

The Allianz Group is managed and controlled according to the principle of value-based management. The goal of our corporate policy is to consistently meet the expectations of our shareholders over the long term. We want shareholders, employees, customers and our social surroundings to profit from the value our company creates.

What do we mean when we talk about the creation of wealth? The capital that is employed by the company must yield a higher return than a comparable alternative investment. In order to determine whether this is the case, we apply the concept EVA (Economic Value Added) throughout the company. Adapted to the specific requirements of our industry and the needs of Allianz, Economic Value Added determines our company’s economic goals. It provides a measure of our performance and plays an important role in setting the remuneration of management.

Basic idea

The basic idea behind EVA involves comparing profit with the cost of capital. EVA – whether positive or negative – is the difference between the two. It tells us whether or not our profits exceed the opportunity cost of the capital invested by our shareholders. As a result, EVA is expressed by the following equation:

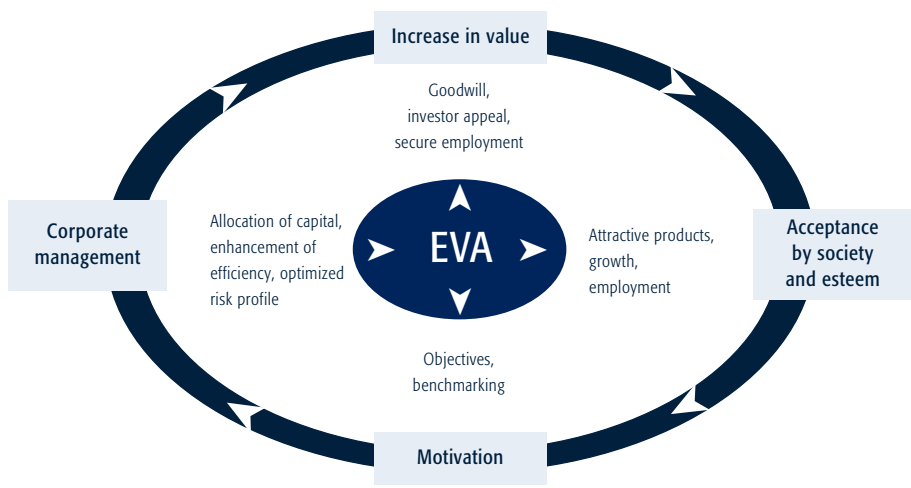
$$EVA = Profit - (Capital\ employed \times Cost\ of\ capital)$$

The cost of capital represents the return an investor can expect from an alternative investment with comparable risk. An EVA greater than zero indicates that an added value for the shareholder has been created. If, on the other hand, the EVA becomes negative, that means a shareholder would have received a greater return from another risk adequate investment than from Allianz shares. In this case, his investment has destroyed value instead of increasing it.

With EVA, we have a measuring instrument that

- _ takes into account our industry-specific risks, and
- _ establishes a relationship between corporate profit and the minimum return our investors expect from the capital they have invested.

Economic Value Added (EVA): An all-encompassing steering and coordination process



Central and decentral elements

These considerations are important because they support valued-based management of the Allianz Group and at the same time allow us to retain a decentralized structure. Why do we need decentralization? We are convinced that the management of our business entities worldwide is in the best position to determine what measures are appropriate for making their companies more profitable. They have to decide what risks they can take – for example, when they write insurance policies, extend loans, invest funds or make other managerial decisions – to generate a specific profit.

The Group, on the other hand – and this is where the central management instrument comes in – must look after the interests of shareholders and make sure that the sum total of the risks entered into remains acceptable for the company as a whole and that the actual profit realized justifies the investment of capital.

Risk capital

In order to do this, we start by determining the amount of capital each individual operational entity requires to cover the financial risks involved in ongoing business activities. On the one hand, the required capital depends upon the risks that are typical for the products of our Group companies, i.e., premium, reserve and credit risks plus risks in connection with capital investment and operational risks. On the other hand, the amount of capital needed is geared to the mandatory level of security that is centrally prescribed for the group as a whole. Uniform standards are also applied when determining risk capital. In this context, the Standard & Poor's model is used to value risks.

Value added

As holding company, we assign available capital to our operational entities on the basis of efficiency and risk. Group companies are then responsible for generating a return on this risk capital that covers at least the cost of capital. Added value results only when this threshold is exceeded. That means that the business units must know which activities will increase the value of their companies and concentrate on these activities. New value drivers must also be built up, for example, through new products, more cost-effective processes, innovative rates, etc. Local management must also prevent value from being destroyed along the value added chain. If this happens, countermeasures must be adopted immediately.

The Group Center supports the business units in this continuous optimization process. The jointly acquired experience then flows into mandatory operational targets. For example, this involves determining of the cost and claim quotas a unit will have to achieve in future periods to attain a sustainable increase in EVA and thereby meet, if not exceed, the expectations of our shareholders.

Management remuneration

Since EVA is the key indicator that shows us whether or not we are generating a profit, the remuneration of senior management is based to a significant extent upon this factor. That means we have opted for an incentive system that helps make the continuous increase in the value of the company a priority concern that cuts across our entire organization.

Our plan for achieving economic value added primarily benefits our shareholders. However, our customers, employees and the society in which we operate benefit just as much. After all, sustainable success can only be achieved by offering excellent products at attractive prices that satisfy our customers, generate sales to secure jobs and produce profits that allow us to continue and increase our involvement in society.