# ALLIANZ SE MANAGEMENT BOARD REMUNERATION SYSTEM

#### **FACT BOOK for investors**

#### Item 5 of the agenda

Approval of the remuneration system for members of the Board of Management of Allianz SE

Allianz Investor Relations, March 2021

#### Disclaimer:

This is a summary of the remuneration system for the Board of Management of Allianz SE and the proposal to the Annual General Meeting of Allianz SE on May 5, 2021. This summary is provided as an information to investors for convenience purposes only. For more comprehensive information please refer to the <u>invitation</u> to the Annual General Meeting 2021 of Allianz SE. Allianz SE reserves the right to make amendments. No warranty is made as to the accuracy of this summary and Allianz SE assumes no liability with respect thereto.

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#### **Abbreviations**

- CEO = Chief Executive Officer
- RBM = Regular Board Member
- ICF = Individual Contribution Factor
- KPI = Key Performance Indicator
- LTI = Long-Term Incentive
- RSU = Restricted Stock Unit

- SXIP = STOXX Europe 600 Insurance
- TSR = Total Shareholder Return
- ESG = Environmental, Social, Governance
- AktG = German Stock Corporation Act (Aktiengesetz)
- IFRS = International Financial Reporting Standards
- ARUG II = Act to implement 2<sup>nd</sup> Shareholder Rights
   Directive (SRD II) into German law



# **Summary**

#### System in good shape

- The remuneration system was thoroughly updated in 2019
- It was approved by the Annual General Meeting 2019 with a 92.1% majority
- To comply with the updated German Corporate Governance Code (December 16, 2019) the following amendments became effective in 2020:
  - ✓ Elimination of severance payments in the event of a change of control
  - ✓ Offsetting severance payments with non-competition clause payments to avoid double payment
- Last year Euroshareholders and Deutsche Schutzvereinigung für Wertpapierbesitz (DSW) ranked it as the most shareholder-friendly DAX 30 remuneration system
- The system worked well in the COVID-19 crisis: operating profit and net income for fiscal 2020 dropped by 9.3% and 14.0% respectively, target achievement declined to 75.6%

# Only a few amendments needed and proposed to the Annual General Meeting 2021

- The basic structure of the remuneration system remains unchanged
- The amendments proposed to the Annual General Meeting are aimed at
  - (1) ensuring the appropriateness of the CEO compensation
  - (2) integrating rules and recommendations provided by ARUG II and updated German Corporate Governance Code
  - (3) clarifying some issues
- In addition, climate and social aspects (ESG) will be stronger incentivized
- The requirements of ARUG II and of the updated German Corporate Governance Code are met in every respect
- The proposed amendments shall first apply for the fiscal year 2021



## **Basic structure**

Target remuneration structure	Target remu- neration in € thou	Modifier for target level	Other characteristics
30% Base salary	CEO: 1,911 RBM: 975	<ul> <li>Fix</li> <li>Chair factor for CEO set at 1.96 x RBM (applies to all components of target remuneration and to the cap)</li> </ul>	<ul><li>Shareholding requirement</li><li>CEO: 2 x base salary</li><li>RBM: 1 x base salary</li></ul>
25% Annual bonus	CEO: 1,593 RBM: 813	Annual bonus target achievement factor  Group result  O - 150%  Individual contribution factor	<ul><li> Malus (up to 100%)</li><li> Clawback (up to 3 years)</li></ul>
45%  Long-term incentive (LTI) 1	CEO: 2,867 RBM: 1,463	Annual bonus target achievement factor  4-year share price performance (peer index)  Sustainability check (100% down to 0%)	
100%	CEO: 6,371 RBM: 3,251	• Severance payment ≤ 2 x target compensation	<ul> <li>Total stock exposure<sup>3</sup></li> <li>CEO: 8 x of base salary</li> <li>RBM: 7 x of base salary</li> </ul>
+ Pension contribution	CEO: 956 RBM: 488	• 15% of target compensation (50% of base salary)	
Total remuneration	CEO: 7,327 RBM: 3,739	<ul> <li>Cap incl. pension contribution in € thou:</li> <li>CEO: 11,750, RBM: 6,000</li> </ul>	

<sup>1)</sup> For simplicity reasons, the LTI percentage as well as the LTI target amount are based on target allocation values.

<sup>2)</sup> The overall remuneration cap of € 11,750 thou | € 6,000 thou including pension contributions limits the effective payout of the LTI to a maximum of 272%.

<sup>3)</sup> Shareholding requirement plus LTI at full run-rate



# **Key requirements**



#### **Transparency**

- Disclosure of target metrics and achievement (ex post)
- Disclosure of individual contribution factor for each board member.

# Shareholder alignment

- High economic exposure to Allianz stock (physical shares plus virtual shares from LTI)
- Malus and clawback applicable to full variable remuneration



# Pay for performance

- Consideration of relative total shareholder return
- Zero payout from LTI in case of poor relative total shareholder return



#### **ESG** targets

- Concrete social and climate protection targets
- Sustainability assessment before LTI payout



#### **Simplicity**

- 3 core compensation components
- Assessment against public KPIs



#### **Adequacy**

- Horizontal and vertical alignment
- Explicit caps for total compensation

### **Amendments & rationale**

Amendments are explained in more detail in the invitation to the Annual General Meeting and in the Remuneration Report

#### **Adjustment**

 Increase of CEO target remuneration to EUR 7.327 thou from EUR 6.540 thou

 Increase of CEO target remuneration cap to EUR 11,750 thou from EUR 10,000

 Authorization for Supervisory Board to temporarily deviate from components of the remuneration system in exceptional circumstances

 Authorization for Supervisory Board to adjust variable remuneration under exceptional circumstances

#### Rationale

- Ensure adequate CEO compensation by adjusting chair factor to 1.96 from 1.75 x RBM compensation
- New chair factor matches DAX 30 average of 1.96
- New absolute CEO compensation stands at the 75<sup>th</sup> percentile of DAX 30 and matches the positioning of the RBM;
   Allianz, measured by revenues, number of employees and market capitalization, stands at the 86<sup>th</sup> percentile
- Align cap with CEO factor of 1.96 x RBM cap
- Emergency clause in line with ARUG II / § 87a (2) AktG
- Strictly limited to situations where necessary in the interests of the long-term welfare of the company
- E.g. for the appointment of a new board member with relevant expertise to cope with a crisis
- In line with German Corporate Governance Code
- Allows adjustments in case of significant distortion of results outside management control which could not be considered at target setting
- E.g. for significant changes in accounting rules (impact of IFRS 9 + 17) or in tax or regulatory framework

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# **Amendments & rationale, continued**

Amendments are explained in more detail in the <u>invitation</u> to the Annual General Meeting and in the <u>Remuneration Report</u>

#### **Adjustment**

 Clarification that Supervisory Board may moderately adjust target remuneration within approved framework

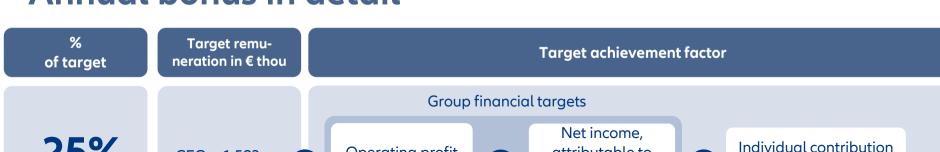
 Clarification that Supervisory Board may grant compensation for forfeited benefits from previous employer

#### Rationale

- Allows minor increases or decreases of target remuneration without change of remuneration system to maintain horizontal and vertical adequacy
- No automatic inflation adjustment
- Requires a justified decision by Supervisory Board that needs to be detailed in Remuneration Report
- Shareholder feedback via annual vote on Remuneration Report
- Enable hiring of senior external talent

# **APPENDIX**

## **Annual bonus in detail**



25%

Annual bonus

CEO: 1.593

RBM: 813

Operating profit (50%)



attributable to shareholders (50%)



factor 0.8 to 1.2

0 - 150%

#### **Financial targets**

 Metrics for 0%, 100% and 150% to be disclosed ex post in **Remuneration Report** 

#### Quantitative and qualitative targets dependent on divisional responsibility

- Business-related division responsibilities: profitability and productivity
- Functional focus: key responsibilities

#### **Non-financial targets:**

• Customer and employee satisfaction, individual and overall strategic target, leadership and behavioral aspects (social responsibility, diversity, sustainability / climate protection)

Individualized disclosure of ICF per board member in Remuneration Report

#### **New ESG targets 2021**

Malus and Clawback

• Up to full annual

bonus payment

after payment

Clawback up to 3 years

- Quantitative decarbonization targets for own operations
- Operative implementation plan for auantitative decarbonization targets for own public equity and listed corporate debt investments
- Strong sustainability position, measured by top rankings in major sustainability indices / ratings (DJSI, MSCI, Sustainalytics)



# Long-term incentive in detail

Taraet remu-LTI multiplier of target neration in € thou Annual bonus target achievement factor<sup>1</sup> = LTI allocation factor 0 - 150% 45% CEO: 2.867 RSU allocation RBM: 1.463 Long-term incentive (LTI) 4-vear relative 4-vear Allianz share price performance performance Allianz vs. STOXX Europe 600 (Factor at pay-out: Insurance (Factor at paymaximum 200%) out: maximum 200%) Calculation relative TSR Calculation Allianz share price performance factor: 100% + **2x** (4Y TSR Allianz -100% + Allianz share price performance 4Y 4Y TSR SXIP) Sustainability assessment<sup>2</sup> (100% down to 0%) 0 - 272%

#### Grant and vesting

- Granted in form of Restricted Stock Units (RSU); number of RSU
  determined by dividing LTI allocation amount by allocation value
  per RSU (share price minus net present value of expected dividends until
  vesting)
- As allocation is based on annual bonus target achievement factor, grant takes place in the year following the performance year (example: grant in March 2022 for performance year 2021)
- Grant is followed by a **vesting period of 4 years**(example: vesting period for grant March 2022 ends in March 2026)

#### Relative performance

- Allianz TSR to be benchmarked against TSR of STOXX Europe 600 Insurance (SXIP)
- Index members: 32, Allianz weight 12/31/2020: 18%
- 1%-p 4Y outperformance leads to a relative TSR factor of 102%;
   1%-p 4Y underperformance corresponds to a relative TSR factor of 98%
- Zero payout in case of 4Y underperformance of ≥ 50%-p
- The overall compensation cap of EUR 11.75mn | EUR 6mn limits the payout of the LTI relative to target to a maximum of 272%
- **Disclosure** of parameters for calculation (ex post)

#### Malus and clawback

- Up to full LTI
- Clawback up to 3 years



# Section 87a (2) German Stock Corporation Act (AktG)

To comply with Sec 87a (2) German Stock Corporation Act the Supervisory Board shall be authorized to deviate from the remuneration system in exceptional circumstances.

[Convenient Translation:] "The Supervisory Board of the listed company shall determine the remuneration of the members of the board of management in accordance with a remuneration system submitted for approval to the general meeting pursuant to Section 120a (1). The Supervisory Board may **temporarily deviate from the remuneration system** if this is necessary **in the interests of the long-term well-being of the company** and the remuneration system specifies the procedure for deviating and the components of the remuneration system that can be deviated from."



# Additional information at allianz.com

#### All information on the remuneration system of the Board of Management

Agenda, Item 5

Remuneration Report, page 23-43

**Board remuneration** 

Interview with Michael Diekmann

www.allianz.com/agm

www.allianz.com/annualreport

www.allianz.com/remuneration

Three questions to Michael Diekmann on CEO compensation





#### More about the Board of Management

**Board of Management** 

www.allianz.com/management-board



#### Allianz Group at a glance

**Allianz Fact Sheet** 

www.allianz.com/fact-sheet



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