

# PRINCIPLES BEHIND THE ACTION: Corporate governance, ethics and transparency

Convinced that transparency is a necessary prerequisite for the optimal operation of markets, AGF has joined in an active dialog with involved parties to advance sustainable development through its corporate governance and its ethics



## *Corporate governance at the heart of AGF*

Corporate governance in France grew subsequently to the publication of the report drafted under the chairmanship of Marc Viénot (1995) and expanded with the increased role played by individual shareholders and pension funds in the English-speaking world. These principles aim to organise the company in order to protect the interest of shareholders through a better distribution of powers between directors and corporate officers and greater transparency of financial information.

Although the Viénot reports I and II and the Bouton report are not mandatory, AGF has been putting most of these rules of corporate governance into practice since its privatisation in 1996. Therefore, AGF is in wide compliance with the principles promoted by the European rating agencies.

Based on studies on listed companies in Eurotop 300, the attitude of each company can be studied based on four criteria:

- rights and responsibilities of shareholders and in particular the application of the one-share-one vote-one dividend principle, which AGF is devoted to,
- means of anti-takeover defense, which are irrelevant for AGF, a subsidiary of the Allianz Group,
- Board structures and operations, detailed below,
- information on corporate governance, particularly in executive pay (bonus, stock options...) and the transparency of financial information already mentioned.

### ● The AGF Board of Directors

It is the Board's responsibility to periodically evaluate its capacity to respond to the expectations of shareholders for whom it administers the company, and to do so, it must review its composition, organisation and method of functioning.

#### **Composition**

In keeping with the principles advocated by corporate government, the composition of the Board of Directors works for the representation of various concerned parties, to be representative of its shareholders and to include independent directors in significant proportion.

Subsequent to the Bouton report “for better government of listed companies” of 23 September 2002, the revised internal regulations of the Group defined a director as independent when there is no relation of any kind whatever with the company, its group, its management or a shareholder of more than 10% of share capital that could compromise freedom of judgment.

Pursuant to the report and AMF recommendations, the Board of Directors comments each year on the independent nature of directors in its midst. Based on the decision of the Board of Directors of 15 March 2004, AGF has five independent directors (35.7%) plus a non-voting member (*censeur*). This situation reflects AGFS balance between active corporate governance and its integration into the Allianz Group.



**On last 31 December, the following 14 individuals served on the Board:**

- Jean-Philippe Thierry, Chairman and Chief Executive Officer
- Three directors representing the majority shareholder Allianz, elected by the General Meeting of Shareholders:
  - Mr. Mickaël Diekmann, Vice-Chairman of the Board,
  - Dr. Diethart Breipohl,
  - Mr. Detlev Bremkamp.
- Two directors representing employees elected by employees:
  - Mr. Philippe Sablons,
  - Mrs Mac Auliffe,
- A director representing employee shareholders elected by the General Meeting of Shareholders:
  - Mr. Mariano Sorolla.
- A representative of general agents:
  - Mr. Christian Brette.
- Five independent directors within the meaning of the Bouton report elected by the General Meeting of Shareholders:
  - Mr. Yves Cannac,
  - Mr. André Lévy-Lang,
  - Mrs Béatrice Majnoni d'Intignano,
  - Dr Hans-Dieter Kalscheuer,
  - Mr. Dominique Ferrero.
- A non-independent director within the meaning of the Bouton report elected by the General Meeting of Shareholders:
  - Mr. Antoine Jeancourt-Galignani

A non-voting member, Mr. Robert Hudry appointed at the meeting of the Board of 14 March 2003.

In addition, Mr. Michel Albert is Honorary Chairman of AGF.

The curriculum vitae of these directors plus the functions of each appear in the chapter Administrative Bodies of the financial report. A detailed profile of the directors is available on the internet site: [www.agf.fr/sustainabledevelopment](http://www.agf.fr/sustainabledevelopment).

The Board includes representatives of the main stakeholders of the Group:

3 representatives of the majority shareholders, 2 representatives of employees elected by them, independent directors, a representative of employee shareholders and a representative of the general agents. Except for the representatives of employees, they are elected by the General Meeting of Shareholders according to the principle of one share-one vote since AGF has no provisions limiting voting rights, double voting rights or shares without voting rights.

Pursuant to internal regulation, the Board of Directors has also appointed a non-voting member for four years. He is responsible for seeing to the strict application of the by-laws and has a right to be informed on the management of the company as a representative of all shareholders. In the exercise of his responsibilities, he assists the Board and takes part in deliberations on a consultative basis.

The respect of the provisions of laws n° 2001-420 of 15 May 2001, called the NRE law, and n° 2002-1303 of 29 October 2002, called the Houillon law, in terms of cumulative mandates, which is demanded of all directors, is a major guarantee of their full commitment and availability to the company. All directors, including the non-voting member, are in conformity. The list of their mandates appears on the internet site.

In the six meetings organised in 2003, the participation rate was 80%. In order to promote attendance, the criteria of distributing directors' fees had been changed and internal regulations have included provisions for video-conferencing in order to facility meetings of the Board on an emergency basis.

### **Functioning and activities of the Board**

The Board of Directors conducted an in-depth restructuring of its internal regulations in its meeting of 14 March 2003 in order to include most of the recommendations of the Bouton Report on corporate governance. The internal regulations of the Board and its committees are available on the internet site [www.agf.fr/sustainabledevelopment](http://www.agf.fr/sustainabledevelopment).

In 2003, the main non-recurring themes handled by the Board were the growth plans in and outside France and partnerships in different areas (health, analysis and selection of OPCVM and management companies, employee savings, single window, etc.) and contrariwise, several divestments (stakes in Crédit Lyonnais, Entenial, Sophia and AGF Belgium Bank, life activities in Brazil and Chile, etc).

Various points were also made respectively on Group policies in the calculation of provisions for value impairment and capital loss exposure, asset allocation in 2003 and 2004 as well as AGFs financial situation in respect of the markets (measures of protection against volatility of asset portfolios in bonds and equities) and the policy followed in reinsurance. The impact of the reform of the CAC 40 on AGF, the new Group organisation and the project to increase share capital for employees were also addressed.

The most significant innovations, other than the annual review of the situation of each director mentioned above, included a complete process of annually evaluating the operation of the Board by the directors themselves.



### **Implementing the annual evaluation of the operation of the Board**

The revised internal regulations stipulated that in order to optimise its operations, the Board of Directors places on its agenda once a year a review of its operation, followed by discussion. The methods of this evaluation are established by the Board with the assistance of a specialized outside consultant in order to have a complete evaluation process during the first quarter of 2004 so operations would be more efficient, harmonious and participative.

This evaluation will include the recommendations of the Viénot and Bouton reports, AMF recommendations and the provisions of the Law on Financial Security. An ad hoc questionnaire was sent to each director, and once the returns were in, it was followed by in-depth conversations. In order to guarantee confidentiality and success, the implementation of these two activities was assigned to an independent consultant outside the Group, Egon Zehnder.

The supervision and coordination of this process was given to the Chairman of the Compensation Committee, Mr. Lévy-Lang. The conclusions gave rise to a report, followed by debate, at the 15 March 2004 meeting of the Board of Directors.

### Report of Audit Committee activity

For fiscal year 2003, AGF presented forecast half-year financial statements on 13 August 2003, definitive half-year statements on 7 September 2003 and its annual statements on 15 March 2004 (or fifteen days before the limit of three months following fiscal year closing).

On that occasion, the audit committee heard the auditors (Ernst & Young audit and KPMG), who presented their conclusions on their reviews on the projected closing of statements. Twice a year, the auditors inform the committee of the state of AGFs provisions, globally and by business. It also reviews points that might have an impact on statements and future company profitability. It may also ask to review specific subjects. In 2003, it took an interest in the method of calculating provisions on assets, asbestos risk, the policy of covering portfolios during the year, market perspectives, the policy of allocating assets, the renewal of terms and auditors and the evolution of timetables for cashing premiums.

AGF did not use its auditors for consulting assignments\*. This distinction between audit and advisory assignments is not part of the general practices of AGF.

\*See consolidated annex on fees paid to auditors.

## ● AGF Supervisory Bodies

In keeping with the principles of corporate governance and provisions of the *note d'opération* of Allianz at the time of its friendly takeover of AGF, several committees were put into place: the Audit Committee, the Transactions Committee and the Compensation Committee.

### The Audit Committee

The Audit Committee of AGF is chaired by Mr. Dominique Ferrero and comprises Mr. Robert Hudry (since appointment to the Board on 14 March 2003) Mr. Detlev Bremkamp. Based on the definition of the Bouton Report, the independent directors account for two-thirds of the Audit Committee. It met five times in 2003 with an attendance rate of 73%.

The missions given to the Audit Committee are the following:

- to analyse statements prior to presentation to the Board of Directors and verify the relevance of accounting methods,
- to approve the Group general audit programme,
- to be consulted on the appointment or reappointment of the statutory auditors and to examine their review of statements,
- to examine any item that might have a major financial impact on the company,
- to fulfil special missions that might be assigned by the Board of Directors.

The Committee also examines the internal audit programme. If it is not the automatic recipient, the Committee may ask to hear any party, internal or external whenever they are committed to professional secrecy, as well as the director of internal audit, who participates in Committee meetings as a permanent invitee. The Chairman of the Audit Committee makes a detailed report of its work to the Board of Directors.



## ● The Transactions Committee

The Transactions Committee is chaired by Mr. Yves Cannac and comprises Messrs. Diethart Breipohl, and Hans-Dieter Kalscheuer. Based on the definition of the Bouton Report, independent directors account for two-thirds of the Transactions Committee.

It meets to review any operation exceeding 5 million euros, any acquisition or sale of a consolidated stake between AGF and Allianz or a member of its group, as well as any bond issue by Allianz that AGF subscribes to at more than 25%. It assures that all such operations are respectful of the interests of minority shareholders. Its advice is mandatory prior to any decision by the Board of Directors.

The Committee hears the management of the companies concerned, examines any fairness opinions by independent experts and entertains their statements. At the conclusion of each meeting, the Committee makes a report to the Board of Directors. Its opinion is mandatory and preliminary to any authorisation of a transaction by the Board. During 2003, the Transactions Committee met three times a year and the attendance rate was 89%.

### Report on the activity of the Transactions Committee

In 2003, it played a role in the divestment of Tindall Riley, the acquisition of Dresdner Gestion Privée, the state of advancement of work on AVIP, the conditions of the loan of AGF to Allianz, as well as the adjustments of prices on former sales (Phenix Suisse and sale of AGF MAT to Allianz).

## ● The Compensation Committee

The Compensation Committee is consistent with a policy of greater transparency in AGFs compensation system. AGF publishes complete and detailed information on the compensation of directors in the financial portion of the annual report and respond to questions that are addressed to it all year. It is chaired by Mr. André Levy-Lang and comprises Mr. Michael Diekmann and Mrs. Béatrice Majnoni d'Intignano. Independent directors account for two-thirds of its members. Required to meet at least once per year, the Committee met 2 times in 2003 with an attendance rate of 100%.

In keeping with its internal regulations, the missions of the Committee include:

- making any and all recommendations to the Board of Directors in respect of the compensation and retirement of the Chairman, as well as other corporate officers, as need be,
- making any and all recommendations to the Chairman in respect of the compensation and retirement of the members of the Executive Committee, who are not corporate officers,
- reviewing the recommendations of General Management in respect of the implementation of stock option plans authorised by the Extraordinary General Meetings of Shareholders,
- carrying out any and all special assignments that might be given by the Board of Directors.

More broadly, AGFs compensation system includes stock options and a variable portion of salary ("bonus") for executives. The granting of bonuses annually based on the results of the prior year is a function of the individual performance of the employees concerned when the overall performance is in keeping with the objectives of AGF. Distribution is based on the completion of these objectives and always approved by the Executive Committee

The policy of granting options is the same for all beneficiaries, including Executive Committee members, and aims to retain employees and reward performance.

A plan is submitted each year to the Board of Directors on the same date (the Board meeting of September) in order to avoid stock prices influencing grant date. The overall volume and the exercise price are based on the market context in order that any gain cannot result only from a market low on grant date.

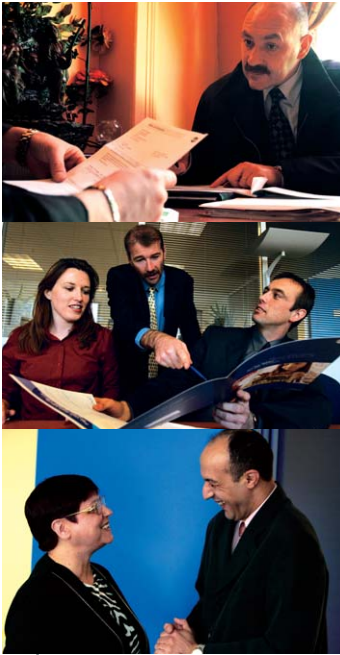
Candidates include not only corporate officers and executives but all employees whose retention the company wishes to support, either because of their potential (a high potential manager) or because of their performance.

The number of optionees and the individual recipients of stock options are reviewed each year and change by about one-quarter each year (17.5% from 2002 to 2003). The company's objective is to widen the eligible population. In 2003, 348 individuals were given options, including 155 non-executive managers, and the total amount of shares under option reached 1,118,250 or 0.59% of the capital. With the exception of the Chairman, no member of the Board receives stock options. 83% of these options are granted to non-members of the Executive Committee.



### Report of the activity of the Compensation Committee

The Compensation Committee took a position on the variable portion of remuneration to be paid to members of the Executive Committee in 2002 and the procedures therefore for 2003. The variable remuneration of members of the Executive Committee includes an annual bonus, one-half of which is based on individual qualitative criteria, and the second half on quantitative objectives of EVA (Economic Value Added) and IAS (International Accounting Standard) for the Group. In 2003, it also reviewed the supplementary retirement plan for the Executive Committee and stock option and stock appreciation right plans (a plan for managers of all Allianz Group companies). Its recommendations gave rise to a written and verbal report by the Chairman at the next meeting of the Board.



## Ethics and dialog on a daily basis: a tangible step forward

AGF has taken the ethical initiative for several years now. It is now recommitting itself to strengthen this initiative with a two-fold concern of concrete anticipation and efficiency by pursuing three objectives:

- promoting an "ethical" state of mind among employees,
- integrating this requirement into daily business practices,
- improving dialog with partners, customers and employees.

### Promoting universal values

By joining in the Global Compact of the United Nations in July 2002, Jean-Philippe Thierry, Chairman of AGF proved the attachment of his Group to universal values and made a commitment to the Secretary General of the UN, Mr. Kofi Annan, to promote this initiative in his sphere of influence.

AGF gives tangible meaning to its intent to promote the principles of the Global Compact internally with its employees through information in different internal Group media in respect of these principles and AGFs initiatives to meet its commitments. For example, internal audit guides now devote material to respecting the commitments of the Group in sustainable development. The sustainable development on the intranet transmits news on the subject and disseminates good environmental and social practices to all AGF employees in France.

Outside the Group, AGF gives meaning to its commitments by encouraging its suppliers to subscribe to the principles of the Global Compact. In December 2003, 21 of the Group's main suppliers sent a letter in this light to Mr. Annan and joined other service providers who were already parties to the agreement. Today the suppliers who adhere to Global Compact represent more than 35% of the Group's procurement. Details on this initiative are the example of the good practices that AGF has put on line on the Global Compact site ([www.unglobalcompact.org](http://www.unglobalcompact.org)).

To learn more about AGF Group commitments in the Global Compact:  
[www.agf.fr/sustainabledevelopment](http://www.agf.fr/sustainabledevelopment)

#### Objectives 2004

Dimensions	Projects
Internal diffusion	The sustainable development intranet will offer a monthly newsletter in order to disseminate more complete and pertinent information.
External diffusion	AGF plans to continue promoting the Global Compact. The AGF Group's objective for the end of 2004 is to have 450 suppliers so that the share of procurement from signatory suppliers is 70%
Corruption	In keeping with Group ethics, AGF supports Mr. Annan's plan to add a tenth principle on corruption.

#### The principles of the Global Compact

The Secretary General of the United Nations set forth these principles for the world of business:

- Principle 1: support and respect the protection of the rights of man in their sphere of influence;
- Principle 2: assure that their own companies are not party to abuses of the rights of man;
- Principle 3: the liberty of association and the recognition of the right to collective association (collective labour agreements);
- Principle 4: the elimination of all forms of forced and mandatory labour;
- Principle 5: the abolition of child labour;
- Principle 6: the elimination of discrimination in labour and the professions;
- Principle 7: support a preventive approach in environmental challenges;
- Principle 8: take the initiative in promoting more environmental responsibility;
- Principle 9: encourage the development and dissemination of environmental technologies.

To learn more on the Global Compact  
[www.unglobalcompact.org](http://www.unglobalcompact.org)



## ● The commitment of one and all

In order to make these principles operational, a general code of ethics is sent to the personnel of all Group subsidiaries for the purpose of seeing that the rules of law are abided by and to give examples of "good conduct". Attached to the contract of each new hire, it addresses rules of behaviour aiming for the respect of laws and the generalisation of ethical practices.

Directly inspired by the Allianz code of ethics, this code recaptures traditional values and fundamental principles relative to work and the respect of people. It specifically prohibits any discrimination among employees, of any origin, gender, lifestyle, family situation, ethnicity, nationality or race, political or union beliefs or religious convictions. Its objective is to prevent behaviour that is injurious to morale and moreover to promote the ethical behaviour of personnel.

In addition, the use of the internet has been covered by information and specific rules to warn employees of any deviation, protect the confidentiality of information and provide for the respect of people, employees and customers.

To learn more about the AGF Group ethics code:  
[www.agf.fr/sustainabledevelopment](http://www.agf.fr/sustainabledevelopment)



### AGF Values

Above everything ethics are the values shared by all Group employees. As an insurance and financial services company that is entrepreneurial with strong positions in each of its markets, AGF has elected to base its actions around five major values:

- *Mutual respect:* We favour and place value on the diversity of ideas and people. Listening, pursuing transparency, growing in a climate of reciprocal trust, identifying solutions together are all essential values in our success.
- *Finding the value in everyone:* We promote personal growth so everyone can give his or her best.
- *Fairness:* In all situations, we act with honesty and loyalty, striving for objectivity, making judgements based on fact, rewarding performance.
- *Personal initiative and taking responsibility:* We encourage risk taking. Thanks to advice, we anticipate and move ahead of expectations. We trust and take responsibility. We commit ourselves to objectives.
- *Cohesiveness and solidarity:* We encourage people to work in teams and networks. We share knowledge and expertise. We implement projects and actions rapidly and with solidarity.



## Putting these requirements into practice

### ● Considering specific risks in certain professional situations

Given job requirements and information they hold, some employees follow a code of conduct that is specific to their situation.

#### For "corporate insiders"

For permanent or occasional "corporate insiders" AGF endeavors to follow the best practices for this ethical component of corporate government. Since 2001, going beyond legislation in place, AGF has increased the rigor of internal procedures governing transactions in AGF shares by corporate officers, members of the Executive Committee and the General Management Committee, as well as beneficiaries of stock options.

So the following have been put into place: a negative 30 calendar day preceding the public announcement of half-year and annual consolidated financial statements when these individuals may not make any personal transactions in AGF shares as well as in the securities of the majoritively held subsidiaries (Euler Hermes, Entenial). There is a quarterly requirement to declare all personal operations in these securities to the AGF Director of General Audit.

#### In professional practices

At AGF the Procurement Departments as well as companies in asset management have their own ethics code that is unique to the requirements of their professional practices. The employees of AGF Asset Management, AGF Private Equity AGF Alternative Asset Management have received codes of ethics that are specific to their activities. At the same time, AGF's ethics function promotes the active presence of ethics professionals in professional bodies. That's why the Group head of ethics participates in the anti-laundering liaison committee of the finance ministry and has been heard by the GAFI on the occasion of the revisions of 40 recommendations of the organisation. The battle against laundering being a professional priority, AGF has developed an anti-laundering model with other French insurers and in cooperation with banking establishments.

#### A specific ethics code for purchasing

Buyers can be the object of numerous solicitations on the part of suppliers. Therefore, it was important for the AGF Procurement Department for equip itself against these "temptations". Because a negotiation must occur in a transparent and controlled situation, since 2002 Group procurement has had a specific code of ethics that each of its employees has signed. It also strictly precludes the acceptance of gifts.

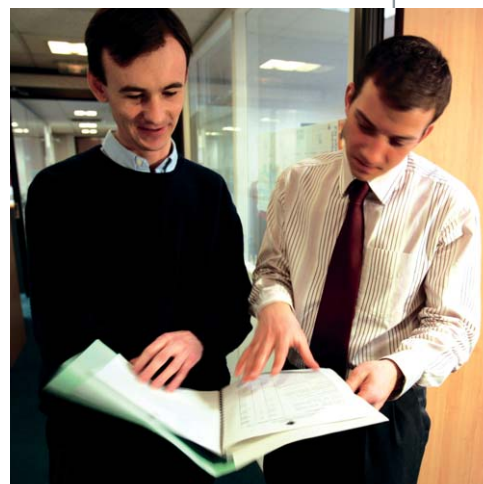




### **A network of ethics representatives monitors respect for all of these principles**

AGF's network of ethics representatives, created in 2002, is responsible for updated ethical standards related to Group activities, monitoring respect for procedures so they conform in practice to established principles and to provide information to teams. They have produced an initial report on the application of the code within the Group. There were no violations of the rules reported in 2003, and AGF made 91 declarations of suspicions to Tracfin. The network of professionals communicated the commitments of all French insurers on the ethics of the profession to employees.

So that ethics will be a reflex for new employees, each newcomer is sensitised to the constraints of ethics. And each employee has access to an ethics professional if he wishes to share a situation he believes critical to the ethical principles of AGF.



### **Managing corporate risk**

The AGF Group places particular importance on the management of risks linked to the development of various businesses. To do this, it implemented a Risk Management Department in 2001 responsible for monitoring risks of all types. The department's mission is to understand the management of financial and operating risks for the Group better. In an environment where insurers are subject to ever-increasing risks (volatility of financial markets, natural or industrial catastrophes, terrorism, etc.) the mission of Risk Management takes on all its meaning.



The management of AGF audit has decided to take into account the aspects of sustainable development in its missions. So Group audit plans to structure a systematic inventory of evaluating risks of the audited entity in cooperation with Risk Management when missions end. A sustainable development guide has been developed to allow internal auditors to check on practices and the management of the issue within audited entities of the Group.

To learn more about the question of corporate risks at AGF, see the risk management chapter on page 42.

For more information on Group procurement, see [www.agf.fr/sustainabledevelopment](http://www.agf.fr/sustainabledevelopment)



● A will to have exchanges with different company stakeholders

**Sustainable development is now a part of AGF relations with suppliers**

Since the end of 2001, a questionnaire on the practices of suppliers in sustainable development has been included in bidding procedures. A rating system makes it possible to evaluate the commitment of candidates, and if need be, to take them into consideration when choosing a service provider. As of today, 183 suppliers have been evaluated by the Department of Procurement. They account for 35% of Group procurement volume.

At the same time, the Department of Procurement has included an "Ethics and Sustainable Development" clause in the general terms and conditions of new contracts signed by the Group. This clause covers commitments and obligations of AGF suppliers in terms of respect for social and environmental legislation. It is part of a lasting relationship between AGF and its suppliers.

**Information and dialog with stakeholders**

Ever more transparent information to customers, shareholders and employees, AGF gives customers, intermediaries and shareholders a clearer view of the life of AGF, its activities and services.

Externally, its site [www.agf.fr](http://www.agf.fr), the ergonomics of which was reviewed at the end of 2003 grows richer in performance, both in terms of information and services, and opens up to an increasingly tighter network of dedicated sites by major subject. However, internet is only one channel of information along side a set of actions that make it possible to meet our customers, partners and shareholders.

The choice of transparency in AGFs financial information leads to an active policy of meeting shareholders, both institutional and individual, through the year (see AGF and the Bourse page 28 for details). As soon as it is made public, financial information is available at the site [www.agf.fr](http://www.agf.fr), the quality of which in terms of services to shareholders was saluted in 2002 by the magazine *La Vie Financière*.

Internally, the intranet site of the Human Resources Department, dedicated to all policies and procedures of human resource management, emphasises proximity information (integration, training, evaluation, mobility, administrative management).

**Objectives for 2004**

Dimensions	Projects
Rights of Man	The question of the Rights of Man is a separate topic of sustainable development. Following the ethics code, AGF has established a clear policy on the subject.  Including a line on respect for the Rights of Man in internal audit assignments.
Diffusion of sustainable development	The Procurement Department plans to have 450 suppliers evaluated by the end of 2004 thus lifting the share of purchases evaluated according to sustainable development criteria to nearly 70%.

