

Status Report 2004

## Sustainability in the Allianz Group

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**Allianz Group**

“THE ALLIANZ GROUP IS COMMITTED TO SUSTAINABILITY, CONTINUITY AND DEPENDABILITY. WE WANT TO BE A KEY ENGINE FOR SUSTAINABLE DEVELOPMENT BOTH NATIONALLY AND ON THE INTERNATIONAL STAGE.”

(2000)

## Table of Contents

SUSTAINABILITY STRATEGY AND MANAGEMENT 2

CURRENT RATING RESULTS 5

HIGHLIGHTS 2003/2004 6

INDICATORS FOR SUSTAINABLE DEVELOPMENT 8

INITIATIVES, JOINT VENTURES AND MEMBERSHIPS 9

OBJECTIVE FOR 2005 10

CONTACTS 10

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# Sustainability Strategy and Management

The sustainability principles of the Allianz Group are directed toward goals extending way beyond the issues of environmental protection and describe a comprehensive responsibility of the company. The financial services provider regards sustainability as a key factor in risk management. It also sees sustainability as an opportunity for innovations and for a future-oriented corporate culture.

The Allianz Group is aware that as a financial services provider, it has substantial potential for influencing social development. This is because in its function as a provider of credit or as an insurer the Group facilitates technological progress in business and hence plays a major role in structuring the future. It is therefore appropriate for the Allianz Group to establish with its shareholders and stakeholders where it should play a role in a sustainable future and what that role should be.

Against this background, the Allianz Group is engaging intensively with the issue of sustainability and the Group interprets the twin role it plays in the form of an integrated financial services provider as a challenge. It offers customers property and casualty insurance, life and health insurance, loans, project finance and banking products. Allianz also has an investment volume amounting to around one thousand billion euros and as such is one of the biggest asset managers in the world. The Group therefore bears a great responsibility to manage risks for its customers and for the economy by appropriate forecasting methodologies. These risks may arise from technological developments, from increasing environmental problems or from social issues. At the same time, it is also in the basic corporate interest of the Allianz Group to master the risks its customers are subject to as well as the risks besetting the company itself.

The Allianz Group was therefore already starting to integrate sustainability systematically in its business processes during the year 2000. The trigger for this approach was the resolution by the Board of Management to draw up a Group strategy. It commissioned an international team comprising representatives from different divisions and subsidiary companies. This Sustainability Strategy Team reports on progress directly to the Chairman of the Board of Management and to the International Executive Committee.

## TAKING RESPONSIBILITY AS "KEY DRIVER"

The UN summit held in Johannesburg in 2002 saw the companies in the financial sector who were members of the World Business Council for Sustainable Development (WBCSD) mapping out the key role they play in promoting sustainable development. They highlighted their intention of enhancing their commitment in future. The main tool envisaged for this process was risk management that also encompasses the risks of the customers. As co-chairman, the Allianz Group played a role in formulating the statement that emerged from the summit in Johannesburg and made a commitment to the challenge of establishing a system of risk management based on the requirements of sustainability. This has now been implemented by a range of different projects (see page 3).

## EMERGENCE OF NEW RISKS

The risks which the Allianz Group and its customers have to deal with have become increasingly multifaceted and complex during recent years. Apart from the possible hazard to the environment as a result of soil or water pollution, new problems have come to the fore where company conduct is under the spotlight from pressure groups and regulatory bodies. This includes working conditions in the supplier chain, the approach to corruption and bribery, and also transparency and control of company management (corporate governance). Apart from the actual liability risks resulting from inadequate environmental protection, the possible impairment of image had already emerged as a possible consequential risk in the past. With regard to errors in the context of social problem areas, it is therefore all the more important for the affected companies to be prepared for a potential permanent loss of their reputation as the biggest risk.

If they are interpreted correctly, however, risks always entail opportunities. International regulations and laws coming into force as a reaction to undesirable ecological, social or economic developments bring about a diverse range of corporate options and new product fields in the financial services sec-

tor. One example of this is the trade in emission certificates that is currently coming into being to protect the climate at the initiation of the Kyoto Protocol in 1997.

#### SUSTAINABILITY AS A FACTOR IN RISK MANAGEMENT

The Allianz Group is committed to continuously optimizing its risk management in order to be in a better position to identify risks in its own company and with customers, to manage those risks and even to turn them into opportunities. Sustainability management has also developed step by step out of different modules such as environmental management, product ecology, stakeholder dialog and work in foundations. Today, this sustainability management meets the requirements of the rating agencies geared to sustainability and guarantees a process of continuous improvement at the Allianz Group, partly as a result of a sustainability program that is updated and agreed each year.

The attempt to link sustainability expertise more firmly with the risk management of the company revealed that sustainability can be a key factor in optimizing the risk portfolio. This is because risks that form the focus of sustainability management are those that arise from long-term developments in the technological area and in social consciousness. These are risks that are not adequately taken into account by conventional methods. In order to alleviate the situation, the Allianz Group is increasingly factoring criteria related to sustainable development into risk management and hence into the core business of the company.

#### BOARD OF MANAGEMENT PROJECTS ON INSURANCE AND FINANCIAL INVESTMENTS

The integration of sustainability aspects into risk management is being progressed at the Allianz Group with concrete projects. They follow the recommendations of the International Strategy Team for the core businesses of insurance and in-house financial investments.

#### — RISK SCREENING IN UNDERWRITING

The pilot project on Risk Screening in Underwriting was launched in July 2003 as the first pilot project for integration of sustainability in core business on behalf of the member of the Board of Management responsible for controlling, accounting taxes and compliance. The project was intended to investigate whether and how underwriting (assessment and assumption of risk) takes account of sustainability aspects in insurance, in order to form the basis for integration. This demonstrated that the approach taken to the three groups of criteria comprising Emerging Risks, Reputational Risks and Cross Cutting Issues/Management Risks has been dealt with in very different ways in the individual divisions (Liability, Property Insurance, Engineering Insurance, Marine and Aviation). The analysis concluded that more systematic processing for emerging risks and reputational risks would be desirable.

The recommendations developed within the framework of the project are currently being incorporated within a new version of the Group Risk Policy. This then has to be adopted by the individual Group companies and divisions, and adapted to the prevailing circumstances.

#### — SUSTAINABILITY SCREENING OF OWN FINANCIAL INVESTMENTS

Another project was initiated in February 2004 under the auspices of the Chief Financial Officer of the Allianz Group. This is addressing the issue of sustainability screening of the Group's own financial investments. The aim of this project is to create the preconditions for expanding Allianz investment policy by sustainability aspects. Following on from the inventory for current investments and their sustainability performance, the intention now is to examine whether and how sustainability performance relates to the financial results. Concrete recommendations for action should be available in autumn 2004.

### ROLL-OUT OF ENVIRONMENTAL MANAGEMENT FOR THE ALLIANZ GROUP

In the year 2003, Allianz also promoted international expansion of its system of environmental management as a basis for its commitment to sustainability. The major Group companies Dresdner Bank (Germany), AGF (France), RAS (Italy), Cornhill (Great Britain) and Euler Hermes (Germany) have now been integrated within the management structure. This success has been brought about by regular exchange within the forum of the international Sustainability Working Group. This was set up in 2001 with the aim of anchoring the sustainability strategy of Allianz across the Group and supporting it with concrete projects. Environmental management at the Allianz Group currently comprises around 61 percent of the global workforce and the intention is to extend its remit further.

### OUTLOOK

The integration of sustainability aspects within core business processes means that the Allianz Group has set a key milestone on the route to sustainable development. However, developing sustainability continues to remain a big challenge for the global Group. One of the results to come out of the accompanying research work on sustainability strategy at Allianz was that the understanding of sustainability varies from country to country. However, the sustainability strategy will only be successful if it is implemented and experienced in the international world of Allianz.

# Current Rating Results

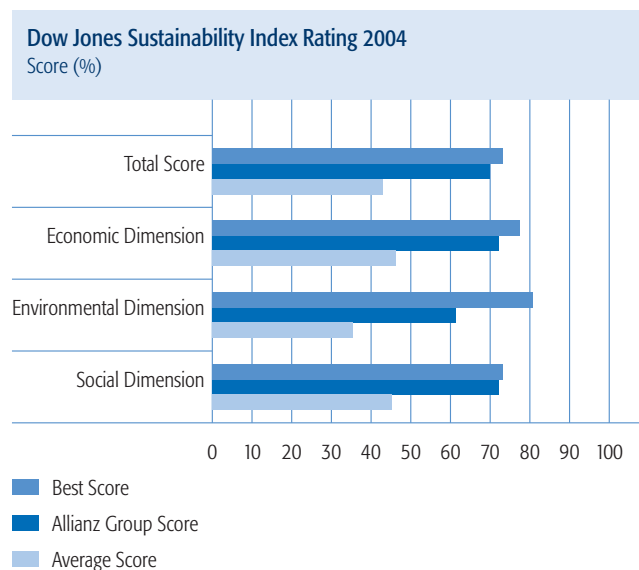
Inclusion in a sustainability index or a fund based on ethical and ecological principles has developed into an important indicator for the sustainability performance of a company. This is because companies are only included if they subject themselves to analysis on the basis of concrete criteria and if they meet these criteria verifiably.

The vast array of funds and indices mean that the market for sustainable investments is no longer transparent, either for the companies themselves or for the stakeholders. The Allianz Group committed itself to a project sponsored by the Federal Ministry for Education and Research (BMBF) with the aim of increasing transparency in issues related to sustainable investments. This project resulted in a comprehensive Internet-based presentation of this market and its players ([www.nachhaltiges-investment.org](http://www.nachhaltiges-investment.org)). Allianz itself is represented in around one third of all funds based on sustainability in the German-speaking area and also in the following sustainability indices:

- Dow Jones Sustainability Group Index
- Dow Jones STOXX Sustainability Index
- FTSE4Good European 50 Index
- FTSE4Good Global 100 Index

## CURRENT EVALUATION BY SAM

Rating 2004 drawn up by Zurich Sustainable Asset Management (SAM > [www.sam-group.com](http://www.sam-group.com)) for the Dow Jones Sustainability Group Index (> [www.djsgi.com](http://www.djsgi.com)) saw the Allianz Group again achieving a top ranking by taking second place among the sustainability leaders in the financial services sector. Allianz companies AGF and RAS are also listed in the Dow Jones Sustainability Group Index.



## CURRENT EVALUATION BY OEKOM RESEARCH

A regular evaluation of sustainability performance is also carried out by Munich-based oekom research ([www.oekom-research.com](http://www.oekom-research.com)) within the scope of sector ratings. The last Corporate Responsibility Rating for financial services providers carried out in June 2003 ranked the Allianz Group in sixth place among a total of 70 companies with an assessment of C+. Since then, oekom research has been recommending its customers to buy shares in the Allianz Group as an investment on the basis of ecological and social criteria.

# Highlights 2003/2004

Responsibility for the environment and society is a key element in Allianz corporate culture. Activities during the years 2003 and 2004 highlight the fact that commitment to this responsibility is made at the highest level of executive management and that all areas and levels of the business are dedicated to this approach. These activities demonstrate the vast array of options available to the financial services provider for promoting sustainable development.

## LEADERSHIP VALUES ADOPTED FOR THE ALLIANZ GROUP

In November 2003, Michael Diekmann, Chairman of the Board of Management of the Allianz Group, presented the new Leadership Values to all Allianz managers in the form of a personal letter. These principles were drawn up by corporate management in collaboration with managers from different Allianz companies and are intended to promote a performance-oriented corporate culture. They were developed as principles governing conduct internally but they also establish externally what is expected from managers at Allianz. The maxim of "Building on trust and feedback" is explained in the Leadership Values as follows: "Our success is based on mutual trust, fairness, integrity, and clear and open communication".

## ALLIANZ GROUP IS FOUNDING SPONSOR FOR ESMT

When the Munich site opened on 26 May 2003, the European School of Management and Technology (ESMT) launched its management seminars. The head office of ESMT is based in Berlin, and alongside the Allianz Group, founding sponsors include the companies BMW, DaimlerChrysler, EON, MAN, Siemens, ThyssenKrupp and the non-profit-making Hertie Foundation. At the opening ceremony Dr. Henning Schulte-Noelle, Chairman of the Supervisory Board of Allianz Group and Chairman of the ESMT Foundation, highlighted the fact that particularly in difficult economic times, it was important to invest in the economic future through management qualification.

## CONTINUATION OF THE WBCSD PROJECT

In 2002, under the joint chairmanship of the Allianz Group and ABM AMRO, the World Business Council on Sustainable Development (WBCSD) initiated the project Sustainable Development and the Financial Sector. The initial results were incorporated in the Johannesburg Statement of financial services providers. The project is now entering the second phase: in

order to implement the Johannesburg statement, it is necessary to evaluate the concrete opportunities available to the financial sector for making an impact. There is also a need to examine how the sector deals with situations where there is a dilemma and how they can promote open cooperation with customers. The intention is to appoint a representative to be selected from the customers of financial services providers as the third co-chairman.

## SIMULATION PROCEDURE FOR RISK ASSESSMENT

Reinsurer Allianz Global Risks has developed an innovative IT program with the aim of being able to provide a better assessment of the risks associated with catastrophes. In the first instance, all available catastrophe scenarios are played out for each individual loss event before the premium is set. This permits a transparent risk analysis close to real time and renders nasty surprises unlikely. Since the simulation procedure was introduced, it has contributed significantly to transparency in the portfolio of Allianz Global Risks. Additional benefits are high-quality risk assessment and an improved basis for reinsurance. Overall, the simulation tool has also led to greater understanding of natural hazards and improved risk analysis.

## ALLIANZ GLOBAL RISKS OFFERS COMPANIES PARTNERSHIP

If insurance companies want to identify risks for people and the environment at an early stage, they will have to work more closely with companies in future. The Allianz Global Risks business unit PharmChem Solutions has therefore been offering pharmaceutical and chemical companies a partnership since October 2003. Within the framework of this partnership, PharmChem Solutions is integrated in the customer's risk management at an early stage and is therefore in a position to work out tailor-made solutions.

#### ALLIANZ LEBEN GIVEN AWARD TOTAL E-QUALITY

Allianz Leben received the award Total E-Quality in June 2004 for its exemplary personnel work geared to equal opportunities. Flexitime and part-time arrangements coupled with the opportunity for teleworking create good conditions for getting the work-life balance right. The company also provides support with childcare provision.

#### DRESDNER BANK SIGNS EQUATOR PRINCIPLES

Dresdner Bank is part of the Allianz Group and in August 2003 the company signed up to the Equator Principles. These principles for project financing were derived from the environmental and social standards of the World Bank for financing projects in transition and developing countries and they were presented in Washington on June 4, 2003. They are intended to ensure that only projects which guarantee sustainable development in these countries will be financed in future (> [www.equator-principles.com](http://www.equator-principles.com)).

#### RCM PARTICIPATES IN THE GLOBAL COMPACT INITIATIVE

RCM, a company of Allianz Dresdner Asset Management, joined forces with another 19 international financial services providers on an initiative of the Global Compact. This initiative resulted in recommendations for improved integration of ecological, social and governance issues affecting analysis, asset management and securities trading. The companies have made a commitment to provide more concrete details for the recommendations presented in June 2004 and to submit a report to the Global Compact on what has been achieved within a year. The overarching goals of the initiative include stronger and more elastic financial markets, sustainable development, improved understanding of stakeholders, and building up trust in the financial institutions. The financial services providers included in the initiative represent an investment volume amounting to more than six trillion US dollars.

#### SUSTAINABLE INVESTMENTS

Asset Management at the Allianz Group has a specialist team for analyzing sustainable investments and sells appropriate products to institutional investors. March 2003 saw Asset Management marketing a product for private investors for the first time. Another sustainability fund was launched by the French Allianz subsidiary AGF in 2002 and recorded growth of 169 percent in 2003.

#### RAS IS BEST PERFORMER IN THE AREA OF HUMAN RESOURCES

A study carried out by management consultants Deloitte Business Consulting in spring 2004 among 135 European companies gave the best performance rating to Italian Allianz company RAS in the area of human resources management. RAS was among the front runners the year before and achieved the best performance in the area of human resources management among Italy's insurance companies.

#### ALLIANZ SUCCESSFUL WITH MICRO-INSURANCE POLICIES IN INDIA

Allianz Bajaj Life Insurance (India) offers so-called micro-insurance policies to low-income families in cooperation with non-governmental organizations. The company was advised by the partly state-run development aid organization Society for Technical Cooperation during the development stage. The policy InvestGain allows families to secure their monthly living costs and make provision for the scenario where the breadwinner is no longer able to work because of permanent disability or death. So far nearly 40,000 families have concluded insurance policies of this nature and premium income is significantly above outgoings for loss events and administration.

# Indicators for Sustainable Development

The Allianz Group succeeded in improving its performance compared with 2002 in all areas of operational environmental protection. Economic indicators also demonstrate an entirely positive trend. By contrast, virtually all the indicators for social data point toward declining performance. This is partly due to the cost-cutting measures adopted in the course of 2003. Only the proportion of women in middle and upper management demonstrated a marginally positive trend.

Financial and social data were being collected at the Allianz Group across the world during the entire period from 2000 to 2003. This has only been the case for environmental data since 2002. The data is recorded in conformity with the system of indicators defined by the Association for Environmental Management in Banks, Savings Banks and Insurance Companies (VfU), based on the guidelines drawn up by the Global Reporting Initiative (GRI > [www.globalreporting.org](http://www.globalreporting.org)). During the years 2000 and 2001, assessment of environmental performance was restricted to the German companies of the

Allianz Group. Despite this, the environmental data gathered during these two years cannot be compared. In 2001, other regional offices of Allianz Leben were included through the Stuttgart Head Office (Hanover, Karlsruhe, Frankfurt, Munich, Berlin and Leipzig). An extensive report on development in operational environmental protection (pdf) can be accessed on the Internet under: [www.allianz.com](http://www.allianz.com) > Responsibility > Sustainability > Environmental Protection > Environmental Management.

Indicators for the Allianz Group	2000	2001	2002	2003
<b>Economic development</b>				
Total premium income (billion euros)	68.7	75.1	82.7	85.0
Earnings before tax (million euros)	4,913	1,768	-1,309	2,528
Net income (million euros)	3,460	1,585	-1,229	1,616
Return on capital after tax (%)	10.6	4.7	-4.6	6.4
Earnings per share (euros)	12.32	5.71	-4.44	4.77
<b>Social issues</b>				
Employees (number)	119,683	179,946	181,651	173,750
Staff undergoing training (number)	4,691	8,245	7,589	6,063
Average participation of employees in education measures (days)	3.5	5.2	6.7	4.9
Fluctuation rate (%)	14.5	12.4	12.8	13.3
Proportion of women in middle and top management (%)	22.3	22.5	24.5	25.2
<b>Environmental performance</b>	(only Germany)	(only Germany)		
Percentage of employees included in environmental management (% of employees)	16.2	11.9	53	61
Energy consumption (MJ/employee/year)	29,020	27,115	27,706	28,599
Business travel (km/employee/year)	5,089	4,778	2,925	2,832
CO <sub>2</sub> emissions (kg/employee/year)	4,919	4,988	3,639	3,612
Water consumption (Liters/employee/year)	13,571	13,349	15,401	15,178
Paper consumption (kg/employee/year)	557	665	302	241
Amount of waste (kg/employee/year)	217	246	258	333



# Initiatives, joint ventures and memberships

The Allianz Group is an open company in continual dialog with its social environment. The Group is active in numerous international committees in order to move forward sustainable development as a joint member. The companies of the Allianz Group are also involved in national and local activities, foundations and initiatives aimed at promoting sustainable development.

**UN Global Compact:** This was set up by the General Secretary of the United Nations, Kofi Annan, in 1999. The Global Compact appeals to companies to contribute to a just process of globalization. As a value-based platform, the Global Compact is also dedicated to promoting institutional learning. The Allianz Group has been a member since 2002. RCM Global Investors is a subsidiary of Dresdner Bank and during the year 2004 it joined an initiative of the Global Compact aimed at drawing up recommendations for integrating sustainability aspects in analysis, asset management and securities trading. (> [www.unglobalcompact.org](http://www.unglobalcompact.org))

**United Nations Environment Program (UNEP):** UNEP acts as a center for information, advice and coordination concerning global environmental and climate protection. It develops international environmental legislation and supports its implementation. The Allianz Group is represented in the UNEP financial initiative by Group company Dresdner Bank. This company is a member of the Climate Change Working Group that is dedicated to initiating a proactive approach among financial services providers and companies. (> <http://unepfi.net>).

**Carbon Disclosure Project:** The Allianz is among the signatories to the Carbon Disclosure Project for the second time through Group company Allianz RCM/Deutsche Investment Trust (DIT). In 2002 and then again in 2003, the major asset managers participating in this project requested the 500 biggest industrial companies in the world to disclose their greenhouse gas emissions and describe their policy on emissions. (> [www.cdproject.net](http://www.cdproject.net))

**World Business Council for Sustainable Development:** The World Business Council for Sustainable Development (WBCSD) represents around 150 companies from more than 30 countries that are committed to more ecoefficiency, innovative technologies and social responsibility. The UN summit held in Johannesburg in September 2002 saw the financial services providers represented in the WBCSD, including the Allianz Group, mapping out their key role for sustainable development (Johannesburg Statement by financial services providers). The Allianz Group played a proactive role in projects such as "Sustainable Development and the Finance Sector, Risk, Accountability and Reporting, and Water by initiation, co-chairmanship or collaboration. (> [www.wbcsd.org](http://www.wbcsd.org))

The various Allianz companies also participate in national sustainability initiatives. For example, AGF is a member of Observatoire sur la Responsabilité Sociale des Entreprises (ORSE > [www.orse.org](http://www.orse.org)), Allianz Germany is a founding member of econsense (> [www.econsense.de](http://www.econsense.de)). A number of business units are also engaging in dialog with non-governmental organizations (e.g. Transparency International).

# Objective for 2005

Allianz intends to continue its policy of integrating sustainability more intensively within risk management and hence within core business. The focus will be on early recognition of future potential for risk. Dialog on issues relating to risk will also be intensified with external stakeholders and the aim is also to expand the global environmental management system as a basis of activities.

Focuses:

- Implementation of the recommendations arising from the Board of Management projects in the area of underwriting and in-house financial investments, and expanding a concept for a systematic, prospective risk management and appropriate internal risk research
- Continued expansion of the early warning system
- Intensification and systematization of the dialog with stakeholder groups (e.g. WWF)
- Support for our Leadership Values and principal goals by means of the sustainability strategy
- Expansion of a Group software tool for controlling, observation and reporting of sustainability performance
- Improving the external evaluations of sustainability performance (ratings)
- Internal training on sustainability issues
- Incorporation of other sustainability aspects (e.g. demographic change, health) into the sustainability strategy

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