

Allianz 1995



Allianz Aktiengesellschaft Holding Annual Report 1995

Mexico's Growth Market

The Allianz Group has been present in Mexico since 1984. Traditionally strong business in industrial insurance is being complemented by business in the personal insurance sector, which is expanding through a joint sales arrangement with a local bank with branches throughout the country. A special section of this report is devoted to Mexico's growing insurance market.

The Group

The Allianz Group increased its consolidated pre-tax profit by 34.4 percent in 1995 to DM 3.04 billion. Earnings per share rose by 54.1 percent to DM 87.20. The Swiss ELVIA group and Lloyd Adriatico of Italy have been consolidated for the first time. Premiums written were up by 6.8 percent to DM 70.5 billion in total.

Allianz AG Holding

Allianz AG Holding, the Group's parent company, boosted net income from DM 467.5 million to DM 680.5 million. An increased dividend of DM 16 per share (1994: DM 15) is proposed for fiscal 1995.

■ At a Glance

Allianz Group		1995	1994	1993*	More on page
Gross premiums written	DM bn	70.5	66.1	65.5	25
Change over previous year	(%)	6.8	0.8	19.8	
Benefits paid to clients	DM bn	62.3	54.7	58.0	16
Change over previous year	(%)	13.9	-5.7	25.5	
Pre-tax profit	DM mn	3,043	2,264	2,017	26
Change over previous year	(%)	34.4	12.2	24.5	
Taxation	DM mn	1,022	929	560	
Net income	DM mn	2,021	1,336	1,457	26
Investments under management	DM bn	282.0	247.8	230.4	37
Change over previous year	(%)	13.8	7.6	15.0	
Stockholders' equity	DM bn	18.5	17.5	16.4	
Insurance reserves	DM bn	243.0	211.9	197.9	
Employees	thousand	69	66	69	22
Change over previous year	(%)	4.2	-3.5	-6.1	
Allianz Aktiengesellschaft					
Gross premiums written	DM bn	9.9	9.7	9.5	82
Stockholders' equity	DM bn	13.2	10.9	9.8	
Net income	DM mn	681	468	648	86
Allianz Share					
Consolidated earnings per share					
according to the DVFA/GDV** method	DM	87.20	56.60	39.30	26
Dividend per share	DM	16.00	15.00	15.00	41
				+ 35.00***	
Dividend payout	DM mn	362	312	292.5	41
				+ 682.5***	
Price of Allianz share at year-end	DM	2,816	2,459	2,898	cover
Market value of Allianz at year-end	DM bn	63.7	51.1	56.5	cover

*Under previous accounting regulations

**German Association of Financial Analysts/German Insurance Association

***Special distribution out of EK56 retained profits

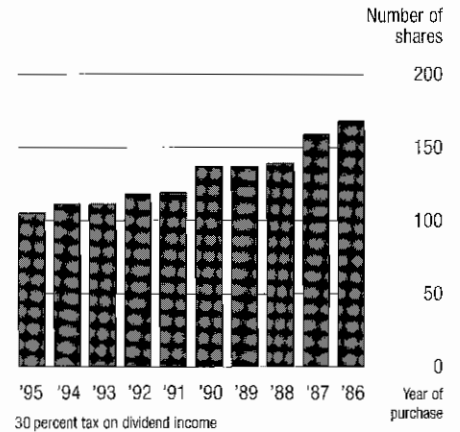
Allianz Shares

The Allianz share price touched an all-time high of DM 2,918 in January 1996. Although Allianz shares handsomely outperformed the FAZ index in 1995 with a rise of 19.2 percent compared with 4.4 percent by the index, they have lagged well behind the market over the first six months of 1996. Nonetheless, a comparison over the longer term shows how well Allianz has performed overall. From the beginning of 1986 until halfway through 1996, for example, the FAZ index put on 38.7 percent while Allianz shares rose by 96.6 percent.

Allianz was still at the top of the list of Germany's DAX blue chips halfway through 1996, with a market capitalization of DM 60.7 billion.

Another component in an investment's performance is the dividend yield. In Allianz' case the dividend payout policy has always been closely linked to the policy for rights issues. For example: an investor who acquired an Allianz share at the quoted price of DM 2,075 at the beginning of 1986 received a dividend of DM 18.75 (including the corporate income tax credit), representing a current yield of 0.9 percent. The divi-

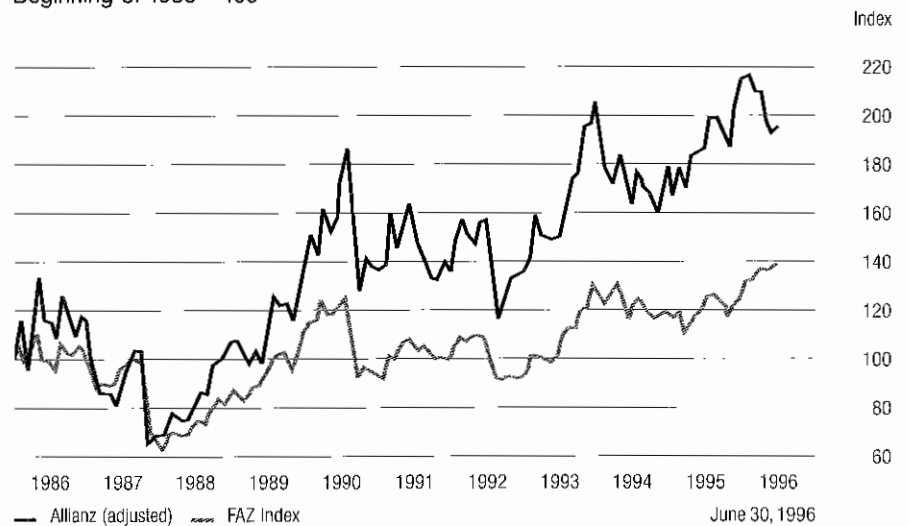
Development of a portfolio of 100 Allianz shares by years of purchase



dent now is DM 22.86 per share, an increase of 21.9 percent. As a result of rights issues on favorable terms and option warrants being exercised, however, the total payout has gone up by 129 percent over the same period, from DM 225 million to DM 517 million. For investors adopting the opération blanche approach to rights issues this is equivalent to an increase in the current payout to DM 34.82 and in the dividend yield to 1.7 percent.

Allianz share price performance versus FAZ Index

Beginning of 1986 = 100



The overall performance for an investor who acquired Allianz shares at the beginning of 1986 – comprising movements in the share price and dividend payouts – has been as follows. The purchase cost of 100 shares, before expenses, was DM 207,500. By reinvesting the net dividend earnings (taxed at 30 percent) and the proceeds from the sale of subscription rights, the total shareholding would have increased to 166 shares by the middle of 1996 without any additional funds having been committed. At the current quoted price of DM 2,646 per share the investment would now be worth DM 439,236. This represents, over a period of more than 10 years, an average annual return of approximately 7.4 percent after tax. The DAX index, by comparison, would have yielded 6.2 percent p.a. over the same period.

Allianz shares are officially listed on all the German stock exchanges as well as on the London Stock Exchange and in Zurich, Geneva and Basel. Allianz shares are also traded on the IBIS electronic trading system and the Deutsche Terminbörse (the German futures and options exchange) and are among the most important DAX shares. Allianz shares are one of the most heavily traded stocks on the German stock exchanges. The total market value of Allianz shares traded in 1995 was DM 72 billion, equal to 4.4 percent of the total market turnover of German shares.

Allianz issued warrant options for the first time in 1989 for a total of 660,000 shares. The option period for these warrants expired at the end of March 1996. Nearly all the options have been exercised, creating new equity capital for Allianz of almost DM 810 million.

Allianz AG's capital is held by some 48,000 shareholders, about 10 percent of whom are resident abroad. Münchener Rückversicherungs-AG (Munich Re) is traditionally the largest shareholder with just over 25 percent of the capital.

Information on further financial instruments issued by Allianz:

Participating certificates:

Current redemption value
as of 12/31/2001: DM 155.57
Distribution for 1995: DM 3.84

Warrant 1993/1998:

Current exercise price:
DM 2,015.00

10 warrants are required to subscribe for one share at DM 2,015.

Option deadline: 2/23/1998.

The option period is automatically extended by one year at a time subject to a maximum of two years in all, if the warrant exercise price is higher than the quoted price of the shares.

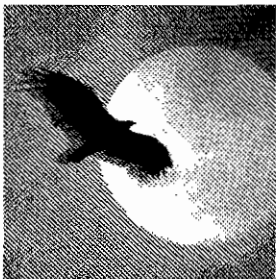
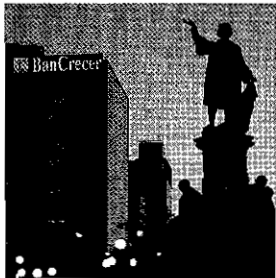
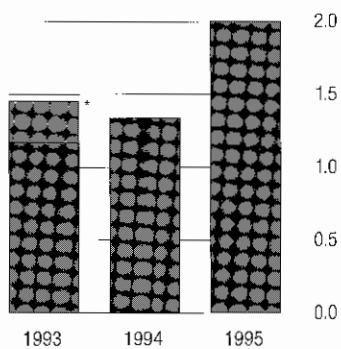
6.5 percent bond for DM 950 million nominal with equity warrants attached issued by Allianz Finance B.V., convertible on 4/15/1998, guaranteed by Allianz AG.

6 percent bond for DM 1,500 million nominal issued by Allianz International Finance N.V., convertible on 5/14/2003, guaranteed by Allianz AG.

■ Contents

Allianz Group

Net income (in DM billions)



* Nonrecurrent tax proceeds of DM 253 million out of EK56 special distribution.

Allianz Group

Net profit increased substantially in 1995. The qualitative improvement of the underwriting result contributed decisively to this increase and was a result of a relaxed claims situation, continued cost management and cautious underwriting.

Allianz Worldwide

The Mexican insurance market will offer excellent growth opportunities in the future. Allianz México, in cooperation with BanCreceer, is well positioned to take part in this dynamic development.

Allianz Aktiengesellschaft

Allianz AG was unaffected by major claims caused by natural catastrophes in its 1995 business year. Net profit rose by DM 213 million, or 45.6 percent, to DM 680.5 million.

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Supervisory Board

DR. WOLFGANG SCHIEREN

Chairman,
† February 24, 1996

DR. KLAUS LIESEN

Chairman of the Supervisory Board
Ruhrgas AG,
Chairman
since February 26, 1996

FRANK LEY

Salaried employee,
Allianz Lebensversicherungs-AG,
Deputy Chairman

DR. WOLFGANG RÖLLER

Chairman of the Supervisory Board
Dresdner Bank AG,
Deputy Chairman

DR. DR. H. C. MARCUS BIERICH

Chairman of the Supervisory Board
Robert Bosch GmbH

DR. HORST BURGARD

Member of the Supervisory Board
Deutsche Bank AG

KLAUS CARLIN

Member of the Central Executive
Committee
Commerce, Bank and Insurance
Workers Union (HBV),
since July 7, 1995

RENATE DANIEL-HAUSER

Salaried employee,
Deutsche Versicherungs-AG

DR.-ING. E. H. WERNER H. DIETER

Former Chairman of the
Board of Management
Mannesmann AG

DR. CHRISTOPH FORSTER

Head of department,
Allianz Versicherungs-AG

DR.-ING. E. H. HERMANN FRANZ

Chairman of the Supervisory Board
Siemens AG

DR. FRIEDHELM GIESKE

Former Chairman of the
Board of Management
RWE AG

ULRIKE MASCHER

Member of the Bundestag,
Commerce, Bank and Insurance
Workers Union (HBV)

KARL MILLER

Salaried employee,
Frankfurter Versicherungs-AG

DR. WOLFGANG MÜLLER

Former Member of the
Board of Management
Allianz Aktiengesellschaft,
since February 24, 1996

REINHOLD POHL

Custodian
Allianz Lebensversicherungs-AG

MANFRED RASP

Salaried employee,
Allianz Versicherungs-AG

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

DR. ALBRECHT SCHMIDT

Speaker of the Board of Management
Bayerische Vereinsbank AG

LORENZ SCHWEGLER

Lawyer,
Commerce, Bank and Insurance
Workers Union (HBV),
until June 30, 1995

DR. KLAUS-RÜDIGER STROEBEL

Salaried employee,
Allianz Versicherungs-AG

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 at our meetings and by means of regular oral and written reports from the Board of Management about the ongoing business situation.

We have devoted particular attention to the performance and development of the Allianz Group, Allianz AG, and our main subsidiaries in Germany and abroad. Specific matters of importance discussed have included the positioning of Allianz as a global industrial insurer, the integration of the ELVIA group acquired at the beginning of January 1995 and of Lloyd Adriatico, and strategic planning for the Asian countries. We have also had detailed discussions about the reorganization of working procedures in the Property and Casualty Insurance Group in Germany and about the new premium rates for third party liability automobile insurance introduced in Germany from the beginning of 1996. And we have kept ourselves informed about the progress of projects supported by the Allianz Foundation for the Protection of the Environment which was established in 1990.

We have examined the financial statements, the management report and the recommendation for the appropriation of profit. We concur with the conclusions of the Company's independent auditors, KPMG Deutsche Treuhand-Gesellschaft AG, Wirtschaftsprüfungsgesellschaft, Munich, who have given an unqualified opinion on the 1995 financial statements and management report. At the meeting of the Supervisory Board held on July 26, 1996, the financial statements presented by the Board of Management were approved and confirmed.

The consolidated financial statements and management report of the Group were also submitted to us for review.

Dr. Wolfgang Schieren, Chairman of the Board of Management from 1971 to 1991 and Chairman of the Company's Supervisory Board since 1991, died on February 24, 1996. At the meeting of the Supervisory Board held on February 26, 1996, we paid our respects to Dr. Schieren for his outstanding service to Allianz. At the same meeting on February 26, 1996, we elected Dr. Klaus Liesen to succeed Dr. Schieren as Chairman of the Supervisory Board. Dr. Wolfgang Müller joined the Board on February 24, 1996.

Munich, July 26, 1996

For the Supervisory Board



Report of the Supervisory Board

Dr. Wolfgang Schieren †

Dr. Wolfgang Schieren died on February 24, 1996 at the age of 68. His passing was a great loss to Allianz, where Dr. Schieren was Chairman of the Supervisory Board and formerly long-time Chairman of the Board of Management, and to the German economic and business world as a whole, where he ranked among the most respected leaders.

For more than 40 years Dr. Schieren served Allianz with his extraordinary business capabilities. The period of his tenure as Chairman of the Board of Management from 1971 to 1991 is remembered as one of enormous growth and consistently high profitability for our Company.

It is to his far-sightedness and persistence that Allianz owes its development from Germany's leading insurance company to an internationally active Group. Today, Allianz is among the world's leaders in the insurance sector. The success of this expansion and internationalization was among the high points in Dr. Schieren's professional life and has had a decisive impact on Allianz in recent decades.

Dr. Schieren was well aware that continued success in achieving ambitious business goals would depend on the active involvement of motivated employees. He was always an understanding partner for discussion about their concerns. Together with his business successes, this has secured for him a special place in the memory of everyone in this Company.

Government and society alike recognized his business accomplishments and his social and cultural involvement with the highest honors. He was the recipient of the Federal Republic's Order of Merit award and of the Bavarian Order of Merit. He was also made an officer of the Légion d'Honneur.

We mourn the passing of Dr. Wolfgang Schieren, whom we shall always remember. We also extend our deepest sympathies to his family.

DR. HENNING SCHULTE-NOELLE
Chairman

DR. DIETHART BREIPOHL

DETLEV BREMKAMP

DR. ROBERTO GAVAZZI

DR. REINER HAGEMANN
Personnel Director

Board of Management

HERBERT HANSMEYER

DR. GERHARD RUPPRECHT

Dear Shareholders

Allianz improved its profitability quite substantially in 1995. With an increase of DM 779 million to DM 3 billion the pre-tax profit was again up by a third on the previous year. This good performance brought about a further improvement in earnings per share which, calculated by the method recommended by the DVFA/GDV, rose by 54.1 percent from DM 56.60 to DM 87.20.

The Company benefited from a lower incidence of claims compared with previous years. Earnings also reaped the benefits of improvements to rate and risk structures, loss prevention measures, a more flexible organization, and accelerated operating procedures. We are therefore well on the way towards achieving our goal of continuous improvement in the structure and quality of earnings and consequently in the value of the Group and its business.

The success of these measures is reflected particularly in the improvement in the quality of underwriting earnings. This side of our business is vitally important in our industry and since 1991, by restructuring and refocusing operations and by careful management of costs, Allianz has succeeded in substantially reducing the losses on this account year by year by a total of almost DM 1.9 billion.

Under the old accounting regulations we achieved our target of reporting an underwriting profit in the year under review, with a surplus of DM 85 million. The fact that this welcome improvement is not immediately evident from the financial statements is explained by the new accounting regulations and does not diminish its importance for shareholders and the Company alike.

We continue to pursue the primary goals of our business strategy and see potential for further profitable growth particularly in the following areas:

► Life and health insurance offers exceptional business opportunities all over the world. National social security systems are being stretched to their limits in many places, mainly as a result of demographic trends. The developing countries are tending to move away from social security systems financed by national insurance contributions. This all creates increased demand for insurance cover from the private sector.

► We intend to play a leading role as an insurance carrier in the emerging economies of Eastern Europe and in the Asia-Pacific region. We are already firmly established in various countries such as Hungary, the Czech Republic and Russia, as well as in Japan, Singapore, Indonesia and Hong Kong. In addition to industrial risks insurance, where we have already achieved a strong position in these regions, we will also be developing selected personal lines business. In countries with great potential but high entry barriers – such as China, India or Vietnam – we are persevering with our efforts to gain access to the market.

► We are working hard on the creation of a global network for sharing expertise across the Group from which we expect to gain significant competitive advantages. This, too, will help to generate further profitable growth.

In pursuing these opportunities we will continue along the well-proven path, aiming not at short-term maximization of profit but at long-term and sustained improvements in earnings.

In this way, the decision in July 1996 to bring the Vereinte Group and Hermes Kreditversicherungs-AG into the Allianz Group, pending approval from anti-trust authorities, will substantially increase Allianz' earning power.

However, anti-trust regulations made it necessary to sell our majority stake in DKV Deutsche Krankenversicherung AG as part of this arrange-

ment. The acquisition of the Vereinte Group and of a majority stake in Hermes, one of Europe's leading credit insurers, will enable Allianz to strengthen its market position in Germany and to make a strategic entry into credit insurance, an important business area in Germany and international markets.

The strategy of decentralized management responsibility has also proved its worth in achieving our goals. This means that our group companies have responsibility for their own operating activities while the holding company is responsible only for central coordination and supervision.

The most productive way of fulfilling these functions effectively, in our view, is in structured dialogue between senior management of group companies and the Board of Management of Allianz AG. This dialogue takes place in three stages. Soon after the beginning of the year the Board reviews the strategic options for the longer-term performance of the Group and sets targets for the next budget period. Over the next few months these performance options are discussed with the people responsible for them at the group companies, and firm targets are agreed. In the autumn, budget meetings are held to ensure that the operative plans of individual companies conform with group targets.

The main purpose of this procedure is to focus attention on earnings-generative growth and enhance the financial resources of the Group. Return on equity has been introduced throughout the Group as a tangible, easy-to-define control parameter. It is calculated on the basis of detailed management accounts which also identify the amount by which the value of the business has increased. In 1995, on the basis of the published accounts, after-tax earnings as a proportion of average stockholders' equity went up from 7.9 percent to 11.2 percent.

In tandem with these improvements to our internal controlling and reporting system we are working to

make our published information more user-friendly and up-to-date. One such measure is the publication – started last year – of a quarterly report on significant events and developments within the Group. The Annual Meeting of shareholders is also to be brought forward by three months from 1997 onwards. In conjunction with that, the consolidated financial statements are to be drawn up in accordance with International Accounting Standards – provided German legislation recognizes such statements as fulfilling all requirements, thus making unnecessary separate Group statements under German regulations. We will push for suitable accounting standards to be drafted and approved specifically for insurance groups.

We are working to secure the long-term success of the business in order to generate an attractive return – by international standards as well – on your capital invested. But you, as shareholders, are not the only ones to benefit from a sustained increase in the value of the business; this applies to all those who are committed to the success of Allianz – our customers, our staff, and society. A continued increase in customer satisfaction with our services will determine the extent and quality of our profitable growth in the future. We are confident that our highly motivated and fully qualified workforce will deliver. You, our shareholders, can continue to count on these traditional strengths of Allianz as an international service provider.

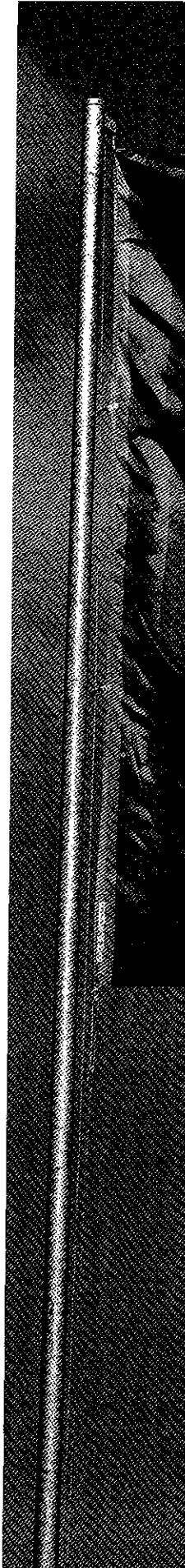


Yours sincerely

Henning Schulte-Noelle

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

Allianz 1995





■ Further improvement in earnings

Allianz increased its earning power further in the 1995 financial year, again improving its pre-tax result by 34.4 percent to DM 3 billion. This success was due not only to a comparatively favorable claims experience but also to measures introduced cumulatively over a space of years to reduce costs and boost efficiency, a selective underwriting policy and the adoption of risk-oriented insurance premiums. Unprofitable business sectors were abandoned. New companies acquired account largely for the growth in sales of 6.8 percent.

During the year under review, Allianz further expanded its position in centers of future growth, such as the emerging markets of Asia and Eastern Europe. Concentration on competitive fields of activity in the developed markets has proved its worth and provides a solid basis for profitable growth in the coming years.

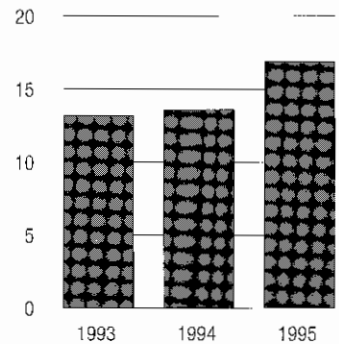
A difficult economic background

Low inflation rates in the leading OECD countries and disappointingly slow economic growth following the 1993 recession, with continuing high unemployment, left their mark in 1995. These factors frustrated any improvement in insurance company sales. The reduced need to adjust premiums also contributed to this, which was similarly attributable to the low inflation rate but was above all the result of a slight improvement in the loss situation in many countries.

These developments limited growth in the Allianz Group. Gross premium income rose to DM 70.6 billion (1994: 66.1 billion) in 1995. This included DM 5.4 billion from the first-time consolidation of the ELVIA group (Switzerland), Italy's Lloyd Adriatico, NVS Salland in the Netherlands and Allianz México. Leaving aside these newly added companies and on the basis of constant exchange rates, internal growth amounted to 1.1 percent. The influence of

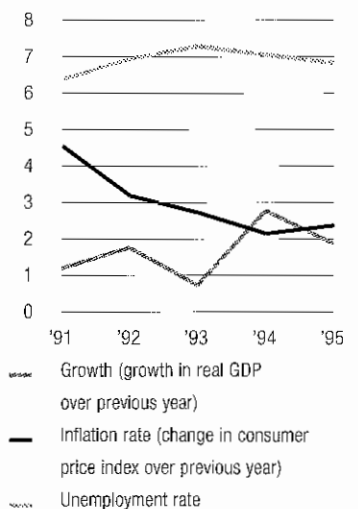
Allianz Group

Equity ratio before taxes (%)



G-7 Countries

Growth, Inflation and Unemployment (%)



Newly consolidated companies of the Allianz Group

	Premium income 1995 in DM millions	Business focus
DELVIA	3,289	All areas of property and life insurance in Switzerland; Travel insurance and aid throughout Europe
Lloyd Adriatico	2,011	Automobile insurance Regional focus: northeast Italy
NVS SALLAND <small>VERZEKERINGEN</small>	247	Health insurance
Allianz <small>Allianz México, S.A. Compañía de Seguros</small>	53	Industrial insurance

enabled Deutsche Versicherungs-AG to show a profit, as forecast in 1995. It transacts property and casualty business in eastern Germany and was created from the former East Germany's state insurance system. The company's successful rationalization has secured over 10,000 jobs for office and field staff for the foreseeable future. In addition to successfully conducting business, Allianz is therefore also making a contribution to the economic development of the new eastern states.

The following examples of new products, optimization of distribution outlets, expense and claims management and positioning in profitable new fields of business illustrate the way in which revenues are being improved and growth strengthened. They are not simply limited to examples from the year under review, but also reflect progress achieved with a number of initiatives already introduced in previous Annual Reports.

exchange rates on result is slight amongst insurance companies compared with other industries. The reduction in Allianz' earnings attributable to exchange rates amounted to DM 95 million in 1995.

Earning power strengthened

Allianz succeeded in further increasing its earnings in the year under review. Improved profitability was due to numerous restructuring efforts within the Group and successful market initiatives. To mention only one outstanding event which affected earnings in the past year, these measures

- **Group companies**
- **Participations**
- **Cooperation agreements**
- Branch offices**
- Agencies**
- Representative offices**



■ Cost improvement through restructuring

Allianz made good progress in the year under review with simplifying and reducing various business processes, merging hitherto independent companies and streamlining distribution.

Efficiency boost for office and field employees

In *Switzerland*, the two ELVIA distribution organizations for life and non-life business previously operating separately were integrated. Apart from a few highly specialized agencies, all agents can now offer the entire product range. In addition, ELVIA agents who have worked in the past as employees of the Swiss group of companies are now working on a self-employed basis. This organizational form has proved highly efficient and effective at Allianz Switzerland, but also in Germany and in other markets.

Restructuring in recent years within Firemen's Fund in the *USA* has had a favorable effect. The former 17 offices (commercial insurance centers) were reduced to 8, focusing on regional markets. Organization has been streamlined; the workforce in this area was cut from 3,254 (end-1992) to 2,510 (end-1995). The expense ratio of the Commercial Division responsible for industrial business fell from 34.3 percent in 1991 to 31.2 percent in 1995. Productivity, in terms of premium income per employee, rose by 20 percent in 1995.

The nationwide introduction of "unidades comerciales" in *Spain*, namely small, flexible profit centers close to the customer, resulting from the splitting up of the former branch offices of Allianz-RAS – was completed in 1995. The "unidades comerciales" each consist of three or four persons with distribution and claims assessment tasks. The advantage of this more flexible form of organization is that these units require a minimum of administrative work – especially through highly efficient computerization. This allows them to give clients closer attention. It is the first

slimmed-down organizational structure of this kind in the Spanish insurance market.

Self-contained companies in many countries have been merged. For example, in *Italy*, Allianz Pace, Milan, and Unione Subalpina, Turin, were merged to form Allianz Subalpina, Turin, with distribution emphasis on Southern Tyrol and Piedmont. The individual companies lacked the critical mass to make headway against increasing competition. The cost advantages and efficiency improvements from joining administration with distribution will improve results only in coming years.

Streamlining organization of work

After the acquisition of the ELVIA Group in *Switzerland* in 1995, all efforts were devoted to consolidating and realigning its companies. Administrative activities previously scattered amongst the regional directorates were combined at the company's head office during the year.

Measures to improve efficiency have already produced their first fruits. Despite moderate premium growth



(+ 1.2 percent) the expense ratio, i.e. distribution and administrative expenses as a proportion of premium income, dropped from 31.8 percent to 29.7 percent.

Allianz's largest group company in *Italy*, RAS, continued with its policy of gaining further cost advantages over competitors through projects to simplify and speed up operating processes and to make them more flexible. As part of this series of projects, a start was made in the year under review with steps to automate low value-added activities more than



Increased computerization and streamlined work structures increase the customer service and efficiency of office and field staff. Shown here, one of Allianz-RAS' "Unidades Comerciales" teams.



In Italy, Allianz operates primarily through Riunione Adriatica di Sicurtà S.p.A. (RAS) in Milan, Lloyd Adriatico in Trieste and Allianz Subalpina, Turin.

before, so as to concentrate resources on true underwriting work, such as risk assessment and management. This ensures intensive, professional advice at low cost.

The optimization of operational processes has been consistently pursued in all three customer group areas – industry, commercial, private – in *Germany*. The first palpable successes were achieved in automobile claims processing. By building up claims reporting by telephone, the number of reported claims received within the first three days after an accident doubled from 17 percent to 38 percent in 1995. When the claim was reported immediately, Allianz was already able to contact 75 percent of the injured parties on the claim reporting date and so appreciably speed up settlement. Clients benefited also from speedier inspection by the claims field staff. While in 1994 assessment still took an average of six days, this took barely two days on average in 1995, from recording of the claim to an estimate for repair costs. In 80 percent of all cases, the vehicle was inspected within one day after arranging repairs.



■ Rationalization or abandonment of unprofitable areas of business

Allianz redoubled its efforts in 1995 to rationalize loss-making client connections through premium adjustments, agreeing larger deductibles or updated forms of self-insurance. Areas of business with no prospect of making an adequate contribution to results were abandoned.

Risk-oriented premiums

Successful rationalization was pursued, for example, in the automobile insurance of commercial fleets and industrial insurance in *Germany*. Deductibles of several million DM are no longer unheard of in contracts with large industrial customers. Successful rationalization negotiations and, where necessary, elimination of client accounts with extremely high loss ratios, improved results in a number of industrial branches in 1995, which was accompanied by a small drop in premium income.

In Latin America, too, the past year was characterized by the consolidation of Allianz-led units. Adriática de Seguros C.A. in *Venezuela* achieved extraordinary improvements in sales and result through restructuring and rationalization measures against the background of the country's heavy financial and economic crisis. Health insurance was discontinued in that country. In *Argentina*, a particularly difficult and loss-prone insurance market, Allianz achieved its goal of a balanced result. In doing so, it had to accept a drop in sales, by, amongst other things, withdrawing from unprofitable employee accident insurance.

Portfolio adjustments

Withdrawal from chronically low-earning or deficitary market segments also produced a drop in sales. Examples of portfolio adjustments include:

▼ in *Italy*, RAS decided in mid-1994 to give up writing oil and gas risks entirely. In 1995 alone, this step led to a fall in gross premiums of DM 300 million.

▼ Allianz Via in *France*, among other things, suspended writing new contractors business and accepted transportation risks only under stringent conditions.

▼ In the *USA* and *Great Britain*, group companies withdrew from marine hulls business. Gross premium in this sector consequently fell in the USA from \$31.6 million (1993) through \$21.5 million (1994) to \$18.0 million in 1995.



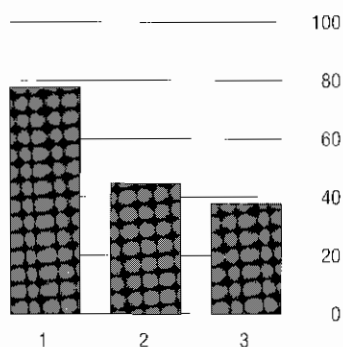
Significant increases in risks necessitate higher premiums in industrial insurance. In order to limit premium increases for customers, Allianz offers industrial clients increased deductibles.

■ Loss management and risk selection

Measures to reduce and prevent losses were again a priority for Allianz in 1995. The steady increase in concentrations of high values, high crime rates and rising natural catastrophe claim payments make these efforts particularly important.

What industrial customers expect from their insurance company

(companies with 50 or more employees)



1. 78 percent of all industrial customers desire consultation on risk management,
2. 45 percent wish damages and claims processing on a deductible basis,
3. 38 percent desire emergency aid through group insurance.

The risk assessment system

Risk potential in the industrial area is essentially determined by "soft" factors such as a company's security philosophy and how it organizes risk management – a fact often overlooked. To prevent losses attributable to these factors, the Allianz Center for Technology (ACT) has developed a Risk and Security Management, Control and Optimization System (RISIKO System) in cooperation with external experts. It consists of four elements, based on a comprehensive questionnaire written up in consultation with management responsible for security. Risk policy and the philosophy and management of security are assessed from the technical, commercial and legal aspects. The client is then advised on what he should do to improve his risk potential and receives support and advice on putting his decisions into practice. Following a pilot project with a major customer, the RISIKO system was made available in Germany beginning in 1996.



Natural catastrophe management

In the USA, Firemen's Fund (FFIC) has reduced its overall risk in particularly catastrophe-prone areas through computerized exposure inputs in industrial and private customer business. The procedure allows data relevant to a particular catastrophe risk to be merged for a district, a number of streets or city section, and possibly also for a larger area. Where a storm damage or large-scale fire risk exists, information concerning probable propagation paths is important, while for earthquake and locally limited fires the risk depends more on the peculiarities of the terrain or the nature of the building. Such prepared information can be translated to maps, so that FFIC has a good overview of the accumulated risk assumed in individual districts, city sections, streets or regions. The company can then impose quotas or limitations to keep its overall exposure in hazardous areas within acceptable bounds. By applying this method, earthquake claims payments in California – to mention only one example – fell from US\$ 112.7 million (1993) to US\$ 90.6 million in 1995, with a slight increase in premium income in personal lines.

In extreme cases, the accumulation limits may force the company to withdraw entirely from a segment of business. For example, FFIC stopped writing almost all private business in Hawaii on account of the storm damage risk. The potential maximum loss on own account in the event of a force three hurricane on the Hawaiian islands was thereby reduced from US\$ 197.9 million (1993) to US\$ 5.2 million in 1995.

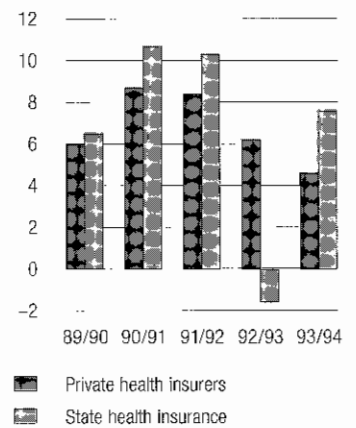
Expense limitation for health insurance

Despite the unabated rise in health service costs and the first claims paid under long-term nursing care insurance, DKV Deutsche Krankenversicherung AG succeeded in keeping the rise in benefits paid (+ 7.4 percent to DM 3.0 billion) beneath the rate of premium growth (+ 9.3 percent to DM 5.2 billion) in the year under review. All attempts by service-providers to recoup income lost as a result of the national health system's savings measures by presenting the privately insured with exaggerated fee bills were resisted in the interest of stable premiums.

DKV intends to offer financial incentives to service-providers in the health sector to provide treatment that is both sophisticated and economic. Models of this kind, which are also attracting greater attention through the present public discussion on "managed care", cannot as yet be introduced owing to the absence of a legal framework. Bearing in mind the government's stated intention to do more to limit extreme rises in health service costs, it is only logical that private health insurers should be able to try out these innovative models.



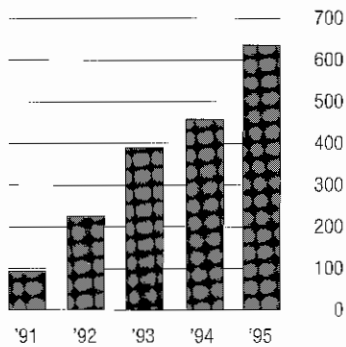
Benefits paid
by state and private insurers
in Germany
Growth in %



■ Expanding the market position with differentiated services

Allianz was well prepared with innovative insurance products for the rising demand in 1995 for differentiated insurance packages and rates, which more effectively reflect the individual risk, and was consequently able to strengthen its position in the market.

Development of the number of international insurance programs for Allianz' industrial customers worldwide



International industrial business

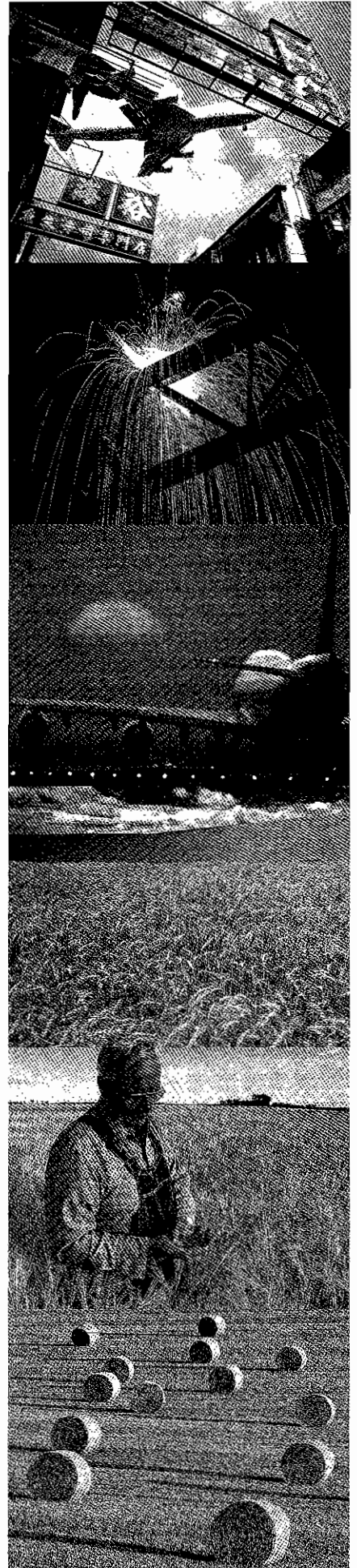
In the USA alone, Allianz Insurance Company (AIC) of Los Angeles achieved premium income in 1995 of US\$ 284 million with international insurance programs, now 67 percent of total sales. These programs are designed to provide all-round coverage and service from local Allianz companies for multinational companies in all countries where they are active. AIC increased the number of its participations in international insurance programs to 118 in 1995, after 105 the previous year. Altogether, Allianz participated in 636 international insurance programs in 1995, as leading company in 307 of them.

Allianz has made a name for itself in recent years as leading insurer of major engineering risks in *Asia*. The infrastructure projects insured by it include the airports now under construction for the 21st Century in Hong Kong and Kuala Lumpur and the new Bangkok city turnpike, and the second land bridge between Singapore and Malaysia. The Group through its own companies and with cooperating partners has helped guarantee investments of DM 20 billion in this region.

Targeting commercial clients

Firemen's Fund improved its position in the USA in 1995 in expanding sectors of business with a series of new or overhauled products. The most important growth carriers were the revised standing crops insurance and a professional liability insurance for insurance agents.

In the first year alone, the 17,000 policies written under standing crops insurance raised premium income of



US\$ 31 million with an underwriting profit of US\$ 2.6 million.

The operators' liability insurance for insurance agents, which in 1995 increased by 50 percent to US\$ 48.5 million gross premium income, gives protection to general and exclusive agents (including their staffs) and provides cover against financial loss as well as legal expenses cover. The increased growth is attributable to a program with a master policy whose sums insured are specially tailored to the agents of one of the United States' largest insurance companies.

The diverse product range for the Allianz companies' industrial customers in *Germany*, intended for such varied businesses as skilled crafts, commerce, agriculture, the restaurant and catering trade, the self-employed and service-providers, contributed decisively to the increase in sales in recent years. More than 35 percent of all firms and self-employed persons in Germany are covered by at least one Allianz policy.

Risk-oriented rates for private customers

Following deregulation of the European insurance market and the abandonment at the same time of the need to obtain official approval for insurance products and charges, Allianz has used the flexibility obtained in the past year to introduce individual rating features. These enhance the appropriateness of premiums for the client and – when carefully calculated – improve portfolio quality. Attractive prices attract good risks, while accident-prone clients necessarily increased premiums.

Group companies are developing these kinds of product elements in close cooperation. Since deregulation, they have been able to purposefully categorize their client listings and introduce risk-aligned rates and benefit from the know-how of affiliates, some of whom have decades of experience of individual rating and have long been successful in selling individually rated insurances, as for example in France and Spain. Allianz companies have since 1995 offered differentiated rates throughout

Europe in the key line of automobile insurance.

The parameters adopted by RAS in *Italy* are: bonus/demerit classes (no-claims classes), motor strength, method of propulsion (gas or diesel) and driver's age and occupation. In addition, a distinction has been made since February 1996 according to vehicle types and their average claims frequency.

In *Germany*, Allianz became the first insurer to introduce Allianz differentiated automobile insurance rates based on statistically proven, in-house calculations. Apart from existing rating characteristics such as no claims and regional class, premiums differ according to such features as vehicle age, frequency of use, use of garage and vehicle type. There is also a special rate for women as the sole driver. Good risks are rewarded with premium reductions of up to 40 percent.

A new, promising market sector in *Canada* is the insurance of senior citizens. A distribution company, Grey Power National Network, specially formed for this market segment in late 1993, offers automobile and homeowners' insurances on special terms to persons aged 55 and over. Gross premiums in this segment grew from CD\$ 6.1 million (1994) to CD\$ 17 million in 1995. Demographic changes in the Western industrialized nations are making this "grey market" increasingly important.

Allianz staffelt Auto-Haftpflicht nach Modell, Alter und Nutzer
Wenigerfahrer und Frauen profitieren mit der neuen Tarif
Elvia mit Drive
Neu: Strebel lanciert Elvia Drive, das neue Motorfahrzeugversicherungsprodukt

Tarif-Offensive der Allianz
Haftpflicht-Rabatt für schadensgünstige Autotypen und für Fahrer, die höchstens 9000 Kilometer im Jahr zurücklegen

Allianz-Gruppe offeriert Autofahrern Vorrang-Tarif
Ante la vendetta shiera en el sector y la competencia el riesgo por Pkw und neben den Gleichem

Allianz Ras mejora las coberturas en las pólizas de automóvil
Cornhill concedes rate cuts
By Adrian Ladbury

Allianz revolutioniert die Autoversicherung
Ab Januar Fahrzeugtyp, Alter des Autos und Fahrer für Prämienhöhe entscheidend - Vorrang für Frauen

Allianz action opens
By Herbert Fromme, Bonn Correspondent

Allianz und Elementar mit neuem Vorrang-Tarif
Mit ihrem neuen Vorrang-

Allianz ändert Auto-Versicherung
Typ, Alter und Fahrer entscheiden über Prämie
München (dpa) Die Allianz Versicherungs-AG

RAS

Polizza RCA senza alcun massimale: ora la Compagnia risarcisce tutto il danno
Presieduta da Angelo Marchio e appartenente al Gruppo Allianz, la Compagnia di assicurazione milanese Ras sta offrendo, da qualche settimana, polizze per la responsabilità civile auto prive di qualsiasi massimale per il risarcimento dei danni provocati dall'auto dell'assicurato. È la prima Compagnia italiana a proporre questa formula che garantisce all'automobilista la protezione l'...
mente fissato, per cui eventuali somme eccedenti tale misura restano a completo carico dell'assicurato. All'introduzione del massimale illimitato la Compagnia è giunta anche in considerazione degli ultimi orientamenti della Magistratura, che tende ad aumentare la misura dell'indennizzo da corrispondere al danneggiato. Questa formula comporta la conseguenza di una protezione l'...
so di dar

Allianz Group companies whose home markets have only recently been deregulated can offer reliable, risk-related premium rates in areas such as automobile insurance faster than the competition. This is because they benefit directly from the know-how of other Allianz Group companies with many years of experience in individualized rating.

■ Successful positioning in growth markets

Profitable growth is Allianz' objective. To secure this in the longer term, measures to cut costs, limit claims and separate out unprofitable fields of business are insufficient. The Group devoted itself with equal energy in 1995 to the corporate challenge of exhausting the growth potential of developed markets and successfully tapping into new ones.

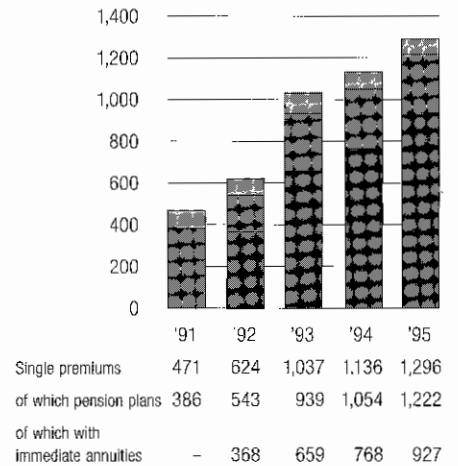
It strengthened its presence in countries with excellent growth forecasts and improved its position for further increases in sales and earnings worldwide by expanding its distribution capacities, especially through banks and customer-oriented services and products.

Expansion of products for individual provisioning

The importance of private provisioning for the future will increase further in the coming years. Government care systems are reaching their limits worldwide. In *Germany*, in particular, demographic trends and high unemployment have made it increasingly difficult to finance state-based pension plans. In addition to an adequate company pension scheme, it will therefore be even more important in the future to fill the provident gap in old age through private life and pension plans. Only then can the standard of living be secured for later in life. Not only current income but increasingly also private wealth is being used for this purpose, since the latter has risen continuously in Germany in recent years despite diminishing real incomes.

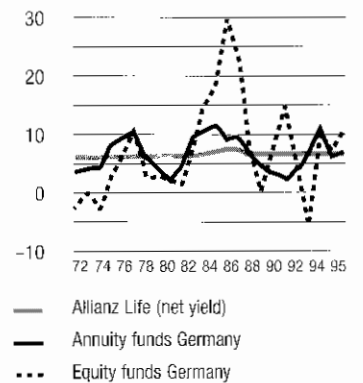
Just how strong the growth market for private pensions is in Germany, specifically in the area of the realignment of wealth, is clear from the increasing trend towards single-premium products. At Allianz Leben and Deutsche Lebensversicherungs-AG, which is active in eastern Germany, single premiums rose in 1995 by 14.1 percent to DM 1.3 bil-

Allianz Lebensversicherungs-AG Single premiums in own business in DM millions



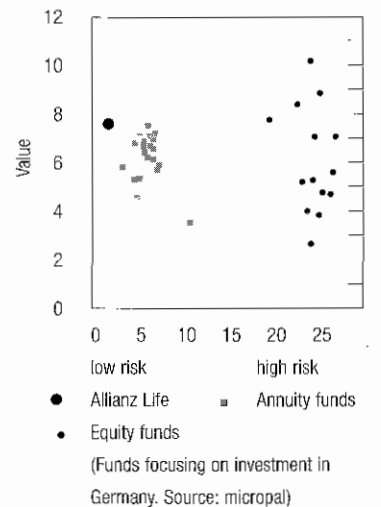
Portfolio value

in percent per year
(3-year average)

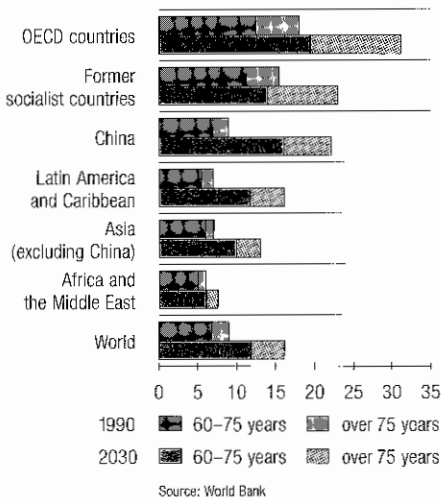


Portfolio value and risk

Average annual value in percent and risk (standard deviation in percent) 1986-1995



Percentage of the total population over 60 by region, 1990 and 2030



Source: World Bank

lion. Three quarters of single premiums are paid on contracts for immediate annuities.

Security and yields

In view of the increasing life expectancy for each individual and the aging of society as a whole, private pensions and life insurance will be a growth market for the future. Thanks to their unique combination of security and yield, they remain the ideal way for building up private provision for old age like no other financial product. They are therefore superior to all other products discussed in connection with provision for old age. Capital-forming life insurance and private pension insurance offer the customer long-term contractual guarantees that are indispensable when providing for old age. Insurers' investments are ideally suited to this necessary requirement. Market fluctuations have only little effect on the interest earned on insurance policies. Gaps in the provision under state systems can therefore be reliably closed.

Just how stable and attractive the net return on life insurance can be is clear from the example of Allianz Life. Over the past 10 years, it has moved within a band width of only one percentage point and in 1995 remained at the high level of 7.5 percent despite lower market interest rates.

All Net

Allianz' efficiency in the field of private provision is being further strengthened by the additional availability of related services. Allianz set up a network in 1995 for international corporate pensions. The network, known as "All Net", is intended to assist companies operating abroad and to offer them on-the-spot service through local offices that is up to the Allianz standard. The worldwide presence of the Allianz Group, supplemented by cooperation with other partners, and the international availability of its know-how allow Allianz Life to stay ahead of the competition in the field of international corporate pension plans.

Life insurance in other markets

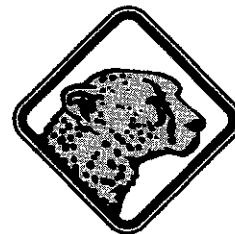
With premium growth of 61 percent in life insurance, the Group company Hungária Biztosító in *Hungary* took a further important step in 1995 towards its goal of developing a new profitable field of business in addition to auto and industrial insurances. A field staff specializing in life insurance was built up for this purpose.

In *Spain*, Allianz-RAS and the major bank Banco Popular signed a group insurance agreement for the Bank's pensioners for a single premium of approximately DM 568 million. A new insurance law which orders the divesting of corporate pension funds has created a broad field of business with very good opportunities for Allianz-RAS.

A strong feature of the market for life insurance in *France* is savings products. Allianz is very well placed amongst these insurances with its "Gaipare" products with 25 percent growth in sales (market: 15 percent) in 1995, to FF 1.95 billion.

Cooperation with banks










Customers world-wide have readily accepted the sale of insurance products across the bank counter, especially of life insurance products. Property insurance products are also increasingly being purchased through banks. To approach new client groups and to build up a distribution path whose importance may still increase sharply in the future, Allianz entered into new cooperative agreements with banking partners in 1995. Clients can now purchase Allianz products world-wide at some 10,200 bank branches, or will be able to do so in the near future.



GAIPARE



Sales cooperation with banks in Europe

Germany		Hypo Bank, Dresdner Bank Raiffeisen- und Genossenschaftsbanken
Czech Republic		Hypo Bank
France		Crédit Lyonnais
Greece		Ergobank
Hungary		Tarek Bank
Italy		Credito Italiano Credito Romagnolo
Poland		BGZ-Bank
Portugal		Banco Fonseca & Burnay
Spain		Banco Popular

▼ In *Italy*, RAS in 1995 extended its existing distribution arrangements with banks through cooperation with the Credito Italiano Group.

▼ A cooperation agreement was concluded with Crédit Lyonnais in *France*, which provides for the distribution of products in property, casualty and health insurance through this bank's 2,500 branches beginning in 1996. Allianz has thereby opened up a cost-efficient distribution outlet and will gain access to the bank's comprehensive customer base.

▼ Allianz entered into a cooperative sales arrangement in *Poland* with the BGZ Bank, one of Poland's three largest banks. In addition, Allianz and BGZ agreed to set up joint companies to transact life and non-life insurance. BGZ has a nationwide network of some 1,300 counters which should decisively support the distribution of insurance products.

▼ A further distribution arrangement was made with Banco Fonseca & Burnay in *Portugal*. All non-life and life products of the Portuguese Allianz company, Portugal Previdente, will be distributed through this banking group's 200 branches.

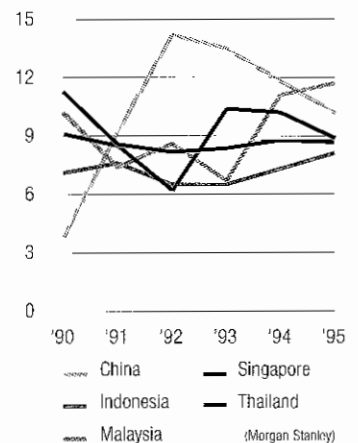
▼ Allianz has formed a life and health insurance company together with BanCreccr, one of *Mexico's* largest banks. With 800 branches, BanCreccr has the country's second largest branch office network through which the joint-venture's products will be sold in the future.

Course set on growth in the Asian-Pacific region and Eastern Europe

Nearly all countries in Asia are looking forward to continued strong economic growth in the coming decade. Prospects for employment and prosperity have never been so good for ever larger sectors of the population. They are increasingly looking for financial security for the standard of living they have achieved. Allianz is consequently not only building up its industrial business in the region but is also making preparations to offer a broad range of insurance in additional countries. Progress towards both goals

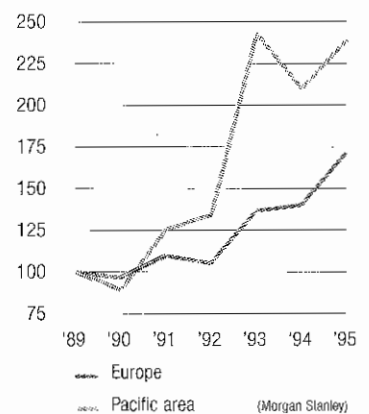
Economic growth in Asia

Real GDP growth in percent over the previous year



Relative development of equity investment value in Europe and the Asia-Pacific region (excluding Japan) since 1990

Stock market performance (indexed, December 1989 = 100)





has since early 1996 been guided by the management unit Allianz Asia Pacific, established in *Singapore* to supervise all operating companies and representative offices in the region. In addition, Allianz Asset Management was formed in *Hong Kong* in the year under review. Through it, the Group is investing directly in the Asian capital markets, thereby participating in the region's economic growth.

As part of its Asian-Pacific strategy, Allianz obtained a 14.5 percent interest at the end of 1995 in its Australian cooperation partner of many years, Manufacturers' Mutual Insurance Group (MMI), Sydney. This appreciably improved the Group's position in the important markets of *Australia* and *New Zealand*. The companies also intend to cooperate in Asian markets.

Allianz and MMI already agreed in September 1995 to form a joint-venture with the state-owned Vietcombank, the state reinsurer Vietnam Re and Vietnam Private Bank in *Vietnam*, and opened a representative office in Hanoi. Application has been made for a license to sell insurance.

In *China*, Allianz is working towards obtaining a license for insurance business. It is already represented there through representative offices in Beijing, Shanghai and Guangzhou.

After nearly 30 years, a further major Asian market is about to be opened up in *India*. Anticipating deregulation, Allianz will open a representative office in Bombay in 1996 and commence preparations for beginning operational business.

Now that the joint-venture Allianz Utama Indonesia, formed in 1990, has developed into one of the leading foreign insurers of industrial risks in *Indonesia*, Allianz has formed a further joint-venture with the Kresna Karya life insurance group. The low level of state pensions, the high proportion of people's earnings that goes into savings and a rapidly rising standard of living create a sound basis for profitable growth in this market.

In *Thailand*, Allianz has applied for a license to conduct life insurance business. It expects to be issued one in the second half of 1996.

Ost-West Allianz in the *Russian Federation* increased its premium income in 1995 despite difficult economic circumstances. The continually selective approach to underwriting has kept claims expenses at a low level. In the year under review, Allianz opened a regional office for northwest Russia in St. Petersburg, the country's second-largest insurance center.

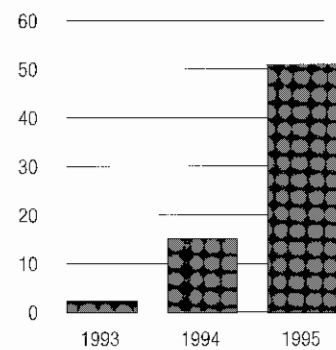
By including auto physical damage insurance in 1995, Allianz pojišťovna, further improved its already dynamic sales growth in the *Czech Republic* and *Slovakia*. After three years of building up this company, it is expected to start showing a profit in 1996.

In *Hungary*, the group company Hungária Biztosító in 1995 once again improved on its previous year's operating profit by 77 percent, to 1.5 billion (1994: 848 million) forints, despite a difficult economic background with high rates of inflation and an unsatisfactory claims situation. With a market share of 35 percent, it is still by far the leading insurer in this interesting growth market.



Allianz pojišťovna

Premium income
in DM millions



■ Our staff

A presence in local and global markets requires communication beyond national and functional frontiers and also the ability to think and act in international contexts. An insurance company working successfully worldwide therefore also relies heavily on the skills, helpfulness and flexibility of its employees. In 1995, an annual average of 69,236 (66,445) staff were available at Allianz companies to assist clients.

Team spirit, innovation and an open mind on the part of staff are key factors for corporate success. To encourage reciprocal transfer of know-how, Allianz is extending its international development of human resources. Staff exchange, including management, was increasingly promoted. The main aim has been to expand employees' technical knowledge and intercultural skills.

These goals are also served by ensuring international membership of the working groups which tackle such important topics as "sales", "industrial liability insurance" or "automobile insurance" in workshops for the entire Group and thus promote the exchange of experience.

All major group companies have a structured training department. Hungária Biztosító in *Hungary* also set up its own training department during the past year. As a first step, it is giving precedence to training field staff, who are being offered training in sales techniques and specialist information. A training program for office employees is to be introduced in 1996.

Allianz' workforce in *Germany* fell in the year under review by 4.1 percent, from 36,442 to 34,938. The number of employees in other countries rose by 14.3 percent in 1995, from 30,003 to 34,298. This substantial growth is largely attributable to

Allianz Group

Employees by country
(annual average 1995)

Germany	34,938
USA	9,031
Italy	6,985
Austria	4,050
Switzerland	2,814
Great Britain	2,704
Hungary	2,643
France	2,157
Other countries	3,914
Total	69,236

the companies ELVIA and Lloyd Adriatico, acquired in 1995.

Around 49 percent of the people who work for Allianz worldwide are women. Average time spent with the company is 13 years.

A breakdown of employees with a university education into specialist areas shows that 29 percent are trained lawyers, 22 percent MBAs and economists and 13 percent actuaries and information scientists. The remaining 36 percent include engineers, historians, social scientists and educationists. This structure provides an accurate picture of the versatility of the financial services business and Allianz' particular need for qualified staff.

Expenditure on salaries and wages amounted to DM 4.62 billion (1994: DM 4.22 billion) throughout the Group in 1995. Outlays on social security, pensions and employee assistance amounted to DM 1.39 billion (1994: 1.29 billion).

Employee training is a high priority at Allianz. In 1995, Allianz' new training center in St. Wolfgang, Austria, began operations. The center is also the site of international seminars.

■ Allianz and society

Allianz promotes measures and programs in many countries benefiting culture, science, education, charitable purposes and environmental protection. The main thrust of its broadly based social commitments is aimed towards environmental protection.

The work of the Environmental Foundation

The Allianz Foundation for the Protection of the Environment, which is endowed with foundation capital of DM 100 million, placed emphasis in 1995 on projects serving to protect the mountain environment. In the renaturation of the ski area on the Geschwende Horn near Immenstadt in Germany's Algäu region, it is promoting what is so far a unique pilot project. The ski slopes on the Geschwende Horn were dismantled and the facilities removed. The ski slopes and vistas have been reforested. The laying of mountain paths has given the area a new, ecologically acceptable utilitarian purpose.



A further project of the Allianz Foundation is the protection of the golden eagle in the Berchtesgaden National Park. The aim of the project is to demonstrate how changes and disruption in the golden eagle's habitat impact its behaviour.

In a fen landscape in Upper Bavaria, the Allianz Foundation is encouraging the renaturation of endangered and ecologically valuable stretches of high moor, which deforestation and agricultural use have deprived of their original character. It will be regenerated by such means as restoring the wetlands and reversing the agricultural and forestry drainage processes. Initial successes are already evident. For example, plants and animals typical of the fen country have become reestablished. In addition, sphagnum moss, regarded as a "major building block" of the moorlands, has also prospered on renatured ground.

Another emphasis of promotional activities are projects to increase the quality of city life. Examples of this are the laying out of a park on the former railway line at Berlin-Schöneberg. Operating was suspended at many railway facilities in Berlin during the early 1960s and ownership issues at the time precluded their being put to any further use. The unused railway land became fallow and nature was able to take its course undisturbed. Today, the Schöneberg Southern Yard, the former Tempelhof shunting station, is a wilderness at the center of the city. The luxuriant greenery is now to be turned into a nature park. With the support of the Allianz Foundation, this is creating a further recreational area for the people of Berlin.

In addition to the Mauerpark, the Allianz Foundation is sponsoring a further public park in Berlin, located at the site of the old Tempelhof shunting station in the Schöneberg district.



Group Management Report

General review

Profitability of the Allianz Group improved further in 1995. A better claims record in many markets, the absence of major natural catastrophes, and the success of our earnings-driven policy of risk selection and careful management of costs all had a beneficial effect on earnings. Favorable conditions in capital markets also contributed to the improvement.

Premiums written

The gross premium income of Allianz worldwide went up by 6.8 percent to DM 70.5 billion. DM 5.4 billion of this came from the companies in the ELVIA group, Lloyd Adriatico, NVS Salland in the Netherlands, and Allianz México, all of which were included in the consolidated figures for the first time. This growth increased the foreign proportion of group revenue to almost 45 percent (1994: 43 percent). On the basis of constant exchange rates, premiums written would have increased by 9.1 percent, but the downward exchange movements of major currencies against the DM reduced group revenue on consolidation by DM 1.6 billion. Excluding the companies consolidated for the first time, premium income would have gone down by 1.3 percent, mainly as

a result of the relative lack of movement in premiums in Germany and other European countries and the sharp drop in single-premium life policies sold in the USA.

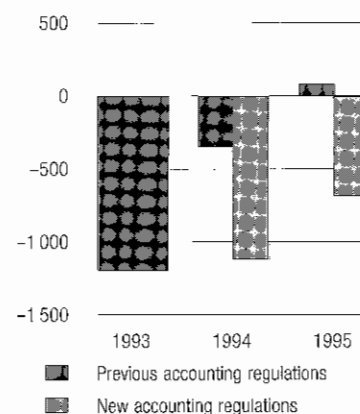
Underwriting result

The underwriting result showed a further substantial improvement of DM 433 million. This was mainly due to a more favorable claims performance and the continued success of measures to improve the quality of business in force and increase efficiency within the Group.

However, the changes in the accounting treatment of certain costs under the new accounting regulations in force since the beginning of 1995 had a negative impact of DM 770 million on the underwriting result, with the result that the ultimate loss of DM 685 million was worse than in the previous year. Under the previous accounting regulations there would have been a profit of DM 85 million.

The underwriting loss on property and casualty business went down by DM 240 million to DM 1.6 billion. Life and health insurance, which includes net investment income, made an underwriting profit of DM 0.9 billion – an improvement of DM 193 million on the previous year.

Allianz Group
Underwriting result
(DM in millions)



Allianz Group

Premiums written by region

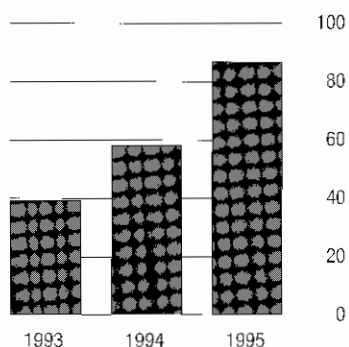
	1993		1994		1995	
	DM mn	%	DM mn	%	DM mn	%
Germany	34,945	53.3	37,694	57.0	38,976	55.2
Rest of Europe	15,574	23.8	15,875	24.0	21,232	30.1
North and South America	14,816	22.6	12,280	18.6	10,075	14.3
Africa, Asia	214	0.3	239	0.4	265	0.4
Total	65,549	100.0	66,088	100.0	70,548	100.0

Premiums written by business segment

	1993		1994		1995	
	DM mn	%	DM mn	%	DM mn	%
Property and Casualty insurance	36,160	55.2	37,112	56.2	40,386	57.2
Life and Health insurance	29,389	44.8	28,976	43.8	30,162	42.8
Total	65,549	100.0	66,088	100.0	70,548	100.0

Allianz Group

Earnings per share
(DVFA/GDV method) in DM



Non-underwriting result

The result from non-underwriting activities depends to a great extent on investment income earned on property and casualty insurance, which was helped by the favorable trend on capital markets in the year under review. The fall in interest rates and the rise in stock markets meant that the write-downs required on holdings of securities were much less than in the previous year. Net current investment income also increased, although the return on new investments went down owing to the lower level of interest rates. Together with miscellaneous income and expenses, the non-underwriting profit was up by DM 346 million, or 10.2 percent, at DM 3.7 billion.

Net income

The overall pre-tax profit was DM 3 billion, up 34.4 percent on the pre-

vious year's figure. Notwithstanding this increase, the tax charge on the Group remained roughly the same after taking full advantage of the tax losses brought forward by the old Deutsche Versicherungs-AG, which was merged with Allianz AG Holding in the year under review. Net income therefore rose relatively strongly by 51.3 percent to DM 2 billion.

Earnings per share

The good financial results and the low tax charge also had a beneficial effect on earnings per share. Based on the method of calculation recommended by the DVFA/GDV (German Association of Financial Analysts/German Insurance Association), this was DM 87.20, an increase of DM 30.60, or 54.1 percent, over the previous year.

Consolidated income statement (abridged)

	1993	1994	1995
	DM mn ¹⁾	DM mn	DM mn
Gross premiums written	65,549	66,088	70,548
Net premiums written	56,871	56,876	61,618
Benefits to clients	57,964	54,681	62,276
Underwriting expenses	10,481	10,906	11,791
Net investment income	16,243	14,682	16,727
Pre-tax profit	2,017	2,264	3,043
Taxation	560	929	1,022
Net income	1,457	1,336	2,021

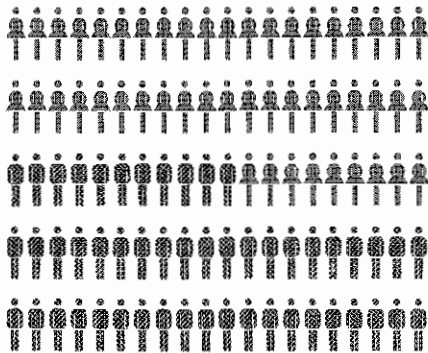
¹⁾ Under previous accounting regulations

Earnings per share (DVFA/GDV method)

		1993	1994	1995
Net income	DM mn	1,457	1,336	2,021
Minorities	DM mn	494	375	507
Balance of income/expenses, extraordinary or not relating to period under review	DM mn	-134	267	458
Adjusted profit	DM mn	829	1,228	1,973
Number of shares		19,500,000	20,800,000	22,627,480
Earnings per share	DM	42.50	59.05	87.20
Adjusted for capital increase				
1994 and 1995	DM	39.30	56.60	87.20

Staff

The Allianz Group employed 69,236 people worldwide in 1995, an increase of 2,791 compared with the end of 1994. Excluding the changes in the composition of the Group, which accounted for an increase of 4,959, the number of employees would have gone down by 2,168 or 3.3 percent.



Women account for 49 percent of the Allianz Group's staff worldwide.

The main reductions in staff were at Deutsche Versicherungs-AG and in the Allianz Property and Casualty Insurance Group in Germany and Allianz' other European companies as a result of internal procedures being reorganized and efficiency improved.

■ Allianz in Germany

Property and casualty insurance

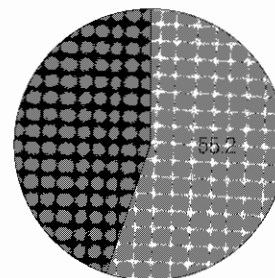
Premium income of the Allianz Property and Casualty Insurance Group in Germany was much the same in 1995 as in the previous year at DM 14.1 billion. This was partly due to the relatively weak performance of the economy and falling real incomes of private households, which persuaded many people not to increase their insurance cover. Increased competition as a result of deregulation also exerted downward pressure on the general level of premium rates. Selective underwriting and a trend towards policy cover with increased use of deductibles, especially in commercial and industrial business, led to significant premium reductions. The number of policies in force went down by 1.7 percent to 29.2 million.

Including business from Germany's eastern states (which is written by Deutsche Versicherungs-AG) premium income totaled DM 17.3 billion, an increase of 0.9 percent or DM 158 million over the previous year's figure.

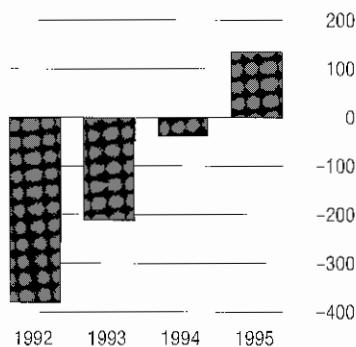
The incidence of claims eased significantly in the year under review, mainly because there was no major storm or hailstorm damage and the rate of crime against property decreased. The number of claims reported to the Property and Casualty Insurance Group in Germany fell by 6.9 percent to 3.04 million (1994: 3.26 million). Claims expenses went down, especially in automobile insurance – which benefited from the deterrent effect of immobilizers on thieves – and in the weather-related lines of property insurance. As the cost of large claims also remained marginally below the previous year's high level, total benefits payable decreased by 1.5 percent to DM 9.9 billion.

Operating and administration costs showed hardly any increase, thanks mainly to the reduction in staff numbers. In relation to premiums written the operating expense ratio increased only marginally to 23.8 percent (1994: 23.5 percent).

Allianz Group
Premiums written in Germany
% of group revenue



Deutsche Versicherungs-AG
Net result in DM millions



Thanks to the favorable claims situation and careful management of claims and costs, the underwriting result improved by DM 123 million to DM 52 million after transferring DM 421 million (1994: DM 415 million) to claims equalization reserves.

The non-underwriting result is determined largely by investments, the book value of which rose by 7.7 percent to DM 22.6 billion. The lower level of interest rates meant that current income from investments showed only a modest increase to DM 1.6 billion. Since realized gains were down on the previous year and special depreciation was charged on holdings of real estate in the eastern part of Germany, net income from investments was constant at DM 1.3 billion (1994: DM 1.3 billion). After transferring interest credited on special reserves to the underwriting account and including the net difference between miscellaneous income and expenses, the non-underwriting result was a profit of DM 749 million (1994: DM 812 million). Thanks to the improvement in the underwriting result the overall pre-tax profit rose by DM 59 million, or 7.9 percent, to DM 801 million.

Premiums written by *Deutsche Versicherungs-AG* rose by 4.7 percent to DM 3.2 billion (1994: DM 3.1 billion). The faster growth compared with that recorded in the western part of Germany was partly due to the backlog in demand for insurance cover still waiting to be filled and the premium adjustments in certain lines of business to bring them into line with the level of claims.

The absence of major natural disasters was the main factor behind the improvement in the claims situation compared with the previous year. This positive trend outweighed negative factors such as the continuing growth in crime against property and serious road accidents, so that loss and loss adjustment expenses were down overall.

More administrative centers were combined, resulting in further staff cuts and a reduction of the operating expense ratio to 20.5 percent (1994: 21.1 percent). Expansion of the sales force continued as planned.

The good overall performance resulted in an underwriting profit being made for the first time (DM 46 million, compared with a loss of DM 237 million in the previous year) despite the fact that DM 305 million was transferred to the claims equalization reserve, much more than in the previous year (1994: DM 197 million).

The book value of the investment portfolio was up by 9.5 percent at DM 4.5 billion. Net income from investments amounted to DM 265 million (1994: DM 211 million), an increase of 25.6 percent over the previous year. Together with miscellaneous income and expenses it produced a non-underwriting profit totaling DM 290 million (1994: DM 187 million).

For the first time since its incorporation the company made a profit (DM 136 million, compared with a loss of DM 51 million in 1994) which was transferred in full to appropriated retained earnings.

Life insurance

Allianz Lebensversicherungs-AG increased its premium income by 5.8 percent (1994: 9.4 percent) to DM 11.5 billion (1994: DM 10.9 billion). DM 2.1 billion was taken out of the reserve for premium refunds and used as dividends to policyholders to increase the sums insured.

The slowdown in growth compared with the previous year was mainly attributable to the decrease in current premiums for new business which were noticeably affected by rising unemployment and lower real incomes due to the further increase in the tax burden. In addition, the automatic adjustments to dynamic insurance policies – which are linked mainly to the development of the maximum contribution to the statutory pension plan, which was unchanged in the year under review – were minimal compared with the previous year. In spite of a further increase of 14.1 percent in single premiums, most of which are for immediate annuities, total premiums for new business of DM 2.3 billion remained 12.4 percent below the previous year's figure (1994: DM 2.6 billion).

Business in force rose by 4.5 percent to a total sum insured of DM 276 billion (1994: DM 265 billion), a slightly slower rate of growth than in the previous year. This was due both to the lower level of new business and to a cyclically induced increase in the lapse ratio (which was still well below the market average). Total policyholders' benefits went up by 10 percent to DM 17.4 billion (1994: DM 15.8 billion), comprising DM 8.1 billion (1994: DM 7.9 billion) paid out to policyholders for maturity and death benefits, annuities and surrenders, and DM 9.4 billion (1994: DM 7.9 billion) for the increase in future benefits under existing policies.

The book value of investments rose by 8.8 percent in the year under review to DM 109.6 billion (1994: DM 100.7 billion). Thanks mainly to a decrease in write-downs, net income from investments went up by 10.3 percent to DM 7.9 billion (1994: DM 7.1 billion) so that the net return, in spite of the reduced yield on new investments, showed a marginal increase to 7.5 percent (1994: 7.4 percent).

Reserves for current annuities were adjusted to the increase in life expectancy by a one-time transfer of DM 256 million. The overall surplus rose by 4.3 percent to DM 4 billion, 96 percent of which (DM 3.9 billion) was reserved for future policyholder benefits. Net income for the year in-

creased to DM 158 million (1994: DM 140 million).

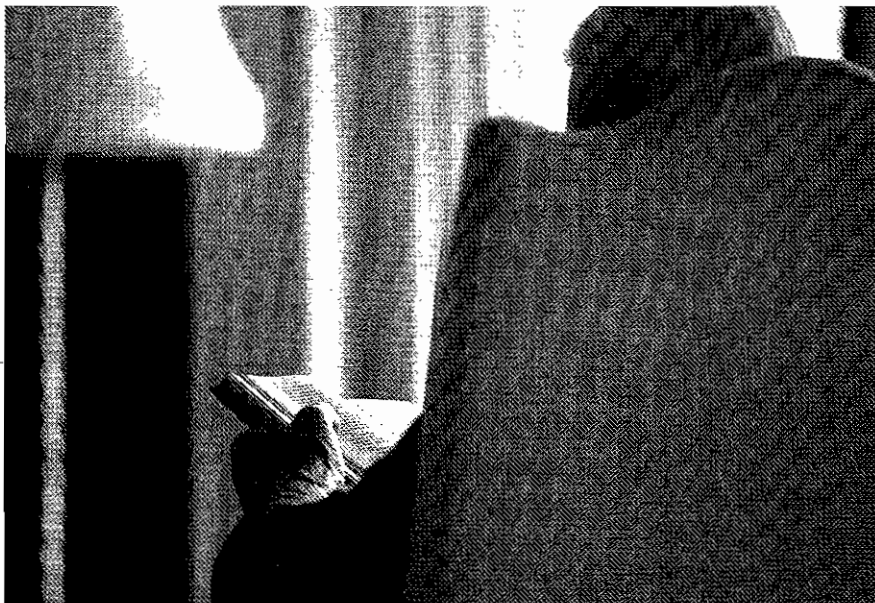
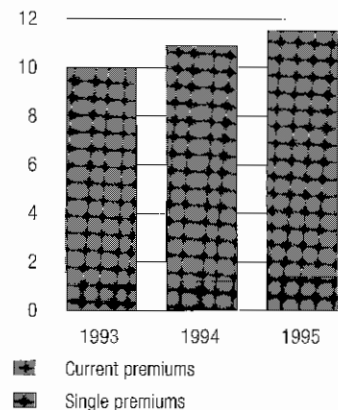
The company's capital was increased by DM 40 million to DM 280 million in the year under review by cash contributions from shareholders and capitalization of reserves.

New business acquired by *Deutsche Lebensversicherungs-AG* – which writes life insurance business in Germany's eastern states and whose capital stock was acquired by Allianz Life at the beginning of 1995 – also slowed down with the result that premium income went up by only 3 percent to DM 1.3 billion. An additional DM 172 million (1994: DM 158 million) was taken out of the reserve for premium refunds.

Midterm cancellations and expirations of original policies taken over continued to decrease. This had a beneficial effect both on the lapse ratio (which, at 4.8 percent, was below the market average) and on the total sum insured under policies in force, which increased by 7 percent to DM 28.4 billion (1994: DM 26.5 billion).

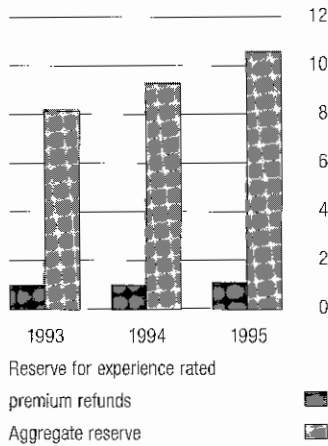
The book value of investments increased by 10 percent to DM 7.8 billion (1994: DM 7.1 billion) and the net return of 7.6 percent was still well above the market average. The overall surplus of DM 284 million, however, remained below the previous year's figure of DM 361 million because of the exceptional charge for the adjustment to the reserve for annuity contracts.

**Allianz
Lebensversicherungs-AG**
Premium income in DM billions



**DKV Deutsche
Krankenversicherung AG**

Reserves, DM in billions



Net income for the year was DM 14 million after making a transfer to the reserve for policyholders' benefits.

Health insurance

DKV Deutsche Krankenversicherung AG increased premium income by 9.2 percent to a total of DM 5.2 billion, including DM 330 million transferred from the reserve for premium refunds. This strong growth was mainly attributable to premiums for the compulsory long-term nursing care insurance introduced at the beginning of the year, while premium growth in health insurance slowed down owing to the more modest premium adjustments required and a slight decrease in new business.

Benefits paid rose 7.4 percent to DM 3 billion, proportionately less than the increase in premiums. In this connection it has to be remembered, however, that claims for benefits under compulsory long-term care insurance could only be made from April 1995 onwards. Claims expenses also benefited from adjustments to the fees of medical practitioners being postponed once again and claim statements for benefits still being subjected to intensive examination.

In spite of the extra staff which had to be recruited for the new long-term care insurance, the increase in costs was kept down below the rate of premium growth by efficient cost

control, so the expense ratio went down once again.

The book value of investments rose by 13.2 percent to DM 13.3 billion (1994: DM 11.7 billion). Net income from investments improved by 9.1 percent to DM 840 million.

Large amounts of earned income were transferred directly to the aggregate reserve in 1995 for the first time, in accordance with the new statutory regulations, in order to stabilize premiums in the long term. Most of the remaining gross profit of DM 656 million was transferred, as before, to the reserve for experience rated premium refunds. The funds in this reserve are used for cash payments on claim-free policies and to reduce the premiums of older policyholders beyond the statutory minimum. Net income for the year amounted to DM 80 million (1994: DM 84 million).

■ Allianz in the rest of Europe

The premium income generated by European group companies outside Germany came to around DM 21 billion. The increase of almost 40 percent in local currencies is mainly attributable to the inclusion of the Swiss ELVIA group, Lloyd Adriatico in Italy, and NVS Salland in the Netherlands, which were consolidated for the first time with premium revenue of nearly DM 5.4 billion between them.

The earnings situation improved owing to the success of the earnings-driven underwriting policy and a more moderate frequency of claims. The companies also benefited from the good performance of capital markets.

In *France* the companies in the Allianz Via group recorded premium income equivalent to DM 3 billion. Growth of 3.9 percent was achieved despite persevering with a restrictive underwriting policy, however the growth was entirely due to the inclusion of the former branch office of ELVIA. Earnings were substantially improved by pressing ahead with the restructuring program and successful integration of marketing and administrative procedures and computer systems. The operating units succeeded in breaking even for the first time overall despite one-time charges of DM 61 million to comply with the new accounting regulations in France. Consolidated earnings of the Allianz Group in France still showed a loss after writing down goodwill in connection with the acquisition of certain affiliates, but the loss of DM 97 million was half the previous year's figure.

The Cornhill Group in *Great Britain* again held its own in 1995, in difficult market conditions plagued by increasing price competition. Revenue from property and casualty insurance was restricted by a new round of premium rate cuts, especially in automobile and household effects insurance, and by withdrawing from the relatively unprofitable hull insurance

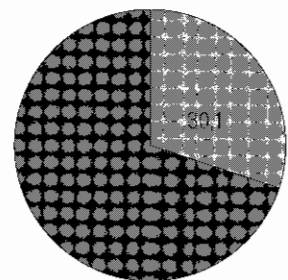
business. In spite of further expansion in commercial and industrial business, therefore, growth of only 1.6 percent was recorded, to DM 2.2 billion. Total premium income was around DM 2.4 billion (1994: DM 2.8 billion).

The earnings situation was helped especially by the weather-related decrease in claims, further improvement in internal procedures, and streamlining the company's structure. Together with a slight improvement in investment income, the profit for the year was increased by 8.6 percent in local currency to DM 103 million after translation.

In *Italy*, following the acquisition of Lloyd Adriatico, the premium income of Allianz companies rose by 34.6 percent to well over DM 7.4 billion after translation. DM 5.5 billion of this came from property and casualty insurance and almost DM 2 billion from life insurance, an increasing volume of the latter being sold through banks.

RAS S.p.A. saw premium income fall by 5 percent to DM 3.8 billion after withdrawing from less profitable lines of insurance such as oil and gas business. The good progress recorded at the earnings level in the previous year continued, helped considerably by the liberalization and more marked differentiation of automobile rates. Earnings were also improved by lower write-downs on securities owing to

Allianz Group
Premiums written in Europe
(excluding Germany)
% of group revenue



Allianz Group

Premiums written in European markets (excluding Germany)

	1995	1995
	DM mn	% of total group revenue
Italy	7,448	10.6
Switzerland	3,264	4.6
France	3,014	4.3
Great Britain	2,549	3.6
Austria	2,095	3.0
Spain	1,413	2.0
Hungary	429	0.6
Netherlands	377	0.5
Portugal	214	0.3
Other European countries	429	0.6
Total Europe	21,232	30.1

the strong performance of capital markets. Net income increased by almost 60 percent to DM 288 million.

Lloyd Adriatico, included in the consolidated financial statements in 1995 for the first time, recorded premium income of DM 2 billion. The company's main business is in automobile insurance, where it managed to increase its market share from 5.6 percent to 5.8 percent in 1995, putting it in sixth place in Italy's automobile market. This success is based most of all on innovative products, such as a premium structure for automobile liability insurance where the customer retains part of the risk himself. Earnings had to bear a charge of DM 31 million for restructuring the Spanish subsidiary which in 1996 is being taken into the Allianz Group in Spain. Net income amounted to DM 29 million.

Allianz Pace was merged with Unione Subalpina in the year under review to form Allianz Subalpina, based in Turin. After RAS and Lloyd Adriatico, this is now the Group's third largest unit in the Italian market, with a sales network of 700 agencies and premium income of DM 917 million. Earnings showed a 20 percent increase to DM 23 million.

Allianz also improved its market penetration in the *Netherlands*, the fifth largest insurance market in Europe. For one thing the Swiss ELVIA group has a presence there, while DKV has also acquired NVS Salland, which writes primarily health insurance business. Thanks to these acquisitions the Allianz Group in the Netherlands now writes all lines of insurance business. Earnings of DM 21.4 million were recorded on premium income of DM 377 million.

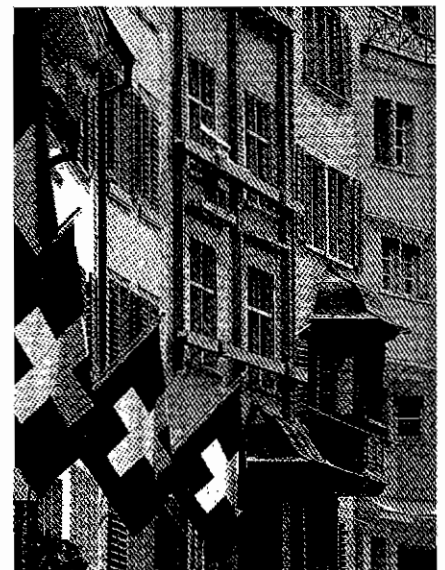
The Allianz Group in *Austria* recorded an overall increase in premium income of 2.6 percent in local currency to DM 2.1 billion after translation. Most of the growth came from higher premium income in life insurance, which rose by 6 percent, including a particularly strong increase in single-premium policies. Portfolio pruning and a restrictive underwriting policy kept premium growth in prop-

erty and casualty insurance down to 1.6 percent. At the same time, however, the Group's market prospects for future growth in property and casualty business were enhanced by the introduction of a new individualized premium rate structure for automobile liability insurance and by industrial business being restructured to respond to the specific requirements of different groups of customers. Despite the stable cost situation and the benefits of synergy coming through, the underwriting result did not show any dramatic improvement because claims expenses returned to the level of earlier years after the particularly good performance of the previous year. Thanks to the improvement in net investment income, which also benefited from the reduced level of write-downs, the Austrian companies showed a net profit of DM 64 million, up 7.5 percent.

In *Switzerland*, following the acquisition of the ELVIA group, Allianz is the fifth largest insurance group in the country. With premium income of DM 3.3 billion it is the largest foreign insurance company. DM 2.9 billion came from the domestic business of the ELVIA group, which was consolidated for the first time and which, through subsidiaries and branch offices, also writes all lines of life, property and casualty business, including travel insurance, in other European countries.



Allianz further strengthened its position in Italy's private insurance sector with the acquisition of Lloyd Adriatico, based in Trieste. Lloyd Adriatico, traditionally strong in automobile insurance, has restructured its product offerings to provide customers with a full range of insurance coverage.



The competitive strength and earnings potential of group companies in Switzerland have been enhanced by structural changes on the sales side (now largely complete), the development of new products, the convergence of computer systems now being implemented, and the increased integration of various foreign subsidiaries into the Allianz Group. Cooperation arrangements have been agreed between ELVIA's travel insurance operation and various Allianz companies in Europe. The full synergy benefits, however, had not yet fed through to earnings in the period under review. Total net income earned by Allianz companies in Switzerland amounted to DM 69 million.

Discussions about further forms of cooperation with the Berner insurance group, in which Allianz increased its shareholding to 44 percent by the end of 1995, were continued on the basis of the cooperation agreement between the two.

Premium income of the Allianz Group in *Spain* was twice the previous year's figure at DM 1.4 billion. The increase was primarily due to receipt of a single premium of DM 568 million for taking over the pension commitments of Banco Popular. Premiums written by the subsidiary of Lloyd Adriatico amounting to DM 123 million were also included for the first time. Increased competition in property and casualty insurance, especially automobile and industrial business, resulted in slower overall growth in premium income than in previous years, to DM 717 million. Life insurance – excluding the Banco Popular transaction – generated premium growth of 37 percent to DM 128 million. Despite a statutory transfer to unearned premium reserves, the underwriting result improved as a result of careful management of costs. Since investment income also showed an increase at the same time, the net profit rose by 24 percent to DM 24 million after translation.

In *Portugal*, Portugal Previdente boosted premium income by 5.8 percent to DM 214 million, including

DM 50 million from life insurance. Net income increased to DM 4.5 million, helped in particular by an improvement in investment income. A sales agreement was signed with the BPI/Fonsecas y Burnay banking group in order to benefit even more from the dynamic performance of life insurance business.

The group company in *Hungary*, Hungária Biztosító, further strengthened its leading position in the market for property and casualty insurance with premium growth of 13 percent to the equivalent of DM 429 million. In DM terms, however, there was a decline of 14 percent owing to exchange rate factors. The underwriting result was adversely affected by the government-controlled adjustment to automobile liability premium rates being too low, by the large increase in claims as a result of inflation, and by the rising number of automobile thefts. That net income of DM 39 million was better than the previous year's profit figure was largely due to the improvement in the cost situation as a result of streamlining internal procedures and the increasing use of computers, as well as a substantial increase in investment income. Hungária intends to share in the rapid expansion of the life insurance market by establishing a sales force of its own.

Allianz has operations in Belgium, Denmark, Greece, Luxembourg, Norway, Sweden, Russia, and the Slovak and Czech Republics, which together made a profit overall and generated premium income of DM 429 million after translation. Allianz also has two affiliates in Turkey.

GmbH und die TÜV Südwest UV America Inc. und die TÜV aysia) führen, die den Verkoordinieren. Sie hat dann in über 50 Niederlassungen

für die TÜV-Südwest-Grupp Umweltprüfungen „ein K jahr“ war, erklärte Döttinger, Profit-Organisation einen 10 Millionen DM gemacht.

Allianz ist Marktführer in Ungarn

st (Eigener Bericht) – Nach lichen Durststrecke mit Ver-Ungarn-Investition der All-chen, nunmehr gewinnbring-ungaria Biztosito Rt, Buda-te Versicherungsgesellschaft arktanteil 34,7 Prozent, Bi-8,7 Milliarden Forint), deren 9 Prozent der Allianz AG nte 1995 einen Gewinn von a Forint verzeichnen (1 DM) und ist, wie der Allianz-sitzende Henning Schülte-er Pressekonferenz am Don-budapest feststellte, im Be-waren Zahlen gelandet. en Zahlen Anfang der 90er or allem die Kraftfahrzeug-verantwortlich. Nachdem steil der Kaskopolicen durch aft einseitig gekündigt und bei der Haftpflichtversiche-ten die Verluste

scheint die Versicherung auch heute nicht zufrieden weitere Erhöhung bedarf a stimmung der Regierung. Die Allianz hat sich no politischen Systemwechsel 1990 in die Hungaria einge dem die damalige Regierung Geschäft gebilligt hat, Münchener Unternehmen 1 DM für 49 Prozent der Al Zwischenzeit ist die Bete durch Kapitalerhöhung, teil lienkauf auf 90 Prozent ge-standsmitglied Delev Breink Budapest, Allianz sei am Ka chen Aktienpakets, welches sitz der ungarischen Staats zu einem vernünftigen Pi siert. Hungaria Biztosito wol Zukunft neben den jetzt dc Sachversicherungen auf die cherungen konzentrieren un rer eines Konsortiums in mit der Konzernzentrale in

■ Allianz in North and South America

Premiums written by Allianz companies in North and South America went down by 18 percent to just over DM 10 billion as a result of the continued fall in variable annuities business, as expected, and the loss of revenue on translation into DM.

In the *United States* Allianz' property insurance companies increased their premium income in local currency by an above-average 8.6 percent to DM 6.1 billion after translation. DM 5.4 billion of that was written by Fireman's Fund, boosting its revenue by 9.6 percent. The announcement in the first half of 1995 that the company's reserves for environmental losses were to be strengthened by a further US\$ 800 million enhanced Allianz' good reputation in the United States, increasing its competitiveness and business volume. The earnings potential and long-term value of the company were also improved by continuing to focus its business on profitable niche markets with potential.

Owing to the transfer to reserves (which does not affect consolidated earnings), and another spate of catastrophe losses from Hurricane Opal, the company made a loss of DM 402 million after translation (compared with a profit of DM 187 million in the previous year) despite a relatively modest increase in costs.

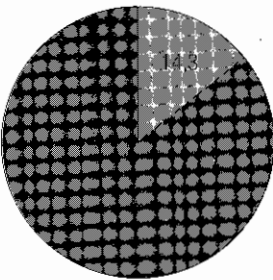
The two industrial insurers, Allianz Insurance Company and Allianz Underwriters Insurance Company, succeeded in increasing premium income by 7.7 percent to DM 599 million by expanding the range of their international insurance products. On the same loss ratio as before they made a profit (boosted in particular by realized gains) of DM 35 million, almost three times the previous year's figure.

In the U.S. life insurance market single-premium variable annuities continued to fall out of favor. Allianz Life was unable to fill the gap which this left, not even by broadening its range of products and stepping up cooperation with Life USA, a company which has one of the largest sales networks in the United States. Premium income accordingly went down by 34 percent in local currency to DM 3.5 billion after translation. Thanks to income generated from the large portfolio built up in previous years, however, net income improved by more than 50 percent in local currency to DM 125 million after translation.

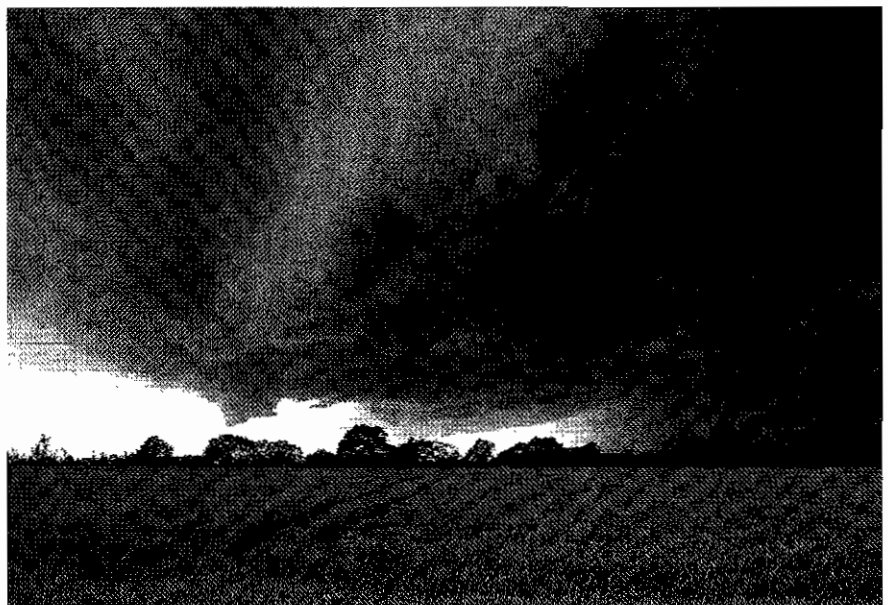
The Allianz Group in *Canada*, where the market was recovering, generated premium income of DM 306 million after translation, equivalent to growth of a good 7 percent in local currency terms. The success of the measures initiated in the previous year to eliminate unprofitable business and streamline the cost structure meant that, after breaking

Allianz Group

Premiums written in North and South America
% of group revenue



Allianz is represented in the USA by the property and casualty companies Fireman's Fund, Allianz Insurance Company and Jefferson Insurance Company of New York as well as by Allianz Life Insurance Company of North America.



even in the previous year, the Group now made a profit of DM 9 million after translation.

Allianz México, the new group subsidiary which changed its name after the former affiliate Aseguradora Cuauhtémoc was taken over by Allianz of America, generated premium growth of 7.6 percent despite unprofitable business being eliminated from the automobile insurance portfolio. Owing to the weak exchange rate of the Mexican peso, which fell by 40 percent in value compared with the previous year, premiums written dropped to DM 53 million after translation. Earnings after tax amounted to DM 2.3 million.

Allianz group companies in *Latin America* generated premium income of DM 162 million.

In *Chile* the earnings of Allianz companies from property and life insurance remained below the previous year's level at DM 1.1 million, on premium income totaling DM 111 million. Fierce competition and falling rates reduced the level of revenue from property insurance. Allianz RAS in *Argentina*, on the other hand, managed a significant improvement in earnings to DM 3.3 million, despite falling revenue, by dint of vigorous remedial action and careful selection of risk.

Our affiliate in *Venezuela*, *Adriática de Seguros C.A.*, increased premium income by 40 percent in real terms to DM 71 million after translation, in spite of difficult conditions with inflation running at 90 percent. At the same time net income was substantially increased to DM 12.1 million.

Allianz Bradesco, our affiliate in *Brazil*, had premium income of DM 240 million after translation, with a growth rate just above the inflation rate of 20 percent. Earnings were again improved to DM 21.5 million.

■ Allianz in Africa, Asia and Australia

In the countries of Africa and Asia Allianz recorded total premium income of DM 265 million (1994: DM 239 million) after translation. In some cases, as in the previous year, double-digit growth rates were recorded again in local currency. The earnings situation was satisfactory overall.

Premium income in *South Africa* went up by 33 percent to DM 127 million after translation. Large industrial claims and the continued high rate of crime against property meant that earnings were again only around the break-even level.

Allianz Cornhill in *Hong Kong* benefited from the performance of the Chinese economy and performed well as an industrial insurer in a fiercely competitive market. Its premium income went up by 7 percent to DM 32 million after translation. Earnings improved to DM 1.6 million as a result of careful risk selection and the absence of major claims.

The successful record of Allianz Utama Indonesia in *Indonesia* is closely linked to the high level of capital spending on infrastructure projects in that growth market for which, as one of the leading industrial insurers in the country, the company is a major carrier of insurance. Premium income was down by 20 percent at DM 30 million after translation owing to the elimination of unprofitable business from the fire and engineering insurance portfolios. Coupled with a favorable claims record, however, these measures produced a substantial increase in profit to DM 2.4 million. At the beginning of 1996, Allianz took a majority interest in the life insurer Aken Life, part of the Kresna Karya group, in order to gain access to personal lines of business in Indonesia.

Premiums written by Allianz Fire and Marine Insurance in *Japan* amounted to DM 43 million, 14.4 percent more in local currency than in



Allianz Cornhill Insurance (Far East) Ltd. of Hong Kong is a well known insurer of infrastructure projects. The company is the lead insurer for the construction of Hong Kong's new airport.

the previous year. Most of this was international business for industrial risks, especially in the densely populated and heavily industrialized region around Tokyo. In spite of the persistent absence of growth in the Japanese economy, the move into personal lines of insurance three years ago has started to show positive signs of growth for the first time. Allianz Japan did not have to meet any particularly large volume of claims in connection with the earthquake in Kobe. Owing to necessary financing for the building up of the personal insurance business the company made a loss of DM 2.8 million.

In *Singapore* Allianz Insurance Singapore – likewise specializing mainly in industrial business – increased premium income by 144 percent to the equivalent of DM 33 million. Approximately 60 percent of this was written in neighboring regions outside Singapore. The exceptional increase in revenue was primarily attributable to the acquisition of additional know-how in the areas of underwriting, risk provision, and the handling of claims, but also to increased underwriting capacity. To-

gether with a favorable claims experience this resulted in a further improvement in net income, despite lower interest rates, to DM 1.3 million.

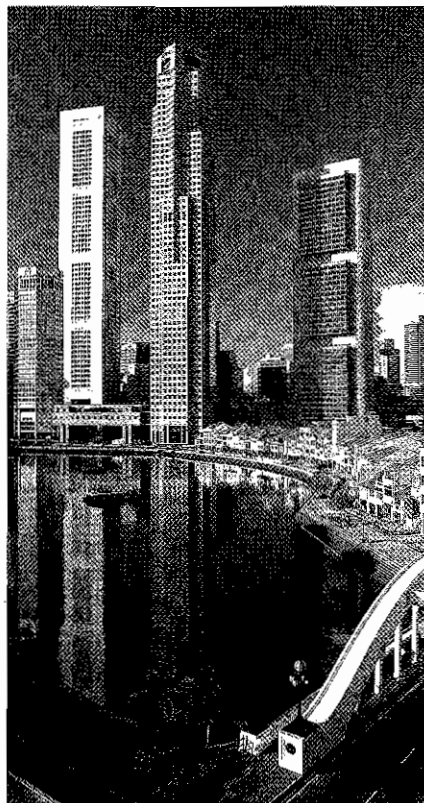
The Navakij Insurance Company in *Thailand*, in which Allianz has a 10 percent interest, matched the good result of the previous year, recording premium growth above the market average.

In *China* Allianz has had representative offices in Beijing, Shanghai and Guangzhou since 1994. Its endeavors to obtain an operating license were reinforced by Allianz seminars being held for future business partners and the supervisory authorities on management and specialist topics in the fields of marketing, finance and reinsurance.

In *Vietnam* Allianz and Manufacturers' Mutual Insurance (MMI) of Australia have agreed to form a joint venture with the state-run Vietcombank, the government-controlled reinsurer Vietnam-Re, and the Vietnam Private Bank, and have opened a representative office in Hanoi. An application for an operating license has been submitted.

At the end of 1995, as part of its Asia-Pacific strategy, Allianz took a 14.5 percent interest in the MMI Insurance Group in Sydney, its business partner in *Australia* for many years. With premium income of around DM 1.2 billion this company is one of the ten largest property and casualty insurers in the country. The link with MMI is also to be used to develop markets in other Asian countries.

Allianz is well positioned to take part in the above-average growth in the Asia-Pacific region. Allianz Asia-Pacific, headquartered in Singapore, coordinates the operating business of all group companies and representative offices in this prospering region.



Investments

The total book value of investments held by the Allianz Group went up by DM 32.1 billion, or 14.9 percent, in 1995 to DM 247.4 billion, compared with DM 215.3 billion at the end of 1994. Total net income from investments rose 13.9 percent to DM 16.7 billion (1994: DM 14.7 billion). The net return, calculated on the basis of the average investment portfolio during the year, was 7.2 percent (1994: 7.1 percent).

Including investments held on behalf of variable annuity policyholders and third parties, the total funds under management by Allianz increased to DM 282.0 billion (1994: DM 247.8 billion).

Financial markets

Interest rates in German capital markets fell sharply in 1995. The current yield on bonds dropped from 7.6 percent to 5.5 percent. The Bundesbank lowered the discount rate from 4.5 percent to 3.0 percent. At the same time the money market rate for 3-month money (FIBOR) went down from 5.3 percent to 3.8 percent. Yields in the most important foreign bond markets came down as well.

On the German equity market the DAX index went up from 2,107 to 2,254, a rise of 7.0 percent. Equity

markets in Japan, Italy and France recorded losses, while those in the United States, Switzerland and Great Britain made significant gains.

In currency markets the US dollar was quoted at DM 1.43 at year's end, 7.4 percent down on the rate of DM 1.55 at the beginning of the year. The pound sterling also went down by 8.5 percent, from DM 2.42 to DM 2.21. The devaluation of the Italian lira came to a halt in March 1995; but over the year as a whole it was still down 5.2 percent. The Swiss franc, on the other hand, climbed from DM 1.18 to DM 1.25 (up 5.4 percent).

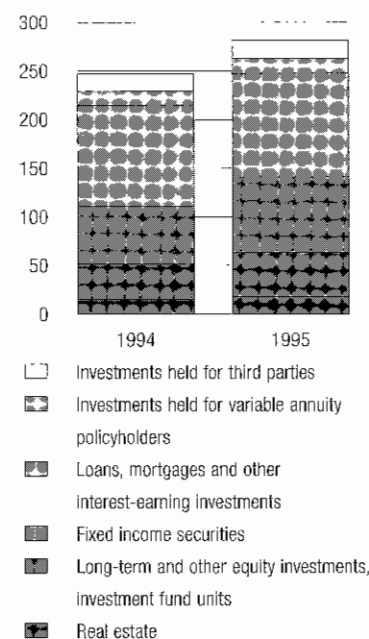
Portfolio structure

New investment was channeled especially into fixed income securities and equity stocks. The increase in investments also includes those of the new group companies, ELVIA and Lloyd Adriatico, for the first time.

German companies now account for 64.1 percent (1994: 68.3 percent) of the total investment portfolio. This proportion is much higher than the proportion of premiums written in Germany (55.2 percent, compared to 57.0 percent in 1994) because the Group's life and health insurance business, which entails a high investment content, is more important in Germany than abroad. Although the proportion of investments held by

Allianz Group

Investments under management
DM in billions



Allianz Group

Investments under management

	1994		1995	
	DM mn	%	DM mn	%
Real estate	14,841	6.0	17,484	6.2
Long-term and other equity investments, investment fund units	37,062	15.0	45,725	16.2
Bearer bonds and other fixed income securities	59,331	23.9	77,624	27.5
Registered bonds and debentures, mortgages, deposits retained by others and other interest earning investments	104,063	42.0	106,541	37.8
Investments held for variable annuity policyholders	13,984	5.6	15,095	5.4
Investments in the consolidated balance sheet	229,281	92.5	262,469	93.1
Additional investments held for third parties	18,562	7.5	19,547	6.9
Total investments under management	247,843	100.0	282,016	100.0



In Berlin's Treptow district, Allianz is building a new office complex (illustrated below). Beginning in 1998 business in the states of Mecklenburg-Western Pomerania, Saxony-Anhalt, Brandenburg and Berlin will be managed from these new offices. Also part of Allianz' real estate holdings is the baroque town house on Dresden's Palace Square (above), which has been restored and converted for use as an office building.

foreign companies has increased with the companies included for the first time, after translation the increase was relatively modest owing to the substantial rise in the exchange rate value of the DM.

Investments held by the property and casualty insurance companies worldwide amounted to DM 91.4 billion (1994: DM 77.9 billion) and those held by the life and health companies to DM 156.0 billion (1994: DM 137.4 billion), to which have to be added the investments held separately for variable annuity policyholders amounting to DM 15.1 billion (1994: DM 14.0 billion).

Real estate

Under new accounting regulations investments have to be subdivided under four main headings, the first of which is real estate. The book value of real estate holdings rose by DM 2.7 billion to DM 17.5 billion (1994: DM 14.8 billion). Allianz is currently investing in three major construction projects in Berlin-Treptow, in Unterföhring near Munich and at its head office in Munich in order to provide efficient and cost-effective accommodation for the regional offices in Berlin and Bavaria and for the head office in Munich. Capital expenditure totaling DM 1.8 billion is budgeted for this, DM 0.5 billion of which had already been spent by the end of 1995.

Unconsolidated subsidiaries and affiliates

The second investment heading comprises investments in unconsolidated subsidiaries and affiliates, totaling DM 4.7 billion (1994: DM 4.9 billion) in the consolidated balance sheet. This heading comprises only investments in and loans to companies in which the Group has a significant interest but which are not consolidated. The most important consolidation procedures are outlined in the Management Report of Allianz AG on page 84. Long-term holdings of industrial stocks are not shown under this heading but as equity investments.

Other investments

Other investments – the third main investment heading – are carried at DM 220.1 billion (1994: DM 190.6 billion). The main items under this heading are equity investments of DM 41.0 billion (1994: DM 32.1 billion), fixed income securities DM 77.6 billion (1994: DM 59.3 billion), mortgages DM 18.5 billion (1994: DM 15.7 billion), and other loans such as registered bonds and debentures at DM 80.3 billion (1994: DM 78.7 billion).

Equity investments also include long-term holdings of industrial stocks. All the companies in which Allianz had a long-term holding of at least 5.0 percent at the end of 1995 are listed on page 58. The quoted market value of such holdings was DM 22.3 billion.

Funds held by others under reinsurance contracts

A reinsurer shows interest-bearing deposits retained by others under this heading when it assumes business from a direct insurer, although the corresponding investments to cover the relevant insurance reserves remain with the direct insurer. Such funds held by others for Allianz increased to DM 5.1 billion in 1995 (1994: DM 4.9 billion).

Investments held for third parties

DM 15.1 billion (1994: DM 14.0 billion) was held in separate asset accounts for variable annuity policyholders. The assets concerned are shown under a separate heading in the balance sheet.

Allianz also had DM 19.5 billion (1994: DM 18.6 billion) invested on behalf of third parties, mainly for the holders of mutual fund units in Italy and Germany and for the pension fund Allianz-Versorgungskasse VVaG (which is not included in the consolidated financial statements). Allianz therefore had a total of DM 282.0 billion (1994: DM 247.8 billion) under management at the balance sheet date.

Innovative financial instruments

Allianz companies make use of financial derivatives such as options and futures, primarily for the management of risk in local portfolios. Such instruments are not used to any great extent. The risks associated with innovative financial instruments are controlled and limited by detailed internal monitoring systems. Local monitoring is supplemented by a system of continuous financial control throughout the Group.

The principal amount of all options, forward transactions and similar instruments open at the balance sheet date was DM 0.8 billion, or 0.3 percent of the Group's balance sheet total. These transactions had no material effect on the income statement nor on the Group's exposure to risk.

Net investment result

Investment income and expenses are shown separately for life and health insurance and for property and casualty insurance in the Notes to the Consolidated Financial Statements. Changes in the valuation of investments held for variable annuity business written have no effect on earnings. Such changes are adjusted directly against policyholders' funds by means of a corresponding adjustment to the aggregate reserve.

Current income from investments amounted to DM 17.5 billion in the year under review (1994: DM 16.4 billion). The increase of 7.0 percent was less than the rate of growth in the book value of the investment portfolio because of the fall in interest rates worldwide.

Realized investment gains and profit-pooling agreements generated income of DM 1.9 billion (1994: DM 1.6 billion). DM 261 million of the total came from investments in subsidiaries and affiliates, DM 205 million from real estate, and DM 1,450 million from securities and other interests.

Realized investment losses and losses assumed under profit and loss transfer agreements amounted to

DM 232 million (1994: DM 333 million).

Write-downs at the balance sheet date fell sharply to DM 1.3 billion (1994: DM 2.0 billion) owing to the favorable conditions in financial markets. Write-downs on securities amounted to DM 643 million, on real estate DM 641 million, and on investments in subsidiaries and affiliates DM 45 million.

Other investment expenses amounted to DM 1.2 billion (1994: DM 1.0 billion), comprising a net transfer of DM 33 million to special untaxed reserves, investment management expenses of DM 776 million and – under the new accounting regulations – interest charges of DM 358 million.

Total net income from investments came to DM 16.7 billion (1994: DM 14.7 billion), comprising DM 11.7 billion (1994: DM 10.1 billion) from life and health insurance business and DM 5.0 billion (1994: DM 4.6 billion) from property and casualty insurance.

■ Looking Ahead

Allianz is forecasting another substantial improvement in earnings this year. Earnings before tax are expected to show double-digit growth, although not quite as high as in 1995.

Premium growth in traditional markets is again relatively modest in 1996. In Western Europe, in particular, neither the economic climate nor customer demand are generating much in the way of growth. On the basis of constant exchange rates, therefore, 1996 can again be expected to show slow growth in premium income overall.

The improvement in earnings predicted at the time of writing will therefore come primarily from the success of the measures now being taken to increase income and efficiency. As long as there are no unexpected events like major natural catastrophes or disaster claims during the rest of the year, the underwriting loss will be substantially reduced. On the other hand investment income has been benefiting up to now from favorable conditions in capital markets, which have also been used to increase realized gains. The possibility of interest rates rising again cannot be excluded, in which case heavier write-downs would have to be made.

Now that the tax losses brought forward from the old Deutsche Versicherungs-AG have been used up in 1995 the tax charge on the Group will show a significant increase this year, so the improvement in net income will be less than in earnings before tax.

In *Germany* the scope for financial maneuver on the part of customers wanting to insure against risk and provide for their future remains as limited in 1996 as it was in the previous year. The main limiting factors are the increase in annuity premiums and implementation of the second stage of compulsory long-term nursing care insurance, at the same time as continued imposition of the solidarity surcharge on income tax. Premium growth will also be affected by Allianz' new rates for industrial fire insurance.

Following initial consultations with German and European anti-trust authorities, Allianz is confident that it will be able to acquire the Vereinte Group. This solution, which promises Allianz substantial earnings potential in the medium term, was preferable to a sale of Vereinte.

Anti-trust authorities previously objected to Allianz' takeover of the Vereinte Group because, together with Allianz' DKV subsidiary, it would give Allianz market dominance in private health insurance. As part of an equity swap agreed with Münchener Rückversicherungs-Gesellschaft (Munich Re), Allianz AG will transfer its 51 percent stake in DKV to Munich Re, thus adequately responding to the anti-trust authorities' objection to the Vereinte acquisition. In return, Allianz will acquire a 25.7 percent stake in Vereinte Krankenversicherung AG held by Munich Re as well as that company's 50.3 percent stake in Hermes Kreditversicherungs-AG. Hermes, in which Allianz will now have a total 75.3 percent stake, is one of Europe's leading credit insurers and thus an important strategic addition to Allianz' German and international industrial insurance business.

Cyclical conditions and competitive pressures in the other markets of the European Union will also restrict premium growth. Thanks to a careful policy of risk selection, however, earnings are expected to show further improvement. Cooperation agreements with bank partners are also expected to stimulate extra growth, not only in the field of life insurance but increasingly in property and casualty insurance as well.

Just such a stimulus is expected in *France* from the cooperation arrangement with Crédit Lyonnais, a major French bank which has agreed to sell non-life insurance products through its branch network. Assurance Fédérale, a joint insurance subsidiary in which Allianz has a 95 percent shareholding, has been set up for this purpose.

In *Switzerland* the ELVIA group and Allianz Switzerland have combined their head office operations for some areas of business, although

both companies will retain their separate identities in the marketplace.

In *Portugal* A Social, the insurance subsidiary of the banking group BPI/Fonsecas y Burnay, is being merged with the Allianz group company Portugal Previdente as part of the agreed cooperation arrangement, taking the latter up into fifth place in the Portuguese market.

The property and casualty insurance market in the *United States* will also be plagued by low premium growth and undiminished fierce competition in 1996. The good financial reputation of Allianz companies, however, will continue to have a beneficial effect on premium sales. In the U.S. life insurance market Allianz Life expects sales of variable annuities – its main product – to recover from the level recorded in 1995.

This year Allianz in *Mexico* is starting to sell insurance products through the BanCreceer banking group which, with 800 offices, has the second largest branch network in the country. Life insurance products will be sold through a new joint venture company.

In *Brazil* Allianz will increase its shareholding in Allianz Bradesco from 30.8 percent to 48.95 percent so that it has the same shareholding as the Bradesco group.

Expansion of the Group's activities in the emerging markets of Asia is to be underpinned and given added momentum by a new management structure. A new management unit, Allianz Asia Pacific, was set up in *Singapore* at the beginning of this year to coordinate all the Group's activities in the Asia-Pacific region. Priority is being given to expanding the services provided by Allianz in the fields of reinsurance, risk consulting and risk management. In *Hong Kong* a new company, Allianz Asset Management Limited, has also been set up to control the investment activities of all units in the Asian region. Investment funds of European and American group companies are also under management there in order to participate in the dynamic growth of Asian capital markets. The current volume of investments worth around DM 360 million is to be further increased.

Recommendation for Appropriation of Profit Allianz Aktiengesellschaft

Unappropriated earnings of DM 362,039,680 are at the disposal of the Annual Meeting of shareholders. We propose that this amount be used to distribute a dividend of DM 16 on each of the Company's 22,627,480 shares of DM 50 par value which are entitled to participate in the dividend.

Munich, June 24, 1996

Allianz Aktiengesellschaft

The Board of Management

Dr. Schulte-Noelle	Dr. Breipohl
Bremkamp	Dr. Gavazzi
Dr. Hagemann	Hansmeyer
Dr. Rupprecht	

Opportunities for Allianz and its customers created by European Monetary Union

Background

Opinions have been voiced more frequently in Europe recently about the possibility of postponing the date planned for the introduction of Economic and Monetary Union in Europe (EMU), the creation of which was approved at the meeting of the Council of European Heads of State or Government held in Maastricht in December 1991. The target date for the introduction of monetary union is January 1, 1999. It follows on from the deregulation of European markets for goods, services, capital and labor (the "Single European Market") implemented during the first half of the 1990s. EMU will make an important contribution towards the process of economic and political integration within Europe which has been gathering pace since the fifties.

It will replace the European Monetary System, which has linked most of the currencies in the European Union (EU) since 1979 in a system of stable but still adjustable exchange rates. The creation of a European monetary union will eliminate exchange rate fluctuations between participating countries once and for all. In order to achieve this a new common European currency – the Euro – will be introduced which will supplant national currencies. The Euro does not involve any currency reform. There is no danger of any loss of value, because the translation rate for the new European currency will be much the same as the current market level.

Reasoning behind monetary union

Monetary union will strengthen the forces of growth and innovation in Europe, help to solve the European

employment problem, and simplify the lives of ordinary citizens.

▼ *Benefits of the single European market maximized*

In the past the European Union has been constantly at the mercy of currency upheavals. The realignments of exchange rates which ensued were wider than would have been justified simply by differences in the movements of costs or prices.

This has meant that businesses in countries with rising exchange rates saw themselves becoming suddenly less competitive in a way which put at risk their return on long-term capital investment. Countries with falling exchange rates enjoyed the benefits of increased competitiveness. Attempts by the latter to arrest the decline of their currencies by means of monetary policy, to prevent any remaining devaluation having inflationary consequences, and to counteract any loss of confidence on international financial markets generally resulted in money market rates rising. The benefits of devaluation were therefore diminished by an increase in the rate of inflation and by higher interest rates.

The net result was that the growth and jobs lost in countries with rising exchange rates outweighed the corresponding gains in countries with falling exchange rates. The European Commission estimates that the currency upheavals at the beginning of 1995 alone caused growth equal to 0.5 percent of European GDP to be lost.

The elimination of exchange rate risks in the single European market will enable businesses to budget with a greater degree of security, making long-term capital investment simpler. The costs of hedging foreign currency exposure will be saved, as will the expenses of changing currencies for cross-border transactions, which the European Commission reckons together account for 0.3 to 0.4 percent of the EU's gross domestic product.

European monetary union will also prevent growth being lost by restrictive monetary policies designed to counteract the undesirable effects of a devaluation.

▼ *Efficiency of European financial markets increased*

The elimination of exchange rate risks will unite European financial markets into a single market. Liquidity of the European equity and bond markets will be much greater than that of the existing national markets. Competition between the suppliers of banking and other financial products and services will be further increased. All this will enhance the efficiency of financial services for businesses and private households alike.

▼ *Negative side-effects of the globalization of financial markets reduced*

The Euro will be a more important international reserve and investment currency than the DM is at present. The creation of a monetary union will therefore curtail the negative effects of massive inflows and outflows of capital on exchange rates and interest rates. Unification of the currency will put Europe in a position to make a greater contribution towards the stabilization of international financial markets and to promote growth and employment – not only in Europe but in America and Asia as well.

▼ *The lives of ordinary citizens simplified*

Not just the businesses but also the citizens of Europe will benefit from the absence of currency transaction costs which are nowadays still a burden on tourist travel.

Which countries will participate?

The countries which will participate in EMU are those whose economies have achieved a high degree of stability and have converged sufficiently with each other. The following specific “convergence criteria” laid down in the Maastricht Treaty have to be met by each country participating:

▼ A high degree of *price stability* must have been achieved. The rate of inflation must not be more than 1.5 percentage points above the average

in the three countries with the lowest rates of inflation.

▼ The financial position of the *public sector* must be *sustainable* over the long term. A country’s budget deficit must not exceed 3 percent of its GDP, and cumulative national debt must not be more than 60 percent of GDP.

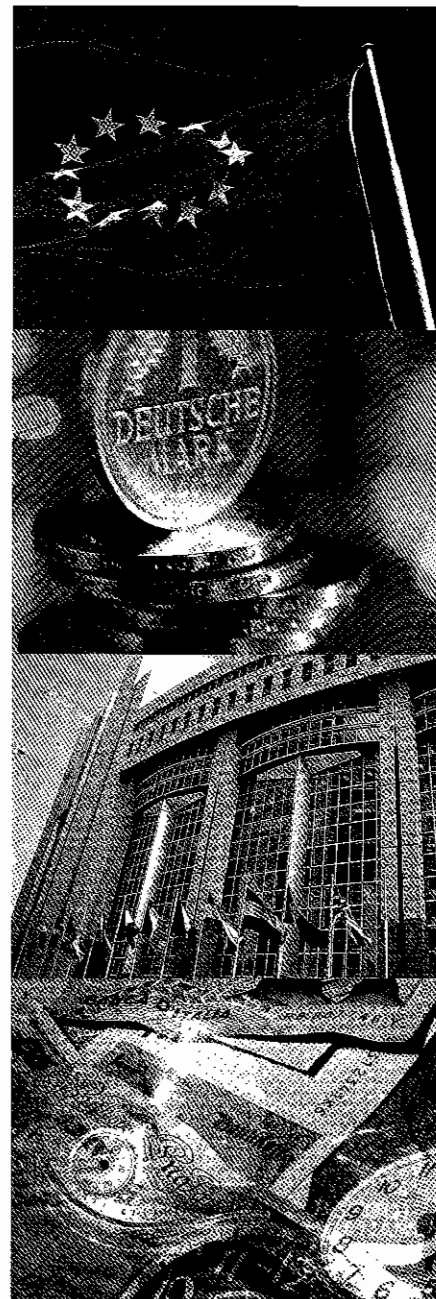
▼ The *currency* must have remained within the *normal fluctuation margins* of the European Monetary System for the last two years without any devaluation.

▼ As evidence of the durability of a country’s convergence the *yield on long-term government bonds* must not be more than 2 percentage points above the average in the three countries with the lowest rates of inflation.

The European Monetary Institute and the European Commission will report to the Council of the Heads of State or Government at the beginning of 1998 which countries have achieved a high degree of sustainable convergence. Under the terms of the Treaty there is room for maneuver in assessing a government’s financial position. The Council will then decide, on the basis of these reports, which countries have fulfilled the criteria and will form a monetary union in 1999.

As things look at the moment it is unlikely that all EU member states will participate in monetary union from the outset in 1999. Given that the public-sector finances of many member states are still suffering from the consequences of the latest recession and from the burden on welfare systems caused by high unemployment, it looks doubtful whether every country can fulfill the debt criteria. In addition, the UK and Denmark have been given the option under the Treaty not to join monetary union even if they do fulfill all the criteria.

In any case, any EU country which does not participate in EMU at the outset in 1999 can join the monetary union at a later date on the basis of a fresh examination of its compliance with the convergence criteria.



Importance of EMU for Allianz' customers

The changeover to the Euro will not affect the quality or cost of Allianz' products or services at all. It is a straightforward currency conversion, like converting miles into kilometers without affecting the actual length of a given distance.

Insurance policies will be converted to the Euro automatically. All premiums, balances and benefits will also be converted to the Euro by Allianz without the policyholder having to do anything. Benefits payable which include an element of interest – such as guaranteed bonuses on life insurance policies or casualty insurance with guaranteed premium refunds – will likewise be converted automatically from DM to the Euro without affecting their value.

Assuming a responsible approach to the stability criteria, the introduction of EMU will not give rise to any material changes over the long term for customers who have taken out an insurance policy with a savings element. Even any short-term effects on interest rates will be less than the normal cyclical fluctuations of interest rates in Europe.

If interest rates in Germany rise, the holder of a German life or casualty insurance policy is exposed to less risk than holders of fixed income securities because bonuses already credited are preserved even if interest rates rise. Moreover, German life and casualty insurers can react more effectively than managers of pure bond or equity portfolios to risks that cannot be foreseen at the moment, by restructuring their portfolios e.g. into tangible assets and foreign shares or bonds.

On the investment side the benefits for Allianz and its customers will become dominant sooner or later. The scope for investment without the risks associated with foreign currencies will be greater – and probably more stable – which will meet all the requirements of a major institutional investor with a conservative approach to risk.

Monetary union will also simplify other European insurance services for

the benefit of customers – for example the settlement of claims in automobile insurance.

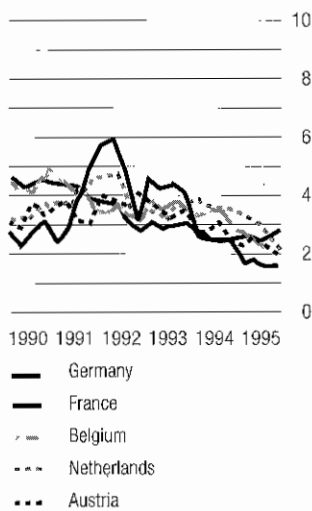
Preparations by Allianz for EMU

With years of international experience behind it, Allianz has accumulated a vast resource of underwriting and investment expertise. This means that Allianz can take full and immediate advantage of the potential benefits to itself and its customers arising from the introduction of the Euro.

The Allianz Group companies affected by the changeover are now preparing for the technicalities of transforming all their activities to accommodate the Euro – from payment transactions and computer systems to investments. This will enable Allianz companies to react flexibly even if the timetable for introduction of the new currency is extended. Allianz will inform its customers in good time about the exact dates and the various stages in the changeover to the Euro.

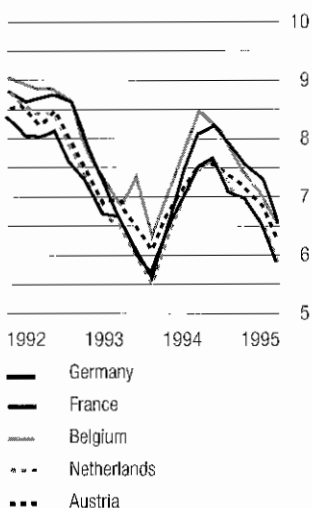
Currency Stability in Europe

Inflation rates (%)



Long-term interest rates in Europe

(%)



**Consolidated Financial Statements
Allianz Group**

☐ Consolidated Balance Sheet at December 31, 1995

Assets

	1995	1995	DM in thousands 1994
A. Receivables from subscriptions to capital stock		10,518	12,233
B. Intangible assets		3,125,372	2,613,328
C. Investments			
I. Real estate	17,483,945		14,841,052
II. Investments in subsidiaries and affiliates	4,708,590		4,947,372
III. Other investments	220,083,458		190,606,115
IV. Funds held by others under reinsurance business assumed	5,097,340		4,901,977
		247,373,333	215,296,516
D. Investments held on account and at risk of life insurance policyholders		15,095,375	13,983,784
E. Receivables			
I. Accounts receivable on direct insurance business	7,141,331		6,505,603
II. Accounts receivable on reinsurance business	2,244,675		1,412,817
III. Other receivables	3,692,095		4,679,203
		13,078,101	12,597,623
F. Other assets			
I. Tangible fixed assets and inventories	827,187		788,367
II. Cash with banks, checks and cash on hand	985,099		1,299,838
III. Miscellaneous	499,385		122,930
		2,311,671	2,211,135
G. Prepaid expenses			
I. Accrued interest and rents	4,772,017		4,242,107
II. Other prepaid expenses	1,566,930		1,388,564
		6,338,947	5,630,671
		287,333,317	252,345,290

Liabilities

	DM in thousands			
	1995	1995	1995	1994
A. Stockholders' equity				
I. Capital stock		1,131,374		1,040,000
II. Additional paid-in capital		9,296,236		7,481,942
III. Appropriated retained earnings				
1. required by law	2,403			2,403
2. other including excess of book value over underlying net equity of consolidated subsidiaries: 85,393 (1994: 67,421) including excess of underlying net equity over book value of consolidated subsidiaries: 173,765 (1994: 9,786)	3,296,181			3,565,636
		3,298,584		3,568,039
IV. Unappropriated retained earnings		362,040		312,000
V. Minority interest		4,392,385		5,071,301
			18,480,619	17,473,282
B. Participating certificates			864,956	846,052
C. Post-ranking liabilities			75,758	-
D. Special untaxed reserve			134,183	101,785
E. Insurance reserves				
I. Unearned premiums				
1. Gross	12,928,382			12,217,209
2. less: amounts ceded	2,472,814			2,733,138
		10,455,568		9,484,071
II. Aggregate reserve				
1. Gross	152,868,997			133,043,914
2. less: amounts ceded	11,767,299			11,405,709
		141,101,698		121,638,205
III. Reserve for losses and loss adjustment expenses				
1. Gross	55,541,684			51,401,647
2. less: amounts ceded	9,313,673			10,141,747
		46,228,011		41,259,900
IV. Reserve for experience-rated and other premium refunds				
1. Gross	15,837,345			14,992,531
2. less: amounts ceded	168,612			183,084
		15,668,733		14,809,447
V. Claims equalization and similar reserves		3,107,945		1,808,567
VI. Other insurance reserves				
1. Gross	1,656,124			1,124,442
2. less: amounts ceded	62,741			68,400
		1,593,383		1,056,042
			218,155,338	190,056,232

	DM in thousands		
	1995	1995	1994
F. Insurance reserves for life insurance where the investment risk is carried by policyholders			
I. Aggregate reserve			
1. Gross	14,420,457		13,255,162
2. less: amounts ceded	70,228		-
		14,350,229	13,255,162
G. Other accrued liabilities		6,256,224	5,599,921
H. Funds held under reinsurance contracts		10,474,752	8,564,249
I. Other liabilities			
I. Accounts payable on direct insurance business	7,711,787		7,330,139
II. Accounts payable on reinsurance business	976,826		972,625
III. Debentures including convertible 2,027,970 (1994: 2,017,574)	2,066,606		2,017,574
IV. Liabilities to banks	2,028,309		1,346,896
V. Miscellaneous liabilities including: taxes of 467,999 (1994: 441,962) social security at 212,249 (1994: 136,014)	5,014,622		4,049,186
		17,798,150	15,716,420
K. Deferred income		743,108	732,187
		287,333,317	252,345,290

**Consolidated Income Statement
for the period from January 1 to December 31, 1995**

	1995	1995	DM in thousands	
			1995	1994
I. Underwriting account for property and casualty insurance business				
1. Premiums earned – net				
a) Gross premiums written	40,386,164			37,112,324
b) Premiums ceded	- 6,915,266			- 7,377,324
		33,470,898		29,735,000
c) Change in unearned premiums – gross	- 228,189			- 695,481
d) Change in unearned premiums ceded	- 49,090			214,559
		- 277,279		- 480,922
			33,193,619	29,254,078
2. Credited interest on special reserves – net			710,403	596,495
3. Other underwriting income – net			100,971	52,979
4. Loss expenses – net				
a) Claims paid				
aa) Gross	-26,163,683			-24,340,384
bb) Amounts ceded in reinsurance	4,377,276			4,102,671
		-21,786,407		-20,237,713
b) Change in reserves for losses and loss adjustment expenses				
aa) Gross	- 3,276,448			- 2,901,846
bb) Amounts ceded in reinsurance	335,020			804,835
		- 2,941,428		- 2,097,011
			-24,727,835	-22,334,724
5. Changes in other insurance reserves – net			- 528,297	- 593,823
6. Premium refund payments and change in reserves – net			- 247,488	- 237,305
7. Underwriting expenses			- 8,485,184	- 7,526,879
8. Other underwriting expenses			- 400,858	- 237,997
9. Subtotal			- 384,669	- 1,027,176
10. Change in claims equalization and similar reserves			- 1,217,173	- 814,601
11. Underwriting result in property and casualty insurance – net of reinsurance			- 1,601,842	- 1,841,777

	DM in thousands			
	1995	1995	1995	1994
II. Underwriting account for life and health insurance business				
1. Premiums earned – net				
a) Gross premiums written	27,265,991			26,279,781
b) Premiums ceded	- 2,015,197			- 1,834,209
		25,250,794		24,445,572
c) Change in unearned premiums – net	- 181,642			- 228,431
			25,069,152	24,217,141
2. Premiums earned from reserve for premium refunds			2,895,972	2,695,654
3. Allocated interest for the non-underwriting account			11,736,656	10,128,021
4. Unrealized gains on investments held on account and at risk of life insurance policyholders			2,009,479	484
5. Other underwriting income – net			792,346	764,798
6. Loss expenses – net				
a) Claims paid				
aa) Gross	-17,128,650			-14,505,219
bb) Amounts ceded in reinsurance	1,171,727			1,203,133
		-15,956,923		-13,302,086
b) Change in reserve for losses and loss adjustment expenses				
aa) Gross	612,084			- 505,249
bb) Amounts ceded in reinsurance	- 142,386			82,973
		469,698		- 422,276
			-15,487,225	-13,724,362
7. Change in other insurance reserves – net				
a) Aggregate reserve				
aa) Gross	-16,887,946			-13,588,612
bb) Amounts ceded in reinsurance	937,654			570,613
		-15,950,292		-13,017,999
b) Other insurance reserves – net		- 26,584		- 14,784
			-15,976,876	-13,032,783
8. Expenses for experience-related and other premium refunds – net			- 5,308,771	- 4,758,081
9. Underwriting expenses			- 3,306,107	- 3,378,738
10. Unrealized losses on investments held on account and at risk of life insurance policyholders			- 57,362	- 986,271
11. Other underwriting expenses			- 1,450,157	- 1,201,874
12. Underwriting result in life and health insurance – net of reinsurance			917,109	723,989

	DM in thousands		
	1995	1995	1994
III. Non-underwriting account			
1. Underwriting result			
a) in property and casualty business	- 1,601,842		- 1,841,777
b) in life and health business	917,109		723,989
		- 684,733	- 1,117,788
2. Investment income	19,502,341		17,959,760
3. Investment expenses	- 2,775,046		- 3,277,987
4. Allocated interest transferred to the underwriting account for property and casualty business	- 770,888		- 697,612
5. Allocated interest transferred to the underwriting account for life and health insurance business	-11,736,656		-10,128,021
		4,219,751	3,856,140
3. Other income	947,594		808,950
7. Other expenses	- 1,439,562		- 1,282,884
		- 491,968	- 473,934
8. Earnings from ordinary activities before taxation		3,043,050	2,264,418
9. Income taxes	- 842,929		- 770,796
10. Other taxes	- 179,244		- 157,839
		- 1,022,173	- 928,635
11. Net income		2,020,877	1,335,783

Notes to the Consolidated Financial Statements

New Accounting Regulations

The consolidated financial statements and the Group Management Report have been prepared for the first time in accordance with the regulations contained in the German Commercial Code (HGB) 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.

Valuation policies have been applied on a basis largely consistent with the previous year. The option of retaining a written-down valuation in the balance sheet even when the reason for the write-down has ceased to exist has been restricted so that insurance companies too may now only retain such lower valuation if it is allowable for tax purposes. In addition, investments held on account and at risk of life insurance policyholders have to be valued at current market value.

The classification rules prescribe changes to the layout of the consolidated balance sheet and of the consolidated income statement. On the assets side of the consolidated balance sheet all investment and receivable relationships with unconsolidated subsidiaries and affiliates are now shown under one investment heading (asset heading C.II), and on the liabilities side participation certificates have to be shown separately (liability heading B.).

The consolidated income statement is now divided into three parts:

- I. Underwriting account for property and casualty insurance business
- II. Underwriting account for life and health insurance business
- III. Non-underwriting account.

For reasons of simplicity and clarity advantage has been taken of the option to combine certain headings in the consolidated balance sheet and in the income statement. The detailed information is disclosed in the Notes. In addition, net investment income from property and casualty insurance and from life and health insurance is shown in total in the non-underwriting account. From this is deducted allocated interest, which in property

and casualty business still comprises the technical interest rate (net) and in life and health business comprises total investment income and expenses.

A further change to the consolidated income statement is that all personnel and general expenses have to be allocated to one of the following headings according to their function:

- settlement of claims, surrenders and premium returns
- acquisition of insurance policies
- administration of insurance policies

- management of investments or to other expenses. This change in accounting treatment means that the underwriting account is charged and the non-underwriting account relieved by the amounts concerned. In order to make the previous year's figures comparable they have been adjusted to bring them into line with the new regulations, resulting in expenses totaling DM 770 million being taken out of the non-underwriting result and transferred to the underwriting result for 1994.

Amounts in the consolidated financial statements are stated in DM thousands.

Companies Consolidated

In principle, all domestic and foreign subsidiaries are included in the consolidation.

In addition to Allianz AG, 33 (1994: 33) German and 204 (1994: 194) foreign companies were consolidated and 54 (1994: 43) subsidiaries included at equity. The most important companies consolidated for the first time were ELVIA Schweizerische Versicherungs-Gesellschaft, Zurich, Lloyd Adriatico S.p.A., Trieste, and N.V.S. Salland Verzekeringen N.V., Amsterdam, together with their subsidiary companies in each case.

An additional 54 (1994: 49) companies were not included in the consolidation or accounted for at equity as their aggregate values are immaterial to the presentation of the financial statements as a whole.

All 19 (1994: 26) affiliated companies were accounted for by using the equity method in the consolidated financial statements.

Select subsidiaries and affiliates are presented on pages 56 through 58. All subsidiaries, regardless of whether or not included in the consolidated financial statements, as well as all affiliates, are shown individually in the investment disclosure of stock holdings.

Consolidation Principles

The financial statements of Allianz AG and its subsidiaries that are included in the consolidation are the basis for the consolidated financial statements. All financial statements included are uniformly prepared as of 12/31/95. Interim financial statements have been used for those entities having business year-ends other than 12/31/95.

The equity consolidation was based on the book value method, i.e. by netting the cost of the investment with the Group's share of the underlying subsidiary's stockholders' equity at the time of the first inclusion in the consolidation or, in the case of later additions, at the time of acquisition. With regard to differences resulting from the first time consolidation: To the extent they did not represent understated values of the underlying

assets other than intangibles and therefore were added to the asset values, they were included in appropriated retained earnings.

The income generated by subsidiaries after the first consolidation or, respectively, date of acquisition was allocated to the appropriated retained earnings of the Group as was the Group's portion of the subsidiaries' unappropriated retained earnings and the effects of the consolidation. The unappropriated retained earnings in the consolidated financial statements are thereby identical to the unappropriated earnings in the financial statements of Allianz AG.

Calculation of net income due to minority interests or losses to be assumed by them was based on net income or loss for the year. There is no profit balance brought forward from the previous year as unappropriated retained earnings were generated by Allianz AG only and distributed in full.

Receivables and payables between the consolidated companies were offset against each other. Intercompany profits and expenses and income earned on transactions completed within the consolidated group were eliminated.

Accounting and Valuation Policies

The financial statements of Allianz AG and its consolidated German and foreign subsidiaries, which provide the basis for the consolidated financial statements, were prepared uniformly according to the accounting and valuation policies applied by Allianz AG. Valuations in the financial statements of the consolidated companies based on accounting and valuation rules specific to insurance companies have generally been retained unchanged in the consolidated financial statements.

Intangibles consisting in goodwill are carried as an asset. They are amortized against appropriated retained earnings over a period of 15 years.

Real estate (i.e. real property and equivalent rights, buildings, including buildings on leased land) is recorded at cost less accumulated ordinary and extraordinary depreciation. If the reasons for extraordinary depreciation having been charged no longer exist, the lower valuations are retained if they are allowable for tax purposes.

Investments in unconsolidated subsidiaries and affiliates are recorded at prorated book value of the underlying equity. The values at the date of acquisition or at the balance sheet date were used for the first-time application of this method to the 1995 additions. In 1995 (as in 1994) there was no difference between the book value and the proportionate equity. The uniform valuation policies of Allianz AG were not extended to the companies included at equity.

Other long-term equity investments and investments in unconsolidated subsidiaries not recorded at equity are recorded at cost less related ordinary and extraordinary write-downs.

Stocks, investment fund units, bearer bonds and other fixed income and variable income securities are recorded at the lower of cost or market at the balance sheet date. If the reasons for write-downs to the lower of cost or market having been made no longer exist, the lower valuations are retained if they are allowable for tax purposes.

An average cost has been established in most cases where securities of the same kind were purchased at different cost.

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

1. Loans to unconsolidated subsidiaries
2. Loans to affiliates
3. Mortgages and annuities
4. Registered bonds
5. Debentures and loans
6. Loans and advance payments on policies
7. Other loans
8. Bank deposits

9. Funds held by others under reinsurance contracts assumed
10. Accounts receivable on direct insurance business
11. Accounts receivable on reinsurance business
12. Other receivables.

Investments held on account and at risk of life insurance policyholders are recorded at current market value. The corresponding income and expenses are shown in the underwriting account for life and health insurance business under the headings "Unrealized gains on investments held on account and at risk of life insurance policyholders" and "Unrealized losses on investments held on account and at risk of life insurance policyholders".

Tangible fixed assets and inventories are recorded at cost less depreciation. Assets of low value are written off immediately in full.

Insurance reserves consist of the following:

- I. Unearned premiums
- II. Aggregate reserve
- III. Reserve for losses and loss adjustment expenses
- IV. Reserve for premium refunds (experience rated and other)
- V. Claims equalization and similar reserves
- VI. Other insurance reserves
- VII. Insurance reserves for life insurance where the investment risk is carried by policyholders.

In principle, the insurance reserves are included in the consolidated financial statements in the same amount as in the individual financial statements.

Other accrued liabilities include pension accruals calculated in accordance with the proper actuarial methods applicable at the individual consolidated subsidiaries and included in the consolidated financial statements. The full amount of the pension liability has been recorded in the financial statements. Miscellaneous accrued liabilities have been recorded as projected.

Funds held under reinsurance contracts ceded and other liabilities are recorded at the amounts payable at maturity. Annuities are recorded at present value.

The *deferred tax calculations* were taken from the individual financial statements. In addition, deferred taxes were calculated on the differences arising from applying uniform valuation policies and the result of the consolidation.

Foreign currency translation

The financial statements of foreign subsidiaries were translated into DM at the middle exchange rate in effect on the balance sheet date. This translation method was applied to all consolidated balance sheet and income statement items, resulting in no currency translation adjustments.

■ Supplementary Information on Group Assets

Development of asset headings B., C.I. and C.II. in fiscal 1995

Asset Heading	DM in thousands		
	Values stated at 12/31/1994	Values stated at ¹⁾ 1/1/1995	Additions ²⁾
B. Intangible assets			
1. Purchased goodwill	2,568,632	2,568,579	803,979
2. Other intangible assets	44,696	43,775	36,775
3. Total B.	2,613,328	2,612,354	840,754
C.I. Real estate	14,841,052	14,894,361	4,289,472
C.II. Investments in subsidiaries and affiliates			
1. Investments in subsidiaries	425,019	426,201	16,582
2. Loans to subsidiaries	7,817	7,817	4,138
3. Investments in affiliates	4,485,896	4,483,509	292,929
4. Loans to affiliates	28,640	28,640	38,980
5. Total C.II.	4,947,372	4,946,167	352,629
Total	22,401,752	22,452,882	5,482,855

¹⁾ translated at closing rates 12/31/95

²⁾ including assets of companies consolidated for the first time

Intangible assets (Assets B.)

This item includes principally the goodwill arising on the consolidation of group companies included for the first time in 1991 and 1995 (ELVIA and Lloyd Adriatico DM 750.380 million).

Real estate (Assets C.I.)

Land and buildings owned by the Allianz Group and used for its own activities were carried at DM 2,720.601 million.

				DM in thousands
Transfers	Disposals ²⁾	Revaluation	Depreciation	Values stated at
				12/31/1995
-	-	-	287,105	3,085,453
-	9,304	-	31,327	39,919
-	9,304	-	318,432	3,125,372
-	1,059,631	786	641,043	17,483,945
-	78,181	33,228	10,827	387,003
-	-	-	-	11,955
-	489,324	17,859	45,305	4,259,668
-	17,656	-	-	49,964
-	585,161	51,087	56,132	4,708,590
-	1,654,096	51,873	1,015,607	25,317,907

Selected subsidiaries and other long-term equity investments

Subsidiaries	Currency	Equity in thousands	Percent owned ¹⁾
Alico-Beteiligungsgesellschaft mbH, Munich	DM	356,542	100.0
Allianz Beteiligungsgesellschaft mbH, Munich	DM	1,384,405	89.2
Allianz Grundstücks-GmbH, Stuttgart	DM	9,875	100.0
Allianz Kapitalanlagegesellschaft mbH, Stuttgart	DM	13,305	100.0
Allianz Lebensversicherungs-AG, Berlin/Munich	DM	1,134,850	46.5
Allianz Unternehmensbeteiligungsgesellschaft AG, Munich	DM	110,498	100.0
Allianz Vermögensverwaltungsgesellschaft mbH, Munich	DM	11,141	100.0
Allianz Versicherungs-AG, Munich	DM	2,233,251	100.0
Allianz Verwaltungsgesellschaft mbH, Munich	DM	1,702,011	100.0
Allianz-Zentrum für Technik GmbH, Munich	DM	340	100.0
Apollon-Vermögensverwaltungsgesellschaft mbH, Munich	DM	18,151	100.0
Aquila Beteiligungsgesellschaft mbH, Munich	DM	23,514	100.0
Assecuranz-Compagnie Mercur AG, Bremen	DM	2,335	50.0
Bayerische Versicherungsbank AG, Munich	DM	490,250	45.0
Beta-Vermögensverwaltungsgesellschaft mbH, Munich	DM	2,989	100.0
DKV Deutsche Krankenversicherung AG, Cologne/Berlin	DM	700,565	51.0
Deutsche Lebensversicherungs-AG, Berlin	DM	89,000	100.0
Deutsche Versicherungs-AG, Berlin	DM	693,859	100.0
Eta-Vermögensverwaltungsgesellschaft mbH, Munich	DM	182,710	100.0
Finanz- und Versicherungskontor für Heilberufe GmbH, Stuttgart	DM	50	100.0
Frankfurter Versicherungs-AG, Frankfurt/Main	DM	500,144	49.9
Gamma-Vermögensverwaltungsgesellschaft mbH, Munich	DM	115,050	100.0
Globus Versicherungs-AG, Hamburg	DM	29,426	100.0
Jota-Vermögensverwaltungsgesellschaft mbH, Munich	DM	29,927	100.0
Komet Automobil-Beteiligungsgesellschaft mbH, Munich	DM	106,653	100.0
Kraft Versicherungs-AG, Berlin/Munich	DM	12,808	99.5
Lambda-Vermögensverwaltungsgesellschaft mbH, Munich	DM	1,469,208	70.5
Nona-Vermögensverwaltungsgesellschaft mbH, Munich	DM	1,446,764	100.0
Perseus-Vermögensverwaltungsgesellschaft mbH, Munich	DM	889,997	100.0
Prima-Vermögensverwaltungsgesellschaft mbH, Munich	DM	225,308	69.4
Quarta-Vermögensverwaltungsgesellschaft mbH, Munich	DM	1,080,719	67.4
Quinta-Vermögensverwaltungsgesellschaft mbH, Munich	DM	812,715	100.0
Septima-Vermögensverwaltungsgesellschaft mbH, Munich	DM	149,480	100.0
Sexta-Vermögensverwaltungsgesellschaft mbH, Munich	DM	153,348	100.0
Allianz Bice Compañía de Seguros de Vida S.A., Santiago de Chile	Chil\$	3,934,796	50.0
Allianz Compañía de Seguros S.A., Santiago de Chile	Chil\$	4,754,114	100.0
Allianz Cornhill Insurance (Far East) Ltd., Hong Kong	HK-\$	47,152	100.0
Allianz Europe Ltd., Amsterdam	hfl	3,986,721	100.0
Allianz Finance B.V., Amsterdam	hfl	4,686,242	100.0
Allianz Fire and Marine Insurance Japan Ltd., Tokyo	Y	1,667,573	100.0
Allianz General Insurance Company S.A., Athens	Dr	1,482,262	93.0
Allianz Insurance Company, Los Angeles	US-\$	187,154	100.0
Allianz Insurance (Singapore) Pte. Ltd., Singapore	Sing-\$	18,814	100.0
Allianz Lebensversicherung (Schweiz) AG, Zurich	sfr	46,703	100.0
Allianz Life Insurance Company of North America, Minneapolis	US-\$	951,194	100.0
Allianz Life Insurance Company S.A., Athens	Dr	1,023,628	78.6
Allianz México S.A. Compañía de Seguros, Mexico City	US-\$	7,028	100.0
Allianz Nederland N.V., Rotterdam	hfl	246,343	100.0
Allianz of America, Inc., Wilmington	US-\$	3,223,110	84.4 ²⁾
Allianz of South Africa (Proprietary) Ltd., Johannesburg	R	47,799	100.0
Allianz pojišťovna a.s., Prague	CZK	358,853	100.0
Allianz RAS Argentina S.A. de Seguros Generales, Buenos Aires	Arg. Pes	7,102	100.0
Allianz-RAS Seguros y Reaseguros S.A., Madrid	Pta	7,181,770	100.0
Allianz-RAS Tutela Giudiziaría S.p.A., Milan	Lit	4,554,000	100.0

Subsidiaries	Currency	Equity in thousands	Percent owned ¹⁾
Allianz Subalpina S. p. A. Società di Assicurazioni e Riassicurazioni, Turin	Lit	313,487,330	84.1
Allianz Underwriters Insurance Company, Los Angeles	US-\$	39,494	100.0
Allianz Versicherung (Schweiz) AG, Zurich	sfr	72,956	100.0
Allianz Via Assurances I.A.R.D.T., Charenton-le-Pont	FF	721,841	100.0
Allianz Via Holding France, Charenton-le-Pont	FF	9,583,046	65.9
Allianz Via Vie Compagnie d'Assurances sur la Vie Société Anonyme, Charenton-le-Pont	FF	145,657	99.9
Anglo-Elementar Versicherungs-AG, Vienna	öS	853,622	99.4
Colón Compañía de Seguros Generales S.A., Buenos Aires	Arg. Pes	1,791	100.0
Cornhill Insurance PLC, London	£	417,500	98.0 ³⁾
ELVIA Assurances S.A., Brussels	bfr	464,203	100.0
ELVIA Schweizerische Lebensversicherungs-Gesellschaft, Zurich	sfr	101,044	96.5
ELVIA Schweizerische Versicherungs-Gesellschaft, Zurich	sfr	475,454	99.5
Eurovida S.A. Compañía de Seguros y Reaseguros, Madrid	Pta	2,792,545	51.0
Fireman's Fund Insurance Company, Novato	US-\$	3,147,863	100.0
Hungária Biztosító Rt, Budapest	Ft	6,770,829	91.0 ⁴⁾
International Reinsurance Company S.A., Luxembourg	US-\$	18,287	100.0
Languedoc Société Anonyme, Charenton-Le-Pont	FF	89,691	98.0
Lloyd Adriatico S.p.A., Trieste	Lit	638,875,599	99.5
NVS Salland Verzekeringen N.V., Amsterdam	hfl	95,635	100.0
P.T. Asuransi Allianz Utama Indonesia, Jakarta	Rp	23,089,671	68.0
Rhin et Moselle Assurances Compagnie d'Assurances sur la Vie Société Anonyme, Strasbourg	FF	696,149	99.8
Rhin et Moselle Assurances Compagnie Générale d'Assurances et de Réassurances, Strasbourg	FF	749,895	86.3
Riunione Adriatica di Sicurtà S.p.A., Milan	Lit	4,933,934,351	42.6 ⁵⁾
Wiener Allianz Lebensversicherungs-AG, Vienna	öS	487,133	81.0
Wiener Allianz Versicherungs-AG, Vienna	öS	1,430,471	77.3

Affiliated companies

TELA Versicherung AG, Berlin/Munich	DM	313,970	25.0
Adriática de Seguros C.A., Caracas	Bolivar	3,723,692	20.0
Reaseguradora Adriática C.A., Caracas	Bolivar	462,524	20.0
Şark Hayat Sigorta A.Ş., Istanbul	TL	153,454,543	40.0
Şark Sigorta T.A.Ş., Istanbul	TL	1,365,915,881	37.1

Other investments in insurance companies

AMB Aachener und Münchener Beteiligungs-AG, Aachen	DM	3,120,168	5.0
Berlinische Lebensversicherung AG, Berlin/Wiesbaden	DM	80,414	30.0
Hamburg-Mannheimer Sachversicherungs-AG, Hamburg	DM	521,355	20.7
Hamburg-Mannheimer Versicherungs-AG, Hamburg	DM	766,339	20.0
Hermes Kreditversicherungs-AG, Hamburg	DM	204,885	25.0
Karlsruher Lebensversicherung AG, Karlsruhe	DM	174,447	36.1
Münchener Hagelversicherungs-AG, Munich	DM	12,016	23.0
Münchener Rückversicherungs-Gesellschaft AG, Munich	DM	2,605,394	25.0

¹⁾ Including shares held by dependent subsidiaries calculated according to § 271 HGB

²⁾ percentage of voting capital owned: 90.0 %

³⁾ percentage of voting capital owned: 100.0 %

⁴⁾ percentage of voting capital owned: 90.8 %

⁵⁾ percentage of voting capital owned: 55.9 %

Other investments in insurance companies	Currency	Equity in thousands	Percent owned ¹⁾
Allianz-Bradesco Companhia Brasileira de Seguros, Rio de Janeiro	Real	40,099	30.8
Berner Allgemeine Holdinggesellschaft AG, Bern	sfr	119,970	44.0
Munich American Reinsurance Company (MARC), New York	US-\$	323,086	40.0
The Navakij Insurance Public Company Ltd., Bangkok	Baht	675,862	10.0

Other long-term holdings in quoted companies	Currency	Market value (mn)	Percent owned ²⁾
Barmag AG, Remscheid	DM	42	15.0
BASF AG, Ludwigshafen	DM	2,031	10.7
Bayer AG, Leverkusen	DM	1,288	5.0
Bayerische Hypotheken- und Wechsel-Bank AG, Munich	DM	2,105	22.9
Beiersdorf AG, Hamburg	DM	1,751	37.7
Berliner Handels- und Frankfurter Bank KGaA, Frankfurt/Berlin	DM	481	15.1
Continental AG, Hannover	DM	96	5.1
Deutsche Bank AG, Frankfurt a. M.	DM	1,712	5.0
DLW AG, Bietigheim-Bissingen	DM	62	12.7
Dresdner Bank AG, Frankfurt a. M.	DM	3,913	22.7
Th. Goldschmidt AG, Essen	DM	88	10.4
IKB Deutsche Industriebank AG, Düsseldorf/Berlin	DM	292	12.0
Lahmeyer AG für Energiewirtschaft, Frankfurt a. M.	DM	374	24.9
Leifheit AG, Nassau (Lahn)	DM	33	10.1
Linde AG, Wiesbaden	DM	798	11.0
Monachia Grundstücks-AG, Munich	DM	282	45.2
Rheinelektra AG, Mannheim	DM	305	10.0
RWE AG, Essen	DM	2,769	10.4
Schering AG, Berlin	DM	721	10.0
Schlossgartenbau-AG, Stuttgart	DM	15	7.0
Süd-Chemie AG, Munich	DM	44	10.0
VEBA AG, Düsseldorf	DM	2,837	10.3
Compagnie de Navigation Mixte S.A., Marseilles	FF	967	8.4
Crédit Foncier et Communal d'Alsace et de Lorraine S.A. Strasbourg	FF	21	10.9

¹⁾ including shares held by dependent subsidiaries
calculated according to §271 HGB

²⁾ holdings of at least 5% calculated according to
§271 HGB

Other interests

Equity positions held via trusts in which Allianz AG and its group companies do not own a majority interest include the following: Hapag-Lloyd AG (Hamburg), Heidelberger Druckmaschinen AG (Heidelberg), Hochtief AG (Essen), Isar-Amperwerke AG (Munich), MAN AG (Munich), Thyssen AG (Duisburg).

Investment disclosure of stock holdings

The information required by the German Commercial Code (§313(2) HGB) is filed with the Commercial Register in both Berlin-Charlottenburg and Munich.

Other investments (Assets C.III.)

	DM in thousands	
	1995	1994
C.III. Other Investments		
1. Stocks, investment fund units and other variable income securities	41,016,481	32,114,516
2. Bearer bonds and other fixed income securities	77,623,570	59,330,711
3. Mortgages and annuities	18,497,022	15,659,260
4. Other loans		
a) Registered bonds	53,369,249	49,587,273
b) Debentures and loans	24,394,636	27,243,913
c) Loans and advance payments on policies	2,038,827	1,852,078
d) Other loans	485,291	275
	80,288,003	78,683,539
5. Bank deposits	2,217,522	4,497,719
6. Miscellaneous investments	440,860	320,370
	220,083,458	190,606,115

Accounts receivable on direct insurance business (Assets E.I.)

The amount shown under this heading comprises DM 4,472.125 million (1994: DM 3,961.963 million) receivable from policyholders and DM 2,669.206 million (1994: DM 2,543.640 million) from agents.

Prepaid expenses (Assets G.II.)

This heading includes DM 1,325.667 million for tax relief anticipated in future years in accordance with the German Commercial Code (§ 274(2) and § 306 HGB). It also includes debt discount carried forward amounting to DM 135.831 million.

■ Supplementary Information on Group Liabilities

Stockholders' equity (Liabilities A.)

Stockholders' equity consists of the capital stock and additional paid-in capital of Allianz AG as well as the appropriated and unappropriated retained earnings of the consolidated group. It also includes the positive and negative consolidation balances which have been offset against each other, and goodwill set off against retained earnings. Foreign currency translation adjustments are also included in the equity section.

The minority interest included in the equity section shows the portion of Allianz subsidiaries owned by others.

Participating certificates

(Liabilities B.)

This heading consists entirely of the participating certificates issued by Allianz AG.

Liabilities

(Liabilities C., H., I.)

Liabilities due after more than five years amount to DM 339.756 million in total.

Liabilities secured by consolidated companies by means of liens or similar charges amount to DM 42.119 million in total.

Accounts payable on direct insurance business comprise DM 6,998.110 million (1994: DM 6,649.992 million) payable to policyholders and DM 713.677 million (1994: DM 680.147 million) payable to agents.

Special untaxed reserve

(Liabilities D.)

The special untaxed reserve includes the reserves established by domestic companies in accordance with German income tax law (§ 6b EStG). In addition, foreign subsidiaries' stated amounts based on comparable local regulations have been included here.

Insurance reserves for own account

(Liabilities E.I. - VI.)

Type of reserve		DM in thousands		
		Life/Health	Property/ Casualty	Total
		12/31	12/31	12/31
Unearned premiums	1995	2,170,530	8,285,038	10,455,568
	1994	1,944,254	7,539,817	9,484,071
Aggregate reserve	1995	131,365,085	9,736,613	141,101,698
	1994	112,145,742	9,492,463	121,638,205
Reserve for losses and loss adjustment expenses	1995	2,335,263	43,892,748	46,228,011
	1994	2,940,381	38,319,519	41,259,900
Reserve for experience-related and other premium refunds	1995	15,320,912	347,821	15,668,733
	1994	14,390,145	419,302	14,809,447
Claims equalization and similar reserves	1995	-	3,107,945	3,107,945
	1994	-	1,808,567	1,808,567
Other insurance reserves	1995	234,737	1,358,646	1,593,383
	1994	188,986	867,056	1,056,042

Other accrued liabilities (Liabilities G.)

	DM in thousands	
	1995	1994
Other accrued liabilities include:		
I. Pension and similar reserves	4,292,143	3,917,844
II. Accrued taxes	831,515	543,360
III. Miscellaneous accrued liabilities	1,132,566	1,138,717
	<u>6,256,224</u>	<u>5,599,921</u>

Deferred income (Liabilities K.)

Discount on loans amounting to DM 450,340 million is included under this heading.

Contingent liabilities

Guarantee obligations outstanding totaled DM 43.853 million (including DM 0 million towards unconsolidated subsidiaries), other contingent liabilities DM 165.338 million (including DM 0 million towards unconsolidated subsidiaries).

■ Supplementary Information on the Consolidated Income Statement

Gross premiums written (Income Statement I.1a and II.1a)

		DM in thousands			
		Life	Health	Property/ Casualty	Total
		12/31	12/31	12/31	12/31
Direct insurance business					
Germany	1995	12,735,547	4,838,809	17,182,234	34,756,590
	1994	12,074,400	4,375,049	17,042,426	33,491,875
Outside Germany (total)	1995	8,867,728	228,831	20,320,346	29,416,905
	1994	9,116,070	123,603	17,090,469	26,330,142
of which:					
Other European countries	1995	4,401,519	228,831	11,974,532	16,604,882
	1994	3,553,403	123,603	10,345,545	14,022,551
Other countries	1995	4,466,209	-	8,345,814	12,812,023
	1994	5,562,667	-	6,744,924	12,307,591
Subtotal	1995	21,603,275	5,067,640	37,502,580	64,173,495
	1994	21,190,470	4,498,652	34,132,895	59,822,017
Reinsurance business assumed	1995	589,165	5,911	2,883,584	3,478,660
	1994	583,013	7,646	2,979,429	3,570,088
Consolidated gross premiums written	1995	22,192,440	5,073,551	40,386,164	67,652,155
	1994	21,773,483	4,506,298	37,112,324	63,392,105

Change in other net insurance reserves (Income Statement I.5.)

This heading includes a change of DM 485.503 million (1994: DM 546.951 million) in the net aggregate reserve and DM 42.794 million (1994: DM 46.872 million) in miscellaneous net insurance reserves.

Premium refund payments and change in reserves (experience rated and other)

(Income Statement I.6. and II.8.)

The amount under this heading comprises DM 5,367.225 million (1994: DM 4,987.098 million) for experience rated premium refunds and DM 189.034 million (1994: DM 8.288 million) for other premium refunds, of which DM 111.287 million is from life and health business.

Underwriting expenses (Income Statement I.7. and II.9.)

	DM in thousands			
	Life/Health		Property/Casualty	
	1995	1994	1995	1994
Acquisition costs	- 2,495,362	- 2,534,579	- 5,889,291	- 4,991,947
Administrative expenses	- 1,114,263	- 1,088,545	- 4,491,090	- 4,387,343
Gross underwriting expenses	- 3,609,625	- 3,623,124	-10,380,381	- 9,379,290
less commission and profit sharing on reinsurance ceded	303,518	244,386	1,895,197	1,852,411
Underwriting expenses - net	- 3,306,107	- 3,378,738	- 8,485,184	- 7,526,879

Investment income/expenses (Income Statement III.2. and 3.)

	DM in thousands					
	Life/Health		Property/Casualty/ Other business		Total	
	1995	1994	1995	1994	1995	1994
Investment income						
a) Income from equity investments	71,720	31,385	213,723	286,309	285,443	317,694
including from subsidiaries	(- 16,081)	(- 31,186)	(37,039)	(21,608)	(20,958)	(- 9,578)
b) Income from other investments						
ba) Income from real estate	918,203	868,541	724,732	677,755	1,642,935	1,546,296
bb) Income from other investments	10,835,113	9,845,452	4,770,556	4,670,358	15,605,669	14,515,810
including from subsidiaries	(1,524)	(3,197)	(565)	(294)	(2,089)	(3,491)
c) Income from revaluations	1,003	5,205	4,123	16,679	5,126	21,884
d) Realized investment gains	876,328	857,223	1,039,187	675,764	1,915,515	1,532,987
e) Income from the release of special untaxed reserve	-	977	47,653	24,112	47,653	25,089
Total investment income	12,702,367	11,608,783	6,799,974	6,350,977	19,502,341	17,959,760
Investment expenses						
a) Investment management, interest charges and other investment expenses	- 396,777	- 368,085	- 737,831	- 547,911	- 1,134,608	- 915,996
b) Depreciation/write-downs on investments	- 461,106	- 1,002,212	- 867,424	- 962,023	- 1,328,530	- 1,964,235
c) Realized investment losses	- 99,089	- 86,746	- 121,297	- 229,892	- 220,386	- 316,638
d) Losses assumed under profit/loss transfer	- 1,417	- 58	- 9,865	- 15,892	- 11,282	- 15,950
e) Increase in special untaxed reserve	- 7,321	- 23,661	- 72,919	- 41,507	- 80,240	- 65,168
Total investment expenses	- 965,710	- 1,480,762	- 1,809,336	- 1,797,225	- 2,775,046	- 3,277,987
Net investment income	11,736,657	10,128,021	4,990,638	4,553,752	16,727,295	14,681,773

Depreciation and write-downs on investments (Income Statement III.3.)

Depreciation and write-downs on investments include unscheduled write-downs totalling DM 251.989 million (1994: DM 25.334 million).

Other income (Income Statement III.6.)

This heading includes income from services rendered for others amounting to DM 155.986 million (1994: DM 248.076 million).

Other expenses

(Income Statement III.7.)

The main items under this heading are the cost of outside services DM 168.705 million (1994: DM 250.277 million) and losses (net) on foreign currency exchange DM 26.634 million.

Effects of adjustments for tax purposes

Special tax-allowable depreciation charges and the creation of a special untaxed reserve had only a marginal effect overall on consolidated net income for the year.

Amounts totalling DM 1,120,330 million have not been added back to the valuation of investments in fiscal 1995; the investments concerned are mainly fixed income securities on which the amounts not written back will be realized as gains and included in consolidated net income when they fall due for redemption in future years.

Net income (Income Statement III.11.)

	DM in thousands	
	1995	1994
Net income	2,020,877	1,335,783
Transfer to appropriated retained earnings		
to other appropriated retained earnings	1,152,318	648,872
Net income due to minority interests	681,524	470,744
Losses to be assumed by minority interests	175,005	95,833
Consolidated net income	362,040	312,000

Average number of employees during the year

(excluding members of the Board of Management, trainees, interns and employees on parental leave or on mandatory military or alternative civilian service)

	1995	1994
Employees in Germany	34,938	36,442
Employees outside Germany	34,298	30,003
Total	69,236	66,445

Personnel expenses

	DM in thousands	
	1995	1994
Salaries and wages	4,623,437	4,221,471
Social security contributions and employee assistance	1,006,590	896,887
Expenses for pensions and other post-retirement benefits	383,607	397,299
Total	6,013,634	5,515,657

Compensation for the Board of Management and the Supervisory Board

The compensation by Allianz AG and its subsidiaries to the Board of Management was DM 7.438 million (1994: DM 6.675 million). Former members of the Board and their beneficiaries were paid DM 6.821 million.

DM 38.915 million has been set aside for current and future pension benefits to former members of the Board of Management and their beneficiaries.

Supervisory Board fees for the year, including remuneration based on financial performance, totaled DM 1.023 million.

Munich, June 24, 1996

Allianz Aktiengesellschaft

The Board of Management

Independent Auditors' Report Allianz Group

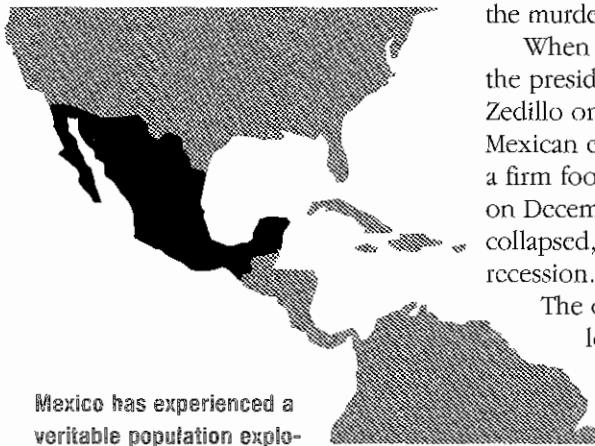
The consolidated financial statements, which we have audited in accordance with professional standards, comply with the German legal regulations. The consolidated financial statements present a true and fair view of the net worth, financial position and results of the Allianz Group in compliance with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

Munich, July 5, 1996

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Gerd Geib, (independent auditor)	Herbert Loy, (independent auditor)
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Allianz in Mexico



Mexico has experienced a veritable population explosion this century. The number of its inhabitants has increased from 15 million in 1915 to the present total of 92 million. The annual growth rate, which was still over 3 percent at the beginning of the seventies, has now fallen below 2 percent. Mexicans are a young people. About 36 percent of the population (compared with 22 percent in Germany) are children aged 14 or younger. Mexico is making tremendous efforts to improve its educational system. The people's thirst for education is tangible. Creating enough jobs for the next generation is the top economic priority.

A nation in transition

"Events in Mexico do not unfold in a chain of cause and effect", remarked Salvador de Madariaga once. "They happen suddenly and all together, like the roses and thorns on a rose bush".

On a more recent occasion, too, everything happened all at once. The North American Free Trade Area (NAFTA) was inaugurated on January 1, 1994, pushing open the door to the future. But on the very same day Mexico's past caught up with it. The rebellion by underprivileged farmers – which is still smouldering – broke out in the southern state of Chiapas. The rest of the year was clouded by the murders of leading political figures.

When Carlos Salinas handed over the presidential office to Ernesto Zedillo on December 1, 1994, the Mexican economy seemed to be on a firm footing. Not three weeks later, on December 20, 1994, the peso collapsed, hurling Mexico into deep recession.

The crisis has set Mexico back a long way. The loss of confidence has been contained, however, because the hard fiscal and monetary stance immediately adopted by the new president showed that Mexico will do whatever is necessary to overcome the problems. Privatization and deregulation will be taken a stage further. By giving speedy and comprehensive support the United States also demonstrated the value of its new economic relations with its neighbor.

Allianz is one of the many foreign investors which still have faith in Mexico. Its group company Allianz México S. A. Compañía de Seguros is in the middle of the market with premium income of DM 52.8 million. It writes all lines of insurance business: property and casualty, life and health. Its cooperation agreement with BanCreceer will enable Allianz México to transact bancassurance business in all lines of insurance.

Multi-ethnic roots

Mexican society was long made up of different ethnic layers: the creoles – as the white successors of the conquistadors were called – on the one hand and the original inhabitants on the other. The Indians enjoyed the special protection of the Church until the latter lost its power and property to the secular state after the mid-19th century.

The *mestizos* – people of mixed origin from relationships between the creoles and Indian women – make up the great majority of the population today. For a long time they lived





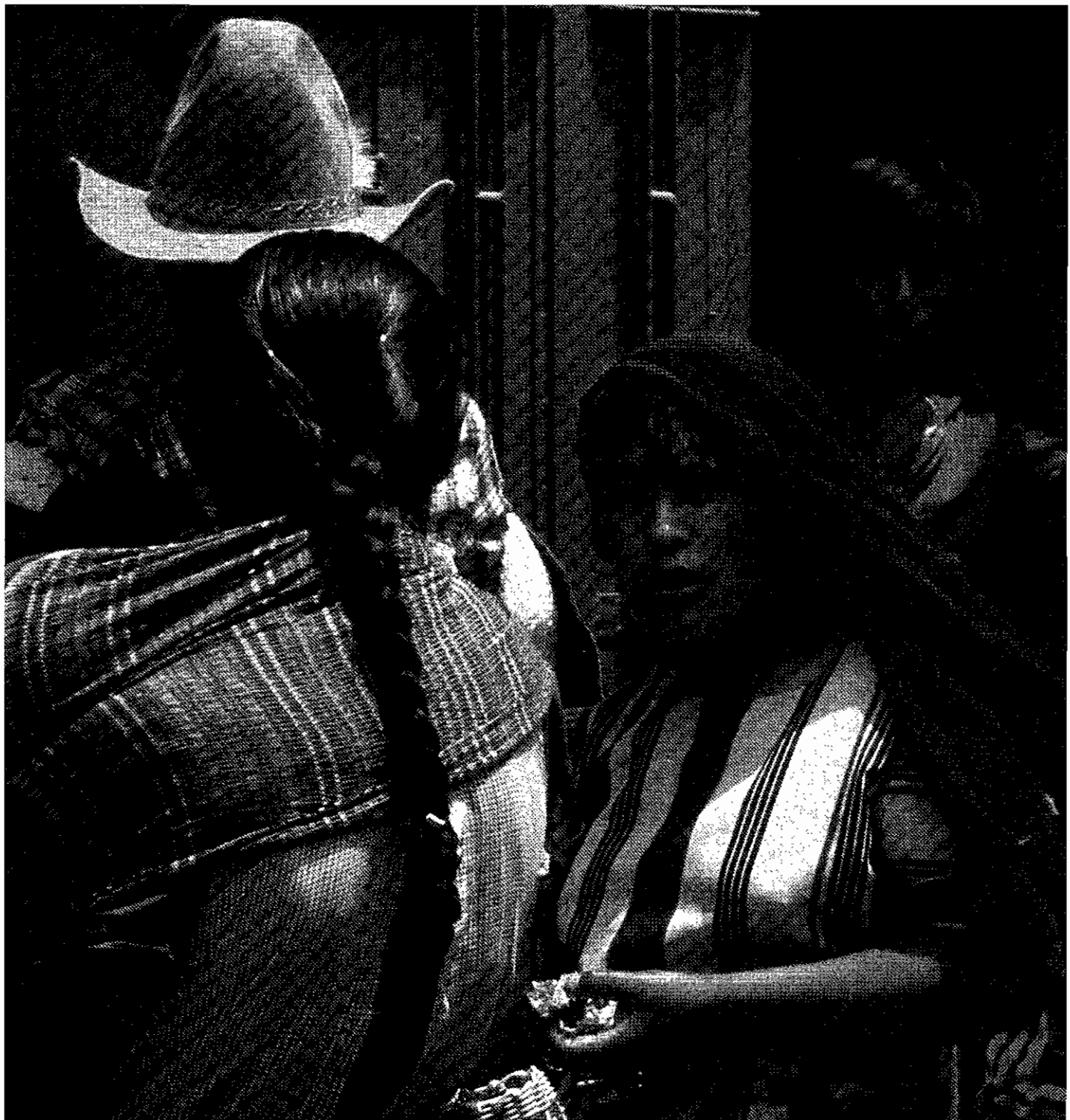
in a social no-man's-land and were therefore particularly receptive to modern ideologies such as liberalism and positivism. Their champion Benito Juárez, himself a full-blooded Zapotec Indian, introduced liberal and anti-clerical reforms in the fight against the conservatives in the country and

the French occupying power, whose puppet, the Emperor Maximilian of Austria, he had executed. The reforms did not prove to be an unqualified success.

Under the long-lasting dictatorship of Porfirio Díaz (1876 – 1910) it became tragically clear that Mexico's weak social fabric was not ready for the liberal reforms. True, Díaz took the Mexican economy a long way forward, but he sat passively by as large landowners chased the Indian farmers off their communal land to which they had no legally registered claim and made them work on the land. When the Revolution broke out

Allianz México 1995

Premiums written	DM mn	52.8
of which automobile insurance	DM mn	9.6
Investments	DM mn	47.8
Stockholders' equity	DM mn	14.5
Employees		248



The Mexicas, better known as Aztecs, came to power in central Mexico only a few hundred years before the arrival of the Spanish conquerors. The Indian people, who resented the Aztecs, regarded the Spaniards as allies and fought on their side. The "Stone of Tizoc" (at the National Anthropo-



logical Museum in Mexico City) immortalizes the heroic deeds of the Mexicas ruler of that name. Mexico is a deeply Catholic country, but the Church found itself in a difficult position after losing its power and property in 1857; arguments between the Church and the secular state sometimes took on serious forms and lasted until 1940. They were not finally resolved until 1991. Church-owned property and religious instruction (at denominational schools) are now permitted again.

in 1910 there were more than 800 large landowners and nine to ten million workers on the land, out of a total population of 15 million. Foreigners had bought up Mexico's mineral resources. More than 800 of the thousand or so mining companies were controlled from the United States.

A unifying revolutionary bond

Revolutions assume cult-like proportions. "In Mexico even reactionaries make tub-thumping speeches about the important role they would like to have played in the glorious revolution" – said the roving reporter Egon Erwin Kisch.

In Mexicans' perception of history, revolutionary upheavals are stages in the process of the nation finding its identity, having remained divided for so long by the trauma of the Spanish conquest and the destruction of the highly-developed Aztec culture. "Revolution is when Mexico suddenly becomes embroiled in its own self", wrote Octavio Paz (the Nobel Prize winner for literature in 1990) in his famous essay *The Labyrinth of Loneliness* (1950).

The great Mexican Revolution, at its peak from 1910 to 1917, cost at least a million lives. The gains won by the Revolution – such as state ownership of land and of mineral resources, agricultural reforms, and social recognition of the workers – are enshrined in the 1917 Constitution.

Establishing an identity

The revolution ignited an outburst of creativity. Giant murals appeared in the foyers of public buildings glorifying Mexican history and the Revolution. The culture of the Aztecs and their successors became a source of national pride.

Amongst the intellectuals the Revolution triggered a multitude of attempts to establish a Mexican identity, almost always by comparison and in contrast with the culture of the

United States. The philosopher Samuel Ramos applied the categories of Adler's psychology – an inferiority complex and the need for recognition – to the Mexican variety of *machismo*. José Vasconcelos, a successful Minister of Education and cultural father of the Revolution, indulged in a Utopian flight of fancy. He saw a 'cosmic race' emerging from the melting pot of Latin America which, as the vanguard of humanity, would attain a higher form of living – the aesthetic period of history.

The eternal preoccupation of Mexicans with their Mexican-ness is described by the author Carlos Fuen-



tes as a 'real national obsession'. He could think of only two other nationalities which have subjected their own identity to such 'critical and painful' scrutiny: the Spaniards in their mood of doom and gloom and the Russians with their sense of mission.

Changing neighborly relations

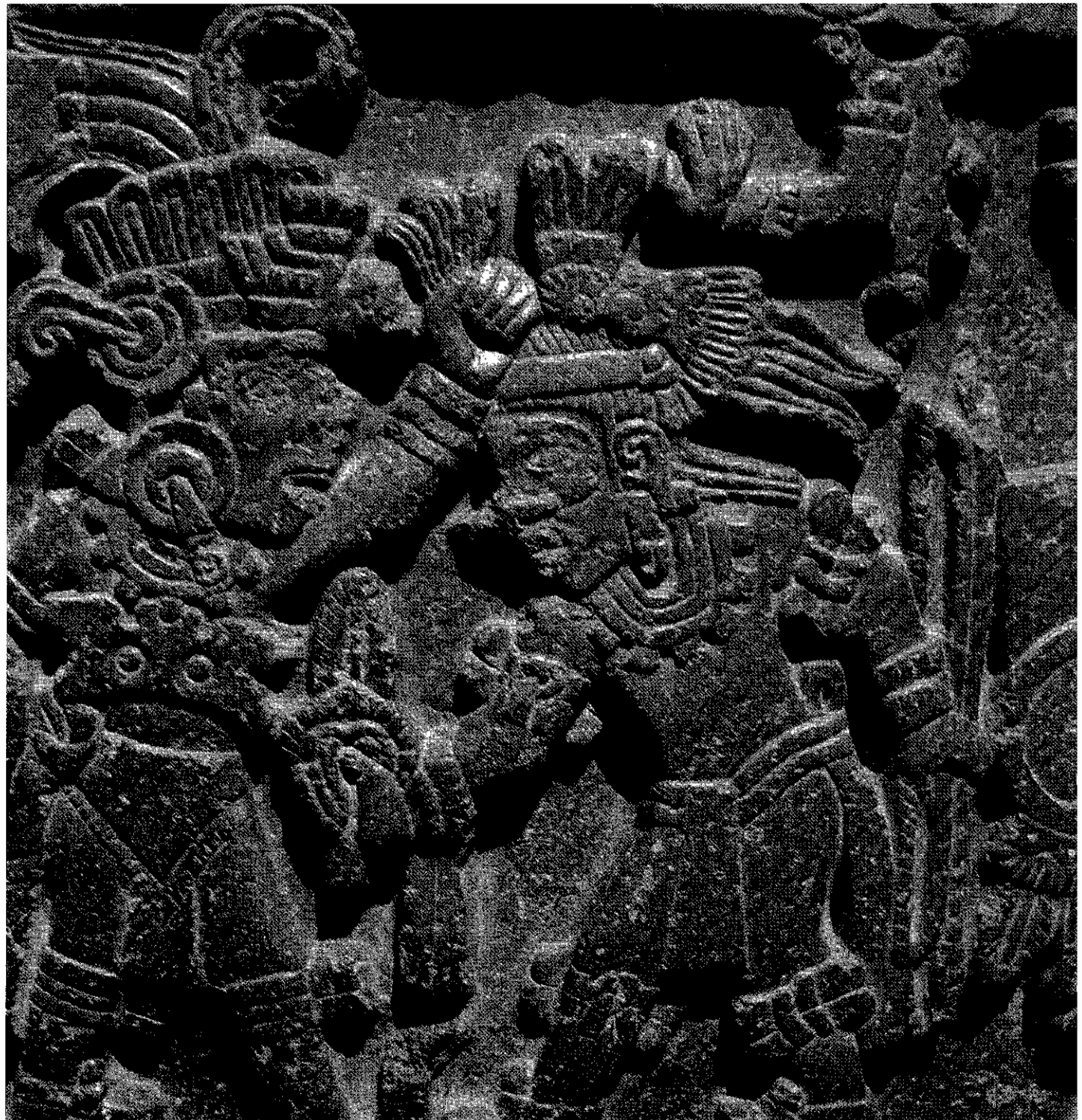
The United States was initially a model for the new republic of Mexico. The strong position of the President, the division into federal states ruled by governors, the federal district around the capital, even the country's official name (Estados

Unidos Mexicanos) – all that and a good deal more was copied from the political and administrative institutions of the northern neighbor.

Then the 'Colossus of the North' began to exert hegemony over its neighbor. "Poor Mexico, so far from God and so near to the United States!" went the talk. Texas, occupied by the *gringos*, declared independence from Mexico in 1836, and in the war with the United States (1835 – 1848) Mexico lost more than half its territory – besides Texas the current American states of Arizona, California, Nevada, New Mexico and Utah.

Mexico – some basic data 1995

Area	1,000 km ²	1958.2
Population	mn	91.6
Gross domestic product (GDP)	bn DM	357.2
GDP per capita	DM	3900
Imports	bn DM	103.6
of which to Germany	%	3.7
Exports	bn DM	114.1
of which from Germany	%	0.65
Premium income (market)	bn DM	3.6
of which life insurance	%	33.7
Premium income per capita	DM	39.6



Viva México! Mexicans love their country and say so – like the owner of this skiff sailing through the lagoon of Xochimilco south of Mexico City, between floating islands where flowers and vegetable plants flourish. The lagoon is all that remains of an area of lakes where the Aztec metropolis of Tenochtitlán once stood – patriotic overtones in everyday life. The motto *Trabajar por México* (working for Mexico) coined by Allianz' partner BanCrece

reflects the general mood. In Mexico everything is now directed towards overcoming the economic crisis at whatever price and resuming the path to growth. The price is high, because real incomes have had to be painfully cut back as part of the policy of austerity.

Resentment against the Yankees reached its peak during the Revolution (in which the USA became involved). And yet the United States was soon to adopt a different approach towards Mexico and the other Latin American countries. The 'big stick' diplomacy of Theodore Roosevelt gave way to the 'good neighbor' policy of Franklin D. Roosevelt which still dominates relations between the two countries today.

Roosevelt did nothing, for example, when Lázaro Cárdenas expropriated the foreign oil companies in 1938. This move, which was in accordance with the intent of the



1917 Constitution, was greeted with wild enthusiasm all over the country. Lines of people formed outside the Palacio de Bellas Artes in Mexico City to hand in money and jewellery – as well as turkeys, chickens and pigs – as their contribution towards the compensation to be paid. Petróleos de México (PEMEX) is the largest company in the country. If Mexico privatizes all the ancillary businesses connected with oil exploration and refining but leaves the hard core of PEMEX in government hands, this also has emotional connotations which should not be underestimated.

A revolutionary institution?

In his book mentioned above Octavio Paz declared the revolution dead. This message would come up against mild opposition in the political establishment even today because the ruling party, which has been in power without a break since 1929, calls itself Partido Revolucionario Institucional (PRI) and feels bound by the ideal of permanent revolution. Whether any revolutionary spirit still actually survives in this broad center party striving for social equality is open to question.

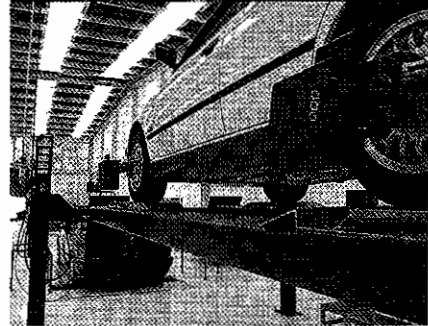
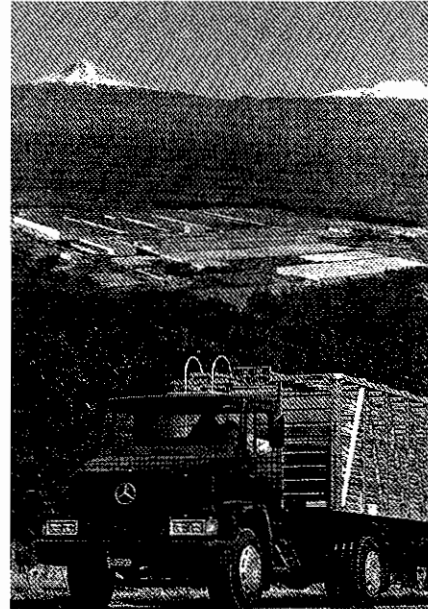
Draconian measures

The 43-year-old President Ernesto Zedillo has committed himself to reforming Mexico from top to bottom during his six-year term of office. Before that, however, his government has to deal with the latest crisis.

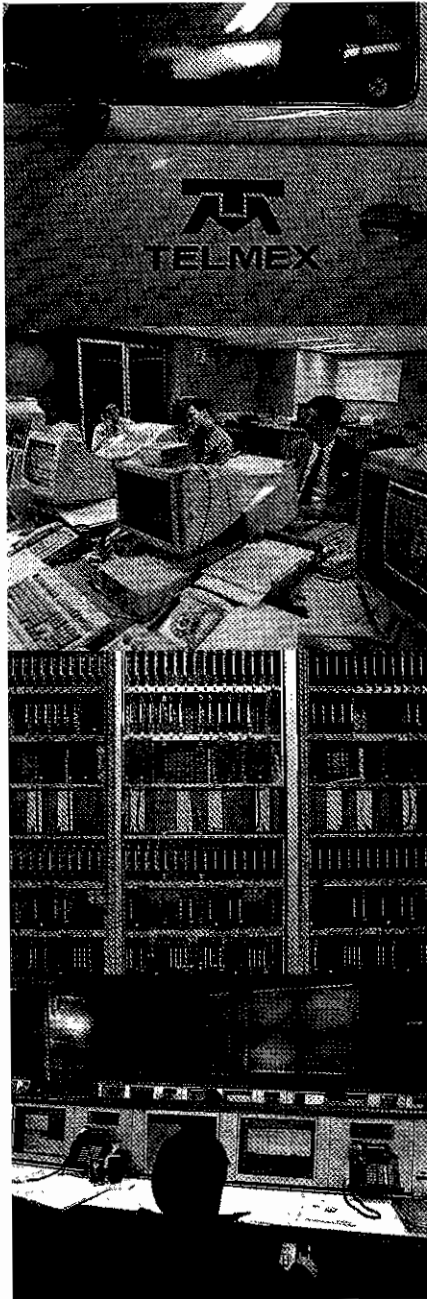
The currency debacle of December 1994 was sparked off by a clumsily handled devaluation of the peso. When the exchange rate was subsequently freed the value of the peso against the US dollar fell for a time by as much as 45 percent. Thanks to an emergency credit from the United States and the International Monetary Fund totaling US\$ 48 billion Mexico's ability to meet its payment obligations was kept intact.

Mexico had been living beyond its means. The policy of austerity which was now introduced led to a real 7 percent fall in gross domestic product in 1995, an increase in unemployment, numerous bankruptcies, and a painful loss of income for private households. The plunging peso, on the other hand, triggered a boom in exports.

The rate of inflation, which in 1994 had been throttled back to seven percent, shot up to 52 percent in 1995. The expensive money policy pushed money market rates up to 80 percent at times. Farmers, businessmen and homeowners are groaning under the burden of interest rates. They are joining the *El Barzón* protest movement – which already has over a million members – in droves.



The plants of German automobile manufacturers in Mexico – all clients of Allianz – assemble vehicles from imported components. VW and Mercedes-Benz have been operating in the country for years and were joined by BMW in 1994.



The Teléfonos de México (Telmex) company privatized some years ago has arranged some of its insurance cover with Allianz México. It will lose its monopoly at the beginning of 1997 because the telecommunications market has been opened up to competition.

The recession has now passed its peak but the recovery is taking longer to materialize than expected. After a fairly long period of prevarication the government, unions and employers' associations managed to reach agreement on a joint action program. The *pacto* signed in November 1995 is mainly concerned with pay, taxation and government price controls, and is aimed at achieving real growth of three percent in 1996 with inflation down to 20 percent.

Successful consolidation

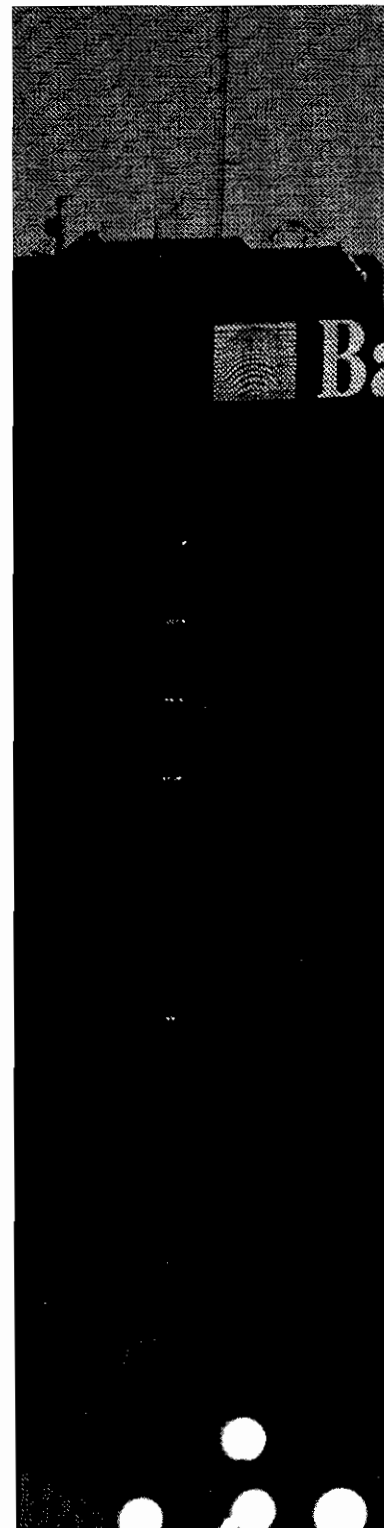
In a report on the economy of its new member country dated July 1995, the Organization for Economic Cooperation and Development (OECD) writes: "In carrying out structural reforms Mexico can point to a number of remarkable achievements. The deep-rooted state involvement in economic activity has been substantially reduced within less than ten years by wholesale disposals of state-owned property, bold reforms in agriculture, liberalization of financial markets, and a spectacular opening up of the economy to international trade resulting in the signing of the NAFTA treaty and other trade agreements. Economic activity will now be influenced by market forces much more than before, and the government has avoided reacting to the current crisis with controls on the movement of capital or protectionist trade barriers".

Sacred Cows

Growth is at the forefront of economic policy in the longer term. In order to be able to provide a million additional jobs each year, Mexico must increase its gross national product in real terms by at least 5 percent a year. The necessary boost to investment is to be achieved partly by tax incentives and reducing red tape. Privatization is making rapid progress. The number of state-owned companies has fallen from around 1,200 in 1982

– when Mexico relapsed briefly into public sector ownership – to about 200.

The reform of employment legislation demanded by the employers has been ruled out by the government up to now in order not to endanger the traditional link between the governing party and the trade union organization Confederación de Trabajadores de México (CTM). Employment legislation extremely favorable to employees is a sacred cow of the Revolution. Employees can only be dismissed if they are guilty of serious loss or damage to the employer. Otherwise hefty compensation must be paid.



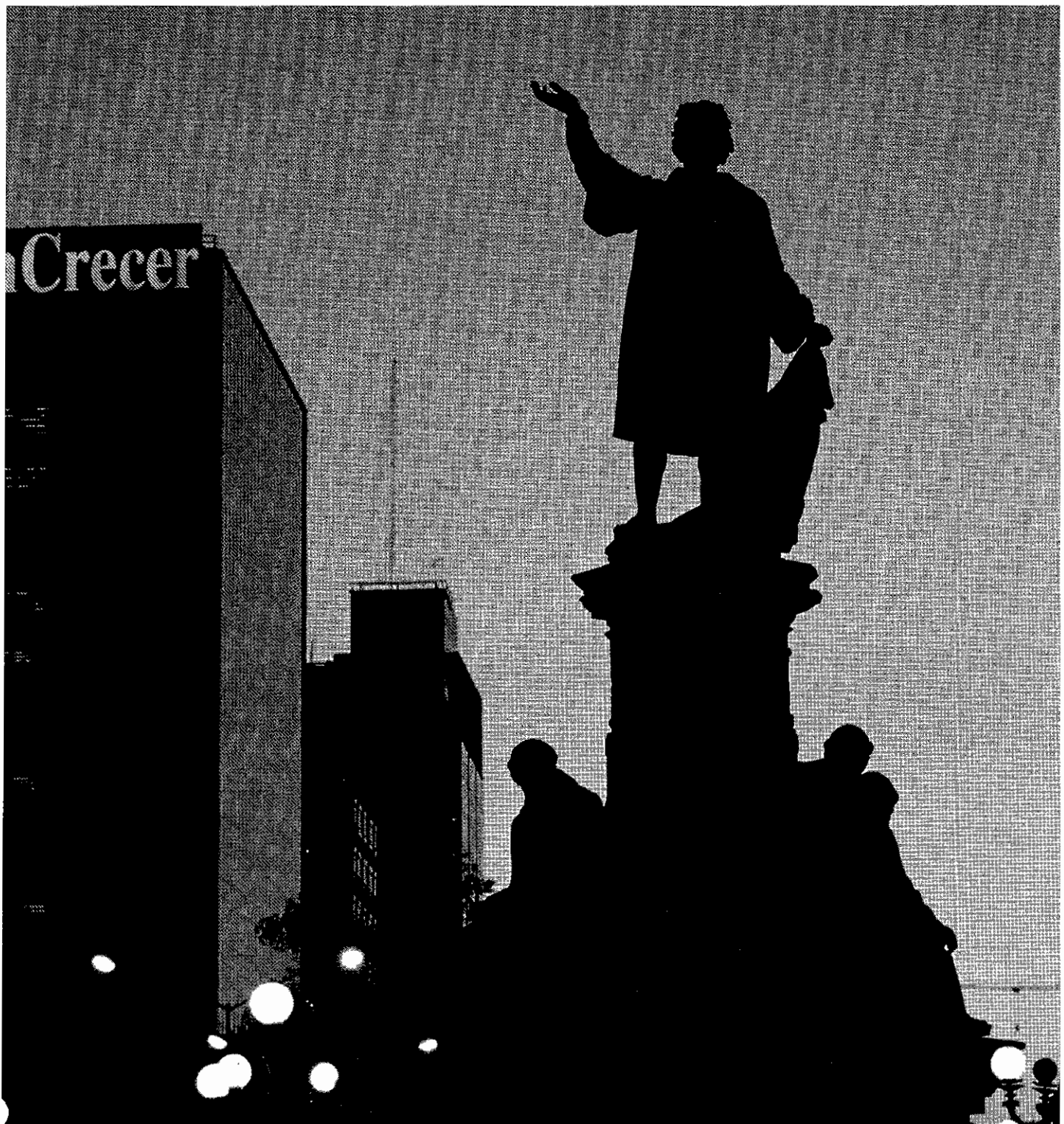
Banking and insurance

Most of the country's banks were unable to cope with the burden of defaulting loans in 1995. Even large banks were only able to keep their heads above water with the help of massive state aid. Finance Minister Guillermo Ortiz estimates the total cost at US\$ 15 billion – five percent of gross domestic product.

The insurance industry, by contrast, is faring relatively well. Admittedly premium income, according to the insurance association Asociación Mexicana de Instituciones de Seguros (AMIS), went down by 15 percent

BanCrecer, Allianz México's partner in the insurance business since 1995, has set up its headquarters in the center of the capital. The "growth bank" is living up to its name. In the middle of the plaza where the head office building stands is the monument to Columbus. One of the four learned monks sitting at

the feet of the man who discovered America is Bartolomé de Las Casas, who conducted a successful campaign for the rights of the original Indian inhabitants for years after the conquest of Mexico.



On Lake Pátzcuaro, 125 miles to the west of Mexico City, the traditional butterfly nets are now cast only for the tourists. Tourism is very important for Mexico; in 1994 it brought in foreign currency worth US\$ 4.2 billion and was directly and indirectly responsible for 2 million jobs.

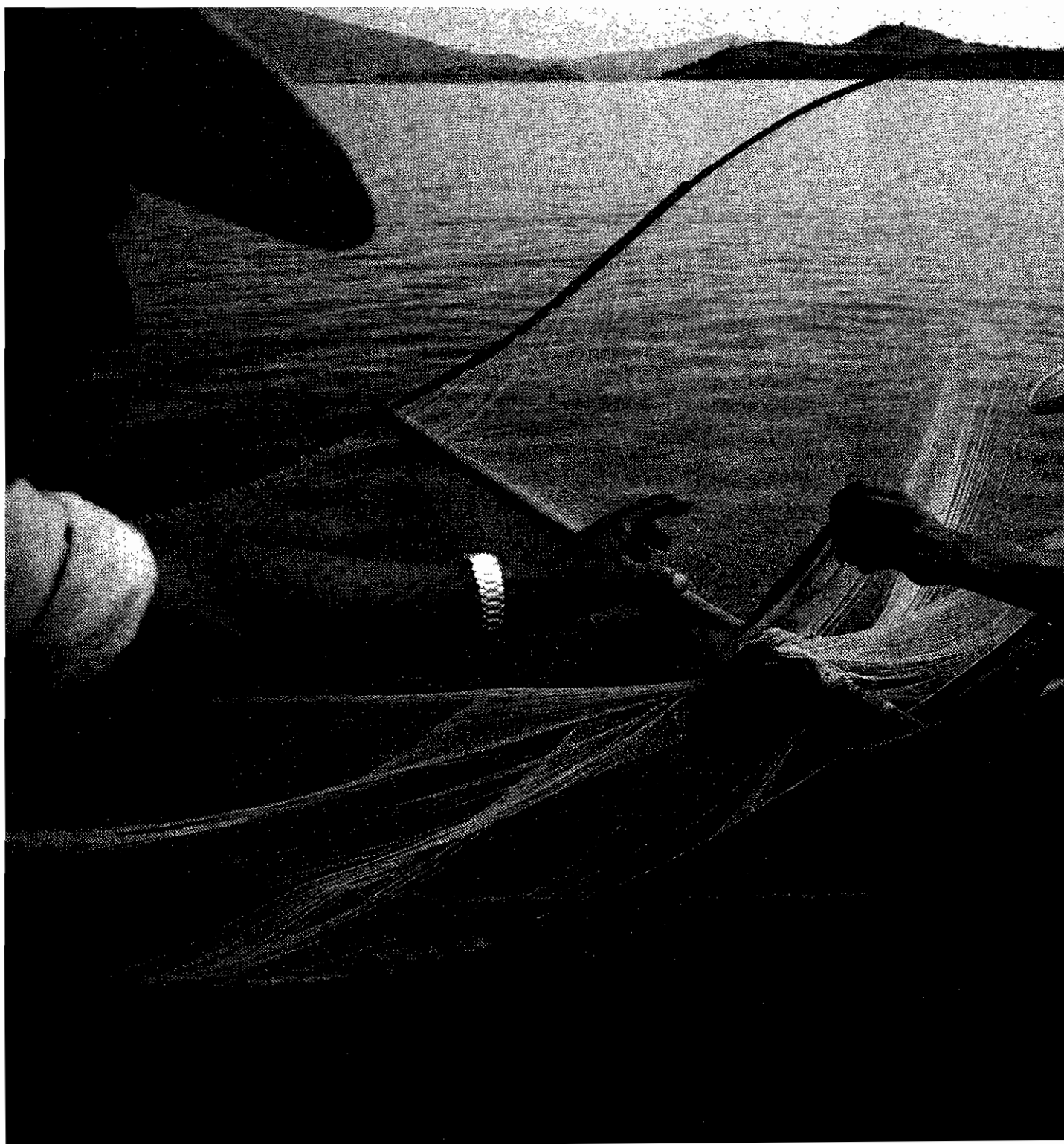
in real terms in 1995. Underwriting business made losses equal to 13 percent of premium income, after breaking even in the previous year. The increase in organized crime is causing particular concern.

On the other hand insurers benefited from the high level of interest rates, which presented them with an average return of approximately 40 percent. Profits before tax in 1995 therefore averaged 18 percent of premium income. The AMIS president Alfonso Castro is sounding a warning, however. He sees a danger that lower interest rates and improved economic activity could make com-

petition deteriorate into a war on premiums.

Private provision for the future

One of the main planks of the national development plan is to encourage people to take out private insurance cover. The growth targets which the government has set itself are only achievable if the country generates enough investment capital. The savings ratio is therefore to be raised from its current level of 16 percent to 22 percent in the year 2000 by means of tax concessions for savers and a wider selection of savings products.



This policy is creating good business opportunities for life insurers, particularly as the low level of insurance coverage offers tremendous growth potential. Only about four million Mexicans have individual life insurance cover at the moment and a further five million are covered by group policies.

The same applies to private health insurance which, according to the association, covers only 1.7 million people. The reforms expected in 1996 should make it possible to use the compulsory statutory contributions for private insurance cover.

Reform of the statutory pension scheme is also closely connected

with the promotion of private cover. Legislation was approved at the end of 1995 but the political debate about the regulations for its implementation is still continuing.

Pent-up demand

The economic crisis has had a serious effect on new insurance business. Whereas in 1994, according to the insurers' association, as many as 29 percent of registered automobiles were still covered by insurance, the proportion fell back to an estimated 21 percent in 1995. Apart from relatively insignificant third party liability insurance for paying passengers, insurance is not compulsory in Mexico. That is expected to change, however, in the not too distant future.

There is even more pent-up demand in other areas. Only two percent of residential buildings and five percent of small to medium-size businesses are insured. The financial resources available are not always sufficient for appropriate insurance cover. Moreover many Mexicans adopt a rather *laissez-faire* attitude towards it. They are only too willing to convince themselves that houses built of bricks and mortar will not burn down and that an earthquake catastrophe like the one in 1985 will not happen again for some time.

Between September 19 and September 21, 1985, Mexico – and particularly its capital city, built on the unstable foundation of a dried-up lake – was devastated by several powerful earthquakes and resultant fires. After the catastrophe, which claimed between 10,000 and 20,000 lives, it became clear that most of those who did have earthquake insurance were hopelessly underinsured. The insurance companies only had to pay out 200 million dollars out of a total damage bill of some four billion dollars. Premium rates for earthquake insurance have had to be considerably increased since then, making it much more difficult for people to take out adequate insurance cover.

Premium income in Latin America 1993

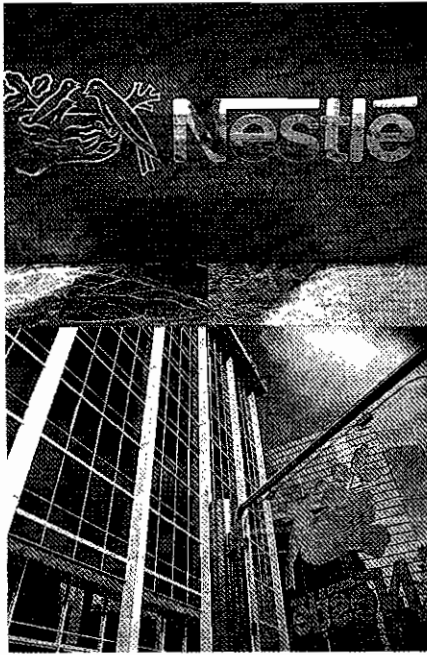
	DM bn	DM per capita
Mexico	9,5	105
Brazil	9,2	58
Argentina	6,5	193
Venezuela	2,5	121
Chile	2,4	172
Colombia	1,7	51
For comparison: USA	933,1	3,623

Source: sigma/Swiss Re



Increasing economic prosperity is heightening the importance of Mexico's services sector. Growth and earnings opportunities for insurers are believed to be very good.





With 16 factories generating annual sales worth some DM 2 billion, Mexico is an important market for Nestlé. The group's Mexican operation is insured with Allianz.

From Cuauhtémoc to Allianz

Under a new statutory regulation connected with NAFTA, companies registered in the USA and Canada can acquire a majority shareholding in Mexican insurance companies. For the time being, however, this applies only to companies which have a market share of less than 1.5 percent. Larger insurers are still subject to the rule that foreign shareholders cannot hold more than 49 percent of the capital. These restrictions, like customs duties within NAFTA, will be gradually eliminated by the year 2000.

Allianz too has taken advantage of the liberalization program. Until recently it had a 49 percent shareholding in Aseguradora Cuauhtémoc, a company founded in 1944 and taken over by RAS in 1952: 15 percent was held by Allianz directly and 34 percent through the Group's Italian company. Now Allianz has acquired 100 percent of the capital through its US subsidiary Allianz of America. The actual figure is only 99.999 percent; one share is held by Allianz AG in Munich because, under Mexican law, public stock corporations have to have at least two shareholders.

The name of the company was changed to Allianz México S. A. Compañía de Seguros. It was previously named after Cuauhtémoc, the last Emperor of the Aztecs and a stoical martyr of the *conquista*.

NAFTA synergies

The expansion of Mexico's economic links abroad is bringing Allianz México new clients. Most direct investment from abroad comes from Mexico's NAFTA partner, the United States. Most of the multinational groups which have placed their international insurance business with Allianz Insurance Company in Los Angeles also have operations in Mexico and value the fact that Allianz can give them first class service there as well.

One sector generating particularly dynamic growth in commercial insur-

ance business is the so-called *maquiladoras*. These are subcontract businesses working mainly for US companies (to which in many cases they belong) assembling vehicles or TV sets, processing textiles, and carrying out other types of assembly or finishing work. The *maquiladoras* already employ more than 600,000 people and are the second-largest earner of foreign currency in Mexico after the oil industry. Allianz has regional offices in two of the largest cities, Monterrey and Tijuana in the north of the country.

The sharp rise in exports of Mexican goods to the USA is grist to the

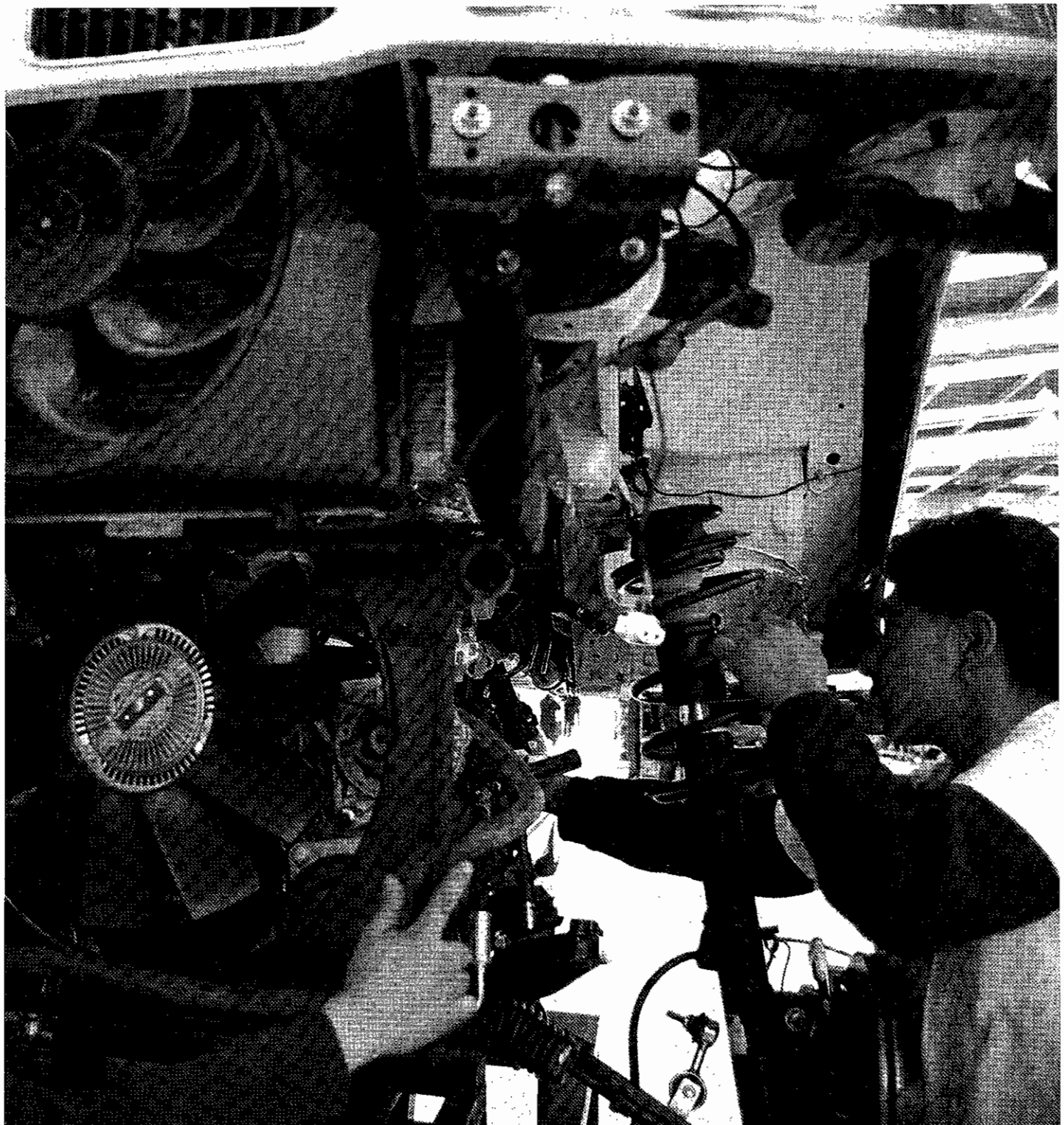


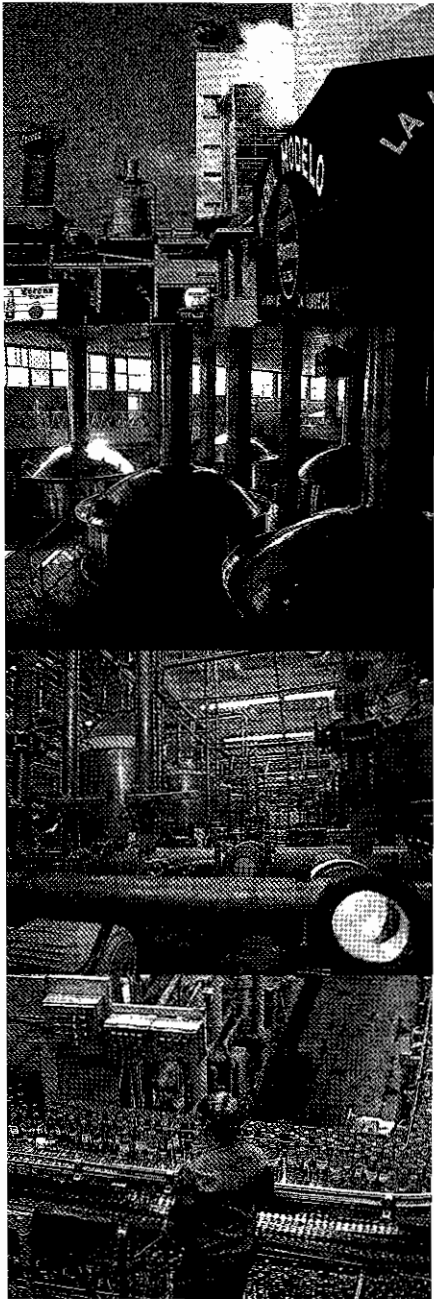
mill for Allianz México. It works closely with its sister company in Los Angeles to give Mexican exporters invaluable assistance in such things as finding their way around the jungle of US case law on product liability.

Last but not least, insurance business arising from links with Germany is extremely important for Allianz México. Germany, with a large export surplus, is Mexico's third largest trading partner. In terms of direct investment Germany is also the third largest investing country. More than 300 German companies have operations of their own in Mexico at the moment. Many of them are clients of Allianz.

Direct investment in Mexico from abroad reached a cumulative total of 42 billion dollars in 1993. The UK (with 2.6 billion dollars) and Germany (2.2 billion) lag way behind the United States' total of 26.6 billion

dollars. The 1993 law governing investment from abroad allows foreign investors to acquire 100 percent shareholdings in Mexican companies.





Corona (Grupo Modelo), one of Allianz México's clients, is Mexico's largest brewer. It exports all over the world, even to Germany. In Mexico itself beer overtook the national drink Pulque (with which, incidentally, it can be mixed to very good effect) long ago. Beer with a shot of Tequila is called *submarino*.

Partnership arrangement with BanCrecer

Allianz México and Grupo Financiero BanCrecer S. A. set up a joint insurance company, BanCrecer – Allianz Compañía de Seguros de Vida, in 1995 in order to secure a reasonable share of the potential market for private insurance cover. The new company is now writing life and health insurance business for both partners; the banking group holds 51 percent of the capital and Allianz has 49 percent. The joint venture is managed by Allianz México, while BanCrecer – the second largest banking group in the country, with more than 800 branches – has responsibility for marketing.

Dynamic market

There are already a number of similar "bancassurance" partnerships in Mexico. The competitive landscape is changing rapidly. Nearly all the state-owned insurance companies have been privatized over the last ten years, and in the last five years deregulation has made such rapid progress that the insurance market is almost entirely free of restrictions.

Some 56 insurance companies are currently operating in Mexico. About two thirds of the market, which generated premium income of three billion US dollars in 1995, is serviced by four companies: Nacional Provincial, Comercial America, Asemex and Monterrey-Actna. The most important foreign minority shareholdings in terms of size are held by Aetna and AIG (both American) and Mapfre (Spain).

Many of the existing 56 insurers will not be able to withstand the heavy cost pressures and will disappear from the scene as independent companies. On the other hand others are expected to move into the market from abroad.

In the opposite direction Mexican insurers see business opportunities for themselves in the United States, where an estimated 15 million people of Mexican origin are living. Some 60,000 Mexicans emigrate over the border each year. There are many more, however, who cannot resist the attractions of the El Dorado of the north and who clamber over the wire fence along the



frontier (called the Tortilla curtain), swim across the Rio Grande, or make their way there by other illegal means.

Excellent prospects

With its eventful history and volatile economic development, the Mexican character is currently asserting itself as strongly as ever. The forces of progress in the country, however, have rejected the idea of Mexico making its own way in the political and economic world. More than ever before, the country is aspiring to join the league of democratic industrial

nations, which first requires a change in mentality. The road leads from an authoritarian state to a democracy, from interventionist policies to a free market economy, and from living from one day to the next to taking individual responsibility for the future.

These are the best possible conditions for a community to prosper. Allianz' involvement in the country make the Group well placed to share in the dynamism of the Mexican market.

The people of Mexico have every reason to look hopefully toward the future, given the country's participation in NAFTA and the expressed desire of most citizens to be among the most developed western industrial nations.



**Management Report
Allianz Aktiengesellschaft**

■ New Accounting Regulations

The annual financial statements and management reports of insurance companies for 1995 have to be drawn up under new accounting regulations based on Germany's Insurance Accounting Directive Law and the Government Order on the external accounting requirements of insurance enterprises. The main changes relate to the presentation and classification of items in the balance sheet and income statement and to the information disclosed in the Notes.

Reinsurance companies no longer have to divide the underwriting section of their income statements according to the various lines of insurance business. In order to maintain continuity Allianz AG is including a table in its Management Report which shows the comparative figures for the premium income and underwriting results of its main lines of business.

The breakdown by lines of business has been restructured. Some of the individual categories of insurance included in a particular line of business have been reclassified. The various kinds of business interruption insurance, for example, have been taken out of the fire and engineering lines and combined in a line of their own. Aircraft and spacecraft liability insurance – included up to now as part of aviation insurance – likewise now form a new line of insurance. Emergency assistance insurance, generally known by the French name "Assistance", has also been introduced as a new line of insurance.

Pension costs and depreciation charges on furniture and equipment, which previously had to be shown under separate expense headings in the non-underwriting section of the income statement, now have to be allocated – like all other personnel and general expenses – to operating functions (such as underwriting or claims settlement). This change has the effect of reducing the underwriting profit while benefiting the non-underwriting result by the same amount.

In order to improve the clarity and simplicity of the balance sheet and income statement, the Company has taken advantage of the option to combine certain items in those statements. The items concerned are detailed in the Notes, so the amount of information remains the same.

The previous year's figures have been adjusted in line with the new regulations.

Allianz AG

Lines of reinsurance written

Life insurance
 Health insurance
 General accident insurance
 General liability insurance
 Automobile insurance
 Aviation insurance
 Legal protection insurance
 Fire insurance
 Burglary, theft and robbery insurance
 Water damage insurance
 Glass insurance
 Storm insurance
 Household effects insurance
 Homeowners insurance
 Hail insurance
 Animal (livestock) insurance
 Engineering insurance
 Omnium insurance
 (comprehensive cover for goods during the manufacturing process)
 Marine insurance
 Credit and bond insurance
 Extended coverage
 Business interruption insurance
 Emergency assistance
 Aircraft and spacecraft liability insurance
 Other property and casualty insurance

Reinsurance

Besides serving as holding company for the Group, Allianz Aktiengesellschaft Holding (Allianz AG) also acts as the Group's reinsurance carrier, generating most premiums from Group subsidiaries and from other companies in which Allianz has an equity interest.

Gross premiums rose by 2.1 percent, to DM 9.9 billion (1994: 9.7 billion), while net premiums rose by 4.2 percent to DM 6.1 billion (1994: 5.9 billion).

This slowdown in the increase in premiums compared with the previous year was directly attributable to the overall trend in Group sales. In addition, certain Group companies outside Germany increased their own retentions and therefore ceded less reinsurance premium to Allianz AG. Allianz' life insurance company in the US consequently retained a larger proportion of its 1995 business for itself. Through increased reinsurance premiums, the company participated in the growth of the developing markets in Eastern Europe and Southeast Asia but the contribution of these markets to total premium income has so far been small.

At 61.6 percent (1994: 60.3 percent), the Company's own retention

rate was again up on the previous year.

Allianz AG achieved an underwriting profit in the year under review of DM 134.1 million before transfers to claims equalization and similar reserves (1994 loss: 13.7 million).

The sum to be transferred to the claims equalization and similar reserves was, at DM 240.1 million, appreciably higher in 1995 than in the previous year (DM 111.7 million). After transfers to these reserves, the underwriting account closed with a deficit of DM 106.1 million (1995: -125.4 million).

The improvement in result was due in first instance to a reduction in claims on the non-life side. The automobile and fire lines, in particular, saw an improvement.

Allianz AG was largely spared major natural catastrophe losses in the year under review. The Company's net loss through the earthquake in Kobe, Japan, on January 17, 1995 was DM 2.3 million.

Premiums from life reinsurance, written almost exclusively on own account, fell by approximately 24 percent as a result of higher own retentions by companies in the USA, leading to a clear realignment of the line based structure of reinsurance business in consequence. The lesser weight

Allianz AG

Gross premiums written and results by insurance line in 1995

	Gross premiums written		Net underwriting result	
	1995	Change	1995	Change
	DM mn	in %	DM mn	in DM mn
Automobile	2,701.3	7.9	-104.1	-41.2
Fire	1,188.7	- 0.0	- 51.3	-38.3
Liability	858.7	4.5	- 78.6	2.1
Personal accident	674.9	13.8	36.5	13.2
Engineering	519.1	- 0.8	- 2.2	16.2
Homeowners	267.4	4.6	- 30.7	- 2.1
Household effects	247.4	2.5	17.5	- 2.9
Business interruption	232.9	- 3.2	0.5	7.9
Marine	234.8	- 2.3	3.1	20.3
Legal expenses	262.8	10.2	- 16.4	-10.1
Life	1,549.5	-23.8	69.8	16.7
Health	301.7	85.0	0.7	1.1
Other	890.9	29.7	50.1	36.4
Total	9,930.1	2.1	-106.1	19.3

of life reinsurance on the portfolio as a whole resulted in an increase in the overall loss ratio on own account, excluding expenditure on surrenders and return premiums, from 59 percent to 61.1 percent. In the non-life sector, on the other hand, the loss ratio fell from 71.8 percent to 67.1 percent. Expenses, consisting largely of reinsurance commissions, amounted to 23.2 percent (1994: 22.8 percent) of gross premiums. This increase, too, was due to the reduction in life insurance premiums already mentioned.

The various lines of reinsurance reported the following results.

Gross premium from *automobile reinsurance* rose by 7.9 percent. For the first time in years, this line showed a profit before transfers to the claims equalization reserve, of DM 7.4 million. The increased earnings were particularly due to a lower claims ratio for auto physical damage insurance. The successful introduction of immobilizers helped to reduce automobile thefts in Germany.

Premiums written in *fire reinsurance*, which is now reported exclusive of business interruption insurance premiums, kept to the previous year's level. This was due to, amongst other things, Allianz' cautious, critical approach to underwriting in Germany and the adaptation of reinsurance contracts in other countries. Profit before transfers to the claims equalization reserve amounted to DM 36.3 million (1994: 18.1 million) overall. The improvements in result were earned in markets outside Germany, especially in the US, where pressure through natural catastrophes subsided. Losses in Germany were slightly up on the previous year.

Allianz AG's *liability reinsurance* comes mainly from Germany. The extent of coverage against environmental damage as a result of environmental liability laws and product liability claims remained at the same high level. Provisions had again to be set aside in 1995 for outstanding claims. The underwriting loss before transfers to claims equalization and similar reserves fell to DM 75.1 million (1994: 101.2 million).

Personal accident reinsurance showed above-average growth with a 13.8 percent increase, originating almost exclusively from Germany. Reported profit also once again rose, compared with the previous year.

Premium income from the *reinsurance of engineering business* remained almost constant. The loss before transfers to the claims equalization reserve fell substantially, especially as the number of major losses in non-German markets was below the previous year's level.

Premiums written in *homeowners reinsurance* rose by 4.6 percent. Growth was also boosted by the trend in values of homes insured. Before transfers to the claims equalization reserve, this line again reported a favorable underwriting result, of DM 9.4 million (1994: 7.4 million).

The growth in premium income in *household effects reinsurance* amounted to 2.5 percent. Compared with the previous year, underwriting profit before transfers to the claims equalization reserve was slightly up at DM 18.7 million (1994: 17.3 million).

Premium income from *business interruption reinsurance*, reported separately for the first time, fell as a result of the direct insurers' underwriting policy. Following a loss the previous year, this line ended 1995 showing a profit before transfers to the claims equalization reserve.

Sales of *marine reinsurance* fell slightly. Premium income in Germany was unaltered at the previous year's level, while on the other hand commitments in other markets were reduced. The continuing recovery in the hull insurance market and also the abandonment of certain sectors of business resulted in increased profits before transfer to claims equalization and similar reserves.

While premium from *legal expenses reinsurance* improved, results continued to deteriorate. The reason for this is the effect of increased legal charges and attorneys' fees as of July 1, 1994. The line ended 1995 with a heavier loss than the previous year.

Premium income in *life reinsurance* diminished by nearly 24 percent in the year under review. This was due to changes in reinsurance con-

tracts with the companies in the US, who retained a greater proportion of their business. However, the underwriting result improved.

Health reinsurance premiums rose, especially those written in Germany, which was due mainly to changes in reinsurance arrangements within the Group. After a small loss the previous year, a small profit was made in 1995.

Other lines include emergency assistance, burglary, omnium, extended coverage, glass, hail, credit and bond, water damage, aviation (hulls), aircraft and spacecraft liability, storm and animal (livestock) insurances and other property and casualty business. The reported increase in premiums comes exclusively from Germany. Lines showing the strongest sales are credit and bond reinsurance, at DM 120 million, and other property and casualty, at DM 492 million. As there were no spectacular natural catastrophes to inflate claims, the property branches showed clearly improved results, while those from credit and bond insurance continued to be influenced by the weak state of the economy. After a loss of DM 2.5 million the previous year, other lines showed a profit for 1995, before transfers to claims equalization and similar reserves, of DM 31.8 million.

■ Investments and Total Earnings

Allianz AG's *investment portfolio* increased in 1995 by nearly DM 6.0 billion, or 17.0 percent, to DM 41.1 billion (1994: 35.2 billion).

Under the new reporting rules, investments are broken down into four areas. The first of these is *real estate*; the book value of which rose by DM 36 million to DM 679 million (1994: 643 million).

A second area of investment is that of *long-term equity investments*, which increased by DM 4.6 billion to DM 20.8 billion (1994: 16.2 billion) in value. This item was influenced by four special events in 1995: the purchase of new insurance company interests, the restructuring of Deutsche Versicherungs AG, an exchange of equity interests with Münchener Rückversicherungs-Gesellschaft AG and the optimization of several intermediate holding companies.

The *acquisition of new insurance companies* resulted in an increase in book values of DM 5.6 billion. Allianz AG allocated funds for intermediate holdings in preparation for the acquisition of the Vereinte Group Munich, and for an increase in the Company's stake in Berner Allgemeine Holding, Bern. The Company also acquired directly into its portfolio Lloyd Adriatico S.p.A., Trieste, and a stake in Manufacturers' Mutual Insurance, Sydney. In addition, Allianz AG participated in capital increases of Group companies totalling DM 311 million and in the capital increase of Münchener Rückversicherungs-Gesellschaft AG proportionately to its share with DM 145 million.

Deutsche Versicherungs-AG to be integrated into German Property and Casualty Group

The subsidiary *Deutsche Versicherungs-AG* is to be integrated into the German Property and Casualty Insurance Group in the coming years. Some preparations have already been made for this as of January 1, 1995. Allianz AG acquired Allianz Versicherungs-AG's 10 percent share in Deutsche Versicherungs-AG; the subsidi-

ary Deutsche Lebensversicherungs-AG was sold to Allianz Lebensversicherungs-AG; Deutsche Versicherungs-AG's portfolio including the relevant investments was transferred to a successor company of the same name and the shell of the old company merged with Allianz AG. As Deutsche Versicherungs-AG's net worth was appreciably lower than its book value with Allianz AG, this produced an extraordinary book loss that was largely offset by extinguishing the reserve in accordance with § 2 DDR Investment Act. These transactions led to a net drop in book value on the balance sheet of DM 1.4 billion.

New arrangement for equity interests

Allianz AG and Münchener Rückversicherungs-Gesellschaft AG have *exchanged a number of equity interests*. Allianz AG transferred 40 percent of Munich American Reassurance Co. (MARC Life) of Atlanta, 10.6 percent of Berlinische Lebensversicherung AG and 9.3 of Hamburg Mannheimer Sachversicherungs AG to Münchener Rückversicherungs-Gesellschaft AG. In exchange, it received 35 percent of Allianz Allgemeine Rechtsschutzversicherungs AG and 30 percent of Allianz Pace Assicurazioni e Riassicurazioni SpA. Finally, Allianz AG contributed Allianz Allgemeine Rechtsschutzversicherungs AG to Allianz Versicherungs AG and, similarly, Allianz Pace to Allianz Subalpina SpA, in which Allianz AG now holds a 33.7 percent interest.

Changes in the financial basis of certain intermediate holding companies led to a net increase of DM 544 million in shares in subsidiaries and affiliates. This compares with a reduction by DM 683 million in loans to subsidiaries to DM 305 million (1994: 988 million).

Other investments – the third area of investment – stood at DM 5.0 billion (1994: 4.7 billion). The item included, in particular, shares and other interests of DM 2.5 billion (1994: 2.3 billion) and fixed-interest securities at DM 2.4 billion (1994: 2.3 billion).

Finally, *funds held by others under reinsurance contracts* in-

creased to DM 14.6 billion (1994: 13.6 billion).

Current income from investments amounted to DM 1,854.5 million (1994: 1,984.5 million), less than the previous year's figure, owing chiefly to the elimination of the special distributions in 1994 of DM 176.4 million under "EK-56". Income includes interest on funds held by others under reinsurance contracts amounting to DM 849.5 million (1994: 788.0 million) and the transfer of profits from Allianz Versicherungs-AG, which amounted to DM 282.3 million (1994: 150.0 million).

DM 612.7 million (1994: 215.2 million) was *earned in profits* from the disposal of investments. Of this, DM 455.7 million originated from the transactions in equity interests described above, DM 61.1 million from securities, and DM 89.6 million from the sale of real estate. In addition, a loss was made from the disposal of investments amounting to DM 14.5 million (1994: 8.2 million).

Write-downs at balance sheet date amounted to DM 122.1 million (1994: 489.9 million). Of this, DM 16.4 million (1994: 205.0 million) concerned investments in subsidiaries and affiliates, DM 37.4 million (1994: 25.0 million) real estate and DM 68.3 million (1994: 259.9 million) securities.

Result from *investments* under the new reporting rules was DM 2,058.9 million (1994: 1,544.4 million), including investment management expenses of DM 119.9 million (1994: 128.2 million), interest paid of DM 200.7 million (1994: 16.6 million), and the release of DM 81.4 million (1994: 9.9 million) and withholding of DM 32.5 million (1994: 33.8 million) to special untaxed reserves. DM 845.0 million (1994: 783.2 million) was credited to the underwriting account as technical interest earned.

The underwriting loss of DM 106.1 million (1994: 125.4 million) and the non-underwriting profit of DM 944.4 million (1994: 599.3 million) produced a positive result from ordinary activities of DM 838.3 million (1994: 473.9 million).

Increased net profit

The merging of the old shell of Deutsche Versicherungs-AG with Allianz AG produced an extraordinary result of -DM 454.8 million. Tax-related single-entity relationships within the Group and resort to tax losses carried forward from the merger in question resulted in a tax credit.

Profit for the period after tax amounted to DM 680.5 million (1994: 467.5 million), of which DM 318.5 million (1994: 155.5 million) was transferred to "other appropriated retained earnings", leaving unappropriated retained earnings of DM 362.0 million (1994: 312.0 million).

■ Looking ahead

The renewal negotiations for 1996 between Allianz AG and subsidiaries and affiliates resulted in particular in a restructuring of the reinsurance relationship with the German Allianz companies. Increased own retentions take account of the enhanced financial strength of these companies. This signals a slowdown in sales growth of German reinsurance business in 1996. Moreover, Allianz AG will continue to participate in the overall development of subsidiaries and affiliates. On account of the high proportion of business from Germany (1995: 86 percent), overall premium income will rise only insignificantly over that for the previous year.

No particular major losses or heavy natural catastrophe claims have so far arisen during the current year.

Activities in capital markets at the start of 1996 were marked by bullish share markets and low interest rates. The anticipated rise in interest rates is expected to result in a slight increase in expenditure through depreciation of securities compared with the previous year.

Financial Statements
Allianz Aktiengesellschaft

■ Balance Sheet at December 31, 1995

Assets

	DM in thousands	
	1995	1994
A. Investments		
I. Real estate	678,841	643,329
II. Investments in subsidiaries and affiliates	20,843,116	16,186,962
III. Other investments	5,005,204	4,710,704
IV. Funds held by others under reinsurance contracts	14,607,203	13,614,129
	41,134,364	35,155,124
B. Receivables		
I. Accounts receivable on reinsurance business	421,236	351,175
including 164,065 (1994: 125,945) from subsidiaries		
including 204,275 (1994: 166,323) from affiliates		
II. Other receivables	568,086	1,146,745
including 465,442 (1994: 692,336) from subsidiaries		
including 1,806 (1994: 11,042) from affiliates		
	989,322	1,497,920
C. Other assets		
I. Tangible fixed assets and inventories	594	706
II. Cash with banks, checks and cash on hand	16,284	14,882
	16,878	15,588
D. Prepaid expenses		
I. Accrued interest and rents	43,901	68,431
II. Miscellaneous prepaid expenses	-	34
	43,901	68,465
	42,184,465	36,737,097

Liabilities

	DM in thousands			
	1995	1995	1995	1994
A. Stockholders' equity				
I. Capital stock		1,131,374		1,040,000
II. Additional paid in capital		9,296,236		7,481,942
III. Appropriated retained earnings				
1. required by law	2,403			2,403
2. other	2,372,767			2,054,267
		2,375,170		2,056,670
IV. Unappropriated retained earnings		362,040		312,000
			13,164,820	10,890,612
B. Participating certificates			864,956	846,052
C. Special untaxed reserve			53,346	999,160
D. Insurance reserves				
I. Unearned premiums				
1. Gross	1,670,937			1,608,562
2. less:				
amounts ceded	616,014			647,371
		1,054,923		961,191
II. Aggregate reserve				
1. Gross	13,847,683			12,870,942
2. less:				
amounts ceded	1,450,868			1,426,135
		12,396,815		11,444,807
III. Reserve for losses and loss adjustment expenses				
1. Gross	9,793,990			8,720,642
2. less:				
amounts ceded	4,482,654			4,274,017
		5,311,336		4,446,625
IV. Reserve for experience-rated and other premium refunds				
1. Gross	134,443			112,772
2. less:				
amounts ceded	69,659			62,809
		64,784		49,963
V. Claims equalization and similar reserves		655,693		415,569
VI. Other insurance reserves				
1. Gross	294,601			218,929
2. less:				
amounts ceded	57,203			57,335
		237,398		161,594
			19,720,949	17,479,749

	DM in thousands		
	1995	1995	1994
E. Other accrued liabilities		3,499,271	3,381,935
F. Funds held under reinsurance contracts		1,704,324	1,663,124
G. Other liabilities			
I. Accounts payable on reinsurance business		354,266	249,120
including 313,355 (1994: 193,952) to subsidiaries			
including 1,541 (1994: 842) to affiliates			
II. Liabilities to banks		623,104	-
III. Miscellaneous liabilities		2,197,962	1,227,031
including: taxes of 4,298 (1994: 18,348)			
2,043,743 (1994: 916,196) due to subsidiaries			
57,177 (1994: 176,916) due to affiliates			
		3,175,332	1,476,151
H. Deferred income		1,467	314
		42,184,465	36,737,097

Income Statement
for the period from January 1 to December 31, 1995

	DM in thousands			
	1995	1995	1995	1994
I. Underwriting account				
1. Net premiums earned				
a) Gross premiums written	9,930,069			9,728,805
b) Premiums ceded	-3,813,990			-3,859,923
		6,116,079		5,868,882
c) Change in unearned premiums – gross	- 84,588			- 106,033
d) Change in unearned premiums ceded	- 24,849			48,694
		- 109,437		- 57,339
			6,006,642	5,811,543
2. Credited interest on special reserves – net			739,155	679,625
3. Other underwriting income – net			19,913	20,130
4. Loss expenses – net				
a) Claims paid				
aa) Gross	-5,972,570			-5,677,643
bb) Amounts ceded in reinsurance	2,337,958			2,406,841
		-3,634,612		-3,270,802
b) Change in reserves for losses and loss adjustment expenses				
aa) Gross	- 647,861			- 880,155
bb) Amounts ceded in reinsurance	251,948			425,495
		- 395,913		- 454,660
			-4,030,525	-3,725,462
5. Change in other insurance reserves – net			- 786,752	-1,097,790
6. Premium refund payments and change in reserves – net			- 32,989	- 22,856
7. Underwriting expenses – net			-1,389,829	-1,276,836
8. Miscellaneous underwriting expenses – net			- 391,559	- 402,063
9. Subtotal			134,056	- 13,709
10. Change in claims equalization and similar reserves			- 240,124	- 111,667
11. Underwriting result – net			- 106,068	- 125,376

	DM in thousands			
	1995	1995	1995	1994
II. Non-underwriting account				
1. Investment income		2,549,190		2,222,039
2. Investment expenses		- 490,290		- 677,682
		2,058,900		1,544,357
3. Credited interest on special reserves		- 845,017		- 783,240
			1,213,883	761,117
4. Other income		348,605		319,135
5. Other expenses		- 618,106		- 480,963
			- 269,501	- 161,828
6. Non-underwriting result			944,382	599,289
7. Earnings from ordinary activities before taxation			838,314	473,913
8. Extraordinary income		896,900		-
9. Extraordinary expenses		-1,351,742		-
10. Result from extraordinary items			- 454,842	-
11. Income taxes	- 102,946			- 334,297
less amounts charged to subsidiaries	401,088			325,118
		298,142		- 9,179
12. Other taxes	- 5,069			- 6,334
less amounts charged to subsidiaries	3,995			9,100
		- 1,074		2,766
			297,068	- 6,413
13. Net income			680,540	467,500

Notes to the Financial Statements of Allianz AG

Legal Regulations

The financial statements and Management Report have been prepared for the first time 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.

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 subsidiaries and affiliates and other long-term equity investments are recorded at cost – subject to the qualification explained under securities – 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 income and variable income securities as well as other 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.

The same applies to securities issued by subsidiaries or affiliates which, by their nature or in view of the term of the investment, have to be valued as current assets, even if they have to be classified as investments in subsidiaries or affiliates.

An average cost has been established where securities of the same kind were purchased at different cost.

Tangible fixed assets and inventories are recorded at cost less tax allowable depreciation. 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 subsidiaries
- b) Registered bonds
- c) Debentures and loans
- d) Bank deposits
- e) Funds held by others under reinsurance contracts 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 reserve
Reserve for losses and loss adjustment expenses
Reserve for premium refunds (other than 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 mortality tables of Dr. K. Heubeck. The present value calculation is in accordance with German income tax law (§ 6a EStG). The full amount of the liability calculated in this way has been recorded in the financial statements. Other liabilities have been recorded as projected. The reserve for early retirement benefits has been calculated with regard to actuarial principles. The reserve for employee anniversary awards, established according to tax regulations, has been allocated additional amounts on the basis of commercial law.

Liabilities consist of:

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

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

Miscellaneous deferred income

Discounts carried forward under this heading are being spread over the remaining life of the related receivables.

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 8 percent of gross premium income.

Foreign currency translation

Land and long-term equity investments are translated from foreign currencies into DM at historical exchange rates. Securities denominated in foreign currencies are stated at the lower of historical DM 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.

Supplementary Information on Assets

Development of Assets A.I through A.III. in Fiscal 1995

	Values stated at 12/31/1994	%	Additions
A.I. Real estate	643,329	3.0	116,259
A.II. Investments in subsidiaries and affiliates			
1. Shareholdings in subsidiaries	13,300,969	61.8	12,861,554
2. Loans to subsidiaries	988,205	4.5	860,570
3. Shareholdings in affiliates	1,897,788	8.8	465,169
4. Loans to affiliates	-	-	75
Subtotal A.II.	16,186,962	75.1	14,187,368
A.III. Other investments			
1. Stocks, investment fund units and other variable income securities	2,277,568	10.6	571,024
2. Bearer bonds and other fixed income securities	2,281,497	10.6	984,838
3. Other loans			
a) Registered bonds	110,000	0.5	-
b) Debentures and loans	25,112	0.1	35
4. Bank deposits	1,380	0.0	72,195
5. Miscellaneous investments	15,147	0.1	-
Subtotal A.III.	4,710,704	21.9	1,628,092
Total	21,540,995	100.0	15,931,719

DM in thousands						
Transfers	Disposals	Revaluation	Depreciation	Net increases (+) disposals (-)	Values stated at 12/31/1995	%
-	43,917	610	37,440	35,512	678,841	2.6
388	7,667,453	-	-	5,194,489	18,495,458	69.7
-	1,543,805	-	-	683,235	304,970	1.1
12	303,923	-	16,358	144,900	2,042,688	7.7
-	75	-	-	-	-	-
400	9,515,256	-	16,358	4,656,154	20,843,116	78.5
-400	301,459	-	42,212	226,953	2,504,521	9.4
-	831,287	-	26,042	127,509	2,409,006	9.1
-	110,000	-	-	110,000	-	-
-	22,192	-	-	22,157	2,955	0.0
-	-	-	-	72,195	73,575	0.3
-	-	-	-	-	15,147	0.1
-400	1,264,938	-	68,254	294,500	5,005,204	18.9
-	10,824,111	610	122,052	4,986,166	26,527,161	100.0

Other investments

(Assets A.III.5.)

These consist entirely of holdings in private limited liability companies.

Collateral

Included on the assets side of the balance sheet are assets in the amount of DM 1,278.409 million (1994: DM 1,216.405 million) with restricted usage through collateral.

Disclosure of equity investments

The disclosures required by the German Commercial Code (§ 285 Nr. 11 HGB) are filed with the Commercial Register in both Berlin-Charlottenburg and Munich.

■ Supplementary Information on Liabilities

Capital

In June 1995 the capital stock was increased from DM 1,040,001,000 to DM 1,114,286,800 in the ratio of one new share for every 14 held. The issue price was DM 1,000 per share. Subsequently during fiscal 1995 warrant options were exercised for shares with a par value of DM 17,087,200. At December 31, 1995, the capital stock amounted to DM 1,131,374,000. Between the end of the year and March 29, 1996 (the end of the option period for the warrants issued in 1989 due to expire in 1996), further option warrants were redeemed for shares with a par value of DM 15,904,100. The capital stock is now DM 1,147,278,100, divided into 22,945,562 restricted shares with a par value of DM 50 each.

There is authorized unissued capital with a par value of DM 300 million available for issue at any time up to September 30, 2000. The preemptive rights of shareholders can be excluded up to an amount of DM 25 million 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 is a further DM 10 million of authorized unissued capital II which can be utilized up to September 30, 1998. The authorized unissued capital II 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 preemptive right to subscribe for new shares. To that extent the preemptive rights of shareholders are excluded.

The Company has conditionally authorized capital with a par value of DM 100 million on which subscription or conversion rights, with preemptive rights for shares, can be issued up to September 30, 1998.

Now that the warrant options due to expire in 1996 have expired on March 29, 1996, there is still a further

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

	DM in thousands
12/31/1994	7,481,942
+ Transfer from capital increase 1995	1,412,004
+ Transfer from option warrants exercised	402,290
12/31/1995	9,296,236

Appropriated retained earnings (Liabilities A.III.)

	DM in thousands		
	12/31/1994	From net income	12/31/1995
1. Required by law	2,403	-	2,403
2. Other	2,054,267	318,500	2,372,767
Total	2,056,670	318,500	2,375,170

amount of conditionally authorized capital of DM 26,597,000 to cover the warrant options issued in 1993 due to run initially until 1998. If, at the end of that period, the quoted share price is lower than the current exercise price the subscription period will be extended by a maximum of two years. Since the rights issue in June 1995 the striking price for exercising these options has been DM 2,015.

In connection with the issue of warrant options by the Company, München Rückversicherungs-Gesellschaft Aktiengesellschaft (Munich Re), Munich, which traditionally owns 25 percent of the stockholders' equity in the Company, has increased its stockholding temporarily to just over 25 percent.

Participating certificates (Liabilities B.)

Following the increase in June 1995 the form of capital known as participating certificates comprises 5,559,983 certificates carrying participation rights, with a par value of DM 55,599,830. 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 share of capital stock with a par value of DM

50; a minimum yield of 5 percent of the par 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 155.57; 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.

Special untaxed reserve (Liabilities C.)

	DM in thousands			
	12/31/1994	Transfers	Dissolution	12/31/1995
Reserve according to § 6 b EStG	30,860	32,448	9,962	53,346
Reserve according to § 2 DDR-IG	968,300	-	968,300	-
Total	999,160	32,448	978,262	53,346

Other accrued liabilities (Liabilities E.)

The pension obligations of all Allianz companies in Germany, except for those of Deutsche Krankenversicherung AG, are accrued in the financial statements of Allianz AG because the Company has assumed joint liability for the pension obligations and undertaken to fulfill them. In addition to pension and similar reserves of DM 3,290.624 million (1994: DM 3,122.218 million) and accrued taxes of DM 166.822 million (1994: DM 217.895 million) the Company has

miscellaneous accrued liabilities of DM 41.825 million (1994: DM 41.822 million), including DM 14.845 million for costs of the early retirement scheme shared throughout the Group and DM 8.000 million for contingencies.

Deferred income (Liabilities H.)

Debt discount of DM 132,000 on miscellaneous loans is shown under this heading.

Long-term and secured liabilities

	DM in thousands
	Period to maturity more than 5 years
Participating certificates	864,956
Other liabilities	56,080
Total	921,036

DM 4.703 million of the miscellaneous liabilities are secured by mortgages or annuity charges.

Supplementary Information on the Income Statement

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

	DM in thousands	
	1995	1994
Property and casualty business	8,380,598	7,696,071
Life business	1,549,471	2,032,734
Total	9,930,069	9,728,805

Investment income (Income Statement II.1.)

	DM in thousands	
	1995	1994
a) Income from equity investments	310,208	569,865
including from subsidiaries:		
175,565 (1994: 345,382)		
b) Income from other investments		
including from subsidiaries:		
676,067 (1994: 632,195)		
aa) Income		
from real estate	131,192	142,032
bb) from miscellaneous investments	1,130,850	1,122,539
	1,262,042	1,264,571
c) Income from revaluations	610	12,545
d) Realized investment gains	612,697	215,166
e) Income from profit pooling and profit transfer agreements	282,271	150,041
f) Income from the release of special untaxed reserves	81,362	9,851
Total	2,549,190	2,222,039

Investment expenses (Income Statement II.2.)

	DM in thousands	
	1995	1994
a) Investment management, interest charges and other investment expenses	321,259	145,882
b) Depreciation and write-downs on investments	122,052	489,854
c) Realized investment losses	14,531	8,196
d) Increase in special untaxed reserve	32,448	33,750
Total	490,290	677,682

Credited interest on special reserves - net (Income Statement I.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).

Change in other net insurance reserves (Income Statement I.5.)

This heading includes DM 716.675 million (1994: DM 1,045.118 million) in the net aggregate reserve and DM 70.077 million (1994: DM 52.672 million) in miscellaneous net insurance reserves.

Underwriting expenses - net (Income Statement I.7.)

Gross underwriting expenses of DM 2,306.887 million (1994: DM 2,217.699 million) are shown net of commissions and profit-sharing on reinsurance ceded amounting to DM 917.058 million (1994: DM 940.863 million).

Depreciation and write-downs on investments

The amount under this heading includes unscheduled write-downs of DM 15.238 million in accordance with the German Commercial Code (§ 277(3), sentence 1, HGB). Real estate was written down by DM 20.884 million in accordance with German income tax law (§ 6b EStG).

Other income (Income Statement II.4.)

The most important items under this heading are DM 231.419 million 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 DM 64.265

Other expenses

(Income Statement II.5.)

This heading comprises mainly pension costs for the employees of domestic Group companies (DM 231.419 million), interest and similar expenses (DM 219.747 million), and foreign currency losses (DM 111.721 million).

Extraordinary income

(Income Statement II.8.)

Extraordinary expenses

(Income Statement II.9.)

In connection with the merger of the old Deutsche Versicherungs-AG with Allianz AG, the special untaxed reserve of DM 968.300 million carried since 1990 in the financial statements of Allianz AG in accordance with German legislation on investment in the former East Germany (§ 2 DDR-IG) has been released to income in full. If the merger had not taken place the scheduled installment to be

released would have been DM 71.400 million, so that DM 896.900 million of the total released represents extraordinary income as a result of the merger.

The extraordinary expenses of DM 1,351.742 million represent the loss from merging the old Deutsche Versicherungs-AG with Allianz AG.

Taxes (Income Statement II.11. and II.12.)

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 with most of its German subsidiaries, Allianz AG is liable for a large portion of the domestic Property and Casualty Insurance Group's taxes.

Net income (Income Statement II.13.)

	DM in thousands	
	1995	1994
Net income	680,540	467,500
Transfer to appropriated retained earnings		
to other appropriated retained earnings	318,500	155,500
Unappropriated retained earnings	362,040	312,000

■ Other Information

Contingent liabilities and other financial commitments

At December 31, 1995, the Company had contingent liabilities under guarantees amounting to DM 14.788 million, matched by rights of recourse for the same amount.

Guarantee declarations have been given for the bonds with equity warrants attached issued by Allianz Finance B.V., Amsterdam, in 1989 and 1993, and for a deferred annuity agreement signed by Allianz-RAS Seguros y Reaseguros S.A., Madrid.

In fiscal 1996 Allianz AG has given a guarantee for the debenture issued by Allianz International Finance N.V., Amsterdam.

Allianz AG has also provided several foreign subsidiaries with a standard indemnity guarantee 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 the Company has statutory obligations to take over any losses made by those companies.

Potential liabilities amounting to DM 585.254 million were outstanding at the balance sheet date for calls on equity stocks not fully paid up.

Commitments under forward exchange transactions amounted to DM 13.657 million.

The other financial commitments outlined above include DM 460.557 million towards subsidiaries.

Effects of adjustment for tax purposes

Releasing the whole of the special untaxed reserve under § 2 DDR-IG of DM 968.300 million in connection with the merger of the old Deutsche Versicherungs-AG has boosted earnings. However, 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 DM 114.489 million have not been written back, for tax reasons, in fiscal 1995.

Personnel expenses

Allianz AG has no employees.

The compensation of the Board of Management for the year totaled DM 4.308 million (1994: DM 3.713 million), that of former members of the Board and their beneficiaries DM 5.319 million.

Pension costs for the year amounted to DM 3.992 million (1994: DM 2.398 million). The amount set aside for current and future pension benefits of former members of the Board of Management and their beneficiaries is DM 38.915 million.

Supervisory Board fees for the year, including remuneration based on financial performance, totaled DM 1.023 million.

The names of members of the Supervisory Board and of the Board of Management are listed on pages 2 and 5.

Munich, May 20, 1996

Allianz Aktiengesellschaft

The Board of Management

Dr. Schulte-Noelle	Dr. Breipohl
Bremkamp	Dr. Gavazzi
Dr. Hagemann	Hansmeyer
Dr. Rupprecht	

Independent Auditors' Report Allianz Aktiengesellschaft

The accounting records and the financial statements, which we have audited in accordance with professional standards, comply with the German legal regulations. The Financial Statements of Allianz Aktiengesellschaft Holding 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 Holding is consistent with the Financial Statements.

Munich, June 5, 1996

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Gerd Geib, Wirtschaftsprüfer (independent auditor)	Herbert Loy, Wirtschaftsprüfer (independent auditor)
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International Advisory Board

DR. HEINRICH VON PIERER

President and Chief Executive Officer
Siemens AG,
Germany
Chairman

DR. UMBERTO AGNELLI

Former Vice Chairman
Fiat S. p. A.,
Italy

JACQUES CAIVET

Président du Directoire
Peugeot S. A.,
France

ROGER FAUROUX

Ancien Ministre de l'Industrie et de
l'Aménagement du Territoire,
Président d'Honneur de Saint Gobain,
France

AARNOUT LOUDON

Chairman of the Supervisory Board
Akzo Nobel NV,
Netherlands

HELMUT MAUCHER

Managing Director
Nestlé AG,
Switzerland

SHINROKU MOROHASHI

Chairman
Mitsubishi Corporation,
Japan

SIR DAVID SIMON, C.B.E.

Chairman
The British Petroleum Company PLC,
Great Britain

JAVIER VALLS TABERNER

Presidente del Consejo
Banco Popular Español,
Spain

■ Joint Advisory Council of the Allianz Companies

DR. KLAUS LIESEN
Chairman of the Supervisory Board
Ruhrgas AG,
Chairman

DR. HANS ALBERS
Chairman of the Supervisory Board
BASF AG

DR.-ING. E. H. KLAUS BARTHELT
Former Member of the
Board of Management
Siemens AG

DR. KARL-HERMANN BAUMANN
Member of the Board of Management
Siemens AG

ALFRED BAYER
Former State Secretary
Chairman of the Board of Management
Isar-Amperwerke AG

DR. HELLMUTH BUDDENBERG
Deputy Chairman of the
Supervisory Board
Deutsche BP Holding AG

HEINZ DÜRR
Chairman of the Board of Management
Deutsche Bahn AG

DR. MICHAEL FRENZEL
Chairman of the Board of Management
PREUSSAG AG

DR. THOMAS P. GASSER
General Manager
Senior Corporate Officer
ABB Asea Brown Boveri AG

DR. REINER MARIA GOHLKE
Chairman of the Executive Board
Süddeutscher Verlag GmbH

DR. UWE HAASEN
Former Chairman of the
Board of Management
Allianz Versicherungs-AG

DR. H. C. HANS-OLAF HENKEL
President, Bundesverband
der Deutschen Industrie e. V.
(German Federal Industry Association)

DR. JÜRGEN HERAEUS
Chairman of the Executive Board
Heraeus Holding GmbH

PROFESSOR DR. WOLFGANG HILGER
Former Chairman of the
Board of Management
Hoechst AG

DR. LUDWIG HORATZ
Chairman of the Supervisory Board
Phoenix AG

MARTIN KOHLHAUSSEN
Speaker of the Board of Management
Commerzbank AG

DR. HERMANN KRÄMER
Member of the Board of Management
VEBA AG

DR. DIETMAR KUHN
Chairman of the Board of Management
RWE Aktiengesellschaft

DR. DR.-ING. E. H.
MANFRED LENNINGS
Chairman of the Supervisory Board
Fried. Krupp AG Hoesch-Krupp

FRANZ NEUBAUER
Former State Minister
Chairman of the Board of Management
Bayerische Landesbank Girozentrale

DR. GEORG OBERMEIER
Chairman of the Board of Management
VIAG Aktiengesellschaft

PROFESSOR DR. KLAUS POHLE
Deputy Chairman of the
Board of Management
Schering AG

HELMUT RICKE
Former Chairman of the
Board of Management
Deutsche Bundespost Telekom

DR.-ING. E. H.
GÜNTHER SASSMANNSHAUSEN
Member of the Supervisory Board
PREUSSAG AG

DR. H. C. WALTER SCHEEL
Former President of the
Federal Republic of Germany

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

JÜRGEN E. SCHREMPF
Chairman of the Board of Management
Daimler-Benz AG

PETER SCHUIIMACHER
Member of the Supervisory Board
Heidelberger Zement AG

DR. RON SOMMER
Chairman of the Board of Management
Deutsche Telekom AG

HERIBERT SPÄTH
President
National Federation of German
Skilled Crafts and Trades

PROFESSOR DR. DR.-ING. E. H.
DIETER SPETHMANN
Lawyer,
Former Chairman of the
Board of Management
Thyssen AG

HANS PETER STIHL
President
Association of German Chambers
of Industry and Commerce

DR. KARL-HEINZ WESSEL
Partner, Bankhaus
Sal. Oppenheim jr. & Cie. KGaA

DR. MARK WÖSSNER
Chairman of the Board of Management
Bertelsmann AG

BERND WREDE
Chairman of the Board of Management
Hapag-Lloyd AG

DR. KLAUS ZUMWINKEL
Chairman of the Board of Management
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Glossary

The specific accounting terms explained on these pages are intended to help with the interpretation of the Allianz Annual Report. Emphasis is put on balance sheet and income statement terms. Specific terminology with regard to the various insurance business lines has not been included.

Affiliated companies

Companies over which a group company exercises a significant influence. Significant influence is a less dominant form of control than unified management.

Aggregate reserve

Amount of capital calculated according to actuarial methods as a provision for future obligations, especially in life, health, and personal accident insurance with premium refund.

Allocated interest

In the consolidated financial statements the net investment income from property and casualty insurance and from life and health insurance is shown in total in the non-underwriting account. The part attributable to life and health insurance is taken out of the non-underwriting account and transferred to the underwriting account under the heading "allocated interest from the non-underwriting account".

Claims equalization and similar reserves

Calculated on the basis of statutory regulations. The claims equalization reserve has to be set up under certain conditions to provide for fluctuations in claims in future years. Similar reserves include the reserve for product liability cover for pharmaceutical risks and the reserve for property and liability risks of nuclear plants.

Credited interest on special reserves

Investment income corresponding to certain insurance reserves is first recorded in the non-underwriting section of the income statement and then allocated as "credited interest on special reserves" to the relevant insurance lines in the underwriting section.

Earnings per share

Earnings per share calculated by the DVFA/GDV method is a key figure for evaluating the performance and share price of a company on a com-

parable basis. It is a modified form of published earnings – i.e. after special factors have been eliminated – expressed in relation to a single share.

Equity consolidation

Consolidation by netting the book value of the investment in a subsidiary with the Group's share in its equity.

Expense ratio

For non-life insurance, underwriting expenses as a percentage of premiums written.

Extended coverage

Insurance of additional risks (e.g. riots, vandalism, strike, lockout) as a complement to industrial and commercial fire and business interruption insurance.

Funds held by others under reinsurance contracts assumed/Funds held under reinsurance contracts ceded

For reinsurance ceded, the ceding insurer retains – depending on the terms of the reinsurance contract – certain portions of the funds due to the reinsurer as collateral for the reinsurer's future obligations. The reinsurer then shows "funds held by others under reinsurance contracts assumed" and, conversely, the ceding insurer shows "funds held under reinsurance contracts ceded".

Gross/Net

In the insurance business the term gross means "before deduction" and net "after deduction" of reinsurance. Net is also referred to as "for own account".

Loss and loss adjustment expenses

Losses and loss adjustment expenses incurred in the year under review and run-off results from prior years.

Loss ratio

Loss and loss adjustment expenses as a percentage of premiums earned.

Minority interest

This represents the portion in a consolidated subsidiary's equity pertaining to outside stockholders.

Non-underwriting result

Balance of revenues and expenses not relating to insurance operations and therefore not included in the underwriting section of the income statement. The non-underwriting result consists mainly of investment income and expenses, the interest element added to pension reserves, and write-downs on other receivables. In the consolidated income statement the balance of investment income and expenses attributable to life and health insurance is taken out of the non-underwriting account and transferred to the underwriting account as "allocated interest".

Premiums written/earned

Premiums written represent all premium revenues in the fiscal year. Premiums earned are the proportionate share of the premium income for the insurance coverage in the fiscal year.

Prepaid expenses/Deferred income

Disbursements and receipts effected prior to the balance sheet date representing income and expenses relating to a definite period after the balance sheet date.

Reinsurance

An insurer transfers part of his risk by insuring it with another insurer (reinsurer).

Reserve for losses and loss adjustment expenses

Reserve for anticipated losses and loss adjustment expenses on claims incurred which have not been settled or have only been partially settled during the year.

Reserve for premium refunds

Portion of the operating income to be distributed to policyholders. It is based either on legal, company by-law, and contractual obligations or on voluntary commitment.

Subsidiaries

Companies which are under the unified management control of the Group's parent company or in which companies in the Group hold a majority of voting rights, have the right to appoint and dismiss a majority of the members of the administrative, managerial or supervisory bodies, or have controlling rights under the by-laws or the terms of contractual agreements.

Technical interest rate

Minimum yield taken by individual German life insurers as a basis for their premium calculation. It is the interest rate which, on the assumption that premium rates remain constant, must be achieved throughout the life of a policy in order to be able to pay out the stipulated sum insured. Higher returns are, for the most part, credited to policyholders as profit participation.

Underwriting expenses

Expenses relating to the acquisition and maintenance of insurance policies, such as commissions, salaries and general expenses.

Underwriting result

Balance of revenues and expenses relating to insurance operations and shown in the underwriting section of the income statement – separately, in the consolidated income statement, between property/casualty insurance and life/health insurance – in conformity with the statutory requirements for the classification of financial statements. The underwriting result consists mainly of premium income, loss and loss adjustment expenses (including surrenders and maturities), underwriting expenses and – in the underwriting section of the consolidated income statement for life/health insurance – the attributable net investment income shown as "allocated interest from the non-underwriting account", as well as the net change in the aggregate reserve.

Unearned premiums

Portion of written premiums relating to periods beyond the balance sheet date, thus representing deferred income.

Unrealized gains/losses

Investments held on account and at risk of life insurance policyholders are recorded at current market value. The income and expenses arising from changes in the value of such investments are shown in the consolidated underwriting account for life and health insurance as "unrealized gains on investments held on account and at risk of life insurance policyholders" and "unrealized losses on investments held on account and at risk of life insurance policyholders" respectively.

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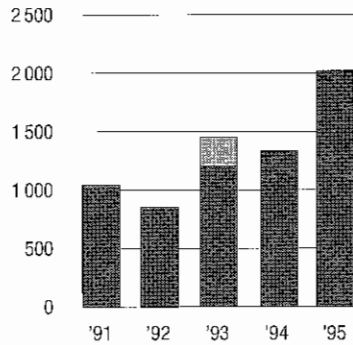
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■ Five Years at a Glance

Net income

DM millions

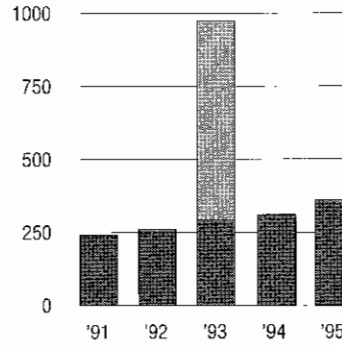


1,048 858 1,457* 1,336 2,021

* Nonrecurrent tax proceeds of DM 253 million out of EK56 special distribution.

Total dividend payout

DM millions

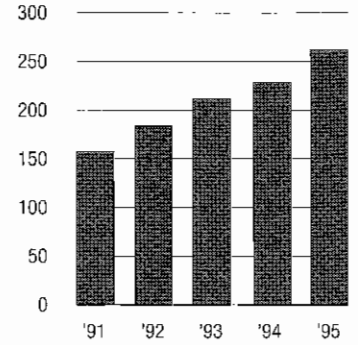


243 263 975* 312 362

* Dividend payout = 292.5
Special distribution = 682.5

Investments¹

DM billions

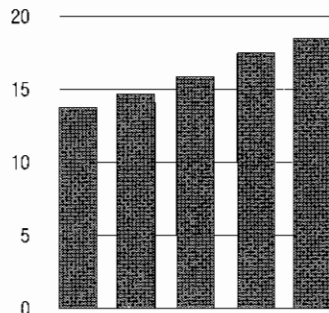


158.0 184.2 212.8 229.3 262.5

¹ Through 1993 under previous accounting regulations

Stockholders' equity¹

DM billions

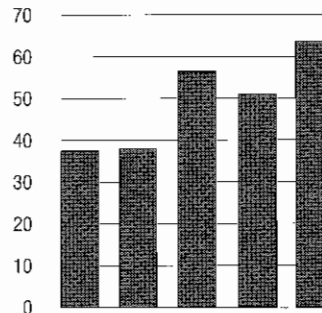


14.2 15.2 16.4 17.5 18.5

¹ Through 1993 under previous accounting regulations

Stock market value

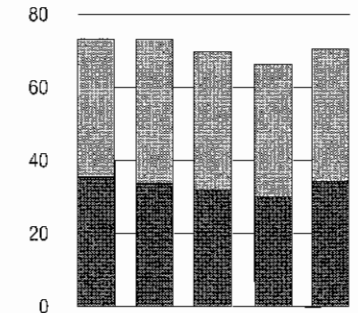
DM billions



37.6 38.1 56.5 51.1 63.7

Employees

in thousands



Germany	37.9	40.6	37.9	36.4	34.9
Other countries	35.4	32.7	31.0	30.0	34.3
Total	73.3	73.3	68.9	66.4	69.2

■ Allianz,
its most important group companies
and insurance interests

Allianz Aktiengesellschaft Holding				
Germany	Europe (excluding Germany)		North and South America	Africa, Asia, Australia
<p>Allianz Versicherungs-AG Bayerische Versicherungsbank AG Frankfurter Versicherungs-AG Deutsche Versicherungs-AG Allianz Lebensversicherungs-AG Deutsche Lebensversicherungs-AG DKV Deutsche Krankenversicherung AG</p>	<p>Austria Wiener Allianz Versicherungs-AG Anglo-Elementar Versicherungs-AG Wiener Allianz Lebensversicherungs-AG</p> <p>Belgium Allianz Nederland N. V. DKV International S. A.</p> <p>Czech Republic Allianz poisťovňa, a.s.</p> <p>Denmark Allianz Nordøstjyske Forsikringsaktieselskabet Domus Forsikringsaktieselskabet</p> <p>France Allianz Via Assurances I.A.R.D.T. Rhin et Moselle Assurances Compagnie Générale d'Assurances et de Réassurances Société Anonyme ELVIA Assurances Société Anonyme Allianz Via Vie Compagnie d'Assurances sur la Vie Rhin et Moselle Assurances Compagnie d'Assurances sur la Vie Société Anonyme Compagnie Générale de Prévoyance Société Anonyme de Prévoyance et de Capitalisation</p> <p>Great Britain Comhill Insurance PLC</p> <p>Greece Allianz General Insurance Company S. A. Allianz Life Insurance Company S. A.</p> <p>Hungary Hungaria Biztosító Rt</p> <p>Ireland Comhill Insurance PLC</p> <p>Italy Riunione Adriatica di Sicurtà S. p. A. Lloyd Adriatico S. p. A. Allianz Subalpina S. p. A. Società di Assicurazioni e Riassicurazioni</p> <p>Luxembourg International Reinsurance Company S. A. DKV-Luxembourg S. A.</p>	<p>Netherlands Allianz Nederland N. V. N. V. Verzekeringsmaatschappij Bijnmond NVS Salland Verzekering N. V.</p> <p>Portugal Portugal Previdente Companhia de Seguros</p> <p>Russian Federation Closed Joint Stock Insurance Company Ost-West Allianz</p> <p>Slovak Republic Allianz poisťovňa, a. s.</p> <p>Spain Allianz RAS Seguros y Reaseguros S. A. Eurovida, S. A. Compañía de Seguros y Reaseguros</p> <p>Switzerland ELVIA Schweizerische Versicherungs- Gesellschaft Allianz Versicherung (Schweiz) AG ELVIA Schweizerische Lebensversicherungs- Gesellschaft Allianz Lebensversicherung (Schweiz) AG ELVIA Reiseversicherungs-Gesellschaft</p> <p>Turkey Sark Hayat Sigorta A.Ş. Sark Sigorta T.A.Ş.</p>	<p>Argentina Colón Compañía de Seguros Generales S. A. Allianz RAS Argentina S. A. de Seguros Generales</p> <p>Brazil Allianz Bradesco Companhia Brasileira de Seguros</p> <p>Canada Allianz Insurance Company of Canada Trafalgar Insurance Company of Canada</p> <p>Chile Allianz Compañía de Seguros S. A. Allianz Eica Compañía de Seguros de Vida S. A.</p> <p>Mexico Allianz México S. A. Compañía de Seguros</p> <p>USA Fireman's Fund Insurance Company Allianz Insurance Company Jefferson Insurance Company of N. Y. Allianz Life Insurance Company of North America</p> <p>Venezuela Adriática de Seguros C. A.</p>	<p>Australia Manufacturers' Mutual Insurance Group (MMI)</p> <p>Egypt Arab International Insurance Company</p> <p>Hong Kong Allianz Corrhil Insurance (Far East) Ltd.</p> <p>Indonesia P.T. Asuransi Allianz Utama Indonesia</p> <p>Japan Allianz Fire and Marine Insurance Japan, Ltd.</p> <p>Namibia Allianz Insurance of Namibia Ltd.</p> <p>Singapore Allianz Insurance (Singapore) Pte. Ltd.</p> <p>South Africa Allianz Insurance Ltd.</p> <p>Thailand The Navakij Insurance Public Co., Ltd.</p> <p>United Arab Emirates Allianz Versicherungs-AG Dubai Branch</p>

■ Alliarz AG Financial Calendar

- July 29, 1996 Financial Press Conference for the 1995 business year
and the first quarter 1996
- October 7, 1996 Shareholders' meeting
Press release on the first half-year
(Interim financial report)
- December 19, 1996 Press release on the third quarter 1996
- February 19, 1997 Press release on preliminary results 1996
- May 28, 1997 Financial Press Conference for the 1996 business year
and the first quarter 1997
- July 10, 1997 Shareholders' meeting
- September 18, 1997 Press release on the first half-year
(Interim financial report)
- November 27, 1997 Press release on the third quarter 1997

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