allianz Finance B.V., Amsterdam,
- ▶ the bonds issued in 1998 by Allianz for DM 2 billion by Finance B.V. exchangeable into shares of Deutsche Bank AG,
- ▶ the bonds issued in 1999 by Allianz Finance B.V., Amsterdam for CHF 1 billion and a swap deal in which the bonds payable are exchanged for an equivalent euro commitment.

A guarantee declaration has also been given for Allianz of America Inc., Wilmington, in respect of commitments relating to the acquisition of PIMCO Advisors L.P. A guarantee declaration has also been given for a deferred annuity agreement signed by Allianz-RAS Seguros y Reaseguros S.A., Madrid.

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

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

In December 1997, Allianz AG made a friendly takeover offer for Assurances Générales de France (AGF). At that time Allianz AG was offered 78.7 percent of the fully diluted capital stock. Allianz AG acquired a 51.0 percent majority direct and issued contingent value rights (CVRs) for 27.7 percent. At the same time employee shareholders of AGF were offered the option of selling their shares at a price of FF 320 each at any time up to September 20, 2001. This was because they were not able to accept Allianz AG's takeover offer owing to the restrictions placed on their shares for certain periods of time.

Up to December 31, 1999, Allianz AG had purchased 0.4 million AGF shares sold as a result of employee shareholders exercising their option to sell. Meanwhile, the number of employee shares falling under the option to buy increased by 0.7 million as a result of the transfer of state-owned shares to employees. The outstanding total commitment in connection with employee shares was 236 million euros at December 31, 1999. The shares held as a percentage of capital stock at December 31, 1999 was 51.7 percent after the purchase of employee shares. Allianz AG also acquired 24.0 million CVRs in 1999. The CVRs are structured as follows:

- ▶ If within a given period the average share price of AGF should be FF 320 or less, the shareholders have the option of selling their shares together with the CVRs to Allianz at FF 360 each.

- ▶ If during the given period the average share price of AGF should be between FF 320 and FF 360, the holders of the CVRs receive the difference between the actual share price and FF 360 (subject to a maximum of FF 40).

The total commitment for the CVRs was 1.5 billion euros at December 31, 1999. There are further potential financial commitments in connection with the promise of compensation to holders of rights under stock option programs of AGF.

Potential liabilities amounting to € 000s 355,440 were outstanding at the balance sheet date for calls on equity stocks not fully paid up.

Contractual payment commitments totaling € 000s 10,077 had been given in connection with investment projects already started. Financial contracts give rise to interest-payment commitments of € 000s 35,742, which should be seen alongside payment claims. The other financial commitments outlined above include € 000s 354,960 towards affiliated enterprises.

Effects of adjustments for tax purposes

A change in tax legislation introduced a requirement to restate original values for the first time in fiscal 1999. This requirement involved amounts being written back on assets, which have been written down to a lower market value in previous years. Revaluations amounting to € 000s 146,094 were written back. They were reported as income and 80 percent was taken to the special untaxed reserve in accordance with fiscal regulations. After taking into account special tax-allowable depreciation charges, amounts transferred to special untaxed reserves under § 6b EStG, and the retention of write-downs which could have been reversed, the overall effect on net income for the year was no more than marginal. The future

effects on earnings of valuation adjustments made for tax purposes will be spread over several years and will not be material for any one year.

Personnel expenses

Allianz AG has no employees. Provided that the Annual Meeting of shareholders approves payment of the dividend proposed, the total remuneration of members of the Board of Management will amount to € 000s 5,034 (€ 000s 3,979), those of former members of the Board and their beneficiaries € 000s 2,644 (€ 000s 2,738).

Pension costs for the year amounted to € 000s 4,651 (€ 000s 3,460). The amount set aside for current and future pension benefits of former members of the Board of Management and their beneficiaries is € 000s 19,560 (€ 000s 18,643).

Including fees becoming payable after the 2000 Annual General Meeting, the total remuneration of members of the Supervisory Board was € 000s 1,303 (€ 000s 1,049).

The names of all members of the Supervisory Board and of the Board of Management are listed on pages 6 and 7, and information regarding their membership of other supervisory and comparable management bodies is shown on pages 36 to 39.

Munich, April 11, 2000
Allianz Aktiengesellschaft

The Board of Management

Dr. Schulte-Noelle	Dr. Achleitner
Bremkamp	Diekmann
Dr. Faber	Dr. Hagemann
Hansmeyer	Dr. Perlet
Dr. Rupprecht	

We have audited the Annual Financial Statements, including the accounting records and Management Report, of Allianz AG for the year ending December 31, 1999.

The Board of Management of the Company is responsible for the accounting policies and the preparation of the Annual Financial Statements and Management Report in accordance with German commercial law and the supplementary provisions laid down in the Company's statutes. It is our responsibility to form an independent opinion, based on the audit carried out by us, on the Annual Financial Statements, including the accounting records and Management Report.

We conducted our audit of the Annual Financial Statements in accordance with § 317 HGB (German Commercial Code) and with the generally accepted auditing standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Independent Auditors). Those standards require that we plan and perform our audit so as to obtain all the information and explanations necessary in order to provide us with sufficient evidence to give reasonable assurance that misstatements and irregularities materially affecting the presentation of the net worth, financial position and the results in the Management Report are identified. Knowledge of the business activities and the economic and legal environment of the Company and the expectation of possible errors are taken into account in the determination of audit procedures. The audit includes an examination, on a test basis, of the effectiveness of the internal control system and the evidence supporting the disclosures in the accounting records, the Annual Financial Statements and Management Report. The audit also includes an assessment of the significant estimates and judgements made by the Board of management of the Company, and whether the

accounting policies are appropriate to the Group's circumstances. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the Annual Financial Statements and Management Report. We believe that the audit we have conducted provides an adequate basis for the formation of our opinion. We are satisfied that our audit has revealed no grounds for objection.

In our opinion, the Annual Financial Statements present a true and fair view of the net worth, financial position and results of the Company, in compliance with German principles of proper accounting. The Management Report gives a true and fair view of the state of affairs of the Company and of the presentation of the risks of future development.

Munich, April 28, 2000

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Gerd Geib	Dr. Frank Ellenbürger
Independent Auditor	Independent Auditor

**MEMBERSHIPS OF
SUPERVISORY BOARD
MEMBERS IN OTHER
CORPORATE
MANAGEMENT BODIES**

(As of December 31, 1999)

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

Dr. Klaus Liesen

- a) Deutsche Bank AG
Mannesmann AG
until April 12, 2000
Preussag AG
Ruhrgas AG (Chairman)
Veba AG
Volkswagen AG (Chairman)
- b) Beck GmbH & Co KG

Karl Miller

Dr. Alfons Titzrath

- a) Celanese AG
Dresdner Bank AG (Chairman)
Hoechst AG
until February 8, 2000
Münchener Rückversicherungs-
Gesellschaft AG
RWE AG
VAW aluminium AG

Dr. Karl-Hermann Baumann

- a) Deutsche Bank AG
Linde AG
Metallgesellschaft AG
Schering AG
Siemens AG (Chairman)
Thyssen Krupp AG
VEBA-VIAG AG
since May 25, 2000

Norbert Blix

- a) Allianz Versorgungskasse VVaG

Dr. Diethart Breipohl

(As of March 10, 2000)

- a) Bayerische Hypo- und
Vereinsbank AG
Beiersdorf AG
Continental AG
Karstadt AG
Metallgesellschaft AG
KM Europa Metal AG
RWE AG
until March 15, 2000
- b) Assurances Générales de France
Crédit Lyonnais

Klaus Carlin

- a) Dresdner Bank AG
BHW Holding AG

Bertrand Collomb

- b) ATCO
Crédit Commercial de France (CCF)
Elf Aquitaine
Membership in Group bodies:
Lafarge (Chairman and CEO)
Lafarge Corporation (Chairman)

Renate Daniel-Hauser

- a) Allianz Versicherungs-AG
until February 24, 1999

Jürgen Dormann

- b) ABB Ltd.
IBM Corporation

Professor Dr. Rudolf Hickel

- a) GEWOBA AG Wohnen und Bauen
in Bremen
Sächsische Edelstahlwerke GmbH
Salzgitter AG Stahl und Technologie

Reiner Lembke

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

Frank Ley

Alfred Mackert

- a) Vereinte Krankenversicherung AG
(Deputy Chairman)

Bernd Pischetsrieder

- a) Dresdner Bank AG
METRO AG
VIAG AG
- b) Tetra Laval Group

Reinhold Pohl

Gerhard Renner

- a) Deutsche Bank AG
Deutsche Bank 24 AG
since January 2000

Roswitha Schiemann

Dr. Albrecht Schmidt

- a) Münchener Rückversicherungs-Gesellschaft AG
 - Siemens AG
 - VIAG AG
- Membership in Group bodies:
 - Bayerische Handelsbank AG (Chairman)
 - Nürnberger Hypothekenbank AG (Chairman)
 - Süddeutsche Bodencreditbank AG (Chairman)
 - Vereins- und Westbank AG (Chairman)
- b) Lufthansa Commercial Holding GmbH
 - Membership in Group bodies:
 - ADIG Allgemeine Deutsche Investmentgesellschaft mbH until December 31, 1999

Dr. Manfred Schneider

- a) DaimlerChrysler AG
 - METRO AG
 - RWE AG

Dr. Hermann Scholl

- a) BASF AG
 - Deutsche Bank AG
- b) Membership in Group bodies:
 - Robert Bosch Corp.
 - Robert Bosch Internationale Beteiligungen AG

Jürgen E. Schrempp

- a) Bayerische Hypo- und Vereinsbank AG
 - Mannesmann AG
- Membership in Group bodies:
 - DaimlerChrysler Aerospace AG (Chairman) until March 15, 2000
 - DaimlerChrysler Luft- und Raumfahrt Holding AG (Chairman) until March 15, 2000
 - DaimlerChrysler Services AG (Chairman)
- b) South African Coal, Oil and Gas Corporation Ltd. (Sasol)
 - Membership in Group bodies:
 - DaimlerChrysler of South Africa (Pty) Ltd. (Chairman)
 - DaimlerChrysler Schweiz Holding AG
 - Freightliner Corporation (Chairman)

Jörg Thau

- a) Vereinte Versicherung AG (Deputy Chairman)

MEMBERSHIPS OF BOARD OF MANAGEMENT MEMBERS IN OTHER CORPORATE MANAGEMENT BODIES

(As of December 31, 1999)

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

Dr. Henning Schulte-Noelle

- a) BASF AG
 - Dresdner Bank AG
 - Linde AG (Deputy Chairman)
 - MAN AG (Deputy Chairman)
 - Mannesmann AG until May 11, 2000
 - Münchener Rückversicherungs-Gesellschaft AG (Deputy Chairman)
 - Siemens AG
 - Thyssen Krupp AG
 - VEBA AG
 - Membership in Group bodies:
 - Allianz Lebensversicherungs-AG (Chairman)
 - Allianz Versicherungs-AG (Chairman)
- b) Vodafone AirTouch Plc since May 2, 2000
 - Membership in Group bodies:
 - Assurances Générales de France (Deputy Chairman)
 - Elvia Versicherungen (Vice President)
 - Fireman's Fund
 - Riunione Adriatica di Sicurtà S.p.A. (Vice President)

Dr. Paul Achleitner

(As of January 1, 2000)

- a) ConSors Discount-Broker AG (Deputy Chairman)
RWE AG

Dr. Diethart Breipohl

- a) Beiersdorf AG
 - Continental AG
 - Karstadt AG
 - Metallgesellschaft AG
 - KM Europa Metal AG since July 1999
 - RWE AG
- b) Crédit Lyonnais since October, 1999
 - Membership in Group bodies:
 - Assurances Générales de France

Detlev Bremkamp

- a) Asea Brown Boveri AG (Germany)
 - Hochtief AG
- b) Banco Popular Espanol
 - Banco Portugues de Investimento
 - Dresdner ABD Securities Ltd.
 - Membership in Group bodies:
 - Allianz Compañia de Seguros y Reaseguros S.A. (Chairman)
 - Allianz Elementar Versicherungs-AG (Deputy Chairman)
 - Allianz Irish Life
 - Allianz Portugal S.A., Companhia de Seguros
 - Assurances Générales de France
 - Berner Allgemeine Versicherungs-Gesellschaft
 - Cornhill Insurance PLC
 - Elmonda Assistance (Chairman)
 - ELVIA Schweizerische Versicherungs-Gesellschaft
 - Hungária Biztosító Rt (Vorsitzender)
 - Riunione Adriatica di Sicurtà S.p.A.
 - Royal Nederland Verzekeringsgroep

Michael Diekmann

- b) Navakij Insurance PCL
 - Membership in Group bodies:
 - Allianz Australia Ltd.
 - Allianz First Life
 - Hungária Biztosító Rt. since May 2000

Dr. Joachim Faber

(As of January 1, 2000)

- a) Berlinwasser Holding AG
 - Hauck & Aufhäuser Privatbankiers KGaA
 - Infineon Technologies AG
 - Karlsruher Rendite GmbH
 - Membership in Group bodies:
 - Allianz Asset Management GmbH
 - Allianz Capital Partners GmbH
 - Allianz Vermögens-Bank AG (Chairman)
- b) Società Metallurgica Italiana S.p.A.
 - Membership in Group bodies:
 - Allianz Risk Transfer (Deputy Chairman)
 - Lloyd Adriatico S.p.A.
 - Rasbank S.p.A.

Dr. Reiner Hagemann

- a) Lahmeyer AG
until December 31, 2000
- Schering AG
- Steag AG
- TELA Versicherung AG
(Deputy Chairman)
- Thyssen Krupp Stahl AG
until March 1999
- Thyssen Krupp Steel AG
since April 1999
- VIAG AG
- Membership in Group bodies:
- Allianz Bauspar AG (Chairman)
until May 5, 2000
- Allianz Globus MAT
Versicherungs-AG (Chairman)
until April 23, 1999
- Bayerische Versicherungsbank AG
(Chairman)
- Frankfurter Versicherungs-AG
(Chairman)
- Hermes Kreditversicherungs-AG
(Chairman)
- Vereinte Holding AG (Chairman)
- Vereinte Versicherung AG
(Chairman)
- b) Membership in Group bodies:
- EULER

Herbert Hansmeyer

- a) Dresdner Bank Lateinamerika AG
- ERGO Versicherungsgruppe AG
(Deputy Chairman)
until December 31, 1999
- IKB Deutsche Industriebank AG
- Karlsruher Lebensversicherung AG
(Deputy Chairman)
- Karlsruher Versicherung AG
(Deputy Chairman)
- VEBA OEL AG
- b) Membership in Group bodies:
- Allianz Insurance Co.
- Allianz Insurance Co. of Canada
- Allianz Life Insurance Co. of
North America
- Allianz Mexico S.A.
- American Automobile Ins. Co.
- Associated Indemnity Corp.
- Fireman's Fund Indemnity Corp.
- Fireman's Fund Insurance Co.
- Fireman's Fund Insurance Co.
of Georgia
- Fireman's Fund Insurance Co.
of Louisiana
- Fireman's Fund Insurance Co.
of Missouri
- Fireman's Fund Insurance Co.
of Nebraska
- Fireman's Fund Insurance Co.
of Ohio
- Fireman's Fund Insurance Co.
of Texas
- Fireman's Fund Insurance Co.
of Wisconsin
- Jefferson Insurance Company
- National Surety Corporation
- The American Insurance Co.
- Vintage Insurance Co.

Dr. Helmut Perlet

- a) Membership in Group bodies:
- Vereinte Versicherung AG
- b) Membership in Group bodies:
- Allianz Australia Ltd.
- Lloyd Adriatico S.p.A.

Dr. Gerhard Rupprecht

- a) Deutsche Hypothekbank
Frankfurt-Hamburg AG
- Heidelberger Druckmaschinen AG
- Quelle AG
since February 1999
- Thyssen Krupp Automotive GmbH
since August 1999
- Wüstenrot Lebensversicherungs-AG
(Deputy Chairman)
- Membership in Group bodies:
- Vereinte Holding AG
(Deputy Chairman)
- Vereinte Krankenversicherung AG
(Chairman)
- Vereinte Lebensversicherung AG
(Chairman)
- b) Membership in Group bodies:
- Allianz Elementar
Lebensversicherungs-AG
(Chairman)
- Allianz Elementar Versicherungs-AG
- Allianz Life Insurance Company
of North America
- Allianz First Life Insurance Co. Ltd.

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