

*Transparent and efficient Corporate Governance structures are an essential foundation for trust and entrepreneurial success. Of primary importance is the relationship between our shareholders, the Board of Management and the Supervisory Board. We also place great emphasis on the timely publication of any information relevant to our company.*

In 2002, there were several initiatives aimed at improving the rules of corporate governance. In Germany, the German Corporate Governance Code and the Transparency and Disclosure Law came into force. In addition, the Federal Government announced a ten-point program for further measures to improve corporate governance. In the United States, the Sarbanes-Oxley Act took effect. At the EU level, a commission of experts triggered another initiative with the Winter-Report.

Many of the new rules have been part of our corporate principles for some time. Since November 2000, our share is listed at the New York Stock Exchange. We therefore also fulfill the stringent requirement of the Securities and Exchange Commission (SEC) concerning the presentation of our Annual Financial Statements and other questions of disclosure.

### German Corporate Governance Code and Declaration of Compliance

The Board of Management and the Supervisory Board of Allianz AG have welcomed the new Corporate Governance Code as an opportunity to critically examine our existing corporate practices and to adapt them to the new standards. We focused our efforts on the procedural rules of the Supervisory Board and its committees, the cooperation between the Supervisory Board and the Board of Management as well as questions relating to the audit of our Annual Financial Statements and the dissemination of information. In its meeting of September 18, 2002, the Supervisory Board adopted its revised procedural rules and the principles for reporting by the Board of Management to the Supervisory Board.

At the same time, the Supervisory Board declared that it recognized the rules of the German Corporate Governance Code as binding. A corresponding declaration had earlier been issued by the Board of Management. A single reservation was pronounced with respect to the recommendation of the German Corporate Governance Code concerning the number of supervisory board mandates.

The Declaration of Compliance with the German Corporate Governance Code in accordance with § 161 of the German Stock Corporation Law (AktG) was published on December 18, 2002 and reads as follows:

“Allianz Aktiengesellschaft complies with all the recommendations made by the government commission on the German Corporate Governance Code. However, the members of Allianz AG’s Board of Management reserve the right to exceed the maximum number of mandates held outside the Group (section 5.4.3 of the Code) as appropriate, as the acceptance of supervisory board mandates in companies in which substantial holdings are maintained forms an essential part of the duties of members of the Board of Management.”

This declaration is available on our website at [www.allianzgroup.com/corporate-governance](http://www.allianzgroup.com/corporate-governance). In addition, we posted a detailed explanation as to how we applied those suggestions of the Code that are not subject to the declaration required by law.

The two publicly traded Group companies Allianz Lebensversicherungs-AG and Oldenburgische Landesbank AG issued a Declaration of Compliance on December 11 and 17, respectively. Allianz states four points of deviation from the Code, and Oldenburgische Landesbank one. Our larger German companies, which are not listed at the stock exchange, also observe the key provisions of the Corporate Governance Code.

## The Sarbanes-Oxley Act

As a German company listed on the New York Stock Exchange, Allianz AG is subject to U.S. corporate governance rules to the extent that these are applicable to foreign issuers.

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002, which is aimed at restoring the trust of investors in the capital markets. For this purpose, the law expands the disclosure obligations of corporations and formalizes the processes that precede corporate reporting. Companies are obliged to establish internal control systems that must be maintained and reexamined on a regular basis. By way of certification, certain corporate officers must personally attest to the exactitude and completeness of reporting. Management must also certify that certain requirements concerning the internal control systems have been met. In addition, the law raises the requirements for the independence of auditors and contains detailed rules concerning the Audit Committee. Part of the law became effective immediately. However, most of its provisions require promulgation by the SEC, a process that has advanced considerably but is not yet completed. The SEC has meanwhile indicated that it is willing to allow exceptions for those provisions of the Sarbanes-Oxley Act that are in conflict with the national laws of a non-American company.

The Sarbanes-Oxley Act also has considerable implications for Allianz AG. The new disclosure rules require some amendments of our reporting. The Audit Committee is given comprehensive rights and duties. The SEC plans to publish more detailed rulings on the implementation of the SOA by April, 2003. However, previous statements by the SEC appear to indicate that it will accept the provisions of German codetermination law, even though they are in conflict with the American interpretation of the independence of the members of the Audit Committee. In other words, the fact that the Audit Committee of German corporations also comprises employee representatives should pose no problem in the future.

## The Supervisory Board and its committees

The majority of the recommendations of the German Corporate Governance Code concern the activities of the Supervisory Board and its committees. For this reason, the Supervisory Board has revised its rules of procedure as follows: first of all, a general description of the qualification and independence of the members of the Supervisory Board was established. As a rule, the age limit for members of the Supervisory Board is 70 years. Secondly, a number of rules concerning the avoidance or resolution of conflicts of interest were introduced, as well rules concerning the confidentiality and disclosure obligations of members of the Supervisory Board.

Following the recommendation of the Codex, Dr. Schulte-Noelle resigned from his seat on the Supervisory Board of Munich Re; in return, Dr. Schinzler, Chairman of the Board of Munich Re, resigned from his seat on the Supervisory Board of Allianz AG.

An essential part of the work of the Supervisory Board is performed by its committees. Up to the present, the Supervisory Board had already constituted among its members the Standing Committee, the Personnel Committee and the Mediation Committee according to § 27 (3) of the German Codetermination Act. In accordance with the recommendations of the German Corporate Government Codex, an Audit Committee was also set up.

- In its meeting of September 18, 2002, the Supervisory Board set up an **Audit Committee**. Three of its five members are elected upon suggestion by the shareholders, an additional two upon recommendation of the employee representatives. The Audit Committee meets at least four times a year. Its main task is the preliminary examination of the Group's Annual Financial Statements and Consolidated Financial Statements as well as the Management Report and the Recommendation for Appropriation of Profit. For this purpose, these documents are discussed with the Auditor. In addition, it examines the quarterly reports and the 20-F filing required in the U.S. The Audit Committee also prepares the appointment of the Auditor by the plenary Meeting of the Supervisory Board. In particular, it ascertains the required independence of the Auditor, assigns the mandate to the Auditor and sets priorities for the Audit. Its tasks also include the examination of the risk control system.

In its meeting of September 18, 2002, the Supervisory Board elected Messrs. Dr. Klaus Liesen, Dr. Diethart Breipohl, Dr. Gerhard Cromme, Prof. Dr. Rudolf Hickel and Horst Meyer as members of the Audit Committee. Dr. Klaus Liesen was elected as Chairman. In its constitutive meeting of November 12, 2002, the Audit Committee adopted its rules of procedure. Upon publication of the definitive SEC rules, these rules may have to be amended.

- The **Standing Committee** has a total of five members, two of which are currently employee representatives. Its essential function is the approval of matters for which approval by the Supervisory Board is required, to the extent that such matters do not fall under the competency of the Personnel Committee or must be decided by the plenary meeting of the Supervisory Board. In particular, this concerns the approval of corporate actions and of the acquisition or divestiture of companies or shareholdings in companies. A new task of the Standing Committee is the drafting of the annual Declaration of Compliance in accordance with § 161 of the German Stock Corporation Law concerning compliance with the German Corporate Governance Code. It has also been placed in charge of the regular examination of corporate governance and the efficiency of the work of the Supervisory Board. It is held to submit suggestions for improvements to the plenary meeting of the Supervisory Board.
- The **Personnel Committee** is composed of the Chairman as well as one representative each of the shareholders and employees on the Supervisory Board. It prepares the appointment of members of The Board of Management, tends to ongoing personnel matters of Board members and handles questions concerning their compensation. It is also involved in the long-term succession planning for the Board of Management and closely cooperates with the current Board in this matter.
- According to § 27 (3) and § 31 (3) of the German Codetermination Act, the statutory **Mediation Committee** meets only if the Supervisory Board, in a vote on the appointment or recall of a member of the Board of Management, fails to obtain the two-thirds majority required by law.

## Compensation of the Board of Management and the Supervisory Board

In fiscal 2002, the compensation of the Board of Management and the Supervisory Board was composed of fixed and variable components.

The **compensation of the Board of Management** consists of a fixed and a variable salary component. Information on the overall compensation of the Board of Management, broken down into fixed and variable components, as well as the number of stock appreciation rights granted under the Long Term Incentive Plan is provided on page 143 and 144 of this Annual Report.

Like the majority of publicly traded German companies, we do not disclose the individual compensation paid to members of the Board of Management. In our opinion, the principle of the Board's shared responsibility is more accurately reflected by disclosure of the total compensation. In addition, we doubt that disclosure of individual compensation is apt to promote a performance-based differentiation.

The **compensation of the Supervisory Board** also contains a fixed and a variable component. The fixed annual compensation amounts to 4,000 euros. The variable component of the compensation is linked to the dividend paid. If the dividend exceeds 15 cents, each additional cent increases the compensation by 500 euros. For a dividend in the amount of 1.50 euros, the variable compensation comes to 67,500 euros. The Chairman of the Supervisory Board receives 200 percent of the combined total, and any other member of a committee of the Supervisory Board (with the exception of the Mediation Committee) is paid 150 percent of this amount.

In accordance with the recommendations of the German Corporate Governance Code, we also examined the compensation of the Supervisory Board. On the basis of our findings, we will propose an amendment of the Articles of Incorporation to the Annual General Meeting. As recommended by the Code, this amendment is intended to take into account the work in the committees of the Supervisory Board to a greater extent than is presently the case.

Under the terms of this amendment, the fixed and variable components of the compensation of the Supervisory Board will remain unchanged, with respect to both their amount and the basis on which they are calculated. But committee work is to be compensated separately. The amendment stipulates that the members of the Audit Committee, in order to protect their independence to the greatest possible extent, shall receive an annual fixed compensation in the amount of 30,000 euros, and that the chairman of the committee shall receive a fixed amount of 45,000 euros. For the members of the Standing Committee and of the Personnel Committee, a compensation in the amount of 25 percent of the basic compensation is proposed. The chairmen of these committees would receive 50 percent of the basic compensation. This separate compensation for committee members is limited by a ceiling which takes effect when the Chairman of the Supervisory Board has reached three times the basic compensation and the other members of the Supervisory Board have reached twice the basic compensation.

### Retention in Directors & Officers Liability Insurance

Members of the management and supervisory bodies of Allianz Group have a Directors & Officers Liability Insurance, which covers the liability from their officerships and directorships. In accordance with the recommendations of the German Corporate Governance Code, we have decided that in case of damage awards, members of the Board of Management are subject to a retention equal to 25 percent of their fixed annual compensation. The retention for members of the Supervisory Board is 100 percent of their annual compensation.

### Outlook

In various media analyses on the subject of corporate governance, Allianz received one of the top rankings among DAX 30 companies. We take this as an incentive to pursue our quest for efficient corporate governance at all levels, including collaboration in external bodies. From the outset, we participated in the government commission “German Corporate Governance Code”. But above all, we are committed to the continual reexamination and further development of the efficiency and transparency of the corporate governance of Allianz, in the interest of our shareholders and other stakeholders, i.e. our employees, our customers and our society.

Up-to-date information on corporate governance is also available on our website at [www.allianzgroup.com/corporate-governance](http://www.allianzgroup.com/corporate-governance).