Annual Report

With this Annual Report, we have published our financial results for the first time according to International Accounting Standards (IAS). Net profit increased by 31.5 percent to DM 3.6 billion.

Earnings per share totalled DM 14.67 – 26.8 percent higher than in the previous year.

Gross premium income rose 19.6 percent to DM 90.4 billion in the 1998 business year.

1998

Allianz Group		1998 €	1998 DM	Change from previous year in %	1997 DM	More on page
Gross premium income	bn	46.2	90.4	19.6	75.6	12
Benefits paid to customers	bn	40.0	78.2	21.5	64.4	132
Pretax result	mn	4,085	7,990	25.3	6,375	37
Tax	mn	1,528	2,988	6.1	2,815	134
Minority interests in earnings	mn	739	1,445	69.3	853	
Net earnings	mn	1,819	3,558	31.5	2,706	37
Assets Under Management	bn	343.2	671.2	41.0	476.2	74
Stockholders' equity	bn	22.2	43.5	30.4	33.4	122
Insurance reserves	bn	216.8	424.1	38.5	306.1	125
Employees			105,676	37.3	76,951	86

Allianz Share		1998 €	1998 DM	Change from previous year in %	1997 DM	More on page
Earnings per share		7.50	14.67	26.8	11.57	136
Dividend per share		1.12	2.20	15.80	1.90	41
Dividend payout	mn	276	539	23.1	438	
Allianz share price on 12/31/1998		317	620	33.1	466	18
Market capitalization of Allianz on 12/31/1998	bn	77.6	151.8	41.6	107.2	18

Standard & Poor's awarded the Allianz Group its highest possible rating, "AAA".

As a global insurance company, Allianz places a special emphasis on the international experience of its employees. People from around the globe also work at the Head Office in Munich. On the front cover (left to right) are: Richard Crookes (United Kingdom, Sales); Pei-Jun Cheng (People's Republic of China, Department for the Asia-Pacific region); Dagmar Kamutzky (Germany, International Human Resources); Verena Serwatka (Argentina, Accounting); Craig Ellis (Australia, Planning and Controlling); Aaliyah Shafiq (USA, Major Events Coordination).

1998

"Security is a permanent basic need of human existence. Around the world, technical progress, improved standards of living and demographic changes arouse and augment the desire to protect what has been achieved and to provide for the future. This allows for great growth opportunities for global insurance groups, and we intend to share this boom with our shareholders, clients and employees."

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

BOARD OF MANAGEMENT

Dr. Henning Schulte-Noelle
Chairman

Dr. Diethart Breipohl
Chief Financial Officer

Detlev Bremkamp
Europe, Near East, Africa,
Reinsurance

Dr. Reiner Hagemann
Property and Casualty Insurance,
Germany,
Personnel Director

Herbert Hansmeyer
North and South America

Dr. Gerhard Rupprecht
Life and Health Insurance,
Germany

Michael Diekmann,
Asia-Pacific,
Deputy Member
since October 1, 1998

Dr. Helmut Perlet,
Controlling, Accounting, Tax,
Deputy Member

Dear Shareholder,

Your company's 1998 annual report has taken a new direction in financial reporting. You will notice that the financial statement has a new look, having been prepared, for the first time, according to International Accounting Standards. This further improves the transparency, the depth of information and international comparability of our data for analysts, investors and the general public.

In addition to double-digit growth in both premium income and profit, a continuation of the positive results of prior years, one development clearly emerges: Allianz is growing and changing and is today a global insurance group with Europe as its home market.

Following the acquisition of 51 percent of the shares of the largest French insurance group, Assurances Générales de France

(AGF), only 45.2 percent of our premium income originated in Germany in 1998. With the full consolidation of AGF for the first time in 1999, this percentage will continue to drop.

Your company is now better positioned than any other insurer, not only in Germany but also throughout Europe. In 7 of the 11 states that have joined the European Monetary Union, our group companies are ranked among the top 5 insurers. We are therefore the leading insurer in the euro area and are already benefiting from the common currency, particularly in investment management. In the insurance business, we can now take full advantage of our strong position in the European market.

We continue to grow vigorously. Further information on our strategic goals and progress in the year under review can be found on page 16 of this annual report.

The company's good results in 1998 contributed to your Allianz shares' rising by 33.5 percent, almost double the rate of increase of the DAX stock market index. In addition, these results make it possible to increase, for the fifth consecutive year, the dividend per share from DM 1.90 to DM 2.20.

The successes of the past year are, once again, primarily the result of the commitment of our management and over 105,000 employees worldwide. I would like to thank them sincerely for this commitment and for their ongoing loyalty in these times of great change. The continued growth of your company, however, is also based on reciprocal trust. Our customers, partners and agents know from experience that they can rely on our performance, thereby strengthening our position.

All our achievements notwithstanding, we are not content to rest on our laurels. We have ambitious goals for the coming years, goals that will further increase the value of your company's stock.

- Profit after tax should grow annually at a double-digit rate
- Our insurance business should deliver a return on equity of 15 percent after tax
- Each business unit must contribute to increasing the value of the Allianz Group as a whole and must, therefore, continuously assess which actions will make it possible to achieve a positive contribution above the cost of allocated capital. This is our key criteria for measuring the success of management.

We will have to focus all our energy and have a little good fortune come our way in order to achieve these ambitious goals in the years to come. However, I have great faith in the momentum created by the events and successes of 1998 for the Allianz Group. I continue to rely on the trust that you, as a shareholder and investor, have placed in your company. Rest assured that this trust is well placed.

Sincerely,

Dr. Henning Schulte-Noelle

We have continually monitored the Board of Management's conduct of the Company's affairs in accordance with our responsibilities under the law and the Company's statutes and have kept ourselves informed about the ongoing business situation at five meetings during the year as well as by means of regular oral and written reports from the Board of Management.

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

One of the main topics for deliberation was the process of integrating the companies of the AGF group.We have kept ourselves continually in touch with the latest situation on the basis information provided by the Board of Management.

We have had several meetings with the Board of Management to discuss the considerations behind our decision to join an international commission set up to investigate claims under policies taken out by victims of Nazi persecution where no payments have been made, and to discuss the establishment of a fund for this purpose. In the same connection we have also been kept informed about our participation in the Foundation planned by the German business community.

We have examined in detail the possible impact of the so-called Year 2000 problem on the Allianz Group.

At our meeting in September the Board of Management gave us details about the new Allianz Asset Management division. We also received a special report about the positioning of the Allianz Group in the Asia Pacific region.

Another subject discussed by the Supervisory Board was the introduction of a long-term incentive plan by means of which the Group's top management will participate in the long-term performance of the Group's parent company Allianz AG.This additional means of remuneration is to be introduced in order to ensure that the Allianz Group remains internationally competitive in this area.

We have also discussed with the Board of Management the decision to adopt internationally recognized accounting standards (IAS) for presentation of the consolidated financial statements, which will enable us and our shareholders to make a better assessment of the performance of the Allianz Group as a whole. Finally the Board of Management has outlined to us its forecasts for the 1999 fiscal year. Our discussions in this connection centered around the German government's plans for tax reform and the implications of those plans.

The Supervisory Board has appointed the following subcommittees: a Standing Committee, an Executive Committee, and the Mediation Committee required by the Codetermination Law. The Standing Committee held four meetings at which it was concerned mainly with the Company's capital restructuring and fund-raising measures, whilst the Executive Committee entrusted with handling personnel matters met three times.

The independent auditors KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Munich, have examined the annual financial statements of Allianz AG and the consolidated financial statements for the year ended December 31, 1998, as well as the management reports of Allianz AG and of the Group, and given them an unqualified opinion.We have also inspected these records ourselves.

The reports by KPMG on the audit of the annual and consolidated financial statements were submitted to all members of the Supervisory Board and discussed in detail at the meeting of the Supervisory Board held for that purpose on May 19, 1999, which was also attended by the auditors.We have no objections and concur with the findings of the examination by KPMG.We agree with the Board of Management's recommendation for the appropriation of profit.The Supervisory Board has approved the financial statements presented by the Board of Management, which are accordingly confirmed.

The new shareholder representatives on the Supervisory Board were elected for a five-year term at the General Meeting of shareholders held on July 8, 1998.The employee representatives had been elected by employees for a similar term on March 30, 1998.The following members accordingly resigned from the Supervisory Board: Dr. Sylvia Maser, Prof. Dr. Dr. h.c. Marcus Bierich, Dr. Horst Burgard, Dr.-Ing. E.h. Werner H. Dieter, Dr.-Ing. E.h. Hermann Franz, Dr. Friedhelm Gieske, Dr. Wolfgang Müller, Lienhardt Reich, Edzard Reuter and Dr. Wolfgang Röller.

Ulrike Mascher has resigned from the Supervisory Board following her appointment as a Parliamentary permanent secretary. Prof. Dr. Rudolf Hickel was appointed by the court to replace her as an employee representative on the Board. Renate Daniel-Hauser has resigned from the Supervisory Board with effect from February 24, 1999, and has been replaced by Reiner Lembke as a representative on the Board elected by employees.

We have expressed our thanks to all the above for their contributions to the work of our Board.

The Supervisory Board has appointed Michael Diekmann as an alternate member of the Board of Management with effect from October 1, 1998. He has taken over responsibility for the Asia Pacific region.

Munich, May 19, 1999
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
since July 8, 1998

Dr. Wolfgang Röller

Former Chairman of the
Supervisory Board
Dresdner Bank AG,
Deputy Chairman
until July 8, 1998

Dr. Alfons Titzrath

Chairman of the Supervisory Board
Dresdner Bank AG,
Deputy Chairman
since July 8, 1998

Dr. Karl-Hermann Baumann

Chairman of the Supervisory Board
Siemens AG,
since July 8, 1998

Professor Dr. Dr. h.c.
Marcus Bierich

Chairman of the Supervisory Board
Robert Bosch GmbH,
until July 8, 1998

Norbert Blix

Salaried employee,
Allianz Versicherungs-AG

Dr. Horst Burgard

Former Chairman of the
Supervisory Board
Deutsche Bank AG,
until July 8, 1998

Klaus Carlin

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

Bertrand Collomb

Président Directeur Général Lafarge,
since July 8, 1998

Renate Daniel-Hauser

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

Dr.-Ing. E.h. Werner H. Dieter

Former Chairman of the
Board of Management
Mannesmann AG,
until July 8, 1998

Jürgen Dormann

Chairman of the Board of Management
Hoechst AG,
since July 8, 1998

Dr. Christoph Forster

Attorney,
Allianz Versicherungs-AG,
until April 30, 1998

Dr.-Ing. E.h. Hermann Franz

Former Chairman of the
Supervisory Board
Siemens AG,
until July 8, 1998

Dr. Friedhelm Gieske

Former Chairman of the
Board of Management RWE AG,
until July 8, 1998

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,
Deputy Chairman until July 8, 1998

Alfred Mackert

Salaried employee,
Vereinte Krankenversicherung AG,
since July 8, 1998

Ulrike Mascher

Member of the German Federal
Parliament/
Parliamentary permanent secretary,
Commerce, Bank and Insurance
Workers' Union (HBV),
until October 29, 1998

Dr. Sylvia Maser

Head of department,
Allianz Lebensversicherungs-AG,
from May 1, 1998 to July 8, 1998

Dr. Wolfgang Müller

Former Member of the
Board of Management
Allianz Aktiengesellschaft,
until July 8, 1998

Bernd Pischetsrieder

Former Chairman of the
Board of Management
Bayerische Motoren Werke AG,
since July 8, 1998

Reinhold Pohl

Custodian,
Allianz Lebensversicherungs-AG

Lienhardt Reich

Salaried employee,
Allianz Versicherungs-AG,
until July 8, 1998

Gerhard Renner

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

Edzard Reuter

Former Chairman of the
Board of Management
Daimler-Benz AG,
until July 8, 1998

Roswitha Schiemann

Branch Manager,
Allianz Versicherungs-AG,
since July 8, 1998

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,
since July 8, 1998

Dr. Hermann Scholl

Chairman of the Executive Board
Robert Bosch GmbH,
since July 8, 1998

Jürgen E. Schrempp

Chairman of the Board of Management
DaimlerChrysler AG,
since July 8, 1998

from left to right

Dr. Alexander Hoyos
Allianz Elementar Versicherungs-AG, Vienna

Lowell C. Anderson
Allianz Life Insurance, USA

Detlev Bremkamp
Allianz AG, Munich

Dr. Angelo Marchiò
RAS, Milan

Dr. Gerd-Uwe Baden
Elvia Versicherungen, Zurich

Dr. Diethart Breipohl
Allianz AG, Munich

Dr. Henning Schulte-Noelle
Allianz AG, Munich

William Raymond Treen
Cornhill Insurance, London

Michael Diekmann
Allianz AG, Munich

Antoine Jeancourt-Galignani
AGF, France

Dr. Reiner Hagemann
Allianz AG, Munich

Herbert Hansmeyer
Allianz AG, Munich

Dr. Helmut Perlet
Allianz AG, Munich

Dominique Bazy
AGF, France

Joe L. Stinnette
Fireman's Fund, USA

Dr. Gerhard Rupprecht
Allianz AG, Munich

Allianz is one of the leading global insurance companies. There is an Allianz contact for our clients in 68 countries. Stability, service and expertise in our Group is based on the commitment of employees numbering more than 105,000 worldwide.

GERMANY

- Allianz Versicherungs-AG
- Frankfurter Versicherungs-AG
- Bayerische Versicherungsbank AG
- Allianz Globus Marine Versicherungs-AG
- Vereinte Versicherung AG
- Vereinte Rechtsschutzversicherung AG
- Hermes Kreditversicherungs-AG
- Allianz Lebensversicherungs-AG
- Deutsche Lebensversicherungs-AG
- Vereinte Lebensversicherung AG
- Vereinte Krankenversicherung AG

EUROPE (excluding Germany)

Austria
- Allianz Elementar Versicherung-AG
- Allianz Elementar Lebensversicherung-AG

Belgium
- AGF Assubel
- AGF L'Escaut
- Assubel Vie
- ELVIA Assurances S.A.

Czech Republic
- Allianz pojišt'ovna, a.s.

Denmark
- Allianz Nordeuropa Forsikringsaktieselskabet
- Domus-Forsikringsaktieselskabet

France
- Assurances Générales de France
- Assurances Générales de France Iart
- Allianz Assurances
- LES ASSURANCES FÉDÉRALES IARD
- ELVIA ASSURANCES
- Euler
- Assurances Générales de France Vie
- Allianz Vie
- RHIN ET MOSELLE ASSURANCES FRANÇAISES Compagnie d'Assurances sur la Vie
- COMPAGNIE GÉNÉRALE DE PRÉVOYANCE

Great Britain
- Cornhill Insurance PLC

Greece
- Allianz General Insurance Company S.A.
- AGF Kosmos AG
- Allianz Life Insurance Company S.A.
- AGF Kosmos Vie

Hungary
- Hungária Biztosító Rt

Ireland
- Allianz Irish Life Holdings

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

Luxemburg
- International Reinsurance Company S.A.

Netherlands
- Royal Nederland Schade
- Royal Nederland Leven
- Allianz Nederland N.V.
- ELVIA Schadeverzekeringen N.V.
- ELVIA Levensverzekeringen N.V.

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

Portugal
- Portugal Previdente Companhia de Seguros S.A.
- Sociédade Portuguesa de Seguros S.A.

Russian Federation
- Ost-West Allianz Insurance Company

Slovakia
- Allianz poist'ovňa, a.s.

Spain
- AGF Unión y Fénix
- Allianz-RAS Seguros y Reaseguros S.A.
- Athena Seguros
- Eurovida S.A. Compañía de Seguros y Reaseguros

Switzerland
- ELVIA Schweizerische Versicherungs-Gesellschaft
- Allianz Versicherung (Schweiz) AG
- Berner Allgemeine Versicherungs-Gesellschaft
- Alba Allgemeine Versicherungs-Gesellschaft
- ELVIA Schweizerische Lebensversicherungs-Gesellschaft
- Berner Lebensversicherungs-Gesellschaft
- Allianz Risk Transfer (ART)
- ELVIA Reiseversicherungen

Turkey
- Koç Allianz Hayat Sigorta T.A.Ş.
- Koç Allianz Sigorta T.A.Ş.

AMERICA

Argentina
- Allianz RAS Argentina S.A. de Seguros Generales

Brazil
- AGF Brasil Seguros
- Allianz-Bradesco Seguros S.A.

Canada
- Allianz Insurance Company of Canada
- Canada West Insurance Company
- Canadian Surety
- Trafalgar Insurance Company of Canada

Chile
- Allianz Compañía de Seguros S.A.
- Consorcio General
- Consorcio General de Seguros Vida
- Allianz Bice Compañía de Seguros de Vida S.A.

Mexico
- Allianz México S.A. Compañia de Seguros

USA
- Fireman's Fund Insurance Company
- Allianz Insurance Company
- Jefferson Insurance Company of N.Y.
- Allianz Life Insurance Company of North America

Venezuela
- Adriática de Seguros C.A.

Selected

- **Group Enterprises**
- **Associated Enterprises**
- **Joint Ventures**
- **Joint Regional Insurance Centers**
  Representative Agencies
  Representative Offices

AUSTRALIA

- Manufacturers' Mutual Insurance Group (MMI)

AFRICA

Egypt
- Arab International Insurance Company

Namibia
- Allianz Insurance of Namibia Ltd.

South Africa
- Allianz Insurance Ltd.

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

ASIA

Brunei
- National Insurance Company Berhard

Hong Kong
- Allianz Cornhill Insurance (Far East) Ltd.

Indonesia
- P.T. Asuransi Allianz Utama Indonesia
- P.T. Asuransi Allianz Aken Life

Japan
- Allianz Fire and Marine Insurance Japan Ltd.

Korea
- France Life

Laos
- A.G.L.; Vientiane

Malaysia
- Malaysia British Assurance Life
- Malaysia British Assurance Non-Life

Philippines
- Pioneer Allianz Life Insurance Corporation

Singapore
- Allianz Insurance (Singapore) Pte. Ltd.

Thailand
- The Navakij Insurance Public Company, Ltd.

THE ALLIANZ GROUP REPORTED A STRONG INCREASE IN SALES AND EARNINGS IN 1998. *Premium income went up by 19.6 percent to DM 90.4 billion. Net income was up 31.5 percent in 1998 at DM 3.6 billion. Earnings per share came out at DM 14.67, an increase of 26.8 percent over the previous year. The Group's exceptionally strong capital base and financial standing are underpinned by shareholders' equity of DM 43.5 billion. The current market value of assets under management at the end of the year was DM 671 billion, which makes us one of the largest asset managers in the world.*

Consolidated Income Statement

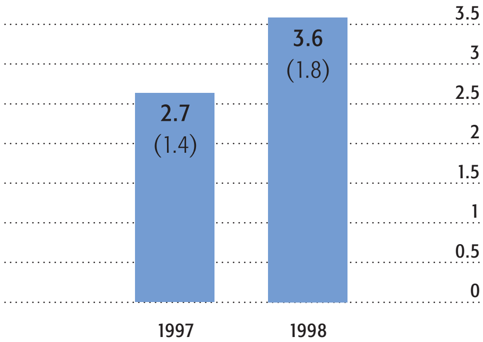
Abridged	1998 € bn	1998 DM bn
Premiums written	46.2	90.4
Premiums earned (net)	39.8	77.8
Net investment income	14.3	28.0
Benefits paid to customers	40.0	78.2
Underwriting costs	9.0	17.7
Amortization of goodwill	0.3	0.5
Pre-tax profit	4.1	8.0
Taxes	1.5	3.0
Minority interests	0.7	1.4
Net income	1.8	3.6
Earnings per share in €/DM	7.50	14.67

85.4 percent (1997: 84.1 percent) of our total premium income of DM 90.4 billion in the year under review was written in Europe. The inclusion of the French AGF group in the consolidated figures meant that the proportion of income generated in Germany fell sharply, from 53.7 percent to 45.1 percent. Almost two thirds of the total came from property and casualty business.

Total earnings before tax and amortization of goodwill rose by DM 1.8 billion or 26.9 percent to almost DM 8.5 billion. After deducting amortization of goodwill and minority interests in earnings (both of which increased considerably) and taxes (which increased only marginally), net income for the year was DM 3.6 billion.

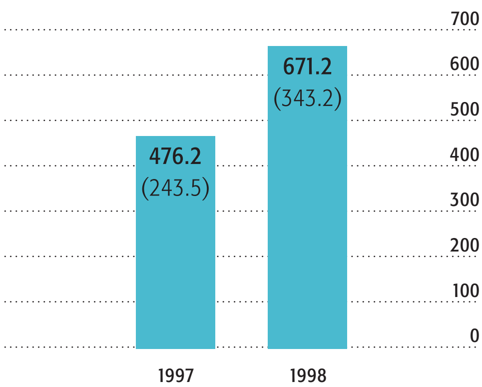
Net income after tax

in DM (€) bn



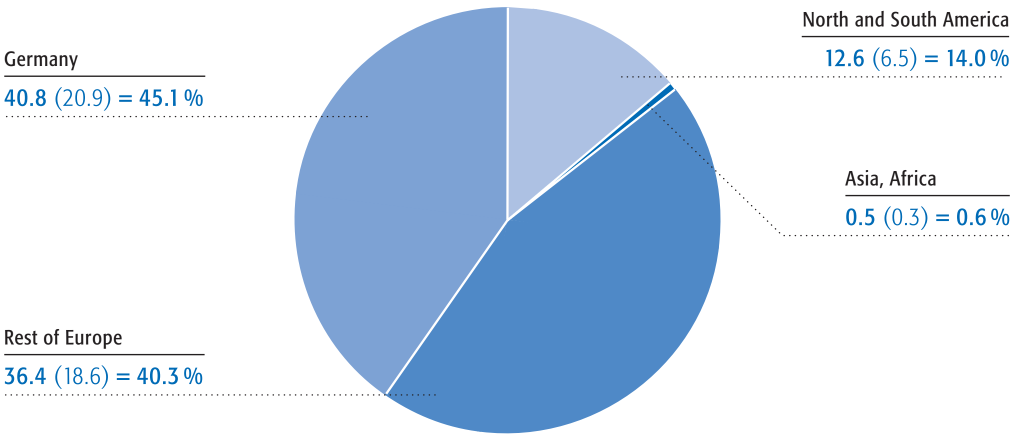
Assets Under Management

in DM (€) bn



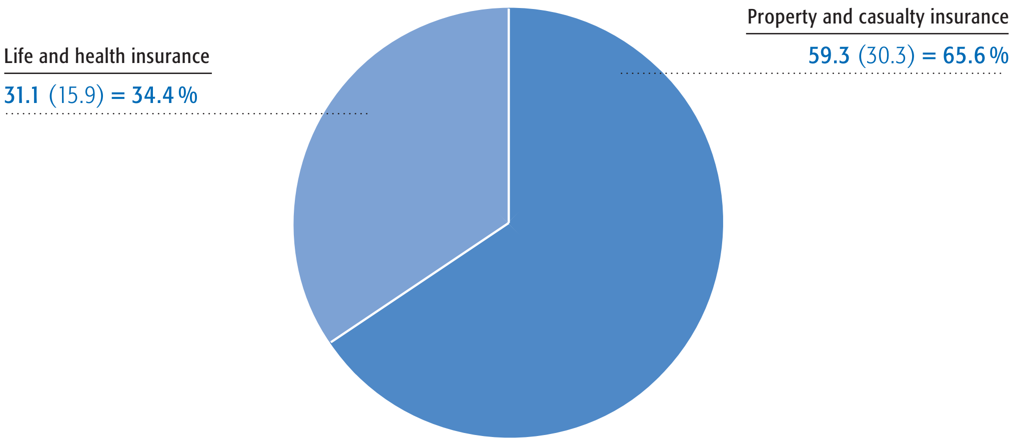
Total premium income by geographical segments

in DM (€) bn



Premium income by business segments

in DM (€) bn



Consolidated Balance Sheet

Abridged

ASSETS (at 12/31/1998)	€ bn	DM bn
Intangible assets	3.9	7.6
Investments	271.3	530.6
Investments held on accout and at risk of life insurance policyholders	15.7	30.7
Receivables	32.0	62.5
Deferred acquisition costs	9.2	18.0
Other assets	10.6	20.8
Total assets	342.7	670.2

LIABILITIES (at 12/31/1998)	€ bn	DM bn
Shareholders' equity	22.2	43.5
Minority interests in shareholders' equity	12.0	23.4
Participation certificates and post-ranking liabilities	1.2	2.3
Insurance reserves	216.8	424.1
Insurance reserves for life insurance where the investment risk is carried by policyholders	15.7	30.7
Other accrued liabilities	6.7	13.1
Bonds and loans payable	10.8	21.0
Other liabilities	37.3	73.0
Other liability headings	20.0	39.1
Total equity and liabilities	342.7	670.2

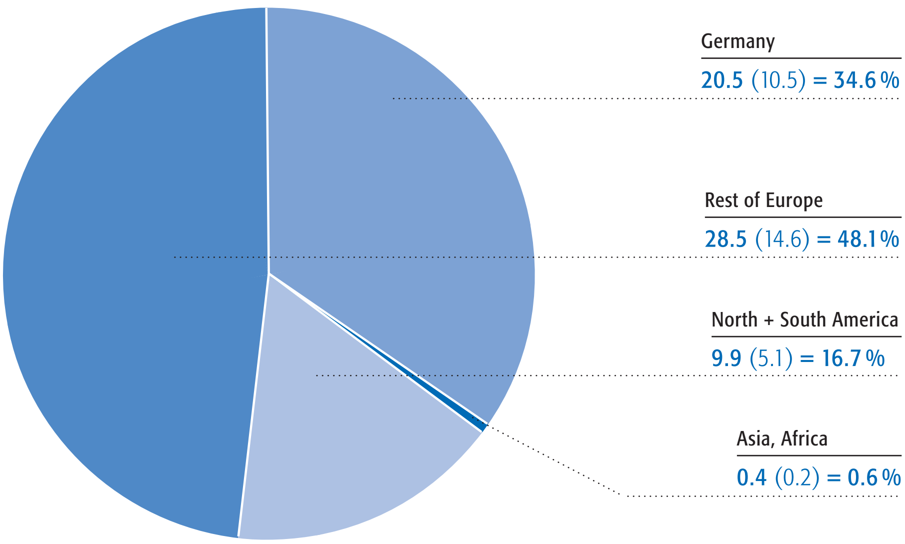
Premiums written in property and casualty business were up by 23.1 percent to DM 59.3 billion. The inclusion of the AGF group meant that the proportion written in Europe went up to 82.7 percent (1997: 80.4 percent). Nearly all Group enterprises contributed to the improvement of 22.7 percent in net income from this business segment to DM 2.9 billion.

Gross premiums written in life and health insurance increased by 13.4 percent to DM 31.1 billion. We also had income of DM 9.5 billion from products sold mainly as investments. More than 90 percent of the premiums were written in Europe. Net income in this segment jumped by 51.5 percent to DM 788 million. A large part of the increase came from the AGF group in France.

The current market value of our assets under management totalled DM 671 billion – DM 195 billion more than at the end of the previous year. The figure of DM 671 billion includes DM 44 billion under management for private and institutional clients. Net income from this business segment was DM 40 million (1997: DM 50 million).

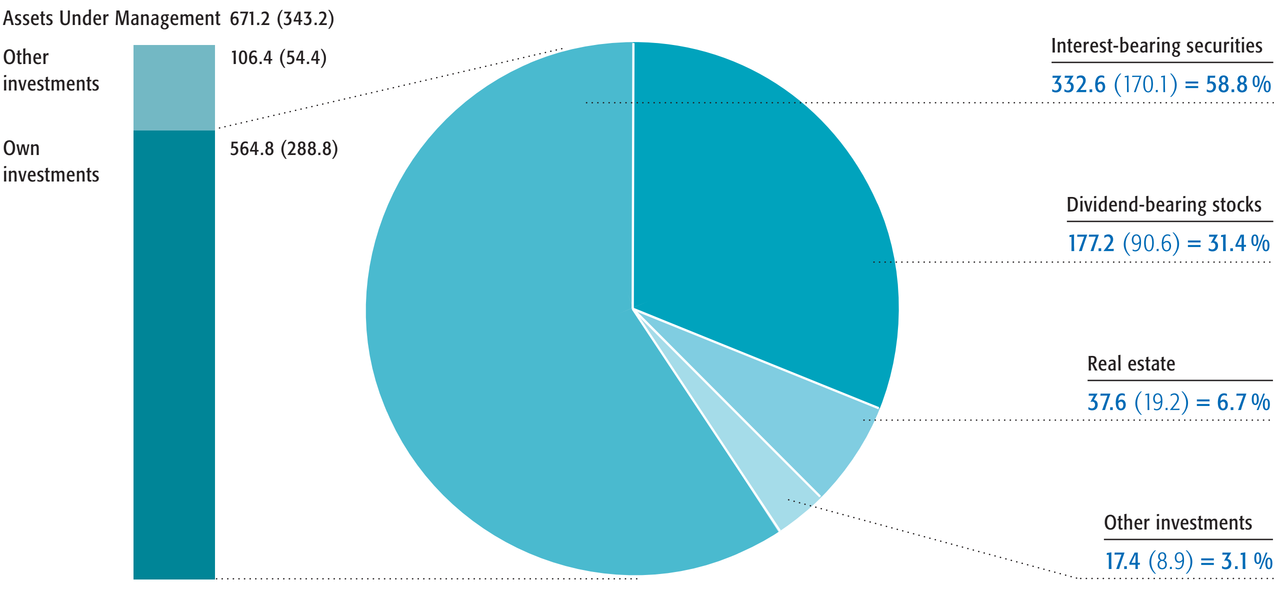
Gross premiums written in property and casualty insurance by geographical segments

in DM (€) bn



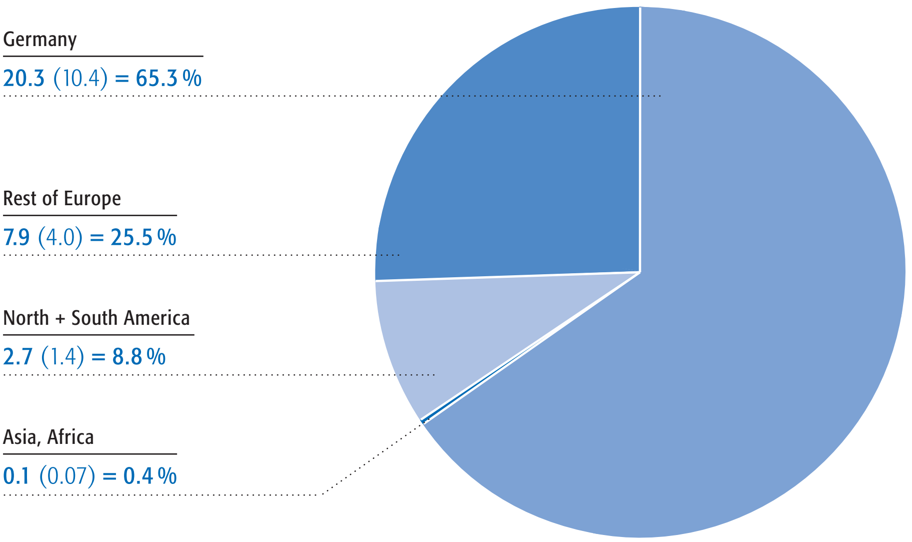
Assets Under Management

in DM (€) bn



Gross premiums written in life and health insurance by geographical segment

in DM (€) bn



OUR STRATEGY FOR PROFITABLE GROWTH. *Our long-term aim is to increase profitability at Allianz. We are following five strategic objectives in pursuit of this goal. During the year under review, the purchase of a 51 percent holding in French insurance group Assurances Générales de France (AGF) brought us closer to fulfilling these objectives sooner than expected.*

Acquisition of AGF was a step of massive strategic importance. The orientation and portfolio of this important insurance group constituted a brilliant fit with the Allianz network of companies. Joining forces with AGF has empowered us to get closer to all five strategic objectives. This friendly takeover has created a platform that will allow us to grow even more profitably in the future.

What are our strategic objectives and what has been achieved in 1998?

We aim to be among the top five providers in the most important markets, and we aim to be leaders in particularly profitable segments.

Prior to purchasing a majority holding in AGF we ranked among the top five in eight countries: Germany, Italy, Switzerland, Austria, Czech Republic, Slovak Republic, Hungary and Indonesia. The year under review saw Allianz catapulted to top-five ranking in 17 countries including France, Spain, Greece and Chile. We are well on the way to achieving a similar preferred status in Great Britain, the Netherlands and Portugal. As far as credit insurance and assistance services are concerned, the merger with AGF has already made us one of the global market leaders.

We aim to expand the life and health insurance business fast.

In France, AGF occupies a strong position in each of these segments, which means that we have moved up significantly. AGF is number 3 in French life insurance and ranked second in health insurance. We are also strengthening our position in this business segment in other markets like Spain, Chile and Brazil.

We aim to position Allianz as one of the leading foreign insurers in emerging markets.

Despite progress in previous years we still have to put in a lot of work here to approach our objective. Many important markets in Asia are still protected. However, we have a presence in most of these countries, including Hong Kong, Indonesia, Singapore and Thailand. During 1998 we also started writing insurance in Shanghai, the Philippines, Croatia and Romania, concentrating on life insurance. AGF has enabled us to sell insurance through our own units in Laos and South Korea, and in Malysia through an associated company. In addition, we bought up all the shares in Australian insurer MMI, which is also active in New Zealand.

In the European growth markets, we are now writing insurance in Croatia and Bulgaria. We also improved our position in Poland, Greece and Portugal with the help of AGF companies.
AGF moved us forward in South America, particularly in Brazil.
AGF also has insurance companies in Maghreb states Tunisia and Morocco, and in Lebanon.

We aim to occupy the number one position in the global industrial risk insurance business.

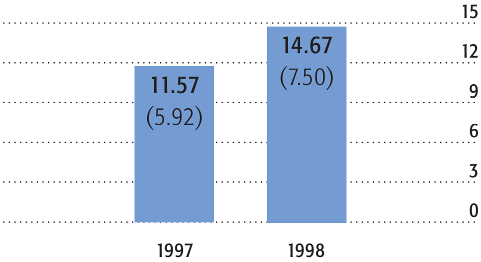
Premium volume is not the primary aim here. We are much more interested in attaining the status of preferred insurance partner for industrial risk and commercial business. Our product range encompasses all industrial requirements for insurance and we are using our financial muscle and worldwide service network to build up our reputation in this client segment. AGF has again moved us forward in our endeavors as the Group is one of the most important French industrial insurers. Their know-how in marine, aerospace and transport insurance enjoys an international reputation. We achieved the position of leading insurer or at least leading co-insurer with 20 percent of FORTUNE 500 companies during 1998.

We aim to make asset management a new core activity.

Allianz Asset Management (AAM) started up business in Munich during July 1998. AAM combines the strengths of our global know-how in portfolio management and research with the reach of our sales channels in local markets. AGF is contributing a large number of outstanding specialists to our international investment and analysis teams. The primary aim of AAM is to grow in Germany and then join the top league in Europe. This still requires a lot of hard work. Double-digit growth rates in this business and fantastic market potential worldwide are an indication that this objective is well worth the commitment.

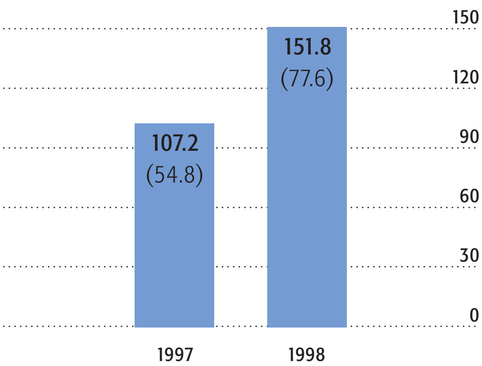
Earnings per share

in DM (€)



Stock market value

in DM bn (€)



ALLIANZ STOCK OUTPERFORMS THE MARKET. *The volatility of equity markets last year and in the first few months of 1999 affected the Allianz share price as well. Our stock still outperformed the DAX index by a significant margin with a rise of 33.5 percent over the year, compared with 17.7 percent for the DAX.*

Allianz is one of the top ten quoted companies in Europe in terms of market capitalization. At the end of March 1999 Allianz had a stock market value of around 69 billion euros.

Paris listing

In June 1998 we obtained an official listing for our shares on the Paris stock exchange, making it easier for French investors to purchase the shares, which were already listed on the Zurich and London stock exchanges. The shares are traditionally one of the most heavily traded stocks on the German stock exchanges and are one of the most important stocks in Europe's leading equity indices.

Shareholders on the increase

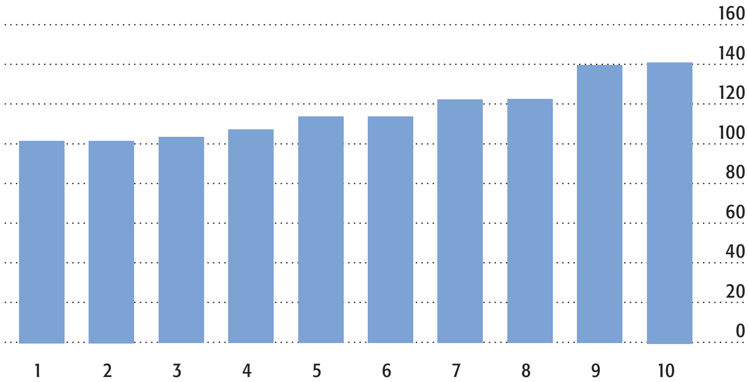
All these factors have helped to increase the popularity of Allianz shares even further – or so it would seem from the fact that over the first three months of 1999 the number of shareholders went up from around 151,000 to more than 200,000. Private individuals, including 34,000 employees and agents of Allianz, hold 6.8 percent of the capital. A further 17 percent is in the portfolios of investment companies. Substantial shareholdings in Allianz, either directly or through holding companies, are owned by Münchener Rück (Munich Re) with 25 percent, Dresdner Bank with 10 percent, Deutsche Bank with 9.3 percent and HypoVereinsbank with 6.8 percent. Almost 20 percent of our shares are held by investors outside Germany.

Introduction of no-par-value shares and conversion into euros

In December 1998 we introduced no-par-value shares in preparation for converting the denomination of the capital stock into euros in March 1999. No-par-value shares entitle the holder to a share in the business and are no longer linked to a monetary

Performance of a holding of 100 Allianz shares

Number of years held to March 31, 1999, for purchases on different dates



Tax rate on dividend income: 30 percent

amount (such as DM 5). The total amount and composition of the capital stock are not affected by the change. A theoretical par value per share is calculated by dividing the stated capital by the number of shares in issue.

After conversion the capital stock has a value of 626,112,698.96 euros.
This represents a theoretical par value of 2.55646 euros per share. In order to show the capital stock at a more straightforward amount in the balance sheet again we are submitting a resolution to the Annual Meeting of shareholders proposing that the capital should be rounded up to 626,979,840.00 euros by transferring the necessary amount from retained earnings. Each share would then have a theoretical par value of 2.56 euros.

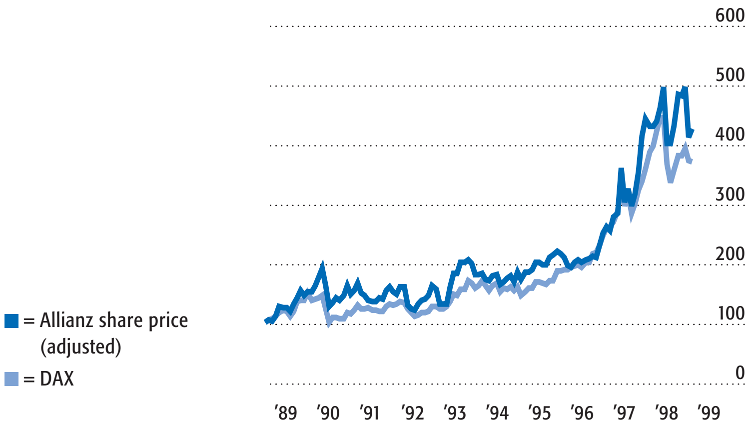
Investment with a proven track record

Our shares have performed better than the DAX over a 10-year period as well as over the last 12 months. Whilst the Allianz share price increased almost fivefold between March 1989 and March 1999, the DAX (net of dividends) rose barely fourfold. Over the same period we trebled our total dividend payout (including the corporate income tax credit).

An investor who purchased 100 Allianz shares 10 years ago will have paid around 8,713 euros before expenses. By reinvesting the net dividends (taxed at 30 percent) and the proceeds from the sale of subscription rights in Allianz shares, the total shareholding would have increased by the end of March 1999 to 141 shares with a stock market value of 39,719.70 euros, without any additional funds having being committed. The increase in value over a period of 10 years represents an average annual return of 16.4 percent after tax. A DAX portfolio would have yielded 14.0 percent p.a. over the same period.

Allianz share price versus DAX

End of March 1989 = 100



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Investor relations

The interest shown in **Allianz** and its corporate strategies by financial analysts and institutional investors is as strong as ever. Particularly in the USA and France we were frequently asked to make direct contact in 1998, which fitted in neatly with our efforts to widen the circle of our shareholders outside Germany.
As members of the Board of Management we also hold direct discussions with analysts and investors to inform them about our particular areas of responsibility. This mutual exchange has proved invaluable.

We stage roadshows in all the main financial capitals of Europe to publicize Allianz and its management, and in 1999 we will do the same in New York and Boston. Allianz shares are becoming increasingly attractive to American investors because the financial statements in this year's Annual Report are drawn up for the first time in conformity with International Accounting Standards and we plan to have our stock listed on the New York Stock Exchange.

Allianz AG Financial Calendar

September 15, 1999	Press release on the first half-year 1999
November 11, 1999	Press release on the third quarter 1999
February 16, 2000	Press release on preliminary results for 1999
May 19, 2000	Financial press conference for the 1999 business year and the first quarter of 1999
July 12, 2000	Annual General Meeting
September 13, 2000	Press release on the first half-year 2000 (interim financial report)
November 23, 2000	Press release on the third quarter 2000

Information on further financial instruments issued by Allianz:

Participating certificates:
Current redemption value

as of 12/31/2001:	DM 153.61
Distribution for 1998:	DM 5.28

3 percent exchangeable bond for DM 2 billion issued by **Allianz Finance B.V.**, Amsterdam, convertible on 2/4/2003, guaranteed by Allianz AG. The bondholders have the right to convert the bond into shares of Deutsche Bank AG.
The conversion price for each DM 5 share of Deutsche Bank AG is currently DM 140.53.

6.0 percent bond for 766 million euros approx. issued by **Allianz Finance N.V.,** Amsterdam, convertible on 5/14/2003, guaranteed by Allianz AG.

5.75 percent bond for 767 million euros approx. issued by **Allianz Finance N.V.,** Amsterdam, convertible on 7/30/2007, guaranteed by Allianz AG.

5.0 percent bond for 1.6 billion euros approx. issued by **Allianz Finance B.V.,** Amsterdam, convertible on 3/25/2008, guaranteed by Allianz AG.

By issuing our first Annual Report according to International Accounting Standards, we are enhancing transparency and opening possibilities for additional investor groups. Joan H. Zief, Managing Director of the Investment Research Department at Goldman Sachs & Co. in New York and a financial analyst for the insurance sector is pleased that European companies are increasingly publishing results in ways that are comparable with U.S. accounting. She says: "The financial services sector ist becoming more global, and companies depend on raising capital in those markets demonstrating the highest cost efficiency. The success of this strategy is made easier by publishing business results that are comparable internationally."

ALLIANZ SWITCHES TO INTERNATIONAL ACCOUNTING STANDARDS.

For fiscal 1998 we are publishing our financial statements in conformity with international accounting standards for the first time, enhancing the transparency of the figures for our shareholders and strengthening our competitive position in international capital markets.

In these pages we first of all explain why we have decided to adopt International Accounting Standards (IAS); then we outline what we mean by the "enhanced transparency" of our financial statements; and finally we identify the changes to the most important figures and explain how the profit is calculated under IAS.

International Accounting Standards

In order to meet the requirements of investors we have already drawn up our accounts for 1998 in conformity with IAS. This follows on directly from our announcement that we would publish financial statements in accordance with IAS as soon as the relevant German legislation recognized that we would then be exempt from having to prepare a separate set of statements in accordance with German company law regulations. Why have we decided to adopt International Accounting Standards? There were two main reasons:

▶ **Firstly** by doing so we can contribute our own international expertise. We want to adopt genuinely international standards, not standards based on developments in a single country.

▶ **Secondly** we wanted to take advantage of the opportunity to enshrine best practice in the IAS regulations still to be formulated for insurance companies. In this way we hope to be able to make a contribution to the development of international accounting standards for insurance companies.

TRANSPARENT REPORTING

What advantages do the changes in accounting treatment have for investors? They can be summarized under three main headings:

International comparability

Both the layout and the valuation of items in the financial statements are in accordance with internationally recognized criteria.
For reasons of simplicity the balance sheet and income statement are much more concise than before, but anyone interested in more detail will find it in the Notes.

Shareholders' equity and net income for the year are shown after deduction of minority interests, in line with international practice.

Valuation reserves in the presentation of material investments at market or current values are disclosed in the balance sheet.

Segment reporting

The **primary segments** represent our three core areas of activity:

- property and casualty insurance
- life and health insurance
- financial services business.

Each of the most important financial statement headings is analyzed between these three segments.
We also show selected performance figures for individual countries or regions (the **secondary segments**).

Cash flow statement

In accordance with the changeover to IAS we are also including a statement of cash flow, showing the surplus after deducting all expenses, analyzed between the three types of activity:

- operating
- investing
- financing.

This is in conformity with the general standard.

KEY FIGURES

Because IAS introduce some new valuation criteria there are also changes in the amounts shown as premium income, profit and shareholders' equity. The most important changes are summarized below.

Premiums written

Premium income is reduced, mainly for two reasons:

- In the case of premiums for life insurance products which are more in the nature of investments (e.g. unit linked), only that part of the premiums used to cover the risk insured and costs involved is treated as premium income.

- Premium income is also reduced by the amount of premiums earned from the reserve for premium refunds (policyholder dividends).

These factors reduce our premium income figure for 1997 by DM 10.0 billion. The table shows the countries most affected by this reduction in revenue:

Germany	DM 3.3 billion
France	DM 0.8 billion
Italy	DM 1.5 billion
USA	DM 3.3 billion

Profit
The profit figure tends to be higher than before because the prudence concept is not so important under IAS. The figure will also fluctuate more widely than before, however, because IAS do not recognize any "smoothing" procedures such as the claims equalization reserve, which is obligatory under the German Commercial Code.

Shareholders' equity
The shareholders' equity gains in importance overall because:

- large proportions of the investments are now shown in the balance sheet at market value
- insurance reserves in property and casualty business are lower overall than before.

Transitional adjustments
The following table shows the changes to the figures when the financial statements are switched to IAS.

Switch from HGB* to IAS illustrated by reference to 1997 figures

	HGB* DM mn	IAS Mio mn
Premiums written	85,582	75,576
Earnings before tax	5,014	6,375
Taxes	2,318	2,815
Minority interests in profit/loss	665	854
Net income for the year	2,031	2,706
Shareholders' equity	23,019	33,354

* German Commercial Code

CALCULATION OF PROFIT

The differences in accounting treatment under the German Commercial Code and under IAS are particularly marked in the case of investments and reserves. How does this affect the profit figure? The following summary explains the most important items.

Claims equalization reserves
Claims equalization reserves and major risk reserves are no longer allowed because they do not represent a present obligation towards third parties. The net result for the year can no longer be affected by transfers to or from such reserves.

Claims reserves
Claims reserves tend to be somewhat lower under IAS because they are no longer calculated in accordance with the prudence concept but at the best estimate of the ultimate cost. This means that claims expenses will be reduced overall.

Acquisition costs

Acquisition costs are capitalized and amortized over the term of the policy.

Depreciation and write-downs

Depreciation charges and valuation write-downs are reduced overall. In particular they are not allowed where movements in stock market prices or exchange rates result in only a temporary diminution in value.

Valuation at equity

All shareholdings of between 20 percent and 50 percent are valued by the equity method, i.e. at the corresponding proportion of the shareholders' equity. It is therefore irrelevant whether a significant influence is actually exercised or not. The valuation now also includes a corresponding proportion of the net profit of the enterprises concerned. Previously only dividend distributions were taken into account.

Capital gains and losses

Gains on disposal are lower, and losses on disposal higher, under IAS because the proceeds of disposal are now set against historical cost. Under the German Commercial Code, by contrast, the disposal proceeds were set against cost or the carrying amount, whichever was lower.

Goodwill

Goodwill is amortized against income over its useful life as follows:

- over 20 years in life and health insurance
- over 10 years in other types of business.

Goodwill was previously set off against revenue reserves without affecting earnings.

Transitional adjustments

The following table shows how earnings before tax are calculated under IAS.

Switch in earnings before tax from HGB* to IAS illustrated by reference to 1997 figures

	DM mn	DM mn
Earnings before tax under HGB*		5,014
Change in claims equalization reserve	738	
Claims expenses	295	
Acquisition costs Property/Casualty	53	
Current investment income (at equity)	339	
Realized gains/losses	– 370	
Depreciation and write-downs	443	
Life/Health	222	
Amortization of goodwill	– 302	
Miscellaneous	– 57	
Subtotal		1,361
Earnings before tax under IAS		6,375

* German Commercial Code

COMPETITIVE POSITION STRENGTHENED

After already having reported in detail in 1997 on the amount and structure of the valuation reserves in our investments we are now further increasing the transparency of our figures by presenting financial statements in conformity with IAS. This means that global investors and analysts now have access to fundamental information enabling them to make a more accurate assessment of Allianz's potential appreciation in value. Moreover they can make better international comparisons before deciding. More transparency means less risk which, in turn, helps the share price.

With the strength of our financial and underwriting resources we have also made a name for ourselves in the emerging markets of the Asia Pacific region as an insurer of large-scale industrial projects. In Malaysia we were the leading reinsurer of the Petronas Twin Towers, which at that time was the world's tallest office block at over 450 meters. Pictured above from left to right: Horst Habbig, Allianz's man-on-the-spot for this project in Kuala Lumpur; behind him, Hamdan Mat from the local insurance company Malaysia National Insurance; and in the foreground on the right, Arfah Abu Bakar representing the Sedgwick Group, insurance broker for the transaction.

UNFAVORABLE GENERAL CONDITIONS. *The business environment for insurers hardly improved at all in 1998. Apart from the United States, there was virtually no economic recovery in the important markets. High levels of unemployment combined with stagnating disposable incomes to put a brake on expansion. Nevertheless, life and health insurance and asset management offer excellent prospects for growth. The steep upward development of share prices in the first six months was interrupted by financial crises in emerging economies.*

MACROECONOMIC DEVELOPMENT

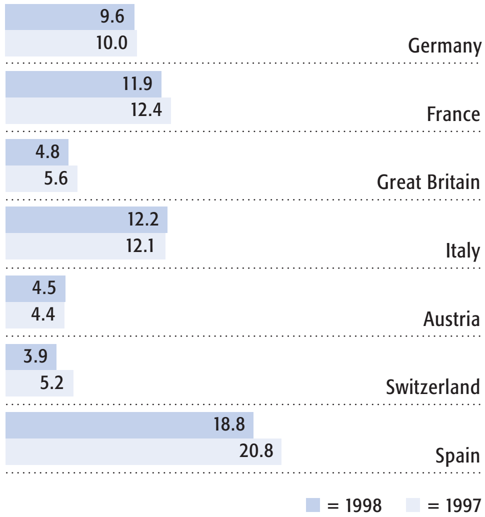
Western Europe

The economic recovery in our domestic European market was sluggish compared with a market such as the USA. Average growth in the 15 EU countries was 3.0 percent. Among the countries where we have large business units, **Spain** and **Austria** were particularly noteworthy with 3.8 percent growth, followed by **France** with 3.2 percent. In **Germany** the recovery in economic activity lost impetus after quite a successful start to the year and only achieved 2.8 percent. Expansion in **Italy** (+ 1.4 percent) and **Great Britain** (+ 2.1 percent) remained below the level of the previous year, while the recovery in **Switzerland** gathered pace with 2.1 percent growth.

The fight against unemployment was also slow although unemployment rates improved significantly as the table below shows.

Unemployment rates

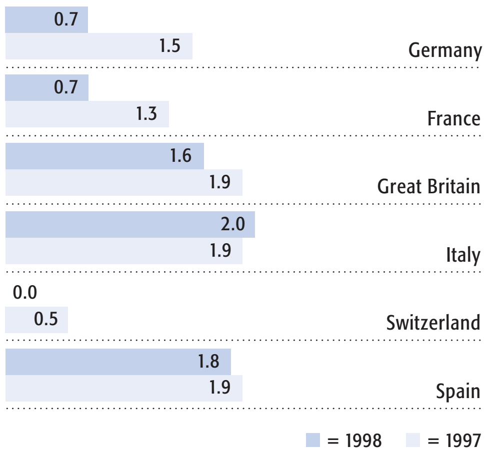
in %



Inflation in Western Europe kept to pleasingly low levels during 1998. It no longer played any significant role and averaged 1.3 (1.7) percent in the 15 EU countries.

Inflation

in %



MINIMAL GROWTH IN PROPERTY AND CASUALTY INSURANCE

The general conditions meant that property and casualty insurance in our domestic market experienced extremely modest growth. Premium volume in big insurance markets like **Germany** and **France** contracted by 2 and 1 percent respectively. Other markets saw low growth under 1 percent (**Austria** – 0.3 percent, **Switzerland** + 0.7 percent). **Italy** was the positive exception to the rule. Premiums written for property and casualty insurance there increased on average by 5.8 percent. This growth was primarily based on an essential hike in rates for automobile liability insurance after claims expenditure shot up. An additional factor was the drop in Italian interest rates that fell significantly below the level of the previous year.

Premium income in auto insurance fell back in all other markets. This is the most important line of property and casualty insurance by a long chalk. In **Germany** premium volume from this insurance line went down by 4 percent and in **Austria** by 2.1 percent. What is the explanation for this development? Two trends played an important role. Firstly, deregulation of the European insurance market created more competition and initiated a trend of falling premiums. Secondly, the sustained favorable claims experience (outside Italy) meant that premium adjustments to the claims experience were lower.

GOOD PROSPECTS IN LIFE AND HEALTH INSURANCE

Life and health insurance business witnessed much more favorable development in Western Europe in 1998. People are becoming increasingly aware that they also have to take out private provision to meet the cost of healthcare and cater for the needs of retirement. In **Italy** premium income for life insurance rose by as much as 43 percent during 1998. The massive demand for annuity insurance products played a decisive role here.

Actual changes in tax law, announcements of change or even suspicions of changes in the pipeline were enough to rein in growth for 1998 in **France** and **Germany**. Conversely, changes in tax policy in **Switzerland** and **Italy** provided an additional impetus to the market as shown in the table below.

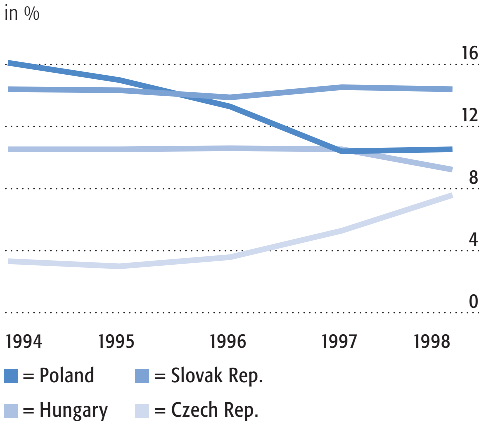
Rapid progress in the field of medicine is increasing life expectancy. As birth rates are also falling all over the world, people are having to make their own provision for the old age, which is creating excellent long-term business opportunities in life and health insurance.

Central and Eastern Europe

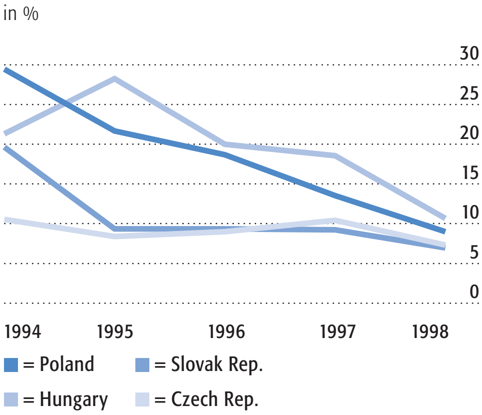
Most Central and Eastern European reform countries suffered an economic setback in 1998 but the individual markets developed in very different ways. While growth in **Poland** decreased to 4.8 (1997: 6.8) percent and gross domestic product even shrank in the **Czech Republic, Hungary** was one of the few countries where expansion accelerated (+5.2 percent, 4.6 in 1997). Economic expansion in the **Slovak Republic** (+5.4 percent, 6.5 in 1997) was less dynamic than in the previous year. The **Russian** crisis in the second half of the year dashed any hopes of a gradual recovery there.

Similar disparities are evident when analyzing inflation and unemployment rates. While the curves plotted for the **Czech Republic** were moving upwards, inflation decreased in **Poland, Hungary** and the **Slovak Republic**, and employment went up. The diagrams below provide an overview.

Unemployment rates



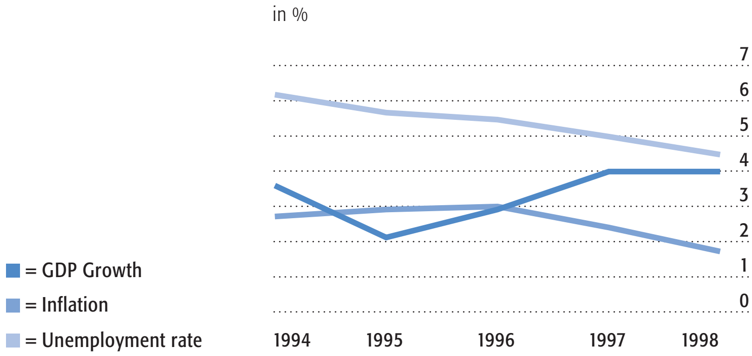
Inflation



USA and the NAFTA region

The economy in the **United States** again grew by 4 percent in 1998 as inflation continued to fall to 1.6 (2.3) percent. The unemployment rate again fell to 4.4 (4.9) percent. Taking a global perspective it is clear that the USA again proved to be a cornerstone for the world economy.

GDP Growth, inflation and unemployment rate USA



Low lending rates breathed life into the US American real-estate and automobile markets. This entailed rising demand for appropriate insurance products from private customers. However, because commercial and industrial risk insurance business continued to be subject to intense price competition, property and casualty insurance only grew overall by 1.6 percent. In contrast, premium volume developed much more dynamically in life and health insurance with premiums written increasing across the market by 8.2 percent.

The North American insurance market again suffered the consequences of unusually frequent and severe natural catastrophes. The insurance industry had to absorb claims of 8.5 billion (2.6) US dollars as a result of these events. 3.3 billion of these claims arose from hurricane "George" in the Caribbean and the Gulf of Mexico.

Growth in **Canada** was 3.0 percent; the **Mexican** economy expanded by 4.5 percent at an inflation rate of 18.6 percent.

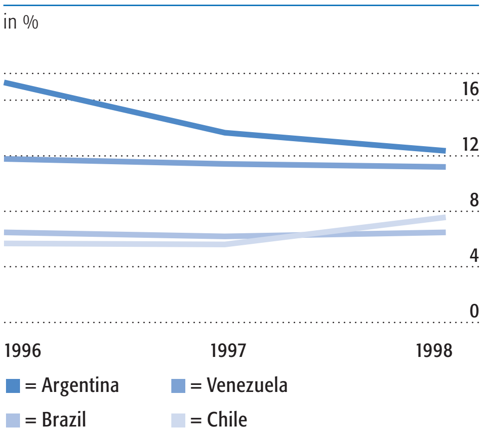
South America

Allianz has large business units in South America and the economies there underwent extremely diverse developments during the year under review. The economies in **Argentina** and **Chile** were dynamic, chalking up growth of 4.9 percent and 4.3 percent respectively, while **Brazil** and **Venezuela** lurched into recession. Their economies shrank by 1.0 percent and 1.4 percent respectively.

Inflation rates of 0.7 percent in **Argentina** and 0.5 percent in **Brazil** mean that inflation is no longer significant in these countries.

The relatively high level of unemployment in South America continues to restrict demand for insurance.

Unemployment rates

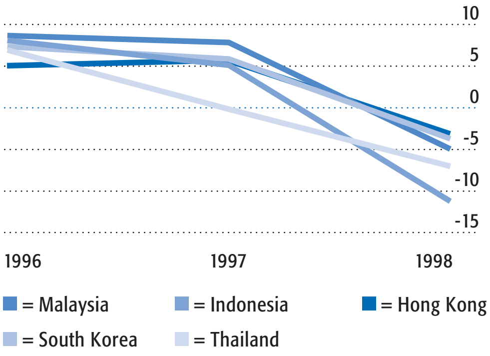


Asia

Even if share prices and exchange rates in most southeast Asian countries bottomed out in 1998, the real economic consequences of the financial crisis continued to exert an effect. The economies of **China** and **Taiwan** continued to grow significantly, by 7.8 and 4.8 percent respectively. With gross domestic product in the **Philippines** shrinking by 0.5 percent and the economy in **Singapore** expanding by 0.8 percent these countries were just able to stay ahead. But **South Korea, Thailand, Malaysia, Indonesia** and **Hong Kong** went into recession – in some cases severe – as shown in the diagram.

GDP Growth

in %

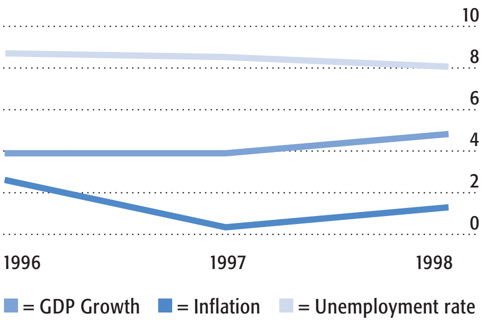


The economic crisis in **Japan** continued its downward trend in 1998. Gross domestic product shrank for the first time since 1974, decreasing by 2.9 percent.

Australia's economy developed exceptionally well. Growth rates of 4.7 percent on the fifth continent rank among the top players in the global league.

GDP Growth, inflation and unemployment rate Australia

in %



DEVELOPMENTS IN CAPITAL MARKETS

Capital markets were extremely volatile in 1998 with big fluctuations over short periods of time. By mid-July most major equity markets – with the exception of Japan – had made substantial gains. Falling interest rates and rising company profits accelerated this development. Many indices reached record levels.
But economic prospects then took a downturn in the third quarter. A third of the world economy headed for recession. Fears took hold that Europe and the USA would soon be affected by the crises in Asia, Russia and South America. These anxieties combined with worries about the stability of the international financial system exerted downward pressure on share prices. Bond markets benefited from the flight into safe investments.

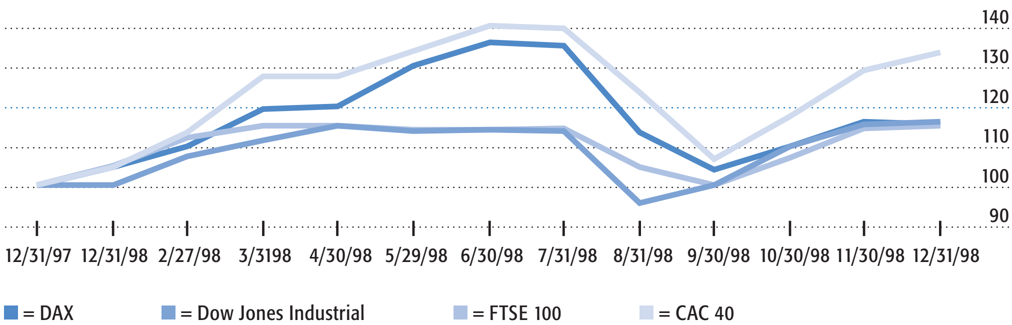
Equity markets

The German DAX share index initially rose by 45.6 percent in 1998 from 4,250 points at the start of the year to 6,186 points (all-time high on 20 July 1998). By the beginning of October the DAX had gone through some substantial fluctuations and reached a low of 3,862 points, going on to recover by the close of the year at 5,002 points. Averaged over the year, the DAX showed an increase in value of 17.7 percent despite the crisis in the third quarter.

Similar developments were evident in the USA (+ 16.1 percent), Great Britain (+ 14.5 percent) and Switzerland (+14.3 percent). Equity markets went up sharply in Italy (+ 41.2 percent) and France (+ 31.5 percent). While the indices in the USA and Great Britain were able to exceed the record summer levels at the end of 1998, the recovery in Germany was not quite as dramatic. The following chart shows the progress of important share indices.

Share prices in 1998

indexed



Source: Datastream

Bonds

Bonds in the USA and Western Europe benefited from the extreme volatility in equity markets, finding favor as a safe haven for investment. Long-term capital market rates fell back significantly in the USA, Great Britain and Germany and reached lows for the year in the fourth quarter.

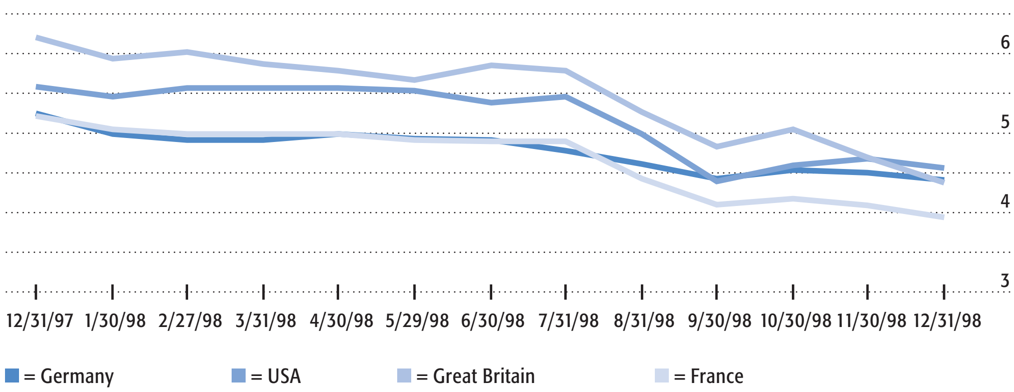
The average current yield for ten-year German government bonds fell from 5.3 to 3.9 percent in 1998. Interest rates fell substantially in southern European countries as a consequence of the process of convergence and government policies of consolidation in advance of the introduction of the euro. Japanese capital market rates initially remained at a low level but then rose slightly at the close of the year.

Money market rates

International money markets were favorable, especially since the US Federal Reserve gave no indication of interest rises. Short-term interest rates remained stable in the United States, Great Britain, Germany and France and then went down towards the end of the year as the chart shows below.

Interest rates on 10-year government bonds over 1 year

in %



Source: Datastream

We aim to be a reliable partner for our clients, ably advising them and ensuring that they are covered financially for all of life's eventualities. The Vaghi family operates a small trucking company in Vigano di Gaggiano in northern Italy. The Vaghis appreciate Allianz's service, know-how and fair-play, both for their private and business needs. After all, they have been insured for over three generations with our subsidiary, Riunione Adriatica di Sicurta (RAS); with whom the family holds life insurance policies and property insurance for their trucking company.

DOUBLE-DIGIT GAINS IN BOTH SALES AND EARNINGS WERE REPORTED IN FISCAL YEAR 1998. *Premium income rose by 19.6%, to DM 90.4 billion; on this basis, the Group earned net income of DM 3.6 billion, representing a solid gain of DM 0.8 billion, or 31.5% over the previous year. Earnings per share rose by 26.8%, to DM 14.67 (1997: DM 11.57). Management will propose raising the dividend from DM 1.90 to DM 2.20 per share. The conversion of accounting methods to conform with International Accounting Standards (IAS) and the first-time consolidation of the AGF Group affected numerous items of the income statement and balance sheet.*

OVERVIEW

Conversion to IAS

To assure comparability, the figures for the 1997 business year were also calculated according to IAS. Compared to the income statement prepared under the accounting rules of the German Commercial Code ("HGB"), earnings after taxes and minority interests increased from DM 2.0 billion to DM 2.7 billion. An explanation of the changes occurring in the most important items of the income statement as a result of the conversion of accounting methods may be found on pages 25 and 26 of this annual report.

Under IAS, the Group's gross premium income for 1997 decreased by DM 10.0 billion, due primarily to the changed method of accounting for sales revenue from life insurance products that are more in the nature of investments. Moreover, the premiums taken from the reserve for premium refunds are not recorded as sales revenue under IAS. Consequently, the share of total Group sales represented by premium income from life and health insurance policies fell from 43.5% to 36.2%.

The increase in the shareholders' equity shown on the balance sheet is mainly attributable to the fact that the overwhelming majority of investments were already stated at market values in the balance sheet.

Premium income

Premium income increased by DM 14.8 billion to DM 90.4 billion in 1998. If sales from life insurance products that are more in the nature of investments had been included, premium income would have risen by DM 9.5 billion. After accounting for changes in exchange rates, due to which the Group's premium income as stated in the DM accounts declined by DM 1.4 billion in 1998, and excluding the effects of changes in the group of companies consolidated, internal premium growth amounted to 3.6%, or DM 2.7 billion.

The share of total Group sales contributed by the volume of premiums written in Germany fell sharply from 53.7% to 45.1%, primarily as a result of the first-time consolidation of AGF.

Earnings

Earnings before taxes and amortization of goodwill rose by DM 1.8 billion, or 26.9%, to slightly less than DM 8.5 billion. Of this amount, property and casualty insurance contributed DM 6.4 billion, life and health insurance DM 2.0 billion. Thanks to portfolio adjustments (BHF, ERGO), gains on the sale of investments were significantly higher than planned.

In connection with the first-time consolidation of the AGF Group, DM 918 million was set aside, without impact on earnings, for expected restructuring expenses from the reorganization of the Group subsidiaries in France, Spain, Portugal, Great Britain, Greece and Canada. To the extent that this measure affects the subsidiaries of the former Allianz Group, provisions were established for the corresponding expenses and charged against earnings in the amount of DM 448 million.

The first-time consolidation of the AGF Group caused amortization of goodwill to increase by DM 180 million, to DM 482 million.

Consolidated net income after taxes and minority interests rose by DM 852 million, or 31.5 %, to DM 3.6 billion. On this basis, earnings per share came to DM 14.67, representing a 26.8 % gain over the previous year.

The higher market values of securities available for sale led to a DM 3.0 billion increase in shareholders' equity, accounting for an additional DM 12.59 per share.

First-time consolidation of the AGF Group

The AGF Group with its sales and earnings was consolidated as of April 1, 1998. The consolidation contributed an additional DM 13.5 billion to the premium income of the Allianz Group. Of this amount, DM 10.3 billion derived from property and casualty insurance and DM 3.2 billion from life and health insurance. The first-time consolidation produced goodwill in the amount of DM 2.5 billion. The contribution of the AGF Group to the consolidated net income of the Group amounted to DM 354 million.

SEGMENT REPORTING

In the following report of results by business lines, transactions among business segments have been disregarded.

In property and casualty insurance, premium income increased 22.2 %, to DM 60.4 billion. The share of total consolidated sales represented by this business rose from 63.8 % to 65.6 %.
With constant exchange rates and excluding the effects of changes in the group of consolidated companies, the Group reported premium growth of 3.6 %, driven largely by the strong growth rates in Italy and the United States. Slightly lower premium income was reported, on the other hand, in Germany, Great Britain and Austria, due to the prevailing market conditions in those countries.

Property and casualty insurance

	1997	1998
	DM mn	DM mn
Gross premiums	49,394	60,373
Loss ratio	73.9 %	74.4 %
Expense ratio	25.5 %	26.4 %
Net income	2,339	2,867
Investments	156,199	213,412
Insurance reserves	88,147	115,128

To the extent that business with private customers was affected, the claims experience continued to be relatively favorable. Although average loss expenses increased slightly, the frequency of claims declined slightly once again. The situation was different, however, in our business with major industrial customers, where the claims burden rose sharply, primarily as a result of major-damage claims. In addition, numerous natural catastrophes struck in 1998, among them Hurricane George in the United States, Hurricane Mitch in Central

America and the ice storm in Canada. The total claims burden for damage caused by natural forces borne by the Group amounted to more than DM 128 million. The loss ratio rose from 73.9% to 74.4%. By the end of the business year, the reserve for loss and loss adjustment expenses had risen to 132.4% (1997: 130.5%) of net premiums earned.

The expense ratio also increased slightly from 25.5% to 26.4%, mainly as a result of restructuring costs and capital spending on new information technologies.

Practically all Group companies contributed to the DM 528 million or 22.6% increase in consolidated net income, bringing this figure to DM 2.9 billion. The rise in net income was driven mainly by significantly higher net investment income.

In life and health insurance, the Group achieved a 13.4% increase in premium income to DM 31.1 billion. In addition, the Group generated sales volume of DM 9.5 billion on its life insurance products that are more in the nature of investments, mostly in France, the United States and Italy. Excluding premium increase generated by the consolidation of AGF and assuming constant exchange rates, sales increased 3.6%.

Life and Health insurance

	1997	1998
	DM mn	DM mn
Gross premiums	27,399	31,063
Loss ratio	14,6%	16,0%
Net income	520	788
Investments	249,621	343,633
Insurance reserves	217,829	308,908

The expense ratio rose from 14.6% to 16.0%, a development that can be traced to the higher volume of unit-linked business, especially in France. The sales revenue from that business was not included in the calculation of this ratio.

Net income leapt to DM 788 million, representing a gain of DM 268 million, or 51.5%. A large portion of this increase derived from the AGF Group in France. Most other companies of the Group reported higher earnings as well.

Asset management and other financial services. Since 1998, the Group has actively pursued asset management for third parties as an additional core business. With this move, we are making our competence in the area of asset management available to customers to a greater degree than before. In 1998, we managed investments totaling DM 44.1 billion (1997: DM 34.3 billion) for private and institutional investors. Although this business segment is still in the process of being established, it nonetheless reported net income of DM 40 million (1997: DM 50 million) for 1998. This profit originated mainly from our former activities in asset management for third parties, especially from the sales of the investment products of RAS. The slight decline from the previous year was caused by expenditures for building up the business in Germany.

In addition to the activities related to this new core business segment, we also manage the Group's own investments comprising the Group's insurance reserves, equity capital and borrowed funds. Assets under management in this category came to DM 530.6 billion (1997: DM 383.1 billion) at the end of 1998. The overall result of this investment activity increased by 27.5%, to DM 28.9 billion (1997: DM 22.7 billion) prior to application of the actuarial interest rate. This figure includes realized profits in the amount of DM 4.1 billion (1997: DM 2.7 billion).

Employees

The total worldwide number of employees at the end of 1998 was 105,676. Of this number, 60% work outside Germany. The 37% increase over the previous year is due almost exclusively to the first-time consolidation of the AGF Group.

LOOKING AHEAD

Based on the foreign exchange rates prevailing at the end of 1998, we expect consolidated premium income to increase by slightly more than 8%, to about DM 98 billion, in the current fiscal year. This increase will be due in large part to the consolidation of the AGF Group for the full business year (after being consolidated for only 9 months in 1998).

We also expect yet another increase in consolidated net income. Barring large-scale natural catastrophes and/or major events of damage in 1999 and in the absence of grave turmoil in the capital markets, we expect that net income will rise by slightly more than 10%.

RECOMMENDATION FOR APPROPRIATION OF PROFIT ALLIANZ AKTIENGESELLSCHAFT

Unappropriated earnings of DM 682,210,800 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 DM 2.20 per qualifying share, any amount payable on shares held by the company being carried forward to new account;
2. Allocation of DM 143,400,000 to other appropriated retained earnings.

Munich, April 30, 1999

Allianz Aktiengesellschaft

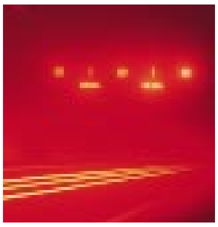
The Board of Management

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

In the following report of results by countries or regions, transactions among the reporting units have not been consolidated.

PROPERTY AND CASUALTY INSURANCE

GERMANY: *The property and casualty insurance in Germany comprises the activities of Sachversicherungsgruppe Deutschland, Hermes Kreditversicherungs-AG and Allianz AG, including their majority holdings. Besides acting as a holding company for the Group, Allianz AG also serves as the Group's reinsurer. Allianz is the market leader in Germany.*



Premium volume declined by 2.0%, to DM 22.7 billion, in 1998. Of this amount, DM 18.4 billion derived from Sachversicherungsgruppe Deutschland, DM 3.3 billion from Allianz AG and slightly more than DM 0.9 billion from Hermes Kreditversicherungs-AG.

Gross premiums

	1997 DM mn	1998 DM mn
Sachversicherungsgruppe	18,696	**18,414**
Hermes Kreditversicherungs-AG	927	**950**
Allianz AG	9,693	**9,311**
Consolidation property/casualty insurance in Germany	– 6,185	**– 6,012**
Property/Casualty insurance Germany	23,131	**22,663**

Earnings after taxes improved by 25.5%, to DM 2.7 billion (1997: DM 2.1 billion).

The number of **employees** fell slightly to 30,426 (1997: 30,906), mainly due to the fact that a number of employees received employment contracts with Allianz Lebensversicherungs-AG or with Vereinte Krankenversicherung AG in connection with the merger of Deutsche Versicherungs-AG and Vereinte Versicherung AG with Sachversicherungsgruppe Deutschland.

Earnings after taxes, before amortization of goodwill

	1997 DM mn	1998 DM mn
Sachversicherungsgruppe	1,060.3	**1,252.6**
Hermes Kreditversicherungs-AG	55.4	**49.3**
Allianz AG	1,700.6	**2,182.5**
Subtotal	2,816.3	**3,484.4**
Consolidations:		
Profit transfer	577.1	**665.9**
Dividends, other	102.7	**137.3**
Property/casualty insurance Germany	2,136.5	**2,681.2**

The Group's three most important enterprises in the German property and casualty business reported the following developments:

The **premium income of Sachversicherungsgruppe Deutschland** diminished by 1.5%, to DM 18.4 billion, although this decline was not as severe as the market average. Low insurance rates for well-performing risk groups in the automobile insurance business continued to weigh on the level of premiums. This insurance line contributes almost 40% of total sales. Fortunately, we were able with the new rates to gain additional new business and win market share in terms of premium revenue. Moreover, the fierce competition for business and the selective underwriting policy practiced in the industrial and commercial insurance business also had the effect of holding the premium volume down. Furthermore, customers in this segment are increasingly willing to carry their own risks.

The **loss ratio** fell to 66.1% (1997: 69.1%). Although expenses for major-damage claims rose over the highly favorable level of the previous year, expenses for automobile insurance losses were significantly lower in 1998.

Underwriting costs rose by only 1.1%, to DM 2.93 billion (1997: DM 2.90 billion), despite the occurrence of numerous additional expense items, among them the one-time costs for moving our branch offices in Berlin, Munich and Leipzig to new quarters and the integration expenses associated with the merger of the Vereinte Group. Because of the lower premium volume, however, the **expense ratio** increased by 0.5%, to 24.3%.

The **investments** of Sachversicherungsgruppe Deutschland rose from DM 42.0 billion to DM 43.5 billion. Net investment income improved to DM 2.1 billion (1997: DM 2.0 billion).

Sachversicherungsgruppe Deutschland reported **earnings** after taxes of DM 1.3 billion, an 18.1% gain over the previous year.

Sachversicherungsgruppe Deutschland

	1997	1998
	DM mn	DM mn
Gross premiums	18,696	18,414
Loss ratio	69.1%	66.1%
Expense ratio	23.8%	24.3%
Earnings after taxes	1,060.3	1,252.6
Investments	42,033	43,477
Employees	28,312	27,402

Hermes Kreditversicherungs-AG increased its **sales volume** from DM 927 million to DM 950 million, this growth being fueled above all by the export credit insurance segment and by the company's business with foreign customers. Although the company was not able to top the record earnings after taxes recorded in 1997 (DM 55 million), it did manage to keep earnings at the high level of DM 49 million. Hermes and our French subsidiary Euler are together the leading European writers of credit insurance. The goal is to exploit this strength as a springboard for further expansion.

Hermes Kreditversicherungs-AG

	1997	1998
	DM mn	DM mn
Gross premiums	927	950
Loss ratio	69.0%	67.9%
Expense ratio	14.4%	22.1%
Earnings after taxes	55.4	49.3
Investments	1,218	1,229
Employees	1,870	1,873

In the reinsurance business of **Allianz AG**, **sales volume** fell from DM 9.7 billion (1997) to DM 9.3 billion. This 3.9% drop can be traced above all to a pair of determining factors. Direct insurers

- generally wrote lower premiums than in the previous year, and
- raised their deductibles and were increasingly interested in non-proportional coverage concepts under which only the peak claim amounts are reinsured.

Compared to the previous year, the reinsurance business of Allianz AG was burdened by claims related to natural catastrophes to a much greater degree. This photograph was taken during Hurricane George, which roared through sections of the United States in September 1998, devastating wide swaths of land.

Compared to the previous year, which saw a relative paucity of claims, the **loss ratio** moved up to 73.0% (1997: 70.2%). The loss ratio was negatively impacted by natural catastrophes such as Hurricane George in the United States and Puerto Rico, Hurricane Mitch in Central America and the ice storm in Canada. The combined expenses for claims related to this damage caused by natural forces alone amounted to DM 75 million. Furthermore, loss expenses in the industrial fire insurance line increased as well. The **expense ratio** climbed to 23.0% (1997: 22.4%), primarily due to the lower sales volume.

The **investments** of Allianz AG advanced from DM 72.9 billion to DM 91.4 billion, mainly due to the acquisition of the 51% interest in the AGF Group. Net investment income rose sharply by DM 1.4 billion, or 44.5%, to DM 4.6 billion. In particular, realized profits on the sale of securities were significantly higher, rising to the level of DM 1.1 billion (1997: DM 0.2 billion). The transferred profit contribution of Allianz Versicherungs-AG increased to DM 666 million (1997: DM 577 million).

Allianz AG reported a substantial jump in **earnings** after taxes, this figure having risen to DM 2.2 billion (1997: DM 1.7 billion).

Allianz AG

	1997 DM mn	1998 DM mn
Gross premiums	9,693	**9,311**
Loss ratio	70.2%	**73.0%**
Expense ratio	22.4%	**23.0%**
Net income after taxes	1,700.6	**2,182.5**
Investments	72,914	**91,357**

We do not expect any sustained growth momentum in the German property and casualty business in the **fiscal year 1999.** Having succeeded last year in arresting the downward trend, we hope to expand our automobile insurance portfolio in 1999.

In the other private customer lines, we expect significantly higher sales, especially in the lines of personal accident insurance and legal expenses insurance.

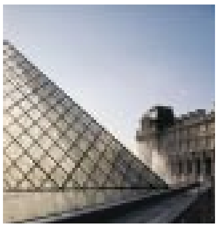
At the same time, we expect that premium income in the industrial insurance lines will continue to shrink, continuing the trend of previous years. This market is in the midst of structural transformation. Cost pressure in this customer segment will intensify still further.

Consequently, we have decided to reorganize the industrial and commercial business in the current fiscal year. In the future, all corporate customers with consolidated sales of more than DM 1 billion, in addition to other internationally-oriented corporations, will be serviced by a single division that will manage all business with these customers centrally. All other corporate customers will be assigned to the commercial customers division.

With this change, we are able to create more homogeneous business lines in the fiercely contested industrial insurance market, present a more consistent face to customers and brokers and ensure the consistent application of the Group's underwriting policy.

In addition, we plan to spin off all operations related to MAT (Maritime, Aviation, Transport) insurance to a separate company. This company will handle marine insurance (maritime and inland waterway, shipbuilding), aviation insurance (air and space travel) and transport insurance for the Group's customers. Thus, all sales, processing and loss adjustment operations in these insurance lines will be handled by a single entity. On this basis, we intend to reap efficiency gains in the coordination with AGF's MAT company. In this business as well, we want to present a consistent face internationally to customers and brokers.

FRANCE: *Prior to the acquisition of AGF, we were active in France with the enterprises Allianz Assurances, Rhin et - Moselle Assurances and Les Assurances Fédérale IARD. As of 1998, Assurances Générales de France (AGF) and its subsidiaries, including the Athéna enterprises, are part of the Allianz Group. With AGF, we improved our market position in the French property and casualty business from the 13th ranking to the 3rd ranking. We are now one of the leading insurers in the French market.*



Premium volume rose to DM 7.7 billion. Of this amount, DM 6.1 billion was contributed by the companies of the French AGF Group, consolidated as of April 1, 1998. Compared to the corresponding pro forma figures for 1997, sales rose by 5.2 %, slightly outpacing the overall market. The following developments contributed to this increase:

► In the private customers business, premium income declined by 2.0 %, in line with the general market trend. A restrictive underwriting policy and tough competition in the automobile insurance market continued to hold down premium income in this business.

► In the transport insurance line, rising international competition caused insurance rates to fall by about 30 %. Collision damage insurance and international air travel insurance in particular were adversely affected by the falling rates. Because AGF is the market leader in transport insurance, it was especially hard hit by the market-wide drop in premium volume (– 7 %).

► In our business with major industrial customers, the general trend of falling rates resulted in lower sales revenue. Our specialized agents and brokers nonetheless managed to achieve growth in the segment of small to mid-sized companies. Consequently, premium income in the commercial and industrial insurance business declined on the whole by only 1.0 %.

The **loss ratio** was 77.6 %. This figure was significantly influenced by a spate of major-damage claims, among other factors.

The **expense ratio** was 27.2 %. We expect substantial efficiency gains over the next few years. The preliminary steps towards reorganizing the Group in France have already been taken; operational implementation is already underway and on schedule. The process should be largely complete by the end of 2000.

Net **investment** income amounted to DM 849 million. Due to the revaluation of investments at market value, a mandatory step in connection with the first-time consolidation, the Group reported, on balance, losses on the sale of investments. These losses came to DM 218 million.

Provisions amounting to DM 303 million were established to cover the expenses of integrating the companies of Allianz France into the AGF Group.

Earnings after taxes of our French property and casualty business rose from DM 44 million to DM 306 million.

In France, we have a total of 18,077 **employees**. They are active in property and casualty insurance, life and health insurance and in financial services.

France

	1997	1998
	DM mn	DM mn
Gross premiums	1,699	7,744
Loss ratio	76.2 %	77.6 %
Expense ratio	28.0 %	27.2 %
Earnings after taxes	44.2	305.7
Investments	6,697	36,990
Employees	2,069	18,077

In the **current year**, we expect premium income to match the level of the previous year. Starting in the year 2000, the loss ratio should improve as the portfolio of insurance policies acquired through brokers is reorganized. In order to lower the expense ratio, the various agent and broker networks will be consolidated and jointly administered. Moreover, the internal organizational structure will be streamlined.

We intend to further expand our sales cooperation with Crèdit Lyonnais (CL), which currently covers sales of automobile, household effects and health insurance. In the future, insurance products for small to midsized companies will also be sold at CL teller windows. In addition, the introduction of a group retirement savings product is under discussion.

AGF has also agreed to a cooperation with the mail-order business “Les 3 Suisses” under which the eight million subscribers to the mail-order catalogues “Les 3 Suisses” and “Blanche Porte” will be offered household effects and automobile insurance starting in the first half of 1999.

Together with AGF, we are continuing to build up a presence in the strategically vital business of industrial insurance. The MAT activities of our French companies Allianz France, Athèna and AGF have been delegated to a specialist insurer, AGF MAT.

Mondial Assistance, AGF’s assistance company, and ELVIA Reiseversicherungsgruppe will join forces under the roof of a new lead company with the name of ELMONDA. This enterprise is to become one of the world’s leading insurance providers in the growth markets of assistance services and travel insurance.

ITALY: *The property and casualty insurance business of the Allianz Group in Italy is handled by the enterprises of the RAS Group and Lloyd Adriatico. With a combined market share of 15%, they are the market leaders in this segment.*

All companies included, we generated **premium income** of DM 7.5 billion in 1998. With this 10.2% increase, we outpaced the overall market in Italy (+5.8%).

Higher automobile insurance rates were largely responsible for this gain. Rate hikes were necessary in the wake of significantly higher loss expenses. The RAS Group contributed DM 5.4 billion and Lloyd Adriatico DM 2.1 billion to the Group's sales in Italy.

The most important trends affecting the **RAS Group** in 1998 are described below.

In the industrial insurance business, competition for major customers intensified in 1998, with the result that insurance rates for business acquired through brokers declined. Sales in the international industrial insurance business rose by only 1.5%. We nonetheless succeeded in accomplishing profitable growth in the segment of small to mid-sized industrial enterprises. In this segment, the RAS Group recorded a premium volume increase of 9% in 1998.

Our direct insurer Lloyd 1885 reported especially dynamic growth. Starting from a low base, premium income shot up by 423%, to DM 26 million. Lloyd sells insurance not only by telephone but also, as of September 1998, on the Internet as well.

Although 1998 was not a good year for property and casualty insurance in Italy, RAS was able to buck the general market trend. The **loss ratio** improved slightly to 80.9% (1997: 81.6%) on the strength of rate increases and portfolio adjustments.

The renewed decline in capital market interest rates was more than offset by higher gains on the sale of investments, so that net **investment** income posted a DM 115 million increase, to DM 813 million.

The **earnings** after taxes of the RAS Group rose to DM 267 million (1997: DM 259 million).

At the end of 1998, the RAS Group had 4,705 **employees** in all its business units.

RAS Group

	1997	1998
	DM mn	DM mn
Gross premiums	4,861	5,376
Loss ratio	81.6 %	80.9 %
Expense ratio	25.1 %	25.2 %
Earnings after taxes	259.1	266.8
Investments	12,093	13,918
Employees	4,662	4,705

Our insurer **Lloyd Adriatico**, which is especially strong in automobile insurance, raised its **sales volume** in 1998 to DM 2.1 billion (1997: DM 1.9 billion).

The **loss ratio** shot up by 3.4 %, to 89.4 %, as the claims experience in the automobile liability insurance line continued to deteriorate. The rate adjustments effected were not sufficient to offset the higher loss expenses.

Thus, in spite of the higher net investment income, which rose to DM 305 million (1997: DM 284 million), **earnings** after taxes retreated to DM 42 million, after DM 47 million in the previous year.

Lloyd Adriatico had 1,338 **employees** in 1998.

Lloyd Adriatico

	1997	1998
	DM mn	DM mn
Gross premiums	1,949	2,056
Loss ratio	86.0 %	89.4 %
Expense ratio	19.2 %	20.2 %
Earnings after taxes	47.4	42.4
Investments	3,505	3,740
Employees	1,398	1,338

Loss and loss adjustment expenses in the automobile liability insurance line continue to rise. Therefore, Lloyd Adriatico and RAS will raise their premiums once again in the **current fiscal year** in order to bolster their earnings further in this important insurance segment.

We have offered favorable low insurance rates for motorcycle and moped drivers with a low loss experience since the start of 1999, although the Italian insurance oversight authority does not prescribe the introduction of such lower rates until the second half of the year. RAS also introduced a new policy to the market, a building-block plan that allows customers to purchase insurance coverage against the most important household risks, among them fire, burglary and liability, in addition to assistance services.

SWITZERLAND: *In Switzerland, where Allianz is represented by the companies ELVIA, Berner Versicherung, Allianz Schweiz and by the AGF company Phenix, we pursue a multi-brand strategy. Taken together, the Allianz companies hold the rank of 3rd place in the Swiss property and casualty market.*

The **premium income** of all companies remained almost constant, at DM 2.1 billion. The reasons for this development are summarized below:

- The automobile insurance business of Berner Versicherung reported a 2.1% drop in premium income.
- ELVIA reported lower premium income from general liability insurance and the other property insurance types.
- ELVIA's automobile insurance business, on the other hand, showed a 2.0% increase in premium income.

The **loss ratio** remained at the favorable level of 75.8%. The number of claims diminished, but the average expenses per claim rose sharply. We intend to achieve significant efficiency gains in the claims handling process over the next three years.

Together with strong net investment income of DM 410 million (1997: DM 406 million), which was favored not least of all by the low interest rates, **earnings** after taxes advanced to DM 219 million (DM 25 million).

Allianz **employees** in Switzerland numbered 3,333 in 1998, active in all business segments. The 149 decrease in the number of employees is attributable to the ongoing measures to streamline the organizational structure.

ELVIA / Allianz / Berner / AGF Phenix

	1997	1998
	DM mn	DM mn
Gross premiums	2,138	2,143
Loss ratio	80.8%	75.8%
Expense ratio	29.8%	29.6%
Earnings after taxes	25.4	219.5
Investments	6,911	7,271
Employees	3,482	3,333

The worldwide sales of **ELVIA Reiseversicherung**, Zurich, the Group's travel insurance arm, shot up 9.0%, to DM 600 million. Earnings after taxes, at DM 20 million, were slightly better than the DM 18 million reported in the previous year.

ELVIA Reise

	1997	1998
	DM mn	DM mn
Gross premiums	551	600
Loss ratio	52.2 %	56.0 %
Expense ratio	44.6 %	46.9 %
Earnings after taxes	18.3	20.4
Investments	429	458
Employees	867	980

Our company **Allianz Risk Transfer (ART)**, based in Zurich, doubled its **sales** to DM 692 million in 1998, only its second year of being in business. The majority of this income derives still from conventional reinsurance. The company's goal, however, is to develop alternative risk transfer products and market them worldwide. These products are conceived as comprehensive risk management solutions for corporate customers in services, finance and industry. The solutions offered meld financial competence with insurance competence. An example of such a product is the company's successful capital market placement of an innovative, US$150 million catastrophe bond option that will cover future storm and hail risks in Germany. Earnings after taxes leapt from DM 17 million to DM 56 million.

ART

	1997	1998
	DM mn	DM mn
Gross premiums	340	692
Loss ratio	84.9 %	70.8 %
Expense ratio	24.3 %	28.5 %
Earnings after taxes	16.5	55.9
Investments	730	1,324
Employees		11

In the **current fiscal year**, we intend to accelerate business growth in Switzerland. New software will enable our field sales organization to service their insurance portfolios more intensively, thereby improving the cross-selling rate (selling numerous products to a single customer) and reducing the rate of cancellations.

Having installed a common information systems platform, further refined our products and instituted common personnel policies in all companies, we expect ongoing cost savings at the Allianz Group in Switzerland. Moreover, we are enhancing efficiency by consolidating additional centralized functions.

Under the new ELMONDA structure (see page 47 of this annual report), ELVIA Reiseversicherung expects to continue the trend of the previous year's dynamic growth in 1999, both on its own strength and by dint of the new cooperation agreements signed with the credit card companies VISA and Zurich Relax.

The assistance business continued to grow in Eastern Europe with the opening of a service center in Warsaw. Other such centers will follow in Budapest and Bratislava.

GREAT BRITAIN: *We service this market through our subsidiary Cornhill. In addition, the AGF enterprises AGF Insurance Limited and Euler Trade Indemnity (UK) were consolidated for the first time during the year under review. We hold the 6th rank among insurance companies in Great Britain.*

In the DM accounts, **premium income** rose by 15.9% (in the original currency: 23.6%), to DM 3.4 billion, this increase being largely due to the acquisition of the AGF enterprises, which contributed DM 670 million in business.

Premium income at Cornhill fell by 6.6% (in the original currency: – 0.4%), to DM 2.8 billion. The following factors were responsible for this development:

► First of all, the trend of falling sales in the guaranty insurance business continued unabated, after the insurance tax for this segment had been raised in 1997.

► Secondly, premium income from the automobile insurance business declined. Under the continued effect of intense competition in this insurance line, only modest premium rate adjustments were possible despite losses affecting the entire market. Due to our selective underwriting policy, the number of policies in private automobile insurance dropped by 50,000, to 300,000.

► On the positive side, we were able once again to achieve a strong expansion of our commercial and industrial business, this time by 8.2%.

Net **investment** income moved up slightly to DM 287 million (1997: DM 280 million). In original currency terms, the net financial result showed an increase of slightly less than 10%.

The **earnings** after taxes of Cornhill improved to DM 138 million, after DM 117 million in the previous year.

The integration of the AGF companies caused the number of employees to rise from 3,376 to 4,312.

Cornhill

	1997	1998
	DM mn	DM mn
Gross premiums	2,954	2,759
Loss ratio	70.7%	68.8%
Expense ratio	33.8%	35.4%
Earnings after taxes	116.5	138.4
Investments	4,464	4,482
Employees	3,314	3,372

AGF Insurance Limited has ceased writing new insurance and will wind up its portfolio. The renewal rights were acquired by Cornhill on a selective basis. For the **current fiscal year**, we expect sales to match the level of the previous year.

AUSTRIA: *In property and casualty insurance, Allianz Elementar Versicherungs-AG is the market leader in Austria.*

Premium volume retreated 3%, to DM 1.6 billion, while the overall market declined by 0.3%.

The decline was especially pronounced in the automobile insurance segment, where our sales dropped 8.1% (market: – 6.5%). As the leading provider in this business, the intense rate competition hit us harder than our competitors. A gain in the number of automobiles insured was not nearly sufficient to offset the erosion of the premium level.

In the industrial insurance business, we were able, in spite of the general downward trend of the market, to increase premium income by 0.9%, to DM 370 million.

The **loss ratio** rose to 76.7% (1997: 72.1%), mainly due to a significant increase in loss expenses for major-damage claims. The **expense ratio** remained at a high level at 31.8%. Net investment income improved to DM 189 million (1997: DM 149 million).

Earnings after taxes deteriorated to DM 26 million (1997: DM 49 million).

Employees numbered 3,921. This figure also contains the employees working in life and health insurance and in financial services.

Allianz Elementar

	1997	1998
	DM mn	DM mn
Gross premiums	1,621	1,573
Loss ratio	72.1%	76.7%
Expense ratio	28.5%	31.8%
Earnings after taxes	48.6	26.0
Investments	3,071	3,166
Employees	4,046	3,921

We have initiated a number of projects in Austria to arrest the decline of premiums. An example is the sales intensification program, the aim of which is to instill greater customer loyalty.

We also expect additional sales impetus from our cooperation with Bank für Arbeit und Wirtschaft (BAWAG). Furthermore, product innovations in the lines of personal accident insurance and industrial insurance will enable us to tap new customer groups.

SPAIN: *Our Spanish enterprises consisted formerly of Allianz-RAS Seguros y Reaseguros and ELVIASEG S.A. In addition, the two AGF insurance companies Unión y Fénix and Athena Seguros were consolidated in 1998 for the first time. With these acquisitions, we hold the No. 2 ranking in Spain.*

The property insurance market came under pressure in 1998.

▶ First of all, because the insurance tax was raised from 4% to 6%.

▶ Secondly, because most insurance companies were not able to implement premium rate adjustments in the automobile insurance business, although the entire market is operating with losses.

Premium income doubled to DM 1.6 billion due to the consolidation of the AGF companies.

The **loss ratio** worsened to 83.4% (78.1%), primarily due to the greater frequency of automobile insurance claims, a development that affected the entire market.

We established a provision of DM 95 million to cover the restructuring expenses associated with the integration of the AGF companies. **Earnings** after taxes were negative, showing a loss of DM 75 million, after a DM 20 million profit in the previous year.

At the end of 1998, we had 2,894 **employees** in the property and casualty insurance business in Spain, of whom 1,965 work for the AGF enterprises.

Spanien

	1997	1998
	DM mn	DM mn
Gross premiums	775	1 575
Loss ratio	78.1%	83.4%
Expense ratio	26.7%	29.5%
Earnings after taxes	20.2	– 74.8
Investments	977	3,235
Employees	931	2,894

In the **current fiscal year** we plan to merge our Spanish companies. The consolidation will significantly enhance efficiency and therefore also help restore the earnings after taxes figure to a positive level. RAS and the AGF Group will each hold a 50% interest in the new company.

We extended a purchase offer to the outside shareholders of Unión y Fénix, who held about 5.1% of the company's stock as of April 1999.

BELGIUM: *After acquiring AGF, we have become the 5th-ranking insurer in the Belgian property and casualty market, with a market share of 5.8%. Our most important enterprises in this country are AGF L'Escaut, Assubel Accident Dommages, Cobac and ELVIA.*

Sales totaled DM 703 million, contributed almost exclusively by the companies of the AGF Group.

The **expense ratio**, at 37.9%, is not on a competitive level. **Earnings** were adversely affected by one-time special charges for restructuring expenses. The net loss after taxes was DM 56 million.

In Belgium, we have a total of 2,633 **employees**.

Measures to improve the expense ratio were initiated in 1998.

In November 1998, AGF L'Escaut acquired the company Stanislas H. Haine, thereby becoming one of the leading industrial underwriters in Belgium. A corporate reorganization into business units undertaken to improve customer orientation should enable us to win market share and improve earnings after taxes in the current fiscal year.

Belgium

	1997	1998
	DM mn	DM mn
Gross premiums	53	703
Loss ratio	81.8%	78.5%
Expense ratio	44.0%	37.9%
Earnings after taxes	– 3.0	– 56.3
Investments	138	4,093
Employees	111	2,633

THE NETHERLANDS: *Our most important enterprises in the Netherlands are Royal Nederland Verzekeringsgroep, consolidated for the first time in 1998, Allianz Nederland and ELVIA. We are the 6th-ranking insurance provider in this market.*

All companies included, we generated a premium volume of DM 693 million in 1998. Of this amount, Royal Nederland contributed DM 366 million, having been consolidated since mid-1998.

The **loss ratio** fell from 78.7% to 74.1%, thanks to the favorable influence of Royal Nederland's private customers business, with its lower incidence of loss expenses, within the overall portfolio. The **expense ratio** was 22.9%.

Earnings after taxes amounted to DM 66 million (1997: DM 26 million). The improvement was mainly due to the inclusion of Royal Nederland in the consolidated figures.

In the Netherlands we have 910 **employees.**

The Netherlands

	1997 DM mn	**1998 DM mn**
Gross premiums	300	**693**
Loss ratio	78.7 %	**74.1 %**
Expense ratio	30.7 %	**22.9 %**
Earnings after taxes	25.8	**66.1**
Investments	637	**2,778**
Employees	33	**910**

In the **current fiscal year**, we intend to integrate the property insurance portfolios of ELVIA Verzekeringen and Allianz Nederland with those of Royal Nederland Verzekeringsgroep.

IRELAND: *With the first-time consolidation of the company AGF Irish Life Holdings in 1998, we finally achieved an outstanding market position in Ireland. Contrary to what its name suggests, this company writes only property and casualty insurance, a market in which it holds the 2nd-ranking spot.*

AGF Irish Life Holdings contributed DM 570 million to the **sales** of the Allianz Group in the reporting year. In spite of intense competition and the resulting pressure on premiums, premium income rose by 3.3 %.

Due to the extremely poor state of the automobile insurance market and the insufficient level of premiums in the commercial and industrial business, the **loss ratio** rose to almost 100 %.

Earnings after taxes were negative in the amount of DM 12 million.

We have 750 **employees** in Ireland.

Ireland

	1998 DM mn
Gross premiums	570
Loss ratio	99.4 %
Expense ratio	18.8 %
Earnings after taxes	– 12.0
Investments	1,706
Employees	750

In the **current fiscal year**, the Irish Cornhill office, with a sales volume of DM 50 million and 50 employees, will be folded into the renamed Allianz Irish Life Holdings. We want to reverse the negative trend of earnings by raising premium rates.

REST OF EUROPE: *After inclusion of the respective AGF companies, our biggest property and casualty insurers operating in the rest of Europe are found in Hungary, Portugal, Greece, Slovakia and the Czech Republic. In addition, we are represented in Denmark, Poland and Russia. In Croatia and Bulgaria, we acquired majority interests in existing insurance companies in 1998. These acquisitions have not yet been consolidated.*

Our Group companies are among the leading five insurers in many of these markets. We are the market leader in Hungary. In Bulgaria and Slovakia, we hold the 2nd ranking, in Greece and the Czech Republic the 3rd ranking.

All companies included, we generated **premium income** of DM 1.6 billion in the rest of Europe. The biggest gains were achieved in Central and Eastern Europe (excluding Russia), with a 13.3% sales increase, to DM 789 million. In original currency terms, the premium volume actually advanced by 21.3%.

We devoted special emphasis in 1998 to building up our sales organizations in the rest of Europe. In Poland, the Group invested DM 8.5 million for this purpose. In the Czech Republic, we enhanced communication and coordination within our network of agents and established customer service centers throughout the country in order to be prepared for the upcoming deregulation of the Czech automobile liability insurance industry.

Earnings after taxes in the rest of Europe amounted to DM 41 million.

Rest of Europe

	1997	1998
Gross premiums by country	DM mn	**DM mn**
Hungary	511	**523**
Portugal	290	**380**
Luxembourg	183	**186**
Czech Republic	112	**147**
Greece	34	**147**
Denmark	62	**71**
Slovakia	70	**70**
Poland	4	**49**
Total	1,266	**1,573**

For the **current fiscal year**, we expect a further increase in premium income. Our three Greek enterprises Allianz Griechenland, Helvetia and Kosmos will be merged in 1999; in Portugal, Portugal Previdente and the AGF company SPS will be consolidated into one company. These steps will enable us to exploit synergies and thereby increase the profitability of the new entities. Our companies in Poland will also be merged in 1999.

NAFTA REGION: *We are represented in the economic zone of the North American Free Trade Association (NAFTA) with the following companies: in the United States, with Fireman's Fund Insurance Company (FFIC), Allianz Insurance Company and Allianz Underwriters Insurance Company (AIC/AUIC), as well as Jefferson Insurance Company of New York; in Mexico, with Allianz México S.A. Compañia de Seguros; in Canada with Allianz of Canada, Trafalgar Insurance Company and the AGF subsidiaries Canadian Surety Insurance Company and Canada West Insurance Company. The AGF companies will be merged with Allianz of Canada in 1999.*

Premium income in the entire NAFTA region increased in original currency terms by 7.9%, to DM 9.0 billion (1997: DM 8.8 billion). The vast majority of this premium volume (92%) was accounted for by the DM 8.3 billion premium income generated in the United States.

At DM 7.1 billion, FFIC contributed the largest share of premium revenues, reporting an increase of 6.8%. The highest sales increases were achieved with our crop failure insurance and workers compensation insurance products.

Premium income in the segment of wealthy homeowners continued to grow at a dynamic rate, rising by 7.3%, to DM 1.2 billion, in 1998. This growth was achieved for the most part in states that are not seriously threatened by natural catastrophes.

We successfully extended our existing cooperation with major insurance brokers. The goal of this strategic cooperation is to attain a premium volume of at least US$25 million per broker per year. Coordinated information systems ensure efficient communication and prompt processing of applications. The brokers specialize in various customer segments such as, for instance, associations, professional groups, business establishments, etc. On the whole, they contributed a premium volume of US$205 million or DM 343 million.

FFIC Direct, a sales channel for automobile and household effects insurance, reported premium income of DM 37 million (1997: DM 7 million). The company concentrates on association members and employees of large corporations.

The premium volume in the major customers business, which is handled by AIC/AUIC, declined in original currency terms by 2.2%, to DM 840 million. This decrease was due in large part to the intensified competition in this business segment. Insurance rates in this market declined across the board by up to 20%.

In Canada, sales rose to DM 624 million (+33.4%), this increase being attributable to the takeover of the Canadian AGF companies. Excluding this consolidation effect, premium income would have fallen by 1.2%, due to the fact that a major broker relationship was terminated and the premium level declined both in the commercial insurance business and in automobile insurance.

In Mexico, we achieved growth of 22.2% in 1998 in spite of difficult operating conditions, reporting a sales volume of DM 123 million. The growth spurt was fueled in particular by transport and liability insurance.

The NAFTA region was again struck by natural catastrophes to a greater degree in the 1998 business year. The photograph shows damage from the ice storm that hit Canada in January.

The **loss ratio** in the NAFTA region improved to 78.2% (79.6%), although loss expenses related to natural catastrophes increased substantially.

The loss expenses for the devastation wrought by Hurricane George reached the level of DM 22 million. Hurricane George struck the island of Puerto Rico, where many of our U.S. industrial customers maintain production facilities, with particular fury. In addition to the hurricane, the ice storm that struck Canada in January 1998 affected the Group's loss ratio in this region in a negative way.

In the private customers business, on the other hand, the claims experience was moderate.

Net **investment** income advanced by more than 18%, to DM 1.4 billion (1997: DM 1.2 billion). The stock market's performance was so strong that we were able to further increase the investment valuation reserve while also booking a high level of realized gains.

Earnings after taxes in the NAFTA region improved to DM 474 million in 1998, after DM 292 million in the previous year.

All companies included, we had 10,636 **employees** (1997: 9,557). This increase can be ascribed in part to the first-time consolidation of the Canadian AGF companies and also to the business expansion of FFIC.

NAFTA

	1997 DM mn	1998 DM mn
Gross premiums	8,811	9,026
Loss ratio	79.6%	78.2%
Expense ratio	27.0%	27.4%
Earnings after taxes	291.6	473.6
Investments	26,365	25,282
Employees	9,557	10,636

In the **current fiscal year**, the excess capitalization of the market will exert continuing pressure on the Group's operating results. Thanks to the robust health of the capital markets, however, we expect further increases in realized gains from ordinary investment activities. The April 1999 acquisition of Wm. H. McGee & Co., an underwriting manager, afforded FFIC a leading position in the ocean-marine insurance segment.

SOUTH AMERICA: *In this region, we are represented with our own subsidiaries in the countries of Argentina, Brazil, Chile and Venezuela. Together with the AGF companies, we improved our market position in all these countries, with the exception of Venezuela, in 1998. The improvement was especially pronounced in Brazil, where we rank 7th through our subsidiary AGF Brasil Seguros.*

Premium income in South America amounted to DM 0.9 billion. The DM 0.6 billion increase over 1997 is mainly due to the first-time consolidation of the South American AGF companies, which contributed DM 555 million, or almost 100% of the sales increase. In Brazil alone, AGF generated DM 448 million in premium income.

The **loss ratio** in South America came to 67.8%. Over the next few business years, we intend to improve the **expense ratio**, which was 28.2% in 1998, specifically by means of consolidating our companies.

Disappointing currency gains in the investment portfolio of our Venezuelan subsidiary pushed **earnings** after taxes in South America back to DM 13 million (1997: DM 14 million).

The number of **employees** in 1998 rose to 2,097 (1997: 708) due to the addition of the newly consolidated AGF companies.

South America

	1997	1998
Gross premiums by country	DM mn	**DM mn**
Brazil		**448**
Venezuela	147	**194**
Chile	74	**131**
Argentina	78	**128**
Total	299	**901**

ASIA-PACIFIC: *After acquiring the majority interest in AGF, we are now represented in virtually all the promising key markets of this region. Through AGF, we expanded our operational presence to include Malaysia, Laos and South Korea. In Vietnam, the representative offices of AGF and Allianz were consolidated. In Japan, Singapore and Hong Kong, we folded the AGF entities into our operating subsidiaries. The integration work will be completed by mid-1999. In Thailand and Brunei, we hold minority interests in local insurance companies.*

All companies included, our **premium income** in the Asia-Pacific region increased to DM 239 million (1997: DM 183 million). We achieved the highest growth rates of 1998 in Indonesia, where we posted a premium increase in original currency terms of 190%, and in Singapore, where premium income rose 46%. Because of the falling value of the local currencies, however, these gains are not as pronounced in the DM accounts.

In India, where the market is still closed to foreign insurance providers, we established, jointly with our partner Alpic, a company offering consulting and risk management services. It works closely with Allianz Risk Consultants in Rotterdam.

At DM 1.4 million, **earnings** after taxes in this region were slightly positive.

We have 496 **employees** in Asia.

In December 1998, we acquired 100% of the MMI Insurance Group. Due to persistent competition pressure and management mistakes committed by a management team that has since been replaced, MMI posted a net loss of DM 123 million for 1998 according to local accounting rules. Nonetheless, we remain convinced that Australia offers an attractive insurance market. We will do everything necessary to make of MMI Australia's leading industrial insurance company. We intend to build on MMI's traditional strength in the line of workers compensation insurance. This segment will become all the more attractive after the workers compensation insurance system is privatized in New South Wales in the second half of 1999. The same step is planned, in fact, for New Zealand as well, where MMI also maintains a presence.

Asia

	1997	1998
Gross premiums by country	DM mn	DM mn
China	34	37
Japan	47	46
Singapore	73	100
Indonesia	29	53
Laos		3
Total	183	239

LIFE AND HEALTH INSURANCE

GERMANY: *Our life and health insurance business in Germany is handled by our enterprises Allianz Lebensversicherungs-AG, Deutsche Lebensversicherungs-AG, Vereinte Lebensversicherung AG and Vereinte Krankenversicherung AG. We are the market leader in German life insurance and rank 3rd in health insurance.*

We increased the **premium volume** by 2.2%, to DM 20.3 billion, in 1998. Of this amount, DM 15.5 billion, or 76.5%, derived from the life insurance business and DM 4.8 billion, or 23.5%, from the health insurance business.

Life insurance

The **premium income** of the German life insurance companies rose 2.1%, to DM 15.5 billion, in 1998, a growth rate somewhat lower than that of the overall market. New business was decisively affected by the following developments:

► Current premiums from new policies rose by 10.3%, to DM 1.3 billion.

► One-time premiums advanced by 8.5%, to DM 1.6 billion.

► Conversely, the additional premiums applied to raise the coverage amount of existing life insurance policies with appreciation agreements fell by half, to DM 0.2 billion. These contractually stipulated premium increases are determined on the basis of the highest-bracket premium rate in the statutory pension insurance fund, which increased only slightly in 1998.

All included, new premiums reached the level of DM 3.1 billion, only slightly higher than the previous year. The trend towards private pension insurance continues unabated, now accounting for more than two thirds of new business.

Measured in terms of coverage amounts, the insurance portfolio grew by 5.1%, to DM 393 billion, in 1998. The number of policies, however, dropped by 3.3%, to DM 10.9 million. This decline is mainly due to the continuing measures to wind up the portfolio acquired from the former State Insurance Fund of the German Democratic Republic.

The cancellation rate improved to 3.7% in 1998.

The **expense ratio** fell back to the level of 10.0% (1997: 12.1%), thanks in large part to significantly lower acquisition costs.

The **investment** portfolio expanded by 7.1%, to DM 193 billion, in 1998. Net investment income climbed to DM 12.0 billion (1997: DM 10.5 billion), specifically due to the realized gains booked in the first half of the year, as share prices in the German stock market repeatedly set new records.

Consequently, **earnings** after taxes came to DM 388 million, a significant improvement over the previous year's level of DM 298 million.

The number of **employees** rose to 6,129 (5,321). This increase is attributable above all to the assumption of employees of Deutsche Versicherungs-AG and the Vereinte companies, who were already working in the life insurance business under service contracts.

For the **current fiscal year**, we expect a significant pick-up in new business, carried mostly by one-time premiums. The high level of benefits payable under maturing policies is a matter of special concern. In the future, we will attempt to persuade customers to reinvest a greater portion of these benefits.

Allianz Leben, Vereinte Leben, Deutsche Lebensversicherungs-AG

	1997 DM mn	1998 DM mn
Gross premiums	15,207	15,533
Expense ratio	12.1 %	10.0 %
Earnings after taxes	298.1	388.3
Investments	180,135	192,821
Employees	5,321	6,129

Health insurance

Vereinte Krankenversicherung AG increased its **premium income** by 2.3 %, to DM 4.8 billion, in 1998. Excluding premium income from mandatory nursing care insurance, sales increased by 4.5 %.

This increase is mostly the result of further gains in new business. Following a substantial increase in new policies in the previous year, new premiums continued to rise, reaching DM 254 million in 1998. The number of persons insured edged up to 2.3 million (1997: 2.2 million).

Expenses for claims in 1998 amounted to DM 3.3 billion, a 3.1% increase over the previous year. The **loss ratio** rose to 71.0 % (70.7 %). Reducing the loss ratio is the overriding objective of Vereinte Krankenversicherung AG. The necessary steps have been initiated to improve the claims experience, including preventative measures.

A prime example of such preventative care is the skin cancer prevention program. In the early summer, customers of Vereinte Krankenversicherung AG and other interested persons were given a dosimeter for measuring the level of ultraviolet radiation absorbed by the skin. The UV dosimeter changes colors to warn the user when the saturation level is reached, so that injury can be avoided.

Another example of such work can be found in our counseling programs for asthma patients. The goal of these programs is to accelerate recovery, enhance the quality of life of patients and reduce the need for hospitalization.

The **expense ratio** increased from 9.4% to 10.4%, largely as a result of one-time expenses for restructuring the Vereinte Group. Furthermore, personnel expenses increased as well, in line with the much improved sales performance.

Net **investment** income advanced to DM 965 million (DM 910 million).

Earnings after taxes jumped by a strong 26.8%, to DM 94 million.

The **employees** of Vereinte Krankenversicherung AG numbered 3,988.

Vereinte Kranken

	1997	1998
	DM mn	DM mn
Gross premiums	4,665	4,771
Loss ratio	70.7 %	71.0 %
Expense ratio	9.4 %	10.4 %
Earnings after taxes	74.3	94.2
Investments	15,119	17,631
Employees	3,487	3,988

In the **current fiscal year**, we expect stronger premium income growth in the health insurance business than the level recorded in 1998. Vereinte Krankenversicherung AG will expand its former claims management function into a comprehensive health management system. To a greater degree than in the past, we want to serve as health care guidance counselors for our insurance customers. This service will be aligned to the wishes of insurance plan members and will build on the existing partnership with physicians. As a result, we mean to enhance service quality, intensify cooperation in health care and ultimately cut back on unnecessary expenditures.

ITALY: *Our life insurance business in Italy is handled by our subsidiaries of the RAS Group and Lloyd Adriatico. Taken together, they represent the third-largest life insurance provider in the Italian market.*

Premium income rose by 3.8%, to DM 2.6 billion, in 1998. Of this amount, DM 2.3 billion derived from the RAS Group and DM 0.3 billion from Lloyd Adriatico. Including the revenue from unit-linked products, which is not recorded under IAS accounting rules, we achieved growth of 10.3%, bringing the total level to DM 4.0 billion. Consequently, our Group subsidiaries attained a market share of slightly less than 7.2% in this segment.

The performance of our Group companies in Italy lagged behind the growth rate of the overall market. This development is due in large part to the fact that we are not as well represented as our competitors in the bank insurance business. Furthermore, Allianz Subalpina lost an important bank insurance partner in Credito Bergamasco in 1998.

Bucking this trend, Antoniana Popolare Vita, a bank insurance joint venture of our subsidiary Lloyd Adriatico, reported markedly high growth in 1998. The company increased its business, especially in unit-linked products, by 90.4%, to DM 218 million.

The Italian state is strengthening private financial planning, among other means by providing tax relief to pension funds. Our companies in the RAS and Lloyd Adriatico Groups have responded to these changes and now offer the corresponding products.

The **expense ratio** climbed from 14.0% to 14.5%.

Net investment income was DM 1.7 billion, after DM 1.4 billion in 1997. Current investment income decreased as a result of the lower interest rates in the Italian capital market, but this decline was neutralized by realized gains on the sale of investments of the equities portfolio.

Earnings after taxes increased by DM 21 million to DM 301 million.

Italy

	1997 DM mn	1998 DM mn
Gross premiums	2,473	2,566
Expense ratio	14.0%	14.5%
Earnings after taxes	279.6	300.9
Investments	20,058	23,663

Starting in July 1999, CreditRas Vita, a joint venture of RAS and Credito Italiano, will begin selling life insurance at the teller windows of this major bank. This sales cooperation is expected to produce a substantial jump in premium income.

FRANCE: *The Allianz AGF Group, represented in France with the companies AGF Vie, PFA Vie, Allianz Vie, Compagnie Générale de Prévoyance (CGP) and Arcalis, is the fourth-largest insurance provider in the life insurance segment. In health insurance, we hold the No. 2 ranking.*

Sales amounted to DM 2.1 billion. Of this amount, DM 1.9 billion derived from the pro rata consolidation of the AGF Group. In addition, we generated premium income of DM 4.1 billion from variable annuity products, which are not counted as sales.

Compared to the corresponding pro forma figures for 1997, sales dropped by 12.5%. As, however, the deterioration of premium income was even more severe in the overall market (– 15%), our market share grew from 5.7% to 5.9%. The reasons behind the sales figure are explained below.

► The market-wide decline in premium income can be traced back to the decision of the French state to tax the income from individual life insurance policies in 1998. Nonetheless, we were able to cushion the impact of this development through the impressive sales performance of our sales organizations that focus exclusively on life insurance products (“Exper,” “Assurfinance”).

► In the group life insurance segment, we lost several major customers, with the result that our sales in this segment fell by 6%, a worse decline than that of the overall market. Income from group pension insurance policies also dropped.

The unusually high **expense ratio** of 41.5% is attributable to the fact that the premium income from life insurance products that are more in the nature of investments were not included in the computation of this ratio.

Net **investment** income came to DM 2.0 billion. With regard to this figure, it should be pointed out that the first-time consolidation reduced income on the disposal of investments.

Earnings after taxes for 1998 were DM 329 million.

France

	1997	1998
	DM mn	DM mn
Gross premiums	206	2,055
Expense ratio	45.1%	41.5%
Earnings after taxes	16.1	329.2
Investments	9,382	72,448

In order to upgrade the efficacy of our sales organization in the current and in **future business years**, we will consolidate the broker networks of our companies AGF Vie, PFA Vie and Allianz Vie. Further to the same goal, we will also modernize the electronic management system for life insurance policies.

The health insurance product line will be harmonized. In the future, health insurance will also be offered by the former agents of Allianz and Athèna. Starting in 1999, our customers will be able to obtain health information by telephone.

SWITZERLAND: *In Switzerland, we offer life and health insurance through ELVIA Leben, Berner Lebensversicherungs-Gesellschaft, Allianz Lebensversicherung (Schweiz) and, as of 1998, through the AGF company Phenix. Holding a market share of 5.3%, we rank 6th in this sector.*

Sales increased by 15.0%, to DM 1.3 billion, in 1998. Of this amount, DM 31 million was represented by the premium income of Phenix. The main growth drivers were single-premium life insurance policies, especially at ELVIA Leben. This business received an additional stimulus prior to the introduction of a stamp tax. Sales of group life insurance policies at ELVIA, on the other hand, fell considerably short of expectations.

The **expense ratio** worsened from 15.0% to 15.8%. Net investment income rose from DM 688 million to DM 742 million on the strength of realized gains.

Earnings after taxes doubled to DM 44 million (DM 21 million).

Switzerland

	1997 DM mn	1998 DM mn
Gross premiums	1,124	1,293
Expense ratio	15.0%	15.8%
Earnings after taxes	20.5	43.6
Investments	12,028	13,329

In the **current fiscal year**, the Allianz Group of Switzerland plans to outpace the estimated market growth of 4%, a goal that it means to achieve by means of intensified cooperation with the canton banks and by way of a sales cooperation with the German insurance brokerage Marschollek, Lautenschläger und Partner (MLP). For these cooperative ventures, we are developing new life insurance products aimed at customers 35 to 50 years old, as well as innovative investment products for customers 50 years and older.

SPAIN: *In the Spanish market, where we are represented through our subsidiaries Allianz-RAS Seguros y Reaseguros, the joint ventures Eurovida and Europensiones, and as of 1998, the AGF companies Unión y Fénix and Athena Seguros, we hold the 11th ranking.*

Premium income jumped from DM 433 million to DM 766 million, due mainly to the first-time consolidation of the AGF companies.

The Spanish Allianz companies turned in a very positive performance. In the individual insurance line, premium volume more than quadrupled, especially as a result of the first-time consolidation of the AGF companies. Our unit-linked products were extremely well received and successfully marketed by our agents. In a market dominated by the bank insurance business, few insurers are able to achieve such a feat. In the group insurance line, sales increased by 41.1%.

Eurovida, the bank insurance joint venture with Banco Popular, reported premium income of DM 129 million, an 11.5% increase over the previous year. The growth curve in this segment flattened out as the appeal of savings products with guaranteed interest rates diminished. Only in the previous year, one third of new business derived from this product family. The other savings products of Eurovida, and especially the lucrative risk products, commanded growth rates of about 30%, as in the previous years.

Earnings after taxes rose to DM 36 million (DM 25 million).

Spain

	1997	1998
	DM mn	DM mn
Gross premiums	433	766
Expense ratio	9.5%	12.0%
Earnings after taxes	25.1	35.7
Investments	1,722	4,277

AUSTRIA: *Allianz Elementar Lebensversicherungs-AG ranks 5th in the Austrian market.*

Allianz Elementar reported **premium volume** of DM 444 million, an increase of 3.9%. The overall market, which was decisively influenced by the rising importance of bank-based distribution, grew at a rate of 10.7%.

Net **investment** income rose sharply from DM 268 million to DM 327 million.

Earnings after taxes in Austria came to DM 22 million (1997: DM 18 million).

Allianz Elementar

	1997 DM mn	1998 DM mn
Gross premiums	427	**444**
Expense ratio	10.8%	**10.6%**
Earnings after taxes	17.8	**22.4**
Investments	4,389	**4,684**

The upcoming tax reform is likely to widen the financial leeway for private individual financial planning and foster the willingness to invest in retirement planning products. Thus, we expect that demand for such products will continue to grow in 1999. We also intend to broaden the product line in 1999. Thus, for instance, we began offering the “Euro Pro”, a life insurance policy in euros, at the start of 1999. In addition, we are developing a product that will allow customers to invest in mutual funds. To further solidify our position, we founded the specialized sales company Allianz FinanzInvest, which will offer life insurance products, among others.

REST OF EUROPE

The **premium volume** of the life and health insurance business in the other European markets amounted to DM 1.1 billion.

Earnings after taxes were a negative DM 24 million, among other reasons due to the expenditures for expanding the business in Poland and Hungary.

Rest of Europe

Gross premiums by country	1997 DM mn	1998 DM mn
Belgium	29	**405**
Great Britain	179	**202**
Netherlands	34	**153**
Portugal	81	**118**
Greece	45	**109**
Luxembourg		**70**
Hungary	41	**48**
Poland		**11**
Total	409	**1,116**

UNITED STATES: *We are represented in the United States of America by Allianz Life of North America.*

Our American subsidiary succeeded in further raising the already high **premium income** of the previous year. In original currency terms, premium income increased 4.4%, reaching the level of DM 2.5 billion in the DM accounts. In the business of variable annuity products, the sales of which are not recorded in full, but only in the portion corresponding to the risk premium and fees, we suffered a serious decline, with premium income in this business falling 26%, to DM 2.6 billion. The reason for this development may be found in the below-market performance of mutual fund products that we sell in this segment, but do not manage.

In the **health insurance line**, growth was impeded by portfolio adjustments to eliminate high-loss policies. The premium volume was on the level of the previous year.

Allianz Life of North America is also active in the United States as a reinsurer of life insurance risks. As the reinsurance needs of direct insurers increased and as our company became increasingly well-known in the market, sales in the business of life reinsurance shot up by 31.1% in 1998.

The **expense ratio** remained practically unchanged over the previous year, at DM 39.5% (1997: 39.4%). Net investment income rose to DM 516 million (1997: DM 405 million), especially due to the high level of realized gains.

Earnings after taxes fell slightly to DM 196 million (DM 205 million) as a result of currency translation effects.

The number of **employees** increased to 596 (1997: 535).

Allianz Life

	1997	1998
	DM mn	DM mn
Gross premiums	2,520	2,457
Expense ratio	39.4%	39.5%
Earnings after taxes	205.0	195.6
Investments	6,538	6,467
Employees	535	596

Thanks to increased name recognition, Allianz Life of North America has good reason to expect additional sales increases in the business of life reinsurance. In the area of variable annuities, the trend of falling premium volume will continue in 1999, with the result that profit will fall short of the previous-year level.

OTHER MARKETS

We also write life and health insurance in South America and Asia, specifically in the countries of Brazil, Chile, South Korea and Indonesia. Moreover, we are represented in the Philippines with a joint venture and in Malaysia with a minority holding.

In the Peoples' Republic of China, our joint venture Allianz Dazhong Life Ins. Comp. Ltd. obtained, at the end of 1998, the pending approval to sell life insurance policies. Allianz Dazhong is the first European life insurer in Shanghai.

The aggregate premium income from life and health insurance business in South America and Asia totaled DM 293 million, most of which generated in Brazil. We are working intensively to improve our position in the emerging markets, because we are convinced that these markets will offer us tremendous growth potential in the future.

ASSET MANAGEMENT AND OTHER FINANCIAL SERVICES

THE VALUE OF OUR ASSETS UNDER MANAGEMENT ROSE TO DM 671 BILLION AT THE END OF 1998. *Asset management, i.e. the management of our own investment operations in the insurance business, has always been a core area of competence of the Allianz Group. At the end of 1997, we designated asset management for outside investors as our third core business.*

Asset management at Allianz falls under two categories:

▶ Firstly, the management of the investments that we rely upon to cover insurance reserves, equity capital and borrowed funds. The Group's own investments totaled DM 530.6 billion (1997: DM 383.1 billion) at the end of 1998. Furthermore, investments related to unit-linked products amounting to DM 30.7 billion (1997: DM 24.0 billion) also belong to the insurance side of the business.

▶ Secondly, we have significantly expanded our asset management activities for outside investors. In this high-growth market, we concentrate on managing investment funds for private and institutional investors. Investments in this category reached DM 44.1 billion (1997: DM 34.3 billion) at the end of 1998.

The other financial services covered in the report on the segment "Asset Management and Other Financial Services" include the following:

- ▶ the home loan and savings business
- ▶ banking activities
- ▶ financing for companies not listed on a stock exchange.

At market values, the assets under management of the Allianz Group came to DM 671 billion. This figure includes:

- ▶ the above-mentioned investments, plus the valuation reserves not shown on the balance sheet, and
- ▶ Loans and advances to banking and building society customers.

Assets Under Management

in DM bn	31/12/1998		31/12/1997
	Book values	Market values	Market values
Real estate	29.3	37.6	27.5
Investments in affiliated enterprises, joint ventures and associated enterprises	11.2	37.1	30.1
Mortgages and other loans	34.4	34.4	32.5
Other securities	440.0	440.0	310.4
Other investments	15.7	15.7	13.9
Investments	530.6	564.8	414.4
Investments of separate accounts		30.7	24.0
Loans and advances to banking and building society customers		31.6	3.5
Investments for outside investors (not shown on the consolidated balance sheet)		44.1	34.3
Assets Under Management		671.2	476.2

Own investments of the Group

The Group's own investments rose sharply by DM 147.5 billion, or 38.5%, to DM 530.6 billion, primarily due to the first-time consolidation of the AGF Group. Excluding the investments of these companies amounting to DM 112 billion, the Group's own investments increased at a rate of 9.3%.

The overall net investment income of the Group leapt by 27.5%, to DM 28.9 billion (1997: DM 22.7 billion) prior to application of the actuarial interest rate in the property and casualty insurance line.

Investment priorities. The investment strategies of the Allianz companies follow uniform, consistent principles. Because the investments mostly serve to cover liabilities in the insurance business, the high quality of the securities, meaning those that carry a very low risk of default, is an overriding investment criterion. Furthermore, Allianz invests almost exclusively in highly liquid, widely marketable securities. As a large-scale institutional investor based in the home market of Europe, we benefit in large measure from the introduction of the euro and from the common European capital market. At an early stage, therefore, we implemented measures to diversify our portfolio on an Europe-wide basis in order to exploit the new investment opportunities.

The structure of our investments is dictated by the liabilities and risks inherent in our insurance business.

Investments related to our life and health insurance products dominate the overall portfolio, as this business segment calls for the greatest degree of capital accumulation. The volume of these investments amounted to DM 343.6 billion (1997: DM 249.6 billion). Of this amount, 69.0% (1997: 70.6%) was invested in interest-bearing securities. The high proportion of fixed-income securities guarantees steady investment income for the life and health insurance business and creates the foundation allowing us to redeem our benefit obligations and earn an attractive profit over the medium term that we can share with our customers.

In the property and casualty insurance line, 41.4% (1997: 36.7%) of the investment portfolio of DM 213.4 billion (DM 156.2 billion) was invested in dividend-bearing equity securities. This weighting reflects our strategy of making an above-average contribution to enhancing the value of the Group by investing actively, as a long-term investor and bearer of risk, in the stock market.

In the Group, the proportion of investments represented by dividend-bearing equity securities moved up from 26.9% to 28.5%, thanks in no small part to the excellent performance of stock markets. At market values, thus including the valuation reserves

Investment structure life/health

in DM bn	31/12/1998		31/12/1997
	Book values	Weighting in %	Weighting in %
Real estate	13.3	3.9	3.8
Dividend-bearing equity securities	84.9	24.7	24.2
Interest-bearing securities	237.1	69.0	70.6
Other Investments	8.3	2.4	1.4
Investments	343.6		

Investment structure property/casualty

in DM bn	31/12/1998		31/12/1997
	Book values	Weighting in %	Weighting in %
Real estate	13.9	6.5	6.5
Dividend-bearing equity securities	88.2	41.4	36.7
Interest-bearing securities	90.1	42.2	43.7
Other Investments	21.2	9.9	13.1
Investments	213.4		

Investment structure Konzern

in DM bn	31/12/1998		31/12/1997
	Book values	Weighting in %	Weighting in %
Real estate	29.3	5.5	5.1
Dividend-bearing equity securities	151.3	28.5	26.9
Interest-bearing securities	332.6	62.7	64.1
Other Investments	17.4	3.3	3.9
Investments	530.6		

for holdings valued at equity, which are not recorded on the balance sheet, the Group-wide equities weighting came to 31.4%.

Investment categories. The book value of **real estate** increased to DM 29.3 billion (1997: DM 19.7 billion), the gain being attributable to the consolidation of the AGF portfolio. The market value amounted to DM 37.6 billion.

The investments in **affiliated enterprises, joint ventures and associated enterprises** of DM 11.4 billion include holdings in companies in which we hold at least a 20% equity interest. The market value of these holdings was DM 37.1 billion at the end of the business year. Of this amount, DM 17.9 billion alone was represented by our 25% holding in Münchener Rückversicherungs-AG. The market values of the other holdings valued at equity totaled DM 19.4 billion. The total aggregate valuation reserve amounts to DM 25.9 billion.

This item also contains the insurance group MMI, Sydney. Because a majority interest in this company was not acquired until December 1998, it was not consolidated.

We do not establish valuation reserves for **loans** and fixed-interest securities held until maturity because these investments will be redeemed upon maturity at their face value.

With a value of DM 140.1 billion, equity securities, stock funds and mixed investment funds account for 33% of the **securities** available for sale. Investments in companies listed on the stock exchange that we hold as long-term investments accounted for DM 47.3 billion of this item. All long-term holdings, including holdings valued at equity, are listed individually on pages 140 – 141.

Net investment income. Current investment income increased by 30.1%, to DM 29.0 billion (1997: DM 22.3 billion) in 1998. Consequently, current income growth lagged slightly behind the rate of growth of the investment portfolio. This development is attributable to the fact that interest rates declined across the board, while the investment portfolio, and especially the equity securities contained therein, appreciated significantly in line with the strong performance of stock prices in 1998. We took advantage of the excellent condition of the stock markets to realize profits in our equities portfolio.

The profit contributed by the **disposal of investments** increased on balance by DM 1.4 billion, to DM 4.1 billion. This increase is a reflection of our success in the active management of our industrial and bank holdings. We realized profits of DM 1.3 billion on the sale of our stake in BHF-Bank and a portion of our participation in ERGO Versicherungsgruppe.

We intend to continue with this strategy in the future as well, achieving substantial investment results by realizing profits on our equities portfolio.

Unrealized gains, moreover, increased at a steady rate in 1998. We allocated DM 8.6 billion from the **market appreciation** of investments in the life and health insurance business to the reserve for premium refunds. After setting aside DM 4.1 billion for deferred taxes, the remaining unrealized gains of DM 4.3 billion were allocated to a capital reserve to bolster the Group's equity base. DM 1.1 billion of this amount falls to minority interests.

Depreciation, amortization and write-offs, taken mostly on real estate, increased by DM 377 million to DM 1.2 billion. The increase resulted from the first-time consolidation of the AGF Group and from an extraordinary write-off taken for MMI.

Asset management for outside investors and other financial services

Besides managing its own investments, Alllianz offers selected financial services to outside investors. This business includes the activities described below.

Asset management. Allianz Asset Management GmbH coordinates asset management activities within the Group. This company, which began operations on July 1, 1998, offers professional asset management services to institutional and private investors. In this work, it is supported by the Group's network of internationally experienced investment experts. We believe that tapping local expertise in this manner will reap benefits that we can apply to further improve the performance of the Group's own investments.

In Germany, **Allianz Kapitalanlagegesellschaft** has established a proven track record since 1982 with its mutual funds and special-purpose funds, delivering excellent performance for its investors in the past business year as well. The company was honored once again for its performance as the recipient of the prestigious "DM Micropal Awards" for outstanding investment fund management performance.

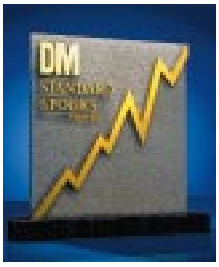
As a wholly-owned subsidiary of Allianz Asset Management GmbH (AAM), Allianz Kapitalanlagegesellschaft provides a strong foundation for expanding the Group's business in this segment. Assets under management in the investment funds of Allianz Kapitalanlagegesellschaft alone increased by 32.2% in 1998.

Mutual fund sales in Germany are carried out by our extensive network of Allianz agents. We also conduct advertising to attract new customers. Accomplishments such as the opening of a competence center offering comprehensive advisory services by telephone, the addition of experienced investment consultants to the account management team at AAM and the introduction of additional Internet services all contributed to the positive results.

In Italy, RAS sells the mutual funds of its asset management company through its subsidiary Dival SIM S.p.A., while Europensiones S.A. in Spain specializes in pension funds. In the French market, we are represented with the investment fund products of AGF Finance Gestion S.A. and Athéna.

Home loan and savings business. We have been active in this segment since 1998 through our subsidiary Allianz Bauspar AG. With 92,112 new home loan and savings contracts in 1998 (+ 26.4% over the previous year), Allianz Bauspar AG was able to buck the trends affecting the private home loan and savings institutions. The strong new business contributed a 3.6% increase to the business portfolio, bringing the total to 522,791 contracts in force, the savings plan amount of these contracts rising by 2.8%, to DM 17.5 billion. This positive development can be attributed above all to the fact that we began selling our home loan and savings products throughout the entire Allianz agent network in 1998. Furthermore, these products received good test scores in well-known press magazines.

Banking. Allianz has always said that it does not want to engage in the full spectrum of banking activities. In the case of asset management, however, the boundaries



Allianz Kapitalanlagegesellschaft (KAG) was awarded first place in all three categories for smaller investment companies (offering up to nine investment funds) in the 1998 "DM Micropal Awards," a competition by group evaluation. The annual awards sponsored by the business publication DM and the mutual fund database company Micropal are considered to be the "Oscars" of the investment fund management industry.

between banks and insurance companies are becoming increasingly blurred. Therefore, we regard Augsburger Aktienbank AG, a subsidiary of Allianz Asset Management GmbH, as an important constituent of our asset management strategy. This bank offers a current account linked to a securities account to make it particularly convenient for our customers to purchase Allianz investment funds.

Outside Germany, the Allianz Group is active in banking through Rasbank in Italy and AGF Banque and Comptoir des Entrepreneurs in France. Whereas Rasbank specializes in asset management for private investors, Comptoir des Entrepreneurs is primarily active in the mortgage banking business.

Investment holdings. The provision of financial backing to companies that are not listed on a stock exchange is an up-and-coming business in Europe. Therefore, we founded Allianz Capital Partners GmbH in 1998 with the aim of acquiring equity holdings in such companies. The new company advises these companies and offers them long-term financing models, which can lead all the way to preparing a stock market offering. Therefore, we are a valuable partner especially for small to mid-sized firms. The company invested DM 182.5 million in its first year of business. The strong interest generated by Allianz Capital Partners in the market is an indicator of the high demand for this type of financial service. The company scored an early success with its investment in Tank & Rast AG, a formerly state-owned enterprise that has since been privatized and operates rest stops and hotels along the German autobahn.

Earnings. The "Asset Management and Other Financial Services" segment earned net income of DM 40 million in 1998 (1997: DM 50 million).

OBJECTIVE OF GROUP CONTROLLING: INCREASING CORPORATE VALUE. *The structure of planning and controlling at Allianz is based on the division of functions between the holding company and the operating units. The two elements are linked by ongoing management dialog.*

This section explains the structure of our Group controlling system and then looks at Allianz as a management holding company. We then outline the nature of our management dialog and examine our central control parameter.

Local and central elements

Group controlling and planning for a global insurance group must first take account of the fact that insurance is primarily a local business. This is inevitable because our service is delivered under different national legal systems. Enduring corporate success in the insurance industry is therefore intimately bound up with precise knowledge of local markets and the capacity to develop this information efficiently with the aim of meeting customers' needs:

- by organizing needs-oriented products
- by structuring sales channels and services in such a way that they appeal particularly to potentially profitable customer segments and
- by an efficient corporate and organizational structure.

Our Group companies are empowered to make decisions in order to fulfil these aims. They are responsible for the success of the business in their own country.

Group controlling must, of course, also reflect the fact that global risks have an effect on business success. Such risks may arise from the insurance sector – e.g. natural catastrophes or liability claims in industrial risk insurance – or they may result from fluctuations in capital market rates. Whatever the cause, we have to overcome and control these global risks centrally. Our international exposure means that the impact of risk on us is cumulative.
For these two reasons – local business, global cumulation risks – the control principle at the Allianz Group is: "As local as possible, as central as necessary".

Management holding company Allianz AG

Allianz AG operates as a management holding company. The most important functions are:

- strategic portfolio management
- synergy management and
- Group controlling.

Allianz AG establishes the strategic direction in the core business areas Insurance, Provision and Investment and takes decisions on purchasing and selling companies. Synergy management is concerned with concentrating available expertise and ensuring the transfer of know-how throughout the Group. The holding company requires comprehensive information and powerful reporting systems to enable it to design the planning and controlling process efficiently and carry out its strategic role. This information is provided by the Group controlling system.

Management dialog

Regular management dialog supports the strategic orientation of the Group pursued by the board of management of the holding company by setting objectives. This dialog integrates local know-how with the perspective of the holding company. Communication is structured in three phases:

- At the beginning of February the board of management of the holding company discusses long-term strategic options for the development of the Group. Central performance targets for the next planning period are also addressed. The operational units are then requested to draw up appropriate sub-goals and measures for their sphere of operation.

- These are then discussed in the forum of a strategic dialog towards the middle of the year. The board of management of the holding company and the operational units then agree targets for the next planning period.

- Planning discussions at Group companies in late autumn ensure that the detailed operational plans concur with the agreed targets.

Benchmark – Economic Value Added

Our control process is supported by a reporting system that provides the most important data for corporate decisions. The relevant parameter here is the increase in corporate value. Our reporting system is designed to show not only where Economic Value Added is generated or the amount. It also maps the important control parameters and demonstrates how they affect Economic Value Added.
What do we understand by "Economic Value Added"? It is defined as the difference between the return on equity and the costs of capital assigned to risk. Economic Value Added shows us whether the result generated by a company exceeds the opportunity costs of the shareholder.

Standardized internal reporting system

For a number of years now, our internal reporting system has been based on procedures that are comparable with the International Accounting Standards. Fiscal year 1998 brings with it a new system where the differences between internal and external reporting recede. The financial statements are being published on the basis of the International Accounting Standards.
However, one important difference remains: we are using a normalized performance approach to determine the result from investments for purposes of Group controlling. This yields information on how the average annual value of investments is developing over the medium term, and it means that short-term fluctuations in capital markets no longer play any role. This is a considerable advantage if the aim is to assess the long-term profitability of the Allianz Group and plan the result.

RISK MANAGEMENT: *A law in Germany regulating control and transparency in the corporate arena came into force on 1 May 1998. It introduced a requirement for insurance companies with a stock-market listing to report on the risks of future development.*

At the Allianz Group, this is particularly relevant for underwriting risks and the risks associated with investments. The imponderables bound up with the "millennium bug" are another potential risk area.

Underwriting risks. These mainly include cumulative claims, damage arising from natural hazards and big industrial claims. The size and global nature of the insurance business of the Allianz Group goes some way to equalizing the risks within the portfolio. Risks are continually analyzed on the basis of data supplied to the Group by the companies.
The Group uses this risk assessment to pass on a proportion of the risks to the international reinsurance market in order to limit its own liability. Only companies offering excellent security are used for this purpose. Changing trends in claims and market conditions are also important and they are monitored on an ongoing basis.

Insurance claims that have not yet been settled are another potential area of risk. Reserves are created in line with experience values to cover these risks. The development of such claims is again subject to continual monitoring. The accumulated know-how is channeled back into current assessments.

Risks in investments. Investment activity forms part of the service of "insurance protection". The function of investments is to guarantee the promises for benefits made in insurance products over the long term. With the aim of minimizing risk, the asset portfolio is structured to achieve

- maximum security and profitability
- with adequate liquidity
- and an appropriate mix and diversity.

We distinguish primarily between credit and market risks.

Credit risks cover defaulting debtors and the possibility of deterioration in their credit-worthiness. The objective of Allianz is to limit these risks by applying high quality requirements and diversification. Existing commitment to individual debtors is co-ordinated across the different categories of investment and monitored by limit lists.

Market risks mainly arise as a result of interest movements, fluctuations in exchange rates or changes in the market value of securities arising for other reasons. The effects of sustained negative developments are monitored using sensitivity analyses and stress tests. Currency fluctuations only play a minor role as a risk factor in our investments because commitments to insurance benefits and the investments covering them must be in the same currency.

Derivative financial instruments – like swaps, options and futures – are also used selectively to hedge against changes in the risk profile of currencies or interest rates. Here we are careful to comply with regulatory requirements and also follow internal compliance guidelines that tend to be even stricter. Allianz Group companies are end-users of derivatives. They do not trade these instruments in the same way as banks. Details of volume are given in the Notes under the item “Derivative Financial Instruments”.

Market and credit risks arising from the deployment of derivatives are subject to particularly stringent checks. Credit risks are monitored on the basis of measuring new replacement values, while market risks are assessed taking into account up-to-date value-at-risk calculations, stress tests and implementation of stop-loss limits.

Our organization limits risks by strict separation of trading, settlement and controlling. Risk controlling is carried out within the Group at different levels that are in close contact. Local financial departments are responsible for managing and controlling their local portfolio of assets. The principles of risk control are established at Group level and limits are assigned.

Risks from the "millennium bug". We recognized this was a potential disaster area very early on - in 1988! Since then, we have been addressing the implications of year 2000 compliance, analyzing all the affected areas, and taking preventive action. The program for ensuring compliance of hardware, software and applications programs is now virtually complete. Application tests (time travel) will have been completed by the middle of 1999.

It is impossible to put reliable figures to the claims burden that is likely to result from the failure of year 2000 compliance. We are addressing this risk by running a campaign to alert as many customers as possible to this subject. We have been carrying out questionnaire campaigns and disseminating comprehensive information. We have also set up a hotline to deal with queries from small and medium-sized companies. It is hoped that our efforts will limit the effects of transition to the year 2000 as much as possible.

Risk control in the context of the law regulating control and transparency is the responsibility of the individual Group companies. Global risks with the potential for exerting a cumulative effect on the entire Allianz Group are managed at Group level and monitored by dedicated risk-control systems.

International rating agency Standard & Poor’s awarded the maximum "AAA" rating to the Allianz Group.

In addition to large projects, the Allianz Environment Foundation also sponsors the Aktion Blauer Adler. This campaign supports smaller projects, using our extensive network of representatives for environmental initiative at a local level. Anybody actively involved in environmental issues can obtain a contribution for this project from the Foundation via an Allianz representative. Photograph: Hubert Fleischmann (background) who, with head agent Hans-Peter Alkover (Regensburg) and the Aktion Blauer Adler, laid out an "educational ant path" in the Upper Palatinate. This educational path explains the various connections in the forest ecosystem and provides information about the important part ants play there as the "ecology police".

ENVIRONMENT. *Accurate risk assessment is our core competence. And that is a very good reason for our commitment to preserving the environment. Upsetting the delicate ecological balance and wanton exploitation of natural resources increase the risks to the earth's human population and the natural world which we all inhabit.*

This is why we are dedicated to preserving our environment and our commitment radiates in a number of directions.

Environmental Foundation. The Allianz Foundation for the Protection of the Environment was founded on the occasion of our centenary. The endowment of DM 100 million makes the foundation one of the biggest private ventures of its kind in Germany. Since 1990, the foundation has provided grants amounting to a total of DM 50 million. Projects are only supported if they are enduring, innovative and provide inspiration.
Since 1998 we have only been continuing to promote schemes where we know that our investment will not only support the environment but also help to create jobs. This aim is fulfilled directly in the case of our projects aimed at reconstructing and restoring historic gardens, parks and squares. And an indirect benefit for employment is provided by our projects on environmental education. Anyone seeking our assistance in developing an environmental centre has to provide guarantees that their initiative will generate new jobs or secure existing jobs over the long term. This year saw work being sponsored for the "House on the River" in Passau on the border between Germany and Austria, and the International Meeting Centre in St Marienthal where the borders of Germany, Poland and the Czech Republic converge.

Corporate Environmental Stewardship
Management of the environment is one of our corporate objectives and we are gradually introducing environmental management systems. Environmental bulletins regularly chart the progress we have made and lay down markers for what we hope to achieve in the future. Our property and casualty insurers in Germany slashed electricity consumption by 13 percent in the period from 1995 to 1997 and reduced the average energy expended on each employee for heating by 10 percent.

Product Ecology. The design of Allianz products combines with our service to reduce environmental risks for our insurance customers. Our risk managers play their part alongside the Allianz Center for Technology (AZT). The AZT is the leading research institute carrying out investigations into the cause and prevention of claims in the international insurance industry. Naturally enough, it is devoting some of its energies to projects of relevance to the environment. To take only one example, our researchers have been developing an extinguisher system that replaces halon with solid aerosols. This system puts out fires quickly without producing emissions that bring about climate change or lead to the production of highly toxic substances. We are proud to report that this system received an environmental award.

OUR STAFF. *What does global expansion mean for our workforce? Human resources have been addressing this question since 1998. The average number of employees rose to 105,676 in the year under review (1997: 76,951).*

This growth is largely as a result of the merger between Allianz and the French insurance group Assurances Générales de France (AGF). The following table shows the employment level at the Allianz Group according to countries and geographical segments:

To help young and talented university graduates set off on an attractive career, we offer them in Germany to start as an assistant to a management member. In the photograph (from left to right): Michael Diekmann, member of the Allianz AG Board of Management, responsible for the Asia-Pacific region, former assistant to the manager of the Allianz Versicherungs-AG branch office in northern Germany; Torsten Wahl, currently assistent to Dr. Friedrich Wöbking (right), member of the Allianz Versicherungs-AG and Allianz Lebensversicherungs-AG boards of management, in charge of Information Systems and Internal Services.

Employees by country

	1997	1998
Germany	40,070	40,543
France	2,149	18,157
USA	9,406	10,233
Italy	6,112	6,668
Switzerland	4,297	4,322
Great Britain	3,376	4,312
Austria	4,046	3,921
Hungary	2,441	2,379
Other Countries	5,054	15,141
Total	76,951	105,676

Integration of our companies in individual countries and closer cooperation within the Allianz Group worldwide are becoming increasingly important. A big initiative addressed this area in Germany, Austria and France during 1998. What were the central challenges? We focused on the following issues:

- presenting our appeal more effectively as an employer active on the international stage
- implementing a basic format for application and selection procedures that can be applied globally
- moving forward the career development of our staff and managers and
- harmonizing assessment and pay systems.

We want to achieve uniform standards for human resources in the Allianz Group while retaining the flexibility of local units to react to special conditions in their markets.

Recruitment

Our information and contact program underwent fast expansion during 1998. The aim was to reach highly qualified potential employees and get over the message that working for an international insurance group offers a wide range of interesting activities and challenging roles.

▶ **Internet Website.** Our electronic job markets in the USA and Germany were expanded. The Internet site of our French business units gained a new career section.

▶ **Career fairs.** We made extensive use of career fairs in Italy, Spain, France, Turkey, the USA and elsewhere. In Germany alone our Group companies took part in 50 career events.

▶ **Cooperation with institutions of higher education.** We are in continual contact with universities and business schools such as INSEAD, Harvard and Wharton and actively seek out suitable recruits among the graduates of these institutions.

▶ Fast-track programs. Management trainees with exceptional qualifications are put on fast-track programs that involve strategic challenges from an early stage. These programs include a sales trainee program in Austria and the opportunity to join the company as an assistant to a member of the Board of Management in Germany.

Uniform selection processes

The selection processes for new staff in many subsidiaries are based on assessment centers and a series of interviews. Our objective is to achieve minimum requirements applicable worldwide that facilitate exchange of human resources across national frontiers within the Allianz group of companies.

Personnel and management development

In 1998 we founded the Allianz Management Institute (AMI) to foster the development of international management. Seminars and workshops are held under the aegis of the institute with the objective of addressing issues affecting the development of the Allianz Group.
The AMI forum complements the qualification programs of our local units. These offer language courses, assessment centers, specialist and communication seminars and management programs, some of which have been developed in conjunction with leading business schools.

Pay and performance

The Allianz Group paid salaries and wages totaling DM 6.76 billion (5.69 without AGF) worldwide in 1998. Our total outlay on social security contributions, pensions and employee assistance amounted to DM 2.71billion (1.62 without AGF).

As the Allianz Group becomes more international in character, we are encouraging our staff to make career moves across national borders. This is why we are aiming to bring assessments and pay systems into line and harmonize them.

The elements of our total compensation package are geared towards linking individual performance with commercial development in the particular Group company. Variable components include bonus payments for managerial staff, profit-sharing schemes for employees, and the opportunity for staff to acquire shares in their Allianz company on preferential terms.

During the year under review, we developed an additional remuneration element for the senior management. This Long-term Incentive Plan for some 350 executives completes our total compensation package and will create a further incentive for management to bring about sustained increase in corporate value. The plan will run from spring 1999 and has been designed to cover seven years. It is linked to the performance of the Allianz share price. The additional remuneration is paid out and is not in the form of shares or options.

However, entitlement only arises if – after a period of two years – the Allianz share price

- exceeds the development of the European Dow Jones Stoxx Price Index and
- has increased by at least 20 percent.

The plan is particularly intended to increase the appeal of the Allianz Group to international managers.

Thanks to staff

The Board of Management of the Allianz Group would like to express their sincere thanks to all the members of staff of each company in the Group for their contribution to a successful year in fiscal 1998 and for the loyalty and commitment they have shown to their company.

COMMUNICATION. *1998 was a landmark year for communication at Allianz: our logo was given a facelift and we laid the foundations for a global image campaign.*

The New Emblem

Our company logo has been revamped. The visual impact of the streamlined emblem and name "Allianz" is now more in keeping with the times. Our aim is to show the outside world that we at Allianz are undergoing change and renewal.

Allianz is no longer predominantly at home in the German market. We are now an insurance company operating on the global stage with a domestic market in Europe. We are active in property and casualty insurance, life and health insurance, and we also provide financial services. These core areas of expertise – insurance, provision, investment – are symbolized in the new **logo** by three stylized columns inside the circle. The new emblem represents a move forward, the development of a more contemporary symbol, and is the fourth modification since Allianz was founded more than a century ago.

Logo 1998

Logo 1977

Logo 1922

Logo 1890

We believe that the friendly approach, cosmopolitan outlook, expertise and reliability of the Allianz Group should be communicated more directly. That is why the revised combination of word and image for the new logo is more suited to promoting a global corporate network. The great diversity of logos among our subsidiaries is being retained under the unifying umbrella of the new symbol. The organic growth in the identity of our subsidiaries over time is an attribute that we wish to preserve. This is, after all, what has enabled them to build up the reputation and trust they enjoy in their local markets.

Global Image Campaign

The new logo has also been accompanied by an advertising campaign that was launched across the world in March 1999. The campaign features the slogan "Allianz – the power on your side" and is directed towards raising the profile of our name and services in the international arena.

The message is clear. If you are looking for security that goes beyond straight insurance, Allianz is the place for you. We have the global resources a quality insurer needs to justify the customer's trust at all times. Allianz is a fair and trustworthy partner – even when the going gets tough.

What roles are played by the Allianz Group and its local companies in this campaign? The international media features Allianz. Our subsidiaries will build on this theme under their own logos by running national advertisements in their indigenous markets. These local campaigns will emphasize the link with the world-wide Allianz network. The international campaign has been designed on the basis of a long-term strategy and is backed by a budget of around DM 100 million.

The year under review saw Allianz make the biggest acquisition in its history. We purchased 51 percent of the shares in Assurances Générales de France (AGF), one of the most important insurance groups in France. By joining forces with AGF we have achieved a leading position in the insurance sector in seven of the eleven countries that joined the European Monetary Union on 1 January 1999. This means that our domestic market is Europe. The picture shows: Antoine Jeancourt-Galignani, President of the Allianz Group in France and AGF (right) and Henning Schulte-Noelle, Chairman of the Board of Management of Allianz AG, in the board room of AGF. This was the venue for four of the eight meetings of the joint Group Steering Committee that is managing the integration of AGF and Allianz.

PROCESSES OF CHANGE. *The acquisition and integration of AGF was not the only issue driving Allianz forward during 1998. An interview with Henning Schulte-Noelle, Chairman of the Board of Management, and members of the Board, Diethart Breipohl and Detlev Bremkamp.*

Young people on the front cover of the Annual Report. A trendy gimmick? Or is there more to it than that?

Schulte-Noelle: These are people from different countries working at Allianz. And they represent their colleagues all over the world. They're part of the network of companies that has developed into an international group with Europe as its home market. It is now a group in which people with different nationalities, religions and cultures work together successfully.

Has the acquisition of French insurance group AGF turned Allianz from Germany into a truly international company?

Bremkamp: No. The acquisition and integration of AGF is certainly a milestone in the process of making Allianz an international force, but we had already started this process at the end of the seventies. Now Allianz has around 700 companies in 68 countries. More than 65 000 employees of the Group work outside Germany and generate 55 percent of the premiums written. And that trend is rising!

Is it really possible to have a uniform Allianz identity with that number of companies?

Schulte-Noelle: Identity is not an end in itself. Identity creates confidence – and vice versa. This holds true for the relationship between the group companies and – most importantly – for the relationship with our clients. Satisfied customers mean good business. Our group companies have made a good name for themselves in their domestic markets and most of them have a long tradition – both assets that we intend to nurture. At the same time, the fact that their insurance company is part of a powerful international Group is becoming an increasingly important factor for a large number of clients.

Is that the reason for the current international advertising campaign to the tune of DM 100 million – the first of its kind?

Schulte-Noelle: Yes, what I've just outlined lies at the heart of the campaign. The individual Allianz companies are addressing a wide public for the first time. They're telling the world that they are part of a powerful and customer-oriented network – part of the Allianz Group. As globalization proceeds in our sector, we're moving towards a position where there will be no more than perhaps a dozen big names in the global financial services market. We're preparing for that. And in our group companies we're strengthening the feeling among all the staff that they belong to a global Allianz.

Allianz aims to be among the Top Five in important markets or in particular segments. Is ranking by premiums written so important?

Breipohl: Our prime concern is not rankings. We're concerned with attaining a size and presence in individual markets that makes sense in commercial terms. This strategy permits us to achieve cost benefits that we can deploy in structuring prices and gaining acceptance for our prices among our clients. Size is essential in our sector if we wish to achieve a high level of competitiveness and profitable growth. Ranking by quality is quite another matter …

In 1998 Allianz was ranked by Standard and Poor's and Moody's for the first time …

Breipohl: … and achieved the maximum "AAA" rating for the Group and for subsidiaries in Germany, France, Italy, Austria and the USA at first go.

Should Allianz not make the most of this recognition by getting a listing on international stock markets? Otherwise it doesn't really make sense to prepare financial statements in accordance with the International Accounting Standards (IAS), does it?

Schulte-Noelle: Preparing financial statements in accordance with the International Accounting Standards means that we're more transparent and that our results can be compared more easily with those of other international insurers. The work of analysts and investors is then much easier. Investors and clients benefit both from that transparency and from the fact that valuation reserves are documented. There's no doubt that we meet most of the requirements for a listing on the New York Stock Exchange or other international financial centers. But this is unlikely to be on the agenda for 1999, and we're not under any time pressure.

What opportunities do you see for Allianz shares in the arena of international stock exchanges?

Breipohl: Our solid foundation would appear to be a great advantage in view of the latest developments in Asia and Latin America. I believe that Allianz is the right choice for investors interested in sustained growth.

And, speaking of growth, is significant internal growth still possible in the established markets?

Schulte-Noelle: The situation has clearly become more difficult. But we're making the most of the opportunities for growth both in saturated markets and in emerging markets. In what one might call "mature" markets we're achieving this goal by optimizing the competitiveness of our rates through cost management and by developing new innovative products. In most of the important emerging markets Allianz is already in a good starting position. Takeovers and joint ventures naturally play an important role.

Bremkamp: Yes, for example we've teamed up with the leading bank in Croatia to form a company, in Bulgaria we bought up a majority holding in one of the most dynamic insurance companies in the country, and in Greece we've formed the first banking joint venture in the country with Piraeus Bank.

These are all growth markets with considerable potential.

Schulte-Noelle: We've also formed a solid foundation in the Asia-Pacific region by entering a joint venture with the Pioneer Group on the Philippines and taking over all the shares in Australian insurer MMI. We were the first European insurance company to form a joint venture in China and it started operating in Shanghai at the beginning of 1999.

Is it still possible to control all these new subsidiaries and joint ventures?

Schulte-Noelle: Yes, because decisions are only taken by senior managers who have extensive knowledge of their individual market, its structures and the requirements of their customers. We're keeping to the principle of local management and giving our group companies the necessary entrepreneurial room for maneuver. At the same time we're also using strategic objectives, planning and controlling systems and regular management dialog across the Group to provide the right level of uniform group control. Our International Executive Committee also plays an important role in group control and knowledge management. This Committee comprises the chairmen of all the big group companies and the Board of Management of Allianz AG.

In the general takeover fever it's easy to forget that most mergers fail in commercial terms. Is Allianz luckier than all the others?

Schulte-Noelle: There's no doubt that a certain amount of luck played a part given that the nineties alone saw ten successful acquisitions. We've been helped by three main factors: clear and realistic objectives, open and fair-minded cooperation with the individuals involved, and speed.

Bremkamp: The takeover of AGF is a good example of our approach. AGF is a successful international insurance company that looks back with pride on a long tradition. It's a company for which we have a great deal of respect. This is the atmosphere in which we're developing future goals and working together in the Group Steering Committee to ensure the successful integration and future of our companies.

How much of AGF will still be left after this integration?

Schulte-Noelle: AGF will also emerge from this merger with renewed vigor. It is responsible for the business of the Allianz Group in France under its own name.

In conversation: Henning Schulte-Noelle (left), Detlev Bremkamp (center) and Diethart Breipohl (right).

We've also transferred the management role in Benelux, North Africa, the Near East and South America to AGF. These are regions where AGF already has a stronger presence than Allianz. This demonstrates our confidence in AGF and our attitude towards cooperation with partners in the Allianz Group.

Plans for growth at Allianz since 1998 aren't simply restricted to personal and property insurance. What are your aims as far as the new range of investment services is concerned?

Breipohl: Setting up Allianz Asset Management GmbH (AAM) has created a third core business area with great potential for profits. We're also offering our customers an attractive range of services that's best represented by our three key concepts: insurance, provision and investment. Allianz has been investing money successfully for 108 years and with an investment portfolio of currently more than 330 billion euro we're one of the biggest players in the global investment market. AAM has been giving all our customers the benefit of this know-how since October of last year, with products to suit every budget and risk profile.

Many analysts were trumpeting an "Allfinanz" link-up between Allianz and Dresdner Bank in the area of asset management with a full range of financial services. But all that emerged was a small ADAM.

Breipohl: Provision of the full range of financial services under one roof is not one of our strategic objectives at Allianz. We are, however, interested in taking an active role in asset management - a market of the future. This makes it quite logical and consistent that both partners decided to offer their own range of services. Both partners have their own profile and customer potential that they're best able to exploit independently. Allianz Dresdner Asset Management GmbH (ADAM) allows both partners to cut costs because they share investment in information technology. Our customers and shareholders benefit from this efficient initiative because AAM is scheduled to start earning money as early as the year 2001 – and annual growth in double figures is projected.

With so much dynamism about what is the ultimate aim of Allianz? Is global leadership on the agenda?

Schulte-Noelle: Performance for customers and shareholders, satisfaction for our staff - market leadership in that sense is definitely our objective. This is an aim for all our core business areas and in all important markets. Size alone is no guarantee of success.

What are you doing in 1999 to achieve this aim?

Schulte-Noelle: Each group company is working on this aim with its own range of products and services. Priorities for the Group this year are successful integration of AGF, moving forward the development of AAM and putting a new structure for industrial insurance in place. We'll be continuing to push for international growth of Allianz and will strike to close any gaps in individual markets and segments.

Customers and shareholders will be pleased to hear that. What about the other stakeholders – employees and society?

Schulte-Noelle: The commercial success of Allianz is an essential condition for the well-being of our employees and society in general. We employ 100 000 people world-wide and these individuals have very secure jobs by today's standards. And don't forget the company's tax bill – DM 2.1 billion in Germany alone for 1998. Only successful companies are able to make a positive contribution to society. Quite apart from supporting a plethora of individual projects right across the board, we've endowed the Allianz Foundation for the Protection of the Environment with capital of DM 100 million. Since 1990 the foundation has already provided grants for innovative environmental projects amounting to a total of DM 50 million from the interest on this endowment. This means that society at large is also benefiting from the fruits of our corporate strategy to create a more sustainable world.

CONSOLIDATED FINANCIAL STATEMENTS
ALLIANZ GROUP

ASSETS

	Note	1998 € mn	1998 DM mn	1997 DM mn
A. Intangible assets				
I. Goodwill	4	3,010.4	5,887.8	3,507.8
II. Other intangible assets	5	864.4	1,690.7	1,058.5
Total A.		3,874.8	7,578.5	4,566.3
B. Investments				
I. Real estate	6	14,985.0	29,308.2	19,662.3
II. Investments in affiliated enterprises, joint ventures and associated enterprises	7	5,746.1	11,238.5	6,635.3
III. Mortgages and other loans	8	17,575.2	34,374.2	32,482.6
IV. Other securities	9			
1. Held to maturity		4,163.7	8,143.5	5,390.4
2. Available for sale		220,314.6	430,897.9	304,975.4
3. Trading		479.5	937.8	9.4
Total IV.		224,957.8	439,979.2	310,375.2
V. Other investments	10	8,026.3	15,697.8	13,918.3
Total B.		271,290.4	530,597.9	383,073.7
C. Investments held on account and at risk of life insurance policyholders	11	15,684.7	30,676.7	24,007.7
D. Receivables	12	31,965.3	62,518.7	20,801.4
E. Cash with banks, checks and cash on hand		1,911.5	3,738.5	1,900.9
F. Deferred acquisition costs	13	9,187.4	17,968.9	16,023.9
G. Deferred tax assets	29	4,935.4	9,652.7	4,491.4
H. Other assets	14	3,838.2	7,507.0	6,811.7
Total assets		342,687.7	670,238.9	461,677.0

EQUITY AND LIABILITIES

	Note	1998 € mn	1998 DM mn	1997 DM mn
A. Shareholders' equity	15			
I. Issued capital and capital reserve		7,720.6	15,100.2	11,181.0
II. Revenue reserves		5,190.4	10,151.5	7,088.9
III. Other reserves		8,972.4	17,548.5	14,495.2
IV. Consolidated unappropriated profit		348.8	682.2	588.5
Total A.		22,232.2	43,482.4	33,353.6
B. Minority interests in shareholders' equity	16	11,958.0	23,387.8	14,700.5
C. Insurance reserves (net)				
I. Unearned premiums		8,772.9	17,158.3	13,750.8
II. Aggregate policy reserve	17	142,021.8	277,770.5	199,167.4
III. Reserve for loss and loss adjustment expenses	18	38,323.5	74,954.2	56,285.5
IV. Other insurance reserves	19	27,698.5	54,173.6	36,934.1
Total C.		216,816.7	424,056.6	306,137.8
D. Insurance reserves for life insurance where the investment risk is carried by policyholders (net)	11	15,681.0	30,669.4	24,053.1
E. Other accrued liabilities				
I. Pensions and similar reserves	20	3,387.1	6,624.5	5,731.2
II. Accrued taxes	29	824.7	1,612.9	1,095.6
III. Miscellaneous accrued liabilities		2,489.7	4,869.5	1,712.2
Total E.		6,701.5	13,106.9	8,539.0
F. Liabilities	21			
I. Participating certificates and post-ranking liabilities		1,159.4	2,267.5	961.4
II. Bonds and loans payable		10,759.1	21,043.0	4,263.0
III. Other liabilities		37,343.7	73,038.0	40,832.6
Total F.		49,262.2	96,348.5	46,057.0
G. Deferred tax liabilities	29	19,838.7	38,801.4	28,469.7
H. Deferred income	22	197.4	385.9	366.3
Total equity and liabilities		342,687.7	670,238.9	461,677.0

for the year ended December 31, 1998

	Note	1998 € mn	1998 DM mn	1997 DM mn
1. Gross premiums written	23	46,207.1	90,373.3	75,575.8
2. Premiums earned (net)	23	39,781.3	77,805.4	64,956.4
3. Investment income (net)	24			
a) Income from affiliated enterprises, joint ventures and associated enterprises		976.3	1,909.5	1,088.2
b) Other investment income		13,320.6	26,052.9	20,707.5
Total 3.		14,296.9	27,962.4	21,795.7
4. Other income	25	4,276.3	8,363.6	3,783.7
Total income (2. - 4.)		58,354.5	114,131.4	90,535.8
5. Benefits (net) payable to policyholders	26			
a) Life/Health		– 20,579.4	– 40,249.8	– 33,937.1
b) Property/Casualty		– 19,401.6	– 37,946.2	– 30,441.8
Total 5.		– 39,981.0	– 78,196.0	– 64,378.9
6. Underwriting costs (net)	27	– 9,020.5	– 17,642.5	– 13,985.6
7. Amortization of goodwill	4	– 246.4	– 481.9	– 302.2
8. Other expenses	28	– 5,021.2	– 9,820.8	– 5,494.5
Total expenses (5. - 8.)		– 54,269.1	– 106,141.2	– 84,161.2
9. Earnings from ordinary activities before taxation		4,085.4	7,990.2	6,374.6
10. Taxes	29	– 1,527.6	– 2,987.7	– 2,814.9
11. Minority interests in earnings	16	– 738.7	– 1,444.7	– 853.5
12. Net income	30	1,819.1	3,557.8	2,706.2

		1998 €	1998 DM	1997 DM
Earnings per share	31	7.50	14.67	11.57
Earnings per share, diluted	31	7.50	14.67	11.47

CASH FLOW STATEMENT

	1998 DM mn
Net income for the year	3,557.8
Change in unearned premiums	– 101.5
Change in aggregate policy reserve [1]	22,120.4
Change in reserve for loss and loss adjustment expenses	3,577.1
Change in other insurance reserves	4,278.6
Change in deferred acquisition costs	250.7
Change in funds held by others under reinsurance business assumed	43.9
Change in funds held under reinsurance business ceded	1,685.5
Change in accounts receivable/payable on reinsurance business	– 749.5
Change in trading securities	– 780.7
Change in other receivables	– 5,719.1
Change in other liabilities	2,835.5
Change in deferred tax assets/liabilities [2]	– 1,388.0
Adjustment for investment income/expenses not involving movements of cash	– 4,023.1
Adjustment for amortization of goodwill	481.9
Miscellaneous	960.3
Net cash flow from normal operating activities	**27,029.8**
Change in fixed income securities available for sale	– 24,208.3
Change in variable income securities available for sale	– 8,965.9
Change in investments held to maturity	565.0
Change in real estate	1,277.7
Change in other investments	3,242.5
Change in investments held on account and at risk of life insurance policyholders	– 1,530.3
Change in cash and cash equivalents from acquisition of consolidated affiliated enterprises	– 8,374.8
Miscellaneous	– 534.2
Net cash flow from investing activities	**– 38,528.3**
Change in bonds, loans, participating certificates and post-ranking liabilities	7,880.5
Proceeds from increases in capital	3,919.3
Dividends paid	– 756.4
Miscellaneous [3]	2,317.0
Net cash flow from financing activities	**13,360.4**
Effect of exchange rate changes on cash and cash equivalents	**– 24.3**
Cash and cash equivalents at beginning of year	1,900.9
Cash and cash equivalents at end of year	3,738.5
Change in cash and cash equivalents	**1,837.6**

[1] including insurance reserves for life insurance where the risk is carried by policyholders
[2] excluding change in deferred tax assets/liabilities from unrealized investment gains/losses
[3] excluding change in revenue reserves from unrealized investment gains/losses

The Allianz Group's cash balances include an amount of DM 0.1 million from the proportional consolidation of joint ventures.

The cash flow statement excludes the effects of the first-time consolidation of Assurances Générales de France and Royal Nederlande in 1998. These acquisitions increased the value of investment held (excluding funds held by others) by DM 110,473.8 million, insurance reserves by DM 98,524.3 million, goodwill by DM 2,882.2 million, and decreased the net total of other assets and liabilities by DM 6,457.0 million. Liquid funds of DM 2,039.2 million included in the consolidated financial statements as a result of these first-time consolidations contrasted with cash outlays of DM 9,064.0 million and DM 1,350.0 million for the acquisitions of AGF and Royal Nederlande respectively.

ASSETS	Life/H
	12/31/1998 DM mn
A. Intangible assets	1,144.7
B. Investments	
I. Real estate	13,330.1
II. Investments in affiliated enterprises, joint ventures and associated enterprises	10,172.8
III. Mortgages and other loans	28,365.7
IV. Other securities	
1. Held to maturity	4,307.3
2. Available for sale	279,442.3
3. Trading	–
Total IV.	283,749.6
V. Other investments	8,015.1
Total B.	343,633.3
C. Investments held on account and at risk of life insurance policyholders	30,676.7
D. Other segment assets	33,821.5
Total segment assets	409,276.2

ealth	Property/Casualty		Financial Services		Consolidation Adjustments		Group	
12/31/1997	12/31/1998	12/31/1997	12/31/1998	12/31/1997	12/31/1998	12/31/1997	12/31/1998	12/31/1997
DM mn	DM mn	DM mn	DM mn	DM mn	DM mn	DM mn	DM mn	DM mn
694.3	6,375.1	3,857.2	58.7	14.8	–	–	7,578.5	4,566.3
9,482.9	13,852.3	10,179.4	2,125.8	–	–	–	29,308.2	19,662.3
6,461.4	23,569.3	14,772.2	358.3	5.5	– 22,861.9	– 14,603.8	11,238.5	6,635.3
27,089.6	5,694.6	5,388.5	401.8	4.5	– 87.9	–	34,374.2	32,482.6
4,313.9	1,735.0	975.2	2,109.2	101.3	– 8.0	–	8,143.5	5,390.4
199,400.0	147,758.3	104,551.5	3,829.7	1,023.9	– 132.4	–	430,897.9	304,975.4
–	–	–	937.8	9.4	–	–	937.8	9.4
203,713.9	149,493.3	105,526.7	6,876.7	1,134.6	– 140.4	–	439,979.2	310,375.2
2,873.3	20,802.2	20,332.5	10,681.2	1,802.6	– 23,800.7	– 11,090.1	15,697.8	13,918.3
249,621.1	213,411.7	156,199.3	20,443.8	2,947.2	– 46,890.9	– 25,693.9	530,597.9	383,073.7
24,007.7	–	–	–	–	–	–	30,676.7	24,007.7
24,600.8	38,327.8	22,668.8	32,556.2	4,176.8	– 3,319.7	– 1,417.1	101,385.8	50,029.3
298,923.9	258,114.6	182,725.3	53,058.7	7,138.8	– 50,210.6	– 27,111.0	670,238.9	461,677.0

LIABILITIES	Life/Hea
	12/31/1998
	DM mn
A. Insurance reserves (net)	
I. Unearned premiums	1,981.2
II. Aggregate policy reserve	253,192.4
III. Reserve for loss and loss adjustment expenses	4,198.7
IV. Other insurance reserves	49,536.1
Total A.	308,908.4
B. Insurance reserves for life insurance where the investment risk is carried by policyholders (net)	30,669.4
C. Other accrued liabilities	1,744.5
D. Other segment liabilities	45,797.3
Total segment liabilities	387,119.6

lth	Property/Casualty		Financial Services		Consolidation Adjustments		Group	
12/31/1997	12/31/1998	12/31/1997	12/31/1998	12/31/1997	12/31/1998	12/31/1997	12/31/1998	12/31/1997
DM mn	DM mn	DM mn	DM mn	DM mn	DM mn	DM mn	DM mn	DM mn
1,941.1	15,176.5	11,799.0	–	–	0.6	10.7	17,158.3	13,750.8
178,939.2	24,578.1	20,065.3	–	–	–	162.9	277,770.5	199,167.4
2,691.5	70,736.3	53,606.3	–	–	19.2	– 12.3	74,954.2	56,285.5
34,257.6	4,637.5	2,676.5	–	–	–	–	54,173.6	36,934.1
217,829.4	115,128.4	88,147.1	–	–	19.8	161.3	424,056.6	306,137.8
24,053.1	–	–	–	–	–	–	30,669.4	24,053.1
876.9	10,342.2	7,469.5	1,020.2	192.6	–	–	13,106.9	8,539.0
39,246.3	67,663.2	41,633.1	49,190.7	6,477.8	– 27,115.4	– 12,464.2	135,535.8	74,893.0
282,005.7	193,133.8	137,249.7	50,210.9	6,670.4	– 27,095.6	– 12,302.9	603,368.7	413,622.9
						Equity*	66,870.2	48,054.1
						Total liabilities	670,238.9	461,677.0

* Shareholders' equity and minority interests

Consolidated Income Statement for the year ended December 31, 1998	Life/Health	
	1998 DM mn	1997 DM mn
1. Gross premiums written	31,062.6	27,398.9
2. Income		
Premiums earned (net)	27,740.6	23,856.3
Investment income (net)	19,342.7	15,215.6
Other income	1,756.3	1,112.7
Total income	48,839.6	40,184.6
3. Expenses		
Benefits (net) payable to policyholders	– 39,072.6	– 32,730.6
Underwriting costs (net)	– 4,441.8	– 3,487.9
Amortization of goodwill	– 1.4	– 1.3
Other expenses	– 3,342.1	– 2,430.4
Total expenses	– 46,857.9	– 38,650.2
4. Earnings from ordinary activities before taxation	1,981.7	1,534.4
5. Taxes	– 619.2	– 676.5
6. Minority interests in earnings	– 574.5	– 337.5
7. Net income	788.0	520.4

Property/Casualty		Financial Services		Consolidation Adjustments		Group	
1998	1997	1998	1997	1998	1997	1998	1997
DM mn	DM mn	DM mn	DM mn	DM mn	DM mn	DM mn	DM mn
60,372.7	49,394.0	–	–	– 1,062.0	– 1,217.1	90,373.3	75,575.8
50,053.2	41,083.3	–	–	11.6	16.8	77,805.4	64,956.4
9,636.2	6,853.0	– 397.0	113.3	– 619.5	– 386.1	27,962.4	21,795.8
4,126.8	3,204.9	3,735.4	945.1	– 1,254.9	– 1,479.1	8,363.6	3,783.6
63,816.2	51,141.2	3,338.4	1,058.4	– 1,862.8	– 1,848.4	114,131.4	90,535.8
– 39,112.7	– 31,619.9	–	–	– 10.7	– 28.4	– 78,196.0	– 64,378.9
– 13,198.4	– 10,494.4	–	–	– 2.3	– 3.3	– 17,642.5	– 13,985.6
– 480.5	– 300.9	–	–	–	–	– 481.9	– 302.2
– 5,118.4	– 3,718.5	– 3,103.4	– 839.2	1,743.1	1,493.6	– 9,820.8	– 5,494.5
– 57,910.0	– 46,133.7	– 3,103.4	– 839.2	1,730.1	1,461.9	– 106,141.2	– 84,161.2
5,906.2	5,007.5	235.0	219.2	– 132.7	– 386.5	7,990.2	6,374.6
– 2,285.7	– 2,132.7	– 105.6	– 121.2	22.8	115.5	– 2,987.7	– 2,814.9
– 754.0	– 535.8	– 89.5	– 47.7	– 26.7	67.5	– 1,444.7	– 853.5
2,866.5	2,339.0	39.9	50.3	– 136.6	– 203.5	3,557.8	2,706.2

Life/Health

	Gross premiums written		Net expense ratio		Investments		Net income	
	1998	1997	1998	1997	12/31/1998	12/31/1997	1998	1997
	DM mn	DM mn	%	%	DM mn	DM mn	DM mn	DM mn
1. Europe								
Germany	20,304.8	19,871.9	10.1	11.4	210,549.5	195,434.4	261.6	211.1
France	2,054.8	206.3	41.5	45.1	72,447.9	9,382.0	175.9	12.4
Italy	2,565.6	2,473.3	14.5	14.0	23,663.2	20,057.9	162.2	151.3
Switzerland	1,292.8	1,123.5	15.8	15.0	13,329.3	12,028.2	21.0	8.7
2. USA	2,457.2	2,519.9	39.5	39.4	6,466.8	6,538.3	164.4	172.0

Property/Casualty

	Gross premiums written		Net loss ratio		Net expense ratio		Investments		Net income	
	1998	1997	1998	1997	1998	1997	12/31/1998	12/311997	1998	1997
	DM mn	DM mn	%	%	%	%	DM mn	DM mn	DM mn	DM mn
1. Europe										
Germany	22,663.3	23,130.8	68.4	69.5	23.9	23.2	126,829.2	108,455.0	2,033.2	1,625.5
France	7,743.7	1,699.3	77.6	76.2	27.2	28.0	38,655.7	6,697.3	169.4	40.7
Britain	3,449.8	2,976.2	74.4	70.6	34.6	33.8	5,265.5	4,349.0	– 30.0	86.0
Italy	7,507.1	6,809.5	83.2	82.9	23.8	23.2	17,833.7	15,630.2	177.2	167.9
Austria	1,594.6	1,633.4	76.8	72.8	31.7	28.4	3,172.8	3,381.7	21.2	30.4
Switzerland	3,482.4	3,055.3	71.3	75.1	32.7	31.5	9,175.9	8,222.3	172.0	19.9
Spain	1,575.2	775.3	83.4	78.1	29.5	26.7	3,235.4	977.0	– 37.3	11.0
2. America										
NAFTA	9,026.2	8,811.1	78.2	79.6	27.4	27.0	25,281.7	26,364.8	383.7	246.3
South America	901.1	298.5	67.8	55.6	28.2	51.9	673.9	203.8	9.5	8.8
3. Asia	238.7	183.2	57.1	60.0	40.3	37.2	143.7	166.3	0	4.0

Notes to the Consolidated Financial Statements

(pages 111 - 142) are on the inside back cover.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ALLIANZ GROUP

1 New accounting regulations

The consolidated financial statements for 1998 have been drawn up in conformity with International Accounting Standards (IAS) for the first time. The previous year's figures in the balance sheet, income statement and notes to the financial statements have been restated accordingly. All the Standards currently in force for the year under review have been adopted in the presentation of the consolidated financial statements.

IAS do not contain any guidelines governing the accounting treatment of transactions which are specific to the insurance industry. In such cases, as envisaged in the IAS Framework, the provisions embodied in American generally accepted accounting principles (US GAAP) have been applied.

The financial statements were drawn up in DM.

2 Consolidation

Scope of the consolidation

In principle, all domestic and foreign subsidiaries are included in the consolidation. In addition to Allianz AG, 97 (1997: 61) German and 491 (1997: 261) foreign enterprises have been consolidated in full and 72 (1997: 58) subsidiaries included at equity.

An additional 97 (1997: 83) affiliated enterprises have not been included in the consolidation or accounted for at equity as their aggregate value is not material to the presentation of the financial statements as a whole.

One (1997: 1) of the 10 (1997: 4) joint ventures has been consolidated on a proportional basis; each of these enterprises is managed by Allianz AG together with a company not included in the consolidation. Nine (1997: 3) joint ventures have not been consolidated on a proportional basis but have been included at equity because their aggregate value is not material.

71 of the 95 (1997: 71) associated enterprises have been accounted for by the equity method and 24 associated enterprises recorded at historical cost because their aggregate value is not material.

The principal affiliated enterprises, joint ventures and associated enterprises are listed on pages 137 through 140. All affiliated enterprises, joint ventures and associated enterprises, whether included in the consolidated financial statements or not, are listed individually in the disclosure of equity investments filed with the Commercial Register in Munich.

Assurances Générales de France (AGF), Paris, and its subsidiaries were consolidated for the first time in the year under review. Allianz acquired a 51.6 percent equity interest in AGF during the year. AGF and its subsidiaries comprise property and casualty insurance enterprises and life and health insurance enterprises, as well as enterprises in the financial services sector. The cost of the acquisition was DM 9,064.0 million, paid in cash. At April 1, 1998, when AGF and its subsidiaries were first consolidated, the assets and liabilities attributable to the Allianz Group were included at their fair value; pre-acquisition carrying amounts were used for the proportion attributable to minority interests.

As a result of the consolidation of enterprises for the first time in the year under review gross premiums written increased by DM 13,473 million, and goodwill on consolidation amounted to DM 2,518 million, of which DM 151 million was amortized during the year. The contribution of the AGF group to net income for the year was DM 354 million.

Consolidation principles

The financial statements of Allianz AG and of its subsidiaries and joint ventures included in the consolidation provide the basis for the consolidated financial statements. All the financial statements included are uniformly prepared as of December 31, 1998. Interim financial statements have been used for those entities whose accounting periods end on a different date.

The equity consolidation combines the net assets attributable to the Allianz Group at their fair value at the date of acquisition of the subsidiary enterprises or joint ventures; for the proportion attributable to minority interests the pre-acquisition carrying amounts were used. When foreign subsidiaries or joint ventures are consolidated for the first time their net assets are translated at the exchange rates in force at the date of their acquisition.

Positive differences arising on first-time consolidation are capitalized as goodwill and amortized on a straight-line basis. In the case of acquisitions prior to January 1, 1995, such differences have been taken to revenue reserves in accordance with the transitional provisions in force.

The reserves generated by subsidiaries and joint ventures after their first-time consolidation or, where appropriate, their acquisition has been allocated to the revenue reserves of the Group, as have the Group's portion of the unappropriated retained earnings of subsidiaries and joint ventures and the effects of consolidation procedures on earnings.

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

Intra-Group receivables and payables, income and expenses, and intercompany profits have been eliminated unless they were not material.

Financial statements of foreign currency translation
Allianz AG's reporting currency is the German Mark (DM). The net income of all foreign subsidiaries which do not report in DM are translated at the closing exchange rate on the balance sheet date. Any translation differences arising in the process are taken to shareholders' equity without affecting earnings.

Assets and liabilities of the Group which are subject to exchange rate fluctuations are normally safeguarded by the fact that individual foreign subsidiaries have most of their liabilities in local currency and invest only in the same currency in capital markets.

The principal exchange rates are summarized in the following table:

	DM closing rates	
Currency	1998	1997
Euro (€)	1.956	
French franc (FRF)	0.298	0.299
Italian lire in thousands (ITL)	1.010	1.018
Austrian schilling (ATS)	0.142	0.142
Pound Sterling (GBP)	2.798	2.982
Swiss franc (CHF)	1.222	1.233
Spanish peseta (ESP)	0.012	0.012
US dollar (USD)	1.673	1.792

3 Accounting and valuation policies

For consolidation purposes the financial statements of Allianz AG and its consolidated German and foreign subsidiaries and joint ventures have been drawn up uniformly in conformity with IAS accounting and valuation standards.

Intangible assets comprise goodwill and other intangible assets.

Goodwill represents the difference between the purchase price of subsidiaries or joint ventures and the proportionate share of their net assets after writing back any hidden reserves attributable to the Allianz group at the time of acquisition. Goodwill is amortized over its useful life, which is normally 20 years in the case of life and health insurance enterprises and 10 years in the case of property and casualty insurance enterprises.

Other intangible assets include software purchased from others or developed in-house and real property rights, which are amortized on a straight-line basis over their useful service life or contractual term. They also include the capitalized value of life insurance portfolios where enterprises have been consolidated for the first time after January 1, 1995. The capitalized value of life insurance portfolios is amortized over the lives of the policies concerned.

Real estate (i.e. real property and equivalent rights and buildings including buildings on leased land) is carried at cost less accumulated scheduled and unscheduled depreciation.

Investments in affiliated enterprises, joint ventures and associated enterprises are valued by the equity method at the Group's proportionate share of their net assets at the end of the previous year. In the case of investments in enterprises which prepare consolidated financial statements of their own the valuation is based on the subgroup's consolidated net assets.
Associated enterprises are all those enterprises, other than affiliated enterprises, in which the Group has an interest of between 20 percent and 50 percent, regardless of whether a significant interest is actually exercised or not.
Investments in unconsolidated affiliated enterprises or joint ventures, and investments in associated enterprises which are not valued by the equity method because they are not material, are stated at historical cost.

Mortgages and other loans are stated at face value; discounts and premiums are written off over the term of the loans. As well as mortgage loans this heading also includes policy loans, loan notes and other loans advanced by Group enterprises.

Other securities held to maturity comprise debt securities held with the intent and ability that they will be held to maturity. They are valued "at amortized cost", i.e. the difference between the acquisition cost and redemption value is added to or subtracted from the original cost figure over the period from acquisition to maturity and credited or charged to income over the same period.

Other securities available for sale are shown at their market value at the balance sheet date. Positive and negative differences between market value and cost ("at amortized cost" in the case of fixed income securities) are taken to a separate component of shareholders' equity net of deferred tax.

Other securities trading comprises all fixed and variable income securities which have been required solely for sale in the near term. They are stated at market value at the balance sheet date. Changes in market value are credited or charged to income.

Other investments are stated at face value.

Investments held on account and at risk of life insurance policyholders (primarily variable annuities) are stated at market value at the balance sheet date. Unrealized holding gains and losses are matched by a corresponding increase or decrease in the insurance reserves for life insurance business to the extent that the investment risk is carried by policyholders.

Receivables are recorded at face value less any payments made or appropriate valuation allowances.

Cash with banks, checks and cash on hand are shown at their full face value.

Deferred acquisition costs, which are incurred in connection with the acquisition or renewal of insurance policies, are capitalized and written off against income over the term of the policies. In the case of policies acquired since January 1, 1995, life insurance enterprises show the present value of future surpluses on the portfolios acquired instead of acquisition costs. The present value is written off as the surpluses are realized.

Property, plant and equipment and **inventories** included in **other assets** are stated at cost less accumulated depreciation.

Impairment of assets
All assets are reviewed regularly to check that they have maintained their value. Valuation write-downs are charged in the income statement if any permanent diminution in value is established.

Insurance reserves
Unearned premiums are calculated separately for each individual policy and for every day that the premium has to cover.

The **aggregate policy reserve,** including the reserve for advancing age in health insurance, is calculated on actuarial principles from the present value of future benefits less the present value of premiums still to be paid.

One exception to this is the aggregate reserve for life insurance products where the full investment risk is carried by policyholders, which is calculated from the amounts paid by policyholders, changes in the market value of the corresponding investments less amounts redeemed for insurance purposes, and management expenses.

The **reserve for loss and loss adjustment expenses** is for future payment obligations under insurance claims, where normally either the amount of benefits to be paid or the date when payments are to be made is not yet fixed. It includes:

a) claims reported at the balance sheet date
b) claims incurred but not yet reported at the balance sheet date
c) claims settlement expenses.

The reserve for loss and loss adjustment expenses is calculated at the realistically estimated amount considered necessary to settle the claims in full. It is calculated using recognized actuarial methods for claims portfolios. Particularly unusual cases are calculated individually. Past experience is taken into account as well as current and future expected social and economic factors. With the exception of annuity reserves, claims reserves are not discounted. Circumstances peculiar to the insurance industry can mean that the payment obligations calculated may differ from the ultimate cost.

Other insurance reserves

The **reserve for premium refunds** includes experience-rated and other premium refunds in favor of policyholders.
It is calculated in accordance with the relevant local statutory or contractual regulations.
Unrealized gains and losses in connection with the valuation of investments are recognized in an undisclosed reserve for premium refunds to the extent that the policyholder will participate in such gains and losses on the basis of statutory or contractual regulations when they are realized.

The **contingency reserve for anticipated losses** is calculated individually for each insurance portfolio on the basis of estimates of future claims, costs, premiums earned and proportionate investment income.

Reinsurance

The assets and liabilities for insurance business calculated in accordance with the accounting and valuation policies described above are stated net of amounts ceded in reinsurance.

Other accrued liabilities

The **pension and similar reserves** are calculated taking local circumstances into account as well as current mortality, morbidity and turnover projections. Expected future trends in salaries and wages, retirement rates and pension increases are also taken into account.
The notional interest rate used is based on the rate for long-term first-class corporate or government bonds.

Accrued taxes are calculated in accordance with the relevant local tax regulations.

Miscellaneous accrued liabilities are recorded as projected.

Liabilities and **other liability** headings are stated at the amounts due on repayment.

The calculation of **deferred tax** is based on temporary differences between the carrying amounts of assets or liabilities in the published balance sheet and their tax base, and on differences arising from the application of uniform valuation policies for consolidation purposes. The tax rates used for the calculation are the local rates applicable in the countries concerned.

SUPPLEMENTARY INFORMATION ON GROUP ASSETS

4 Goodwill

The amount capitalized under this heading changed during the year under review as follows:

	DM mn
Gross amount capitalized 12/31/1997	4,053.4
Accumulated amortization 12/31/1997	– 545.6
Value stated at 12/31/1997	3,507.8
Translation differences	– 20.3
Value stated at 1/1/1998	3,487.5
Additions	2,882.2
Amortization	– 481.9
Value stated at 12/31/1998	5,887.8
Accumulated amortization 12/31/1998	– 1,027.5
Gross amount capitalized 12/31/1998	6,915.3

DM 2,517.8 million of the additions are attributable to the AGF Group.
The amortization charge is shown under a separate heading in the income statement.

5 Other intangible assets

Other intangible assets totaling DM 1,690.7 million include software (DM 712.9 million) and the capitalized value of life insurance portfolios (DM 878.5 million). Software is written off over five years according to its useful life and the capitalized value of life insurance portfolios is amortized over the lives of the policies concerned.

Scheduled and unscheduled amortization of software is apportioned between the relevant cost headings in the income statement. Amortization written back is included in other income.

Amortization on the capitalized value of life insurance policies is included in other expenses.

Other intangible asset values changed during the year under review as follows:

Software	DM mn
Gross amount capitalized 12/31/1997	1,211.0
Accumulated amortization 12/31/1997	– 678.0
Value stated at 12/31/1997	533.0
Translation differences	– 1.5
Value stated at 1/1/1998	531.5
Additions	459.9
Changes in the Group	27.3
Disposals	– 55.2
Amortization charge	– 250.6
Value stated at 12/31/1998	712.9
Accumulated amortization 12/31/1998	– 897.0
Gross amount capitalized 12/31/1998	1,609.9

Capitalized value of life insurance portfolios	DM mn
Gross amount capitalized 12/31/1997	531.4
Accumulated amortization 12/31/1997	– 77.3
Value stated at 12/31/1997	454.1
Translation differences	– 3.8
Value stated at 1/1/1998	450.3
Additions	540.5
Amortization charge	– 112.3
Value stated at 12/31/1998	878.5
Accumulated amortization 12/31/1998	– 193.4
Gross amount capitalized 12/31/1998	1,071.9

The additions relate exclusively to the AGF Group.

6 Real estate

The capitalized cost of buildings is depreciated over 50 years at most in accordance with their useful lives.

The gross capitalized values at the beginning of the year totaled DM 25,052.1 million and at the end of the year DM 35,381.0 million. Accumulated depreciation amounted to DM 5,389.8 million at the beginning of the year and DM 6,072.8 million at the end of the year. Assets pledged as security and other restrictions on title amount to DM 1,395.9 million.

Restoration costs are capitalized if they extend the useful life of the asset, otherwise they are recognized as an expense.

Commitments outstanding at the balance sheet date to purchase real estate amounted to DM 36.7 million.

Unscheduled depreciation is charged in the income statement under investment expenses, amounts written back are credited to investment income.

Changes in the total carrying value of real estate during the year:

	DM mn
Value stated at 12/31/1997	19,662.3
Translation differences	– 111.0
Value stated at 1/1/1998	19,551.3
Additions	2,442.7
Changes in the Group	9,050.9
Disposals	– 816.5
Revaluation	5.9
Depreciation	
scheduled	– 537.0
unscheduled	– 389.1
Value stated at 12/31/1998	29,308.2

Land and buildings owned by the Allianz Group and used for its own activities were stated at DM 5,955.4 million. The market value of real estate at the balance sheet date totaled DM 37,616.1 million (1997: 27,508.2 million).

7 Investments in affiliated enterprises, joint ventures and associated enterprises

	12/31/1998	12/31/1997
Investments	DM mn	DM mn
in affiliated enterprises	884.4	263.6
in joint ventures	24.4	18.5
in associated enterprises	10,329.7	6,353.2
Total stated value	11,238.5	6,635.3
Total market value	37,176.5	30,147.3

Unscheduled write-downs amounting to DM 169.1 million were charged in the year under review.

8 Mortgages and other loans

These loans advanced by Group enterprises comprise the following:

	12/31/1998 DM mn	12/31/1997 DM mn
Mortgage loans	20,499.8	19,074.4
Debentures and loans	11,891.9	10,989.0
Loans and advance payments on insurance policies	1,787.2	2,329.7
Other loans	195.3	89.5
Total	34,374.2	32,482.6

9 Other securities

Other securities are classified into the following three categories depending on the purpose and/or period for which they are held:

held to maturity
available for sale
trading.

Other securities held to maturity

The fair value of individual securities can fall temporarily below their carrying value but, provided they are certain to be redeemed at par, such securities are not written down in value.

Other securities held to maturity	**Amortized cost**	
	12/31/1998	12/31/1997
Investment group	DM mn	DM mn
Government bonds	519.6	375.2
Corporate bonds	7,623.9	5,015.2
Total	8,143.5	5,390.4

Other securities available for sale

Investment group	Amortized cost 12/31/1998 DM mn	Amortized cost 12/31/1997 DM mn	Unrealized gains/losses 12/31/1998 DM mn	Unrealized gains/losses 12/31/1997 DM mn	Market values 12/31/1998 DM mn	Market values 12/31/1997 DM mn
Equity securities	89,299.6	52,300.3	50,797.4	44,315.5	140,097.0	96,615.8
Government bonds	136,178.4	104,438.7	9,976.2	5,266.0	146,154.6	109,704.7
Corporate bonds	132,423.6	92,124.1	11,468.7	5,709.4	143,892.3	97,833.5
Other	750.7	583.7	3.3	237.7	754.0	821.4
Total	358,652.3	249,446.8	72,245.6	55,528.6	430,897.9	304,975.4

Investment group	Proceeds of sale 1998 DM mn	Proceeds of sale 1997 DM mn	Realized gains 1998 DM mn	Realized gains 1997 DM mn	Realized losses 1998 DM mn	Realized losses 1997 DM mn
Equity securities	28,379.0	9,104.9	4,623.3	1,716.3	906.9	203.7
Government bonds	32,765.8	40,025.0	626.0	894.4	503.5	195.2
Corporate bonds	18,462.8	10,012.5	333.7	278.7	62.3	41.6
Other	1,287.6	58.5	0.0	3.1	0.0	0.0
Total	80,895.2	59,200.9	5,583.0	2,892.5	1,472.7	440.5

Realized gains and losses have been calculated on the basis of average values.

Contractual term to maturity	Amortized cost 12/31/1998 DM mn	Amortized cost 12/31/1997 DM mn	Market values 12/31/1998 DM mn	Market values 12/31/1997 DM mn
up to 1 year	20,454.8	17,811.5	20,479.0	17,635.6
over 1 year through 5 years	104,532.7	83,957.9	110,691.8	87,149.4
over 5 years through 10 years	117,214.3	84,714.4	128,153.3	90,810.3
over 10 years	27,150.9	10,662.7	31,476.8	12,764.3
Total*	269,352.7	197,146.5	290,800.9	208,359.6

* excluding equity securities

Other trading securities

Investment group	Market values 12/31/1998 DM mn	Market values 12/31/1997 DM mn	Unrealized gains/losses recognized in net income for the year: Gains 1998 DM mn	Gains 1997 DM mn	Losses 1998 DM mn	Losses 1997 DM mn
Equity securities	0.3	0.2	0.0	0.0	0.0	0.3
Fixed income securities	937.5	9.2	1.8	0.0	0.0	0.4
Total	937.8	9.4	1.8	0.0	0.0	0.7

Derivative financial instruments

Derivative financial instruments – derivatives for short – are financial contracts, the values of which move in relationship to the price of an underlying asset. The underlying asset is normally a security, a currency, an interest rate product or even an index. Options, futures, forwards and swaps are common examples of derivative financial instruments.

Derivatives are either traded on an exchange in the form of standardized products or traded individually between two counterparties (over-the-counter or OTC products). Whereas most exchange-traded products are either options or futures, OTC products comprise forwards and swaps as well as options. Derivative financial instruments are used by various Allianz subsidiaries, primarily to hedge against exchange or interest rate risks. The table below summarizes the notional principal amounts outstanding – classified by product type and maturity – in the open derivative positions in the investment portfolios of Group enterprises at the balance sheet date. The figures do not include derivative positions in specialist funds managed for Group enterprises amounting to DM 135.7 million (1997: DM 347.7 million).

The notional principal amounts of open derivative positions are off-balance-sheet figures taken from the internal management accounting system. They represent the value of the assets underlying the derivatives and therefore illustrate indirectly the extent of the use of derivative financial instruments and the relative weighting of the types of product used.

The notional principal amount of all positions open at the end of the year under review was DM 5,346.6 million (1997: DM 6,355.7 million), or 0.8 percent (1997: 1.4 percent) of the total assets of the Group. The use of derivatives is therefore relatively insignificant. The emphasis was on equity and index options with less than a year to run and interest rate swaps with more than five years to maturity. Transactions in derivatives resulted in a net loss overall of DM 12.0 million (1997: DM 11.1 million) recognized in the consolidated income statement.

Equity and index options were used by Group enterprises primarily for selective hedging of parts of their equity portfolios, whilst interest rate swaps were used mainly to manage the maturities mix. A small volume of exchange rate related derivative transactions have also been used to hedge against foreign currency risks. Such risks were limited in extent anyway owing to the requirement, mainly from supervisory regulations, for the currency in which insurance benefits are payable to match the currency in which the investments funding the insurance are denominated.

Derivatives used by individual Group enterprises always comply with the relevant supervisory regulations and the Group's own internal guidelines. In addition to local management supervision, financial and risk management systems are in force throughout the Group. Further information on the risks to be safeguarded against and the Group's risk management systems is contained in the Management Report under "Risk Management".

Notional principal amounts of open derivative positions

	Period to maturity				
in DM mn	less than 1 year	1 – 5 years	over 5 years	12/31/1998	12/31/1997
Interest rate contracts	36.6	40.0	3,090.0	3,166.6	6,077.3
OTC					
Forwards	18.6	0.0	0.0	18.6	1,797.3
Swaps	15.0	40.0	3,090.0	3,145.0	4,280.0
Exchange traded					
Futures	3.0	0.0	0.0	3.0	0.0
Equity/Index contracts	1,878.7	201.3	28.6	2,108.6	109.4
OTC					
Options	1,878.7	201.3	28.6	2,108.6	109.4
Foreign exchange contracts	39.5	14.3	17.6	71.4	169.0
OTC					
Forwards	0.0	0.0	0.0	0.0	126.7
Swaps	39.5	14.3	17.6	71.4	42.3
Total	1,954.8	255.6	3,136.2	5,346.6	6,355.7

10 Other investments

Other investments include bank deposits of DM 9,500.3 million (1997: DM 8,367.2 million) and funds held by others under reinsurance contracts assumed amounting to DM 6,137.3 million (1997: DM 5,528.1 million).

11 Investments held on account and at risk of life insurance policyholders

comprise mainly investments funding variable annuities plus investments to cover obligations under policies where the benefits are index-linked.
Group enterprises keep these investments separate from other investments and invest them separately as well.
Policyholders are entitled to all the gains recorded and therefore to the total amount of all the investments shown under this heading, but they also have to carry any losses.
For this reason the liability heading "Insurance reserves for life insurance where the investment risk is carried by policyholders" moves in parallel.

12 Receivables

	12/31/1998 DM mn	12/31/1997 DM mn
Accounts receivable on direct insurance business	12,189.2	8,179.9
Policyholders	7,229.7	5,023.1
Agents	4,959.5	3,156.8
Accounts receivable on reinsurance business	4,155.2	2,814.1
Loans and advances to banking customers	31,584.3	3,474.0
Other receivables	14,590.0	6,333.4
Total	62,518.7	20,801.4

Receivables due within a year total DM 44,782.2 million (1997: DM 14,900.0 million), those due after more than a year DM 17,736.5 million (1997: DM 5,901.4 million).
Other receivables include amounts receivable under finance leases at their net investment value totaling DM 4,691.4 million (1997: DM 306.4 million). The corresponding gross investment value of these leases amounts to DM 6,917.1 million (1997: DM 331.3 million), the associated unrealized finance income DM 7.1 million (1997: DM 0.0 million), the unguaranteed residual values DM 1.0 million (1997: DM 0.9 million). Lease payments received have been recognized as income to the extent of DM 332.7 million (1997: DM 31.1 million). The allowance for uncollectible lease payments receivable at the balance sheet date amounted to DM 20.3 million (1997: DM 5.9 million). The total amounts receivable under leasing arrangements include DM 763.6 million (1997: DM 151.5 million) due within a year, DM 2,370.5 million (1997: DM 179.3 million) due within one through five years, and DM 3,783.0 million (1997: DM 0.5 million) due after more than five years.

13 Deferred acquisition costs

Acquisition costs are capitalized at the beginning of the period for which the premiums are paid, and written off over the term of the policies to which they relate.
Acquisition costs include the commissions paid and other costs directly related to the acquisition or renewal of insurance policies.
The amortization period is calculated by property and casualty insurance enterprises for each insurance portfolio, based on the average term of the relevant policies, and varies between one and five years. In life insurance business amortization costs are expensed according to the categorization of the underlying life insurance products (see Note 17).
The total expense in the year under review was DM 3,679.6 million (1997: DM 2,855.4 million).

14 Other assets

	12/31/1998 DM mn	12/31/1997 DM mn
Property, plant and equipment and inventories	1,802.1	983.2
Sundry assets	1,158.5	1,371.3
Prepaid expenses	4,546.4	4,457.2
Total	7,507.0	6,811.7

Property, plant and equipment are depreciated over 5 to 10 years according to their useful lives. The gross capitalized values at the beginning of the year totaled DM 3,420.6 million and at the end of the year DM 5,048.0 million. Accumulated depreciation amounted to DM 2,437.4 million at the beginning of the year and DM 3,245.9 million at the end of the year. Restoration costs are capitalized if they extend the useful life of the asset, otherwise they are recognized as an expense.

Commitments outstanding at the balance sheet date to purchase items of property, plant and equipment amounted to DM 39.4 million.
Depreciation is apportioned between the relevant cost headings in the income statement. Depreciation written back is credited to other income.

SUPPLEMENTARY INFORMATION ON GROUP LIABILITIES

15 Equity

During the year under review the **issued capital** was increased by warrant options being exercised for shares with a nominal value of DM 22,254,500. In March 1998 the issued capital was increased by DM 35,000,000 in the ratio of 1-for-34. The new shares were offered to existing shareholders of Allianz AG at a subscription price of DM 220.
In April 1998 the issued capital was increased by a further DM 12,310,030, with the pre-emptive rights of existing shareholders excluded. A further 214,000 shares with a nominal value of DM 1,070,000 (0.1 percent of the capital) were issued at a price of DM 500 each, enabling employees of Group enterprises in Germany to take up 113,150 employee shares at a price of DM 300. The remaining 100,850 shares with a nominal value of DM 504,250 were sold on the stock market at an average price of DM 552.14. Allianz AG did not hold any of its own shares at the end of 1998. The issued capital at December 31, 1998 amounted to DM 1,224,570,000, divided into 244,914,000 registered shares. The shares have no par value as such but a mathematical value of DM 5 each as a proportion of the issued capital.

At the end of the year under review there was authorized unissued capital with a nominal value of DM 265 million 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 DM 24,593,825 in order to utilize fractions arising from smoothing the amount of the increase or of the capital and offer new shares to the holders of shares issued against options exercised during the period between adoption of the resolution to increase the capital and publication of the subscription offer.
There was a further DM 60 million 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 at any time up to July 7, 2003 to issue shares with a nominal value of DM 100 million for a non-cash consideration. The pre-emptive rights of shareholders are excluded. Authorized unissued capital IV of DM 6,612,430 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 DM 5 million 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 DM 20 million on which subscription or conversion rights, with pre-emptive rights for shares, can be issued up to June 30, 2003.

After the end of the year under review the issued capital of Allianz AG and all other DM amounts in the statutes of Allianz AG were restated in euros. The issued capital now consists of 626,112,698.96 euros divided into 244,914,000 no-par-value shares. The authorized unissued capital and the conditionally authorized capital are now expressed in euros as follows:

- authorized unissued capital I: € 135,492,348.52
- authorized unissued capital II: € 30,677,512.87
- authorized unissued capital III: € 51,129,188.12
- authorized unissued capital IV: € 3,380,881.77
- authorized unissued capital V: € 2,556,459.41
- conditionally authorized capital: € 10,225,837.62

In connection with the issue of warrant options by Allianz AG, Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft (Munich Re), Munich, which traditionally owns 25 percent of the capital stock of Allianz AG, has increased its shareholding temporarily to just over 25 percent.

The heading **issued capital and capital reserve** comprises the capital stock, the premium received on the issue of shares, and amounts allocated when option rights have been exercised.

In addition to the reserves required by law in the financial statements of Allianz AG, **revenue reserves** include the retained earnings of consolidated subsidiaries and amounts transferred out of consolidated net income. Revenue reserves also include foreign currency translation adjustments in the equity section. In the case of acquisitions prior to January 1, 1995, differences arising on first-time consolidation have been taken to revenue reserves. **Other reserves** comprise the component of shareholders' equity representing unrealized holding gains and losses of investments available for sale.

The consolidated unappropriated profit is derived from consolidated net income as follows:

	1998 DM mn	1997 DM mn
Consolidated net income for the year	**3,557.8**	2,706.2
Transfers to revenue reserves (appropriated retained earnings)	2,875.6	2,117.7
Consolidated unappropriated profit	**682.2**	588.5

Movements in shareholders' equity:

	Paid-in capital	Appropriated retained earnings	Unrealized gains and losses	Consolidated unappropriated profit	Shareholders' equity
	DM mn	DM mn	DM mn	DM mn	DM mn
12/31/1996	10,818.1	3,967.4	8,786.2	390.1	23,961.8
Currency translation adjustments		631.1			631.1
Changes in the Group		396.3			396.3
Capital paid in	188.2				188.2
Amounts allocated from exercise of option rights	174.7				174.7
Unrealized investment gains and losses			5,709.0		5,709.0
Net income for the year		2,117.7		588.5	2,706.2
shareholders' dividend				– 390.1	– 390.1
Miscellaneous		– 23.6			– 23.6
12/31/1997	11,181.0	7,088.9	14,495.2	588.5	33,353.6
Currency translation adjustments		– 653.0			– 653.0
Changes in the Group		753.6			753.6
Capital paid in	3,022.4				3,022.4
Amounts allocated from exercise of option rights	896.8				896.8
Unrealized investment gains and losses			3,053.3		3,053.3
Net income for the year		3,025.6		532.2	3,557.8
shareholders' dividend				– 438.5	– 438.5
Miscellaneous		– 63.6			– 63.6
12/31/1998	15,100.2	10,151.5	17,548.5	682.2	43,482.4

16 Minority interests in equity/earnings

The main subsidiaries in question are the AGF group, Paris, the RAS group, Milan, Allianz Lebensversicherungs-AG, Stuttgart, Frankfurter Versicherungs-AG, Frankfurt/-Main, and Bayerische Versicherungsbank AG, Munich.

The interests of minority shareholders are made up as follows:

	12/31/1998	12/31/1997
	DM mn	DM mn
Other reserves		
Unrealized gains and losses	7,770.0	6,700.8
Share of earnings	1,444.7	853.5
Other equity components	14,173.1	7,146.2
Total	23,387.8	14,700.5

17 Aggregate policy reserve

Aggregate policy reserve	12/31/1998 DM mn	12/31/1997 DM mn
Gross	295,607.0	215,126.8
Amounts ceded in reinsurance	17,836.5	15,959.4
Net	277,770.5	199,167.4

The calculation of aggregate policy reserves depends on the extent to which policyholders benefit from any surpluses earned on insurance policies. A distinction has to be made between the following:

- policyholders participate in surpluses in the same proportion as their policies have contributed to a surplus; policyholders do not participate in losses; referred to as the "contribution principle";
- policyholders participate in a surplus on the basis of a mechanical or non-contributory system;
- policyholders are guaranteed fixed benefits and do not participate in any profits; all other benefits and risks are carried by the insurer;
- policyholders carry only the investment risk and corresponding benefits, but also any losses ("variable annuities"); the aggregate reserve for these policies is shown under a separate liability heading "Insurance reserves for life insurance where the investment risk is carried by policyholders";
- policyholders are entitled within certain limits to vary the level of premium payments, and the life insurance enterprise does not give any contractual guarantees about minimum rate of return or the level of management fees ("universal life" policies).

The calculation of aggregate policy reserves is regulated by various Financial Accounting Standards (FAS); the first case above by FAS 120, the second and third cases by FAS 60, and the fourth and fifth cases by FAS 97. The assumptions on which the calculation is based vary, particularly with regard to mortality, morbidity, interest rates and the treatment of acquisition costs.
The assumptions used in the first case are conservative and contractually agreed, so there is a strong probability that surpluses will arise, most of which are to be distributed to policyholders.
Acquisition costs are deferred over the term of the policies in the same proportion as the surpluses in individual years contribute to the surplus on the portfolio concerned.

In the second and third cases assumptions including safety margins are used which are based on figures at the time when the policy is taken out. In health insurance the insurer has the option of adjusting premiums when the assumptions change.
Here, too, acquisition costs are spread over the term of the policies but in the same proportion as premiums written for the year concerned bear to the total premium income.

The interest rates used for the assumptions were as follows:

	Policies using the contribution principle (FAS 120) %	Other policies (FAS 60) %
Aggregate policy reserve	3	7
Deferred acquisition costs	7	7

In the fourth and fifth cases the aggregate reserve is not calculated actuarially; in the fourth case it moves in line with the value of the investments and in the fifth case with the premiums paid by policyholders plus interest.
Acquisition costs are deferred over the term of the policies in the same proportion as the surpluses in individual years contribute to the surplus on the portfolio concerned.

The net aggregate policy reserve at the balance sheet date – based on the various profit participation systems – was as follows:

	Contribution principle (FAS 120)		variable annuities (FAS 97)		Other (FAS 60)	
	12/31/1998	12/31/1997	12/31/1998	12/31/1997	12/31/1998	12/31/1997
	DM mn	DM mn	DM mn	DM mn	DM mn	DM mn
Life/Health	162,412.8	155,468.6	76,510.1	33,963.2	56,145.0	21,670.6
Property/Casualty	11,708.2	11,896.6	0.0	0.0	1,657.3	221.5
Total	174,121.0	167,365.2	76,510.1	33,963.2	57,802.3	21,892.1

When a subsidiary is consolidated for the first time it also has to be remembered that the aggregate reserve for the proportion acquired by the Group since January 1, 1995 has been calculated using the assumptions in force at the time of the acquisition; and that the present value of future surpluses on the portfolio acquired is used for that proportion instead of acquisition costs.

18 Reserve for loss and loss adjustment expenses

	12/31/1998	12/31/1997
	DM mn	DM mn
Gross	94,147.5	70,428.8
Amounts ceded in reinsurance	19,193.3	14,143.3
Net	74,954.2	56,285.5

The net reserve for loss and loss adjustment expenses is divided between the two main categories of the Group's insurance business as follows:

	12/31/1998	12/31/1997
	DM mn	DM mn
Life/Health	4,286.5	2,762.7
Property/Casualty	70,667.7	53,522.8
Total	74,954.2	56,285.5

Calculation of the reserve

The reserve for loss and loss adjustment expenses (claims reserve) is calculated for reported claims at the amount considered to be adequate to meet the estimated ultimate cost of settling the claims in full. The resultant claims reserves have been verified by each Group enterprise using the recognized actuarial methods. Depending on the lines of insurance concerned, the calculation has to include estimates of the incidence of claims and future payments. These estimates are based on past experience. This procedure is designed to ensure that no losses arise in the run-off of claims reserves, either at individual Group enterprise level or in individual lines of insurance. The reserve for incurred but not reported claims is calculated on the basis of past experience, adjusted for current and future estimated trends such as rising prices. The reserve for claims settlement expenses is calculated at fixed percentages of the claims reserves.

There is as yet no adequate statistical data available for some risk exposures in liability insurance, such as environmental and asbestos claims and large-scale individual claims, because some aspects of these types of claim are still evolving. Appropriate provision has been made for such cases following an analysis of the portfolio in which such risks occur.

No retrospective back-payments of premiums have been demanded.

No exceptional events insured against have occurred since the balance sheet date which would materially affect the net worth, financial position or results of the Group.

The balance sheet figure includes annuity reserves (gross) of DM 11,212.4 million for existing annuity agreements; the discount rate for such cases varies between 3.5 percent and 5 percent.

19 Other insurance reserves

	12/31/1998 DM mn	12/31/1997 DM mn
Gross	54,627.7	37,191.3
Amounts ceded in reinsurance	454.1	257.2
Net	54,173.6	36,934.1

The other net insurance reserves comprise the following:

	12/31/1998 DM mn	12/31/1997 DM mn
Reserve for premium refunds	51,189.3	35,185.9
Reserve for anticipated losses	1,588.4	1,044.2
Miscellaneous	1,395.9	704.0
Total	54,173.6	36,934.1

The reserve for premium refunds contains, firstly, the amounts to which policyholders are entitled under the relevant local statutory or contractual regulations in the form of experience-rated or other participation in profits and, secondly, amounts arising from the valuation of certain assets and liabilities of the Group's life and health insurance enterprises at fair market value (the "undisclosed" reserve for premium refunds).

The reserve for premium refunds has changed as follows:

	1998 DM mn	1997 DM mn
a) Amounts already allocated under local regulations (gross)		
At January 1	13,856.4	10,127.7
Changes in the Group	1,595.6	2,041.9
Change	– 766.2	1,696.4
At December 31	14,685.8	13,866.0
b) Market valuation undisclosed reserve (gross)		
At January 1	21,554.5	12,633.2
Change owing to fluctuations in market value	8,565.8	5,422.6
Changes in the Group	7,209.9	3,599.0
Changes owing to valuation differences charged or credited to imcome	– 540.8	– 84.8
At December 31	36,789.4	21,570.0
c) Total (gross)	51,475.2	35,436.0
d) Amounts ceded in reinsurance	285.9	250.1
e) Total (net)	51,189.3	35,185.9

In addition to the amounts allocated at a), policyholders of the Allianz Group were credited amounts totaling DM 5,792.7 million from the surplus direct.

The reserve for anticipated losses contains the portions of premiums not yet earned to cover natural catastrophe risks such as earthquakes and storms.

20 Pension and similar reserves

	12/31/1998 DM mn	12/31/1997 DM mn
Reserves for pensions	5,973.7	5,089.1
Reserves for similar obligations	650.8	642.1
Total	6,624.5	5,731.2

Allianz Group enterprises normally give their employees – and, in Germany, their agents – pension undertakings; in Germany these are based on fixed benefits (defined benefit pension plans), whilst in other countries pension plans are normally on the defined contribution basis.

Under **defined benefit pension plans** the beneficiary is promised a particular level of retirement benefit by the enterprise or by a pension fund. The premiums payable by the enterprise, in contrast, are not fixed in advance.

Funded status of the main defined benefit pension plans:

	12/31/1998 DM mn	12/31/1997 DM mn
Actuarially calculated present value of pension rights accrued		
Direct commitments of Group enterprises	6,469.5	5,532.4
Commitments through pension funds	7,362.6	6,517.0
Total	13,832.1	12,049.4
Fund assets	7,609.3	6,960.3
Pension obligations less fund assets	6,222.8	5,089.1
Unrecognized gains/losses	– 249.1	0
Unrecognized (past) service cost	0	0

The main pension fund is Allianz Versorgungskasse VVaG, Munich, which insures the employees of all Group enterprises in Germany and is not included in the consolidated financial statements.
The fund assets are invested mainly in equity stocks, investment fund units, fixed income securities and registered bonds.
The need to recognize actuarial gains or losses is reviewed using the corridor approach for each individual pension plan.

The reserve for defined benefit pension plans changed in the year under review as follows:

	DM mn
Value stated at 1/1/1998	5,088.0
Change in consolidation	701.3
Expenses	552.2
Payments	– 367.8
Value stated 12/31/1998	5,973.7

Income and expenses recognized in the income statement:

	1998 DM mn	1997 DM mn
Current service cost	277.4	293.6
Interest cost	766.5	721.2
Expected return on pension fund assets	– 486.9	– 447.7
Gains/losses recognized	0	0
Past service cost recognized	0	0
Income/Expenses of plan curtailments or settlements	– 4.8	0
Total	552.2	567.1

Most of the amounts expensed are charged in the income statement as underwriting costs or loss and loss adjustment expenses (claims settlement expenses). The income is included in other income. The actual income from the pension funds amounted to DM 727.7 million (1997: DM 735.0 million).

The assumptions for actuarial computation of the obligations depend on the circumstances in the particular country where a plan has been established.

The actuarial assumptions for the main pension plans are as follows:

	1998 %	1997 %
Discount rate	6 - 7	6 - 7
Expected rate of return on fund assets	7 - 8	7 - 8
Retirement rates	3 - 5	3 - 5
Benefit levels	2 - 5	3 - 5

The calculations are based on up-to-date actuarially calculated mortality estimates. Projected fluctuations depending on age and length of service have also been used, as well as internal Group retirement projections.

Defined contribution pension plans are funded through independent pension funds or similar organizations. Contributions fixed in advance, based e.g. on salary, are paid to these institutions and the beneficiary's right to benefits exists against the pension fund. The employer has no obligation beyond payment of the contributions (premiums).

Amounts totaling DM 133.5 million (1997: DM 51.5 million) were expensed in the year under review.

21 Liabilities

The total under this heading comprises:

	12/31/1998 DM mn	12/31/1997 DM mn
Participating certificates	924.2	909.9
Post-ranking liabilities	1,343.3	51.5
Bonds and loans payable	21,043.0	4,263.0
Other liabilities		
Funds held under reinsurance business ceded	15,219.0	12,584.1
Accounts payable on direct insurance business	11,796.9	10,346.7
Accounts payable on reinsurance business	2,451.5	1,720.3
Liabilities to banks	20,726.4	2,811.3
Miscellaneous liabilities	22,844.2	13,370.2
Total	96,348.5	46,057.0

Participating certificates include DM 879.2 million (1997: DM 865.0 million) in respect of those issued by Allianz AG. Post-ranking liabilities include DM 1,291.8 million in respect of those of the AGF group.
Bonds amounting to DM 19,392.1 million (1997: DM 4,034.4 million) include DM 11,261.4 million issued by the AGF group and a total of DM 8,110.8 million (1997: DM 3,991.4 million) issued by the Dutch subsidiaries Allianz Finance B.V. and Allianz International Finance N.V., Amsterdam.

Liabilities due within a year amount to DM 73,051.4 million (1997: DM 35,040.2 million) and those due after more than a year DM 23,297.1 million (1997: DM 11,016.8 million).

22 Other liability headings

These include miscellaneous items of deferred income amounting to DM 385.9 million (1997: DM 366.3 million).

SUPPLEMENTARY INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

23 Premiums

	Life/Health*		Property/Casualty*		Total	
	1998	1997	1998	1997	1998	1997
	DM mn	DM mn	DM mn	DM mn	DM mn	DM mn
Gross premiums written	31,053.3	27,389.5	59,320.0	48,186.3	90,373.3	75,575.8
Premiums ceded in reinsurance	– 2,247.7	– 2,236.5	– 9,973.4	– 8,041.4	– 12,221.1	– 10,277.9
Change in unearned premiums (net)	18.7	– 168.9	– 365.5	– 172.6	– 346.8	– 341.5
Premiums earned (net)	28,824.3	24,984.1	48,981.1	39,972.3	77,805.4	64,956.4

* after eliminating intra-Group transactions between segments

In the case of life insurance products where the policyholder carries the investment risk (e.g. variable annuities), only those parts of the premiums used to cover the risks insured and costs involved are treated as premium income.

24 Investment income (net)

	1998 DM mn	1997 DM mn
a) Income from affiliated enterprises, joint ventures and associated enterprises	1,909.5	1,088.2
b) Other investment income		
1. Real estate	1,136.2	1,172.7
2. Mortgages and other loans	2,294.2	2,256.3
3. Other securities held to maturity		
Government bonds	34.7	26.1
Corporate bonds	508.6	348.2
Other	0.0	0.0
Total 3.	543.3	374.3
4. Other securities available for sale		
Equity securities	8,401.9	6,078.6
Government bonds	8,074.5	6,508.4
Corporate bonds	7,823.4	5,695.6
Other	40.2	48.4
Total 4.	24,340.0	18,331.0
5. Other trading securities	29.1	16.2
6. Other investments	1,674.0	946.8
c) Investment management, interest charges and other expenses	– 2,982.3	– 1,479.1
d) Total before allocated investment return	28,944.0	22,706.4
Allocated investment return transferred to the underwriting account for property and casualty insurance business	– 981.6	– 910.7
Total	27,962.4	21,795.7

Investment income is shown net. Depreciation and write-downs on investments amounting to DM 1,249.6 million (1997: DM 872.3 million) and realized investment losses of DM 1,741.5 million (1997: DM 466.8 million) have been deducted.

Realized investment gains amounted to DM 5,847.0 million (1997: DM 3,185.6 million).

The income (net) from affiliated enterprises, joint ventures and associated enterprises is made up as follows:

Income (net) from investments in:	1998 DM mn	1997 DM mn
affiliated enterprises	– 40.1	140.3
joint ventures	0.9	1.3
associated enterprises	1,948.7	946.6
Total	1,909.5	1,088.2

Investment income/expenses

	Life/Health*		Property/Casualty*		Financial Services*		Total	
	1998 DM mn	1997 DM mn	1998 DM mn	1997 DM mn	1998 DM mn	1997 DM mn	1998 DM mn	1997 DM mn
Income from investments								
Current income	18,455.8	14,854.5	10,069.4	7,331.0	519.4	145.2	29,044.6	22,330.7
Income from revaluations	23.9	7.7	0.1	0.6	1.8	0.0	25.8	8.3
Realized investment gains	2,638.4	1,653.0	3,184.6	1,520.5	24.0	12.1	5,847.0	3,185.6
Subtotal	21,118.1	16,515.2	13,254.1	8,852.1	545.2	157.3	34,917.4	25,524.6
Investment expenses								
Depreciation and write-downs on investments	– 425.8	– 394.5	– 754.5	– 477.3	– 69.3	– 0.5	– 1,249.6	– 872.3
Realized investment losses	– 885.7	– 241.9	– 805.0	– 224.3	– 50.8	– 0.6	– 1,741.5	– 466.8
Investment management, interest charges and other investment expenses	– 501.2	– 637.0	– 2,293.8	– 1,709.9	– 1,168.9	– 42.9	– 3,963.9	– 2,389.8
Subtotal	– 1,812.7	– 1,273.4	– 3,853.3	– 2,411.5	– 1,289.0	– 44.0	– 6,955.0	– 3,728.9
Total	19,305.4	15,241.8	9,400.8	6,440.6	– 743.8	113.3	27,962.4	21,795.7

* After the elimination of internal Group business transactions across segments.

25 Other income

Other income amounting to DM 8,363.6 million (1997: DM 3,783.7 million) includes primarily income from Financial Services, foreign currency gains, interest and similar income, gains realized on disposal of furniture and equipment, income from releasing or reducing miscellaneous accrued liabilities and allowances for uncollectible receivables, and debt enforcement fees and default interest recoverable from policyholders.

26 Benefits payable to policyholders

Benefits payable in life and health insurance* comprise the following:

	Gross		Ceded in reinsurance		Net	
	1998 DM mn	1997 DM mn	1998 DM mn	1997 DM mn	1998 DM mn	1997 DM mn
Benefits paid	– 22,818.9	– 19,118.4	1,745.5	– 497.7	– 21,073.4	– 19,616.1
Change in reserves						
Aggregate policy reserve	– 10,773.2	– 11,051.2	510.6	2,526.2	– 10,262.6	– 8,525.0
Other	– 1,082.5	– 305.5	125.9	131.1	– 956.6	– 174.4
Total	– 11,855.7	– 11,356.7	636.5	2,657.3	– 11,219.2	– 8,699.4
Expenses of premium refunds	– 8,007.8	– 5,705.8	50.6	84.2	– 7,957.2	– 5,621.6
Total	– 42,682.4	– 36,180.9	2,432.6	2,243.8	– 40,249.8	– 33,937.1

* After the elimination of internal Group business transactions across segments.

Benefits payable in property and casualty insurance*
are made up as follows:

	Gross		Ceded in reinsurance		Net	
	1998	1997	1998	1997	1998	1997
	DM mn	DM mn	DM mn	DM mn	DM mn	DM mn
Current year claims						
Claims paid	– 42,448.0	– 32,619.0	7,622.7	5,143.6	– 34,825.3	– 27,475.4
Change in reserve for loss and loss adjustment expenses	– 2,427.2	– 3,501.0	764.9	1,477.1	– 1,662.3	– 2,023.9
Total	– 44,875.2	– 36,120.0	8,387.6	6,620.7	– 36,487.6	– 29,499.3
Change in other reserves						
Aggregate policy reserve	– 285.0	– 420.5	– 32.6	10.8	– 317.6	– 409.7
Other	– 298.8	– 104.5	– 4.4	– 2.4	– 303.2	– 106.9
Total	– 583.8	– 525.0	– 37.0	8.4	– 620.8	– 516.6
Expenses of premium refunds	– 961.1	– 529.3	123.3	103.4	– 837.8	– 425.9
Total	– 46,420.1	– 37,174.3	8,473.9	6,732.5	– 37,946.2	– 30,441.8

* After the elimination of internal Group business transactions across segments.

27 Underwriting costs

	Life/Health*		Property/Casualty*	
	1998	1997	1998	1997
	DM mn	DM mn	DM mn	DM mn
Acquisition costs				
Amounts paid	– 3,798.0	– 3,034.4	– 9,467.6	– 7,202.9
Change in deferred acquisition costs	518.0	406.5	182.1	136.8
Total	– 3,280.0	– 2,627.9	– 9,285.5	– 7,066.1
Administrative expenses	– 1,585.6	– 1,331.3	– 6,323.6	– 5,544.0
Underwriting costs (gross)	– 4,865.6	– 3,959.2	– 15,609.1	– 12,610.1
less commissions and profit-sharing received on reinsurance business ceded	318.2	356.3	2,514.0	2,227.4
Underwriting costs (net)	– 4,547.4	– 3,602.9	– 13,095.1	– 10,382.7

* After the elimination of internal Group business transactions across segments.

28 Other expenses

Other expenses amounting to DM 9,820.8 million (1997: DM 5,494.5 million) include primarily expenses from Financial Services, foreign currency losses, interest and similar charges, losses realized on disposal of furniture and equipment, the expense of increasing allowances for uncollectible receivables, and valuation write-downs.

29 Taxes

The tax charge shown in the income statement comprises the taxes actually charged to individual Group enterprises and changes in deferred tax assets and liabilities.

Tax charge:

	1998	1997
	DM mn	DM mn
Current taxes	– 3,818.0	– 2,275.6
Deferred taxes	830.3	– 539.3
Total	**– 2,987.7**	– 2,814.9

The calculation of deferred tax is based on temporary differences between the carrying amounts of assets or liabilities in the published balance sheet and their tax base, and on differences recognized as income or expense arising from the application of uniform valuation policies for consolidation purposes and from consolidation procedures.

The tax rates used for the calculation of deferred tax are the local rates applicable in the countries where the Group enterprises are based. A deferred tax asset or liability is recognized if the difference is expected to reverse within the next few years. Deferred tax assets and liabilities are measured by the basic liabilities method using future tax rates for calculating the effect of taxation. Deferred taxes including deferred taxes on losses carried forward are recognized as an asset if at the time of recognition it is probable that sufficient future taxable profits will be available against which the unused tax losses can be utilized.

The inclusion of losses carried forward from previous years reduced the charge for taxes on income by DM 313.0 million.

Unused tax losses carried forward at the balance sheet date amounted to DM 3,172.4 million in respect of which deferred tax assets have been recognized where there is sufficient certainty that the unused tax losses will be utilized; DM 782.9 million of the tax losses carried forward can be utilized without restriction.
The current tax charge for 1998 is DM 315.3 million less than the anticipated tax charge on income which would have been incurred based on an estimated weighted average tax rate for the Group on earnings before taxation. The difference is due mainly to tax-free income, the effects of utilizing losses brought forward, and other off-balance-sheet additions and deductions.

Reconciliation statement 1998

		DM mn
Anticipated tax charge on income		**3,303.0**
+	municipal trade tax and similar taxes	**390.2**
–	tax-free income	**– 416.1**
–	effects of tax losses	**– 313.0**
–	other tax settlements	**– 39.5**
+	other taxes	**63.1**
=	**current tax charge**	**2,987.7**
Effective tax rate %		**37.4**

Trading capital tax was abolished and the solidarity surcharge was reduced during fiscal 1998 in Germany which affected net income for the year by DM 25.6 million.

Deferred tax assets and liabilities represent the following:

	1998	1997
	DM mn	DM mn
Deferred tax assets		
Unrealized losses	**750.4**	291.4
Tax losses carried forward	**1,060.5**	296.6
Miscellaneous	**7,841.8**	3,903.4
Total	**9,652.7**	4,491.4
Deferred tax liabilities		
Unrealized profits	**22,844.0**	18,343.0
Miscellaneous	**15,957.4**	10,126.7
Total	**38,801.4**	28,469.7

30 Net income

Foreign currency gains and losses for a net total of DM 52.5 million have been recognized from the financial statements of consolidated subsidiaries.

31 Other information

General information about the parent company

The parent company of the Group is Allianz AG, Munich. The company is an "Aktiengesellschaft" (public stock corporation) incorporated in Germany. Allianz AG is recorded in the Commercial Register under its registered address at Königinstrasse 28, 80802 München. Besides serving as holding company for the Group, Allianz AG also acts as reinsurance carrier for the Group.

Number of employees

At the end of 1998 the Group employed a total of 105,676 people (1997: 76,951). 40,543 (1997: 40,070) of these were employed in Germany and 65,133 (1997: 36,881) abroad.
The number of employees in training increased by 459 to 3,867.

Personnel expenses:

	1998 DM mn	1997 DM mn
Salaries and wages	6,756.0	5,687.0
Social security contributions and employee assistance	2,029.2	1,226.4
Expenses for pensions and other post-retirement benefits	679.4	395.0
Total	9,464.6	7,308.4

Contingent liabilities

Guarantee obligations outstanding totaled DM 824.4 million (1997: DM 53.4 million) including DM 0 (1997: 0) million towards unconsolidated affiliated enterprises; other contingent liabilities totaled DM 5,436.6 million (1997: DM 368.0 million) including DM 35.5 million (1997: DM 0 million) towards unconsolidated affiliated enterprises.

Other financial commitments

In December 1997 Allianz AG made an agreed takeover offer for Assurances Générales de France (AGF). Allianz AG was offered 79.6 percent of the capital. Allianz AG acquired a 51.6 percent majority of the capital direct and issued contingent value rights (CVRs) for 28.0 percent of the capital of AGF. The CVRs can be exercised between June 1 and June 15, 2000, and 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 this could be anything up to FF 18.6 billion.
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. The total commitment for this is a maximum of FF 1.6 billion. There are further potential financial commitments in connection with the promise of compensation to holders of rights under stock option programs of AGF.

Events after the balance sheet date

No events have occurred after the balance sheet date which would have a material effect, positive or negative, on the net worth, financial position or results of the Group as presented in the financial statements.

Earnings per share

The earnings per share figure is calculated by dividing the consolidated net income for the year by the number of shares. The weighted average number of shares was 242,540,278 (1997: 233,820,803). The earnings per share figure was accordingly DM 14.67 (1997: DM 11.57). The number of shares would have been further increased by 0 (1997: 2,037,401) after adjusting for the effects of potential shares in connection with warrant options, resulting in diluted earnings per share of DM 14.67 (1997: DM 11.47).

Adding back the amortization of goodwill would increase earnings per share to DM 16.66 (1997: DM 12.87) and diluted earnings per share to DM 16.66 (1997: DM 12.76).

Related enterprises

Business relationships with related enterprises, i.e. unconsolidated affiliated enterprises, include service as well as reinsurance activities.

The main transactions with unconsolidated affiliated enterprises comprise the following:

	1998 DM mn	1997 DM mn
Consolidated balance sheet		
Loans	17.8	11.2
Funds held by others under reinsurance business assumed	0.4	1.1
Receivables	33.1	34.3
Funds held under reinsurance business ceded	0.5	2.0
Liabilities	7.8	14.5

Compensation for the Board of Management and the Supervisory Board

Provided that the Annual Meeting of shareholders approves payment of the dividend proposed, the compensation paid by Allianz AG and its affiliated enterprises to the Board of Management for the year under review was DM 11.9 million (1997: DM 10.1 million). Former members of the Board and their beneficiaries were paid DM 6.3 million (1997: DM 6.4 million).

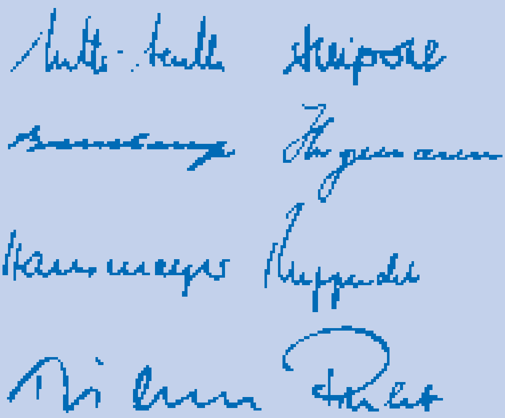
DM 45.9 million (1997: DM 43.0 million) has been set aside for current and future pension benefits of former members of the Board of Management and their beneficiaries.

The terms governing the remuneration of members of the Supervisory Board were revised with effect from July 1998 with the result that, including fees becoming payable after the 1999 Annual Meeting of shareholders, the total remuneration of the Supervisory Board will be DM 2.2 million (1997: DM 1.3 million).

Munich, April 30, 1999

Allianz Aktiengesellschaft

The Board of Management



PRINCIPAL SUBSIDIARIES AND OTHER LONG-TERM EQUITY INVESTMENTS

Subsidiaries	Currency	Equity in millions	% owned [1]
AGIS Allianz Gesellschaft für Informatik Service mbH, Munich	DM	353.6	100.0
Alico-Beteiligungsgesellschaft mbH, Munich	DM	363.0	100.0
Allianz Asset Advisory and Management GmbH, Munich	DM	10.0	100.0
Allianz Asset Management Gesellschaft mbH, Munich	DM	239.8	100.0
Allianz Bauspar AG, Munich	DM	80.9	85.0
Allianz Beteiligungsgesellschaft mbH, Munich	DM	1,469.7	89.2
Allianz Globus Marine Versicherungs-Aktiengesellschaft, Hamburg	DM	32.4	100.0
Allianz Grundstücks-GmbH, Stuttgart	DM	11.9	100.0
Allianz Kapitalanlagegesellschaft mbH, Stuttgart	DM	27.7	100.0
Allianz Lebensversicherungs-AG, Stuttgart	DM	1,660.3	50.3
Allianz Unternehmensbeteiligungsgesellschaft AG, Munich	DM	118.3	100.0
Allianz Versicherungs-AG, Munich	DM	2,912.4	100.0
Allianz Verwaltungsgesellschaft mbH, Munich	DM	1,933.9	100.0
Allianz Zentrum für Technik GmbH, Munich	DM	0.3	100.0
Apollon-Vermögensverwaltungsgesellschaft mbH, Munich	DM	173.2	100.0
Aquila Beteiligungsgesellschaft mbH, Munich	DM	54.5	100.0
Ares-Vermögensverwaltungsgesellschaft mbH, Munich	DM	802.6	100.0
Assecuranz-Compagnie Mercur AG, Bremen	DM	2.0	50.0 [2]
Augsburger Aktienbank AG, Augsburg	DM	48.9	100.0
Bayerische Versicherungsbank AG, Munich	DM	531.2	45.0 [2]
Beta-Vermögensverwaltungsgesellschaft mbH, Munich	DM	71.2	100.0
Decima-Vermögensverwaltungsgesellschaft mbH, Munich	DM	9,249.7	100.0
Deutsche Lebensversicherungs-AG, Berlin	DM	255.8	100.0
Eta-Vermögensverwaltungsgesellschaft mbH, Munich	DM	177.8	100.0
Frankfurter Versicherungs-AG, Frankfurt/Main	DM	613.5	49.9 [2]
Gamma-Vermögensverwaltungsgesellschaft mbH, Berlin	DM	115.1	100.0
Grundstücksgesellschaft der Vereinten Versicherungen mbH & Co. Besitz- und Betriebs KG, Munich	DM	234.9	100.0
Hermes Kreditversicherungs-AG, Hamburg	DM	201.2	90.5
Jota-Vermögensverwaltungsgesellschaft mbH, Munich	DM	189.9	100.0
Komet Automobil-Beteiligungsgesellschaft mbH, Munich	DM	246.2	100.0
Kraft Versicherungs-AG, Berlin/Munich	DM	16.9	99.5
Lambda-Vermögensverwaltungsgesellschaft mbH, Munich	DM	1,516.3	58.9
Magdeburger Hagelversicherung AG, Hanover	DM	4.2	100.0
Nona-Vermögensverwaltungsgesellschaft mbH, Munich	DM	1,831.4	100.0
Perseus-Vermögensverwaltungsgesellschaft mbH, Munich	DM	1,047.7	100.0
Prima-Vermögensverwaltungsgesellschaft mbH, Munich	DM	227.5	69.4
Quarta-Vermögensverwaltungsgesellschaft mbH, Munich	DM	1,398.7	57.2
Quinta-Vermögensverwaltungsgesellschaft mbH, Munich	DM	1,341.4	100.0
Septima-Vermögensverwaltungsgesellschaft mbH, Munich	DM	169.2	100.0
Sexta-Vermögensverwaltungsgesellschaft mbH, Munich	DM	190.0	100.0
Vereinte Holding AG, Munich	DM	1,499.4	100.0
Vereinte Krankenversicherung AG, Munich	DM	448.9	100.0
Vereinte Lebensversicherung AG, Munich	DM	107.5	96.7
Vereinte Rechtsschutzversicherung AG, Munich	DM	19.7	100.0

[1] including shares held by dependent subsidiaries

[2] management control agreement

Subsidiaries	Currency	Equity in millions	% owned [1]
Vereinte Spezial Krankenversicherung AG, Munich	DM	15.2	100.0
Vereinte Spezial Versicherung AG, Munich	DM	2.6	100.0
Vereinte Versicherung AG, Munich	DM	491.5	99.1
Adriática de Seguros C.A., Caracas	VEB	15,279.7	93.5
AGF Assubel, Brussels	BEF	26,025.0	90.7
AGF Brasil Seguros, Sao Paulo	BRL	112.4	54.9
AGF Insurance, Milton Keynes	GBP	52.6	100.0
AGF Ireland, Dublin	IEP	112.2	100.0
AGF Kosmos AG, Athens	GRD	1,289.0	100.0
AGF L'Escaut, Brussels	BEF	6,067.0	100.0
AGF Nafta, Alberta	CAD	188.3	100.0
AGF Union Fenix, Madrid	ESP	26,360.0	94.9
AGF-M.A.T., Paris	FRF	854.6	77.9
Ajax Insurance Holdings Limited, London	GBP	1.3	100.0
Alba Allgemeine Versicherungs-Gesellschaft, Basel	CHF	24.5	100.0
Allianz Assurances, Charenton-le-Pont	FRF	1,234.5	99.9
Allianz Bice Compañia de Seguros de Vida S.A., Santiago de Chile	CLP	6,962.8	50.0[2]
Allianz Compañía de Seguros S.A., Santiago de Chile	CLP	7,068.7	100.0
Allianz Cornhill Insurance (Far East) Ltd., Hong Kong	HKD	50.7	100.0
Allianz Elementar Lebensversicherungs-Aktiengesellschaft, Vienna	ATS	958.4	100.0
Allianz Elementar Versicherungs-Aktiengesellschaft, Vienna	ATS	4,461.3	99.3
Allianz Europe Ltd., Amsterdam	NLG	3,630.4	100.0
Allianz Finance B.V., Amsterdam	NLG	209.3	100.0
Allianz Fire and Marine Insurance Japan Ltd., Tokyo	JPY	1,494.3	100.0
Allianz General Insurance Company S.A., Athens	GRD	2,688.4	95.0
Allianz Holding France, Charenton-le-Pont	FRF	13,425.1	100.0
Allianz Insurance (Singapore) Pte. Ltd., Singapore	SGD	41.1	100.0
Allianz Insurance Company, Los Angeles	USD	4,508.2	100.0
Allianz Lebensversicherung (Schweiz) AG, Zurich	CHF	57.1	100.0
Allianz Life Insurance Company of North America, Minneapolis	USD	1,340.5	100.0
Allianz Life Insurance Company S.A., Athens	GRD	3,494.5	78.6
Allianz Mexico S.A. Compañía de Seguros, Mexico City	MXN	493.2	100.0
Allianz Nederland N.V., Rotterdam	NLG	328.3	100.0
Allianz of America, Inc., Wilmington	USD	5,029.1	84.4[3]
Allianz of Canada, Inc., Toronto	CAD	145.2	100.0
Allianz of South Africa (Proprietary) Ltd., Johannesburg	ZAR	82.8	100.0
Allianz poist'ovňa a.s., Bratislava	SKK	764.6	100.0
Allianz pojišt'ovna a.s., Prague	CZK	566.1	100.0
Allianz RAS Argentina S.A. de Seguros Generales, Buenos Aires	ARS	10.2	100.0
Allianz Risk Transfer, Zurich	CHF	544.9	100.0
Allianz Underwriters Insurance Company, Los Angeles	USD	51.1	100.0
Allianz Versicherung (Schweiz) AG, Zurich	CHF	90.6	100.0
Allianz Vie, Charenton-le-Pont	FRF	658.4	100.0

[1] including shares held by dependent subsidiaries

[2] Management in insurance business

[3] percentage of voting capital owned: 90.00 %

Subsidiaries	Currency	Equity in millions	% owned [1]
Allianz-RAS Seguros y Reaseguros S.A., Madrid	ESP	13,168.2	100.0
Allianz-RAS Tutela Giudiziaria S.p.A., Milan	ITL	6,522.0	100.0
American Crédit Indemnity, Baltimore	USD	115.8	100.0
Assubel Vie, Brussels	BEF	9,528.0	100.0
Assurances Générales de France Iart, Paris	FRF	6,696.4	100.0
Assurances Générales de France Vie, Paris	FRF	7,758.5	100.0
Assurances Générales de France, Paris	FRF	31,702.5	51.6
Berner Allgemeine Holdinggesellschaft AG, Bern	CHF	77.9	51.2
Berner Allgemeine Versicherungs-Gesellschaft, Bern	CHF	131.1	100.0
Berner Lebensversicherungs-Gesellschaft, Bern	CHF	27.8	100.0
Colón Compañía de Seguros Generales S.A., Buenos Aires	ARS	2.4	100.0
COMPAGNIE DE GESTION ET DE PREVOYANCE, Strasbourg	FRF	9.6	99.5
Comptoir des Entrepreneurs, Guyancourt-St. Quentin en Yvelins	FRF	780.8	72.9
Consorcio General, Santiago de Chile	CLP	8,730.0	97.0
Cornhill Insurance PLC, London	GBP	691.5	98.0 [2]
ELVIA Assurances S.A., Brussels	BEF	538.8	100.0
ELVIA Reiseversicherungs-Gesellschaft, Zurich	CHF	103.2	100.0
ELVIA Schweizerische Lebensversicherungs-Gesellschaft, Zurich	CHF	132.6	96.6
ELVIA Schweizerische Versicherungs-Gesellschaft, Zurich	CHF	568.1	99.9
ELVIA Verzekeringen N.V., Amsterdam	NLG	139.6	100.0
EULER, Paris	FRF	3,843.8	68.2
EULER - SFAC, Paris	FRF	1,681.5	100.0
EULER 'TRADE INDEMNITY PLC, London	GBP	97.4	100.0
Eurovida S.A. Compañía de Seguros y Reaseguros, Madrid	ESP	3,531.9	51.0
Fireman's Fund Insurance Company, Novato	USD	4,088.6	100.0
Hungária Biztosító Rt., Budapest	HUF	20,439.7	100.0
International Reinsurance Company S.A., Luxemburg	USD	18.3	100.0
LES ASSURANCES FEDERALES IARD, Paris	FRF	232.6	92.6
Lloyd Adriatico S.p.A., Triest	ITL	745,649	99.7
MMI Limited, Sydney	AUD	294.1	100.0 [3]
P.T. Asuransi Allianz Utama Indonesia, Jakarta	IDR	30,483.0	74.4
Pet Plan Health Care Ltd., London	GBP	6.0	100.0
PFA IARD, Puteaux	FRF	2,342.8	100.0
PFA VIE, Puteaux	FRF	994.7	100.0
Portugal Previdente Companhia de Seguros S.A., Lisbon	PTE	15,100.8	60.0
RHIN ET MOSELLE ASSURANCES FRANCAISES Compagnie d'Assurances sur la vie, Strassbourg	FRF	3,453.2	100.0
Riunione Adriatica di Sicurtà S.p.A., Milan	ITL	6,840,245.0	50.2 [4]
Rodutch Holding, Rotterdam	NLG	643.8	100.0
Royal Nederland Leven, Utrecht	NLG	82.7	100.0
Royal Nederland Schade, Rotterdam	NLG	456.0	100.0
Sophia, Paris	FRF	2,343.0	41.9 [5]
T.U. Allianz Polska S.A., Warsaw	PLZ	57.5	100.0
T.U. Allianz Polska Zycie S.A., Warsaw	PLZ	14.0	100.0

1) including shares held by dependent subsidiaries
2) percentage of voting capital owned: 99.99 %
3) not consolidated
4) percentage of voting capital owned: 51.44 %
5) controlled by AGF

Joint ventures	Currency	Equity in millions	% owned[1]
Allianz Zagreb d.d., Zagreb	HKR	27.9	50.0
BV Insurance Holding, Bern	CHF	17.4	50.0

Associated enterprises[2]	Currency	Equity in millions	% owned[1]
Beiersdorf AG, Hamburg	DM	1,686.2	38.4
Dresdner Bank AG, Frankfurt/Main	DM	18,516.0	21.7
Karlsruher Lebensversicherung AG, Karlsruhe	DM	213.4	36.1
Monachia Grundstücks-Aktiengesellschaft, Munich	DM	46.6	48.7
Münchener Hagelversicherung AG, Munich	DM	12.3	47.1
Münchener Rückversicherungs-Gesellschaft AG, Munich	DM	5,287.5	25.0
TELA Versicherung AG, Berlin/Munich	DM	312.8	25.0
Allianz-Bradesco Seguros S.A., Rio de Janeiro	BRL	79.5	49.0
Koç Allianz Hayat Sigorta A.S., Istanbul	TRL	1,784,463.3	38.0
Koç Allianz Sigorta T.A.S., Istanbul	TRL	7,704,122.8	37.1

Other investments in insurance companies	Currency	Equity in millions	% owned[1]
AMB Aachener und Münchener Beteiligungs-AG, Aachen	DM	3,391.8	4.6
Ergo Versicherungsgruppe AG, Hamburg	DM	2,748.9	7.8
The Navakij Insurance Public Company Ltd., Bangkok	THB	1,042.1	18.5

1) including shares held by dependent subsidiaries

2) associated enterprises are all those enterprises, other than affiliated enterprises or joint ventures, in which the Group has an interest of between 20 percent and 50 percent, regardless of whether a significant influence is actually exercised or not.

Other long-term holdings in quoted companies	Currency	market value in millions	% owned[1]
BASF AG, Ludwigshafen	DM	4,130.8	10.4
Bayer AG, Leverkusen	DM	2,554.4	5.0
Bayerische Hypo- und Vereinsbank AG, Munich	DM	9,576.1	17.4
BEWAG-AG, Berlin	DM	437.6	4.4
Continental AG, Hanover	DM	222.1	4.2
DaimlerChrysler AG, Stuttgart	DM	1,761.4	1.1
Deutsche Bank AG, Frankfurt/Main	DM	2,629.0	5.0
IKB Deutsche Industriebank AG, Düsseldorf/Berlin	DM	361.1	12.0
Karstadt AG, Essen	DM	1,043.6	14.2
Lahmeyer AG, Frankfurt/Main	DM	1,117.8	15.2
Leifheit AG, Nassau (Lahn)	DM	32.2	10.1
Linde AG, Wiesbaden	DM	935.5	11.0
Mannesmann AG, Düsseldorf	DM	573.9	0.8
Metallgesellschaft AG, Frankfurt/Main	DM	147.8	4.0
RWE AG, Essen	DM	5,155.5	10.1
Schering AG, Berlin	DM	1,433.8	10.1
Schloßgartenbau-AG, Stuttgart	DM	10.4	7.0
Siemens AG, Berlin/Munich	DM	1,718.2	2.6
Süd-Chemie AG, Munich	DM	179.5	19.0
VEBA AG, Düsseldorf	DM	4,974.0	10.0
VIAG AG, Munich	DM	1,547.4	5.9
Banco Popular Español S.A., Madrid	ESP	61,846.0	5.2
Banco Portugues de Investimento, Lisbon	PTE	40,350.3	8.9
Generale Industrie Metallurgiche S.p.A., Florence	ITL	9,200.1	3.9
Mediobanca S.p.A., Milan	ITL	264,350.2	2.0
Paribas, Paris	FRF	3,523.9	4.5
Pirelli & Co. S.p.A., Milan	ITL	103,503.1	5.4
Rolo Banca 1473 S.p.A., Bologna	ITL	811,785.7	4.2
Scor, Paris la Défense	FRF	55.9	0.4
Société Générale, Paris	FRF	2,203.0	2.4
Total, Paris la Défense	FRF	1,200.4	0.9
UniCredito Italiano S.p.A., Milan	ITL	1,401,335.5	3.1
Vivendi, Paris	FRF	1,603.8	0.7
Worms et Cie, Paris la Défense	FRF	1,541.3	15.1

[1] including shares held by dependent subsidiaries

Other interests

Equity positions held through trust companies listed as associated enterprises included indirect shareholdings in the following:

	Market value DM mn	% owned
Heidelberger Druckmaschinen AG (Heidelberg)	1 040.6	12.0
MAN AG (Munich)	984.5	12.9
Thyssen AG (Duisburg)	566.9	5.3

Disclosure of equity investments

Information is filed separately with the Commercial Register in Munich.

INDEPENDENT AUDITORS' REPORT ALLIANZ GROUP

We have audited the Group accounts (Consolidated Financial Statements and Group Management Report) of Allianz Aktiengesellschaft, Munich, for the year ending 31 December 1998. The Group accounts comprise the documents required under the standards of the International Accounting Standards Committee (IASC) and other information required under European law. The Board of Management of the company is responsible for the preparation and content of the Consolidated Financial Statements. It is our responsibility to form an independent opinion, based on the audit carried out by us, as to whether the Consolidated Financial Statements are in accordance with the International Accounting Standards (IAS).

We conducted our audit in accordance with the International Standards on Auditing of the International Federation of Accountants. We planned and performed 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 the Group accounts are free from material misstatement. The audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group accounts. It also includes an assessment of the significant estimates and judgements made by the Board of Management, 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 Consolidated Financial Statements and Group Management Report. In our opinion, the audit we have conducted provides an adecuate basis for the formation of our audit opinion.

We are satisfied that our audit has revealed no grounds for objection. The conditions are met for releasing the company from the obligation of preparing Consolidated Financial Statements in accordance with German law. In our opinion, the Group accounts of Allianz Aktiengesellschaft present a true and fair view of the net worth and financial position o f the Group at 31 December 1998, the results and cash flows for the year then ended and have been properly prepared in accordance with the requirements of the International Accounting Standards Committee (IASC). In our opinion, the accounts give a true and fair view of the state of affairs of the Group and of the risks of future development.

Munich, May 12, 1999

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The specialists accounting terms explained on these pages are intended to help the reader understand this Annual Report. Most of the terms are from the balance sheet or income statement. Specialist terminology relating to particular lines of insurance business has not been included.

Affiliated enterprises

The parent company of the Group and all consolidated subsidiaries. Subsidiaries are enterprises where the parent company can exercise a dominant influence over their corporate strategy in accordance with the concept of control.
That is possible, for example, where the Group parent holds, directly or indirectly, a majority of the voting rights, has the power to appoint or remove a majority of the members of the board of management or equivalent governing body, or where there are contractual rights of control.

Aggregate policy reserve

Policies in force – especially in life, health, and personal accident insurance – give rise to potential liabilities for which funds have to be set aside. The amount required is calculated actuarially.

Assets under management

The total of all investments, valued at current market value, which the Group has under management with responsibility for maintaining and improving their performance. In addition to the Group's own investments they include investments held for variable annuity policyholders, bank loans and advances, and investments held under management for third parties.

Associated enterprises and joint ventures

All those enterprises, other than affiliated enterprises, in which the Group has an interest of between 20 percent and 50 percent, regardless of whether a significant influence is actually exercised or not.

At amortized cost

Under this accounting principle the difference between the acquisition cost and redemption value (of an investment) is added to or subtracted from the original cost figure over the period from acquisition to its maturity and credited or charged to income over the same period.

Benefits (net) payable to policyholders

The expense of policyholder benefits (less amounts ceded in reinsurance) comprises loss and loss adjustment expenses, premium refunds, and the net change in insurance reserves.

Capital relating to participating certificates

Amount payable on redemption of participating certificates issued. The participating certificates of Allianz AG carry distribution rights based on the dividends paid, and subscription rights when the capital stock is increased; but they carry no voting rights, no rights to participate in any proceeds of liquidation, and no rights to be converted into shares.

Cash flow statement

Statement showing movements of cash and cash equivalents during an accounting period, classified by three types of activity:
- normal operating activities
- investing activities
- financing activities.

Contingent liabilities

Financial obligations not shown as liabilities in the balance sheet because the probability of a liability actually being incurred is uncertain. Example: guarantee obligations.

Corridor approach

Under this approach to pension plans, actuarial gains and losses are not recognized immediately. Only when the cumulative gains or losses fall outside the corridor is a specified portion recognized in the income statement from the following year onwards. The corridor is 10 percent of the present value of the pension obligations funded or of the fund assets at market value, if greater.

Acquisition cost
The amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition.

Credit risk
The risk that one party to a contract will fail to discharge its obligations and thereby cause the other party to incur financial loss.

Current service cost
Net expense in connection with a defined benefit pension obligation, less any contributions made by the beneficiary to the pension fund.

Current value
The current value of an investment is normally the same as the market value. If the market value cannot be calculated directly, fair value is used.

Deferred acquisition costs
Expenses of an insurance company which are incurred in connection with the acquisition of new insurance policies or the renewal of existing policies. They include commissions paid and the costs of processing proposals.

Deferred tax assets/liabilities
The calculation of deferred tax is based on temporary differences between the carrying amounts of assets or liabilities in the published balance sheet and their tax base, and on differences arising from applying uniform valuation policies for consolidation purposes and from consolidation procedures. The tax rates used for the calculation are the local rates applicable in the countries of the enterprises included in the consolidation.

Defined benefit pension plans
Under these retirement plans the enterprise promises the beneficiary a particular level of benefit. The contribution payable is based on the age of the beneficiary and depends on the level of benefit promised.

Defined contribution pension plans
The central feature of these post-employment benefit plans is the contribution which an enterprise pays into a pension fund. The enterprise has no further obligations beyond the amount that it agrees to contribute to the fund and has no interest in the financial results of the fund. Benefits have to be claimed from the pension fund.

Derivative financial instruments
Financial contracts, the values of which move in relationship to the price of an underlying asset. Derivative financial instruments can be classified in relation to their underlying assets (e.g. securities, currencies, interest rate products or indices). Options, futures, forwards and swaps are important examples of derivative financial instruments.

Earnings from ordinary activities
Pre-tax profit or loss from activities which an enterprise undertakes in the normal course of business. This does not include extraordinary items, i.e. income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and are therefore not expected to recur frequently or regularly.

Earnings per share (basic/diluted)
Ratio calculated by dividing the consolidated profit or loss for the year by the average number of shares in issue. For calculating diluted earnings per share the number of shares and the profit or loss for the year are adjusted by the effects of any rights to subscribe for shares which have been or can still be exercised. Subscription rights arise in connection with issues of convertible bonds or share options.

Equity consolidation
The relevant proportion of cost of the investment in a subsidiary is set off against the relevant proportion of the shareholders' equity of the subsidiary at the date of acquisition.

Equity method
Investments in unconsolidated affiliated enterprises, joint ventures and associated enterprises are accounted for by this method. They are valued at the Group's proportionate share of the net assets (= shareholders' equity) of the enterprises concerned. In the case of investments in enterprises which prepare consolidated financial statements of their own, the valuation is based on the sub-group's consolidated net assets. The valuation is subsequently adjusted to reflect the proportionate share of changes in the enterprise's net assets, a proportionate share of the enterprise's net earnings for the year being added to the Group's consolidated income.

Expense ratio
Underwriting costs (including change in deferred acquisition costs) as a percentage of premiums earned.

Fair value
The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

FAS
American Financial Accounting Standards on which the details of US GAAP (Generally Accepted Accounting Principles) are based.

Forwards
The parties to this type of transaction have to buy or sell at a specified future date. The price of the underlying assets is fixed when the deal is struck.

Funds held by/for others under reinsurance contracts
Funds held by others are funds to which the reinsurer is entitled but which the ceding insurer retains as collateral for future obligations of the reinsurer. The ceding insurer shows these amounts as "funds held under reinsurance business ceded".

Futures
Standardized contracts for delivery on a future date, traded on an exchange. Normally, rather than actually delivering the underlying asset on that date, the difference between closing market value and the exercise price is paid.

Goodwill
Difference between the purchase price of a subsidiary and the relevant proportion of its net assets after writing back hidden reserves attributable to the purchaser at the time of acquisition. Goodwill is amortized over its useful life.

Gross/Net
In insurance terminology the terms gross and net mean before and after deduction of reinsurance respectively. (Net is also referred to as "for own account".)
In the context of investments the term "net" is used where the relevant expenses (e.g. for investment management or valuation write-downs) have already been deducted from the income. This means that investment income (net) signifies the net result from investments.

Hedging
Using special financial contracts, especially derivative financial instruments, to reduce losses which may arise as a result of unfavorable movements in rates or prices.

IAS
International Accounting Standards.

IAS Framework
The framework for International Accounting Standards (IAS) which sets out the concepts that underlie the preparation and presentation of financial statements for external users.

Investments held on account and at risk of life insurance policyholders
Mainly investments funding variable annuities plus investments to cover obligations under policies where the benefits are index-linked. Policyholders are entitled to the gains recorded on these investments, but also have to carry any losses.

Issued capital and capital reserve
This heading comprises the capital stock, the premium received on the issue of shares, and amounts allocated when option rights are exercised.

Joint venture
An enterprise which is managed jointly by an enterprise in the Group and one or more enterprises not included in the consolidation. The extent of joint management control is more than the significant influence exercised over associated enterprises and less than the control exercised over affiliated enterprises.

Loss ratio
Loss and loss adjustment expenses as a percentage of premiums earned.

Market value
The amount obtainable from the sale of an investment in an active market.

Minority interests in earnings
That part of net earnings for the year which is not attributable to the Group but to others outside the Group who hold shares in affiliated enterprises.

Minority interests in shareholders' equity
Those parts of the equity of affiliated enterprises which are not owned by companies in the Group.

New cost basis
Historical cost adjusted by depreciation to reflect permanent diminution in value.

Options
Derivative financial instruments where the holder is entitled – but not obliged – to buy (a call option) or sell (a put option) the underlying asset at a predetermined price sometime in the future. The grantor (writer) of the option, on the other hand, is obliged to transfer or buy the asset and receives a premium for granting the option to the purchaser.

OTC derivatives
Derivative financial instruments which are not standardized and not traded on an exchange but are traded directly between two counterparties via over-the-counter (OTC) transactions.

Other securities

1. Held to maturity
2. Available for sale
3. Trading

1. Securities held to maturity comprise debt securities held with the intent and ability that they will be held to maturity. They are valued "at amortized cost".
2. Securities available for sale are securities which are neither held with the intent that they will be held to maturity nor have been acquired for sale in the near term; securities available for sale are shown at their market value at the balance sheet date.
3. Trading securities comprise all fixed and variable income securities which have been acquired solely for sale in the near term. They are shown in the balance sheet at their market value at the balance sheet date. Changes in market value are credited or charged to income.

Pension and similar reserves

Current and future post-employment benefits payable to current and former employees under company pension schemes, accrued as a liability.

Post-ranking liabilities

Liabilities which, in the event of liquidation or bankruptcy, are not settled until after all other liabilities.

Premiums written/earned

Premiums written represent all premium revenues in the year under review. Premiums earned represent that part of the premiums written used to provide insurance cover in that year. In the case of life insurance products where the policyholder carries the investment risk (e.g. variable annuities), only that part of the premiums used to cover the risk insured and costs involved is treated as premium income.

Reinsurance

Where an insurer transfers part of the risk which he has assumed to another insurer.

Reserve for loss and loss adjustment expenses

Reserves for the cost of insurance claims incurred by the end of the year under review but not yet settled.

Reserve for premium refunds

That part of the operating surplus which will be distributed to policyholders in the future. This refund of premiums is made on the basis of statutory, contractual, or company by-law obligations, or voluntary undertaking.

Revenue reserves

In addition to the reserve required by law in the financial statements of the Group parent company, this item consists mainly of the undistributed profits of Group enterprises and amounts transferred from consolidated net income.

Segment reporting

Financial information based on the consolidated financial statements, reported by business segments (life/health, property/casualty, and financial services) and by geographical segments (regions).

Swaps

Agreements between two counterparties to exchange payment streams over a specified period of time. Important examples include currency swaps (in which payment streams and capital in different currencies are exchanged) and interest rate swaps (in which the parties agree to exchange normally fixed interest rate payments for variable rate payments in the same currency).

Underwriting costs
Commissions, salaries, general expenses and other expenses relating to the acquisition and ongoing administration of insurance policies. The net figure is after expenses recovered from reinsurers have been deducted.

Unearned premiums
Premiums written attributable to income of future years. The amount is calculated separately for each policy and for every day that the premium still has to cover.

Unrecognized gains/losses
Amount of actuarial gains or losses, in connection with defined benefit pension plans, which are not yet recognized as income or expenses (see also "corridor approach").

Unrecognized "past service cost"
Present value of increases in pension benefits relating to previous years' service, not yet recognized in the pension reserve.

US GAAP
American Generally Accepted Accounting Principles.

Variable annuities
The benefits payable under this type of life insurance depend primarily on the performance of the investments in a fund. The policyholder shares equally in the profits or losses of the underlying investments.

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