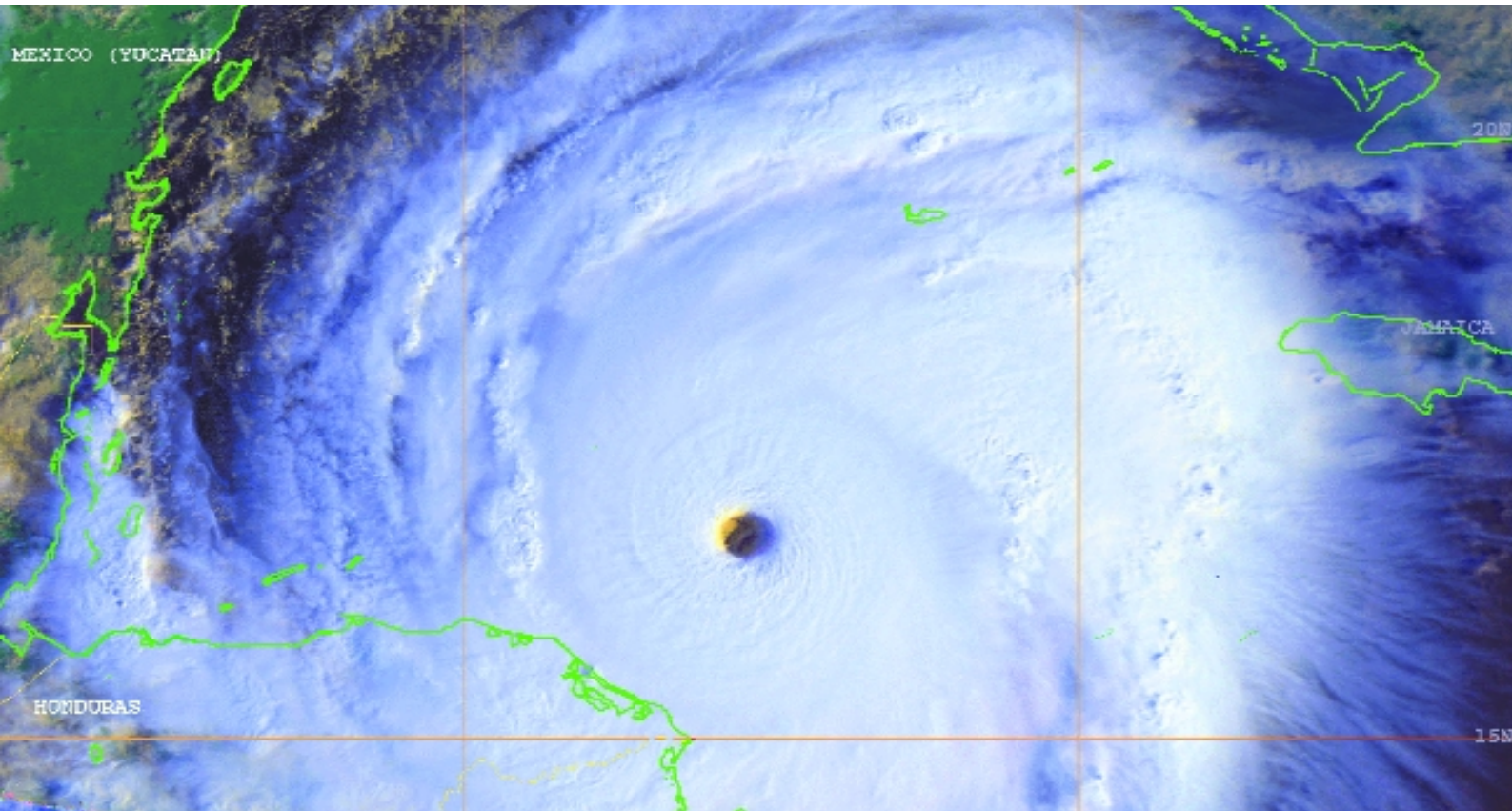


Allianz Aktiengesellschaft

Annual Report



Claims from natural disasters increased again in 1998. The picture above shows the eye of Hurricane Mitch.

The book value of investments held by Allianz AG rose by 18 percent to DM 62.4 billion.

Net income of Allianz AG for the year amounted to DM 1.4 billion. An increased dividend of DM 2.20 per share is proposed for fiscal 1998.

1998

Allianz Aktiengesellschaft		1998	Change on previous year %	1997	Change on previous year %	1996	Change on previous year %
Gross premiums written	DM mn	9,311	– 3.9	9,693	– 1.7	9,856	– 0.7
Retention	%	62.8		62.0		62.1	
Loss ratio on own account	%	71.6		70.5		65.8	
Expense ratio (gross)	%	26.2		24.7		23.9	
Underwriting result	DM mn	107		– 10		– 86	
Non-underwriting result	DM mn	1,725	47.3	1,171	55.3	754	– 20.1
Earnings before tax	DM mn	1,832	57.8	1,161	73.7	668	74.3
Taxes	DM mn	– 468		14		– 67	
Net income	DM mn	1,364	16.1	1,175	95.4	602	– 11.6
Investments under management	DM mn	62,444	18.2	52,849	19.2	44,329	7.8
Shareholders' equity	DM mn	19,788	32.4	14,943	8.3	13,795	4.8
– (as percent of net premium income)	%	338.5		248.7		225.5	
Insurance reserves	DM mn	29,173	– 0.1	29,199	2.5	28,483	7.9
Dividend per share	DM	2.20		1.90		1.70	
Total dividend	DM mn	539		438		390	
Allianz share price at year end	DM	620		466		277	
Allianz market capitalization at year end	DM bn	151.8		107.2		63.6	

1998

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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 of 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 Röllner

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 Member 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



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

REINSURANCE

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

Gross premiums written went down by 3.9 percent in 1998 to DM 9.3 billion (1997: DM 9.7 billion). Net premiums were also 2.7 percent down at DM 5.8 billion (1997: DM 6.0 billion).

We attribute the decrease in revenue to the following factors in particular:

- ▶ Our property and casualty insurance companies in Germany had less premium income in 1998 than in the previous year.
- ▶ Premium income was also reduced as a result of the reorganization of our shareholdings in life and health insurance companies in Germany.
- ▶ Allianz Group companies in Britain and the United States changed their reinsurance strategies.

The proportion of total premium income contributed by companies outside Germany showed a marginal increase to 13.3 percent (1997: 13.1 percent).

The underwriting profit before adjustments to the claims equalization reserve fell by DM 205.2 million to DM 23.8 million.

The loss ratio on own account (excluding surrenders and premium returns) rose to 65.4 percent (1997: 63.0 percent). The increase was mainly due to claims incurred in connection with natural catastrophes. Earnings were affected by the ice storm in Canada (January 1998) and the devastation caused by Hurricane George in the USA and Puerto Rico (September 1998) and Hurricane Mitch in Central America (October 1998). The claims expenses for these natural catastrophes totaled DM 75.0 million. The loss ratio was also adversely affected by large-scale industrial insurance claims and – to a lesser extent – the unsatisfactory claims situation in automobile reinsurance.

The expense ratio was 26.2 percent (1997: 24.7 percent). It is influenced mainly by reinsurance commissions paid.

Owing to the increased level of claims and costs, DM 83.4 million had to be transferred from the claims equalization reserve (1997: DM 239.2 million transferred to the reserve). The underwriting result accordingly showed significant improvement from a loss of DM 10.2 million in 1997 to a profit of DM 107.3 million.

ALLIANZ AG

Gross premiums written and results by insurance line in 1998

	Gross premiums written		Net underwriting result	
	1998	Change	1998	Change
	DM mn	%	DM mn	DM mn
Automobile	2,385.9	– 3.7	– 49.6	63.1
Fire	899.4	– 13.1	18.8	11.0
Liability	839.8	1.0	– 2.9	69.5
Personal accident	791.5	4.2	50.6	16.6
Engineering	478.2	– 14.4	– 53.1	– 51.9
Homeowners	239.9	– 1.1	– 20.0	– 1.6
Household effects	216.8	0.8	19.9	– 0.9
Business interruption	151.4	– 15.9	1.5	7.6
Marine	217.6	9.3	15.0	2.5
Legal expenses	266.0	3.3	11.3	5.8
Life	1,474.8	– 5.1	84.6	16.9
Health	229.5	– 31.5	1.6	– 4.0
Other	1,119.7	7.0	29.6	– 17.1
Total	9,310.5	– 3.9	107.3	117.5

“Other” lines of reinsurance include:

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

The various lines of reinsurance reported as follows:

Premiums written in **automobile reinsurance** declined further. Business in this line of reinsurance is heavily influenced by the performance of the ceding insurers in Germany. Premium rates in this market continued to fall, resulting in an underwriting loss on automobile liability reinsurance business. Profits in automobile physical damage reinsurance were down compared with the previous year. After the prescribed transfer from claims equalization reserves, the underwriting result on the automobile reinsurance account improved from a loss of DM 112.7 million in the previous year to a loss of DM 49.6 million.

Fire reinsurance business is going through a period of deep-seated structural change, mainly because ceding insurers are increasingly requesting non-proportional forms of cover. This generally means that only the

excess of loss is reinsured. The level of premium ceded to the reinsurer is correspondingly reduced. Worldwide surplus capacity – as in previous years – also meant that premium rates remained as competitive as before. Premium income went down to DM 899.4 million (1997: DM 1,034.9 million). Major claims in industrial fire insurance and claims resulting from natural disasters weakened the underwriting result before adjustments to the claims equalization reserve. After transferring DM 151.5 million from that reserve the fire reinsurance account again showed a profit of DM 18.8 million.

Premiums written in **liability reinsurance** increased to DM 839.8 million (1997: DM 831.9 million). Most of the growth came from outside Germany; premium revenues in Germany remained much the same as before. The overall result improved from a loss of DM 72.4 million in the previous year to a loss of DM 2.9 million. DM 52.8 million had to be transferred to the claims equalization reserve.

Premiums written in **personal accident reinsurance** went up by 4.2 percent to DM 791.5 million. The increase was mainly due to a good performance in Germany. Earnings showed further improvement to DM 50.6 million (1997: DM 34.0 million).

Premium income from the **reinsurance of engineering business** went down to DM 478.2 million (1997: DM 558.5 million) thanks to competitive premium rate structuring and ceding insurers changing their reinsurance arrangements. Hurricane George had a serious impact on the claims experience. The underwriting loss deteriorated from DM 1.2 million in the previous year to DM 53.1 million.

Premiums written in **homeowners reinsurance** and **household effects reinsurance** totaled DM 456.7 million (1997: DM 457.7 million). Both lines benefited from a favorable claims record overall. After transferring DM 20.3 million to the claims equalization reserve the underwriting result just about broke even with a loss of DM 0.1 million (1997: profit of DM 2.4 million).

Business interruption reinsurance suffered from price undercutting and premium rate erosion. In this respect it is comparable with industrial fire reinsurance. Premium income went down to DM 151.4 million (1997: DM 180.0 million), but a more favorable record of major claims in this line of business in 1998 meant that the underwriting result in business interruption reinsurance improved from a loss of DM 6.1 million in 1997 to a profit of DM 1.5 million in the year under review.

In **marine reinsurance** we recorded premium income of DM 217.6 million. That represents growth of 9.3 percent. The underwriting account on this line of business showed a profit of DM 15.0 million (1997: DM 12.5 million).

Our revenues in **legal expenses reinsurance** climbed to DM 266.0 million (1997: DM 257.6 million). Favorable claims figures contributed to the fact that the profit on this account doubled to DM 11.3 million.

In **life reinsurance** business we had to accept a 5.1 percent decrease in premium income to DM 1,474.8 million in 1998. This is attributable to the fact that the business portfolios of Allianz Lebensversicherungs-AG and Deutsche Lebensversicherungs-AG were merged, with a consequent change in the treatment of reinsurance cessions.

This reinsurance account recorded a profit of DM 84.6 million (1997: DM 67.7 million).

Premiums written in **health reinsurance** fell heavily by no less than 31.5 percent to DM 229.5 million. This was due to the reorganization of our equity interests in German health insurance companies. In the context of these changes we lost part of the reinsurance business of Deutsche Krankenversicherung AG. This line of business made a reduced underwriting profit of DM 1.6 million (1997: DM 5.6 million).

Other lines of reinsurance include emergency assistance, burglary and theft, a special type of manufacturing coverage known as “omnium”, extended coverage, glass, hail, credit and bond, water damage, aviation (hull), aircraft and spacecraft liability, storm and animal (livestock) reinsurance and other property and casualty business.

Premium income totaling DM 1,119.7 million (1997: DM 1,046.1 million) in these other lines of reinsurance came almost entirely from Germany. Other property and casualty business made the most significant contribution (DM 679.0 million) to the total. Other major contributions came from extended coverage reinsurance with premium income of DM 141.5 million and from credit and bond reinsurance with DM 127.4 million. The overall profit from all these other lines of reinsurance went down from DM 46.7 million to DM 29.6 million.

INVESTMENTS

The **book value of investments** held by Allianz AG increased by 18.2 percent in 1998 to DM 62.4 billion (1997: DM 52.8 billion).

Holdings of **real estate** went down by DM 18 million in the year under review to DM 631 million.

Additions to **investments in affiliated and associated companies** at net book value amounted to DM 8.3 billion, increasing the total under that heading to DM 38.4 billion. The increase is mainly attributable to the following changes:

- ▶ Acquisition of 51.6 percent of the capital of the French insurance group Assurances Générales de France (AGF).
- ▶ We have restructured our equity interests held jointly with Münchener Rückversicherungs-Gesellschaft AG (Munich Re). During 1998 Allianz AG transferred around 2.3 percent of ERGO Versicherungsgruppe AG to Munich Re; in return Allianz AG received around 3.8 percent of Allianz Lebensversicherungs-AG. This means that we now hold 50.3 percent of Allianz Lebensversicherungs-AG.

In 1998 we founded Allianz Capital Partners GmbH and launched the business activities of Allianz Asset Management GmbH (AAM). Allianz Kapitalanlagegesellschaft mbH and Augsburger Aktienbank AG are now part of AAM.

The book value of **other investments** increased by DM 1.0 billion to DM 7.5 billion. This heading comprised mainly:

- ▶ stocks and other equity interests valued at DM 1.8 billion (1997: DM 2.7 billion);
- ▶ fixed income securities with a book value of DM 5.3 billion (1997: DM 2.9 billion); and
- ▶ bank deposits and miscellaneous investments totaling DM 0.4 billion (1997: DM 0.8 billion).

The market value of holdings of real estate, dividend-bearing stocks (investments in affiliated and associated companies, other shares and mutual fund units) and bearer bonds at the end of 1998 amounted to DM 101.5 billion (1997: DM 83.0 billion). Their corresponding balance sheet valuation was DM 44.8 billion (1997: DM 35.9 billion).

Funds held by others under reinsurance business assumed showed a slight increase to DM 15.9 billion (1997: DM 15.6 billion).

Current income from investments rose sharply, by DM 526.5 million to DM 3,175.4 million. What were the factors behind this growth? The most important, in brief:

- ▶ The profit transferred from Allianz Versicherungs-AG increased by DM 88.8 million to DM 665.9 million.
- ▶ Income from equity investments rose by DM 194.9 million to DM 742.4 million.
- ▶ Income from other investments also rose by DM 242.8 million to DM 1,767.1 million. This item includes interest on funds held by others amounting to DM 1,005.9 million (1997: DM 985.0 million).

Realized investment gains totaled DM 1,163.6 million (1997: DM 783.7 million). They included:

- ▶ DM 1,019.8 million from the sale of stocks and the disposal of investments in affiliated companies, about half of this figure coming from the transfer of shares in BHF-Bank;
- ▶ DM 119.1 million from the sale of real estate; and
- ▶ DM 24.7 million from the maturing and sale of fixed income securities and mutual fund units.

Realized investment losses totaled DM 224.9 million (1997: DM 7.2 million). DM 151.2 million of this related to the sale of the Australian insurance group Manufacturers Mutual Insurance (MMI) to Allianz Asia-Pacific and Africa Holding.

Depreciation and write-downs amounted to DM 142.8 million (1997: DM 420.8 million). This included:

- ▶ DM 100.4 million relating almost entirely to our equity interest in Berner Holding;
- ▶ DM 23.3 million on the book value of securities; and
- ▶ DM 19.0 million on holdings of real estate.

Net income from investments amounted to DM 2,963.1 million (1997: DM 2,566.3 million) after charging the following:

- ▶ investment management expenses of DM 180.0 million (1997: DM 193.1 million);
- ▶ interest payments of DM 704.1 million (1997: DM 219.4 million), mainly on loans from other companies in the Group; and
- ▶ an allocation of DM 124.1 million to the special untaxed reserve.

DM 999.4 million (1997: DM 976.7 million) of the investment income has been credited to the underwriting account as the allocated interest return.

TOTAL EARNINGS

Non-underwriting activities showed a profit of DM 1,724.8 million (1997: DM 1,171.3 million) overall. Together with the underwriting profit of DM 107.3 million (1997: loss of DM 10.2 million) there was a pre-tax profit of DM 1,832.1 million (1997: DM 1,161.1 million). The relatively low tax charge of DM 467.7 million is due primarily to taxes being recovered from other companies in the Group which are taxed as a single entity with Allianz AG, and to tax-free income. In the previous year these factors resulted in a net credit for taxation of DM 14.4 million because taxable income was lower. Net income after tax amounted to DM 1,364.4 million (1997: DM 1,175.5 million). DM 682.2 million (1997: DM 587.0 million) of this amount has been transferred to “other appropriated retained earnings”, leaving unappropriated retained earnings of DM 682.2 million (1997: DM 588.5 million). We will ask the Annual Meeting of shareholders to be held on July 7, 1999, to approve a further transfer of DM 143.4 million from unappropriated to appropriated retained earnings. An increased dividend of DM 2.20 (1997: DM 1.90) is to be distributed on each of the Company’s shares entitled to participate in the dividend.

RISK MANAGEMENT

Since the German Law on Corporate Governance and Transparency (KonTraG) came into force on May 1, 1998, insurance companies are also obliged to report on the risks and uncertainties that may affect their future performance.

These include first and foremost underwriting risks, investment risks, information technology risks, and risks associated with the millennium date change.

Underwriting risks

These include in particular an accumulation of claims, extreme weather-related losses resulting from natural catastrophes, and major industrial claims. The size and diversification of Allianz AG's reinsurance portfolio enable it to carry such risks. They are analyzed continuously. The data required for this are fed to Allianz AG by the companies requiring reinsurance. Depending on its assessment of the risk, Allianz AG in turn passes on part of the risks assumed to the international reinsurance market in order to limit its own liability. Only companies which offer the best possible security are considered for this purpose. Claims incurred but not yet finally settled are another potential source of risk. Reserves for risks of this kind are set up on the basis of empirical data. Their run-off result is constantly monitored and the findings taken into account in current assessments. Changing trends in claims and market conditions are also significant and kept constantly under review. Allianz AG has claims equalization reserves of almost DM 1.2 billion to smooth out fluctuations in the incidence of claims.

Investment risks

Affiliated and associated companies represent by far the largest proportion of the investments held by Allianz AG, accounting for about 61.5 percent of the total. This is explained by Allianz AG's function as holding company for the Group. A multi-stage control system helps to safeguard and maintain the value of this core portfolio of investments.

The value of other investments – which are held mainly to fund the insurance reserves – can be permanently diminished by various totally different factors:

- ▶ falling capital markets;
- ▶ failure of business partners or borrowers; or
- ▶ unplanned disposal of investments to meet unusually large major claims, or a concentration of claims, not covered by reinsurance.

Within the limits imposed by supervisory regulations we minimize the risks described above as part of our investment strategy. Funds are invested in such a way that the maximum possible level of security and return is achieved with an adequate degree of liquidity and an appropriate mix and spread of assets. At the end of 1998, as indicated above, we also had valuation reserves available amounting to DM 56.7 billion to act as an additional cushion against the occurrence of risk.

Derivative financial instruments are used to hedge against share price, interest rate and exchange rate risks as well as for the purpose of flexible portfolio management. Open positions are marked to market. The valuation is supported by sensitivity analysis.

The adequacy of internal financial and risk management systems is kept constantly under review. The Company's independent auditors contribute to this process.

Information technology risks

The main danger here is a complete or partial systems breakdown. Our preventive measures to counter this risk include the following:

- ▶ segregation of computer installations in physically separate security and air-conditioned areas with controlled access;
- ▶ separate data security archives;
- ▶ monitoring procedures and security and quality checks; and
- ▶ installation of backup procedures, such as daily protection of data.

Risks associated with the millennium date change

We set about investigating the consequences of the millennium date change very early on – as early as 1988! – and have since been analyzing all the affected areas and putting preventive measures into effect. The modification of hardware and software as well as of application programs is now largely complete. Application tests will be concluded by the middle of 1999.

The insurance claims which may result from the millennium date change cannot be quantified with any degree of certainty. We are countering this risk by making as many of our customers aware of the problem as possible. Among other things we have sent out questionnaires, set up a hotline for small and medium-sized companies, and made comprehensive information available in order to limit the potential damage as far as possible.

Allianz AG is currently consolidating its existing internal risk management systems – which have been in place for years – into a multidisciplinary risk management system as required by the new (KonTraG) law.

The internationally recognized rating agency Standard & Poor's has awarded Allianz AG the highest possible "AAA" group rating.

LOOKING AHEAD

As the Group's reinsurance carrier, Allianz AG participates in the premium income and earnings performance of Group subsidiaries and affiliates. As the proportion of premiums written in Germany is still very high, market conditions in this country are crucial for the future level of premiums and earnings. It is already clear that premium rates for automobile reinsurance in Germany will continue to be eroded. Fire reinsurance business is still suffering from intense price competition. This means that premium income in the current fiscal year is hardly likely to increase. Provided there are no exceptionally large claims or natural catastrophes, the underwriting result can be expected to break even.

Financial markets in the early months of 1999 have been dominated by volatile equity markets and persistently low interest rates. Provided the general climate does not take a significant turn for the worse over the rest of the year, investment income in 1999 can be expected to remain high.

**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

FINANCIAL STATEMENTS
ALLIANZ AKTIENGESELLSCHAFT

ASSETS

	Note	1998	1998	1997
		TDM	TDM	TDM
A. Intangible assets	1		4,018	—
B. Investments	1 – 4			
I. Real estate		631,233		649,151
II. Investments in affiliated and associated companies		38,437,656		30,135,380
III. Other investments		7,464,602		6,456,409
IV. Funds held by others under reinsurance business assumed		15,910,133		15,607,672
			62,443,624	52,848,612
C. Receivables				
I. Accounts receivable on reinsurance business		694,727		618,927
including 108,017 (1997: 163,891) from affiliated companies				
including 2,560 (1997: 355,918) from other companies in which long-term equity investments are held				
II. Other receivables		1,358,321		734,379
including 1,318,081 (1997: 669,146) from affiliated companies				
including 305 (1997: 121) from other companies in which long-term equity investments are held				
			2,053,048	1,353,306
D. Other assets				
I. Tangible fixed assets and inventories		481		657
II. Cash with banks, checks and cash on hand		58,361		39,981
			58,842	40,638
E. Prepaid expenses	5			
I. Accrued interest and rents		112,863		52,453
II. Other prepaid expenses		232,404		17,997
			345,267	70,450
Total assets			64,904,799	54,313,006

EQUITY AND LIABILITIES

	Note	1998	1998	1998	1997
		TDM	TDM	TDM	TDM
A. Shareholders' equity	6				
I. Capital stock			1,224,570		1,153,936
II. Additional paid-in capital			13,875,677		10,027,057
III. Appropriated retained earnings					
1. required by law		2,403			2,403
2. other		4,003,467			3,171,267
			4,005,870		3,173,670
			682,211		588,496
IV. Unappropriated retained earnings				19,788,328	14,943,159
B. Participating certificates	7			879,183	864,956
C. Special untaxed reserve	8			247,717	123,609
D. Insurance reserves					
I. Unearned premiums					
1. Gross		1,525,632			1,631,029
2. less:					
amounts ceded		549,064			614,361
			976,568		1,016,668
II. Aggregate reserve					
1. Gross		15,161,580			14,866,589
2. less:					
amounts ceded		1,825,635			1,686,471
			13,335,945		13,180,118
III. Reserve for loss and loss adjustment expenses					
1. Gross		10,671,229			10,807,925
2. less:					
amounts ceded		4,313,670			4,495,371
			6,357,559		6,312,554
IV. Reserve for non-experience-rated premium refunds					
1. Gross		217,292			184,980
2. less:					
amounts ceded		93,251			79,482
			124,041		105,498
			1,191,873		1,275,301
V. Claims equalization and similar reserves					
VI. Other insurance reserves					
1. Gross		405,825			432,691
2. less:					
amounts ceded		45,868			49,472
			359,957		383,219
				22,345,943	22,273,358

	Note	1998	1998	1997
		TDM	TDM	TDM
E. Other accrued liabilities	9		4,969,738	4,087,765
F. Funds held under reinsurance business ceded			2,038,831	1,896,310
G. Other liabilities	10			
I. Accounts payable on reinsurance business		806,256		603,641
including 738,174 (1997: 490,727) to affiliated companies				
including 13,644 (1997: 26,676) to othercompanies				
in which long-term equity investments are held				
II. Liabilities to banks		89		28
III. Miscellaneous liabilities		13,828,680		9,519,445
including taxes of 76,042 (1997: 3,872)				
including 13,377,160 (1997: 9,230,212) due to affiliated companies				
including 197,228 (1997: 175,457) due to other companies				
in which long-term equity investments are held				
			14,635,025	10,123,114
H. Deferred income			34	735
Total equity and liabilities			64,904,799	54,313,006

for the period from January 1 to December 31, 1998

	Note	1998 TDM	1998 TDM	1998 TDM	1997 TDM
I. Underwriting account					
1. Premiums earned - net					
a. Gross premiums written	11	9,310,501			9,692,570
b. Premiums ceded		- 3,465,182			- 3,683,102
			5,845,319		6,009,468
c. Change in unearned premiums - gross		82,723			106,030
d. Change in unearned premiums ceded		- 57,310			- 32,183
			25,413		73,847
				5,870,732	6,083,315
2. Allocated interest return - net	12			873,840	857,859
3. Other underwriting income - net				35,471	29,987
4. Loss and loss adjustment expenses - net					
a. Claims paid					
aa. Gross		- 6,563,668			- 6,369,241
bb. Amounts ceded in reinsurance		2,449,463			2,343,836
			- 4,114,205		- 4,025,405
b. Change in reserve for loss and loss adjustment expenses					
aa. Gross		42,028			- 216,710
bb. Amounts ceded in reinsurance		- 133,394			- 43,903
			- 91,366		- 260,613
				- 4,205,571	- 4,286,018
5. Change in other insurance reserves - net	13			- 598,993	- 553,092
6. Expenses for non-experience-rated premium refunds - net				- 67,570	- 60,778
7. Underwriting expenses - net	14			- 1,424,555	- 1,390,594
8. Other underwriting expenses - net				- 459,520	- 451,672
9. Subtotal				23,834	229,007
10. Change in claims equalization and similar reserves				83,428	- 239,181
11. Underwriting result - net				107,262	- 10,174

	Note	1998 TDM	1998 TDM	1998 TDM	1997 TDM
II. Non-underwriting account					
1. Investment income	15		4,338,926		3,439,488
2. Investment expenses	16 – 17		– 1,375,861		– 873,189
			2,963,065		2,566,299
3. Allocated interest return			– 999,403		– 976,660
				1,963,662	1,589,639
4. Other income	18		638,924		257,898
5. Other expenses	19		– 877,778		– 676,259
				– 238,854	– 418,361
6. Non-underwriting result				1,724,808	1,171,278
7. Earnings from ordinary activities before taxation				1,832,070	1,161,104
8. Income taxes	20	– 1,318,906			– 781,365
less amounts charged to other companies in the Group		855,537			806,601
			– 463,369		25,236
9. Other taxes		– 5,055			– 38,963
less amounts charged to other companies in the Group		765			28,119
			– 4,290		– 10,844
				– 467,659	14,392
10. Net income	21			1,364,411	1,175,496

Legal Regulations

The financial statements and Management Report have been prepared in accordance with the regulations contained in the German Commercial Code (HGB), the Corporation Law (AktG), the Law on the supervision of insurance enterprises (VAG), and the Government Order on the external accounting requirements of insurance enterprises (RechVersV), as amended by the Insurance Accounting Directive Law (VersRiLiG) dated June 24, 1994.

The above-mentioned regulations for the Company as a reinsurance company not only address the special contents of the financial statements and Management Report but also the extended deadlines for their preparation. All amounts in the financial statements are stated in and rounded out to DM thousands (TDM).

Accounting, Valuation and Calculation Methods

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

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

Stocks, investment fund units, bearer bonds and other fixed and variable income securities as well as miscellaneous investments are valued at the lower of cost or fair market value on the

balance sheet date in accordance with the German Commercial Code (§ 341b(2) in conjunction with § 253(1) and (3) HGB). Lower values established in the past are retained even if the fair market value at the balance sheet date is higher. An average cost has been established where securities of the same kind were purchased at different cost.

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

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

- a) Loans to affiliated enterprises
- b) Loans to other enterprises in which long-term equity investments are held
- c) Debentures and loans
- d) Bank deposits
- e) Funds held by others under reinsurance business assumed
- f) Accounts receivable on reinsurance business
- g) Other receivables
- h) Cash with banks, checks and cash on hand
- i) Accrued interest and rents.

Insurance reserves consist of the following:

Unearned premiums
 Aggregate policy reserve
 Reserve for loss and loss adjustment expenses
 Reserve for premium refunds (non-experience-rated)
 Other insurance reserves.
 These reserves were set up according to information provided by the ceding insurers, estimated to a certain extent.
 The reinsurers' shares were calculated in accordance with the reinsurance contracts.

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

Other accrued liabilities

The pension accruals are calculated actuarially based on the updated 1998 mortality tables of Dr. K. Heubeck.

The full amount of the liability calculated in this way has been recorded in the financial statements. Miscellaneous accrued liabilities have been recorded as projected. The accrued liabilities for early retirement benefits and employee long-service awards have been calculated using actuarial principles.

Liabilities consist of:

- a) Participating certificates
- b) Funds held under reinsurance business ceded
- c) Accounts payable on reinsurance business
- d) Liabilities to banks
- e) Other liabilities.

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

Deferred income

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

Approximation and simplification procedures

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

Foreign currency translation

Investments denominated in foreign currencies are stated at the lower of historical cost or market, converted into DM at the balance sheet date. The other balance sheet items are valued in accordance with established principles for currency translation for open and – where applicable – closed positions.

1 Changes under asset headings A. through B.III. in fiscal 1998

Values stated at 12/31/1997		
	TDM	%
A. Intangible assets		
Other intangible assets	—	
B.I. Real estate	649,151	1.8
B.II. Investments in affiliated and associated enterprises		
1. Investments in affiliated enterprises	27,230,948	73.1
2. Loans to affiliated enterprises	418,390	1.1
3. Investments in other enterprises	2,482,092	6.7
4. Loans to other enterprises in which long-term equity investments are held	3,950	0.0
Subtotal B.II.	30,135,380	80.9
B.III. Other investments		
1. Stocks, investment fund units and other variable income securities	2,683,848	7.2
2. Bearer bonds and other fixed income securities	2,915,361	7.8
3. Other loans		
Debentures and loans	47,553	0.1
4. Bank deposits	809,637	2.2
5. Miscellaneous investments	10	0.0
Subtotal B.III.	6,456,409	17.3
Subtotal B.I - B.III.	37,240,940	100.0
Total	37,240,940	

2 Market value of investments

The market value of holdings of real estate, dividend-bearing stocks (investments in affiliated and associated enterprises, other shares and mutual fund units) and bearer bonds at December 31, 1998 amounted to DM 101.5 billion. The corresponding balance sheet valuation of these investments was DM 44.8 billion.

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

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

Real estate

Land and buildings as a rule at capitalized earnings value, new buildings at cost, in each case as at December 31, 1998.

	Book value	Market value	Valuation reserve
	12/31/1998	12/31/1998	12/31/1998
	DM in billions	DM in billions	DM in billions
Real estate	0.6	1.9	1.3
Dividend-bearing stocks	38.9	94.1	55.2
Bearer bonds	5.3	5.5	0.2
Total	44.8	101.5	56.7

Additions	Transfers	Disposals	Revaluation	Depreciation	Net Additions (+) Net Disposals (-)	Values stated at 12/31/1998	
TDM	TDM	TDM	TDM	TDM	TDM	TDM	%
5,328	–	–	–	1,310	+ 4,018	4,018	
49,013	–	47,909	–	19,022	– 17,918	631,233	1.4
29,879,832	380,420	21,172,072	–	100,000	+ 8,988,180	36,219,128	77.8
1,921,136	–	914,418	–	–	+ 1,006,718	1,425,108	3.1
1,087,027	– 380,420	2,400,402	–	404	– 1,694,199	787,893	1.7
10,277	–	8,700	–	–	+ 1,577	5,527	0.0
32,898,272	–	24,495,592	–	100,404	+ 8,302,276	38,437,656	82.6
1,710,603	–	2,540,742	–	3,759	– 833,898	1,849,950	4.0
2,857,920	–	502,387	–	19,585	+ 2,335,948	5,251,309	11.3
–							
189	–	47,553	–	–	– 47,364	189	0.0
–	–	466,493	–	–	– 466,493	343,144	0.7
20,000	–	–	–	–	+ 20,000	20,010	0.0
4,588,712	–	3,557,175	–	23,344	+ 1,008,193	7,464,602	16.0
37,535,997	–	28,100,676	–	142,770	+ 9,292,551	46,533,491	100.0
37,541,325	–	28,100,676	–	144,080	+ 9,296,569	46,537,509	

Dividend-bearing stocks

Quoted companies at the stock exchange price quoted on the last trading day of 1998. Non-quoted companies at their net worth calculated by the DVFA method or at acquisition cost.

Bearer bonds and other fixed income securities

At the stock exchange value quoted on the last trading day of 1998.

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

These consist primarily of warrant options acquired.

4 Disclosure of equity investments

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

5 Other prepaid expenses (Assets E.II.)

This heading includes TDM 51,969 in respect of repayment premiums on loans to affiliated enterprises and TDM 179,909 (1997: TDM 17,270) in respect of debt discount on miscellaneous liabilities.

Collateral

Assets included in the balance sheet totaling TDM 1,690,129 (1997: TDM 1,647,798) are subject to restricted usage through collateral.

6 Capital (Liabilities A.I.)

During the year under review the **capital stock** was increased by warrant options being exercised for shares with a nominal value of DM 22,254,500. In March 1998 the capital stock was increased by DM 35,000,000 in the ratio of 1-for-34. The new shares were offered to existing shareholders of the Company at a subscription price of DM 220. In April 1998 the capital stock 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 stock) were issued at a price of DM 500 each, enabling employees of Allianz companies 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. The Company did not hold any of its own shares at the end of 1998. The capital stock 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 capital stock.

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.

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

	TDM
12/31/1997	10,027,057
+ Transfer from capital increases in 1998	2,974,018
+ Transfer from option warrants exercised	874,602
12/31/1998	13,875,677

Appropriated retained earnings (Liabilities A.III.)

	12/31/1997	From unappropriated 1997 retail	From 1998 net income	12/31/1998
	TDM	TDM	TDM	TDM
1. Required by law	2,403	—	—	2,403
2. Other	3,171,267	150,000	682,200	4,003,467
Total	3,173,670	150,000	682,200	4,005,870

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 Company's capital stock and all other DM amounts in the Company's statutes were restated in euros. The capital stock 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 the Company, Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft (Munich Re), Munich, which traditionally owns 25 percent of the shareholders' equity in the Company, has increased its shareholding temporarily to just over 25 percent.

7 Participating certificates (Liabilities B.)

At December 31, 1998, the form of capital known as participating certificates comprised 5,723,512 certificates carrying participation rights, with a nominal value of DM 57,235,120. The participating certificates carry no voting rights and no rights to participate in any proceeds of liquidation.

The dividend payable on a participating certificate is 24 percent of that paid by the Company on a multiple share certificate (10 shares of no par value); a minimum yield of 5 percent of the nominal value of the participating certificate is guaranteed. In addition, the holders of participating certificates have the right in certain circumstances to subscribe for new participating certificates; to that extent the subscription rights of shareholders are excluded. Redemption of the participating certificates cannot be demanded by a holder before the end of the year 2001 at the earliest; under normal circumstances the Company cannot call the certificates for redemption before the end of the year 2006.

The guaranteed redemption price of all the participating certificates issued to date is a uniform DM 153.61 after the 1998 rights issue; under their conditions of issue the Company can offer to exchange the participating certificates for capital stock instead of redeeming them for cash. On condition that any previous authorization still in force is withdrawn, the 1995 Annual Meeting of shareholders authorized the Board of Management, subject to the approval of the Company's Supervisory Board, to issue participating certificates of DM 20 million at any time up to September 30, 2000.

8 Special untaxed reserve (Liabilities C.)

	12/31/1997	Allocated	Released	12/31/1998
	TDM	TDM	TDM	TDM
Reserve according to § 6b EStG	123,609	124,108	—	247,717

9 Other accrued liabilities (Liabilities E.)

The pension obligations of the companies in Allianz's Property and Casualty Insurance Group in Germany, Allianz Lebensversicherungs-AG, Deutsche Lebensversicherungs-AG, Vereinte Lebensversicherung AG, and the obligations of Vereinte Versicherung AG for the retirement benefits of agents, are accrued in the financial statements of Allianz AG because the Company has assumed joint liability for the pension obligations and undertaken to fulfil them. In addition to **pension and similar reserves** of TDM 4,137,941 (1997: TDM 3,636,337) and **accrued taxes** of TDM 730,683 (1997: TDM 369,526) the Company has **miscellaneous accrued liabilities** of TDM 101,114 (1997: TDM 81,902), including TDM 23,104 for costs of the early retirement scheme and employee long-service awards, which are shared throughout the Group, and TDM 15,732 for contingencies.

10 Long-term and secured liabilities

	Period to maturity more than 5 years
	TDM
Miscellaneous liabilities	4,600,193

TDM 1,804 of the miscellaneous liabilities are secured by mortgages or annuity charges.

Long-term liabilities have increased as a result of new lending arrangements within the Group.

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

	1998	1997
	TDM	TDM
Property and casualty insurance	7,835,665	8,138,543
Life insurance	1,474,836	1,554,027
Total	9,310,501	9,692,570

12 Allocated interest return - net

(Income Statement 1.2.)

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

13 Change in other insurance reserves - net

(Income Statement 1.5.)

This heading comprises TDM 616,490 (1997: TDM 532,975) added to the net aggregate reserve and TDM – 17,497 released from (1997: TDM 20,117) added to miscellaneous net insurance reserves.

14 Underwriting expenses - net

(Income Statement 1.7.)

Gross underwriting expenses of TDM 2,441,930 (1997: TDM 2,393,383) are shown net of commissions and profit-sharing on reinsurance ceded amounting to TDM 1,017,375 (1997: TDM 1,002,789).

15 Investment income (Income Statement II.1.)

	1998	1998	1997
	TDM	TDM	TDM
a. Income from long-term equity investments		742,418	547,470
including from affiliated enterprises:			
TDM 546,930 (1997: 348,531)			
b. Income from other investments			
including from affiliated enterprises:			
TDM 752,528 (1997: 739,176)			
aa. Income from real estate	117,439		124,974
bb. Income from other investments	1,649,633		1,399,299
		1,767,072	1,524,273
c. Income from revaluations		–	1,259
d. Realized investment gains		1,163,574	783,665
e. Income from profit pooling and profit transfer agreements		665,862	577,135
f. Income from the release of special untaxed reserve		–	5,686
Total		4,338,926	3,439,488

16 Investment expenses (Income Statement II.2.)

	1998	1997
	TDM	TDM
a. Investment management, interest charges and other investment expenses	884,110	412,495
b. Depreciation and write-downs on investments	142,770	420,790
c. Realized investment losses	224,873	7,239
d. Allocation to special untaxed reserve	124,108	32,665
Total	1,375,861	873,189

17 Depreciation and write-downs on investments

Write-downs under this heading include an extraordinary charge of TDM 100,069 in accordance with the German Commercial Code (§ 253 (2), sentence 3, HGB).

Real estate has been written down by TDM 4,547 in accordance with German income tax law (§ 6b EStG).

18 Other income (Income Statement II.4.)

The most important items under this heading are TDM 528,492 refunded by domestic Group companies in respect of pension costs for their employees accrued in the financial statements of Allianz AG, and foreign currency gains of TDM 58,847.

19 Other expenses (Income Statement II.5.)

This heading comprises mainly pension costs for the employees of domestic Group companies (TDM 528,492), interest and similar expenses (TDM 253,644), amounts added to non-underwriting reserves (TDM 29,585) and foreign currency losses (TDM 15,969).

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

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

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

21 Net income (Income Statement II.10.)

	1998	1997
	TDM	TDM
Net income	1,364,411	1,175,496
Transfer to appropriated retained earnings:		
Other appropriated retained earnings	682,200	587,000
Unappropriated retained earnings	682,211	588,496

Contingent liabilities and other financial commitments

At December 31, 1998, the Company had contingent liabilities under guarantees amounting to TDM 14,788, matched by rights of recourse for the same amount.

Guarantee declarations have been given for the bonds issued in 1996 for DM 1.5 billion, and in 1997 for DM 1.5 billion, by Allianz International Finance N.V., Amsterdam; for the debenture bonds for DM 2 billion and FF 4 billion nominal issued in 1998 by Allianz Finance B.V., Amsterdam; and for the bonds for DM 2 billion issued by the same company in 1998 exchangeable into shares of Deutsche Bank AG. A guarantee declaration has also been given for a deferred annuity agreement signed by Allianz-RAS Seguros y Reaseguros S.A., Madrid.

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

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

In December 1997 Allianz AG made 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. Potential liabilities amounting to TDM 695,192 were outstanding at the balance sheet date for calls on equity stocks not fully paid up. Contractual payment commitments totaling TDM 119,502 had been given in connection with investment projects already started. The other financial commitments outlined above include TDM 694,400 towards affiliated enterprises.

Effects of adjustments for tax purposes

After taking into account special tax-allowable depreciation charges, amounts transferred to special untaxed reserves under § 6b EStG, and the retention of write-downs which could have been reversed, the overall effect on net income for the year was no more than marginal.

The future effects on earnings of valuation adjustments made for tax purposes will be spread over

several years and will not be material for any one year.

Amounts totaling TDM 1,039 have not been written back, for tax reasons, in fiscal 1998.

Personnel expenses

Allianz AG has no employees.

Provided that the Annual Meeting of shareholders approves payment of the dividend proposed, the total emoluments of members of the Board of Management will amount to TDM 7,782 (1997: TDM 5,691), those of former members of the Board and their beneficiaries TDM 5,356 (1997: TDM 5,235).

Pension costs for the year amounted to TDM 6,767 (1997: TDM 6,190). The amount set aside for current and future pension benefits of former members of the Board of Management and their beneficiaries is TDM 36,463 (1997: TDM 34,165). 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 General Meeting, the total remuneration of the Supervisory Board will be TDM 2,052 (1997: TDM 1,166).

The names of all members of the Supervisory Board and of the Board of Management are listed on pages 6 and 7, and information regarding their membership of other supervisory and comparable management bodies is shown on pages 36 and 38.

Munich, April 13, 1999

Allianz Aktiengesellschaft

The Board of Management

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

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

Munich, April 30, 1999

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Gerd Geib
Independent auditor

Dr. Frank Ellenbürger
Independent auditor

MEMBERSHIPS OF SUPERVISORY BOARD MEMBERS IN OTHER CORPORATE MANAGEMENT BODIES

(As of December 31, 1998)

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

Dr. Klaus Liesen

- a) Deutsche Bank AG
Mannesmann AG
Preussag AG
Ruhrgas AG (Chairman)
Veba AG
Volkswagen AG (Chairman)
- b) Beck GmbH & Co KG

Karl Miller

Dr. Wolfgang Röllner

- a) Bayerische Motorenwerke AG
Heidelberger Zement AG (Chairman)
Münchener Rückversicherungs-Gesellschaft AG (Deputy Chairman)
- b) Henkel KGaA

Dr. Alfons Titzrath

- a) Dresdner Bank AG (Chairman)
IVG Holding AG
RWE AG
VAW Aluminium AG

Dr. Karl-Hermann Baumann

- a) Deutsche Bank AG
Linde AG
Metallgesellschaft AG
Schering AG
Siemens AG (Chairman)
Thyssen Krupp AG
since March 17, 1999

Professor Dr. Dr. h.c. Marcus Bierich

- a) BASF AG
until May 19, 1998
Robert Bosch GmbH (Chairman)
Deutsche Bank AG
until May 20, 1998
VEBA AG
until May 14, 1998
J.M. Voith AG (Chairman)
- b) Robert Bosch AG
Robert Bosch Corp.
Robert Bosch
Internationale Beteiligungen AG (Chairman)
Scintilla AG (Deputy Chairman)
Verlagsgruppe
Georg von Holtzbrinck GmbH (Chairman)

Norbert Blix

- a) Allianz Versorgungskasse VVaG

Dr. Horst Burgard

Klaus Carlin

- a) Dresdner Bank AG
BHW Holding AG

Bertrand Collomb

- b) Crédit Commercial de France (CCF)
Membership in Group bodies:
Elf Aquitaine
Lafarge (Chairman)
Lafarge Corp. (Chairman)

Renate Daniel-Hauser

- a) Allianz Versicherungs-AG

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

- a) Esso AG
Krone AG

Jürgen Dormann

- b) ABB Asea Brown Boveri AG
IBM Corp.

Dr. Christoph Forster

Dr.-Ing. E.h. Hermann Franz

- a) Deutsche Bahn AG
Thyssen AG
- b) TÜV Süddeutschland e.V. (Chairman)
Zeiss-Stiftung

Dr. Friedhelm Gieske

- a) Karstadt AG
MAN AG
National-Bank AG (Deputy Chairman)
RWE AG
Thyssen AG

Professor Dr. Rudolf Hickel

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

Reiner Lembke

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

Frank Ley

Alfred Mackert

- a) Vereinte Krankenversicherung AG
(Deputy Chairman)

Ulrike Mascher

- a) Allianz Versicherungs-AG
until May 13, 1998

Dr. Sylvia Maser**Dr. Wolfgang Müller****Bernd Pischetsrieder**

- a) Dresdner Bank AG
METRO AG
VIAG AG

Reinhold Pohl**Lienhardt Reich**

- a) Allianz Versorgungskasse VVaG

Gerhard Renner

- a) Deutsche Bank AG

Edzard Reuter

- a) Airbus Industrie
until March 31, 1998
Bankgesellschaft Berlin AG
Karlsruher Lebensversicherung AG
until July 3, 1998
VIAG AG
until July 14, 1998
- b) L'Air Liquide S.A.

Roswitha Schiemann**Dr. Albrecht Schmidt**

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

Dr. Manfred Schneider

- a) DaimlerChrysler AG
METRO AG
RWE AG

Dr. Hermann Scholl

- a) BASF AG
Deutsche Bank AG
Thyssen AG
until March 16, 1999
- b) Membership in Group bodies:
Robert Bosch Corp.
Robert Bosch
Internationale Beteiligungen AG

Jürgen E. Schrempp

- a) Bayerische Hypo- und
Vereinsbank AG
Membership in Group bodies:
DaimlerChrysler Aerospace
(DASA) AG
(Chairman)
DaimlerChrysler Luft- und Raum-
fahrt Holding AG (Chairman)
DaimlerChrysler Services
(debis) AG
(Chairman)
- b) SASOL Ltd.
Membership in Group bodies:
Freightliner Corp.
Mercedes-Benz of South Africa
(Pty) Ltd.

MEMBERSHIPS OF BOARD OF MANAGEMENT MEMBERS IN OTHER CORPORATE MANAGEMENT BODIES

(As of December 31, 1998)

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

Dr. Henning Schulte-Noelle

- a) BASF AG
 - Dresdner Bank AG
 - Linde AG (Deputy Chairman)
 - MAN AG (Deputy Chairman)
 - Mannesmann AG
 - Münchener Rückversicherungs-Gesellschaft AG (Deputy Chairman)
 - Siemens AG
 - Thyssen AG (Deputy Chairman) until March 16, 1999
 - Thyssen Krupp AG since March 17, 1999
 - VEBA AG
 - Membership in Group bodies:
 - Allianz Lebensversicherungs-AG (Chairman)
 - Allianz Versicherungs-AG (Chairman)
- b) Membership in Group bodies:
 - Assurances Générales de France (Deputy Chairman)
 - Elvia Versicherungen (Vice President)
 - Fireman's Fund
 - Riunione Adriatica di Sicurtà S.p.A. (Vice President)

Dr. Diethart Breipohl

- a) Beiersdorf AG
 - Continental AG
 - Karstadt AG
 - Metallgesellschaft AG
 - RWE AG
- b) Membership in Group bodies:
 - Assurances Générales de France

Detlev Bremkamp

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

Dr. Reiner Hagemann

- a) Lahmeyer AG
 - Schering AG
 - Steag AG
 - TELA Versicherung AG (Deputy Chairman)
 - Thyssen Krupp Stahl AG
 - VIAG AG
 - Membership in Group bodies:
 - Allianz Bauspar AG (Chairman)
 - Allianz Globus Marine Versicherungs-AG (Chairman) until April 23, 1999
 - Bayerische Versicherungsbank AG (Chairman)
 - Frankfurter Versicherungs-AG (Chairman)
 - Hermes Kreditversicherungs-AG (Chairman)
 - Vereinte Holding AG (Chairman)
 - Vereinte Versicherung AG (Chairman)
- b) Membership in Group bodies:
 - EULER

Herbert Hansmeyer

Dresdner Bank Lateinamerika AG
 ERGO Versicherungsgruppe AG
 (Deputy Chairman)
 IKB Deutsche Industriebank AG
 Karlsruher Lebensversicherung AG
 (Deputy Chairman)
 Karlsruher Versicherung AG
 (Deputy Chairman)
 VEBA OEL AG

b) Membership in Group bodies:

Allianz Insurance Co.
 Allianz Insurance Co. of Canada
 Allianz Life Insurance Co.
 of North America
 American Automobile Ins. Co.
 Associated Indemnity Corp.
 Fireman's Fund Indemnity Corp.
 Fireman's Fund Insurance Co.
 Fireman's Fund Insurance Co.
 of Georgia
 Fireman's Fund Insurance Co.
 of Louisiana
 Fireman's Fund Insurance Co.
 of Missouri
 Fireman's Fund Insurance Co.
 of Nebraska
 Fireman's Fund Insurance Co.
 of Ohio
 Fireman's Fund Insurance Co.
 of Texas
 Fireman's Fund Insurance Co.
 of Wisconsin
 National Surety Corp.
 The American Insurance Co.
 Vintage Insurance Co.

Dr. Gerhard Rupprecht

a) Deutsche Hypothekenbank
 Frankfurt-Hamburg AG
 Heidelberger Druckmaschinen AG
 Thyssen Handelsunion AG
 Wüstenrot Lebensversicherungs-AG
 (Deputy Chairman)

Membership in Group bodies:

Vereinte Holding AG
 Vereinte Krankenversicherung AG
 (Chairman)
 Vereinte Lebensversicherung AG
 (Chairman)

b) Membership in Group bodies:

Allianz Elementar
 Lebensversicherungs-AG
 (Chairman)
 Allianz Elementar Versicherungs-AG
 Allianz Life Insurance Company
 of North America

Michael Diekmann

b) MBA Berhard

Navakij Insurance PCL
 Membership in Group bodies:
 MMI Insurance Group

Dr. Helmut Perlet

a) Membership in Group bodies:

Vereinte Versicherung AG

b) Membership in Group bodies:

Lloyd Adriatico S.p.A.
 MMI Insurance Group

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