

Allianz 1996



Allianz Aktiengesellschaft Annual Report 1996

Demography and Insurance

The consequences of falling birth rates and increasing life expectancy are having lasting effects on the process of demographic change. This presents the insurance industry with new opportunities and challenges. See pages 46 to 50 of this report.

The Group

Gross premiums written by the Allianz Group were up 5.8 percent at DM 74.6 billion. Pre-tax profit improved by 36.8 percent to DM 4.2 billion. Net income for the year was up by 10.7 percent at DM 2.2 billion, because the tax charge returned to normal after being influenced by special factors in the previous year. Earnings per DM 5 share amount to DM 9.25 (1995: DM 8.72).

Allianz AG

Net income of Allianz AG for the year amounted to DM 601.6 million. The par value of Allianz shares was reduced from DM 50 to DM 5 per share. An increased dividend of DM 1.70 per share (1995: DM 1.60) is proposed for fiscal 1996.

Allianz Group			1996	Change over previous year in %	1995	Change over previous year in %	1994	More on page
Gross premiums written	DM bn		74.6	5.8	70.5	6.8	66.1	27
Benefits paid to clients	DM bn		65.2	4.6	62.3	13.9	54.7	
Pre-tax profit	DM mn		4,164	36.8	3,043	34.4	2,264	28
Taxation	DM mn		1,926	88.5	1,022	10.0	929	
Net income	DM mn		2,238	10.7	2,021	51.3	1,336	29
Investments under management	DM bn		344.2	22.1	282.0	13.8	247.8	40
Stockholders' equity	DM bn		20.4	10.2	18.5	5.8	17.5	
Insurance reserves	DM bn		262.6	8.1	243.0	14.7	211.9	
Employees	thousand		66	- 4.9	69	4.2	66	22
Allianz Aktiengesellschaft								
Gross premiums written	DM bn		9.9		9.9		9.7	71
Stockholders' equity	DM bn		13.8		13.2		10.9	
Net income	DM mn		602		681		468	75
Allianz Share								
Consolidated earnings per share according to the DVFA/GDV method*)	DM		9.25		8.72		5.66	29
Dividend per share*)	DM		1.70		1.60		1.50	45
Dividend payout	DM mn		390		362		312	
Price of Allianz share at year-end*)	DM		277		282		246	cover
Market value of Allianz at year-end	DM bn		63.6		63.7		51.1	cover

*) Converted to shares with a face value of DM 5

Allianz Shares

1997 has already been an important year for Allianz shares.

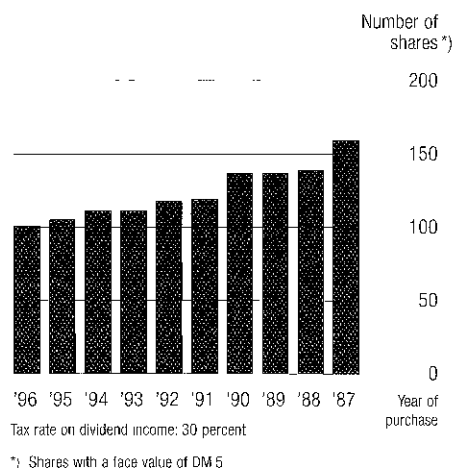
On March 3, 1997, Allianz shares were admitted to the system for holding shares in collective safe custody administered by the Deutscher Kassenverein (the German Securities Settlement System). This means that Allianz shareholders can now use the cheaper and faster safe custody system administered by the Deutscher Kassenverein, or the existing system under which shares are held individually in safe custody. Over 98 percent of our shareholders have already opted for the new system. The introduction of the collective safe custody system was also the main precondition for changing the par value of the shares to DM 5 each. Allianz shares in the new DM 5 form were traded for the first time on April 28, 1997.

In conjunction with the change in par value of the shares, the change in the Company's name to Allianz Aktiengesellschaft already approved at the Annual General Meeting held in October 1996 was implemented by removing the word "Holding" from the end of the name.

After falling back in 1996, the Allianz share price has caught up with the general rise in the market again in 1997. Over the first three months of

Performance of a holding of 100 Allianz shares

acquired on different dates

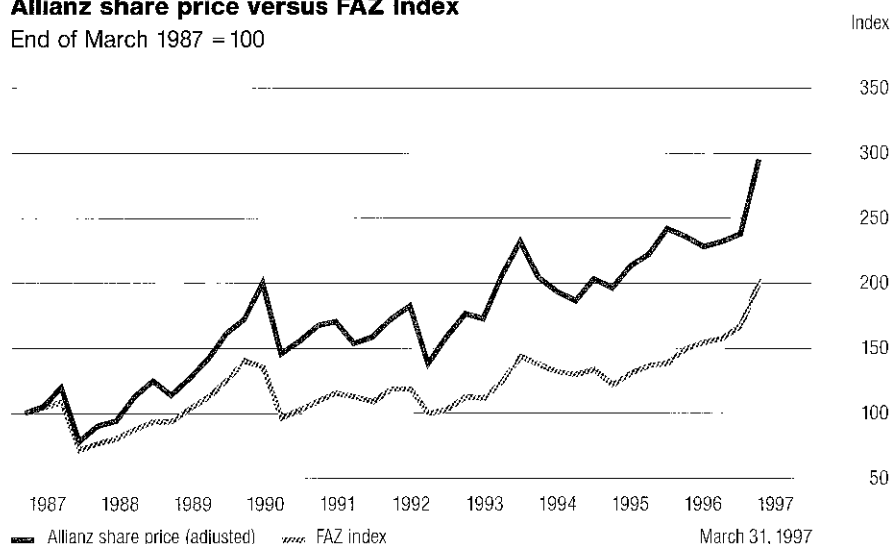


1997 the shares performed considerably better than the DAX and FAZ indices, touching an all-time high of DM 344.50, adjusted for the new face value of shares of DM 5. On a long-term view Allianz shares are still performing much better than the FAZ index: whilst the Allianz share price rose by 197 percent between March 1987 and March 1997, the FAZ index showed an increase of 102 percent.

Raising the dividend from DM 1.60 to DM 1.70 per DM 5 share, coupled with the increase in capital

Allianz share price versus FAZ Index

End of March 1987 = 100



in 1996 as a result of warrant options being exercised, increased the total dividend payout by 7.7 percent compared with the previous year. Including the corporate income tax credit, Allianz's total payout has more than doubled over the past 10 years with an overall increase of 130 percent.

For investors taking a long-term view an investment in Allianz shares – including share price movements as well as dividends and rights issues – has performed better than a DAX-indexed portfolio. An investor who purchased 100 Allianz shares (adjusted to the DM 5 face value) 10 years ago, e. g. in March 1987, will have paid DM 17,080 before expenses. By reinvesting the net dividends (taxed at 30 percent) and the proceeds from the sale of subscription rights in Allianz shares, the total shareholding would have increased to 160 shares with a DM 5 face value by the end of March 1997, with a stock market value of DM 54,944, without any additional funds having been committed. This increase in value over a period of 10 years represents an average annual return of 12.4 percent after tax. The DAX index would have yielded 10.2 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 on the Swiss Stock Exchange. Allianz shares are also traded on the IBIS electronic trading system and the Deutsche Terminbörse (the German futures and options exchange). By being admitted to the collective safe custody system and included in the settlement system of the Deutscher Kassenverein, the existing rule governing the settlement of futures contracts for Allianz shares in cash will now no longer apply from the middle of August 1997 onwards.

Allianz shares are one of the most heavily traded stocks on the German stock exchanges and the most important of the 30 stocks which make up the DAX index, accounting for about 9 percent of the total. In the MSCI-Europe index – which comprises more

Information on further financial instruments issued by Allianz:

Participating certificates:

Current redemption value
as of 12/31/2001: DM 155.57
Distribution for 1996: DM 4.08

Warrant 1993/1998:

Current exercise price:
DM 2,015.00

10 warrants are required to subscribe for one DM 50 multiple share certificate 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.

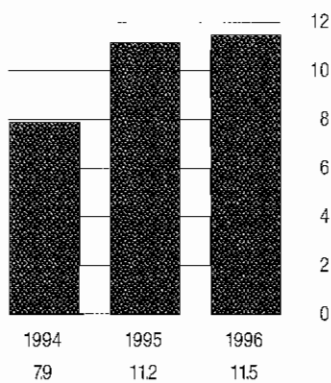
than 500 European companies – Allianz accounts for about 1.4 percent of the total, making it one of the ten most important stocks in the index.

Allianz AG's capital is held by just over 46,000 shareholders. 10.5 percent of these are employees with employee stock. The largest shareholder, with about 25 percent of the capital, is traditionally Münchener Rückversicherungs-Gesellschaft (Munich Re). Bayerische Vereinsbank, Deutsche Bank and Dresdner Bank each hold about 10 percent and Baycrische Hypotheken- und Wechselbank about 5 percent of Allianz AG. Almost 11 percent of the capital is in the hands of foreign shareholders.

■ Contents

Allianz Group

Return on equity (after tax)
in %



Allianz Group

A favorable claims record, the absence of major natural catastrophes, and earnings-driven risk selection strengthened the profitability of the Allianz Group in 1996. The return on equity after tax went up from 11.2 percent to 11.5 percent.

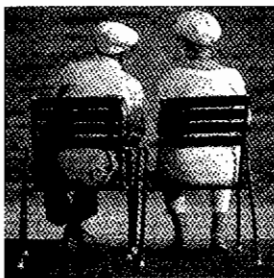
Allianz Aktiengesellschaft

The Group's parent company is the reinsurance carrier for the whole of the Allianz Group.

Special Report

This year's Special Report focuses on the demographic changes taking place in nearly every country and discusses the consequences for the insurance industry.

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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

PROFESSOR DR. DR. H. C.

MARCUS BIERICH

Chairman of the Supervisory Board
Robert Bosch GmbH

NORBERT BLIX

Salaried employee,
Allianz Versicherungs-AG
since May 23, 1997

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)

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,
from February 24 until October 7, 1996
and since May 8, 1997

REINHOLD POHL

Custodian,
Allianz Lebensversicherungs-AG

MANFRED RASP

Salaried employee,
Allianz Versicherungs-AG
until February 28, 1997

LIENHARDT REICH

Salaried employee,
Allianz Versicherungs-AG
since March 1, 1997

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

SIR DAVID SIMOM, C.B.E.

Chairman
The British Petroleum Company PLC,
from October 7, 1996 until May 7, 1997

DR. KLAUS-RÜDIGER STROEBEL

Salaried employee,
Allianz Versicherungs-AG
until May 22, 1997

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.

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

Our deliberations were focused among other things on decisions taken in connection with the takeover of the Vereinte group and of Hermes Kreditversicherungs-AG. The Board of Management has explained in detail the share exchange and its consequences. The action proposed to integrate these new companies into the Allianz Group was also discussed.

In addition we have received reports about the acquisition of equity interests in foreign companies and the extension of cooperation arrangements with banks.

Finally we have discussed with the Board of Management the steps taken by the latter to make Allianz shares more attractive to investors. These include more informative and up-to-date reporting, bringing forward the date of the Annual General Meeting, introducing arrangements for shares to be held in collective safe custody, and changing the par value of the shares to DM 5.

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 1996 financial statements and management report. At the meeting of the Supervisory Board held on May 27, 1997, 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 and discussed in detail in the presence of the auditors at the meeting of the Supervisory Board held for that purpose.

Dr. Wolfgang Müller, who replaced Dr. Wolfgang Schieren on the Supervisory Board, resigned from the Board with effect from the end of the Annual General Meeting held on October 7, 1996. At that meeting Sir David Simon was elected to replace him as a member of the Supervisory Board. Due to his recent appointment to the British government, Sir David Simon had to step down from the Supervisory Board on May 7, 1997. Dr. Wolfgang Müller joined the Supervisory Board again in his place.

Mr. Manfred Rasp and Dr. Klaus-Rüdiger Stroebel have retired and resigned from the Supervisory Board. Mr. Lienhardt Reich has been appointed by court order to succeed Mr. Rasp as a member of the Supervisory Board. Mr. Norbert Blix has been elected by employees to succeed Dr. Stroebel as their representative on the Board. We have expressed our thanks to the members who have resigned from the Supervisory Board for their contribution to the activities of the Board. Dr. Roberto Gavazzi will step down from the Board of Management at his own request on June 30, 1997. The Supervisory Board has appointed Dr. Helmut Perlet as Deputy Member of the Board of Management, effective July 1, 1997.

Munich, May 27, 1997

For the Supervisory Board



Report of the Supervisory Board

DR. HENNING SCHULTE-NOELLE
Chairman

DR. DIETHART BREIPOHL

DETLEV BREMKAMP

DR. ROBERTO GAVAZZI
until June 30, 1997

Board of Management

DR. REINER HAGEMANN
Personnel Director

HERBERT HANSMEYER

DR. GERHARD RUPPRECHT

DR. HELMUT PERLET
Deputy Member
from July 1, 1997

Dear Shareholders

Allianz, your Company, again generated a much increased profit in 1996 compared with the previous year, building on the good performance of recent years during which time pre-tax profits have risen by an average of 19 percent a year from 1992 through 1996. But we are not content to rest on our laurels.

Our main strategic objective is profitable growth. We want to increase Allianz's profitability on a sustainable basis in order to provide you, our shareholders, with a good overall return on your capital invested – by international as well as national standards – and satisfy heightened expectations. In all markets we aim to identify profitable fields of activity with good growth potential and then work on them to maximize that potential. The international expertise of the Group gives us an increasing competitive advantage in this respect. We are setting ourselves ambitious targets for the future:

■ We intend to expand our life and health insurance business in every important market and offer pension fund management services all over the world.

The continuous increase in the length of the average life span is opening up new business opportunities in personal lines of insurance all over the world. We are encouraged by this growing demand to develop pension fund business into a core activity in many countries.

■ We want all group companies to be market leaders in product development, quality of service, and cost containment.

Cost-cutting measures continue to be pursued with great determination. Considerable success has been achieved, for example, in Switzerland and France. During the course of the past year Allianz has introduced new or improved products and enhanced the quality of its services in nearly every market.

■ We are strengthening our sales capacity and making full use of every promising form of marketing channel.

Our multi-distribution strategy – through professional agents, bancassurance, brokers and direct selling, to mention only the most important – is tailored to suit the diversities of each region and caters for all main customer preferences. Every proven new form of marketing is tested for its effectiveness in other markets and transposed accordingly where appropriate.

■ We aim to be among the leaders in the growth markets of Central and Eastern Europe and in the Asia Pacific region.

Depending on market conditions we go for acquisitions, joint ventures, cooperation agreements or newly incorporated companies (as most recently in Poland).

■ We aim to be a world leader in the global insurance market for industrial risks.

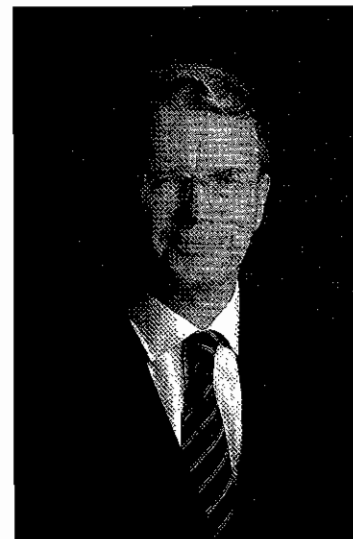
In addition to its worldwide insurance activities Allianz will offer its clients alternative forms of carrying and spreading risk – an area which is developing very rapidly.

These fundamental objectives, coupled with clear recognition of our responsibilities towards society and the environment, will determine the actions and reactions of everyone employed by Allianz companies over the next few years. We will be judged by our success in that regard. Value added, which generates long-term profitable growth, creates security and trust. That benefits our customers and also our staff, to whom I would like to express my thanks for their achievements over the past year. First and foremost, however, our aim of increasing the long-term value of the business is for the benefit of you, our shareholders.

Yours sincerely

Henning Schulte-Noelle

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



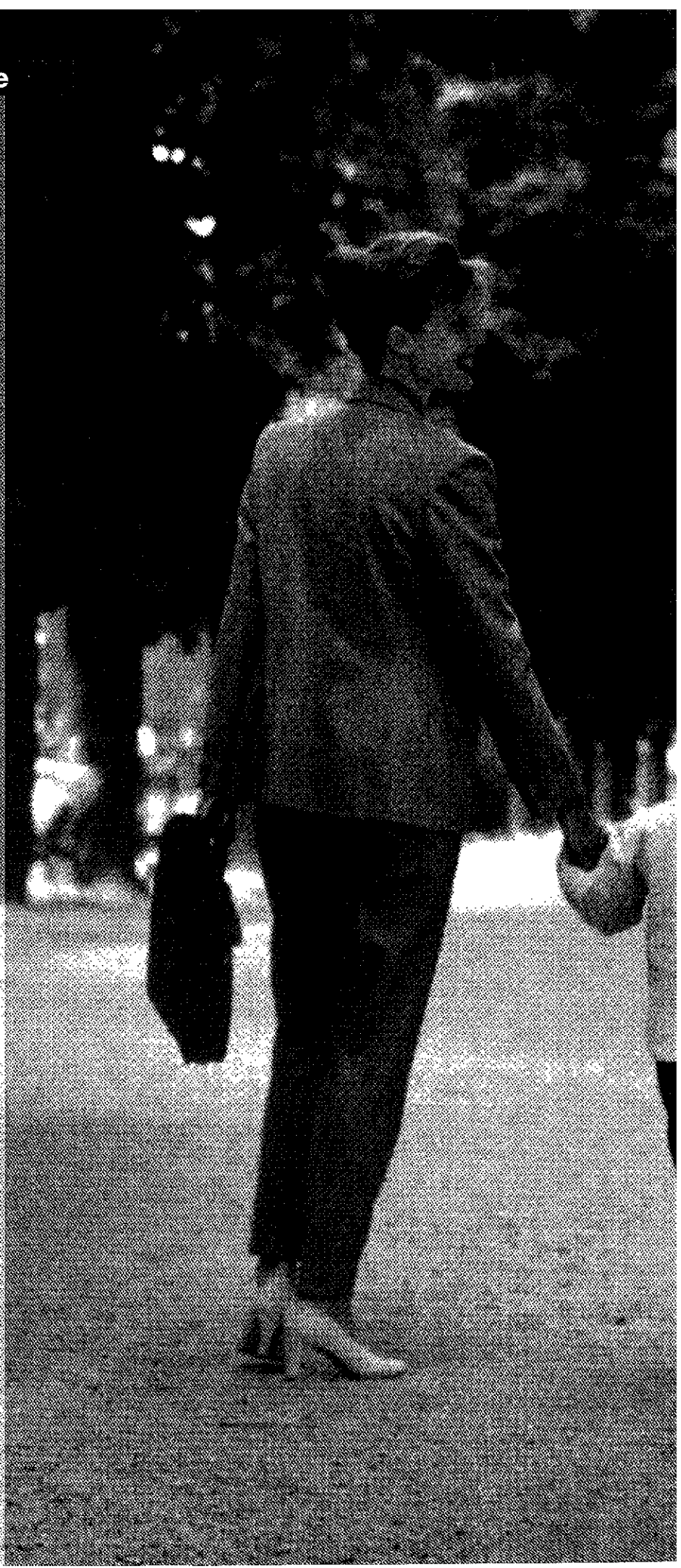
Cover Picture



Two snapshots, two lifestyles – contrasting centuries which illustrate the reasons for an ageing world population. Our cover picture, part of a reproduction on this page shows the French Capet family in the early 14th century, consisting of husband, wife and five children – a portrait exuding noble pride of possession, social position and a large number of children. Next to that a typical West European family of our time – one child, both parents in employment. Three and a half centuries after the Capets, they can expect to live more than twice as long.

Families with a large number of children are dying out in the modern world. Declining birth rates and longer life expectancies are contributing to the worrying ageing process of human societies all over the world. Getting older, says a wise old adage, is still better than the only existing alternative. But the extended life span of all classes of society is bringing social security systems ever closer to the brink of crisis: Fewer and fewer people in gainful employment are having to provide for more and more pensioners.

Will the youngster seen holding his parents' hands so contentedly as they stroll through the Jardin du Luxembourg in Paris be prepared to finance the pensions of his parents' generation? In the face of these problems private provision must be encouraged and enhanced in order to maintain adequate funding for the living standards of people in their old age without breaking up society. On pages 46-50 this Annual Report focuses on the meaning of an ageing world population for the insurance industry.





Allianz 1996

Allianz steigert weiter

Technischer Fehlbetrag erneut

Allianz erhöht auf 17 (16) DM Ergebnissprung um ein Drittel

hgh. München (Eins-Konzern, M...)

Börsen-Zeitung 20.2.1997
Die Allianz-Gruppe

um knapp 6% auf 74,7 (70,5) Mrd. DM. Ohne Sondereinflüsse hätte sich allerdings nur ein Wachstum von 4 bis 5 % ergeben. Positiv wirkte sich das Aufwachen der Aufwertungen aus.

Allianz wächst
München - Ein gutes Jahr

Allianz fährt auf Rekordkurs

Versicherungskonzern legt beim Gewinn deutlich

Frankfurt A.M. Einem erneuten kräftigen Gewinnanstieg hat die Allianz-Konzern-Gruppe zum Geschäftsjahr 1996. Das Ergebnis vor Steuern lag bei 4,1 Milliarden Mark, das nach dem Gewinnsteigerer, der in der Mark gesteigert werden.

durch den Zugang der Versicherung zum selben Halbjahr nicht zu kommen. Per Saldo: Umsatz durch diese 1,3 Milliarden Mark. Der Konzern führt in vielen Märkten zu

PERSPECTIVES: Allianz vise un retour au profit d'exploitation dès cette année

L'assureur allemand va dégager 14 milliards de francs de profits en

L'action Allianz
Coté 130

à mener une « politique de sélection de » tout en bénéficiant de la sence de catastrophes naturelles. Le groupe s'est fixé un objectif d'atteindre cette fin de l'exploitation pour 1997, sous réserve de la poursuite de ses résultats d'au 10 %.

Versicherungsriese Allianz erfolgreich

München (im/ap) - Euro- pas Versicher Allianz macht Lebensversicherung Gruppe gest auf der Br Eckdaten bei der Gewinn Prozent auf Mark geste, das laufen rechnet d einem we

um einen leicht zweistelligen Prozentsatz. Die Aktien mit einer von 18

Das Streben nach Sicherheit war in Italien und in den USA noch größer. Dort wurden zweistellige Zuwächse

schon Ergebnis der Allianz verbesserte sich wegen des Ausbleibens größerer Naturkatastrophen sowie günstiger Schadenentwicklung. Der Konzern um über 500 Mill.

Allianz aumenta i profitti e prevede un '97 positivo

Allianz ha aggiunto che la raccolta premi nel ramo Vita è salita a 30,6 miliardi (+3,8% per la controllata tedesca Allianz Lebens). L'utile da investimenti finanziari ha precisato che sono inoltre scese da 650 milioni a 150 nonostante un aumento delle riserve di circa un miliardo.

che per il 1997 che dovrebbe chiudersi, se non ci saranno gravi catastrofi naturali o forti turbolenze sui mercati, di cui da tempo si per esempio quella francese Agf.

La compagnia tedesca proporrà all' degli azionisti, in il 10 luglio prossimo, un dividendo di 17 marchi per il 1996 (16 marchi).

Versicherungsriese Allianz erhöht Dividende

BM/AP München - Europas Versicherungsriese Allianz macht dank wachsenden Interesses der Bürger an Lebensversicherungen blühende Geschäfte. Wie die

zielt. Die Bruttobestiegen in der 1996 um knapp 74,7 Milliarden D 89 wichtiger wirkten sich ab

Allianz mit neuem Gewinnanstieg

Dividendenerhöhung angekündigt / Nachfrage nach Lebensversicherungen ungebr

MÜNCHEN (mnh). Der Versicherungsriese Allianz AG München, eilt von Rekord zu Rekord. Als Folge eines neuerlichen Gewinnanstiegs 1996 will der Konzern die Dividende um eine DM auf 17 DM je Aktie erhöhen, teilte das Unternehmen am Mittwoch in München mit. 1997 stünde erneut ein prozentual zweistelliger Ergebnissprung bevor. Im Vorjahr sei das Vorstehergesamtergebnis um gut ein Drittel auf 4,1 Mrd. DM gewachsen. Um zehn Prozent auf 2,2 Mrd. DM habe der Jahresüberschuss zugelegt.

Den geringeren Ergebnisanstieg nach Steuern begründete die Allianz mit dem Wegfall eines positiven Sondereffekts für 1995. Das versicherungstechnische Ergebnis der Gruppe verbesserte sich indes 1996 um 500 Mill. DM und verringerte den Fehlbetrag aus dem Versicherungsgeschäft damit auf 150 Mill. DM. 1997 will die Allianz ein positives Ergebnis aus dem Verkauf von Versicherungen erzielen. 1996 seien der Schwankungsrückstellung ferner rund eine Mrd. DM zugeflossen.

Als Ursache für den Erfolg im Vorjahr wertet die Allianz günstige Schadenentwicklung, Risikoselektion sowie gedämpften Anstieg der Personalkosten. Das um 15 Prozent auf 4,3 Mrd. DM erhöhte Finanzergebnis habe von der positiven Verfassung der Kapitalmärkte profitiert. Bei Neuanlagen sei allerdings die Rendite rückläufig. Die Bruttoeinnahmen seien im Konzern nach vorläufigen Zahlen 1996 um knapp sechs Prozent auf 74,7 Mrd. DM gestiegen. 1997 sollen die Umsätze akquisitionsbefreit um zwölf Prozent auf knapp 84 Mrd. DM wach-

sen. Dieses Jahr wird erstmals Versicherung konsolidiert. Wachstum soll vier bis fünf Prozent betragen. 1996 hätten Währung Mrd. DM positiv zu Buche g Änderungen im Konsolidierten dagegen zu einer Umsatz Mrd. DM geführt.

Allianz hat Mitte 1996 die Gruppe abgeben und Kreditversicherung sowie die zugekauft. Ohne diese Ein Umsatz um 4,8 Prozent gespart. Lebens- und Krankenversicherung sei das Neugeschäft der Allianz in Deutschland um 3,8 Prozent gewachsen. Im Bereich der Schadenversicherung sei das inland rückläufig gewesen.

Die Allianz-Gruppe hat ihren Gewinn 1996 um zehn Prozent auf 2,2 Milliarden Mark nach Steuern gesteigert. Der Gewinn vor Steuern wuchs sogar um mehr als ein Drittel auf 4,1 Milliarden Mark. Bereinigt um die 1996 verzeichneten Ver-

Ertragskraft

Dividende / Positiver Ausblick

Be führten. Ohne diese Einflüsse wäre der Umsatz um 4,8 Prozent gewachsen. Die Prämieinnahmen in der Lebens- und Krankenversicherung nahmen wegen der Entkonsolidierung der DKV nur um 1,4 Prozent auf knapp 31 Milliarden DM zu. In Deutschland verzeichnete die Allianz bei einer kräftigen Belebung des Neugeschäfts 3,8 Prozent Umsatz. Zweistellige Zuwachsraten in Italien und den USA, wobei in

Allianz optimistic on profits growth

By Ralph Atkins in Bonn

Allianz, the German insurance giant, yesterday claimed to be leading the way among international insurers by making the first profits projection for 1997, predicting "moderate double-digit growth" in pre-tax profits.

The statement came as the group announced pre-tax profits increased from DM380 to DM420 (€242m) last year. Underwriting results - which show premiums minus claims and expenses - improved by DM500m to a deficit of about DM150m.

The group said in a preliminary statement that its goal was a positive underwriting result this year for the first time since 1989 on a comparable basis.

The Munich-based insurer said its earlier-than-expected profits forecast - based on the assumption of no big claims or natural catastrophes - was part of a process of improving transparency and represented a "trendous change" for Allianz. In the past it has forecast annual profits only in November.

The upbeat assessment came despite tough competition in most international markets, which has led to significant cuts in insurance premium rates.

In the German non-life market, Allianz appeared to have benefited from recent deregulation by selectively pricing products, and from the modest impact made so far by telephone-based direct insurers which have been highly successful in the UK.

Overall, gross premium income rose 6 per cent to DM4.7bn in 1996 - or 4.8 per cent after excluding the effect of currency movements and the accounting impact of sales and acquisitions. Premium income in property and casualty insurance was stronger than in life and health business, helped by large advances in US and UK operations. A DM1 increase in the dividend to DM17 a share has been recommended.

Allianz steigert Jahresgewinn

München. Die Allianz Versicherungsgruppe hat ihren Gewinn 1996 um zehn Prozent auf 2,2 Milliarden Mark nach Steuern gesteigert. Der Gewinn vor Steuern wuchs sogar um mehr als ein Drittel auf 4,1 Milliarden Mark. Bereinigt um die 1996 verzeichneten Ver-

Aktienkur Allianz-Hold

■ Profitability Greatly Increased

Allianz's earnings before tax rose to DM 4.2 billion in fiscal 1996, an increase of 36.8 percent over the previous year's figure. Consolidated net income rose 10.7 percent to DM 2.2 billion, the tax charge on the Group returning to normal after having benefited from special factors in 1995. Gross premium income amounted to DM 74.6 billion, representing an increase in revenue of 5.8 percent.

This increase in earnings yet again following the growth in pre-tax profits recorded in 1994 and 1995 (12.2 percent and 34.4 percent respectively) demonstrates that the Allianz Group has made good progress in 1996 towards its objective of generating long-term profitable growth.

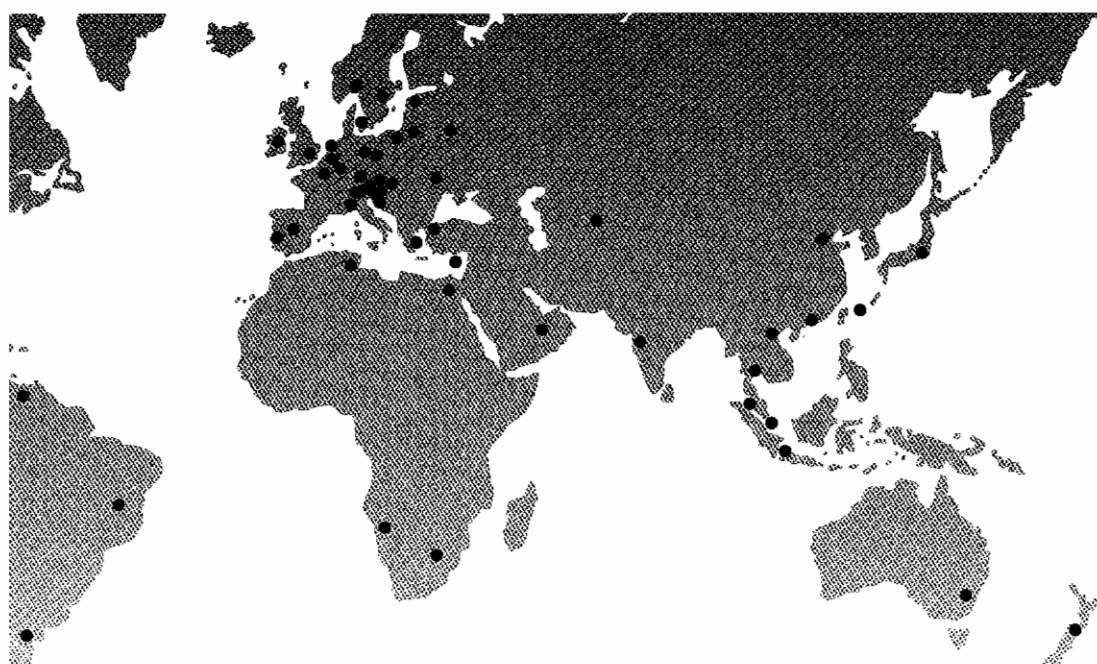
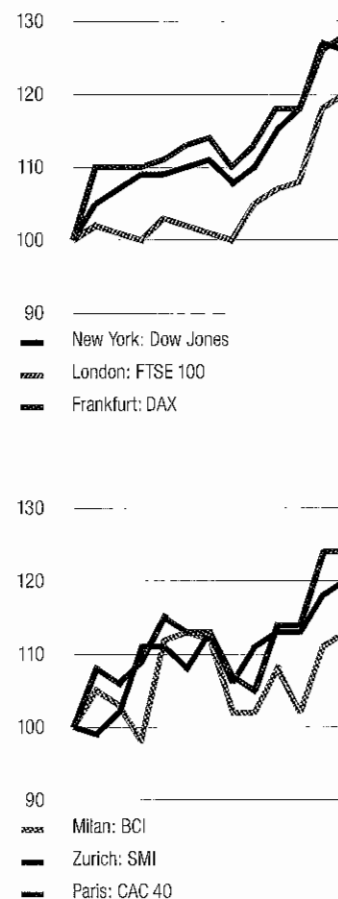
Earnings-driven underwriting policies, another moderate year for claims and a robust performance from financial markets contributed to this result. Apart from its continued concentration on core business fields, the Allianz Group focused on the following in 1996:

▼ *Strengthening sales and marketing.* Allianz sees itself as a multi-distribution business operating worldwide which uses its international marketing expertise to maximize the business potential of local markets. The Group opened up new marketing outlets in 1996 and expanded existing sales capacity. Cooperation with banking partners played a major part in this. New joint ventures were agreed and existing ones further strengthened.

▼ *Acquisition of new companies and integration of previous acquisitions.* The process of integrating and restructuring company acquisitions was energetically pursued and already showed clear improvements in 1996.

▼ *Pension fund business being established worldwide.* This line of business is set to grow dramatically. Demographic trends and the associated problems faced by state-run insurance schemes are compelling large sections of the population in many countries to make private provision for their old age (see also the special section on page 46 of this report). These trends are generating additional business opportunities for Allianz for which the Group is making preparations in good time.

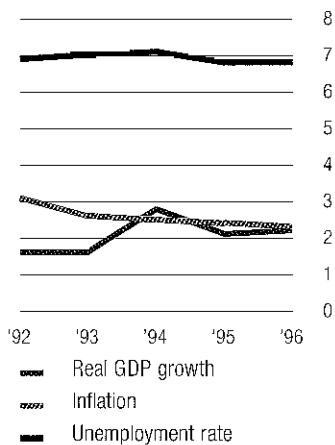
Stock exchanges 1996



- Group companies
- Long-term equity interests
- Cooperation partners
- Branch offices
- Agencies
- Representative offices

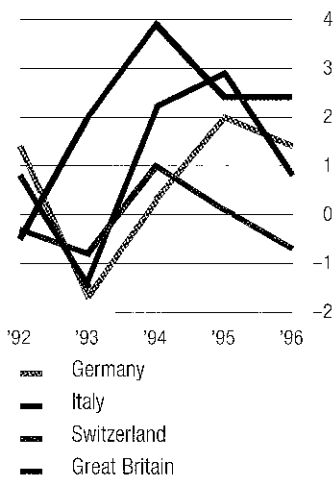
G-7 Countries

Development of economic growth, inflation and unemployment in %



Economic growth

(Real GDP) in %



Economic Background

Low inflation and relatively modest economic growth in Europe compared with the United States coupled with generally high unemployment, and strongly rising stock markets were the main features of the economic environment for the insurance industry in 1996.

Figures published by the Organization for Economic Cooperation and Development (OECD) for the G7 countries (USA, Japan, Germany, France, Italy, Great Britain and Canada) show economic growth of 2.2 percent, an unemployment rate of 6.8 percent and inflation of 2.3 percent (average figures for all seven countries in each case).

Sluggish economic revival in Western Europe

Economic growth in Allianz's important markets of Western Europe slowed in 1996. Growth rates of 0.8 percent in *Italy*, 1.1 percent in *Austria* and 1.4 percent in *France* and *Germany* respectively narrowed the scope for premium growth significantly, especially in property and casualty insurance. The economy in Switzerland actually contracted by 0.7 percent; in *Great Britain*, by contrast, economic activity staged a relatively dynamic recovery of 2.3 percent. However, the British insurance market is traditionally highly cyclical and has been on a downward trend since 1995, which also explains the downturn in premium income from property and casualty lines of insurance.

Inflation rates remained consistently low. This also exerted downward pressure on premium income from property and casualty insurance. The lowest price inflation was recorded in *Switzerland* with 0.8 percent and *Germany* with 1.5 percent. By comparison the purchasing power of money fell rather more sharply in *France* (2.0 percent), *Great Britain* (2.5 percent) and *Italy* (3.8 percent).

Business expansion was further restricted by generally high unemployment (*Great Britain* 7.5 percent, *Germany* 10.4 percent, *France* 12.4 percent). The premium income of Allianz companies in France was reduced not only by economic factors but also by restructuring and restrictive underwriting. Once these measures have been completed the French companies will be able to embark on a period of profitable growth. The rising tax burden and similar public sector charges, like in *Germany* for example, also held back premium growth in property and casualty insurance and in life insurance business.

Premium setbacks in automobile insurance

The slow growth in premium income in these markets, however, was also significantly influenced in 1996 by developments in the key sector of automobile insurance. Deregulation has exposed this line of business to greatly increased competition, with the result that premium income is falling. Automobile insurance was hit by falling premiums, especially in *Germany* and *Austria* but most of all in *Switzerland*. Growth in *Italy* looks deceptively low because since the beginning of 1996 contributions to the "Servizio Sanitario Nazionale" are no longer being levied together with the automobile liability insurance premium. The levy was 6.5 percent.

This situation also affected the revenues of Allianz's property and casualty insurance companies in those countries, all of which have a large proportion of auto insurance business in their portfolios. However, most Group companies were able to improve results in auto insurance. This was due to more individual rate structures to encourage better selection of risk, fewer claims and lower claims expenses.

**Development of Allianz premium income
(Property and casualty insurance)
in major Western European markets (growth in %)**

	1995	1996
Germany	0.9	- 1.4
Italy	1.6	4.3
Austria	1.6	3.3
Switzerland	1.7	- 2.4
Great Britain	1.6	11.8
France	6.7	- 3.1

**Allianz market shares in Europe
(Property and casualty insurance) in %**

	1995
Germany	17.1
Italy	15.0
Austria	16.3
Switzerland	13.5*)
Great Britain	3.4
France	2.4

*) including Berner Versicherung, first consolidated in 1996

**Premium income growth (Allianz life business)
in major Western European markets in %**

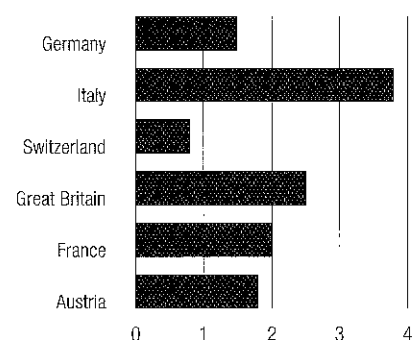
	1995	1996
Germany	5.5	3.8
Italy	12.5	22.2
Austria	6.0	13.0
Switzerland	0.4	27.6
Great Britain	-34.9	3.1
France	1.4	- 7.7

**Allianz market shares in Europe
(life insurance) in %**

	1995
Germany	14.2
Italy	9.1
Austria	7.2
Switzerland	6.1*)
Great Britain	0.4
France	0.9

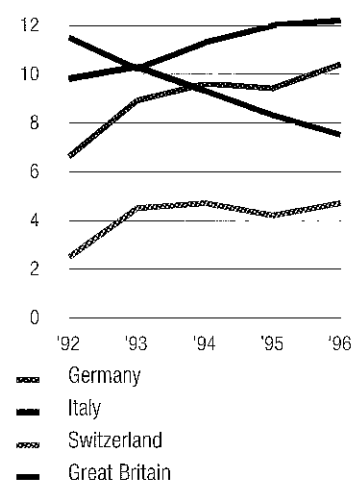
*) including Berner Versicherung, first consolidated in 1996

Inflation 1996 in %



Unemployment trends

(rate in %)



Old age pensions a growth market

People are becoming increasingly nervous about the future performance of state-run pension schemes. In all countries there is growing demand for personal pension schemes. Depending on the statutory conditions in each country the most popular forms of privately-financed provision for security in old age are life insurance policies, pension schemes, investment funds or a combination of these.

Growth in life insurance business in the mature markets of Europe was relatively subdued in 1996. In *Austria* alone, the changes in tax legislation produced above-average premium growth. In *Germany* the proportion of annuity business in new recurring premium policies increased further and now amounts to more than a third at Allianz Life. This relatively strong growth is driven by the ongoing debate about the future of the state pension system. An Allensbach poll carried out in the summer of 1996 showed that fewer and fewer people are prepared to rely on the state pension alone. This trend is also influenced by the further increase in the disposable incomes of private households from personal assets.

Marketing achievements in Central and Eastern Europe

In *Central and Eastern Europe* Allianz writes multi-line insurance business in Hungary and in the Czech and Slovak Republics, and writes specialist business as an insurer of industrial risks in Russia. The economy in *Hungary* grew by 0.5 percent in real terms in 1996, with inflation still very high at 23.5 percent and unemployment at 10.6 percent.

Total premium income in the Hungarian insurance market remained flat in 1996 after adjusting for inflation. Life insurance bucked the trend, recording strong growth of 35 percent. The Allianz company *Hungária Biztosító* is market leader in property and casualty insurance in Hungary. In the life insurance market it is in third place.

The economy in the *Czech Republic* rose strongly by 4.8 percent in

1996. A high level of economic activity and the growth in the money supply racked up the rate of inflation to 8.6 percent. The national unemployment rate was 3.1 percent. Economic activity in the *Slovak Republic* was also surprisingly dynamic. Gross domestic product rose by 6.4 percent, with price inflation of 5.8 percent and unemployment still fairly high at 12.5 percent.

In this favorable economic environment Allianz pojišťovna, which writes business in both countries, strengthened its market position in 1996, increasing premium income by 162 percent in total. Founded in 1993, Allianz pojišťovna is one of the five largest insurance companies in both countries and posted a profit in 1996.

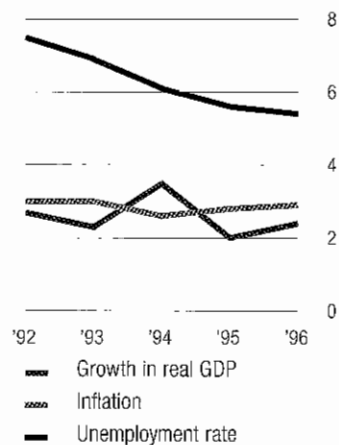
Steady premium growth in the USA

In the *United States* the economy as a whole rose sharply by 2.4 percent in 1996. The unemployment rate went down from 5.6 percent to 5.4 percent. Price inflation was 2.9 percent.

Allianz increased its premium income from property and casualty insurance by 8.1 percent to almost US\$ 4.6 billion, growth well above the market average. Premium growth in life insurance was 14.7 percent. The growth was mainly due to increased penetration of existing markets.

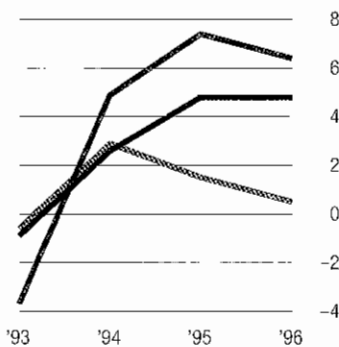
USA

GDP growth, inflation, unemployment rate (%)

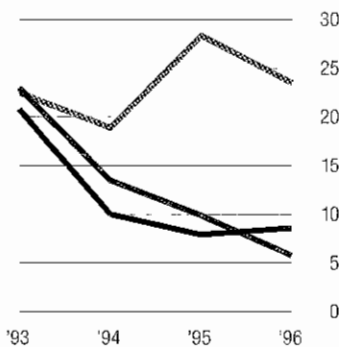


Central and Eastern Europe

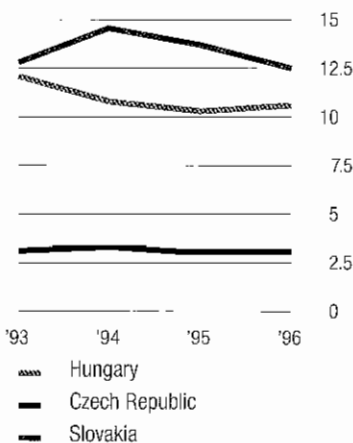
Real GDP growth in %



Inflation in %



Unemployment rate in %



Position improved in Asia Pacific growth markets

In the *Asia Pacific region*, apart from Japan, economic growth generally remained strong. In the insurance industry expansion will continue to be relatively rapid over the next few years because of the heavy backlog in demand. This applies equally to property and casualty insurance and to life insurance.

In this region Allianz has been working for many years in partnership with the Australian insurer Manufacturers Mutual Insurance Company Ltd. (MMI). In 1996 Allianz increased its shareholding in MMI to around 38 percent. At the same time MMI took a 20 percent interest in Allianz Insurance (Singapore) Pte. These cross-holdings reinforce the joint aim of both companies to strengthen their cooperation in this growth region.

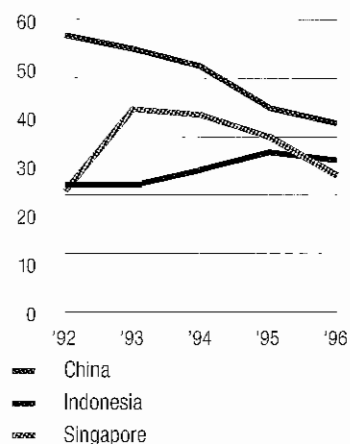
Since 1996 Allianz has also been writing life insurance business in *Indonesia*. For this purpose, together with the local life insurer Aken Life, Allianz has set up a joint venture, Allianz Aken Life. This company will underwrite pension funds as well as life insurance products and corporate group policies. The products will also be marketed through the branch network of Bank Aken, part of the Kresna Karya group. Allianz is also preparing to write health insurance business in Indonesia.

Further details of the Group's activities in individual countries are contained in the Management Report on pages 29–39 of this report.

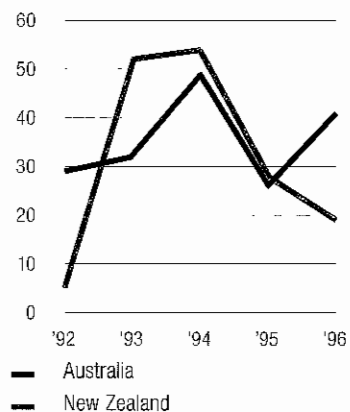


In the Asia Pacific region Allianz insures large-scale industrial construction projects such as underground railways, power plants, airports, and office tower blocks such as the Petronas Towers in Kuala Lumpur – the tallest building in the world (bottom picture).

**Real GDP growth
in Asia in %**



**Real GDP growth
in Australia and New Zealand in %**



■ Strengthening Sales and Marketing

PC software systems combined with portable notebooks increase the efficiency of the Allianz sales force. With the latest technology, for example, an insurance agent can work out annuity calculations and the financial ramifications of investment programs, calculate premium rates for insurance policies, and in some cases even print out the policies themselves.

The marketing of insurance products is facing radical changes all over the world. National marketing structures are being transformed, challenged by new customer demands and technological innovation. The ability of an insurer to anticipate these changes and adapt its marketing activities in local markets to be customer-driven and cost-effective is more crucial than ever for business success. Allianz's local operating units make use of the marketing expertise of the Group as a whole to increase the efficiency of their marketing channels and introduce distinctive contact strategies.

Efficiency gains for the sales force

Exclusive agents' organizations form the backbone of the marketing system in many of Allianz's important markets. These organizations were systematically strengthened in 1996 and provided with the latest computer technology. Structural changes increased the efficiency of this well-proven, forward-looking form of marketing. In Switzerland, for example, the change in status of ELVIA general agents from employed to self-employed was completed in 1996. The agencies for life and non-life insurance business, which were formerly separate, have now been combined.

▼ *Computer equipment brought right up-to-date*

In Germany Allianz equipped its nationwide agency network with the very latest technology in 1996. No company or institution in Europe has ever before replaced so many PCs and laptops (22,000 units at 6,400 locations) within such a short period of time. This was followed by the installation of a sophisticated new operating system as a prerequisite for modern and more flexible customer-service and premium-structure modules. By the end of 1997, using the new technology, Allianz specialists will be able to prepare a proposal form electronically from a quotation or premium scale



and transmit the form on-line to the Company, saving a great deal of time for the customer.

▼ *New ways of contacting customers*

Agents of Allianz companies are also supported by the dialog marketing function being set up on the Internet. Hungária in *Hungary*, Cornhill in *Great Britain*, Allianz Nordeuropa in *Denmark*, Fireman's Fund in the *USA* and RAS and Lloyd Adriatico in *Italy* already have a presence on the Internet, where they advertise their products, the service provided, and the company, and point enquirers to the nearest agent where individual advice and the desired insurance can be obtained.

Cooperation agreements with banks strengthened and expanded

In addition to its well-developed networks of agents Allianz now has extensive experience of cooperating with banks. The sale of insurance policies at bank counters gives customers an additional form of access and gives Allianz further business potential. In Germany, Allianz makes good use of bank distribution channels to complement sales through its well-established network of tied agents. Sales cooperation exists with Dresdner Bank AG, Bayerische Hypotheken- und Wechselbank AG and with the cooperative banks in the state of Bavaria. The share of policy sales at banks of total new business in life insurance rose by 1.8 percentage points in 1996 to the current 19.3 percent. In the future, property and casualty insurance products will be sold increasingly through banks as well.

The proportion of life insurance policies sold through banks in the

Allianz in the Internet

Germany

Allianz AG
<http://www.allianz.com>
 Allianz Lebensversicherungs-AG
<http://www.allianz-leben.com>
 Allianz Versicherungs-AG
<http://www.allianz.de>
<http://www.allianz-sach.de>
 KAG
<http://www.allianz-kag.de>
 Hermes Kreditversicherungs-AG
<http://www.hermes-kredit.com>

Italy

Riunione Adriatica di Sicurtà S. p. A.
<http://www.ras.it>
 Lloyd Adriatico S. p. A.
<http://www.lloydadriatico.it>
 Lloyd 1885
<http://www.lloyd1885.it>

Switzerland

ELVIA Versicherungen
<http://www.elvia.ch>

Austria

Anglo-Elementar Versicherungs-AG
 Wiener Allianz Lebensversicherungs-AG
 Wiener Allianz Versicherungs-AG
<http://www.allianz.co.at>

Great Britain

Cornhill Insurance PLC
<http://www.cornhill.co.uk>

Netherlands

ELVIA Reisverzekeringen
<http://www.reis.elvia.nl>

Denmark

Allianz Nordeuropa
<http://www.allianz.dk>

USA

Firman's Fund Insurance Company
<http://www.the-fund.com>
 Allianz Life Insurance Company
 of North America
<http://www.allianzlife.com>
 Jefferson Insurance Company
<http://www.jeffgroup.com>

Australia

Manufacturers Mutual Insurance Company
<http://www.mmicentre.com.au>

Italian market, for example, went up from 4.4 percent to 19.2 percent between 1991 and 1995. Property and casualty insurance is also being sold increasingly through banks.

In 1996 Allianz laid the foundation for new cooperation arrangements with banks and expanded existing such arrangements. Allianz products will be sold in future over a total of some 11,000 bank counters.

▼ New marketing outlets in France

The first sales of non-life insurance products over the 2,000 or so counters of Crédit Lyonnais in France in 1996 were in line with expectations. 4.5 million customers can be reached through this marketing channel. Household effects and general liability insurance policies, together with health insurance, have been on sale in this way since the beginning of 1996. Automobile insurance will also be available in 1997 following the conclusion of a successful trial in 1996.

▼ Expansion of bankcooperation in Italy

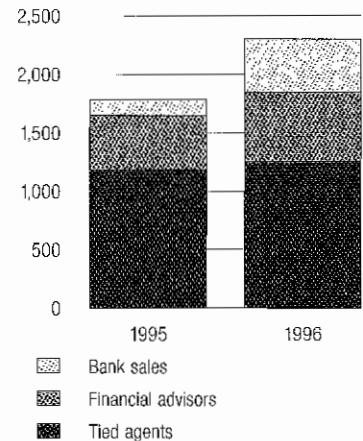
In order to maximize the potential for business through banks in Italy Allianz has opted for a multi-brand strategy in this dynamic market. The existing cooperation arrangements with Credito Italiano, one of the largest banks in the country, have been extended to include that banking group's subsidiary Rolo Banca 1473.

Allianz's banking partners in Italy

	Premium income	Number of
	1996	bank counters
	in billion Lira	
Rolo Banca 1473	342.5	604
Banca Antoniana Popolare		
Veneta	33	329
Banca Regionale Europea	109.2	189
Credito Bergamasco	6.5	165

RAS Group Premium income in life insurance by sales channel

(in billion lira)



"Bancassurance" – the sale of insurance through banks – is enjoying great success in most European markets. The chart shows the relatively rapid growth of this form of marketing for sales of life insurance products by RAS, Allianz's Italian company.



RAS also makes use of public busses to demonstrate how highly qualified its exclusive agents are.

The RAS subsidiary CreditRAS Assicurazioni also sells non-life insurance products over the counters of Credito Italiano. A new joint venture, Credit Service, will provide Credito Italiano with administrative support for personal pension schemes (targeted at salaried employees and professional organizations).

Allianz Subalpina has signed a co-operation agreement with the Credito Bergamasco bank which also operates in northern Italy. The bank belongs to the Crédit Lyonnais group and has been selling Allianz life insurance policies since August 1996.

▼ *Marketing through banks in Portugal increased*

The framework for marketing through banks in *Portugal* has been strengthened in 1996. On the one hand Allianz increased its shareholding in Banco Portugues de Investimento (BPI) from 5 percent to almost 10 percent. Under the terms of a cooperation agreement the insurance companies A Social and Scottish Union Portugal controlled by BPI are to be merged with the Allianz company Portugal Previdente.

Agreement has also been reached to sell life and non-life insurance products of Portugal Previdente over the counters of the FONSECAS & BURNAY banking chain owned by the BPI group.

▼ *Alliance with Banco Popular*

In *Spain* the cooperation agreement with Banco Popular covers the sale and marketing of life insurance products of the Eurovida joint venture and non-life insurance written by Allianz-RAS. With 1,881 branches throughout the country and about 3.3 million customers, Banco Popular is one of the largest banks in the country. Allianz is therefore well placed in this dynamic market. Growth rates for new business are above the market average. The proportion of life insurance premiums acquired over bank counters in Spain is expected to rise from 33 percent in 1994 to 55 percent by the year 2000.

▼ *Good start to sales through BanCreceer*

In *Mexico* Allianz has been cooperating with BanCreceer since the end of 1995. The bank has 1,038 branches (ranking it second in the market) and about 800,000 customers. Whereas initially most of the insurance business written in 1995 was for the bank itself, sales were extended to the bank's customers in 1996, offering them non-life as well as life insurance products.



BanCreceer, Allianz México's sales partner in the insurance sector since 1995, has its head office in the center of the world's most densely populated capital city.

▼ *USA: Trial marketing through banks*

"Bancassurance" has not yet been developed very far in the United States. Fireman's Fund tried out a cooperation arrangement with banks for the first time in 1996. One form of cooperation tested was a joint marketing arrangement with a Managing General Agency, a subsidiary of the Texas Bank Association (a consortium of 700 banks). Mailshots are sent out by the Agency, and Fireman's Fund policies (for automobile and household effects insurance) are sold over the bank counters.

Direct marketing

▼ *Cornhill in Great Britain*

In markets where direct selling is more favorably received by customers than for example in Germany, Allianz is also expanding and testing the effectiveness of this form of marketing. In *Great Britain* the Direct division of

Cornhill set up in 1994 had not yet achieved enough critical mass in 1996 to make a profit on premium income of £ 4.4 million. Cornhill's direct insurance operation is positioning itself in the rapidly growing market of customers aged over 50.

Marketing mix in British auto insurance (personal) %

	1990	1995
Brokers	77	62
Exclusive agents	11	9
Direct insurers	12	28
Others	0	1

Source: Association of British Insurers

▼ *Pilot project of Fireman's Fund*

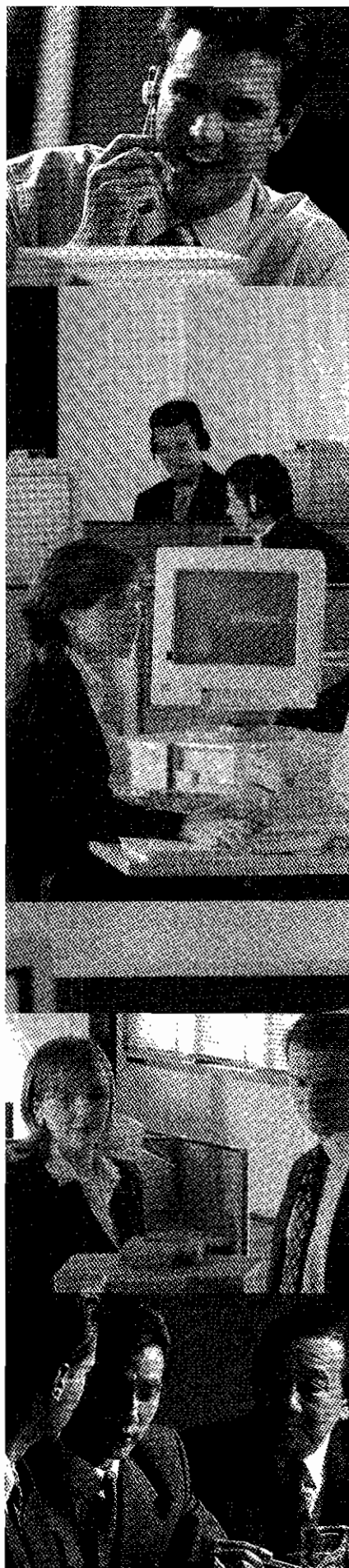
Fireman's Fund has launched a pilot project for direct insurance in the USA. 2.7 million households have been mailed offering automobile insurance. In future the mailshots will be backed more strongly by television advertising. In October 1996, in order to cope with the additional volume of business anticipated, Fireman's Fund set up a call center in St. Louis with a staff of 36.

▼ *Telephone selling in Italy*

Lloyd 1885, a subsidiary of RAS in Italy, moved into direct marketing in 1996. Contact with customers is mainly by telephone, whilst enquiries can be made and claims reported over the Internet.

▼ *Move into telephone banking*

RASBANK, whose activities had previously been confined mainly within the Group, also expanded its sales to customers in 1996. It operates exclusively as a direct bank without any branches, contact with customers being primarily over the telephone. Its entry into the market was heralded by an expansive advertising campaign. RASBANK's products are also sold through the RAS fund company Dival.



In order to gain access to new groups of customers or strengthen market penetration in attractive segments of the market Allianz companies make use of every successful form of marketing, from exclusive agents and independent brokers or banks to direct marketing, depending on what the market requires. In 1996 RAS launched a direct insurance operation and a direct bank with a major promotional campaign.

■ Integration and acquisition of new companies

By acquiring other insurance companies in 1996 Allianz has been able to strengthen its market penetration and establish itself in profitable niche markets. The process of integrating companies which have only belonged to the Allianz group for a short time has been energetically pursued, resulting in slimmer structures and significant cost benefits. In parallel with this process of integration, the interchange of expertise throughout the Group has been stepped up and skills brought together for transfer to other markets. The feverish expansion of 'assistance' services in 1996 is an excellent example of this.

Vereinte group remains part of Allianz

In *Germany* there were substantial changes in the composition of the Group after Allianz and Münchener Rückversicherungs-Gesellschaft (Munich Re) agreed an exchange of shareholdings in 1996. Allianz has taken over Munich Re's shareholdings in Hermes Kreditversicherungs-AG and Vereinte Krankenversicherung AG and all the remaining shares in Allianz's Austrian insurance companies still held by Munich Re.

In exchange Munich Re received Allianz's shareholding in Deutsche Krankenversicherung AG. This effectively satisfied the concerns of the anti-trust authorities regarding dominance of the health insurance market

and left the way open for the entire Vereinte group to remain part of the Allianz organization.

Structural changes

The financial results of the ELVIA group in *Switzerland* already show the first signs of success from restructuring and cost-cutting measures.

ELVIA group

Expense ratios 1994–1996 (%)

	1994	1995	1996
ELVIA Insurance	32.6	30.3	27.5
ELVIA Life	12.1	11.1	9.7

At the parent ELVIA insurance company alone, for example, cost savings totaling 40 million Swiss francs were achieved. Other structural changes implemented in 1996 affected Allianz Subalpina in *Italy*, the integration of Lloyd Adriatico España with Allianz-RAS in *Spain*, and the integration of the Allianz Via group with the life and non-life ELVIA insurance companies in *France*.

Berner insurance company consolidated for the first time

In *Switzerland* Allianz increased its shareholding in the Berner holding company to 51 percent immediately after the restriction on voting rights was removed by resolution of shareholders at the Annual Meeting of that company held on July 1, 1996. This means that Allianz now has three brand names in the Swiss insurance market: Allianz, ELVIA and Berner.

New companies in the Allianz Group

	Premium income 1996 (DM millions)	Change from previous year %	Net income after taxation (DM millions)	Employees Home office	Sales force	Independent agents	
 Vereinte Versicherungen	Vereinte Group	8,122	2.7	111	5,402	1,330	2,725
	of which: Vereinte Krankenversicherung AG	4,841	7.1	60	2,208	393	1,147
	Vereinte Versicherung AG	2,033	-0.9	56	2,597	919	1,578
	Vereinte Lebensversicherung AG	1,343	2.4	16	537	-	-
 hermes Kreditversicherungs-AG	Hermes Kreditversicherungs-AG	877	8.5	14	1,613	199	-
 berner	Berner Group (1995 figures)	1,436	5.6	24	1,206	553	-

Niche supplier acquired

In *Great Britain* Cornhill has for some years been pursuing the strategic objective of expanding the commercial side of its business. In 1996 Cornhill substantially expanded its range of products for commercial customers by acquiring Ajax, a specialist underwriter of engineering insurance policies. Like Germany's Technical Inspectorate organization (TÜV), Ajax specializes in technical inspection services. Work-sharing between its inspectors and Cornhill's risk managers will lead to substantial returns to scale and cost savings.

Another profitable niche market in Great Britain is the insurance of animals. In 1996 Cornhill acquired Pet Plan, the market leader in this line of insurance. Its know-how is to be used to build up similar profitable niche markets in other countries.

Expansion of assistance services

In 1996 the product range in many countries was supplemented by assistance services. Group companies in European countries outside Germany now use mainly ELVIA Travel or ELVIA Assistance for these services.

▼ *ELVIA Travel set for growth throughout Europe*

ELVIA Travel, based in Zurich, again reported sales growth of 69.5 million Swiss francs or 19.9 percent to 419.7 million Swiss francs in 1996. Since 1996 the Berner company has been using the assistance services of ELVIA Travel for its automobile insurance policies.

ELVIASSIST was set up in Portugal and a new assistance platform was also established in Austria. In Eastern Europe ELVIA Travel is cooperating with Ost-West Allianz in Russia and writes – independently of Allianz – assistance business in Poland and in the Ukraine amongst others.

In Spain the cooperation arrangement between ELVIAseg, a subsidiary of the ELVIA travel insurance company, and Allianz-RAS made further good progress. It will in future be extended to home as well as automobile assistance, the former being an

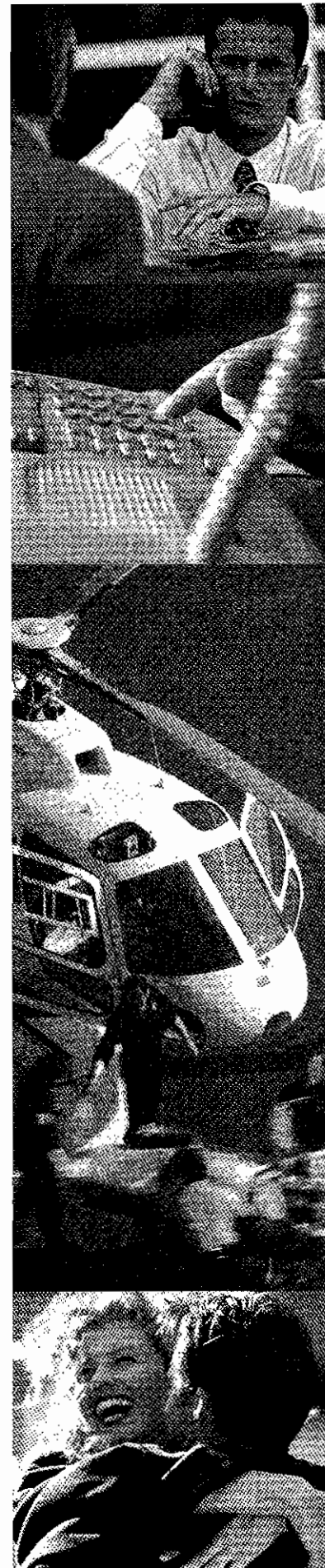
area in which Spanish companies are leading the field in Europe. ELVIAseg's expertise in this business segment was also employed in Italy in 1996 to offer similar products there.

▼ *New assistance policy from RAS*

RAS brought a new assistance policy for health services to the market in *Italy* based on a cooperation agreement with the Stet telecommunications group. The customer is given a special device which can be used to contact the central administration point over the telephone network from any location.

▼ *Emergency and legal expenses assistance*

In *Germany* all private individuals with property and general liability policies and all customers with homeowners insurance can call Allianz's new emergency helpline. In urgent cases of emergency – e. g. following a burglary, storm or pipe-burst – policyholders can contact Allianz free of charge 24 hours a day, 365 days a year, to report a claim or ask for assistance or advice. In addition customers with a legal expenses policy from Allianz receive immediate and unbureaucratic assistance with legal expenses.

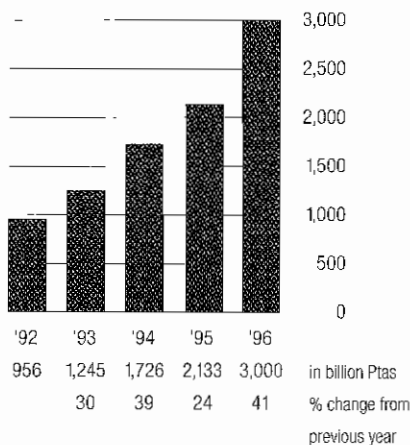


Allianz launched new assistance products in 1996 to underline its position as a quality insurer with the emphasis on service.

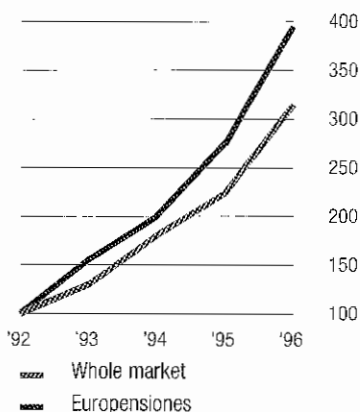
■ Establishing a Position in Pension Fund Business

The market for life and pensions insurance business and other forms of private provision for ill health and old age is about to embark on a long period of expansion worldwide. Pension funds can be a useful adjunct to national social security systems and conventional life insurance products. Allianz is active in this forward-looking field of activity in numerous countries and is already marketing pension funds alongside life insurance products in countries where the statutory framework allows this.

Europensiones Premium income
(in billion Ptas)



Pension funds growth in Spain



Europensiones on growth tack

"Europensiones", a joint venture between Allianz and its banking partner Banco Popular, has been selling pension plans through banks in *Spain* very successfully since 1988. With fund assets under management worth 129 billion pesetas (DM 1.5 billion) Euro-pensiones was number eight in the market in 1996. In personal pension plans the joint venture is in third place.

Growth market in Eastern and Central Europe

Pension funds have a special role to play in some countries in Eastern and Central Europe which have only established market-oriented economies in the wake of political change and where the state pension system is not yet of any significance. In order to avoid the problems of a pay-as-you-go pension scheme and to finance pensions out of taxation without any financial reserves, they are opting for private sector pension provision.

The Hungarian government, for example, is going to cut back the statutory old age benefit system to a basic pension from 1998 onwards. Employees have to make up the difference (about a third of full provision) through pension funds. Employers contribute to the financing of such schemes. The Czech Republic has also opted for the pension fund system.

Hungária moves into pension funds

In *Hungary* Allianz is already involved in pension fund business through a subsidiary of the Allianz group company Hungária Biztosító. It manages the Hungária pension fund established in 1996, which is owned by the holders of fund certificates. Hungária Biztosító itself is responsible for the operational activities of the fund (sales and marketing, advertising, investment).

Saving for personal cover in the Czech Republic

In the *Czech Republic* the Allianz-Hypo pension fund, a joint venture between Allianz pojišťovna a. s. and Hypo-Bank CZ a. s., has made a successful start with some 15,000 policies. The fund company is the only provider in the market to offer an add-on product to the statutory savings plan, namely a product which combines life and personal accident insurance with the savings element. Only a few of the 45 newly established pension funds are likely to attain the size required for cost-effective management of investments in the medium term. There will therefore inevitably be mergers in the pension fund market.

RAS establishes pension fund companies

The preparations for new Allianz pension fund products in *Italy* were well advanced in 1996. The so-called enabling laws had not yet been passed, however, without which pension fund providers cannot start operating. The laws were passed at the end of December 1996, so business can be started in 1997. RAS has set up a new company – Prevint – to handle this growth market.

Pension funds in markets outside Europe

Allianz is preparing to write pension fund business in the burgeoning economies of Latin America and Asia. In *Mexico*, for example, Allianz has



set up a joint venture with Dresdner Bank to market pension funds. In *Indonesia* Allianz Aken Life, a joint venture with the life insurer Aken Life, will include pension funds in its range of products.

Plans for pension fund business in Germany and France

Allianz is also carefully studying the whole question of pension funds in Germany and France. The statutory framework for this type of business was not in place in *France* until late 1996. In this country pension funds are part of the insurance industry. Benefits are paid entirely in the form of annuities.

In *Germany* Allianz prefers the model of an independent "Euro pension fund". This model is linked to the existing independent pension funds and offers many trendsetting advantages: beneficiaries' funds held independently of the fund-providing company, fully funded, employer relieved of the pension risk, and investment risks minimized. The Euro pension fund model allows pension benefits to be linked to the size of contributions; employees can top up their occupational pension schemes with contributions of their own. However, the adjustment of legal tax regulations to international standards remains a priority.

Demand for pension products is rising as it becomes clearer that state-run social security systems are close to the limits of their viability. In order to cater for the very varied demand in this field Allianz is expanding its pension fund business into a core activity.



Allianz clients are given individual advice at the highest level all over the world. The Company has a presence in more than 50 countries.

■ Our Staff

The marketplace is changing ever more rapidly all over the world, requiring strong innovative capabilities and making exacting demands on the ability of all members of staff to adapt accordingly. The competitive position of local operating units is strengthened not just by structural simplifications but also by the will of all Allianz employees to work together across national and functional boundaries.

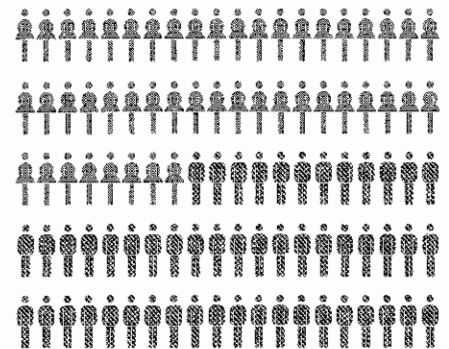
The average number of persons employed by Allianz companies worldwide during 1996 was 65,836 (1995: 69,236). The main reason for the decrease was that Allianz companies in Germany cut back their staff numbers in 1996 and Deutsche Krankenversicherung AG was taken out of the Allianz Group. The number of persons employed by companies newly included in the consolidation – Hermes Kreditversicherungs-AG and the Berner group – did not match the number taken out. This also affected the ratio of employees in Germany to those in other countries: whilst the number of persons employed in Germany fell by 4,534 to 30,404 in 1996 (from 34,938 in 1995), the number of employees in other countries went up by 1,134 in the year under review to 35,432 (1995: 34,298).

At the end of 1996 46.6 percent (1995: 52.3 percent) of the total workforce was employed in Germany, 36.9

percent (1995: 32.5 percent) in the rest of Europe and 16.4 percent (1995: 15.1 percent) in countries in North and South America, Africa and Asia.

Salaries and wages in the Allianz Group amounted to DM 4.76 billion in 1996 (1995: DM 4.62 billion). Expenditure on social security contributions, pensions and employee assistance totaled DM 1.44 billion (1995: DM 1.39 billion).

In 1996 Allianz enhanced its vocational training programs at international management level with the introduction of the International Allianz Management Seminar.



48 percent of the people who worked for Allianz in 1996 were women.

The wide spectrum of insurance business – from underwriting and risk consulting to financial services – is also reflected in the qualifications of Allianz staff. The largest group – 27 percent (1995: 29 percent) – of those with a university education are trained lawyers, followed by 26 percent (1995: 22 percent) who are MBAs and economists. 12 percent (1995: 13 percent) are actuaries. The remaining 35 percent (1995: 36 percent) are engineers, arts and science graduates, medical practitioners and educationists.

The proportion of women employed by Allianz companies worldwide at the end of 1996 was practically the same as at the end of the previous year (48 percent, compared with 49 percent in 1995). The number of women in management positions is gradually increasing.

Allianz Group

Employees by country
(annual average 1996)

Germany	30,404
USA	9,210
Italy	6,526
Switzerland	4,180
Austria	3,993
Great Britain	2,952
Hungary	2,587
France	2,157
Other countries	3,827
Total	65,836

■ Communications

Dialogue with the media is maintained on two fronts: locally through Group companies and centrally by the Corporate Communications department in Munich. Financial analysts and investors are kept regularly informed by the Investor Relations department about Allianz's operating performance and results. Allianz's structure as a multi-local insurance group with decentralized management means that advertising and promotional activities around the world are largely locally based. Group companies decide on the spot which marketing strategies work best in their own markets and coordinate campaigns in line with their corporate strategy.

Marketing communications

Allianz's marketing communications are correspondingly varied. In 1996 the spectrum ranged from Fireman's Fund's product advertising aimed at specific target groups of wealthy homeowners in the USA and Cornhill's sponsorship of cricket test matches in *Great Britain* to integrated print and TV advertising in *Germany*. In *Italy* RAS publicizes the professional expertise of its agents to the general public on billboards and in newspaper adverts, whereas ELVIA in the *Netherlands*, for example, in accordance with general sales practice in that market, aims its marketing communications almost entirely at brokers.

Marketing campaigns in *Germany* and *Switzerland* were particularly successful in 1996. In Germany the "Allianz Future" package tailored to suit the needs of young people was marketed with an innovative contact strategy in 1996 consisting of TV advertisements, newspaper adverts, nationally acclaimed rock events and com-

petitions with prizes offering international vocational training. The unusual advertising images of the ELVIA DRIVE campaign in Switzerland – a new form of automobile insurance with individually tailored premiums – were likewise very well received.

The largest marketing budgets were those of Allianz in Germany (DM 40 million), Cornhill (DM 14.9 million) and the RAS group (DM 12.1 million). Hungária invested DM 5.4 million, Fireman's Fund DM 1.6 million, in promotional activities. Because the North American property and casualty insurer is more strongly active in corporate business than in mass business, the company is able to work well with a marketing budget that appears small relative to the size of Fireman's Fund itself.

Financial communications

For more than ten years now Allianz has been holding information briefings for analysts in Munich, providing background information in individual discussions. The Company wants significantly to extend the range and informative value of its financial communications. Last year, for example, institutional investors were also included in this dialogue. Most discussion partners work for firms in the USA, France, Japan and especially Great Britain, and about a third for German companies.

In 1997 the Group will also, among other things, hold international roadshows for the financial community at the financial centers of London – with the Board of Management of Allianz AG – and Paris. Private shareholders of Allianz are also kept informed about their company through quarterly reports and at investment seminars. Furthermore Allianz intends to publish consolidated financial statements in a form complying with prevailing international accounting standards as soon as German legislation allows such statements to qualify others (i. e. subsidiaries) for exemption. Consolidated financial statements in this form make it easier for shareholders and analysts to assess the financial strength of the Company and compare it with other multinational insurance groups.



An informative Annual Report is the basis for every financial communication. In 1996 RAS in Italy won first prize for the completeness and clarity of its financial statements – the so-called "Accounts Oscar" – for the third time (having previously won in 1992 and again in 1994).



■ Environment

By setting up the Foundation for the Protection of the Environment to mark its centennial Allianz underlined its commitment to wide-ranging protection of the environment. This is the focal point of its commitment to society. Allianz also continues to recognize and enhance its own environmental responsibilities.

The Allianz Foundation for the Protection of the Environment specializes in sponsoring projects concerning the human ecosystem, backing its sponsorship with technical support. The pictures show the reforestation of a former ski resort in the Allgäu region. All the lifts, pylons, top and bottom stations were first dismantled; then the pistes and runs were planted up again. Footpaths are now opening up the area for a new, ecologically acceptable use.

The Allianz Foundation

The Allianz Foundation for the Protection of the Environment (Allianz Stiftung), endowed with capital of DM 100 million, is one of the largest private institutions of its kind in Germany. Its stated aim is to contribute towards safeguarding the future by making substantive improvements to the environment. The Foundation seeks involvement in programs of a lasting nature regarded as models in their field which inspire others to think about them, imitate them and take them further. The Foundation has specialized in sponsoring projects concerning the human ecosystem, giving not just financial but also technical support. Since it came into being it has sponsored projects worth DM 39 million for the protection, care and development of the natural and cultural landscape and for projects in towns and cities.

Important projects during 1996 included the following: In Berlin the Allianz Foundation is helping to create a nature reserve on the site of the former marshalling yard at Tempelhof. Near Immenstadt in the Allgäu region progress is being made on a unique environmental project: the re-naturalization of a ski resort as a contribution towards more environmentally conscious tourism. All the lifts and pylons and top and bottom stations in the area are being dismantled and the ski pistes and slopes replanted with trees.



In the Südeifel nature reserve the Allianz Foundation is sponsoring the Gaytal Park environment center, which will promote nature conservation to the general public and be an advertisement for sustainable development. It was opened in 1996. Looking out over the Gaytal valley the natural energy sources of sun, wind and water can be experienced firsthand. Solar batteries on the roof and a wind energy farm provide the building with light and heat, whilst used water is recycled.

Swiss "Bärenwald" campaign

In 1996 the Berner insurance company launched its "Bärenwald" campaign, a project which helps to look after a total of 30 forests, including extensive new plantations. The aim is to make a larger number of people aware of the ecosystem of forests. The projects are very varied. Whereas in Bern an area of forest ravaged by storm is being replanted using a new ecologically exemplary method, in Tessin the emphasis will be on managing a forest of chestnut trees. Conifers from all over the world have been planted in the arboretum in the Aubonne valley which is visited by some 35,000 people each year.

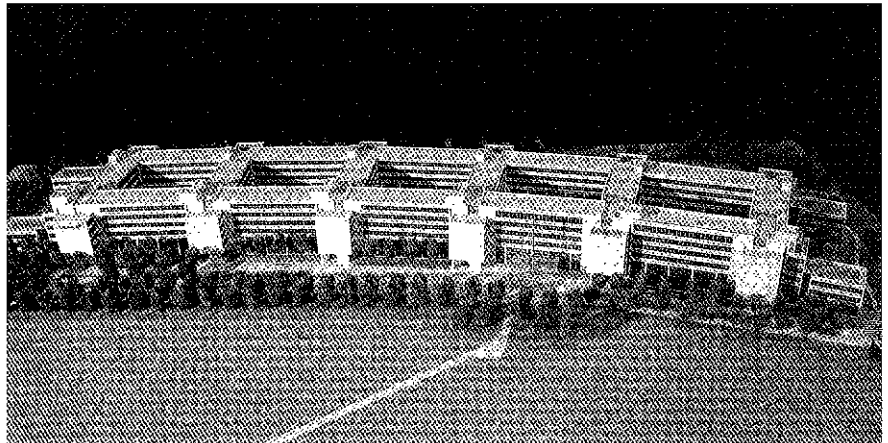
Allianz's environmental performance

In 1996, after having already been the first insurer in Germany to publish an eco-report in the previous year, Allianz decided to establish a comprehensive environmental management system. Mandatory environmental guidelines are in force at all Allianz Versicherungs-AG's premises. A special "Arbeitssicherheit und Umwelt" department (Occupational Safety and the Environment) has been set up to coordinate overall planning and control of environmental measures.

Instruments for monitoring performance – such as an annual environmental balance sheet with indicators of material and energy flows – ensure the effectiveness of the environmental measures taken.

Environmental performance is also a factor in the construction of Allianz's new head office building in

Bavaria. Using rainwater and photovoltaic effects, for example, results in almost 11,000 liters of drinking water and 164,000 kilowatts of electricity a year being saved. Waste heat from Allianz's nearby computer center replaces heating costs for the new building, saving half the annual consumption of district heat, equivalent to DM 420,000.



Other environmental activities: In the USA Fireman's Fund is sponsoring joint traveling arrangements for staff in support of the government's "Clean Air" program. About 20 percent (some 550 employees) of the company's head office staff already participate in car pools. Fireman's Fund has been winning awards for its recycling and refuse separation activities since 1994.

Ecological considerations are also being taken into account in the construction of the new head office being built for Bayerische Versicherungsbank AG – the "Allianz of Bavaria". Waste heat and rainwater are recycled, easing the strain on the environment and achieving significant cost savings in the process. The building is due to be officially opened in 1998.

Group Management Report

General review

The profitability of the Allianz Group showed further significant improvement in 1996. The main factors behind this were a more favorable claims record in a large number of markets, the renewed absence of major natural catastrophes, earnings-driven risk selection, and strict cost control. The non-underwriting account benefited from the sustained confidence of capital markets.

Premiums written

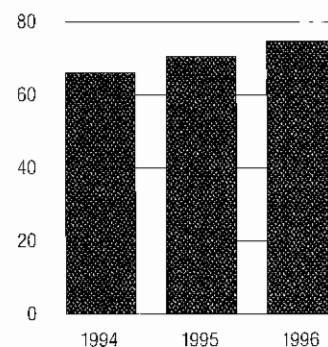
Gross premium income of the Allianz Group rose by 5.8 percent in 1996 to DM 74.6 billion. Unlike in the previous year, exchange rate movements made a positive contribution whilst changes in consolidation had a negative impact. The rise in value of important foreign currencies, for example – especially the US dollar, Italian lira and pound sterling – increased revenue by DM 2.1 billion compared with a decrease of DM 1.6 billion in 1995. Changes in the composition of the Group resulted in a net reduction in revenue of DM 1.2 billion. The inclusion of Hermes Kreditversicherungs-AG and the Berner group in the second half of the year and of the Portuguese

company A Social increased premiums written by almost DM 1.3 billion, whilst the disposal of the DKV group on July 31, 1996, had the effect of reducing consolidated revenue by DM 2.4 billion. The Vereinte group acquired during the year under review, with activities mainly in health insurance, is not yet included in the consolidated financial statements because the acquisition could not be completed until the necessary approvals were received from the anti-trust authorities at the end of 1996. For this reason premiums written in life and health insurance were up by only 1.6 percent at DM 30.6 billion, despite the fact that life insurance business in Italy, Austria and the USA produced double-digit growth rates. Property and casualty insurance recorded premium growth of 8.9 percent to DM 44 billion, helped primarily by contributions from Cornhill in Great Britain and Fireman's Fund in the USA which more than compensated for the downtrends in Germany and France.

Without the changes in the Group and on the basis of constant exchange rates, premium growth would have been 4.4 percent (2.7 percent in property and casualty insurance, 6.6 percent in life and health insurance).

Allianz Group

Premium income in DM billions



Allianz Group

Premiums written by region

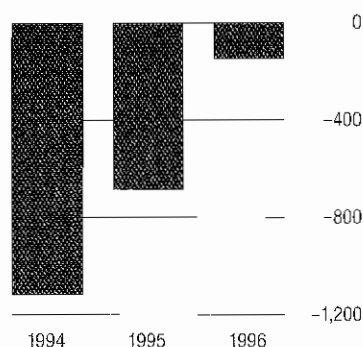
	1994		1995		1996	
	DM mn	%	DM mn	%	DM mn	%
Germany	37,694	57.0	38,976	55.2	37,798	50.7
Rest of Europe	15,875	24.0	21,232	30.1	24,426	32.7
North and South America	12,280	18.6	10,075	14.3	12,080	16.2
Africa, Asia	239	0.4	265	0.4	326	0.4
Total	66,088	100.0	70,548	100.0	74,630	100.0

Premiums written by business segment

	1994		1995		1996	
	DM mn	%	DM mn	%	DM mn	%
Property and Casualty insurance	37,112	56.2	40,386	57.2	43,979	58.9
Life and Health insurance	28,976	43.8	30,162	42.8	30,651	41.1
Total	66,088	100.0	70,548	100.0	74,630	100.0

Allianz Group

Underwriting result in DM millions



Allianz Group

Loss/expense ratio in property and casualty insurance

1994	1995	1996
101.6	99.9	99.4

Underwriting result

The underwriting result in the consolidated income statement showed an improvement of DM 536 million, resulting in a net loss of only DM 148 million. This figure is stated after having already transferred DM 1.2 billion to claims equalization reserves. One important reason for this improvement in earnings is the selective underwriting policy pursued, although this also had a dampening effect on premium growth in many markets. Other helpful contributory factors included the continuing favorable claims situation around the world and the cost-cutting

achieved through improved internal procedures. The underwriting loss on property and casualty business went down by DM 195 million to DM 1.4 billion. Life and health business increased its underwriting profit by DM 341 million to DM 1.3 billion.

Non-underwriting result

The result on the non-underwriting account, which depends mainly on investment income earned on property and casualty insurance, rose by 15.7 percent to DM 4.3 billion in 1996. This would not have been possible without the firm performance of capital markets, which benefited Allianz accordingly. Advantage was taken of record levels on the most important stock markets of the world to realize profits on trading portfolios. Current income on investments was further increased – notwithstanding the general decline in interest rates – owing to the increased volume of investments.

Allianz Group

Underwriting result as a percentage of gross premium

	1994	1995	1996
Property/Casualty	-5.1	-4.0	-3.2
Life/Health	2.8	3.4	4.6
Total	-1.8	-1.0	-0.2

Consolidated income statement (abridged)

	1994	1995	1996
	DM mn	DM mn	DM mn
Gross premiums written	66,088	70,548	74,630
Net premiums written	56,876	61,618	65,113
Benefits paid	54,681	62,276	65,164
Underwriting expenses	10,906	11,791	12,640
Net investment income	14,682	16,727	18,792
Pre-tax profit	2,264	3,043	4,164
Taxation	929	1,022	1,926
Net income	1,336	2,021	2,238

Earnings per share (DVFA/GDV method)

	1994	1995	1996
Net income	DM mn 1,336	2,021	2,238
Minority interests	DM mn 375	507	588
Extraordinary income/expenses and items not relating to period under review	DM mn 267	458	474
Adjusted profit	DM mn 1,228	1,973	2,124
Number of shares	208,000,000	226,274,800	229,456,400
Earnings per share*)	DM 5.91	8.72	9.25
Adjusted for 1995 increase in capital	DM 5.66	8.72	9.25

*) Converted to shares with a face value of DM 5

Net income

The overall pre-tax profit was DM 4.2 billion, 36.8 percent up on the previous year's figure. The tax charge, which in the previous year had been abnormally low from taking full advantage of the losses brought forward by Deutsche Versicherungs-AG, returned to normal so that net income for the year increased by only 10.7 percent to DM 2.2 billion. The return on equity after tax improved from 11.2 percent to 11.5 percent. The dividend is to be raised by DM 0.10 from DM 1.60 to DM 1.70 per share, increasing the total payout by DM 28 million to DM 390 million.

Earnings per share

Based on the method of calculation recommended by the DVFA/GDV (German Association of Financial Analysts/German Insurance Association), earnings per share went up from DM 8.72 to DM 9.25, an increase of 6.1 percent. The slower growth rate relative to the increase in net income is explained primarily by the larger number of shares following the exercise of warrant options due to expire on March 29, 1996, and by the increase in the amount of net income attributable to minority interests.

Staff

The Allianz Group employed 65,836 people worldwide in 1996, a reduction of 3,400 compared with the end of 1995. Without the changes in the composition of the Group the number of employees would have fallen by 2,133, or 3.1 percent – mainly as a result of cutbacks in the Property and Casualty Insurance Group in Germany following further improvements in internal working procedures, and of the status of the sales force in the ELVIA group being changed from that of salaried employees to self-employed agents.

■ Allianz in Germany

Property and casualty insurance

This report on the property and casualty insurance business of Allianz in Germany includes Deutsche Versicherungs-AG, which has been a wholly-owned subsidiary of Allianz Versicherungs-AG since early 1996. Premium income of the enlarged *Allianz Property and Casualty Insurance Group in Germany* went down for the first time in the post-war period, falling by 1.4 percent to DM 17.1 billion.

Property and Casualty Insurance Group in Germany

(DM millions)	1994	1995	1996
Gross premiums written	17,156	17,314	17,071
Loss/expense ratio in %	97.8	92.4	91.3
Net income	321	472	593
Investments	25,064	27,271	28,660
Stockholders' equity	4,224	4,536	4,673
Number of employees	26,250	24,862	23,735

One important reason behind the decrease is the new, competitively-priced premium rate structure for low-risk groups in automobile insurance, which has been eagerly taken up by customers. Attractive price discounts in other personal lines of insurance, such as bonuses for combined policies and loyalty bonuses, or cheaper product lines such as the "basic cover" policy, also had a noticeable effect. Although these measures have certainly reduced premium income, they have also helped to gain new customers and therefore lay the foundation for long-term business success.

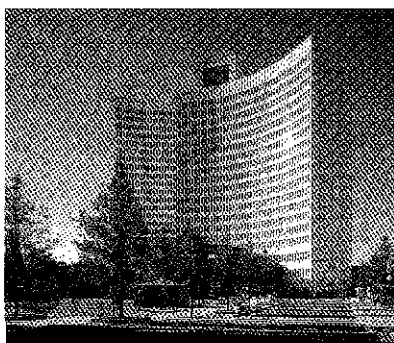
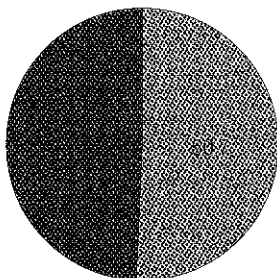
Business in force and premium income were also reduced by persisting with the policy of selective underwriting, especially in large commercial and industrial business, and by the still precarious state of the German economy.

The volume of new business rose by 5.8 percent to 2.2 million policies, regaining some of the market share which had previously been lost.

The claim figures were again blessed by good fortune in 1996, thanks mainly to the extremely favorable weather conditions. There was also

Allianz Group

Premiums written in Germany
as % of group revenue



Following the acquisition of Hermes in 1996 Allianz can now offer its industrial clients the experience and expertise of this leading credit insurer as well. The picture shows Hermes' head office building in Hamburg.

a reduction in the cost of large-scale claims and crime against property, thanks especially to the use of immobilizers in automobiles. The number of claims reported fell by a further 6.4 percent to 3.7 million (1995: 4.0 million). Benefits payable totaled DM 11.4 billion, 4.4 percent less than in the previous year, thanks largely to diligent management of claims. In automobile insurance this meant that, contrary to the general trend in the market, the average expense of claims was held steady.

Operating costs showed a slight increase in spite of the 4.5 percent fall in staffing levels, due mainly to increased investment in computers and new customer support software for the sales force and to the implementation of projects for improving organizational structures. The operating expense ratio went up by 0.5 percentage points to 23.7 percent. But for the level of investment outlined above it would have remained the same as in the previous year.

The underwriting result improved by DM 305 million to DM 403 million (1995: DM 98 million). This was mainly due to the favorable claims environment. The amount transferred to claims equalization reserves in accordance with the criteria set by the Federal Supervisory Office for the insurance industry was also much lower at DM 541 million (1995: DM 726 million).

The non-underwriting result is determined largely by investments, the book value of which increased to DM 28.7 billion (1995: DM 27.3 billion). Because of the continued low level of interest rates, current income from investments remained practically unchanged at DM 1.8 billion. There were also realized gains of DM 433 million (1995: DM 60 million) as a result of restructuring the portfolio of fixed income securities. After charging investment expenses, net income from investments amounted to DM 1.9 billion (1995: DM 1.6 billion). After deducting the allocated interest return and adding the net difference of other non-underwriting income and expenses the overall non-underwriting profit increased to DM 1.2 billion (1995: DM 1.0 billion).

Together with the increased under-

writing profit of DM 403 million there was a substantial improvement in the overall pre-tax profit to DM 1.6 billion (1995: DM 1.1 billion). Under the terms of the profit and loss transfer agreement in force Allianz Versicherungs-AG transferred DM 397 million of this to Allianz AG.

Credit insurance

As part of the rearrangement of equity interests Allianz AG acquired a majority holding in *Hermes Kreditversicherungs-AG*, Hamburg, on August 1, 1996. This enables Allianz to add some important products to its range of insurance services for industrial and commercial clients and to strengthen its role as a leading global insurer of industrial risks.

Hermes Kreditversicherungs-AG, which is included in the consolidated financial statements on a proportional basis, increased its revenue by 8.5 percent in 1996 to DM 877.3 million. Most of the growth came from bond insurance, fidelity guarantee insurance and export credit insurance, whilst premium growth in trade credit insurance – the company's main activity – was held back by the process of eliminating unprofitable business.

The claims situation remained extremely critical in view of the rising number of corporate insolvencies and several major claims. Although more stringent measures to reduce the level of claims enabled the loss ratio to be brought down, it was still unacceptably high at 91 percent. A further DM 30 million had to be transferred out of the claims equalization reserve, producing a small underwriting profit for own account of DM 5.7 million (compared with a loss of DM 13 million in 1995).

After adding the result from the non-underwriting account, which was depressed mainly by reserves for general risks, the net income figure was DM 14 million (1995: DM 12 million).

Life insurance

Economic conditions for the life insurance industry in Germany did not show any fundamental improvement during the course of 1996. Even so,

despite the limited room for manoeuvre in the finances of private households, there was a noticeable upturn in new business.

Allianz Lebensversicherungs-AG recorded premium income of DM 12 billion in 1996 (1995: DM 11.5 billion), representing a growth rate of 3.8 percent (1995: 5.8 percent). In addition DM 2.2 billion (1995: 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 lower growth rate in premiums compared with 1995 is connected to the fact that the number of policies maturing normally is rising whilst at the same time an increasing number of limited payment policies are moving into the period when premiums are no longer payable.

New business recorded significant growth. Current premiums for new business went up by 21.1 percent to DM 1.2 billion, a major contribution coming from the automatic increases linked to the maximum contribution to the statutory pension plan for salaried employees. A large number of customers have also taken advantage of the opportunity to boost the value of their employers' occupational pension schemes when the fixed percentage limit was raised. Single premium business, most of which is for immediate annuities, did not generate quite as much premium income as in the previous year but, at DM 1.3 billion,

still accounted for more than half the total of new business worth DM 2.5 billion (1995: DM 2.3 billion). The number of policies taken up increased by 2.1 percent to 418,000.

Business in force – measured in terms of the total sum insured – showed a slightly stronger increase again than in the previous year, rising by 5 percent to DM 290 billion. Apart from the good performance of new business this was due more than anything to the reduction in the lapse ratio to 3.5 percent, which, as in 1995, was substantially below the market average. Policyholders' benefits amounted to DM 18.3 billion (1995: DM 17.4 billion), comprising DM 9.4 billion paid out for insurance claims, especially normal maturities and surrenders, and DM 8.9 billion set aside to provide for increased future commitments.

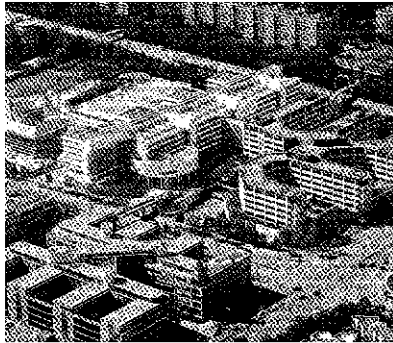
The book value of investments increased by 8 percent to DM 118.3 billion (1995: DM 109.6 billion). Low interest rates falling further and substantial rises in equity prices dominated the performance of financial markets in 1996. As a result the average current yield slipped a little to 7.0 percent (from 7.1 percent in 1995) whilst on the other hand the higher market prices were used to increase realized investment gains. The net return therefore remained at the previous year's high level of 7.5 percent.

The management expense and acquisition cost ratios improved to 2.6

Allianz Leben

(DM millions)	1994	1995	1996
Gross premiums written	10,890	11,519	11,952
Net income	140	158	190
Investments	100,730	109,604	118,333
Stockholders' equity	995	1,135	1,298
Number of employees	4,718	4,722	4,666





Allianz's acquisition of the Vereinte group was approved by the anti-trust authorities in November 1996. The newly-acquired company – the picture shows Vereinte's new head office in Munich completed in 1996 – is not being included in the consolidated figures until 1997. Gross premiums written by the Vereinte group in 1996 totaled DM 8.1 billion.

percent and 4.9 percent respectively. The management expense ratio is well below the market average.

The overall gross surplus came out at DM 4.4 billion, 9 percent more than the previous year's figure of DM 4.0 billion; DM 4.2 billion (1995: DM 3.9 billion) has been transferred to the reserve for premium refunds to finance future policyholder benefits. Out of the resultant net income figure of DM 190 million (1995: DM 158 million), in addition to the dividend of DM 11 per share, a bonus of DM 1.50 per share is to be paid to mark the company's 75th anniversary.

During the year under review the shareholders of Allianz Life were offered new shares in the ratio of 1-for-8 at a subscription price of DM 50 per share, i. e. net of any premium. This increased the capital stock by DM 35 million to DM 315 million.

Allianz Life is represented in Germany's eastern states by its wholly-owned subsidiary *Deutsche Lebensversicherungs-AG*, which likewise experienced a resurgence in new business and increased premium income by 4.2 percent to DM 1.4 billion (1995: DM 1.3 billion). The book value of investments rose by 10.6 percent to DM 8.6 billion (1995: DM 7.8 billion). The net return was 7.4 percent.

The overall surplus, which in the previous year had been held down by the non-recurring charge to stock up the aggregate reserve for annuity contracts, amounted to DM 404 million (1995: DM 284 million). DM 383 million (1995: DM 270 million) was transferred out of this to the reserve for premium refunds, leaving net income of DM 21 million (1995: DM 14 million) for the year.

The Vereinte group

The anti-trust authorities gave their approval for the acquisition of the Vereinte group, Munich, in November 1996. This means that Vereinte could have been included in the consolidated financial statements just for the month of December. In view of the fact that this would have had only a marginal effect on the results of the Group and also that the much earlier date for the Annual General Meeting appeared to be at risk if the consolidated financial statements were not prepared in time, Vereinte is not being consolidated as part of the Allianz Group until 1997.

Consolidated premium income of the Vereinte group – which writes property and casualty insurance, legal expenses insurance, and life and health insurance in Germany – increased by 2.5 percent in the year under review to DM 8.1 billion. Premiums written in property and casualty insurance decreased by almost 1 percent, whilst in life and health insurance they rose by 1.2 percent and 3 percent respectively. Premium growth was therefore well below the market average, thanks mainly to high lapse ratios.

All companies in the Vereinte group contributed strong growth rates to the increased consolidated pre-tax profit of DM 228 million.

■ Allianz in the rest of Europe

The premium income of European group companies outside Germany rose by 9.4 percent in local currencies. In DM terms, owing to the strength of many European currencies, there was a 15 percent increase in premiums to DM 24.4 billion.

The earnings performance of individual companies was extremely mixed. Whereas some reported rising net income thanks mainly to rationalization measures and increased investment income, others saw earnings fall as a result of increased competition.

The Allianz companies in *France* recorded premium income of DM 2.9 billion after translation, not quite as high as in the previous year. Premiums for property and casualty insurance went down by 3.1 percent to DM 1.9 billion as a result of restructuring measures and selective underwriting, especially in automobile insurance.

Life insurance business was held back by lower-margin savings products and by the absence of a major banking partner. Premium income fell by 7.7 percent to DM 1 billion.

The operating units were profitable

Allianz Holding France

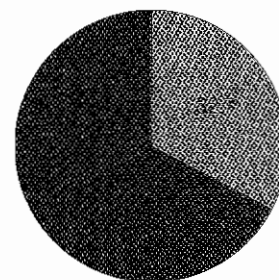
(FRF millions)	1994	1995	1996
Gross premiums written	9,359	9,722	8,911
Property/Casualty	6,100	6,405	5,898
Life/Health	3,259	3,317	3,013
Loss/expense ratio in %	120.0	116.6	109.5
Net income	-661	-331	145
Investments	33,515	35,848	39,753
Stockholders' equity	10,572	9,250	9,315
Number of employees	2,155	2,065	2,143

overall. In addition to the more relaxed claims situation this reflected the increased integration of marketing and administrative procedures and computer systems. The consolidated results of the Allianz Group in France showed a profit for the first time equivalent to DM 43 million after translation (compared with a loss of DM 97 million in the previous year).

The cooperation agreement between Allianz and Crédit Lyonnais signed in June 1995 progressed as planned with 40,000 new policies and premium income worth DM 41 million in 1996. The products sold over the 2,000 or so counters of this major bank up to now comprise mainly household effects and general liability insurance, as well as health insurance.

Allianz Group

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



Allianz Group

Premiums written in European markets (excluding Germany)

	1996	1996
	DM millions	% of total group revenue
Italy	8,988	12.0
Switzerland	4,086	5.5
Great Britain	3,330	4.5
France	2,908	3.9
Austria	2,212	3.0
Spain	1,064	1.4
Netherlands	501	0.7
Hungary	476	0.6
Portugal	377	0.5
Other European countries	484	0.6
Total Europe	24,426	32.7

Cornhill Group

(£ millions)	1994	1995	1996
Gross premiums written	1,174	1,107	1,234
Property/Casualty	992	1,008	1,130
Life/Health	182	99	104
Loss/expense ratio in %	99.7	102.9	105.3
Net income	43	46	44
Investments	1,578	1,821	1,892
Stockholders' equity	342	462	452
Number of employees	2,851	2,657	2,871

RAS S. p. A.

(ITL billions)	1994	1995	1996
Gross premiums written	4,381	4,161	4,181
Property/Casualty	3,293	3,064	3,024
Life/Health	1,088	1,097	1,157
Loss/expense ratio in %	106.6	106.6	109.8
Net income	201	319	338
Investments	11,940	14,521	15,488
Stockholders' equity	4,300	4,934	5,120
Number of employees	3,468	3,435	3,389

Lloyd Adriatico S. p. A.

(ITL billions)	1994	1995	1996
Gross premiums written	1,897	2,073	2,130
Property/Casualty	1,652	1,772	1,827
Life/Health	245	301	303
Loss/expense ratio in %	108.6	114.3	117.2
Net income	18	32	47
Investments	3,356	4,003	4,558
Stockholders' equity	621	639	667
Number of employees	1,561	1,528	1,458

Allianz Subalpina S. p. A.

(ITL billions)	1994	1995	1996
Gross premiums written	918	1,013	1,052
Property/Casualty	726	787	801
Life/Health	192	226	251
Loss/expense ratio in %	102.6	100.9	106.8
Net income	20	25	68
Investments	1,648	2,009	2,351
Stockholders' equity	304	314	357
Number of employees	763	677	648

The Cornhill group in *Great Britain* increased its premium income in 1996, against the market trend, by 11.5 percent in local currency to the equivalent of DM 3.2 billion after translation. Personal and commercial bulk business and schemes business (niche products) made particularly strong contributions with growth rates of over 15 percent in each case. In automobile insurance, where premium levels fell back right across the market, the number of policies was increased by 14 percent, substantially improving the company's competitive position. By taking over Ajax, formerly the engineering subsidiary of Norwich Union, the company greatly increased its share of that specialist market. The acquisition of the Pet Plan company secured Cornhill's position in the insurance market for household pets, a line of business which Cornhill was already writing in previous years. Cornhill is now Britain's leading insurer in this attractive niche market. Life insurance business, a less important side of Cornhill's activities up to now, performed roughly in line with the market with premium growth of 5 percent to DM 273 million. New business increased by 17.6 percent.

Profitability was affected not just by heightened competition in automobile insurance – mainly from direct insurers – but also by the stormy weather and periods of intense cold early in the year. Thanks to improved investment income the profit for the year was maintained at roughly the same level as in the previous year at DM 117 million.

The Allianz companies in *Italy* recorded premium growth of 7.3 percent in local currency to the equivalent of DM 9 billion after translation. DM 6.3 billion came from property and casualty insurance.

Life insurance business again expanded particularly strongly with an increase of 22.2 percent in local currency, taking premium income up to DM 2.7 billion. More extensive cooperation arrangements with banking partners such as the Credito Italiano group and Rolo Banca 1473 were important factors behind this increase in business.

RAS S.p.A., the largest Allianz company in Italy, had premium income of DM 4.3 billion after translation. Net income improved by 6.2 percent in local currency to the equivalent of DM 344 million, helped especially by investment income.

Lloyd Adriatico, the Allianz Group's second pillar of strength in Italy, recorded premium income of DM 2.2 billion after translation, 3.2 percent more than in the previous year. This company's main business is in automobile insurance where, with the help of innovative products, it improved the selection of risk and increased customer loyalty. Net income went up to the equivalent of DM 48 million.

At Allianz Subalpina the process of merging and rationalizing its operations is being pursued with the objective of strengthening its competitive capability as the third major unit of the Allianz Group in Italy. Premium income amounted to DM 1.1 billion after translation, an increase of 3.8 percent. In spite of restructuring costs earnings more than doubled to DM 62 million.

Allianz is represented in the *Netherlands* by Allianz Nederland, which writes industrial non-life insurance, and in bulk personal business by ELVIA Verzekeringen which, in addition to life and non-life insurance, also started to write health insurance business in 1996 with some success. These companies together generated premium income totaling DM 365 million. Net income for the year went up by 23.5 percent to DM 22.4 million after translation, thanks especially to a favorable claims experience at Allianz Nederland.

Premium income of the Allianz Group in *Austria* came to DM 2.2 billion after translation. The 5.6 percent growth in local currency was generated mainly by an increase of 13 percent in life insurance business. The imminent withdrawal of tax relief prompted strong growth in the first half of the year, particularly in single-premium policies.

In property and casualty insurance the rise in premiums was 3.3 percent in local currency – the same as for

the market as a whole. In automobile insurance the new individualized premium rate structure for third party liability cover tended to reduce premium levels, the same as it did in Germany, whilst business for physical damage cover made positive progress as a result of an increase in new automobile registrations. In industrial and institutional business the Group maintained its position as market leader.

Allianz Group in Austria

(AS millions)	1994	1995	1996
Gross premiums written	14,073	14,490	15,293
Property/Casualty	10,948	11,117	11,483
Life/Health	3,125	3,373	3,810
Loss/expense ratio in %	103.1	104.4	109.6
Net income	416	447	402
Investments	38,372	41,677	45,402
Stockholders' equity	2,534	2,771	3,046
Number of employees	4,206	4,050	4,014

The highly competitive situation coupled with a substantial increase in claims expenses as a result of weather-related damage had a significant impact on the underwriting result. In addition the large amounts invested in computer systems and internal procedures militated against any marked improvement in the cost situation for the time being. Although investment income showed a substantial increase under the benign influence of the situation in capital markets, net income for the year went down by 10 percent in local currency to the equivalent of DM 57 million after translation.

After having increased its shareholding in the Berner holding company to 51 percent halfway through 1996 the Allianz Group is now ranked fourth in the *Swiss* market. The Berner insurance group had premium income of DM 1.4 billion after translation, although only a proportionate part of that is included in the consolidated financial statements for an appropriate part of the year. Together with the ELVIA group and Allianz Schweiz, premium income totaled DM 4.1 billion, making Switzerland the Allianz Group's third largest European market after Germany and Italy.

Premiums written in life insurance went up by more than 50 percent to DM 1.9 billion, reflecting mainly non-recurring changes in group policies written by ELVIA Life as well as the inclusion of the Berner group.

In property and casualty insurance, deregulation of the market for third party liability automobile insurance resulted in premium income falling in line with the market as a whole.

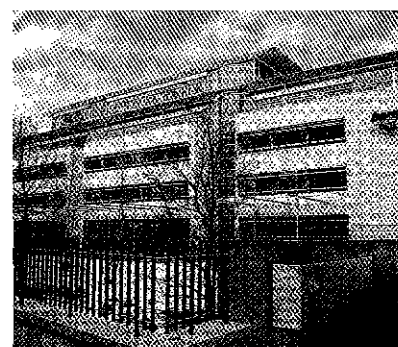
ELVIA Group

(SF millions)	1994	1995	1996
Gross premiums written	2,644	2,470	2,830
Property/Casualty	1,652	1,521	1,551
Life/Health	992	949	1,279
Loss/expense ratio in %	109.6	106.5	106.5
Net income	43	44	56
Investments	7,305	7,591	8,024
Stockholders' equity	595	640	682
Number of employees	4,012	3,100	2,215

This was counterbalanced by the ELVIA travel insurance business, however, which continued its dynamic growth as a leading European carrier of travel insurance and assistance services.

The competitive strength and earnings potential of the ELVIA companies have been greatly increased by restructuring the sales and marketing side and improving internal procedures and information processing operations. The ELVIA group accordingly improved its earnings by 27 percent to DM 64 million. Net income in Switzerland totaled DM 79 million overall, improving on the previous year's figure by 44 percent.

Premium income of the Allianz Group in *Spain* went down by 25 percent in local currency to the equivalent of DM 1.1 billion. Especially in the previous year but also in the year under review the total was heavily influenced by large one-off premiums for taking over the pension commitments of Banco Popular. Excluding these special factors premium income rose by 6 percent in 1996. The regular life insurance business of Allianz RAS Seguros increased by 15 percent to DM 76 million after translation. The Eurovida life insurance company,



Allianz increased its shareholding in the Berner holding company to 51 percent after the restriction on voting rights was removed by resolution of shareholders at the Annual Meeting of that company held on July 1, 1996. Allianz now has three brand names in the Swiss insurance market: Allianz, ELVIA and Berner. In 1996 the Berner insurance group – its head office is pictured here – recorded premium income equivalent to DM 1.4 billion after translation.

Allianz RAS Seguros

(ESP millions)	1994	1995	1996*)
Gross premiums written	50,107	102,526	82,447
Property/Casualty	46,039	48,491	61,660
Life/Health	4,068	54,035	20,787
Loss/expense ratio in %	107.8	106.3	106.2
Net income	1,154	1,421	3,555
Investments	53,935	107,450	148,222
Stockholders' equity	6,512	7,182	12,089
Number of employees	771	727	882

*) including Lloyd Adriatico España, merged in 1996

operated as a joint venture together with Banco Popular, produced another dynamic performance with premium growth of 22 percent to DM 72 million after translation. Premium income from property and casualty insurance rose by 3.5 percent to DM 746 million. Automobile insurance, in the face of mounting competition, posted an increase in premiums above the market average.

Earnings benefited from the absence of major claims, the introduction of recommended rates throughout the industry for settling personal injury claims, and vigorous control of costs. Investment income showed a slight improvement in spite of lower interest rates in capital markets. The net income of Allianz RAS Seguros almost doubled at DM 42 million after translation. Eurovida's earnings rose by 21 percent to DM 8.3 million.

Portugal Previdente in *Portugal* recorded premium growth of 5.1 percent to DM 233 million. A cooperation agreement with the BPI/Fonsecas y Burnay banking group has substantially increased sales capacity. As a result of this and of the merger with Portugal Previdente of the insurance companies A Social and Scottish Union Portugal, which previously belonged to the BPI group, premium income will increase by around 80 percent in 1997.

Net income rose to DM 11 million after translation in spite of higher claims expenses in automobile insurance, thanks mainly to rationalization measures and the good result from investment income.

The group company in *Hungary*, Hungária Biztosító, maintained its market leadership in property and casualty insurance with premium growth of 21 percent – in line with market conditions – to DM 476 million after translation.

With premium growth of 100 percent in life insurance business the company is well on the way towards realizing its strategic objective of expanding in the market for personal lines of insurance.

The Hungária pension fund opened for business in July 1996 and is already ranked third in the market with 22,000 members.

The substantial increase in premiums for third party liability automobile insurance and portfolio pruning in automobile physical damage insurance had a beneficial effect on earnings. As a result, together with an increase in current investment income, net income for the year was 10 percent up at DM 42 million.

The company became a wholly-owned subsidiary in the year under review when the remaining shares were taken over from the government.

Allianz has other operations in Belgium, Denmark, Greece, Luxembourg, Norway, Poland, Russia, Sweden, and the Slovak and Czech Republics, which together generated premium income equivalent to DM 484 million after translation and were profitable overall. The Allianz Group has equity interests in two insurance companies in Turkey.

Many people in Spain recognize the need to make private provision for their old age. The Europensiones joint venture, which sells pension plans through banks, expanded rapidly in 1996. Eurovida too, a joint venture between Allianz-RAS España and Banco Popular, increased its premium income from the sale of life insurance products over the counters of the bank by 22 percent in 1996.

■ Allianz in North and South America

After the downturn in premiums written in the previous year the Allianz companies in North and South America recorded strong 19.9 percent growth again to DM 12.1 billion after translation. In local currency the increase was 10.6 percent, life insurance contributing slightly more in relative terms. The earnings situation of most of the companies has again improved.

In the *United States* the Allianz Group's property insurance companies increased premium income by 8.1 percent in local currency to the equivalent of DM 7.1 billion after translation. DM 6.3 billion of the total was written by Fireman's Fund which recorded growth of 8.2 percent, well above the market average. The main contributory factors were expansion of the product range and the increase in personal lines of business after taking over the insurance portfolio of the John Hancock group. Although earnings were hit by catastrophe losses of DM 168 million, a net profit of DM 351 million after translation was achieved – the best result since the company became part of the Allianz Group. The substantial transfer to reserves for environmental losses in 1995 is having a beneficial effect on subsequent earnings.

The two global insurers of industrial risks, Allianz Insurance Company and Allianz Underwriters Insurance Company, increased their business volume by 10.4 percent to DM 717 million after translation by expanding the international property business and also concentrating on large American customers. Owing to substantial claims expenses the net income figure of DM 23 million could not match the previous year's exceptionally good result.

In the U.S. life insurance market there was a recovery in demand for single-premium variable annuities. Helped also by the good performance of the fund products of Allianz's joint venture partners, premiums written by Allianz Life went up by 14.7 percent in local currency to DM 4.3 billion after translation. Thanks to this and to the 16.7 percent increase in the value

Fireman's Fund

(US\$ millions)	1994	1995	1996
Gross premiums written	3,441	3,772	4,080
Loss/expense ratio in %	116.6	142.5	110.1
Net income	120	-280	226
Investments	8,656	10,298	11,317
Stockholders' equity	2,469	3,148	3,234
Number of employees	7,934	7,885	8,157

Allianz Life (North America)

(US\$ millions)	1994	1995	1996
Gross premiums written	3,721	2,438	2,796
Net income	56	87	101
Investments	2,567	3,164	3,695
Stockholders' equity	680	951	1,014
Number of employees	709	606	637

of the investment portfolio, net income improved by 16 percent to DM 157 million.

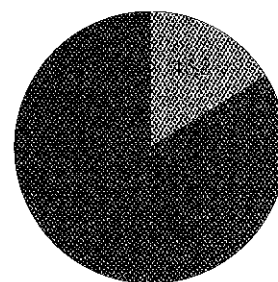
In *Canada* the Allianz Group generated premium income of DM 370 million, representing growth of 11.6 percent in local currency. This was mainly due to the expansion of business in the profitable senior citizen sector and to premium increases in certain areas of automobile insurance. That had a beneficial effect on earnings so that net income more than doubled to DM 20 million. By systematically streamlining its earnings potential the company has therefore made a remarkable recovery over the last two years.

Allianz Mexico's successfully launched cooperation arrangement with BanCrecer coupled with the expansion of industrial business resulted in premium income rising by 52 percent in local currency to the equivalent of DM 85 million. The country's continuing economic problems resulted in an escalation of theft-related claims which, together with the worsening situation in capital markets, was reflected in a reduction in net income to DM 0.6 million.

Premiums written by Allianz group companies in other Latin American countries increased to DM 170 million.

Allianz Group

Premiums written in North and South America as a % of Group premium income



Premium income of the Allianz companies in *Chile* rose slightly overall to DM 115 million. Continuing fierce competition and falling rates for industrial business, together with the decrease in international program business, resulted in a reduction of 23 percent in non-life premiums written. Revenue from life insurance went up by 30 percent to DM 63 million. The fall in earnings from non-life insurance and the anticipated startup losses in life insurance resulted in an overall loss of DM 8.5 million.

The insurance market in *Argentina* was also afflicted by serious problems. Despite this Allianz RAS Argentina increased its premium income significantly, especially in bulk personal lines of business, to the equivalent of DM 55 million. Net earnings dropped to DM 1.8 million due to reduced investment earnings, which had benefited substantially the previous year from interest rate developments.

The economic situation in *Venezuela* was still problematical with inflation running at over 100 percent and economic activity down by 1.5 percent. Despite this our associated company Adriatica de Seguros C. A. again posted a substantial increase in net income to DM 28 million on premium income of DM 98 million after translation. The decrease in bulk personal lines of business due to the recessionary conditions was more than counterbalanced by a strong increase in industrial business.

In *Brazil*, on the other hand, premium income of our associated company now operating as Allianz Bradesco fell back by 29 percent in local currency to DM 157 million after translation owing to rate-cutting in the market for automobile insurance. In business with multinational industrial clients, however, the company maintained its leading position. Earnings fell to DM 15 million from the previous year.

Allianz increased its existing 30 percent shareholding – by the same margin as its partner Bradesco Seguros – to 49 percent.

■ Allianz in Africa, Asia and Australia

In the countries of Africa and Asia Allianz was able to share in the dynamic growth of these regions, recording above-average growth rates compared with the rest of the Group. Allianz's commitment, particularly in the Asia Pacific region, was further strengthened by the newly-established management unit Allianz Asia Pacific. Premiums written went up by 29 percent in total to DM 326 million after translation. Earnings were also again substantially improved.

Premiums written in *South Africa* rose by 29 percent in local currency to DM 138 million after translation, further strengthening Allianz's position as one of the leading insurers of industrial risks. In spite of the continuing high rate of crime against property and numerous bad weather claims the Group's operations in this country made a profit of DM 2.5 million.

Unabated intense competition and the consequently low level of premium rates in automobile insurance slowed premium growth at Allianz Cornhill Insurance (Far East) in *Hong Kong*. Premium income increased by 3 percent in local currency to DM 35 million. Nonetheless Allianz still maintained its strong position in industrial business and in reinsurance business assumed from China. Despite some major claims earnings again showed a slight improvement to DM 1.7 million.

In *Indonesia* Allianz Utama Indonesia, one of the leading foreign industrial insurers, benefited from the economic boom which was reflected in large-scale public and private sector investment projects. Allianz Aken Life, the joint venture for writing life insurance set up together with the Indonesian Kresna group, has made a successful start to its activities. Building up its own sales organization for life insurance products will facilitate the move into non-life business for private clients. Total premiums written rose in local currency by 19 per-

cent to the equivalent of DM 38 million after translation. The low level of premiums and several major claims meant that net income of DM 2 million was not quite sufficient to repeat the previous year's good result.

Premiums written by Allianz Fire and Marine Insurance in *Japan* totaled DM 44 million after translation. The growth rate of 6 percent in local currency was less than in previous years, however, because the persistent absence of growth in the Japanese economy also affected the company's important industrial business. Personal lines of business, in contrast, made satisfactory progress, although earnings were held back by the preliminary financing costs. The company almost broke even after making a loss in the previous year.

In *Singapore* the industrial insurer Allianz Insurance Singapore enjoyed a relatively large share of the strong economic growth in the region. The surrounding markets, especially those of the ASEAN countries, contributed over 80 percent to premium income of DM 75 million after translation which was more than double the previous year's figure. This performance was partly due to the company being turned into a regional service center for risk consulting, reinsurance, and underwriting large-scale risks.

Because of a strong increase in costs related to creating the company's own administration, net earnings dropped to DM 0.8 million.

Progress in opening up the insurance market in *Thailand* is very slow. Allianz now has a 15 percent interest in the Navakji Insurance Company, which managed to improve on the previous year's good result with premium growth of more than 15 percent.

Liberalization of the insurance market in *Vietnam* is also making slow progress. Allianz has a representative office in Hanoi and is doing its best to obtain an operating license as soon as possible. Specialist seminars are being held to expand the foundation for future business contacts.

In the insurance market in *China*, which is gradually being opened up, Allianz has representative offices in Beijing, Shanghai and Guangzhou. Allianz's main activity in this market is reinsuring industrial risks for local insurers.

Allianz's equity interest in the MMI Insurance Group, Sydney, its business partner in *Australia* of many years standing, was increased to almost 40 percent at the end of 1996 by the acquisition of a 20 percent shareholding from the Australian Business industrial association and by purchasing further shares in the market. In turn MMI, which is one of the five largest property and casualty insurers in the country with premium income of around DM 1.4 billion, took a 20 percent interest in Allianz Insurance Singapore. These transactions are designed to reinforce the close cooperation between the two companies in the Asia Pacific region.



In China Allianz has representative offices in Beijing, Shanghai (pictured here) and Guangzhou.

■ Investments

The total book value of investments held by the Allianz Group went up by DM 19.5 billion or 7.9 percent in 1996, from DM 247.4 billion to DM 266.9 billion. Total net income from investments was 12.3 percent up at DM 18.8 billion (1995: DM 16.7 billion). The net return, calculated on the basis of the average investment portfolio during the year, was 7.3 percent (1995: 7.2 percent).

Including investments held for variable annuity policyholders, for the Vereinte insurance group not yet included in the consolidation and for third parties, the total funds under management by Allianz increased to DM 342 billion (1995: DM 282.0 billion).

Financial markets

Interest rates in German capital markets fell back further in 1996. The current yield on bonds went down from 5.5 to 5.1 percent. The Bundesbank lowered the discount rate from 3.0 percent to 2.5 percent. At the same time the money market rate for 3-month money (FIBOR) went down from 3.8 percent to 3.1 percent. Yields in most foreign bond markets also came down, with the exception of the United States where interest rates rose.

On the German equity market the DAX index went up from 2,254 to 2,889, a rise of 28.2 percent. The other major equity markets also made significant gains.

In currency markets the US dollar was quoted at DM 1.55 at year's end, 8.5 percent up on the rate of DM 1.43 at the beginning of the year. The pound sterling climbed to DM 2.63 (up 18.7 percent), the Italian lira to DM 1.02/1,000 (up 12.5 percent). Only the Swiss franc was quoted lower at DM 1.15, a fall of 7.7 percent.

Portfolio structure

New investments were made mainly in registered and bearer bonds, advantage also being taken of the low level of interest rates and steep yield curve to carry out some selective portfolio switching. The global diversification of trading portfolios of equities and bonds was also increased.

German companies now account for 59.9 percent (1995: 64.1 percent) of the total investment portfolio, following the exclusion of DKV. This proportion is higher than the proportion of premiums written in Germany (50.7 percent, compared to 55.2 percent in 1995) because the Group's life and health insurance business – which entails a high investment content – is more important in Germany than abroad.

Allianz Group

Net return on investments
as % of average value

1994	1995	1996
7.1	7.2	7.3

Allianz Group

Investments by business area

	1995	1996
Property/Casualty	91.4	104.0
Life/Health	156.0	162.9

Allianz Group

Assets under management

	1995		1996	
	DM mn	%	DM mn	%
Real estate	17,484	6.2	17,952	5.2
Long-term and other equity investments,				
investment fund units	45,725	16.2	48,776	14.2
Bearer bonds and other fixed income securities	77,624	27.5	87,508	25.4
Registered bonds and debentures, mortgages,				
deposits retained by others and				
other interest earning investments	106,541	37.8	112,652	32.7
Investments				
(Point C. in the consolidated balance sheet)	247,374	87.7	266,888	77.5
Investments held for variable annuity policyholders				
(point D. in the consolidated balance sheet)	15,095	5.4	18,509	5.4
Additional investments held for third parties				
(non-consolidated)	19,547	6.9	58,753	17.1
Total assets under management	282,016	100.0	344,150	100.0

Investments held by the property and casualty insurance companies worldwide amounted to DM 104.0 billion (1995: DM 91.4 billion), those held by the life and health companies to DM 162.9 billion (1995: DM 156.0 billion). Investments totaling DM 18.5 billion (1995: DM 15.1 billion) were also held separately for variable annuity policyholders.

Real estate

The book value of holdings of real estate rose by DM 0.5 billion to DM 18.0 billion (1995: DM 17.5 billion). Allianz is currently investing in three major construction projects in Berlin-Treptow, 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 these projects, DM 0.8 billion of which had already been spent by the end of 1996.

Unconsolidated affiliated and associated companies

Investments in affiliated and associated companies shown in the consolidated balance sheet amounted to DM 8.7 billion (1995: DM 4.7 billion). This heading comprises only investments in and loans to companies in which the Group has a significant interest but which are not consolidated. The increase is mainly attributable to the Vereinte group, which has not yet been included in the consolidation. The most important consolidation procedures are outlined in the Management Report of Allianz AG on page 73.

Other investments

Other investments are carried at DM 234.2 billion (1995: DM 220.1 billion). The main items included under this heading are equity investments of DM 40.1 billion (1995: DM 41.0 billion), fixed income securities DM 87.5 billion (1995: DM 77.6 billion), mortgages at DM 20.2 billion (1995: DM 18.5 billion) and other loans – such as registered bonds and debentures – at DM 82.9 billion (1995: DM 80.3 billion).

Investments – at DM 82.9 billion (1995: DM 80.3 billion).

All the companies in which Allianz had a long-term holding at the end of 1996 are listed on page 63. The quoted market value of such holdings was DM 34.8 billion (1995: DM 26.0 billion), of which DM 33.5 billion (1995: DM 25.1 billion) was in respect of German companies.

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 but the corresponding investments to cover the relevant insurance reserves remain in the hands of the direct insurer. Such funds held by others for Allianz increased to DM 6.1 billion in 1996 (1995: DM 5.1 billion).

Investments held for third parties

Investments totaling DM 18.5 billion (1995: DM 15.1 billion) were held separately on account and at the risk of variable annuity policyholders and are shown under a separate heading in the balance sheet.

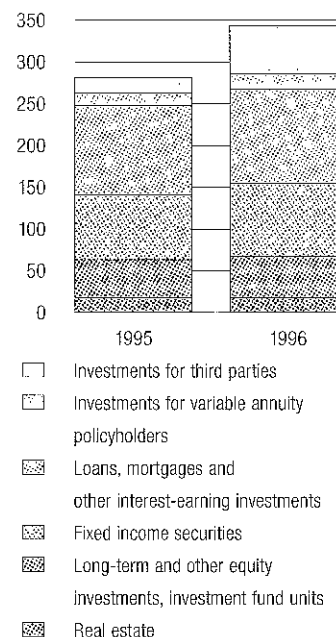
Companies in the Vereinte group, which is not yet included in the consolidated financial statements, carried a further DM 28.0 billion of investments, mostly in the form of loans and registered bonds.

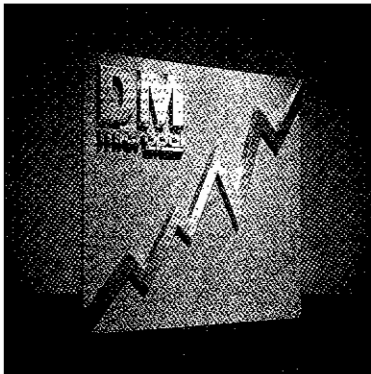
Finally Allianz had DM 30.8 billion (1995: DM 19.5 billion) invested on behalf of private and institutional investors and for the pension fund Allianz Versorgungskasse VVaG (which is not included in the consolidated financial statements). The public funds of Allianz Kapitalanlagegesellschaft (KAG) have made particularly good progress, recording another highly satisfactory performance in the current year. Allianz's range of products in this area is rounded off by specialist funds for institutional investors, Italian investment funds, and discretionary management services for pension funds in Germany and abroad.

At the balance sheet date Allianz had investments under management totaling DM 344.2 billion (1995: DM 282.0 billion).

Allianz Group

Investments under management in DM billions





Allianz Kapitalanlagegesellschaft (KAG) – Allianz's investment management company – came out top in all three group categories in the "DM Micropal Awards 1996" for smaller companies (up to 9 funds under management). These annual awards presented by the "DM" financial magazine and the "Micropal" fund database service are the equivalent of Oscars for outstanding performance in the fund management sector.

Innovative financial instruments

Allianz companies make use of financial derivatives such as options, futures and swaps, primarily for the management of risk and relatively limited in 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 and risk control throughout the Group.

The principal amount of all options, forward transactions and similar instruments open at the balance sheet date was DM 1.5 billion (1995: DM 0.8 billion), or 0.5 percent (1995: 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 on page 67 in the Notes to the Consolidated Financial Statements. Changes in the valuation of investments held for variable annuity business written abroad 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 increased by 7.4 percent in the year under review to DM 18.8 billion (1995: DM 17.5 billion).

Realized investment gains generated income of DM 2.8 billion (1995: DM 1.9 billion). DM 180 million (1995: DM 261 million) of the total came from investments in affiliated and associated companies, DM 173 million (1995: DM 205 million) from real estate, and DM 2,469 million (1995: DM 1,454 million) from securities and other interests, mainly due to portfolio switching between redemption values.

Realized investment losses and losses assumed under profit and loss transfer agreements amounted to DM 197 million (1995: DM 232 million).

Write-downs at the balance sheet date were much the same as in the previous year at DM 1.5 billion (1995: DM 1.3 billion). On securities they amounted to DM 832 million (1995: DM 643 million), on real estate DM 584 million (1995: DM 641 million) and on investments in affiliated and associated companies DM 35 million (1995: DM 45 million).

Other investment expenses amounted to DM 1.2 billion (1995: DM 1.2 billion), comprising a net transfer of DM 67 million (1995: DM 33 million) to special untaxed reserves, investment management expenses of DM 831 million (1995: DM 776 million) and interest charges of DM 307 million (1995: DM 358 million).

Total net income from investments came to DM 18.8 billion (1995: DM 16.7 billion), comprising DM 13.1 billion (1995: DM 11.7 billion) from life and health insurance business and DM 5.7 billion (1995: DM 5.0 billion) from property and casualty insurance.

■ Looking Ahead

The recovery in economic growth expected this year will be neither rapid nor extensive enough to generate any immediate significant benefits for the insurance industry. On the basis of constant exchange rates Allianz is therefore forecasting premium growth of about 11 percent, to roughly DM 83 billion.

The first-time inclusion of the Vereinte group from the beginning of the year is expected to increase premium income by DM 8.3 billion in total – DM 1.7 billion from property and casualty insurance and DM 6.5 billion from life and health insurance. There will also be an extra DM 1.2 billion as a result of a full 12-month contribution from Hermes and the Berner group, which were included for only part of the year in 1996. The premium income of DKV still included for 7 months last year amounted to DM 3.4 billion and will no longer be included; so premium income will increase by a good DM 6 billion as a result of changes in the composition of the Group. Excluding these effects and assuming constant exchange rates, premium income should increase 3 percent, or around DM 2 billion.

There will be significant changes in the business mix, mainly due to the inclusion of the Vereinte group. The proportion written in Germany will increase again by a good 2 percentage points to 53 percent, and life and health insurance will account for a much larger share. Apart from the effects of consolidation procedures this trend will be reinforced by the fact that worldwide demand for personal lines of insurance is far from satisfied. Sales over the counters of banks will also pick up sharply, especially in Italy and Portugal where an increasing number of cooperation agreements are being signed with banks. In the United States, moreover, demand for annuities is expected to be maintained so long as market interest rates do not rise too far. And in Germany, finally, the 75th anniversary of Allianz Life is being used as an opportunity to place more emphasis on marketing personal lines of insurance.

The profitability of the Group will also continue to improve. The underwriting account is expected to show a profit for the first time again since 1990, provided there are no exceptional claims and in particular no major natural catastrophes. If conditions in capital markets remain favorable the non-underwriting result will also show further improvement. Under these conditions, net profit is expected to show moderate double-digit growth overall.

One of the focal points of activity this year will be the integration of the Vereinte group and Hermes into the Allianz Group. The Vereinte health insurance operation, with the support of the Group, is to further strengthen its position as a leading private sector health insurer. Allianz's sales force has made a successful start selling Vereinte health insurance policies since the beginning of this year. The Vereinte group's sales and marketing organization in property and casualty insurance and in life insurance has been brought into line with that of Allianz. A common premium rate structure for automobile insurance was introduced at the beginning of 1997 as the first step towards standardizing the product range.

The mh-Bausparkasse will in future handle savings and loan business acquired by the Allianz sales force. Wüstenrot Bausparkasse, which will continue to obtain insurance business for Allianz on an agency basis, has acquired a 15 percent interest in that company.

The remaining 34 percent interest in Allianz Via Holding France previously held by Compagnie de Navigation Mixte (CNM) was also taken over by Allianz at the beginning of this year, giving Allianz almost full control over the French holding company.

In Poland Allianz and its joint venture partner BGZ Bank obtained an operating license to write life insurance business in early 1997. Starting this summer, customers in Poland will be offered personal insurance products over the counters of the bank and through an agency network currently being established.

In India Allianz, as one of the few foreign insurance companies in the

country, has obtained permission to open a representative office. The Allianz India Representative Office has been open for business in Mumbai (Bombay) since February 1997.

As part of the continued expansion of its global industrial business Allianz is setting up an alternative risk transfer (ART) division. This segment of the market, which has gained in importance in recent years, couples traditional insurance concepts with alternative solutions to provide the customer with even more individually tailored insurance strategies than before.

In April 1997, a class action lawsuit was filed in New York against seven European insurance companies. The lawsuit is based on charges that the insurers enriched themselves with assets from victims of the Holocaust in the form of life insurance policies that were never paid out. Three Allianz Group companies are mentioned in the suit. The lawsuit raises many questions about the role of insurance companies, and in particular of Allianz, during the Nazi era. Allianz takes this issue very seriously and has therefore hired Arthur Andersen, the US auditing company, to evaluate independently all the Company's files from that period. This is intended to enable Allianz to identify and settle any cases that, contrary to present knowledge, are found to be open. In addition, we have established telephone helplines in Europe, the United States and Israel so that any claims may be filed in an unbureaucratic manner. At present, our research through the beginning of May 1997 indicates that Allianz did not enrich itself with assets from Holocaust victims.

Recommendation for Appropriation of Profit Allianz Aktiengesellschaft

Unappropriated earnings of DM 390,075,880 are at the disposal of the Annual Meeting of shareholders. We propose that this amount be used to distribute a dividend of DM 1.70 on each of the Company's 229,456,400 shares of DM 5 par value which are entitled to participate in the dividend.

Munich, May 6, 1997

Allianz Aktiengesellschaft

The Board of Management

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

The chart on this page shows the average life expectancy for people born between 1950 and 2020; the table on the next page makes clear that the number of pensioners is increasingly outweighing the number of people in work. Both trends will mean that state-run social security systems funded by the pay-as-you-go method can no longer meet their pension commitments. Under these circumstances it is becoming increasingly important to make private provision for old age.

After the dramatic increase in the world population over the last 150 years, a remarkable demographic change is now taking place all over the world. This process is resulting in fundamental changes to the fabric of society and the economy. The consequences for the insurance industry are of immense importance. Above all there will be numerous challenges facing private provision for ill health and old age. And there will be new opportunities and risks in property and casualty insurance as well.

Demographic developments

The most significant developments in this respect are falling birth rates and – thanks to medical progress and better living conditions – an increase in life expectancy. Both trends are making themselves felt firstly and particularly strongly in the developed industrialized nations but are also increasingly affecting emerging and developing countries. The United Nations estimates that by the year 2010 average life expectancy worldwide will be about 70 years. In 1950 it was still

only about 46 years. The proportion of the population who are “fourth generation”, that is those people 75 years and over, will increase substantially. According to the latest statistics the growth in world population figures has slowed down for the first time even in absolute terms over the last few years.

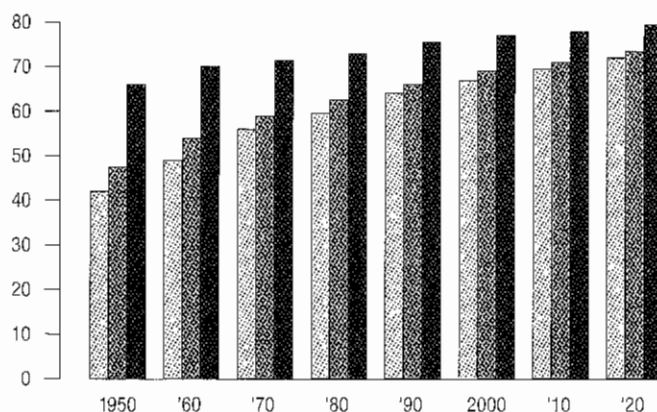
Reasons for the change

Demographic change is closely linked to social and economic change. One important factor is the growing prosperity in many countries which leads to falling birth rates. This development normally goes hand in hand with increasing female employment and a growing proportion of single households (already around 35 % in Germany, for example). Numerous developing countries are going through an economic catching-up process and copying at least some of the behaviour patterns of the industrialized nations. This will speed up the process of demographic change and bring about an ageing of society in those countries as well. Family planning promoted by the state is also starting to take effect in a number of countries. Eastern Europe is a special case, where birth rates have fallen as a result of the frictions and uncertainties accompanying the change in political and economic systems.

The relationship between pensioners and the generation in work will change considerably everywhere. The OECD predicts that the proportion of the population in Asia over 60 years old will climb from 7.4 percent in 1990 to 16.3 percent by the year 2030. According to OECD predictions there will be 40 to 50 pensioners for every 100 people of employable age in most industrialized countries by the year 2030. In some countries such as Japan or Germany the proportion of pensioners in the total population will be even higher. Fewer and fewer employed people are having to support more and more pensioners.

Less industrialized regions
World
Industrialized regions

**Life expectancy for people
born between 1950 and 2020**



Change in old age dependency ratios in European countries

	1990	2040
Belgium	21.9	41.5
Denmark	22.2	43.4
Germany	23.7	47.1
France	21.9	39.2
Greece	20.5	41.7
Great Britain	23.5	39.1
Ireland	18.4	27.2
Italy	20.4	48.4
Luxembourg	20.4	41.2
Netherlands	17.4	48.5
Portugal	16.4	38.9
Spain	17.0	41.7
Average all countries	21.4	42.8

Ratio of people of pensionable age (65 and over)

to people of working age (15 to 64).

Migration figures disregarded.

Source: OECD, Eurostat

Consequences for pension schemes

After experts have for years been questioning the long-term viability of state pension schemes, large sections of the population are now also becoming aware of the consequences of demographic change. The wider public is increasingly aware that the proportion of statutory pension benefits in the national product could climb dramatically.

The OECD reckons that pension benefits in its member countries will rise from a good 8 percent (1990) to circa 16 percent (2030) if no structural reforms are made. Especially the increase in life expectancy, but also the widespread practice of early retirement in many countries, lead to a much longer average pension period.

On the other hand, as a result of falling birth rates, the long-term potential from contributors is decreasing. In the aspiring emerging and developing countries moreover it is to be expected that in future longer periods will be spent in education and training. In both instances the time relationship between the period of employment and the period during which a pension is drawn will worsen. Against

this background many countries have initiated a gradual rise in the statutory pensionable age and have taken steps to restrict benefits for future generations of pensioners.

In order to guarantee an adequate income at pensionable age in spite of these developments, the mechanisms for the distribution of income and spending in the life cycle are gaining increasing significance. The long-term effects of demographic change on national economies are dependent first and foremost on a central decision: will the rising consumer demand of pensioners be financed by higher compulsory contributions in a state-organized scheme or through additional voluntary private sector pension schemes?

Disintegration of informal care systems provided by the family

In contrast to today's working life, in earlier times children in the extended family provided security for one's future and old age. Older people could count on lifelong support from the family. Nowadays third world countries are feeling the effects of the disintegration of the extended family even more dramatically than the western world.

The primary causes are rapid urbanization, the mobility of precisely those young people, and the changed role of women in society. In East Asia the trend towards individuality and the break-up of the extended family is being further exacerbated by birth control and growing prosperity.

Compact between the generations near breaking point

The demographic infrastructure for state pay-as-you-go schemes to finance pensions is disintegrating. These systems still have to be adjusted in many respects to new demographic parameters and to the challenges of global competition. Contribution rates in the order of 30 percent, like in some East European countries, are not sustainable in the long run. They over-tax contributors and artificially inflate the cost of labor in production. An excessive tax burden damages the

Until recently a large number of children was still regarded as a reliable form of security for one's old age.



Birth rates are now falling rapidly and the extended family is a thing of the past. This process is having even more dramatic effects in third world countries than in the highly developed countries of the northern hemisphere.

ability to compete internationally. In such cases a sensible international division of labor is undermined by the introduction of extraneous costs.

Many countries are trying to counter these risks by restricting benefits under the state systems. There is a gradual transition from the goal of full provision towards a basic level of security. Countries where the state pension scheme is not yet of any significance are adopting a different approach: they have decided that future pension commitments which will be difficult to meet under pay-as-you-go systems will not be allowed in the first place. Chile and Bolivia, for example, have decided on compulsory fully funded systems in the private sector.

There are weighty economic arguments in favor of this. Fully-funded systems encourage savings and create scope for long-term investment. Private sector competition also channels funds into the most efficient forms of investment. Unlike pay-as-you-go systems the financing of fully-funded systems is also not bound by national borders. Future generations of pensioners could then finance their spending to a large extent out of income on capital and thus generate higher returns than are possible from demographically limited pay-as-you-go systems.

The worse answer to the demographic changes would be to limit the financial scope for personal savings and private sector pension schemes by further increasing compulsory contributions. In that scenario the effects of an ageing society on the creation of capital and economic growth would clearly be negative. Furthermore compulsory national insurance contributions above a certain "pain threshold" trigger avoidance reactions in the black economy and lead to jobs being transferred elsewhere.

For the majority of developed industrialized countries, however, a complete change to fully-funded pension schemes is out of the question. The huge pension expectations from the past bar this way forward. Freezing state pension schemes at today's level as a proportion of gross national product would itself constitute a remarkable success.

Fully funded pension schemes in demand

In the growth regions of Asia, Latin America and increasingly Eastern Europe, people are turning more and more to voluntary fully-funded systems such as private sector life insurance in order to bring old age income into line with the newly acquired levels of prosperity. In Western Europe the prime motive is to maintain living standards in old age despite the necessary cuts in social security benefits. This assumes however that those in employment still have sufficient disposable income left after tax and compulsory contributions.

The younger and middle-aged generation is aware of the necessity for additional private provision. There are numerous country-specific tax incentives for personal and occupational pension schemes. Despite the efforts being made to meet the Maastricht convergence criteria – one of which obliges EU member states to ensure that their budget deficits do not exceed 3 percent of gross domestic product – the tax concessions for fully-funded schemes will generally be maintained in Europe as well and in some cases even increased. The social importance of the funded system is too high and its influence on financial markets and relevance for the provision of funds for investment too significant for this not to be the case. Any resultant loss of tax revenue is offset by positive effects on growth and jobs.

In some emerging countries such as Chile or Indonesia the tax-assisted creation of provident funding helps, as a welcome side effect, to improve the limited availability of domestic capital. Since investment capital in such countries is normally the factor limiting economic growth, the extra savings activity can help them to catch up on the industrialized nations.

Personal pension schemes

With rising prosperity and the trend towards individuality there is a growing market for tailor-made solutions from a large number of providers and products. The finance for personal pensions is increasingly coming not

just from current (earned) income but also from using existing assets.

Not least for this reason demand for single premium annuities is increasing all over the world. In contrast to a single payment of capital, a pension in the form of an annuity guaranteed for life offers the advantage that the risk of a person's uncertain life expectancy is transferred to the insurer. This excludes the risk that the funding accumulated for old age will not be sufficient to last until the end of one's life.

Corporate pension schemes

At company level pension schemes are part of employment policy and a way of giving "deferred compensation" (meaning that some salary is converted into pension rights). Many companies however are noticing the demographic changes in their workforce. The proportion of older employees and the number of company pensioners are growing disproportionately, increasing the risks associated with pension commitments that are not fully funded.

In view of fierce competition and the ever shorter planning horizons of companies the ability to calculate the cost of pension commitments is becoming a critical factor in the formulation of company pension schemes. Companies are tending to limit their commitments to a fixed size of contribution. In this way the employer commits itself to a fixed amount of expenditure. The benefits guaranteed by insurance companies can help to reconcile the company's desire for calculable costs with the employee's interest in having protected benefits.

Heavy demands are placed on the flexibility of company pension schemes. In this context it is important, for example, to be able to adjust contributions to the profitability of the company or to the number of hours worked. Finally the cost pressures on companies are forcing employees to contribute to the financing arrangements themselves. The rules in most countries allow the cost to be shared between employer and employee on any basis agreed between them.

Growth opportunities for insurance companies

Pension schemes are a complex combination of capital formation and protection against risk. This goes far beyond a mere savings activity. Insurers bring know-how and experience to both areas and will take an above average share in the growth of this market. The insurance industry will also develop a wider range of products for older consumers in health insurance and in property and casualty insurance.

Insurance companies are among the largest investors in the world in every category of investment. The appropriate mix and spread in any particular case is determined in the first instance by local conditions such as regulatory investment limits or the peculiarities of local capital markets. At the same time life insurers minimize the credit risks of investment and smooth out valuation risks caused by fluctuations in sections of the capital market. By investing safely and profitably life insurers guarantee that the insurance benefits promised can be met without difficulty at any time. Funds are invested long term and offer an attractive return with little risk.

The objective of supplementary pension schemes is not consistent with a speculative investment philosophy. Alongside the investment expertise of the provider, therefore, maintaining asset value is one of the most important criteria in selecting appropriate pension products. This does not exclude the possibility that, in a professionally managed portfolio, there is a place for higher risk investments such as equities or real estate. On the contrary: within the framework of the wide spread of investments of large insurers these types of investment do not represent an unjustifiable risk, but offer the opportunity of additional income. Whether they are suitable as a purely speculative form of pension provision, however, may well be questioned.



Fully-funded pension schemes are a complex combination of capital formation and protection against risk. Insurers bring know-how and experience to both these areas and will take an above average share of the growth in this market.

Taxing debate

In Germany a committee of experts on tax reform set up by the government has suggested that interest income on life insurance policies should be taxable. This conflicts with the proposals for reform put forward by the committee of experts on pensions reform also set up by the government. In its summary the latter states that fully-funded personal and corporate pension schemes must be expanded rapidly and significantly, not least by means of tax incentives. This is said to be necessary in order to counteract the wide-ranging consequences of the demographic trend on the financing of the statutory pension. The ageing of society will mean that the younger generation will have to be prepared to pay higher and higher premiums for the statutory pension scheme. At the same time they can expect to receive smaller pensions than those of their parents' generation.

Allianz well placed

Allianz is a provider of pension schemes throughout the world and is continually strengthening its position in this growth market. Important steps taken in 1996 included writing life insurance business for the first time in Indonesia and establishing pension funds e.g. in Hungary. In Italy and France Allianz will also soon be represented by its own pension funds alongside a wide range of conventional insurance products. Regular and single premium annuity policies are being very well received in a great many markets and are increasingly in demand.

The scope for wide-ranging transfer of know-how between individual companies in the Allianz Group provides just the right background for expansion in the field of personal and occupational pension schemes. The company and its customers also benefit from its worldwide investment capability, where local peculiarities of capital markets and supervisory regulations will continue to be of special significance.

In 1996 Allianz further strengthened its position in the competitive global market by an intensive exchange of expertise between the life insurance companies in the Allianz Group and the formation of "All Net", its own network for international corporate pension schemes. Allianz's local presence in individual markets enables it to offer country-specific solutions ranging from savings-related endowment policies to pension funds.

**Consolidated Financial Statements
Allianz Group**

■ Consolidated Balance Sheet at December 31, 1996

Assets

	DM in thousands	
	1996	1995
A. Receivables from subscriptions to capital stock	6,272	10,518
B. Intangible assets	2,912,406	3,125,372
C. Investments		
I. Real estate	17,952,047	17,483,945
II. Investments in affiliated and associated companies	8,671,592	4,708,590
III. Other investments	234,159,428	220,083,458
IV. Funds held by others under reinsurance business assumed	6,105,033	5,097,340
	266,888,100	247,373,333
D. Investments held on account and at risk of life insurance policyholders	18,509,241	15,095,375
E. Receivables		
I. Accounts receivable on direct insurance business	7,876,923	7,141,331
II. Accounts receivable on reinsurance business	1,818,579	2,244,675
III. Other receivables	3,780,496	3,692,095
	13,475,998	13,078,101
F. Other assets		
I. Tangible fixed assets and inventories	905,793	827,187
II. Cash with banks, checks and cash on hand	1,470,973	985,099
III. Miscellaneous	618,369	499,385
	2,995,135	2,311,671
G. Prepaid expenses		
I. Accrued interest and rents	4,840,650	4,772,017
II. Other prepaid expenses	1,894,826	1,566,930
	6,735,476	6,338,947
	311,522,628	287,333,317

Liabilities

DM in thousands			
	1996	1996	1995
A. Stockholders' equity			
I. Capital stock		1,147,282	1,131,374
II. Additional paid-in capital		9,670,787	9,296,236
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: 581,870 (1995: 85,393) including excess of underlying net equity over book value of consolidated subsidiaries: 115,270 (1995: 173,765)	4,158,202		3,296,181
	4,160,605		3,298,584
IV. Unappropriated retained earnings		390,076	362,040
V. Minority interests		4,987,388	4,392,385
		20,356,138	18,480,619
B. Participating certificates		864,956	864,956
C. Post-ranking liabilities		102,147	75,758
D. Special untaxed reserve		178,132	134,183
E. Insurance reserves			
I. Unearned premiums			
1. Gross	14,633,371		12,928,382
2. less:			
amounts ceded	2,730,885		2,472,814
		11,902,486	10,455,568
II. Aggregate reserve			
1. Gross	160,079,400		152,868,997
2. less:			
amounts ceded	11,468,650		11,767,299
		148,610,750	141,101,698
III. Reserve for loss and loss adjustment expenses			
1. Gross	62,926,943		55,541,684
2. less:			
amounts ceded	11,509,869		9,313,673
		51,417,074	46,228,011
IV. Reserve for experience-rated and other premium refunds			
1. Gross	15,767,980		15,837,345
2. less:			
amounts ceded	186,572		168,612
		15,581,408	15,668,733
V. Claims equalization and similar reserves		4,567,558	3,107,945
VI. Other insurance reserves			
1. Gross	1,627,755		1,656,124
2. less:			
amounts ceded	58,830		62,741
		1,568,925	1,593,383
		233,648,201	218,155,338

DM in thousands		
	1996	1995
F. Insurance reserves for life insurance where the investment risk is carried by policyholders		
I. Aggregate reserve		
1. Gross	18,623,734	14,420,457
2. less:		
amounts ceded	87,409	70,228
	18,536,325	14,350,229
G. Other accrued liabilities	6,493,808	6,256,224
H. Funds held under reinsurance contracts ceded	10,416,217	10,474,752
I. Other liabilities		
I. Accounts payable on direct insurance business	8,230,061	7,711,787
II. Accounts payable on reinsurance business	1,193,317	976,826
III. Debentures including convertible 1,008,618 (1995: 2,027,970)	2,516,343	2,066,606
IV. Liabilities to banks	1,577,736	2,028,309
V. Miscellaneous liabilities including: taxes of 526,417 (1995: 467,999) social security at 227,397 (1995: 212,249)	6,761,304	5,014,622
	20,278,761	17,798,150
K. Deferred income	647,943	743,108
	311,522,628	287,333,317

■ Consolidated Income Statement
for the period from January 1 to December 31, 1996

	1996	1996	1996	DM in thousands 1995
I. Underwriting account for property and casualty insurance business				
1. Premiums earned – net				
a) Gross premiums written	43,979,073			40,386,164
b) Premiums ceded	- 7,548,291			6,915,266
		36,430,782		33,470,898
c) Change in unearned premiums – gross	- 370,926			- 228,189
d) Change in unearned premiums ceded	39,435			- 49,090
		- 331,491		- 277,279
			36,099,291	33,193,619
2. Allocated interest return – net			735,581	710,403
3. Other underwriting income – net			274,335	100,971
4. Loss expenses – net				
a) Claims paid				
aa) Gross	-28,159,310			26,163,683
bb) Amounts ceded in reinsurance	4,600,506			4,377,276
		-23,558,804		-21,786,407
b) Change in reserves for loss and loss adjustment expenses				
aa) Gross	- 3,554,973			- 3,276,448
bb) Amounts ceded in reinsurance	398,346			335,020
		- 3,156,627		-2,941,428
			-26,715,431	24,727,835
5. Change in other insurance reserves – net			- 542,192	- 528,297
6. Expenses for experience-rated and other premium refunds – net			- 259,498	- 247,488
7. Underwriting expenses – net			- 9,256,906	- 8,485,184
8. Other underwriting expenses – net			- 553,341	- 400,858
9. Subtotal			- 218,161	- 384,669
10. Change in claims equalization and similar reserves			- 1,188,875	- 1,217,773
11. Underwriting result in property and casualty insurance – net of reinsurance			- 1,407,036	- 1,601,842

	DM in thousands			
	1996	1996	1996	1995
II. Underwriting account for life and health insurance business				
1. Premiums earned – net				
a) Gross premiums written	27,692,257			27,265,991
b) Premiums ceded	- 1,968,558			- 2,015,197
		25,723,699		25,250,794
c) Change in unearned premiums – net		- 212,340		- 181,642
			25,511,359	25,069,152
2. Premiums earned from gross reserve for premium refunds			2,958,810	2,895,972
3. Allocated investment return from the non-underwriting account			13,102,552	11,736,656
4. Unrealized gains on investments held on account and at risk of life insurance policyholders			1,507,057	2,009,479
5. Other underwriting income – net			600,532	792,346
6. Loss expenses – net				
a) Claims paid				
aa) Gross	- 18,221,835			- 17,128,650
bb) Amounts ceded in reinsurance	1,230,853			1,171,727
		- 16,990,982		- 15,956,923
b) Change in reserve for loss and loss adjustment expenses				
aa) Gross	- 159,709			612,084
bb) Amounts ceded in reinsurance	69,504			- 142,386
		- 90,205		469,698
			- 17,081,187	- 15,487,225
7. Change in other insurance reserves – net				
a) Aggregate reserve				
aa) Gross	- 16,030,941			- 16,887,946
bb) Amounts ceded in reinsurance	627,816			937,654
		- 15,403,125		- 15,950,292
b) Other insurance reserves – net		2,071		- 26,584
			- 15,401,054	- 15,976,876
8. Expenses for experience-rated and other premium refunds – net			- 5,164,443	- 5,308,771
9. Underwriting expenses – net			- 3,382,965	- 3,306,107
10. Unrealized losses on investments held on account and at risk of life insurance policyholders			- 20,921	- 57,362
11. Other underwriting expenses – net			- 1,371,162	- 1,450,155
12. Underwriting result in life and health insurance – net of reinsurance			1,258,578	917,109

	DM in thousands		
	1996	1996	1995
III. Non-underwriting account			
1. Underwriting result net of reinsurance			
a) in property and casualty insurance	- 1,407,036		- 1,601,842
b) in life and health insurance	1,258,578		917,109
		- 148,458	- 684,733
2. Investment income	21,667,611		19,502,347
3. Investment expenses	- 2,875,642		- 2,775,046
4. Allocated investment returns transferred to the underwriting account for property and casualty business	- 824,717		770,888
5. Allocated investment returns transferred to the underwriting account for life and health insurance business	- 13,102,552		- 11,736,656
		4,864,700	4,219,751
6. Other income	994,750		947,594
7. Other expenses	- 1,547,403		- 1,439,562
		- 552,653	491,968
8. Earnings from ordinary activities before taxation		4,163,589	3,043,050
9. Income taxes	- 1,720,133		- 842,929
10. Other taxes	- 205,704		- 179,244
		- 1,925,837	- 1,022,173
11. Net income		2,237,752	2,020,877

Notes to the Consolidated Financial Statements

Legal Regulations

The consolidated financial statements and the Group Management Report have been prepared 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.

For reasons of simplicity and clarity, as in the previous year, advantage has been taken of the option to combine certain headings in the consolidated balance sheet and in the consolidated 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. The allocated investment return is then taken out and transferred to the underwriting accounts, comprising the net allocated interest return attributable to property and casualty insurance business and the total investment income and expenses attributable to life and health insurance business.

All amounts in the consolidated financial statements are stated in and rounded out to DM thousands (TDM).

Companies Consolidated

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

In addition to Allianz AG, 37 (1995: 33) German and 224 (1995: 204) foreign companies have been consolidated in full and 51 (1995: 54) subsidiaries included at equity. The most important companies consolidated for the first time were Hermes Kreditversicherungs-AG, Hamburg, Berner Allgemeine Holdinggesellschaft AG, Bern, and Pet Plan Health Care Limited, London, together with their subsidiary companies in each case, and Ajax Insurance Holdings Limited, London.

DKV Deutsche Krankenversicherungs AG, Cologne and Berlin, together with its subsidiaries, is no longer included in the consolidation in the year under review.

An additional 81 (1995: 54) affiliated companies have not been included in the consolidation or accounted for at equity as their aggregate values are not material to the presentation of the financial statements as a whole.

Vereinte Holding AG, Munich, and its subsidiaries have not yet been included in the consolidated financial statements, as allowed by the German Commercial Code (§ 296(1) no. 2 HGB), because the acquisition was not complete until it had been approved by the European Commission on November 11, 1996. In view of the fact that the date of the Annual General Meeting has been brought forward by three months, the inclusion of these companies in the consolidated financial statements would have put at risk the schedule for preparing the financial statements on time.

All five (1995: none) joint ventures have been consolidated on a proportional basis; each of these companies is managed jointly by Allianz AG together with a company not included in the consolidation.

25 of the 31 (1995: 19) associated companies have been accounted for in the consolidated financial statements by the equity method, whilst 6 associated companies have not been included at equity because their aggregate values are not material.

Selected affiliated and associated companies and joint ventures are listed on pages 60 through 63. All affiliated companies, joint ventures and associated companies, whether included in the consolidated financial statements or not, are listed individually in the disclosure of equity investments filed with the Commercial Register.

Consolidation Principles

The financial statements of Allianz AG and its subsidiaries and joint ventures included in the consolidation provide the basis for the consolidated financial statements. All financial statements included are uniformly prepared as of December 31, 1996. Interim financial statements have been used for those entities whose accounting periods end on a different date.

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 joint venture's stockholders' equity at the time of its first inclusion in the consolidation or at the time of acquisition. With regard to differences arising on 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 taken to appropriated retained earnings or capitalized as goodwill.

The income generated by subsidiaries joint ventures 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' joint ventures' unappropriated retained earnings and the effects of the consolidation. The unappropriated retained earnings in the consolidated financial statements are thereby identical to the unappropriated retained earnings in the financial statements of Allianz AG.

The proportion of net income or losses attributable to minority interests has been calculated on the basis of the net income or loss for the year. There is no profit balance brought forward from the previous year because unappropriated retained earnings are shown only in the financial statements of Allianz AG and have been distributed in full.

Receivables and payables between companies included in the consolidation have been set off against each other. In principle, Intercompany profits and expenses and income earned on transactions within the Group have been eliminated.

Accounting and Valuation Policies

The financial statements of Allianz AG and its consolidated German and foreign subsidiaries and joint ventures, which provide the basis for the consolidated financial statements, have been 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. Other intangible assets, as far as they were acquired for valuable consideration, are recorded at cost less amortization.

Real estate (i. e. real property and equivalent rights and 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 affiliated and associated companies are recorded at the proportionate 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 1996 additions. Additions in 1996 resulted in a difference between book value and proportionate equity of 1,778 (1995: 0). 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 affiliated and associated companies 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 affiliated companies
2. Loans to other companies in which long-term equity investments are held
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 loss 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 and included in the consolidated financial statements on the basis of the proper actuarial methods applicable at the individual consolidated subsidiaries. The pension liabilities are accrued in full 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 on 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 for the consolidated financial statements and from consolidation procedures affecting net income.

Foreign currency translation

The financial statements of foreign subsidiaries joint ventures 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

Changes under asset headings B., C.I. and C.II. in fiscal 1996

Asset Heading	DM in thousands			DM in thousands				
	Values stated at	Values stated at ¹⁾	Additions ²⁾	Transfers	Disposals	Revaluation	Depreciation	Values stated at
	12/31/1995	1/1/1996						12/31/1996
B. Intangible assets								
1. Purchased goodwill	3,085,453	3,085,453	-	-	-	-	287,105	2,798,348
2. Other intangible assets	39,919	39,705	111,026	-	8,716	-	27,957	114,058
3. Total B.	3,125,372	3,125,158	111,026	-	8,716	-	315,062	2,912,406
C.I. Real estate								
	17,483,945	17,553,707	1,247,963	-	273,808	8,107	583,922	17,952,047
C.II. Investments in affiliated and associated companies								
1. Investments in affiliated companies	387,003	421,064	240,873	4,081,197	68,502	55,234	2,247	4,727,619
2. Loans to affiliated companies	11,955	11,614	29,933	-	13,256	-	-	28,291
3. Investments in other companies	4,259,668	4,256,269	263,016	26,033	627,907	18,271	39,557	3,896,125
4. Loans to other companies in which long-term equity investments are held	49,964	49,968	40,430	- 46,000	24,654	-	187	19,557
5. Total C.II.	4,708,590	4,738,915	574,252	4,061,230	734,319	73,505	41,991	8,671,592
Total	25,317,907	25,417,780	1,933,241	4,061,230	1,016,843	81,612	940,975	29,536,045

¹⁾ translated at closing rates 12/31/96
²⁾ including assets of companies included/excluded for the first time

Intangible assets (Assets B.)	Real estate (Assets C.I.)
This item includes principally the goodwill arising on the consolidation of group companies included for the first time in 1991 and 1995.	Land and buildings owned by the Allianz Group and used for its own activities were carried at TDM 2,809,166.

Selected subsidiaries and other long-term equity investments

Subsidiaries	Currency	Equity in thousands	Percent owned ¹⁾
Alico-Beteiligungsgesellschaft mbH, Munich	DM	359,764	100.0
Allianz Beteiligungsgesellschaft mbH, Munich	DM	1,422,107	89.2
Allianz Globus Marine Versicherungs-Aktiengesellschaft, Hamburg	DM	29,606	100.0
Allianz Grundstücks-GmbH, Stuttgart	DM	10,161	100.0
Allianz Kapitalanlagegesellschaft mbH, Stuttgart	DM	13,138	100.0 ³⁾
Allianz Lebensversicherungs-AG, Berlin/Munich	DM	1,298,250	46.5 ²⁾
Allianz Unternehmensbeteiligungsgesellschaft AG, Munich	DM	109,996	100.0
Allianz Vermögensverwaltungsgesellschaft mbH, Munich	DM	15,154	100.0
Allianz Versicherungs-AG, Munich	DM	2,790,768	100.0
Allianz Verwaltungsgesellschaft mbH, Munich	DM	1,720,434	100.0
Allianz-Zentrum für Technik GmbH, Munich	DM	340	100.0
Apollon-Vermögensverwaltungsgesellschaft mbH, Munich	DM	26,132	100.0
Aquila Beteiligungsgesellschaft mbH, Munich	DM	48,083	100.0
Ares-Vermögensverwaltungsgesellschaft mbH, Munich	DM	54	100.0
Assecuranz-Compagnie Mercur AG, Bremen	DM	2,660	50.0 ²⁾
Bayerische Versicherungsbank AG, Munich	DM	531,210	45.0 ²⁾
Beta-Vermögensverwaltungsgesellschaft mbH, Munich	DM	4,536	100.0
Decima-Vermögensverwaltungsgesellschaft mbH, Munich	DM	131,921	100.0
Deutsche Lebensversicherungs-AG, Berlin	DM	96,000	100.0
Deutsche Versicherungs-AG, Berlin	DM	720,656	100.0
Eta-Vermögensverwaltungsgesellschaft mbH, Munich	DM	184,354	100.0
Finanz- und Versicherungskontor für Heilberufe GmbH, Stuttgart	DM	50	100.0
Frankfurter Versicherungs-AG, Frankfurt/Main	DM	548,834	49.9 ²⁾
Gamma-Vermögensverwaltungsgesellschaft mbH, Berlin	DM	115,050	100.0
Hermes Beteiligungen GmbH, Hamburg	DM	47,813	100.0
Hermes Kreditversicherungs-AG, Hamburg	DM	208,852	87.7
Hermes Versicherungsbeteiligungen GmbH, Hamburg	DM	55,953	100.0
Jota-Vermögensverwaltungsgesellschaft mbH, Munich	DM	34,855	100.0
Komet Automobil-Beteiligungsgesellschaft mbH, Munich	DM	93,009	100.0
Kraft Versicherungs-AG, Berlin/Munich	DM	14,608	99.5
Lambda-Vermögensverwaltungsgesellschaft mbH, Munich	DM	1,490,531	58.9
Magdeburger Hagelversicherung AG, Hannover	DM	3,832	99.7 ³⁾
mh Bausparkasse AG, Munich	DM	83,901	69.2 ³⁾
Nona-Vermögensverwaltungsgesellschaft mbH, Munich	DM	1,461,989	100.0
Perseus-Vermögensverwaltungsgesellschaft mbH, Munich	DM	988,347	100.0
Prima-Vermögensverwaltungsgesellschaft mbH, Munich	DM	226,470	69.4
Quarta-Vermögensverwaltungsgesellschaft mbH, Munich	DM	1,084,989	57.2
Quinta-Vermögensverwaltungsgesellschaft mbH, Munich	DM	821,117	100.0
Septima-Vermögensverwaltungsgesellschaft mbH, Munich	DM	142,539	100.0
Sexta-Vermögensverwaltungsgesellschaft mbH, Munich	DM	153,418	100.0
Vereinte Holding AG, Munich	DM	1,727,093	100.0 ³⁾
Vereinte Krankenversicherung AG, Munich	DM	390,692	100.0 ³⁾
Vereinte Lebensversicherung AG, Munich	DM	92,727	96.7 ³⁾
Vereinte Rechtsschutzversicherung AG, Munich	DM	11,660	100.0 ³⁾
Vereinte Versicherung AG, Munich	DM	419,266	97.7 ³⁾

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

²⁾ management control agreement

³⁾ not consolidated

⁴⁾ percentage of voting capital owned: 90.0 %

⁵⁾ percentage of voting capital owned: 100.0 %

Subsidiaries	Currency	Equity in thousands	Percent owned ¹⁾
Ajax Insurance Holdings Limited, London	£	1,221	100.0
Alba Allgemeine Versicherungs-Gesellschaft, Basel	sfr	22,628	100.0
Allianz Assurances, Charenton-le-Pont	FF	1,379,973	100.0
Allianz Bice Compañía de Seguros de Vida S.A., Santiago de Chile	Chil\$	5,357,767	50.0
Allianz Compañía de Seguros S.A., Santiago de Chile	Chil\$	4,230,747	100.0
Allianz Cornhill Insurance (Far East) Ltd., Hong Kong	HK-\$	55,283	100.0
Allianz Europe Ltd., Amsterdam	hfl	2,587,896	100.0
Allianz Finance B.V., Amsterdam	hfl	4,596,063	100.0
Allianz Fire and Marine Insurance Japan Ltd., Tokyo	¥	1,662,744	100.0
Allianz General Insurance Company S.A., Athens	Dr	1,534,294	93.0
Allianz Holding France, Charenton-le-Pont	FF	9,378,346	65.9
Allianz Insurance Company, Los Angeles	US-\$	198,855	100.0
Allianz Insurance (Singapore) Pte. Ltd., Singapore	Sing-\$	21,129	100.0
Allianz Lebensversicherung (Schweiz) AG, Zürich	sfr	49,755	100.0
Allianz Life Insurance Company of North America, Minneapolis	US-\$	1,014,177	100.0
Allianz Life Insurance Company S.A., Athens	Dr	1,657,262	78.6
Allianz México S.A. Compañía de Seguros, Mexico-City	US-\$	46,986	100.0
Allianz Nederland N.V., Rotterdam	hfl	279,641	100.0
Allianz of America, Inc., Wilmington	US-\$	3,411,006	84.4 ^{a)}
Allianz of Canada, Inc., Toronto	Can-\$	135,634	100.0
Allianz of South Africa (Proprietary) Ltd., Johannesburg	R	47,774	100.0
Allianz pojišťovna a.s., Prag	CZK	664,833	100.0
Allianz RAS Argentina S.A. de Seguros Generales, Buenos Aires	Arg. Pes	8,076	100.0
Allianz Underwriters Insurance Company, Los Angeles	US-\$	39,667	100.0
Allianz Versicherung (Schweiz) AG, Zürich	sfr	79,341	100.0
Allianz Vie, Charenton-le-Pont	FF	1,209,642	100.0
Allianz-RAS Seguros y Reaseguros S.A., Madrid	Pta	12,088,608	100.0
Allianz-RAS Tutela Giudiziaria S.p.A., Milan	Lit	5,854,742	100.0
Anglo-Elementar Versicherungs-AG, Vienna	öS	947,306	99.4
Berner Allgemeine Holdinggesellschaft AG, Bern	sfr	120,220	51.2
Berner Allgemeine Versicherungs-Gesellschaft, Bern	sfr	129,720	100.0
Berner Lebensversicherungs-Gesellschaft, Bern	sfr	26,963	100.0
Colón Compañía de Seguros Generales S.A., Buenos Aires	Arg. Pes.	2,029	100.0
Cornhill Insurance PLC, London	£	459,200	98.0 ^{a)}
Credit and Guarantee Insurance Company plc., Tonbridge	£	10,024	70.0
ELVIA ASSURANCES, Charenton-le-Pont	FF	109,578	97.2
ELVIA Assurances S.A., Brussels	bfr	515,517	100.0
ELVIA Leben Schweizerische Lebensversicherungs-Gesellschaft, Genf	sfr	108,669	96.6
ELVIA Levensverzekeringen N.V., Amsterdam	hfl	11,205	100.0
ELVIA Reiseversicherungs-Gesellschaft, Zürich	sfr	92,603	100.0
ELVIA Schadeverzekeringen N.V., Amsterdam	hfl	116,949	100.0
ELVIA Schweizerische Versicherungs-Gesellschaft, Zürich	sfr	507,503	99.8
ELVIA Verzekeringen N.V., Amsterdam	hfl	132,132	100.0
ELVIA Zorgverzekeringen N.V., Amsterdam	hfl	2,978	100.0
Eurovida S.A. Compañía de Seguros y Reaseguros, Madrid	Pta	2,899,663	51.0

Subsidiaries	Currency	Equity in thousands	Percent owned ¹⁾
Fireman's Fund Insurance Company, Novato	US-\$	3,234,195	100.0
Hungária Biztosító Rt, Budapest	Ft	11,080,836	100.0
International Reinsurance Company S.A., Luxemburg	US-\$	18,349	100.0
LES ASSURANCES FEDERALES IARD, Paris	FF	171,278	95.0
Lloyd Adriatico S.p.A., Trieste	Lit	666,627,703	99.7
Pet Plan Health Care Ltd., London	£	6,002	100.0
Portugal Previdente Companhia de Seguros S.A., Lissabon	Esc	13,575,595	60.0
P.T. Asuransi Allianz Utama Indonesia, Jakarta	Rp	24,271,845	68.0
RHIN ET MOSELLE ASSURANCES Compagnie Générale d'Assurances et de Réassurances, Strasbourg	FF	794,923	97.9
RHIN ET MOSELLE ASSURANCES FRANÇAISES Compagnie d'Assurances sur la vie, Strasbourg	FF	698,280	99.9
Riunione Adriatica di Sicurtà S.p.A., Milan	Lit	5,120,649,886	43.1 ²⁾
Wiener Allianz Lebensversicherungs-AG, Vienna	öS	551,549	100.0
Wiener Allianz Versicherungs-AG, Vienna	öS	1,547,022	99.0
Joint ventures			
Antoniana Veneta Popolare Vita S.p.A., Trieste	Lit	20,890,861	50.0
Bernese Assicurazioni Compagnia Italo-Svizzera di Assicurazioni e Riassicurazioni S.p.A., Rome	Lit	16,223,745	49.8
Bernese Assicurazioni Finanziaria S.p.A., Rome	Lit	7,535,956	50.0
Bernese Vita Compagnia Italo-Svizzera di Assicurazioni e Riassicurazioni sulla Vita S.p.A., Rome	Lit	12,010,751	50.0
BV Insurance Holding, Bern	sfr	41,523	50.0
Associated companies			
TELA Versicherung AG, Berlin/Munich	DM	313,970	25.0
Adriática de Seguros C.A., Caracas	Bolivar	10,075,165	20.0
Allianz-Bradesco Seguros S.A., Rio de Janeiro	Real	63,935	49.0
Reaseguradora Adriática C.A., Caracas	Bolivar	77,262	20.0
Şark Hayat Sigorta A.Ş., Istanbul	TL	457,443,901	40.0
Şark Sigorta T.A.Ş., Istanbul	TL	3,069,709,476	37.1
Other investments in insurance companies			
AMB Aachener und Münchener Beteiligungs-AG, Aachen	DM	3,146,422	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
Karlsruher Lebensversicherung AG, Karlsruhe	DM	174,447	36.1
Münchener Hagelversicherung AG, Munich	DM	12,016	39.6
Münchener Rückversicherungs-Gesellschaft AG, Munich	DM	3,351,391	25.0
MMI General Insurance Limited, Sydney	A-\$	277,228	37.6
Munich American Reinsurance Company (MARC), New York	US-\$	360,973	40.0
The Navakij Insurance Public Company Ltd., Bangkok	Baht	729,527	10.0

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

²⁾ percentage of voting capital owned: 56.0 %

Other investments (Assets C.III.)

		DM in thousands	
		1996	1995
C.III. Other Investments			
1. Stocks, investment fund units and other variable income securities		40,104,006	41,016,481
2. Bearer bonds and other fixed income securities		87,507,850	77,623,570
3. Mortgages and annuities		20,233,498	18,497,022
4. Other loans			
a) Registered bonds	55,508,022		53,369,249
b) Debentures and loans	24,720,421		24,394,636
c) Loans and advance payments on policies	2,189,054		2,038,827
d) Other loans	501,103		485,291
		82,918,600	80,288,003
5. Bank deposits		3,048,750	2,217,522
6. Miscellaneous investments		346,724	440,860
		234,159,428	220,083,458

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

The amount shown under this heading comprises TDM 5,119,645 (1995: TDM 4,472,125) receivable from policyholders and TDM 2,757,278 (1995: TDM 2,669,206) from agents.

Prepaid expenses (Assets G.II.)

This heading includes TDM 1,614,098 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 TDM 180,053.

Other long-term holdings in quoted companies	Currency	Market value in millions	Percent owned ¹⁾
Barmag AG, Remscheid	DM	35	15.0
BASF AG, Ludwigshafen	DM	3,835	10.5
Bayer AG, Leverkusen	DM	2,111	4.7
Bayerische Hypotheken- und Wechsel-Bank AG, Munich	DM	2,640	22.1
Bayerische Vereinsbank AG, Munich	DM	660	4.0
Beiersdorf AG, Hamburg	DM	2,422	37.8
Berliner Handels- und Frankfurter Bank KGaA, Frankfurt/Berlin	DM	468	15.0
Continental AG, Hannover	DM	134	5.1
Daimler-Benz AG, Stuttgart	DM	1,032	1.9
Deutsche Bank AG, Frankfurt a. M.	DM	1,806	5.0
DLW AG, Bietigheim-Bissingen	DM	15	11.0
Dresdner Bank AG, Frankfurt a. M.	DM	4,649	21.6
Th. Goldschmidt AG, Essen	DM	89	10.4
IKB Deutsche Industriebank AG, Düsseldorf/Berlin	DM	295	12.0
AG Kühnle Kopp & Kausch, Frankenthal	DM	3	4.9
Lahmeyer AG für Energiewirtschaft, Frankfurt a. M.	DM	505	24.9
Leifheit AG, Nassau (Lahn)	DM	30	10.1
Linde AG, Wiesbaden	DM	866	11.0
Mannesmann AG, Düsseldorf	DM	197	0.8
Metallgesellschaft AG, Frankfurt	DM	169	4.0
Monachia Grundstücks-AG, Munich	DM	263	46.0
Rheinelektra AG, Mannheim	DM	345	10.0
RWE AG, Essen	DM	3,252	10.1
Schering AG, Berlin	DM	889	10.0
Schlossgartenbau-AG, Stuttgart	DM	12	7.0
Siemens AG, Munich	DM	1,121	2.8
Süd-Chemie AG, Munich	DM	129	19.0
VEBA AG, Düsseldorf	DM	4,454	10.2
VIAG AG, Bonn	DM	1,125	4.0
Banco Popular SA, Madrid	Pta	36,848	5.0
Banco Portugues de Investimento, Lissabon	Esc	13,530	9.2
Crédit Foncier et Communal d'Alsace et de Lorraine S.A., Strasbourg	FF	23	10.9
Credito Italiano S.p.A., Milan	Lit	111,666	3.0
Generale Industrie Metallurgiche S.p.A., Florence	Lit	2,567	2.0
Istituto Mobiliare Italiano S.p.A., Rome	Lit	181,818	2.3
Immob. Batibail SA, Paris	FF	32	3.3
Mediobanca S.p.A., Milan	Lit	78,502	2.0
Pirelli & Co. S.p.A., Milan	Lit	24,823	3.0
Rolo Banca 1473 S.p.A., Bologna	Lit	207,310	4.2
Société de Fabrication d'Instruments de Mesures S.A., Paris	FF	28	3.6
Société Internationale Pirelli SA, Basel	sfr	18	1.4

Other interests

Allianz AG has a 50 percent holding in the unquoted company Augsburger Aktienbank AG, Augsburg. 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).

Disclosure of equity investments

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

■ 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 differences which have been set off against each other, and goodwill set off against retained earnings. Foreign currency translation adjustments in the equity section are also included.

Minority interests represent the portion of the equity 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 TDM 1,916,123 in total.

Liabilities secured by consolidated companies by means of liens or similar charges amount to TDM 42,785 in total.

Accounts payable on direct insurance business comprise TDM 7,400,915 (1995: TDM 6,998,110) payable to policyholders and TDM 829,146 (1995: TDM 713,677) payable to agents.

Insurance reserves – net

(Liabilities E.I. - VI.)

Type of reserve	DM in thousands		
	Life/Health	Property/ Casualty	Total
	12/31	12/31	12/31
Unearned premiums	1996 2,457,401	9,445,085	11,902,486
	1995 2,170,530	8,285,038	10,455,568
Aggregate reserve	1996 137,675,431	10,935,319	148,610,750
	1995 131,365,085	9,736,613	141,101,698
Reserve for losses and loss adjustment expenses	1996 1,553,147	49,863,927	51,417,074
	1995 2,335,263	43,892,748	46,228,011
Reserve for experience-related and other premium refunds	1996 15,098,682	482,726	15,581,408
	1995 15,320,912	347,821	15,668,733
Claims equalization and similar reserves	1996 –	4,567,558	4,567,558
	1995 –	3,107,945	3,107,945
Other insurance reserves	1996 203,365	1,365,560	1,568,925
	1995 234,737	1,358,646	1,593,383

Other accrued liabilities (Liabilities G.)

	DM in thousands	
	1996	1995
Other accrued liabilities include:		
I. Pension and similar reserves	4,453,133	4,292,143
II. Accrued taxes	761,424	831,515
III. Miscellaneous accrued liabilities	1,279,251	1,132,566
	6,493,808	6,256,224

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.

Deferred income

(Liabilities K.)

The total includes debt discount of TDM 356,926.

Contingent liabilities

Guarantee obligations outstanding totaled TDM 68,791 (including TDM 0 towards unconsolidated affiliated companies), other contingent liabilities TDM 327,397 (including TDM 0 towards unconsolidated affiliated companies).

■ 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	1996	13,231,624	2,911,868	17,284,144	33,427,636
	1995	12,735,547	4,838,809	17,182,234	34,756,590
Outside Germany (total)	1996	10,612,838	243,794	23,622,962	34,479,594
	1995	8,867,728	228,831	20,320,346	29,416,905
of which:					
Other European countries	1996	4,876,814	243,794	13,791,099	18,911,707
	1995	4,401,519	228,831	11,974,532	16,604,882
Other countries	1996	5,736,024	–	9,831,863	15,567,887
	1995	4,466,209	–	8,345,814	12,812,023
Subtotal	1996	23,844,462	3,155,662	40,907,106	67,907,230
	1995	21,603,275	5,067,640	37,502,580	64,173,495
Reinsurance business assumed	1996	685,827	6,306	3,071,967	3,764,100
	1995	589,165	5,911	2,883,584	3,478,660
Consolidated gross premiums written	1996	24,530,289	3,161,968	43,979,073	71,671,330
	1995	22,192,440	5,073,551	40,386,164	67,652,155

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

This heading includes a change of TDM 517,109 (1995: TDM 485,503) in the net aggregate reserve and TDM 25,083 (1995: TDM 42,794) in miscellaneous net insurance reserves.

Expenses for experience-rated and other premium refunds – net (Income Statement I.6. and II.8.)

The expenses for experience-rated premium refunds amount to TDM 5,298,742 (1995: TDM 5,367,225), including TDM 5,039,610 attributable to life and health business. The expenses for non-experience-rated premium refunds amount to TDM 125,199 (1995: TDM 189,034), including TDM 124,833 attributable to life and health business.

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

	DM in thousands			
	Life/Health		Property/Casualty	
	1996	1995	1996	1995
Acquisition costs	- 2,537,173	- 2,495,362	- 6,436,196	- 5,889,291
Administrative expenses	- 1,099,069	- 1,142,263	- 4,968,810	- 4,491,090
Gross underwriting expenses	- 3,636,242	- 3,639,625	- 11,405,006	- 10,380,381
less commission and profit-sharing on reinsurance ceded	253,277	303,518	2,148,100	1,895,197
Underwriting expenses – net	- 3,382,965	- 3,336,107	- 9,256,906	- 8,485,184

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

	DM in thousands					
	Life/Health		Property/Casualty/ Other business		Total	
	1996	1995	1996	1995	1996	1995
Investment income						
a) Income from long-term equity investments	62,460	71,720	239,442	213,723	301,902	285,443
including from affiliated companies	(- 15,686)	(- 16,081)	(12,189)	(37,039)	(- 3,497)	(20,958)
b) Income from other investments						
ba) Income from real estate	879,840	918,203	783,515	724,732	1,663,355	1,642,935
bb) Income from other investments	11,673,671	10,835,113	5,184,041	4,770,556	16,857,712	15,605,669
including from affiliated companies	(648)	(1,524)	(-)	(565)	(648)	(2,089)
c) Income from revaluations	13,681	1,003	33,350	4,123	47,031	5,126
d) Realized investment gains	1,303,453	876,328	1,471,035	1,039,187	2,774,488	1,915,515
e) Income from the release of special untaxed reserve	-	-	23,123	47,653	23,123	47,653
Total investment income	13,933,105	12,702,367	7,734,506	6,799,974	21,667,611	19,502,341
Investment expenses						
a) Investment management, interest charges and other investment expenses	- 402,005	- 396,777	- 736,024	- 737,831	- 1,138,029	- 1,134,608
b) Depreciation and write-downs on investments	- 358,146	- 461,106	- 1,092,880	- 867,424	- 1,451,026	- 1,328,530
c) Realized investment losses	- 63,101	- 99,089	- 133,703	- 121,297	- 196,804	- 220,386
d) Losses assumed under profit/loss transfer agreements	-	1,417	109	9,865	109	11,282
e) Allocation to special untaxed reserve	- 7,301	- 7,322	- 82,373	- 72,918	- 89,674	- 80,240
Total investment expenses	- 830,553	- 965,711	- 2,045,089	- 1,809,335	- 2,875,642	- 2,775,046
Net investment income	13,102,552	11,736,656	5,689,417	4,990,639	18,791,969	16,727,295

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

Depreciation and write-downs on investments include unscheduled write-downs totaling TDM 189,491 (1995: TDM 251,989).

Other income (Income Statement III.6.)

This heading includes income from services rendered for others amounting to TDM 288,175 (1995: TDM 155,986) and foreign currency gains (net losses) amounting to TDM 47,039.

Other expenses

(Income Statement III.7.)

The main items under this heading are the costs of outside services amounting to TDM 171,006 (1995: TDM 168,705).

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 totaling TDM 927,529 have not been added back to the valuation of investments; 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	
	1996	1995
Net income	2,237,752	2,020,877
Transfer to appropriated retained earnings		
to other appropriated retained earnings	1,259,845	1,152,318
Net income due to minority interests	603,990	681,524
Losses to be assumed by minority interests	16,159	175,005
Consolidated net income	390,076	362,040

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)

	1996	1995
Employees in Germany	30,404	34,938
Employees outside Germany	35,432	34,298
Total	65,836	69,236

Personnel expenses

	DM in thousands	
	1996	1995
Salaries and wages	4,758,823	4,623,437
Social security contributions and employee assistance	981,887	1,006,590
Expenses for pensions and other post-retirement benefits	455,797	383,607
Total	6,196,507	6,013,634

Independent Auditors' Report Allianz Group

Compensation for the Board of Management and the Supervisory Board

The compensation by Allianz AG and its affiliated companies to the Board of Management for the year under review was TDM 8,085 (1995: DM 7,438). Former members of the Board and their beneficiaries were paid TDM 7,212.

TDM 34,519 has been set aside for current and future pension benefits of former members of the Board of Management and their beneficiaries.

Supervisory Board fees for the year, including remuneration based on financial performance, totaled TDM 1,102.

Munich, May 6, 1997

Allianz Aktiengesellschaft

The Board of Management

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, May 12, 1997

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Gerd Geib,
(independent
auditor)

Herbert Loy,
(independent
auditor)

Autti-Kuhle Skipohl

Brenschmeyer Ganss

Hagenauer Hansmeier

Kuppel

Management Report Allianz Aktiengesellschaft

■ Reinsurance

Besides serving as holding company for the Group, Allianz Aktiengesellschaft (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.

Underlying earnings from reinsurance business again showed a significant improvement in 1996. Before transfers to claims equalization and similar reserves the underwriting profit rose by DM 160.3 million to DM 294.4 million (1995: DM 134.1 million).

This earnings growth is attributable mainly to the favorable claims experience in fire and general liability insurance and in other lines of property and casualty business. The improvement was helped by the absence of natural catastrophes and a relatively small number of major claims. The overall loss ratio on own account – excluding surrenders and premium returns – improved from 61.1 percent to 58.9 percent. DM 380.4 million (1995: DM 240.1 million) had to be transferred to the claims equalization and similar reserves.

After transfers to these reserves the underwriting loss was reduced by

18.9 percent to DM 86.0 million compared with the 1995 figure of DM 106.1 million.

Gross premiums remained nearly constant at DM 9.86 billion. Net premiums remained the same at DM 6.1 billion.

The absence of growth is partly due to the reduced premium income of direct insurers in Germany, but more significantly to a fundamental change in the overall reinsurance structure for companies in the Property and Casualty Insurance Group in Germany. This change has been made with an eye on future requirements in order to harmonize the reinsurance cessions of all companies as much as possible and to increase the level of retentions. In the wake of this change the companies concerned are ceding less reinsurance business to Allianz AG.

By contrast the reinsurance premiums written by companies in markets outside Germany – which account for about 15 percent of the total – rose sharply, with double-digit growth rates in America and overseas.

The expense ratio – influenced mainly by reinsurance commission – amounted to 23.9 percent (1995: 23.2 percent) of gross premium income.

The various lines of reinsurance reported the following results:

Gross premiums in *automobile*

Allianz AG

Lines of reinsurance written

Life insurance
Health insurance
Personal accident insurance
General liability insurance
Automobile insurance
Aviation insurance
Legal expenses 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 insurance
Aircraft and spacecraft liability insurance
Other property and casualty insurance

Allianz AG

Gross premiums written and results by insurance line in 1996

	Gross premiums written		Net underwriting result	
	1996	Change	1996	Change
	DM mn.	%	DM mn.	DM mn.
Automobile	2,648.8	- 1.9	-152.5	-48.4
Fire	1,157.8	- 2.6	- 43.1	8.2
Liability	878.7	2.3	- 70.8	7.8
Personal accident	763.7	13.2	41.8	6.3
Engineering	532.7	2.6	- 2.8	- 0.6
Homeowners	227.8	-14.8	- 22.3	8.4
Household effects	207.3	-16.2	18.4	0.9
Business interruption	203.8	-12.5	- 7.0	- 7.5
Marine	204.4	-13.0	10.7	7.6
Legal expenses	193.2	-26.5	- 9.3	7.1
Life	1,527.4	- 1.4	68.2	- 1.6
Health	258.6	-14.3	8.8	8.1
Other	1,051.6	18.0	73.9	23.8
Total	9,855.8	- 0.7	- 86.0	20.1

reinsurance are written almost entirely in Germany, where the market was afflicted by intense competition and falling rates in 1996. Against this background Allianz AG suffered falls in premium income and earnings. DM 115.9 million had to be transferred to the claims equalization reserve.

Premiums written for *fire reinsurance* in Germany went down owing to the direct insurers in the Allianz Group increasing the portion retained in industrial business. This effect was largely counterbalanced by increased revenue from European and American companies in the Group. A relatively favorable claims record and the comparatively low number of major claims contributed to a much improved profit of DM 71.1 million (1995: DM 36.3 million) before transfers to the claims equalization reserve.

Premium income from *liability reinsurance* increased by 2.3 percent. The underwriting result improved by DM 108.7 million. DM 104.3 million (1995: DM 3.6 million) had to be transferred to the claims equalization reserve.

Both premium income and earnings increased in *personal accident reinsurance*.

The Allianz Group is a world leader in engineering insurance. Allianz AG increased its reinsurance premium income from this line of business in 1996 and recorded a marked improvement in the underwriting result before transfers to the claims equalization reserve.

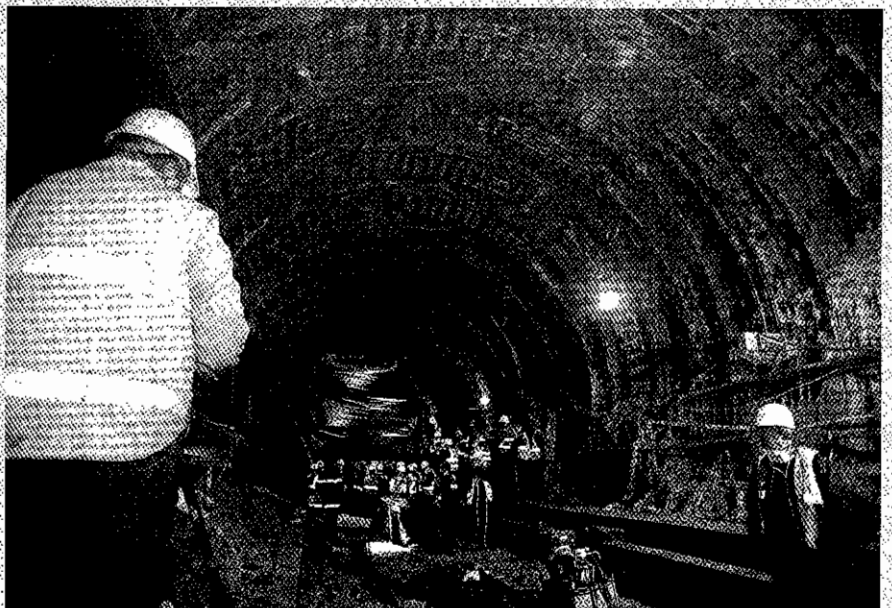
After transferring the necessary amount to that reserve the result on the underwriting account was much the same as in the previous year. Allianz AG underwrites part of the insurance for the Eurotunnel and therefore also part of the loss caused by the fire on November 18, 1996. The net loss from that claim amounted to DM 12.9 million; DM 2.8 million of which had to be shown on the engineering insurance account whilst DM 10.1 million was in respect of business interruption insurance.

The *homeowners reinsurance* and *household effects reinsurance* underwriting accounts are heavily influenced by events in Germany. The new reinsurance arrangements mentioned above reduced premium income from these lines of business as well, whilst they continued to show a profit before transfers to the claims equalization reserve.

The decision by the Property and Casualty Insurance Group in Germany to increase the portion of business retained also reduced premium income from *business interruption reinsurance*. The underwriting result on this account deteriorated by DM 11.5 million, not least as a result of the Eurotunnel claim.

Declining premium income from *marine reinsurance* was also attributable to the new reinsurance arrangements in the Property and Casualty Insurance Group in Germany. This line of business again showed a profit.

Allianz AG underwrites part of the insurance for the Eurotunnel and therefore also part of the loss caused by the fire on November 18, 1996. The net cost of that claim amounted to DM 12.9 million. The picture shows an employee of the operating company inspecting the damage in the tunnel. A freight wagon damaged by the fire is covered by blue plastic sheeting.



The consequences of the change in the Property and Casualty Insurance Group in Germany are particularly pronounced in the case of *legal expenses reinsurance*, where they resulted in premiums falling by 26.5 percent. The underwriting result improved by 42.8 percent. In the previous year this line of business made a substantial loss owing to increased court and lawyers' fees.

Life reinsurance business saw premiums written decline in Germany and rise elsewhere. Business contacts with Allianz Life of North America were further strengthened. The underwriting result was much the same as in the previous year.

Premiums in *health reinsurance* business are written mainly in Germany. The decrease in 1996 is due to changes in the method of accounting for premiums. Exceptional profits outside Germany contributed to the improvement in the underwriting result.

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

The strongest-selling lines were credit and bond reinsurance with premium income of DM 121.7 million and the "other" property and casualty lines of business with DM 669.1 million. There were no extreme weather-related losses in 1996 and the property and casualty lines again performed well. The credit and bond lines of insurance made another loss owing to the weak state of the economy. The overall result from other lines of business rose by DM 23.8 million to DM 73.9 million.

■ Investments and Total Earnings

The book value of Allianz AG's *investment portfolio* increased by 7.8 percent in 1996 from DM 41.1 billion to DM 44.3 billion.

The book value of *real estate* went up by DM 25 million in the year under review to DM 704 million (1995: DM 679 million).

Additions to *investments in subsidiaries and affiliates* were valued at DM 1.1 billion net, raising the total volume to DM 21.9 billion.

Investments in insurance companies rose mainly in connection with increases in the capital of Allianz Compagnia Italiana Finanziamenti SpA (DM 295 million) and other companies in the Group (DM 76 million) and with purchases (DM 325 million). The latter include the acquisition of shares in Manufacturers Mutual Insurance Ltd., Sydney, the capital contributed to Les Assurances Federales under the cooperation agreement with Crédit Lyonnais, the takeover of Hermès Kreditversicherungs-AG and the acquisition of Allianz Fire and Marine Insurance Japan Ltd. from Allianz Versicherungs AG. The holding in Allgemeine Kreditversicherung AG was disposed of in full. Finally the entire share capital (100 percent) of Deutsche Versicherungs AG was transferred to Allianz Versicherungs AG in 1996 as a contribution of capital.

The acquisition of the Vereinte group was made possible by an exchange of shareholdings with Münchener Rückversicherungs-Gesellschaft AG whereby the main shareholdings taken over by Allianz AG were 50.3 percent in Hermès Kreditversicherungs-AG, 25 percent in Vereinte Krankenversicherung AG and shares in the Austrian companies. In exchange Allianz AG transferred to Münchener Rückversicherungs-Gesellschaft AG a 44.5 percent holding in Deutsche Krankenversicherung AG. A further 4 percent in Deutsche Krankenversicherung AG was sold to Münchener Rückversicherungs-Gesellschaft AG.

Shareholdings in Augsburger Aktienbank AG and mh Bausparkasse AG were acquired from Vereinte Holding.

AG. The sale of a 7.8 percent interest in Compagnie de Navigation Mixte resulted in a decrease in the book value of investments of DM 242 million.

The addition of DM 540 million net loans to subsidiaries resulted from taking up a bond issued by Allianz Via Holding and providing finance for intermediate holding companies.

Other investments were DM 1.1 billion up on the previous year at DM 6.1 billion. This heading includes stocks and other equity interests of DM 2.7 billion (1995: DM 2.5 billion), fixed income securities also totaling DM 2.7 billion (1995: DM 2.4 billion) and bank deposits of DM 752 million (1995: DM 74 million).

Finally the *funds held by others in connection with reinsurance business* assumed went up from DM 14.6 billion to DM 15.5 billion.

Current income from investments amounted to DM 2,089.7 million, an increase of DM 235.2 million over the 1995 figure of DM 1,854.5 million. This substantial increase is due to the increased profit of DM 397.2 million transferred from Allianz Versicherungs-

AG (DM 114.9 million more than in the previous year) and the increase of DM 63.4 million in income from equity investments to DM 373.6 million. The income under this heading also includes interest of DM 901.3 million (1995: DM 849.5 million) on funds held by others.

Realized investment gains totaled DM 220.7 million, including almost DM 163 million from the sale of shares in Deutsche Krankenversicherung AG, Compagnie de Navigation Mixte and Allgemeine Kreditversicherung AG, DM 44.8 million from disposals of securities and other equity interests, and DM 13.1 million from the sale of real estate. Investment gains realized in the previous year totaled DM 612.7 million, including DM 455.7 million from the reorganization of shareholdings. Realized investment losses amounted to DM 1.9 million (1995: DM 14.5 million).

Depreciation and write downs at the balance sheet date fell back to DM 58.0 million (1995: DM 122.1 million) owing to the strong performance of financial markets.

Allianz AG

Balance sheet structure 1996 in DM millions

Assets

Funds held by others under reinsurance business assumed	15,126
Fixed income securities, debentures, fixed-term deposits	2,457
Equity holdings	2,791
Investments in affiliated and associated companies	21,948
Real estate	704
Other assets	966
	45,296

Liabilities

Funds held under reinsurance contracts ceded	1,425
Insurance reserves	32,034
Company pension reserves	3,450
Stockholders' equity	73,796
Other liabilities	4,674
	45,296

DM 39.8 million of the total was in respect of depreciation on holdings of real estate.

After charging investment management expenses of DM 135.1 million (1995: DM 119.9 million) and interest charges of DM 117.3 million (1995: DM 200.7 million), releasing DM 15.2 million (1995: DM 81.4 million) to income from special untaxed reserves and transferring DM 58.5 million (1995: DM 32.5 million) to those reserves, *investment income* amounted to DM 1,954.8 million (1995: DM 2,058.9 million).

DM 895.3 million (1995: DM 845.0 million) of this amount has been credited to the underwriting account as the allocated interest return.

Non-underwriting activities in total showed a profit of DM 754.4 million (1995: DM 944.4 million). After deducting the underwriting loss of DM 86.0 million (1995: DM 106.1 million) there was a profit from ordinary activities of DM 668.4 million (1995: DM 838.3 million). In 1996 this was also the figure for net earnings before taxation; in the previous year, by contrast, the merger of the shell of the old Deutsche Versicherungs-AG with Allianz AG meant that there were some extraordinary items to be included.

Net income for the year after tax amounts to DM 601.6 million (1995: DM 680.5 million), out of which DM 211.5 million (1995: DM 318.5 million) has been transferred to "other appropriated retained earnings", leaving unappropriated retained earnings of DM 390.1 million (1995: DM 362.0 million).

■ Looking Ahead

As the Group's reinsurance carrier Allianz AG will continue to participate in the premium income and earnings performance of Group subsidiaries and affiliates in 1997. This means that there will probably be a further decrease in premium income from business with the Property and Casualty Insurance Group in Germany. Increased retentions by Allianz companies in North America, reflecting the strength of their finances, and a reorganization of shareholdings in the USA indicate the likelihood of subdued premium growth. Continued good growth overseas will not be able to make up for this, so a reduction in gross premium income overall is to be expected.

With competition in the most important insurance markets remaining fierce, the underwriting result from reinsurance business will not be quite as good as in the previous year. On the assumption that there will be no major losses from natural catastrophes or other large claims, however, the result will again show a profit before transfers to claims equalization reserves.

Income from investments in the current year will probably exceed the 1996 figure.

Financial Statements
Allianz Aktiengesellschaft

■ Balance Sheet at December 31, 1996

Assets

	DM in thousands	
	1996	1995
A. Investments		
I. Real estate	703,837	678,841
II. Investments in affiliated and associated companies	21,948,172	20,843,116
III. Other investments	6,152,272	5,005,204
IV. Funds held by others under reinsurance business assumed	15,525,120	14,607,203
	44,329,401	41,134,364
B. Receivables		
I. Accounts receivable on reinsurance business	421,298	421,236
including 157,063 (1995: 164,065) from affiliated companies		
including 213,718 (1995: 204,275) from other companies in		
which long-term equity investments are held		
II. Other receivables	450,860	568,086
including 429,135 (1995: 465,442) from affiliated companies		
including 448 (1995: 1,806) from other companies in		
which long-term equity investments are held		
	872,158	989,322
C. Other assets		
I. Tangible fixed assets and inventories	598	594
II. Cash with banks, checks and cash on hand	34,976	16,284
	35,574	16,878
D. Prepaid expenses		
I. Accrued interest and rents	47,443	43,901
II. Other prepaid expenses	11,861	—
	59,304	43,901
	45,296,437	42,184,465

Liabilities

DM in thousands			
	1996	1996	1995
A. Stockholders' equity			
I. Capital stock		1,147,282	1,131,374
II. Additional paid-in capital		9,670,788	9,296,236
III. Appropriated retained earnings			
1. required by law	2,403		2,403
2. other	2,584,267		2,372,767
		2,586,670	2,375,170
IV. Unappropriated retained earnings		390,076	362,040
		13,794,816	13,164,820
B. Participating certificates			
		864,956	864,956
C. Special untaxed reserve			
		96,630	53,346
D. Insurance reserves			
I. Unearned premiums			
1. Gross	1,696,922		1,670,937
2. less:			
amounts ceded	633,732		616,014
		1,063,190	1,054,923
II. Aggregate reserve			
1. Gross	14,836,240		13,847,683
2. less:			
amounts ceded	1,248,026		1,450,868
		13,588,214	12,396,815
III. Reserve for loss and loss adjustment expenses			
1. Gross	10,353,592		9,793,990
2. less:			
amounts ceded	4,442,706		4,482,654
		5,910,886	5,311,336
IV. Reserve for non-experience-rated premium refunds			
1. Gross	161,377		134,443
2. less:			
amounts ceded	71,756		69,659
		89,621	64,784
V. Claims equalization and similar reserves		1,036,120	655,693
VI. Other insurance reserves			
1. Gross	398,409		294,601
2. less:			
amounts ceded	52,460		57,203
		345,949	237,398
		22,033,980	19,720,949

DM in thousands		
	1996	1995
E. Other accrued liabilities		
	3,844,229	3,499,271
F. Funds held under reinsurance contracts ceded		
	1,425,261	1,704,324
G. Other liabilities		
I. Accounts payable on reinsurance business	359,185	354,266
including 288,741 (1995: 313,355) to affiliated companies		
including 13,368 (1995: 1,541) to other companies in		
which long-term equity investments are held		
II. Liabilities to banks	2	623,104
III. Miscellaneous liabilities	2,876,601	2,197,952
including taxes of 1,322 (1995: 4,298)		
including 2,545,913 (1995: 2,043,743) due to affiliated companies		
including 1,673 (1995: 57,177) due to other companies in		
which long-term equity investments are held		
	3,235,788	3,175,332
H. Deferred income		
	777	1,467
	45,296,437	42,184,465

Income Statement
for the period from January 1 to December 31, 1996

	DM in thousands			
	1996	1996	1996	1995
I. Underwriting account				
1. Premiums earned – net				
a) Gross premiums written	9,855,825			9,930,069
b) Premiums ceded	-3,739,125			-3,813,990
		6,116,700		6,116,079
c) Change in unearned premiums – gross	1,447			- 84,588
d) Change in unearned premiums ceded	7,913			- 24,849
		9,360		- 109,437
			6,126,060	6,006,642
2. Allocated interest return – net			804,480	739,155
3. Other underwriting income – net			45,673	19,913
4. Loss expenses – net				
a) Claims paid				
aa) Gross	-5,981,042			-5,972,570
bb) Amounts ceded in reinsurance	2,504,916			2,337,958
		-3,476,126		-3,634,612
b) Change in reserves for loss and loss adjustment expenses				
aa) Gross	- 463,274			- 647,861
bb) Amounts ceded in reinsurance	94,105			251,948
		- 557,379		- 395,913
			-4,033,505	-4,030,525
5. Change in other insurance reserves – net			- 752,077	- 786,752
6. Expenses for non-experience-rated premium refunds – net			- 41,885	- 32,989
7. Underwriting expenses – net			-1,407,431	-1,389,829
8. Other underwriting expenses – net			- 446,920	- 391,559
9. Subtotal			294,395	134,056
10. Change in claims equalization and similar reserves			- 380,427	- 240,124
11. Underwriting result – net			- 86,032	- 106,068

DM in thousands			
	1996	1996	1995
II. Non-underwriting account			
1. Investment income		2,325,618	2,549,190
2. Investment expenses		- 370,803	- 490,290
		1,954,815	2,058,900
3. Allocated interest return		- 895,308	- 845,017
		1,059,507	1,213,883
4. Other income		350,444	348,605
5. Other expenses		- 655,544	- 618,106
		- 305,100	- 269,501
6. Non-underwriting result		754,407	944,382
7. Earnings from ordinary activities before taxation		668,375	838,314
8. Extraordinary income		-	896,900
9. Extraordinary expenses			- 1,351,742
10. Result from extraordinary items		-	- 454,842
11. Income taxes	- 891,296		- 102,946
less amounts charged to other companies in the Group	832,080		401,088
	- 59,216		298,142
12. Other taxes	- 17,006		- 5,069
less amounts charged to other companies in the Group	9,423		3,995
	- 7,583		- 1,074
		- 66,799	297,068
13. Net income		601,576	680,540

Notes to the Financial Statements of Allianz AG

Legal Regulations

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

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

Accounting, Valuation and Calculation Methods

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

Investments in affiliated and associated companies 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 affiliated or associated companies 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 affiliated or associated companies.

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 affiliated companies
- b) Debentures and loans
- c) Bank deposits
- d) Funds held by others under reinsurance contracts assumed
- e) Accounts receivable on reinsurance business
- f) Other receivables
- g) Cash with banks, checks and cash on hand
- h) Accrued interest and rents.

Insurance reserves

consist of the following:

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

These reserves were set up according to information provided by the ceding insurers, estimated to a certain extent. The reinsurers' shares were calculated in accordance with the reinsurance contracts.

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

Other accrued liabilities

The pension accruals are calculated actuarially based on the 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. Miscellaneous accrued liabilities have been recorded as projected. The accrued liabilities for early retirement benefits and employee long-service awards have been calculated using actuarial principles.

Liabilities consist of:

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

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

Deferred income

Discounts carried forward as deferred income or prepaid expenses 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 eight 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

Changes under asset headings A.I through A.III. in 1996

	Values stated at 12/31/1995		Additions
	TDM	%	TDM
A.I. Real estate	678,841	2.6	70,774
A.II. Investments in affiliated and associated companies			
1. Investments in affiliated companies	18,495,458	69.7	1,382,888
2. Loans to affiliated companies	304,970	1.1	1,045,699
3. Investments in other companies	2,042,688	7.7	294,859
4. Loans to other companies in which long-term equity investments are held	-	-	10,025
Subtotal A.II.	20,843,116	78.5	2,733,471
A.III. Other investments			
1. Stocks, investment fund units and other variable income securities	2,504,521	9.4	495,214
2. Bearer bonds and other fixed income securities	2,409,006	9.1	1,119,556
3. Other loans			
Debentures and loans	2,955	0.0	-
4. Bank deposits	73,575	0.3	678,813
5. Miscellaneous investments	15,147	0.1	-
Subtotal A.III.	5,005,204	18.9	2,293,583
Total	26,527,161	100.0	5,097,828

DM in thousands						
Transfers	Disposals	Revaluation	Depreciation	Net increases (+) disposals (-)	Values stated at 12/31/1996	%
-	5,995	-	39,783	+ 24,996	703,837	2.4
47,701	835,311	-	-	+ 595,278	19,090,736	66.3
-	506,081	-	-	+ 539,618	844,588	2.9
-47,705	276,178	-	816	- 29,840	2,012,848	7.0
-	10,025	-	-	-	-	-
4	1,627,595	-	816	+1,105,056	21,948,172	76.2
4	296,925	-	17,338	+ 180,955	2,685,476	9.3
-	831,504	-	79	+ 287,973	2,696,979	9.4
-	673	-	-	- 673	2,282	0.0
-	-	-	-	+ 678,813	752,388	2.6
-	-	-	-	-	15,147	0.1
4	1,129,102	-	17,417	+1,147,068	6,152,272	21.4
-	2,762,692	-	58,016	+2,277,120	28,804,281	100.0

Miscellaneous investments

(Assets A.III.5.)

These consist entirely of holdings in private limited liability companies.

Other prepaid expenses (Assets D.II.)

This heading includes TDM 10,870 in respect of debt discount on miscellaneous liabilities.

Collateral

Assets included in the balance sheet totaling TDM 1,467,780 (1995: TDM 1,278,409) are subject to restricted usage through collateral.

Disclosure of equity investments

The information required by the German Commercial Code (§ 285 no. 11 HGB) is filed with the Commercial Register in both Berlin-Charlottenburg and Munich.

■ Supplementary Information on Liabilities

Capital (Liabilities A.I.)

The *capital stock* was increased during the year under review by warrant options being exercised for shares with a par value of DM 15,908,000. At December 31, 1996, the capital stock amounted to DM 1,147,282,000. Between the end of the year and April 15, 1997, further option warrants were redeemed for shares with a par value of DM 4,000. The capital stock is now DM 1,147,286,000, divided into 229,457,200 restricted shares with a par value of DM 5 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.

There is still further conditionally authorized capital of DM 26,589,100 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

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

	DM in thousands
12/31/1995	9,296,236
+ Transfer from option warrants exercised	374,552
12/31/1996	9,670,788

Appropriated retained earnings (Liabilities A.III.)

	DM in thousands		
	12/31/1995	From net income	12/31/1996
1. Required by law	2,403	—	2,403
2. Other	2,372,767	211,500	2,584,267
Total	2,375,170	211,500	2,586,670

June 1995 the striking price for exercising these options has been DM 2,015 for a DM 50 multiple share certificate (10 shares at DM 5).

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

Participating certificates (Liabilities B.)

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 DM 50 multiple share certificate (10 shares at DM 5); 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 participat-

ing 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			
	12/31/1995	Allocated	Released	12/31/1996
Reserve according to § 6 b EStG	53,346	58,496	15,212	96,630

Other accrued liabilities

(Liabilities E.)

The pension obligations of all Allianz companies in Germany, except for those of the Vereinte group and Hermes Kreditversicherungs-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 TDM 3,467,677 (1995: TDM 3,290,624) and accrued taxes of TDM 300,794 (1995: TDM

166,822) the Company has miscellaneous accrued liabilities of TDM 75,758 (1995: TDM 41,825), including TDM 26,601 for costs of the early retirement scheme and employee long-service awards, which are shared throughout the Group, and TDM 15,237 for contingencies.

Deferred income (Liabilities H.)

Debt discount of TDM 50 on miscellaneous loans is shown under this heading.

Long-term and secured liabilities

	DM in thousands
	Period to maturity more than 5 years
Miscellaneous liabilities	1,100,149

TDM 4,061 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	
	1996	1995
Property and casualty insurance	8,328,434	8,380,598
Life insurance	1,527,391	1,549,471
Total	9,855,825	9,930,069

Investment income (Income Statement II.1.)

	DM in thousands	
	1996	1995
a) Income from long-term equity investments	373,645	310,208
including from affiliated companies:		
181,841 (1995: 175,565)		
b) Income from other investments		
including from affiliated companies:		
695,907 (1995: 676,067)		
aa) Income from real estate	125,176	131,192
bb) Income from other investments	1,193,764	1,130,850
	1,318,940	1,262,042
c) Income from revaluations	-	610
d) Realized investment gains	220,666	612,697
e) Income from profit pooling and profit transfer agreements	397,155	282,271
f) Income from the release of special untaxed reserves	15,212	81,362
Total	2,325,618	2,549,190

Investment expenses (Income Statement II.2.)

	DM in thousands	
	1996	1995
a) Investment management, interest charges and other investment expenses	252,378	321,259
b) Depreciation and write-downs on investments	58,016	122,052
c) Realized investment losses	1,913	14,531
d) Allocation to special untaxed reserve	58,496	32,448
Total	370,803	490,290

Allocated interest return – 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 – net (Income Statement I.5.)

This heading includes TDM 657,795 (1995: TDM 716,675) in the net aggregate reserve and TDM 94,282 (1995: TDM 70,077) in miscellaneous net insurance reserves.

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

Gross underwriting expenses of TDM 2,357,474 (1995: TDM 2,306,887) are shown net of commissions and profit-sharing on reinsurance ceded amounting to TDM 950,043 (1995: TDM 917,058).

Depreciation and write-downs on investments

Real estate has been written down by TDM 23,249 in accordance with German income tax law (§ 6b EStG).

Other income (Income Statement II.4.)

The most important items under this heading are TDM 246,238 refunded by domestic Group companies in respect of pension costs for their employees accrued in the financial statements of Allianz AG, and foreign currency gains of TDM 79,874.

Other expenses

(Income Statement II.5.)

This heading comprises mainly pension costs for the employees of domestic Group companies (TDM 246,238), interest and similar expenses (TDM 228,958), and foreign currency losses (TDM 126,804).

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 taxes attributable to the Property and Casualty Insurance Group in Germany.

Net income (Income Statement II.13.)

	DM in thousands	
	1996	1995
Net income	601,576	680,540
Transfer to appropriated retained earnings:		
to other appropriated retained earnings	211,500	318,500
Unappropriated retained earnings	390,076	362,040

■ Other Information

Contingent liabilities and other financial commitments

At December 31, 1996, the Company had contingent liabilities under guarantees amounting to TDM 14,788, matched by rights of recourse for the same amount.

Guarantee declarations have been given for the bonds with equity warrants attached issued in 1993 by Allianz Finance B.V., Amsterdam, for the debenture issued in 1996 by Allianz International Finance N.V., Amsterdam, and for a deferred annuity agreement signed by Allianz-RAS Seguros y Reaseguros S. A., Madrid.

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 and with Allianz Lebensversicherungs-AG the Company has statutory obligations to take over any losses made by those companies.

Potential liabilities amounting to TDM 600,855 were outstanding at the balance sheet date for calls on equity stocks not fully paid up.

Contractual loan commitments amounted to TDM 22,584.

Contractual payment commitments totaling TDM 42,739 had been given in connection with investment projects already started.

The other financial commitments outlined above include TDM 514,580 towards affiliated companies.

Effects of adjustments for tax purposes

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

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

Amounts totaling TDM 64,933 have not been written back, for tax reasons, in fiscal 1996.

Personnel expenses

Allianz AG has no employees.

The compensation of the Board of Management for the year totaled TDM 4,606 (1995: TDM 4,308), that of former members of the Board and their beneficiaries TDM 5,642.

Pension costs for the year amounted to TDM 2,208 (1995: TDM 3,992). The amount set aside for current and future pension benefits of former members of the Board of Management and their beneficiaries is TDM 34,519.

Supervisory Board fees for the year, including remuneration based on financial performance, totaled TDM 1,102.

The names of members of the Supervisory Board and of the Board of Management are listed on pages 2 and 4.

Munich, April 15, 1997

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 present a true and fair view of the net worth, financial position and results of the Company in compliance with accounting principles generally accepted in Germany. The Management Report on Allianz Aktiengesellschaft is consistent with the financial statements.

Munich, May 6, 1997

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. 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. HELMUT MAUCHER

Managing Director
Nestlé AG,
Switzerland

DR. UMBERTO AGNELLI

Chief Executive Officer
and Vice Chairman
IFI S. p. A.,
Italy

SHINROKU MOROHASHI

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VOLKER MISS
Representative

Glossary

The specialist accounting terms explained on these pages are intended to help the reader understand this Allianz Annual Report. Most of the terms are from the balance sheet or income statement. Specialist terminology relating to particular lines of insurance business has not been included.

Affiliated companies

The parent company and all consolidated subsidiaries. Subsidiaries are 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 the voting rights, have the right to appoint or dismiss a majority of the members of the administrative, managerial or supervisory bodies, or have controlling rights.

Aggregate reserve

Policies in force, especially in life, health, and personal accident insurance, give rise to potential liabilities for which funds have to be set aside. The amount required is calculated actuarially.

Allocated interest return

The income from investments relating to certain reserves. This "interest return" is first recorded in the non-underwriting section of the income statement and then credited or "allocated" to the relevant lines of insurance in the underwriting section.

Allocated investment return

The proportion of total net investment income attributable to life and health insurance.

Associated companies

A company is an associated company if the equity interest held in that company enables the holder to exercise a significant influence over the operating and financial policies of that company.

Claims equalization and similar reserves

The purpose of the claims equalization reserve is to smooth out fluctuations in the cost of claims in future years. Similar reserves provide cover for specific risks such as product liability cover in the pharmaceuticals industry or property and liability cover for nuclear plants. These reserves are calculated on the basis of statutory regulations.

Earnings per share

Earnings per share calculated by the DVFA/GDV method is a figure based on published earnings adjusted for special factors and minority interests.

Equity consolidation

The book value of the investment in a subsidiary is set off against the Group's share in its equity.

Expense ratio

Underwriting expenses as a percentage of premiums written.

Extended coverage

An extension to industrial and commercial fire and business interruption insurance providing cover for additional risks such as riots, vandalism, strikes, lockouts, etc.

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

Funds held by others are funds to which the reinsurer is entitled but which the ceding insurer retains as collateral for future obligations of the reinsurer. The ceding insurer shows these amounts as "funds held under reinsurance contracts ceded".

Gross/Net

In insurance terminology the terms gross and net mean before and after deduction of reinsurance respectively. (Net is also referred to as "for own account".)

Joint venture

A company which is managed jointly by a company in the Group and one or more companies not included in the consolidation. The extent of joint management control is more than the significant influence exercised over associated companies and less than the unified management control exercised over affiliated companies.

Loss and loss adjustment expenses

These expenses comprise the cost of all insurance claims, paid and accrued. They include not just the cost of claims incurred in the year under review but also the run-off results from prior year claims.

Loss ratio

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

Minority interests

The portion of a consolidated subsidiary's equity held by stockholders outside the Group.

Non-underwriting result

The net difference between revenues and expenses not attributable to insurance business as such.

Notional interest rate

The minimum yield guaranteed by a life insurer. If the actual return is higher, most of the difference is credited to the policyholder in the form of profit participation.

Premiums written/earned

Premiums written represent all premium revenues in the year under review. Premiums earned represent that part of the premiums written used to provide insurance cover in that year.

Prepaid expenses/Deferred income

Receipts and disbursements prior to the balance sheet date in respect of income or expenditure relating to a period after that date.

Reinsurance

Where an insurer transfers part of the risk which he has assumed to another insurer.

Reserve for losses and loss adjustment expenses

Reserves for the cost of insurance claims incurred in the year under review but not yet settled.

Reserve for premium refunds

That part of the operating surplus which will be distributed to policyholders in the future. This refund of premiums is made on the basis of statutory, contractual, or company by-law obligations, or voluntary undertaking.

Underwriting expenses

Commissions, salaries, general expenses and other expenses relating to the acquisition and ongoing administration of insurance policies.

Underwriting result

The net difference between revenues and expenses attributable to insurance business, shown separately for property/casualty insurance and life/health insurance. Mainly premium income, loss and loss adjustment expenses and premium refunds, underwriting expenses and – in life/health insurance business – the net investment income attributable and the net change in aggregate reserves (see allocated investment return).

Unearned premiums

Premiums written attributable to income of future years.

Unrealized gains/losses

Income and expenses arising from changes in the value of investments held on account and at risk of life insurance policyholders. The net balance of such gains and losses is set off against the reserves for this type of business.

Seite **Picture Credits**

Titel	Mauritius FineArt
1	Mauritius AGE/Jean-Pierre Lescourret
6/7	Bavaria/Guido Brakema
13	top to bottom: Tony Stone/Owen Franken Allianz Bavaria, TCL/Tim Simond Allianz
16	Erwin Fieger
17	top to bottom: Mauritius AGE/Pedro Coll RAS (2) Tony Stone/Neil Farrin
19	top to bottom: Mauritius/Pascuel Gascuel Tony Stone/Peter Cade Tony Stone/Nick Vedros Bavaria
21	top to bottom: Tony Stone/Gerard Loucel Tony Stone/Dale Durfee Bavaria/Denis Boissavy Tony Stone/Richard Passmore Tony Stone/Sylvain Coffie
22	top to bottom: Bavaria/Larry Bray Mauritius/Benclux Press Tony Stone/John Riley Bavaria/Robin Davies
24	top to bottom: Allianz Stiftung (2) Mauritius/fm
31	Mauritius AGE/Jean-Dominique Dallet
36	Tony Stone/Joe Cornish
39	Tony Stone/Dennis Cox
47	Bavaria/Abraham Menashe
49	Bavaria/Spencer Rowell
72	dpa Bilderdienst

All other photos
and diagrams: Allianz

A word regarding the translation of the Annual Report.

This Annual Report is a translation from the German. The terms used are as close as possible to the German line items, as prescribed by German Commercial Law. However, in some instances, in order not to confuse the foreign reader with German legal terms or relatively insignificant details, we have not provided a literal translation of the full contents. In addition, some specific explanations – for the foreign reader only – regarding the make-up of certain line items, certain accounting methods and other specifics under German Commercial or Insurance Law are included in the Notes to the Statements

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 Allianz,
its most important group companies
and insurance interests

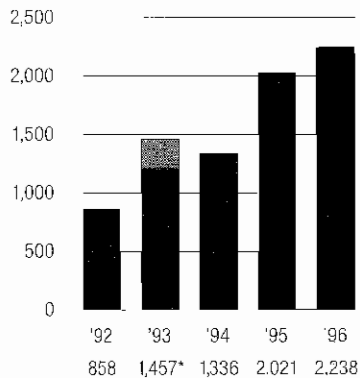
Allianz Aktiengesellschaft				
Germany	Europe (excluding Germany)		North and South America	Africa, Asia, Australia
	Austria	Luxembourg	Argentina	Australia
Allianz Versicherungs-AG	Wiener Allianz Versicherungs-AG	International Reinsurance Company S. A.	Colón Compañía de Seguros Generales S. A.	Manufacturers' Mutual Insurance Group (MMI)
Deutsche Versicherungs-AG	Anglo-Elementar Versicherungs-AG		Allianz RAS Argentina S. A. de Seguros	
Frankfurter Versicherungs-AG	Wiener Allianz Lebensversicherungs-AG	Netherlands	Generales	Egypt
Bayerische Versicherungsbank AG		Allianz Nederland N. V.	Brazil	Arab International Insurance Company
Allianz Globus Marine	Belgium	ELVIA Schadeverzekeringen N. V.	Allianz-Bradesco Seguros S. A.	Hong Kong
Versicherungs-Aktiengesellschaft	Allianz Nederland N. V.	ELVIA Levensverzekeringen N. V.		Allianz Cornhill Insurance (Far East) Ltd.
Vereinte Versicherung AG	ELVIA Assurances S. A.	ELVIA Zorgverzekeringen N. V.	Canada	Indonesia
Vereinte Rechtsschutzversicherung AG			Allianz Insurance Company of Canada	P. T. Asuransi Allianz Aken Life
Hermes Kreditversicherungs-AG	Czech Republic	Poland	Trafalgar Insurance Company of Canada	P. T. Asuransi Allianz Utama Indonesia
Allianz Lebensversicherungs-AG	Allianz pojišťovna, a. s.	Allianz BGZ Polska S. A.	Chile	
Deutsche Lebensversicherungs-AG		Allianz BGZ Polska Zycie S. A.	Allianz Compañía de Seguros S. A.	Japan
Vereinte Lebensversicherung AG	Denmark		Allianz Bice Compañía de Seguros	Allianz Fire and Marine Insurance Japan Ltd.
Vereinte Krankenversicherung AG	Allianz Nordeuropa Forsikringsaktieselskabet	Portugal	de Vida S. A.	
	Domus-Forsikringsaktieselskabet	Portugal Previdente Companhia de Seguros S. A.	Mexico	Namibia
	France	Russian Federation	Allianz México S. A. Compañía de Seguros	Allianz Insurance of Namibia Ltd.
	Allianz Assurances	Closed Joint Stock Insurance Company		Singapore
	RHIN ET MOSELLE ASSURANCES	Ost-West Allianz	USA	Allianz Insurance (Singapore) Pte. Ltd.
	Compagnie Générale d'Assurances et		Fireman's Fund Insurance Company	South Africa
	de Réassurances	Slovak Republic	Allianz Insurance Company	Allianz Insurance Ltd.
	ELVIA ASSURANCES	Allianz poisťovňa, a. s.	Jefferson Insurance Company of N. Y.	
	LES ASSURANCES FEDERALES IARD		Allianz Life Insurance Company	Thailand
	Allianz Vie	Spain	of North America	The Navakij Insurance Public Company, Ltd.
	RHIN ET MOSELLE ASSURANCES FRANÇAISES	Allianz-RAS Seguros y Reaseguros S. A.	Venezuela	United Arab Emirates
	Compagnie d'Assurances sur la vie	Eurovida S. A. Compañía de Seguros	Adriática de Seguros C. A.	Allianz Versicherungs-AG Dubai Branch
	COMPAGNIE GENERALE DE PREVOYANCE	y Reaseguros		
		Switzerland		
	Great Britain	ELVIA Schweizerische Versicherungs-		
	Cornhill Insurance PLC	Gesellschaft		
	Greece	Berner Allgemeine Versicherungs- Gesellschaft		
	Allianz General Insurance Company S. A.	Allianz Versicherung (Schweiz) AG		
	Allianz Life Insurance Company S. A.	Alba Allgemeine Versicherungs- Gesellschaft		
		ELVIA Leben Schweizerische		
	Hungary	Lebensversicherungs- Gesellschaft		
	Hungária Biztosító Rt	Berner Lebensversicherungs- Gesellschaft		
		Allianz Lebensversicherung (Schweiz) AG		
	Ireland	ELVIA Reiseversicherungs- Gesellschaft		
	Cornhill Insurance PLC	Turkey		
	Italy	Şark Hayat Sigorta A.Ş.		
	Riunione Adriatica di Sicurtà S. p. A.	Şark Sigorta T.A.Ş.		
	Lloyd Adriatico S. p. A.			
	Allianz Subalpina			
	Società di Assicurazioni e Riassicurazioni S. p. A.			

April 1997

■ Five Years at a Glance

Net income

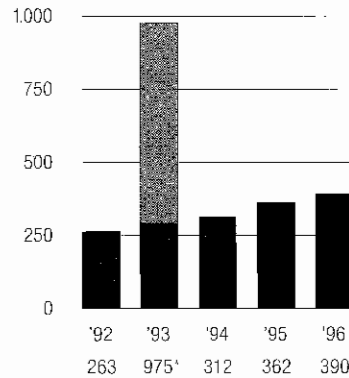
DM in millions



* Nonrecurrent tax proceeds of DM 253 million out of FK56 special distribution.

Total dividend payout

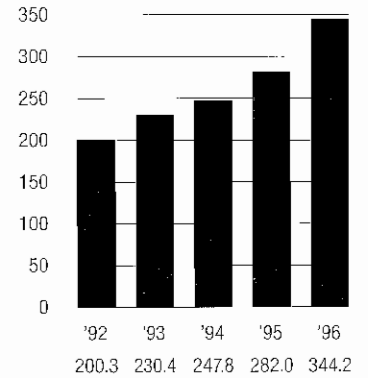
DM in millions



* Dividend payout – 292.5
Specia. distribution – 682.5

Investments*

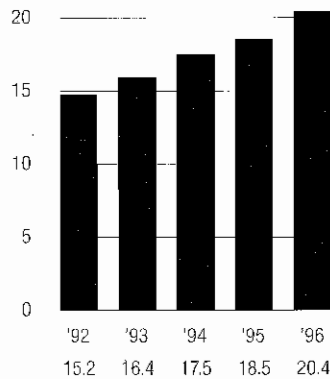
DM in billions



* including investments held for variable annuity policyholders and third parties

Stockholders' equity*

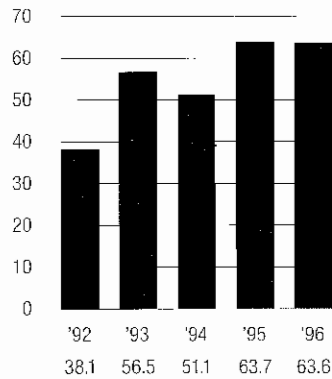
DM in billions



* Under previous accounting regulations until 1993

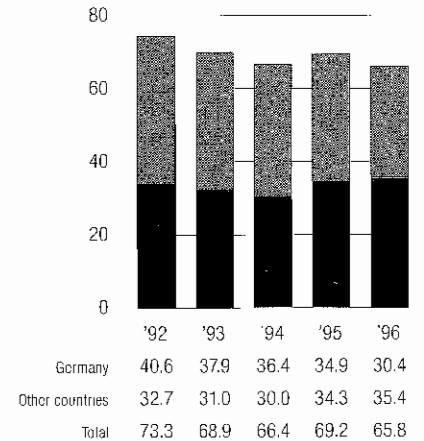
Stock market value

DM in billions



Employees

in thousands



Allianz AG Financial Calendar

July 10, 1997	Annual General Meeting
September 18, 1997	Press release on the first half-year 1997 (interim financial report)
November 27, 1997	Press release on the third quarter 1997
February 11, 1998	Press release on preliminary results for 1997
May 28, 1998	Financial press conference for the 1997 business year and the first quarter of 1998
July 8, 1998	Annual General Meeting
September 17, 1998	Press release on the first half-year 1998 (interim financial report)
November 26, 1998	Press release on the third quarter 1998

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