

ANNUAL REPORT 2018

ALLIANZ GLOBAL CORPORATE & SPECIALTY SE



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Disclaimer regarding roundings

Due to rounding, numbers presented may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

FOREWORD

Allianz Global Corporate & Specialty (AGCS)¹ made strong advances in 2018 in many key areas, although this progress is not truly reflected in the year's financial results which reflect the global scope and potential volatility of the corporate insurance business.

Compared to the peak catastrophe year of 2017, the financial impact of major natural catastrophe events was more benign. However, the corporate insurance industry has seen an unusual pattern of claims including a significant number of smaller natural catastrophe events as well as major industry claims from fires, explosions and other causes of loss, which have also affected AGCS.

Competition remained fierce with some rate increases in selected segments or countries – actually the first solid signals for an upward movement since 2014. The year ahead will prove if this upward trend in rates will be sustained and broader in scope. At the same time, the market is changing radically: Companies are increasingly relying on automation, robotics and other technologies. These new industrial practices and business models will change the nature of risk and our responses to it – disrupting commercial insurance markets in unprecedented ways.

In this equally challenging and changing environment, AGCS has shown a solid financial performance supported by its global business model and portfolio diversification. Strategically, we took the right steps to continue our evolution into a customer-centric, data-driven insurance company with a redesigned lean business model and leading digital underwriting and claims capabilities.

In 2018, AGCS has successfully followed through on over 20 dedicated growth initiatives across all lines of business, generating Gross Premiums Written of €8.2 bn, which is an increase of €780 mn year on year. Corporate Lines, in particular MidCorp and Liability, as well as fronting business were major growth drivers. The Operating Profit amounted to €282 mn compared to €156 mn in 2017 driven by better underwriting performance. AGCS combined ratio stands at 101.5% (2017: 105.2%) reflecting a significant number of smaller 'CAT' claims, a higher volume and average size of large industry losses and also an increased number of mid-sized losses.

Strong topline growth has been accompanied by significant productivity improvements. Fit for Future, AGCS' productivity and efficiency review, is on track to deliver over €80 mn in target run rate cost savings by the end of 2019. The aim has been to ensure the best possible set-up and processes are in place for the future development of AGCS. Key contributors are shared-services projects and robotics: AGCS is now supported in six offshore centers – two in India, China, Mauritius, Mexico and Romania – with over 1,000 Allianz employees handling tasks in claims, finance and insurance operations. Close to 100 robots have been developed to fully automate certain processes. Fit for Future is one of many change projects during the last year, and is a part of our ongoing and continuous investment in the business, with over €100 mn in external spend on systems and on our growth plans in 2018. Our continued strong focus on productivity improvement and expense management has positively influenced the expense ratio which will see further improvement over the next years, especially as we shed the burden of legacy systems.

While innovation in new products and processes is driven by all business functions, we have established a dedicated program for cross-functional smart evolution, called X|S|E, to transform all client-facing functions by leveraging data analytics, technology and partnerships. Following the agile methodology and co-creating with experts from the business, the X|S|E team runs exploratory projects to solve client and business problems. For example, in the past year we further investigated blockchain technology applications after the launch of a captive management prototype, created an integrated data platform to boost modern data analytics, and evaluated the potential of aerial imagery for claims handling.

Geographically, North America and Asia continued to be our major growth regions. Our network extension in Asia continued in 2018. Following expansion in South Korea, China and Indonesia, we have just opened a new branch office in Mumbai after receiving a reinsurance license for the Indian market in 2018. We are also growing our business in North America with a broad range of initiatives, while at the same time modernizing and consolidating our legacy IT systems in the region in a major transformation program with full benefits expected from

¹The statements mainly relate to the Allianz Global Corporate & Specialty Group and not to the individual company Allianz Global Corporate & Specialty SE.

2021. Our regional teams across Europe also contributed strongly with very high business retention rates, successfully meeting ambitious growth and productivity targets in a very competitive environment. In 89% of the countries where we ran customer satisfaction/surveys in the last year, we are seen as above market or even loyalty leaders.

Another strategic growth segment is our Alternative Risk Transfer business, which we re-focused into two teams during 2018: Alternative Risk Transfer and Capital Solutions. We expect to grow these two new AGCS lines of business step-by-step, driven by increasing customer demand for risk transfer to capital markets or customized solutions to specific risk challenges such as climate solutions or intangible assets, complementing our traditional suite of solutions.

We have further evolved, grown and globalized our business in the past year. Still, we are fully aware of the future challenges ahead. The corporate insurance industry is at a crossroads. The risk landscape has never been so complex, so interconnected, so fast changing. Technology is breeding new threats as well as new business models – which themselves may be threats. Geopolitical risks are on the rise as well, with populism and protectionism growing globally.

This “tornado of risks” is calling for a new mindset of collaboration and exploration, of trial and error, if we at AGCS want to lead the transformation of our industry. We must innovate at the same pace and in the same direction as our customers and their industries. This requires a new mind-set: In a truly collaborative effort, often supported by partners, we must ourselves take risks by experimenting and investigating options that may fly or may sink. We expect that many ideas will fail, but we would think it a worst failure if we were not to explore and to keep pace with changes in our industry and beyond.

Therefore, on behalf of the AGCS Board of Management, I extend my very sincere thanks and appreciation to each and every one of our colleagues for relentlessly serving our clients, running and improving our business and, at the same time, testing and trialing new ideas and concepts that will help us differentiate ourselves within a radically changing market. AGCS is well placed for the future with this support, with the right strategy and teams in place to deliver for our customers, our shareholder and our employees.



Chris Fischer Hirs,
CEO Allianz Global Corporate & Specialty SE

SUPERVISORY BOARD

DR. AXEL THEIS

Member of the Board of Management
Allianz SE, Insurance German
Speaking Countries and Central & Eastern Europe
Chairman
until 9 April 2018

NIRAN PEIRIS

Member of the Board of Management
Allianz SE, Global Insurance Lines
& Anglo Markets, Reinsurance, Middle East, Africa
Chairman
since 9 April 2018

DR. HELGA JUNG

Member of the Board of Management
Allianz SE, Human Resources,
Legal, Compliance, Mergers & Acquisition
Deputy Chairman

DR. BRIGITTE BOVERMANN

former Executive Vice President (retired)
Allianz SE

ROBERT FRANSSSEN

Former Chairman of the Board of Management (retired)
Allianz Belgium

BERNADETTE ZIEGLER

Personnel Officer
Employee representative

JUDITH DOYLE

Underwriter
Employee representative

BOARD OF MANAGEMENT

CHRIS FISCHER HIRS

Chief Executive Officer
Chairman

ANDREAS BERGER

Chief Regions & Markets Officer – Region 1

SINÉAD BROWNE

Chief Regions & Markets Officer – Region 3
since 1 July 2018
Chief Operating Officer
until 30 June 2018

BETTINA DIETSCHKE

Chief Operating Officer
since 1 July 2018

NINA KLINGSPOR

Chief Financial Officer

ALEXANDER MACK

Chief Claims Officer
until 30 June 2018

HARTMUT MAI

Chief Underwriting Officer Corporate

PAUL O'NEILL

Chief Underwriting Officer Specialty

WILLIAM SCALDAFERRI

Chief Regions & Markets Officer – Region 2

CARSTEN SCHEFFEL

Chief Regions & Markets Officer – Region 3
until 30 June 2018

GENERAL MANAGERS

Branch Office United Kingdom

BRIAN KIRWAN

Chief Executive

Branch Office Spain

JUAN MANUEL NEGRO

Chief Executive

Branch Office France

CORINNE CIFIÈRE

Chief Executive

Branch Office Netherlands

ARTHUR VAN ESSEN

Chief Executive

Branch Office Austria

OLE OHLMEYER

Chief Executive

Branch Office Singapore

MARK MITCHELL

Chief Executive

Branch Office Nordic Region

PETER HECHT-HANSEN

Chief Executive

Branch Office Hong Kong

PATRICK ZENG

Chief Executive

Branch Office Sweden

PETER HECHT-HANSEN

Chief Executive

Branch Office South Korea

CHANG TAE NOH

Chief Executive

Branch Office Italy

NICOLA MANCINO

Chief Executive

Branch Office Reinsurance India

CHALAT BALARAMAN MURALI

Chief Executive
since September 14, 2018

Branch Office Belgium

PATRICK THIELS

Chief Executive

REPORT OF THE SUPERVISORY BOARD

We continuously monitored the Board of Management's conduct of business on the basis of regular reports and we informed ourselves about the state of affairs in several meetings. We have examined the Annual Financial Statements and the Management Report and we concur with the findings of PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich, which issued an unqualified auditor's certificate for the Annual Financial Statements for fiscal year 2018 and the Management Report presented to it. In its meeting on 23 May 2019, the Supervisory Board approved the Annual Financial Statements prepared by the Board of Management, which are hereby confirmed.

Effective 1 July 2018, the Supervisory Board appointed Ms. Bettina Dietsche to the Management Board. Ms. Dietsche is responsible for the COO department.

Ms. Sinéad Browne, who was previously responsible for the COO division, took over the CRMO III division from Mr. Carsten Scheffel on 1 July 2018.

With effect from 30 June 2018 Mr. Alexander Mack and Mr. Carsten Scheffel resigned from their positions as members of the Management Board with the approval of the Supervisory Board. Both Mr. Mack and Mr. Scheffel retire due to their age.

We would like to thank Mr. Mack and Mr. Scheffel for their work as members of the Management Board.

Munich, 23 May 2019

For the Supervisory Board:



Niran Peiris
Chairman

MANAGEMENT REPORT

The company was able to report positive premium development as well as an improved cost ratio in 2018. However, after taking into account claims expenses, an underwriting loss was posted.

The positive development of gross premiums written was also reflected by the increase of net premiums earned. This was due primarily to new business and the growth of existing business relations in the insurance lines Liability Insurance, Other Property Insurance and Marine Insurance. Despite lower gross claims expenses, net claims expenses and the net claims ratio increased compared to the prior year. This development was essentially due to the changed composition of fiscal year losses and the reinsurers' participation in these losses. In addition, a net run-off loss of €25.9 (profit of 178.4) mn was incurred. Taking into account lower operating expenses for own account, this resulted in a higher combined ratio than in the prior year.

Due to the broad diversification of our investments, we were able to generate a positive investment result of €257.2 mn in 2018 as well. Our investments continue to contain high valuation reserves; however, they are lower than in the prior year.

AGCS SE ends the year 2018 with a profit transfer of €90 mn to Allianz SE. Since the founding of the company in 2006, a total of nearly €4 bn has thus been transferred to Allianz SE.

Development overview

The business of AGCS SE includes the national and International Corporate Business, as well as the specialty insurance lines Marine, Aviation, Energy and Entertainment, in both the direct and the indirect insurance business.

With our global positioning and our extensive product range we are at any time in a position to offer appropriate insurance solutions in combination with comprehensive customer service. This includes competent worldwide service in case of loss events, cross-country solutions in the framework of international insurance programs, captive and fronting services, risk consulting and structured risk transfer solutions. In a market environment characterized by competitive pressures, the company steadfastly pursued its risk-adequate and selective underwriting and reinsurance policy and it continued to invest in the global harmonization and optimization of its IT landscape.

The company achieved an increase of gross premiums written by 3.3% to €4.17 (4.04) bn. In Germany, premium volume decreased by 5.2% to €1.74 (1.84) bn, which was essentially due to the expiration of a major quotashare reinsurance program for the reinsurance of our US marine insurance subsidiaries.

On the other hand, premium volume in the branches increased from €2.20 bn to €2.44 bn in the reporting year. A substantial contribution was made by the UK branch office, which for the first time posted a premium volume of above €1 bn, since it was possible to increase premiums by €152.0 to 1,020.6 (868.6) mn. In France, gross premiums grew by €36.6 to 521.3 (484.7) mn. The company also recorded premium growth in Korea by €21.3 to 31.1 (9.8) mn, in Sweden by €27.5 (16.5) mn and in Italy by €109.4 (99.8) mn. At the same time, gross premiums increased in Singapore to €149.9 (142.7) mn, in

the Netherlands to €97.8 (94.1) mn, in Belgium to €137.9 (134.7) mn and in Hong Kong to €98.1 (97.9) mn. On the other hand, premium income in the Danish branch office declined by €12.5 to 53.4 (65.9) mn, in Austria to €30.6 (33.9) mn and in Spain by €3.3 to €152.3 (155.6) mn. The Indian branch office, which was opened in September of the reporting year, was able to report a premium volume of €5.2 mn.

AGCS SE's gross premiums written were also higher than in the prior year and increased by €44.0 mn to €4.03 (3.99) bn.

On the other hand, reinsurance cessions posted a decrease to €2.71 (2.77) bn, which was essentially due to the expiration of three quotashare reinsurance contracts in marine insurance.

As a result, net premiums earned amounted to €1.32 bn and exceeded the prior year figure of €1.22 bn.

Gross expenses for insurance claims decreased from the prior year, which was heavily impacted by natural catastrophes, by €0.7 bn to €2.66 (3.36) bn, close to the level of fiscal year 2016. This decrease was characterized by a decline of gross claims expenses from fiscal year losses by €0.6 bn to €2.8 (3.4) bn as well as an increase of the run-off profit by €83.0 mn to €115.6 (profit of 32.6) mn. Compared to the prior year, this resulted in an 18.4 percentage points lower loss ratio of 66.0 (84.4)% for the fiscal year, despite a slight increase of major claims losses in the reporting year. On the other hand, the net loss ratio increased from 63.2 to 75.9% in the fiscal year, essentially due to a loss from the run-off of prior year claims of 25.9 (profit of 178.4) mn.

Gross expenditures for the insurance business rose by €10.4 mn to €926.8 (916.4) mn. The gross cost ratio¹ of 23.0 (23.0)% remained at the prior year level. Of the gross expenditures for the insurance business, €787.7 (771.0) mn are attributable to acquisition expenses and €139.1 (145.4) mn to administrative expenses. Taking into account the reinsurers' participation in the expenditures for the insurance business, the net cost ratio² improved to 31.1 (32.3)%.

The claims equalization reserves and similar reserves required withdrawals of €99.2 (withdrawals of 33.5) mn.

Overall, this led to an underwriting loss for own account of €7.4 (profit of 71.8) mn.

In the following presentation, direct insurance and reinsurance assumed are discussed separately.

Gross premium income in the direct insurance business increased in the reporting year by €174.0 mn to €2.13 (1.96) bn while premiums in the indirect insurance business fell by €39.0 mn to €2.04 (2.08) bn. The increase in direct insurance was in particular due to the positive premium development in Liability Insurance in the UK, Germany and France. The lower premium volume in Indirect Insurance was due to the expiration of a major quotashare reinsurance program for the reinsurance of our US marine insurance subsidiaries.

In Direct Insurance, the gross loss ratio for fiscal year losses fell to 73.2 (83.3)%. Taking into account this year's run-off profit of 79.7 (run-off loss of €11.9) mn, the gross loss ratio in the Direct Insurance business was 69.3 (83.9)%. In Indirect Insurance, the company also recorded a decrease of the fiscal year loss ratio to 64.4 (87.1)%. The run-off of prior-year claims of €35.9 (profit of 44.4) was slightly lower than

¹ The gross cost ratio is defined as the ratio of gross expenditure on insurance operations to gross premiums earned. Other items amounting to 0.4 (0.4)% of gross premiums earned are no longer included in the calculation as of this year; the previous year's ratio was adjusted accordingly.

² The net expense ratio is defined analogously to the gross expense ratio as the ratio of net operating expenses to net premiums earned; the calculation no longer includes other items amounting to 1.0 (1.4)% of net premiums earned; the previous year's ratio was also adjusted.

in the prior year. Overall, this resulted in a decline of the gross loss ratio to 62.6 (84.9)%. The underwriting loss for own account was essentially determined by lower income in Indirect Insurance. The result was an underwriting loss for own account of € 1.7 (profit of € 73.9) mn. In Direct Insurance, the underwriting loss increased from € 2.1 to 5.8 mn.

The following comments on business developments are based on gross sales figures, and the underwriting results are stated for own account.

DIRECT INSURANCE BUSINESS

Premium income in **Personal Accident Insurance** increased by € 0.3 mn to € 9.0 (8.7) mn. The run-off profit of € 1.6 (profit of € 3.9) mn, which was lower than in the previous year, and lower claims expenses of € 3.3 (3.8) mn resulted in payouts for fiscal year losses of € 1.7 (gains of € 0.1) mn and a gross loss ratio of 19.6 (-1.4)%. The underwriting profit of € 2.3 (profit of € 4.0) mn was below the prior-year level.

In **Liability Insurance** premium income in the fiscal year increased by € 111.8 mn to € 915.4 (803.6) mn. Gross claims expenses increased by € 104.4 mn to € 688.6 (584.2) mn, which resulted in an increase of the loss ratio to 78.9 (73.1)%. After a withdrawal of € 38.3 (withdrawal of 3.5) mn from the equalization reserve and similar reserves, an underwriting profit of € 21.3 (profit of € 12.9) mn was recorded.

Premium income in the insurance segments **Automotive Liability Insurance** and **Other Automotive Insurance** decreased by € 5.5 mn from the prior year to € 22.9 (28.4) mn. As in the previous years, this business was mainly written by the Hong Kong branch office. Claims expenses increased from € 17.9 mn in the prior year to € 34.3 mn, thus increasing the loss ratio to 144.5 (62.3)%. Overall, the insurance segment Automotive ended the year with a loss of € 4.6 (loss of € 2.3) mn.

Gross premium income in the insurance segments **Fire Insurance** and **Other Property Insurance** fell by € 8.4 mn, resulting in a total premium volume of € 563.1 (571.5) mn. Premium income in Fire Insurance increased to € 199.2 (191.8) mn. In this line, gross claims expenses – essentially due to lower fiscal year losses – declined by € 55.5 mn to € 192.5 (248.0) mn. As a result, the loss ratio fell to 97.0 (118.4)%. After a withdrawal of € 61.8 (withdrawal of € 13.7) mn from the equalization reserve and similar reserves, an underwriting loss of € 8.0 (loss of 25.1) mn was reported, lower than in the prior year.

Premium income from Other Property Insurance decreased by € 15.8 mn to € 363.9 (379.7) mn. Claims expenses of € 206.2 (158.6) mn were € 47.6 higher than in the prior year, which resulted in a higher loss ratio of 58.6 (45.4)%. After an allocation to the equalization reserve and similar reserves of € 0.1 (withdrawal of 7.8) mn, Other Property Insurance posted a loss of € 20.3 (profit of € 26.6) mn. Overall, the insurance branch group Fire Insurance and Other Property Insurance ended the year with an underwriting loss of € 28.3 (profit of € 1.5) mn. The withdrawal from the equalization reserve and similar reserves amounted to € 61.7 (withdrawal of € 21.5) mn.

Premium income in **Marine** and **Aviation Insurance** increased to € 447.4 (407.5) mn in the reporting year. In Marine insurance, gross premium income of € 243.5 (209.9) mn was above the prior year level. Higher gross claims expenses of € 172.7 (136.8) mn resulted in particular from an increase of fiscal year losses to € 204.3 (172.7) mn. The gross loss ratio came to 73.9 (64.0)%. Overall, this insurance line reported an underwriting loss of € 7.8 (loss of 23.2) mn after an allo-

cation of € 12.9 (allocation of € 2.5) mn to the equalization reserve and similar reserves.

Aviation Insurance recorded an increase in premium income by € 6.2 mn to € 203.8 (197.6) mn. Gross claims expenses for fiscal year losses decreased to € 55.6 (263.3) mn, essentially due to a substantial prior-year loss in 2017, which was almost completely passed on to the reinsurers. After an allocation of € 5.4 (withdrawal of € 4.0) mn to the equalization reserve and similar reserves, an underwriting profit of € 6.6 (profit of € 41.9) mn was posted. Overall, the insurance segments underwriting result came to a loss of € 1.2 (profit of € 18.7) mn after an allocation of € 18.3 (withdrawal of € 1.5) mn to the equalization reserve and similar reserves.

In the insurance segment **Other Insurance**, gross premium income increased by € 33.5 mn to € 172.2 (138.7) mn. After a prior year heavily impacted by major losses and natural catastrophes, gross claims expenses dropped by € 157.1 mn to € 58.0 (215.1) mn, which resulted in a decrease of the loss ratio to 42.6 (174.1)%. After an allocation to the equalization reserve and similar reserves of € 0.01 (withdrawal of € 0.5) mn, the insurance segment posted an underwriting profit of € 9.7 (loss of € 37.0) mn.

REINSURANCE BUSINESS ASSUMED

Premium income in **Personal Accident Insurance** decreased by € 0.9 mn to € 6.4 (7.3) mn. As in the prior year, a run-off profit of € 1.4 (profit of € 3.4) mn resulted in income from claims expenses of € 0.1 (income of € 1.2) mn. This led to a loss ratio of -1.2 (-15.2)%. The insurance segment ended the year with an underwriting profit of € 2.8 (profit of € 4.8) mn.

Gross premium income in **Liability Insurance** came to € 636.1 (574.8) mn in the reporting year, which was € 61.3 mn above the prior-year period. The decrease of gross claims expenses by € 80.5 mn to € 338.0 (418.5) mn was essentially due to lower claims expenses of the German head office and resulted in an improved gross loss ratio of 56.7 (77.9)%. However, the net loss ratio increased from 42.6 to 53.9% because the higher claims expenses in the branches were covered by reinsurance to a lesser extent than those of the German head office. After an allocation to the claims equalization reserve and similar reserves of € 47.7 (allocation of € 37.8) mn, this insurance line reported an underwriting loss of € 48.4 (loss of € 12.6) mn.

Gross premium income in **Fire Insurance** and **Other Property Insurance** increased by € 81.9 mn to € 933.8 (851.9) mn. Premium income in Fire Insurance dropped by € 12.4 mn to € 358.0 (370.4) mn. Gross claims expenses in this insurance line increased by € 188.6 mn to € 407.1 (218.7) mn, which resulted in an increase of the loss ratio to 116.0 (58.3)%. But since a large part of the higher gross claims expenses could be passed on to the reinsurers, the underwriting loss after a withdrawal of € 28.7 (allocation of € 6.9) mn from the equalization reserve and similar reserves, came to only € 3.5 (loss of 0.4) mn.

Premium income from Other Property Insurance increased to € 575.7 (481.5) mn. Due a drop in claims expenses by € 0.1 mn to € 280.7 (280.8) mn, the loss ratio decreased to 49.9% from 59.1% in the prior year. After a withdrawal from the equalization reserve and similar reserves of € 31.7 (withdrawal of € 4.7) mn, the insurance segment posted an underwriting profit of € 37.3 (loss of € 9.4) mn.

Overall, the insurance segment Fire Insurance and Other Property Insurance ended the year with an underwriting profit of € 33.8 (loss

of € 9.8) mn, after a withdrawal of € 60.4 (allocation of € 2.2) mn to the equalization reserve and similar reserves.

Marine and Aviation Insurance posted gross premium income of € 292.0 (406.4) mn.

In Marine insurance, gross premium income of € 119.1 (220.7) mn was € 101.6 mn below the prior-year level, due to the expiration of the US quotashare reinsurance program. Because of this and lower claims expenses from natural catastrophes, gross claims expenses decreased to € 66.9 (198.4) mn. Since a substantial part of the prior-year gross claims expenses was covered by reinsurance, net claims expenses – compared to the prior year – increased to € 27.2 (profit of € 0.6) mn. After a withdrawal of € 1.0 (withdrawal of € 4.3) mn from the equalization reserve and similar reserves, this insurance line reported an underwriting loss of € 14.6 (profit of € 15.1) mn in the fiscal year.

In Aviation Insurance, gross premium income amounted to € 172.9 (185.7) mn. Gross claims expenses of € 76.4 (87.0) mn were below the prior year level and the loss ratio decreased to 44.6 (45.9)%. After a withdrawal of € 3.5 (withdrawal of € 42.8) mn from the equalization reserve and similar reserves, an underwriting profit of € 5.2 (profit of € 62.8) mn was posted.

Overall, the insurance segment's underwriting result came to a loss of € 9.4 (profit of € 77.9) mn after a withdrawal of € 4.5 (withdrawal of € 47.1) mn from the equalization reserve and similar reserves.

Gross premiums written in **Other Insurance** fell below the prior year level to € 169.1 (236.0) mn. After the heavy impact of natural catastrophes on the prior year, gross claims expenses this year dropped by € 459.5 mn to € 78.0 (537.5) mn. But since a substantial part of the losses from last year's natural catastrophes could be passed on to the reinsurers, net claims expenses only increased to € 13.3 (37.2) mn.

Overall, the insurance segment closed the year with an underwriting profit of € 19.5 (13.6) mn, after a withdrawal of € 0.4 (allocation of € 0.5) mn to the equalization reserve and similar reserves.

REINSURANCE BUSINESS CEDED

In the fiscal year, the company once again ceded parts of its insurance business to certain group companies and external reinsurers.

Depending on risk tolerance or available capacity, the reinsurance strategy calls for the placement of a part or all of the individual risks in the reinsurance market through facultative reinsurance. The business remaining with AGCS SE after these facultative cessions is protected by a global coverage program that consists of various proportional and non-proportional contractual reinsurance covers based on individual risks as well as cumulative cover. The reinsurance structure introduced in 2016 was maintained in 2018 with few exceptions. Three quota reinsurance contracts in marine insurance with a total 2017 premium volume of €95 mn were not renewed in 2018.

The entire German direct and assumed insurance business has been covered since 1 January 2015, by a quotashare reinsurance contract under the terms of which 100% of this business is ceded to Allianz SE. This contract was renewed in 2018.

The largest part of the business ceded to other Group companies is assumed by Allianz SE, while HDI Global SE is the company's leading external reinsurer in terms of premium volume ceded. The reinsurers' share of premiums written was slightly above the prior year level and came to a total of € 2.78 (2.77) bn.

With respect to premiums written, the retention ratio increased to 32.8 (30.6)%. Ceded reinsurance posted a profit of € 535.7 (loss of € 350.3) mn from the perspective of the reinsurers. This was due to the fact that the loss- and reinsurance-intensive natural catastrophes of the prior years did not reoccur.

SUPPLEMENTARY INFORMATION TO THE MANAGEMENT REPORT

The various insurance lines and types offered are presented in detail on page 44.

INVESTMENT STRATEGY

AGCS SE continued its investment strategy in 2018. The company's objective is to generate as high a return as possible while limiting the risk. By spreading investments over many different investment segments and currencies, it was possible to stabilize investment income in 2018 as well.

Due to the company's financial obligations from the insurance business, by far greatest part of its portfolio is invested in fixed-interest securities. The average maturity of the fixed-interest investments remained unchanged in the course of the reporting year. Fixed-income investments are concentrated on corporate bonds as well as international government and bank bonds. In accordance with the obligations from the insurance business, these are broadly diversified internationally.

To ensure an attractive return on its investment portfolio over the long-term, the company continues to maintain the broad diversification of its portfolio. At the end of the year, the share of corporate bonds in the overall portfolio was 31.9 (36.7)% (based on market values). 9.3 (8.8)% were invested in bonds from emerging countries. In addition, 9.2 (8.3)% of the portfolio were invested in government bonds in Singapore and Hong Kong to cover liabilities of the local branch offices. New investments in the area of direct loans increased by € 22.6 mn net. Real estate investments increased by € 94.1 mn net, of which € 89 mn were new investments. At the end of fiscal 2018, the share of stocks in the portfolio was 11.7 (13.5)% (based on market value), taking into account hedging provisions and stock futures.

The risk situation with respect to the capital base as well as the coverage of the financial obligations with qualified investments is assessed from two perspectives: external and regulatory requirements on the one hand and internal risk capital requirements on the other. For both areas, stress test models as well as an early warning system and a risk capital model are used. These tests are performed on an ongoing basis and the company's investments passed all of them without exception in the reporting year.

AGCS SE pursues a matching-cover investment strategy in foreign currencies.

DEVELOPMENT OF INVESTMENTS

The book value of the investments of AGCS SE decreased to € 7,326.8 (7,453.8) mn in the reporting year. Investments in affiliated enterprises and participations increased to € 2,375.5 (2,165.0) mn.

The book value of directly held real estate fell to € 76.7 (77.1) mn.

The book value of stocks, shares or investment certificates and other variable-income securities amounted to € 2,445.0 (2,781.2) mn at the end of the year.

The book value of bearer bonds increased to € 2,063.3 (2,049.2) mn. Mortgage loans fell to € 71.8 (76.2) mn and other loans decreased to € 176.0 (194.9) mn.

Bank deposits increased to € 37.9 (15.0) mn in the course of the year and funds held by others amounted to € 80.6 (95.1) mn at the end of the year.

INVESTMENT INCOME

Current income from investments in the reporting year amounted to € 194.5 (203.6) mn.

The disposal of investments produced income of € 95.2 (107.7) mn and losses of € 9.1 (18.5) mn.

Gains from write-ups on investments amounted to € 13.7 (0.6) mn.

Depreciation of investments in 2018 amounted to € 28.5 (84.2) mn, of which € 26.2 (65.5) mn were attributable to write-downs on bearer bonds.

Investment management and interest expenses came to € 10.0 (10.3) mn.

Due to the effects stated above, total investment income of € 257.2 (198.6) mn was above the prior-year figure.

Valuation reserves on investments decreased to a total of € 810.4 (1,036.6) mn. The valuation reserves include undisclosed assets of € 815.0 (1,039.9) mn and undisclosed liabilities of € 4.6 (3.3) mn. The valuation reserves on investments in affiliated enterprises and participations increased to € 408.8 (392.1) mn. The reserves for directly held real estate amounted to € 45.4 (32.4) mn. The valuation reserves on investment certificates decreased to € 284.1 (512.9) mn. The valuation reserves on bearer bonds decreased to € 63.3 (85.1) mn. The reserve for mortgage bonds amounted to € 1.7 (0.8) mn, and for other loans the valuation reserves amounted to € 7.0 (13.3) mn.

The reserve ratio, i.e. the percentage of valuation reserves in relation to the book value of total investments, stood at 11.2 (14.1)% at the end of the year.

OTHER NON-UNDERWRITING BUSINESS

Other non-underwriting business produced a loss of € 65.6 (profit of € 175.5) mn, which was primarily due to exchange rate developments of the US Dollar and the British Pound with respect to the euro.

The overall result of the non-underwriting business thus amounted to € 191.6 (374.0) mn.

OVERALL RESULT

Tax charges for the reporting year (including intra-group charges) came to € 94.2 (114.4) mn.

On the whole, business developed less favorably in 2018 than in the prior year. The overall result after taxes was a profit of € 89.9 (331.4) mn. Under the terms of the existing management control and transfer-of-profit agreement, this profit was transferred to Allianz SE.

CORPORATE AGREEMENTS

The sole shareholder of AGCS SE is Allianz SE. Both companies are linked by a management control and transfer-of-profit agreement.

BRANCH OFFICES

AGCS SE maintains branch offices in London (UK), Paris (France), Vienna (Austria), Copenhagen (Denmark), Milan (Italy), Antwerp (Belgium), Madrid (Spain), Rotterdam (Netherlands), Stockholm

(Sweden), Singapore, Hong Kong (China), Seoul (South Korea) and, since 14 September 2018, a reinsurance branch office in Mumbai (India).

Outsourcing of functions

TRANSFER OF RESPONSIBILITIES

Accounting and collection functions are primarily provided to the company by the CFO - Accounting unit in Munich. The accounting functions of the foreign affiliates are in part handled locally and in part centrally in Munich or the branch offices in London, Paris, Antwerp and in Asia. For the Italian branch office this service is provided by the local Allianz company.

INVESTMENTS AND ASSET MANAGEMENT

On the basis of group-internal service contracts, Investments and asset management are handled by Allianz Deutschland AG, Munich, Allianz Investment Management SE, Munich, and for partial areas by, among others, PIMCO Deutschland GmbH, Munich, PIMCO, Newport Beach, Allianz Global Investors Kapitalanlagegesellschaft mbH, Frankfurt/Main, Allianz Global Investors Singapore Ltd, Singapore, Allianz Real Estate GmbH, Munich, and Allianz Capital Partners GmbH, Munich.

INFORMATION TECHNOLOGY

Computing center services as well as printing and IT services are provided to AGCS SE by Allianz Technology SE, Munich.

Employees

Personnel management at AGCS SE is strictly aligned with the strategic objectives of the Allianz Group.

Essential for the company is a performance-oriented corporate culture based on fairness and trust. AGCS SE relies on management by objective and performance-based remuneration. By combining company objectives with individual annual objectives, all employees and managers take direct responsibility for the contribution they make to the success of the company.

As before, one of the strategic core areas in human resources remains the subject of wellbeing, i.e. the creation of a working environment that favors the balance between private and work life. Following the mobile working test field, this type of flexible working arrangement is now being broadly rolled out at all locations. In addition to our continued offer of resilience training, which is mainly used in the context of team development measures, we introduced the concept of psychological risk assessment for teams that scored significantly below the average value of their region's Work Well Index in the Allianz Engagement Surveys. We use these and other measures to make employees aware of the mindful use of their personal resources.

Even before the General Act on Equal Treatment came into force in Germany, Allianz Group – in its Code of Conduct and its worldwide HR Diversity Policy – decreed that nobody was to be discriminated against, particularly not for reasons of origin, religion, gender, disabil-

ity, age or sexual orientation. Under the motto Diversity of Minds, we promote diversity throughout AGCS SE. As in the previous years, the AGCS SE training program offers training sessions and initiatives on this subject. In addition, the annual Career Development Committees identify talents on various levels and assign them to different Talent Mentoring Programs to provide targeted support for their continued development.

The company used the implementation of the German Act on the Equal Participation of Women and Men in Management Positions in the Private and Public Sector as an occasion to further expand its existing initiatives. For this purpose, we conducted a comprehensive survey at the beginning of the year of all our female employees to determine women's needs with respect to the organization of their working environment and their plans for their professional future. In addition to the already existing global Talent Management with sponsorship and mentoring programs, we strengthened our cooperation with external partners in 2018 to attract young talents to AGCS SE and support young high-potential women in leadership positions. At the same time, we significantly intensified the recruiting of undergraduate students who are pursuing their studies while working.

AGCS SE uses the instrument of regular surveys of all employees and managers worldwide (Allianz Engagement Survey) to identify the need for optimization and to define and implement the measures required.

At the end of 2018, AGCS SE had a total of 2,555 employees.

Facts and figures

| | 2018 | 2017 |
|--|--------------|--------------|
| Employees ¹ | 2,555 | 2,543 |
| of which full-time staff | 2,501 | 2,490 |
| of which other employees (temps and interns) | 54 | 53 |
| Share of women % | 48 | 48 |
| Share of men % | 52 | 52 |
| Share of full-time staff % | 87 | 86 |
| Share of part-time staff % | 13 | 14 |
| Age (average in years) | 43.0 | 43.1 |
| Time with the Group (average in years) | 11.8 | 12 |

¹ including dormant employee contracts

THANKS TO OUR EMPLOYEES

The Board of Management would like to take this opportunity to thank all employees for their extraordinary personal commitment in the past year. In addition, we thank those employees who are members of the employee representative bodies for their constructive and fruitful cooperation.

Statement on Corporate Management pursuant to §289a (4) in conjunction with (2) no. 4 HGB

To implement the German Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector, AGCS

has set the following objectives for the proportion of women. The deadline for achieving all of these objectives has been set uniformly as of 31 December 2018.

- The objective for the proportion of women on the Supervisory Board is 30% (actual proportion at 31 December 2018: 67%).
- The objective for the proportion of women on the Board of Management is 22% (actual proportion at 31 December 2018: 38%).
- The objective for the proportion of women on the first management level below the Board of Management is 20% (actual proportion at 31 December 2018: 20%).
- The objective for the proportion of women on the second management level below the Board of Management is 20% (actual proportion at 31 December 2018: 24%).

The primary concern of AGCS SE in this respect is not just meeting statutory requirements. The company can be successful over the long term only if it provides equal career opportunities to women and promotes women to leadership positions based on their performance. AGCS SE made a commitment to promoting diversity within the company early on. It has been working on putting a corresponding framework in place, adjusting HR processes and implementing targeted measures. Besides measures to allow employees to strike a better balance between work and family life, these schemes range from a global talent management initiative featuring sponsorship and mentoring programs to training sessions on "unconscious bias".

Statement concerning the non-financial report pursuant to §289b (2) sentence No. 3 HGB

Allianz SE and the Allianz Group meet the legal requirement for filing a non-financial report and a non-financial group report pursuant to §289b (1) and 315b (1) HGB by publishing a combined separate non-financial report for Allianz SE and the Allianz Group pursuant to §289b (3) and 315b (3). This report can be found in the Annual Report 2018 of the Allianz Group (www.allianz.com).

The publication of this combined non-financial report dispenses AGCS SE from publishing its own report according to §341a (1) No. 3 and 289b (2) No. 2 HGB.

Risk Report

Assuming and managing risk is part of the business model of AGCS SE. Well-developed risk awareness and the careful weighing of chances and risks are therefore an integral part of the company's business processes. The key elements of the risk management of AGCS SE are:

- A strong risk management culture, promoted by a solid risk organization and effective risk governance.
- Comprehensive risk capital calculations with the objective of protecting the capital base and supporting effective capital management.
- The integration of capital needs and risk considerations into the decision-making and management process.

This comprehensive approach makes sure that risks are adequately identified, analyzed and evaluated. The risk propensity is described in the risk strategy and made operational by the limit system contained therein. In addition, further limits are substantiated and detailed in specific standards and directives. Strict risk control and the corresponding reports ensure the early detection of any possible deviations from the risk tolerance.

Based on AGCS SE's current risk assessment, there are no risks that threaten the company's existence. AGCS SE sees opportunities if these risks do not materialize.

RISK ORGANIZATION

The responsibility for risk management within the Board of Management lies with the Chief Financial Officer (CFO). The Chief Risk Officer (CRO), who reports to the CFO, monitors the risks assumed and regularly informs the Board of Management of AGCS SE about risk-relevant developments, the current risk profile and capital adequacy. In addition, the CRO makes sure that appropriate measures are taken, for instance in cases where the reduction or avoidance of a risk position is required, and the CRO is responsible for the continued development of the risk management processes.

As an independent risk control function, the Risk Management Department systematically monitors identified risks by means of qualitative and quantitative risk analyses and evaluations and ensures the regular or – if necessary – spontaneous reporting of essential risks to the Board of Management and to Allianz SE.

Headed by the Chief Financial Officer, the AGCS SE Risk Committee examines all relevant risks on a quarterly basis and agrees on measures for risk mitigation and the continued development of the risk management processes. The Chief Executive Officer, the Chief Financial Officer, the Chief Underwriting Officer Corporate, the Chief Underwriting Officer Specialty & Allianz Risk Transfer, the Chief Operating Officer and the Chief Claims Officer as well as the Chief Regions and Market Officer Region 1 who are members of the Board of Management, are also members of the AGCS SE Risk Committee, which ensures close cooperation and interaction between risk control and the Board as a whole. The Chief Risk Officer is a member of all of the company's key committees: Global Program Steering Group, Local Investment Management Committee, Loss Reserve Committee, Underwriting Committee, Risk Committee as well as the Reinsurance Committee.

The risk management of AGCS SE is tied into the risk control system of Allianz SE. Its binding guidelines are the Group Risk Strategy and the Group Risk Policy set down by Allianz SE as well as additional directives for risk management and the modeling of internal risk capital requirements. The controlling body for the risk management of AGCS SE is the Group Risk unit of Allianz SE. Other internal and external control functions are vested in the Supervisory Board, Legal & Compliance as well as Internal Audit.

RISK STRATEGY AND RISK REPORTING

The AGCS SE Risk Policy defines the risk categories of AGCS SE that must be monitored. The risk strategy based on this policy describes the company's risk tolerance, which is quantified by means of target capitalization ratios. Detailed separate limits for each risk category are then set in further guidelines to which the risk strategy refers.

The quarterly risk report provides information about risk indicators defined within the framework of the limit system and the corre-

sponding threshold values and is used by management for the systematic control of the current risk profile. On the basis of this information, the AGCS Risk Committee decides on the implementation of risk mitigation measures. After its review by the AGCS SE Risk Committee, the risk report is circulated to the Board of Management, senior management and Allianz SE.

At the beginning of 2016, the regulatory reporting requirements according to Solvency II replaced the Solvency I supervision system. To determine the risk capital requirements according to Solvency II, AGCS SE uses the Allianz Group's internal model, which was approved by the German Supervisory Authorities on 18 November 2015.

The company is in full compliance with current regulatory requirements (Solvency II). The current risk situation is within the company's risk bearing capacity. The solvency ratio at 31 December 2018 is reported in AGCS SE's Solvency and Financial Condition Report. The solvency ratio remains comfortably within the company's risk tolerance throughout the entire planning period. In planning the future development of the company, AGCS SE takes into account a three-year time horizon.

RISK CATEGORIES AND CONTROL MEASURES

The German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin) sets mandatory requirements for risk management. For grouping its risks, AGCS SE uses internal categories which comply with the requirements within the framework of Solvency II, which apply since 1 January 2016.

In particular, AGCS SE monitors and controls:

- Underwriting risk, which is subdivided into premium, i.e. the risk that insurance premiums will not be sufficient to cover future losses and reserve risk, i.e.; the risk that existing losses will result in run-off losses with respect to the loss reserves constituted. Premium risk is further subdivided into risk of natural catastrophes, terror risk as well as risk due to other losses and other premium risks.
- Market risks, i.e. the risk of market value fluctuations differentiated by type of investment. The essential risks are interest risk, currency risk, stock risk and credit spread risk.
- Credit risks (including country risks) such as the counterparty risk arising from the insolvency or liquidity shortages of reinsurers, policy holders, insurance brokers and security issuers, as well as reliability risks due to losses stemming from debtors' impaired creditworthiness.
- Operational risk: Risk that arises from inadequate or failed internal processes and controls. It may be caused by technology, employees, the organization or by external influences as well as legal and compliance risks.

Non-quantifiable risks are monitored by means of a structured identification and evaluation process. These risks are:

- Liquidity risk, which is defined as the risk that payment obligations cannot be met when they become due.
- Strategic risk: Risk resulting from strategic business decisions. This includes risks caused by business decisions that are not adapted to a changed economic environment.

- Reputational risk: The risk that arises from possible damage to an undertaking's reputation as a consequence of negative public perception.

Premium risks are controlled by means of underwriting guidelines, among others. These underwriting guidelines limit the insurance or liability amount per contract. To take into account the volatility of the different insurance lines, the underwriting guidelines vary as a function of the insurance line concerned.

Reinsurance plays an important role in controlling the premium risk. In accordance with existing underwriting ceiling, limits and retention management principles, which reflect the risk tolerance of AGCS SE and are regularly reviewed, peak risks are ceded by way of facultative reinsurance and contract reinsurance. In addition, premiums are based on specially developed rates, which make use of current experience and actuarial methods.

All three partial models of premium risk take into account underwriting ceilings and the existing reinsurance protection.

Event losses caused by natural catastrophes, which concern several risks, represent a special challenge for risk management. To control such risks and estimate their potential impact, we use special modeling techniques based on probability. These involve the correlation of information on the portfolios – for example the geographic risk distribution as well as the value and nature of the insured objects – with simulated natural disaster scenarios to estimate potential damages. This approach makes it possible to determine possible damage impacts and frequencies. The underlying models, which are mainly supplied by external providers, are regularly upgraded, while AGCS SE internally extends the coverage of modeled scenarios to the extent possible and continually improves the level of detail and the quality of the underlying data. Where such models do not yet exist or are not licensed, risk model assumptions are made on the basis of the ensured exposures or the existing loss experience. The exposure to natural catastrophes is controlled by means of a global limit system, the visualization of accumulations and the control of possible damages. The insights gained this way are used to optimize the portfolios and, if possible, to limit the underwritten risk or to calculate the capital efficiency of a risk transfer toward the reinsurance market.

Other event risks caused by humans as well as the terrorism risk are modeled with the help of scenarios on the basis of existing exposures, while the model for other losses is based on the expected business volumes in combination with the company's own loss models.

Reserve risks concern the settlement of already existing claims. This includes both the settlement of claims already known as well as late claims not yet known. By means of actuarial models based on the claims history observed, which are also used to determine expected payouts, the degree of insecurity in the reserves estimate is determined.

Market risks The investments of AGCS SE are centrally managed by the specialists of Allianz Investment Management SE. The investment strategy is aligned with the needs of the asset-liability management of AGCS SE. The investment strategy is implemented by Allianz Investment Management SE within the framework of an investment risk and limit system established by AGCS SE. This risk and limit system is adjusted annually and adopted by the AGCS SE Risk Committee.

The efficient implementation of the investment strategy also involves the use of derivatives and structured products to a limited extent.

The investments of AGCS SE are broadly diversified according to type of investment (shareholdings, stocks, fixed-income securities, real estate), solvency and geographic location. A continuous risk analysis is performed by investment management. AGCS SE holds a well-diversified investment portfolio within clearly defined risk limits. By means of various stress scenarios AGCS SE regularly monitors the sensitivity of the portfolio with respect to market changes.

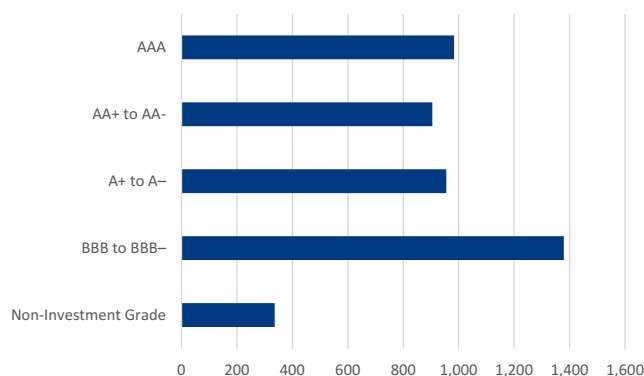
Market risks from derivatives are assessed and controlled by means of up-to-date value-at-risk calculations, stress tests and the setting of limits.

Due to the international orientation of the business of AGCS SE, large parts of the reserves are constituted in foreign currencies. Overall, the currencies of the insurance reserves including unearned premiums amount to approximately 47.8%. The primary exposures are in USD (26.8%) and GBP (14.8%). AGCS SE actively controls the currency risks resulting from this situation. This process takes into account all balance sheet items subject to currency conversion. This includes provisions as well as all receivables and liabilities and investments in foreign currencies. In addition to using foreign investments to hedge currency exposure, the company also uses FX derivatives within precisely defined limits to obtain an effective and timely minimization of currency risks. Currency risks are controlled on the basis of monthly data.

In fiscal year 2018, the current premium and investment income of AGCS SE exceeded claims payouts and expenses. To be able to cope with possible liquidity risks that might arise nonetheless, AGCS SE invests a large part of its investments in highly liquid government bonds, and the insurance commitments are to a large extent backed by funds with matching maturities. In addition, the access of AGCS SE to the Allianz Group's Cash Pool ensures coverage of short-term liquidity needs (less than two weeks). Constant surveillance is ensured through rolling wave planning of short-, medium- and long-term liquidities and by continuous liquidity and cash flow analyses.

Credit risks The issuers of the fixed-income investments of AGCS SE are predominantly governments and banks. The company has set limits with respect to minimum rating classes and in view of concentration risks. Of the total investments, 42.7 (40.0)% are fixed-income investments with banks and government bonds. Corporate bonds account for 43.1 (46.5)%. Investments in different currency areas are determined by the structure of the liabilities.

Fixed-income investments by rating class as of 31 December 2018, in € mn, including fund holdings at fair value



Credit limits are centrally controlled by Allianz SE, and the compliance with them is monitored by AGCS SE. AGCS SE assigns credit limits on the basis of the economic capital, taking into account the risk bearing capacity.

For the quantification of the credit risk resulting from reinsurance, the company uses information on ceded reserves compiled Group-wide. To control the credit risk with respect to reinsurance partners, only companies that offer excellent collateral are considered. At 31 December 2018, approximately 59% of the reserves of AGCS SE were ceded to reinsurers within the Allianz Group, and the rest to external reinsurers. The solvency of the reinsurance exposure is tested once a year; the most recent test was performed in December 2018 as of 31 December 2017. It showed that 74% of the company's reserves were ceded to reinsurers that had been assigned at least an "A" rating by Standard & Poor's. Setting aside captives and pools, which for the most part have no ratings of their own, 88% of the reserves were ceded to reinsurers with at least an A rating. Since pools have no ratings of their own, cessions are made only after a special investigation has determined that the participating reinsurers meet the Allianz-internal minimum requirements for reinsurance partners and explicit approval by a team of experts has been obtained. In addition, letters of credit, deposits and other financial measures to further minimize the credit risk may be requested.

At 31 December 2018, total third-party receivables with due dates exceeding 90 days amounted to €192.5 mn (not including explicit write-offs for impairment). The average default rate for the past three years was 0.4%.

Operational risks The Allianz Group, including AGCS SE, defines operational risks as unexpected losses which arise because of inadequate or faulty internal business processes, inappropriate human behavior or errors, or because of external events. This definition includes legal and compliance risks as well as financial reporting risks but excludes strategic and reputational risks and risks from poor project decisions.

Operational risks are inherent in all types of products, activities, processes and systems and cannot be completely avoided. Unlike most other kinds of risk, they occur suddenly and unexpectedly and can have a substantial impact on the balance sheets, profits, corporate objectives, business activities or the reputation of AGCS SE.

The risk management system for operational risk is based on the Allianz Group's "three lines of defense" model. The employees of AGCS SE must be made aware of possible operational risks and control these by scrutinizing the management of operational risk for all daily business activities. In the framework of a positive risk and control culture it is assumed that specifically the decision makers will make transparent all identified weaknesses and risks so that the necessary countermeasures can be taken in due time.

The risk management system of AGCS SE for operational risks was specifically developed to learn from operational risks that occurred in the past and to avoid unexpected effects of operational risks in the future, i.e. to prevent the occurrence of operational risks outside the risk tolerance of AGCS SE.

For this purpose, one needs to gain an understanding of what could possibly happen. This is done in two respects:

- In retrospect, operational risks that occurred in the past are continually analyzed and their causes are determined. This process

also takes into account external operational events that are made available by Allianz SE.

- Looking forward, concrete scenarios with potentially negative effects are analyzed and evaluated on an annual basis.

Operational risks are controlled by taking a number of appropriate and effective countermeasures, e.g. through controls of the respective risks. Such controls are defined as "key controls" if the actual risk were significantly greater without the key controls.

Due to their importance, the quality of key controls is evaluated in a structured form, i.e. it is regularly verified whether (1) the design of the key controls is adequate to mitigate the targeted risks and (2) whether they have been implemented effectively. This is done through AGCS SE's internal audit system.

The internal risk capital model of AGCS SE determines risk capital for operational risks. It is used as a cushion to protect the company against extreme operating losses from unexpected operational risk events, such as, e.g., the failure of key controls. In addition, for important operation risks, Indicators and limits were developed to determine the risk tolerance of AGCS SE.

Important activities supplement and support AGCS SE's risk management for operational risks. These are controlled by functions outside of risk management and include:

- Compliance initiatives in the areas of fighting fraud or corruption, antitrust law, economic sanctions, (non-permissible) cross-border business, insider trading, money laundering, distribution compliance and data protection.
- Business Continuity Management (BCM).
- Procurement processes of AGCS SE, including outsourcing
- Initiatives to ensure security of information

Other, non-quantifiable risks such as **strategic** and **reputational risks** are assessed and evaluated in qualitative terms as part of a Top Risk Assessment at least once a year. Special attention was given to risks arising from the current macro-economic situation in the European currency area. In addition to monitoring risks stemming from the present economic context, the assessment also made sure that strategic business decisions were effectively implemented.

Reputational risks are controlled by AGCS SE by including all potentially concerned functions such as Underwriting, Human Resources, Communication and the Legal Department. To avoid risks resulting from a possible damage to the company's reputation because of the negative public perception of the company's actions, isolated critical cases are subject to a rigorous review process that actively involves the Communication Department as well as Risk Management, if required.

RISK AND SOLVENCY ASSESSMENT

An essential component of the risk management system of AGCS SE is the company's own risk and solvency assessment.

The company's risk and solvency situation is summarized as least once per year in a separate report, which, in addition to the results of the regular risk reporting, includes in particular the company's assessment of the:

- Appropriateness of the risk strategy for the business strategy
- Permanent assurance of solvency
- Sensitivity of the solvency quota to external shocks.
- Suitability of the internal model for determining solvency capital requirements
- Efficiency of the internal control system
- Capitalization of subsidiaries subject to separate reporting requirements

The risk and solvency situation is not only assessed at the end of the year, but the assessment also covers the entire three-year planning period. The overall evaluation from the company's own risk and solvency assessment is positive. The AGCS risk management function saw no need to issue a recommendation to take measures to the Board of Management.

In addition, an extraordinary report must be established if individual events substantially alter the risk situation. In 2018, there was no cause to establish a corresponding separate report.

As decided by the Board of Management, the regular report on the risk and solvency situation was submitted on time to the BaFin supervisory authority and made available to the Allianz Group Risk Unit.

Outlook

AGCS SE's gross premium income of €4.2 bn in 2018 clearly exceeded the prior year forecast. The decisive factors for this positive development were essentially new business and the extension of existing business relation in the Liability and Property lines. In addition, premium development was supported by an increase in the fronting business, particularly at Allianz Risk Transfer.

For 2019, AGCS SE expects a market environment that will continue to be shaped by intensive competition. Based on the most recent observation, we nonetheless assume that there will be slightly positive rate development across the entire portfolio in 2019.

AGCS SE's gross premium income in 2019 continues to be forecast at a very high level of € 3.5 bn. However, gross premiums in 2019 are expected to be substantially lower than the extraordinarily high level of 2018. This is primarily due to lower forecasts for income from the fronting business as well as less reinsurance business assumed, due to the planned optimization of premium flows with other AGCS companies.

With a net combined ratio of 107% in 2018, profitability was clearly below the prior year forecast. The main reason for this development are substantially higher net payouts from losses in the reporting year. For 2019, a combined ratio of slightly below 100% is expected.

The quotashare reinsurance contract of AGCS SE with Allianz SE for the German direct insurance business and reinsurance assumed, which took effect in 2015, was renewed for 2019. The reinsurance structure introduced in 2016 was also renewed for 2019 with minor changes. A large part of the reinsurance contracts is being placed with Allianz Re Dublin dac.

AGCS SE is going to pursue its safety-oriented investment strategy. In this respect, AGCS SE will continue to rely on the Allianz Group's wealth of experience with investments in Germany and other countries. To reduce our dependence on capital market developments and

to further diversify the investment portfolio of AGCS SE, we are planning to continue the expansion of investments in infrastructures, renewable energies and real estate as well as equity and debt financing.

The investment income plans of AGCS SE are based on the assumption that the capital markets will remain stable. Since the average reinvestment interest rate of the portfolio is expected to be below book interest, expected interest income will further decline in the coming year. Overall, a clearly lower investment result is expected for 2019. The uncertainty about the further development of the capital markets can produce the corresponding negative but also positive effects on the market values and investment income of AGCS SE in the coming year.

Due to the abovementioned optimization of premium flows with other AGCS companies, a slight decrease of net profit before transfer of profit is expected.

In our estimate, AGCS SE is well prepared for Brexit and we are confident that its direct impact on AGCS SE will be minimal.

The above statements are subject to the proviso that natural disasters, adverse developments in the capital markets or other factors may undermine the validity of the forecasts to a greater or lesser extent.

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ANNUAL FINANCIAL STATEMENTS

BALANCE SHEET AS OF 31 DECEMBER 2018

| € thou | 2018 | 2018 | 2018 | 2017 |
|--|---------|-----------|------------------|------------------|
| ASSETS | | | | |
| A. Intangible assets | | | | |
| I. Self-produced industrial property rights and similar rights and assets | | 65,492 | | 43,434 |
| II. Licenses acquired against payment, industrial property rights and similar rights and assets as well as licenses for such rights and assets | | 158,443 | | 166,243 |
| | | | 223,935 | 209,677 |
| B. Investments | | | | |
| I. Real estate, real property and equivalent rights including buildings on land not owned by AGCS | | 76,667 | | 77,149 |
| II. Investments in affiliated enterprises and participations | | 2,375,494 | | 2,164,967 |
| III. Other investments | | 4,794,016 | | 5,116,559 |
| IV. Funds held by others under reinsurance business assumed | | 80,609 | | 95,083 |
| | | | 7,326,786 | 7,453,758 |
| C. Receivables | | | | |
| I. Accounts receivable from direct insurance business | | | | |
| 1. Policy holders | 38,502 | | | 27,725 |
| 2. Insurance brokers | 521,353 | | | 441,929 |
| including from affiliated enterprises: € thou 6,647 (2017: 640) | | | | |
| | | 559,855 | | 469,654 |
| II. Accounts receivable on reinsurance business | | 794,711 | | 687,297 |
| including from affiliated enterprises: € thou 260,824 (2017: 209,344) | | | | |
| III. Other receivables | | 229,647 | | 236,756 |
| including taxes of: € thou 29,381 (2017: 63,920) | | | | |
| including from affiliated enterprises: € thou 79,162 (2017: 50,493) | | | | |
| | | | 1,584,213 | 1,393,707 |
| D. Other assets | | | | |
| I. Fixed Assets | | 17,878 | | 21,349 |
| II. Cash with banks, checks and cash on hand | | 106,026 | | 83,183 |
| III. Miscellaneous assets | | 27,694 | | 33,261 |
| | | | 151,598 | 137,793 |
| E. Deferred income and prepaid expenses | | | | |
| I. Accrued interest and rent | | 22,913 | | 26,091 |
| II. Other prepaid expenses and deferred income | | 16,391 | | 1,910 |
| | | | 39,304 | 28,001 |
| F. Excess of plan assets over pension liabilities/pension provisions | | | 4,530 | 4,437 |
| Total assets | | | 9,330,366 | 9,227,373 |

ANNUAL FINANCIAL STATEMENTS

| € thou | 2018 | 2018 | 2018 | 2017 |
|---|-----------|-----------|-----------|-----------|
| EQUITY AND LIABILITIES | | | | |
| A. Shareholders' equity | | | | |
| I. Capital stock | | 36,741 | | 36,741 |
| II. Additional paid-in capital | | 1,099,141 | | 1,099,141 |
| III. Appropriated retained earnings | | | | |
| other retained earnings | | 8,355 | | 8,355 |
| | | | 1,144,237 | 1,144,237 |
| B. Insurance reserves | | | | |
| I. Unearned premiums | | | | |
| 1. Gross | 1,369,887 | | | 1,202,050 |
| 2. Less: amounts ceded | 713,316 | | | 624,305 |
| | | 656,571 | | 577,745 |
| II. Reserve for loss and loss adjustment expenses | | | | |
| 1. Gross | 8,687,207 | | | 8,477,367 |
| 2. Less: share in reinsured insurance business | 5,415,801 | | | 5,515,815 |
| | | 3,271,406 | | 2,961,552 |
| III. Claims equalization reserve and similar reserves | | 604,782 | | 703,959 |
| IV. Other insurance reserves | | | | |
| 1. Gross | 51,514 | | | 39,939 |
| 2. Less: share in reinsured insurance business | 13,145 | | | 12,049 |
| | | 38,370 | | 27,890 |
| | | | 4,571,129 | 4,271,146 |
| C. Other accrued liabilities | | | 278,475 | 295,168 |
| D. Funds held under reinsurance | | | 2,618,607 | 2,518,222 |
| E. Other liabilities | | | | |
| I. Accounts payable on direct insurance business to: | | | | |
| 1. Policy holders | 17,107 | | | 2,516 |
| including residual term of up to one year: € thou 17,107 (2017: 2,516) | | | | |
| 2. Agents | 36,951 | | | 21,722 |
| including to affiliated enterprises: € thou 3,250 (2017: 4,332) | | | | |
| including residual term of up to one year: € thou 36,951 (2017: 21,722) | | | | |
| | | 54,058 | | 24,238 |
| II. Accounts payable on reinsurance business | | 375,134 | | 382,332 |
| including to affiliated enterprises: € thou 159,248 (2017: 107,423) | | | | |
| including residual term of up to one year: € thou 375,134 (2017: 382,332) | | | | |
| III. Miscellaneous liabilities | | 288,725 | | 588,610 |
| including from taxes: € thou 54,333 (2017: 36,790) | | | | |
| including to affiliated enterprises: € thou 32,581 (2017: 354,645) | | | | |
| including residual term of up to one year: € thou 288,725 (2017: 588,610) | | | | |
| including contributions for social security: € thou 405 (2017: 423) | | | | |
| | | | 717,917 | 995,180 |
| F. Deferred income | | | - | 3,420 |
| Total equity and liabilities | | | 9,330,366 | 9,227,373 |

INCOME STATEMENT

| € thou | 2018 | 2018 | 2018 | 2017 |
|--|-------------|-----------|-------------|-------------|
| I. Technical account | | | | |
| 1. Premiums earned - net | | | | |
| a) Gross premiums written | 4,170,162 | | | 4,035,180 |
| b) Premiums ceded | (2,777,434) | | | (2,772,770) |
| | | 1,392,728 | | 1,262,410 |
| c) Change in unearned premiums - gross | (141,115) | | | (50,170) |
| d) Change in unearned premiums ceded - gross | 69,285 | | | 7,485 |
| | | (71,830) | | (42,685) |
| | | | 1,320,898 | 1,219,725 |
| 2. Loss and loss adjustment expenses - net | | | | |
| a) Claims paid | | | | |
| aa) Gross | (2,550,857) | | | (2,404,846) |
| bb) Amounts ceded in reinsurance | 1,818,368 | | | 1,730,539 |
| | | (732,489) | | (674,307) |
| b) Change in reserves for loss and loss adjustment expenses | | | | |
| aa) Gross | (108,050) | | | (958,716) |
| bb) Amounts ceded in reinsurance | (162,663) | | | 861,733 |
| | | (270,713) | | (96,983) |
| | | | (1,003,202) | (771,290) |
| 3. Change in other insurance reserves - net | | | (777) | (577) |
| 4. Expenses for profit-dependent and profit-independent premium rebates for own account | | | (10,137) | (13,670) |
| 5. Underwriting expenses - net | | | (410,797) | (393,521) |
| 6. Other underwriting expenses - net | | | (2,589) | (2,394) |
| 7. Subtotal | | | (106,604) | 38,273 |
| 8. Change in claims equalization and similar reserves | | | 99,177 | 33,508 |
| 9. Net technical result | | | (7,427) | 71,781 |
| II. Non-technical account | | | | |
| 1. Investment income | | 304,887 | | 312,110 |
| 2. Investment expenses | | (47,682) | | (113,540) |
| | | | 257,205 | 198,570 |
| 3. Other income | | 172,482 | | 409,910 |
| 4. Other expenses | | (238,098) | | (234,458) |
| | | | (65,616) | 175,452 |
| 5. Non-technical result | | | 191,589 | 374,023 |
| 6. Earnings from ordinary activities before taxes | | | 184,162 | 445,804 |
| 7. Income taxes, including amounts charged to other group companies: € thou 12,460 (2017: 52,708) | | | (93,985) | (111,115) |
| 8. Other taxes | | | (246) | (3,279) |
| | | | (94,231) | (114,393) |
| | | | 89,931 | 331,411 |
| 9. Profits transferred because of a profit pool, a transfer-of-profit or transfer-of partial profit agreement | | | (89,931) | (331,411) |
| 10. Unappropriated retained earnings | | | 0 | 0 |

NOTES TO THE FINANCIAL STATEMENTS

Basis of preparation

The company's Financial Statements and the Management Report are prepared in accordance with the regulations contained in the German Commercial Code (HGB), taking into account the Corporation Law (AktG), the Law on the Supervision of Insurance Enterprises (VAG), and the Government Order on the External Accounting Requirements of Insurance Enterprises (RechVersV).

All amounts in the financial statements are presented in thousands of Euros (€ thou).

Accounting, valuation and calculation methods

INTANGIBLE ASSETS

Intangible assets are stated at acquisition or production cost less amortization. Internally generated intangible assets are capitalized and amortized on a straight-line basis over their expected useful lives. In the event of permanent impairment, unscheduled write-downs are made.

REAL ESTATE, REAL ESTATE RIGHTS, AND BUILDINGS, INCLUDING BUILDINGS ON LAND NOT OWNED BY AGCS

They are carried at cost and depreciated on a straight-line basis over their estimated useful lives. Impairment losses are recognized for expected permanent impairments if the amortized cost exceeds the long-term fair value at the balance sheet date.

SHARES IN AFFILIATED ENTERPRISES

These are valued according to the moderate lower-value principle and carried at amortized cost or a lower long-term fair value.

Write-downs are made if the amortized cost of acquisition at the balance sheet date is higher than the market value or the long-term fair value.

LOANS TO AFFILIATED ENTERPRISES

This item includes bearer bonds, land charge claims, loans and profit participation certificates.

These are valued according to the moderate lower-value principle and carried at amortized cost. Write-downs are made if the amortized cost of acquisition at the balance sheet date is higher than the market value or the long-term fair value.

PARTICIPATIONS

These are valued according to the moderate lower-value principle and carried at amortized cost or a lower long-term fair value.

Write-downs are made if the amortized cost of acquisition at the balance sheet date is higher than the market value or the long-term fair value.

LOANS TO AFFILIATED ENTERPRISES IN WHICH A PARTICIPATING INTEREST IS HELD

This item includes loans.

These are valued according to the moderate lower-value principle and carried at amortized cost. Write-downs are made if the amortized cost of acquisition at the balance sheet date is higher than the market value or the long-term fair value.

OTHER INVESTMENTS

STOCKS, INTERESTS IN FUNDS, DEBT SECURITIES, AND OTHER FIXED AND VARIABLE INCOME SECURITIES

Securities managed in accordance with the principles of current assets are valued strictly at the lower-value or market and carried at the lower of average acquisition cost or market value.

The investments shown in the balance sheet in accordance with the regulations governing fixed assets are intended to serve business operations on a permanent basis. The intended purpose is allocated when the investment is acquired. The allocation is reviewed in the event of a change in the investment strategy or in the event of planned sales.

These securities are valued according to the moderate lower-value or market principle and are valued at the lower of average acquisition cost or long-term fair value. In the case of permanent impairment, write-downs are charged to the income statement. A depreciation option exists in the case of expected temporary impairments.

A write-down option is available for expected temporary impairments. As in the previous year, the option will be exercised in the financial year to the effect that the expected temporary impairments will not be made for economic reasons. This results in hidden charges.

MORTGAGES, LAND CHARGES AND ANNUITY LAND CHARGES

These are valued according to the moderate lower-value principle and carried at amortized cost.

The difference between the acquisition cost and the repayment amount is distributed on a straight-line basis over the term, for the annuity loans in proportion to the remaining debt.

Write-downs are made if the amortized cost of acquisition at the balance sheet date is higher than the market value or the long-term fair value.

REGISTERED BONDS, PROMISSORY NOTES AND LOANS

These are valued according to the moderate lower-value principle and carried at amortized cost.

The difference between the acquisition cost and the repayment amount is recognised and amortised over the remaining term using the effective interest method.

Write-downs are made if the amortized cost of acquisition at the balance sheet date is higher than the market value or the long-term fair value.

BANK DEPOSITS

These are recorded at face value.

STRUCTURED PRODUCTS

The portfolio contains structured products in the form of registered bonds, loans, participatory notes and bearer bonds, which are posted uniformly in the balance sheet. They are valued and recognized according to the balance sheet item under which they are recorded.

FUNDS HELD BY OTHERS UNDER REINSURANCE BUSINESS ASSUMED

In accordance with §341c HGB these items are recorded at face value.

RECEIVABLES AND OTHER ASSETS

These include the following:

- accounts receivable on direct insurance business
- accounts receivable on reinsurance business
- other receivables
- cash with banks, checks and cash on hand

These are valued at nominal value less repayments. For accounts receivable from direct insurance business, general loss allowances are made to account for the credit risk.

- Property, plant and equipment, inventories and other assets

These items are carried at acquisition cost less cumulated depreciation. Low-value assets worth up to € 250 are written off immediately. A compound item for tax purposes was formed in accordance with §6 (2 a) of the German Income Tax Act (EStG) for assets from € 250 to € 1,000. This item is released with profit-decreasing effect in the year of formation and in the subsequent four years, by one fifth in each year.

Since 2015, the accounts receivable from reinsurance business have been netted separately for incoming and outgoing reinsurance for each contractual partner.

PREPAID EXPENSES AND DEFERRED CHARGES

Deferred interest and rent are generally stated at their nominal amounts and other deferred income is stated at nominal value.

DEFERRED TAX ASSETS

In accordance with §274 HGB, the company does not use its capitalization option to constitute a deferred tax asset on the temporary difference between the accounting valuation of assets, liabilities and deferred income / prepaid expenses and their tax-based valuation, if these differences will result in tax relief in the following years.

ASSETS TO MEET LIABILITIES RESULTING FROM RETIREMENT PROVISION COMMITMENTS

In accordance with §253 (1) HGB, assets are recognised at fair value and offset against liabilities in conjunction with §246 (2) HGB.

If the liabilities exceed the fair value, the excess amount is reported under provisions. If the fair value exceeds the amount of the liabilities, the excess amount is shown under the item "Excess of plan assets over pension liabilities/pension provisions".

The accounting and valuation method of the asset difference corresponds to that described in the section Other provisions (liabilities C.).

INSURANCE RESERVES

UNEARNED PREMIUMS

In the direct insurance business, unearned premiums are predominantly determined according to the daily calculation method. In engineering insurance, unearned premiums are accrued as a function of the risk experience for each contract. Payments to agents were deducted as non-transferable portions according to tax guidelines. Flat rates were applied to a limited extent. For reinsurance business assumed, unearned premiums are determined on the basis of the information provided by the ceding insurers. The reinsurers' share deducted from the gross unearned premiums are predominantly determined according to the daily calculation method, with deduction of non-transferable portions.

In respect of quotashare charges with participation in the original costs, the proportional unearned premiums were accordingly deducted from the quotashare of the reinsurer.

RESERVE FOR LOSS AND LOSS ADJUSTMENT EXPENSES

The gross reserve for direct insurance business consists of the following partial reserves:

Reserves for known insured losses (not including annuities) are generally determined individually for each insured event on a per case basis according to the expected payout. In the coinsurance business the reserves are determined on the basis of the tasks of the leading insurers. The provision for **claims settlement expenses** that can be **allocated to known insurance claims** is formed in the course of individual case provisions in accordance with the expected payments. The partial loss reserve for **non-allocable claims settlement expenses** is derived using a lump-sum approach from historical claims settlement expenses, measured on the basis of claims payments and reserve changes.

For already incurred or caused but not yet reported losses, **late claims reserves** are set up on the basis of the experience from previous years. For individual claims which are not yet known, a **provision for claims adjustment expenses** is calculated using the same actuarial methods as the provision for claims incurred but not reported.

For the gross provision for **assumed reinsurance business**, the provisions for known cases are set according to the duties of the cedants. The corresponding IBNR reserves are calculated on the basis of actuarial analyses.

For the **reinsurance business ceded**, the reinsurers' share of the provisions for known cases is determined in accordance with the contractual agreements. The corresponding IBNR reserves are calculated on the basis of actuarial analyses.

CLAIMS EQUALIZATION RESERVE AND SIMILAR RESERVES

The claims equalization reserve and the reserves for nuclear, pharmaceutical and terrorist risks are calculated for the net retention portion according to §341h HGB in conjunction with sections 29 and 30 of the Government Order on the External Accounting Requirements of Insurance Enterprises (RechVersV).

OTHER INSURANCE RESERVES

Direct insurance business:

Reserve for cancellations

The reserve for cancellations is determined on the basis of the previous years' experience.

Reserve for anticipated losses

The assessment is based on expected premium income as well as loss and cost developments for the respective line of business. The reserve is calculated taking into account proportional interest income from the underwriting reserves for the deductible portion only. The reserve is calculated for both the direct insurance business and for reinsurance assumed. It was not necessary to set up such a reserve during the reporting year.

Provision for profit-independent premium refunds

The calculation of the provision for profit-independent premium refunds is based on the premium, claims and cost development of one or more insurance contracts for the current business year, insofar as a premium refund is the subject of contractual agreements. If these relate to an observation period of several years, the provision is formed as a precautionary measure for amounts prior to the expiry of this period. In the business year the provision comprises amounts from reinsurance business accepted.

OTHER ACCRUED LIABILITIES

In principle, other accrued liabilities are stated in the required amounts payable on maturity.

Pension reserves are calculated on the basis of actuarial principles. The conversion expenses resulting from the first-time application of the Accounting Law Modernization Act (BilMoG) in 2010 were already recognized in full as an extraordinary expense in the past.

The provisions for jubilee payments, phased-in early retirement and early retirement benefits are also calculated on the basis of actuarial principles and recognized as a liability in the full amount. According to §253 HGB, provisions for retirement benefit obligations are to be discounted at the average market interest rate from the past ten financial years and for other personnel obligations from the past seven financial years. §253 (6,2) HGB states that a positive difference resulting from the valuation of pension obligations at the seven-year average interest rate compared with the valuation at the ten-year average interest rate is subject to a distribution ban. This distribution ban does not block the transfer of profits if there is a transfer-of-profit agreement.

In determining the discount rate, the Company applies the simplification rule pursuant to §253 (2,2) HGB (residual term of 15 years), whereby as in the previous year an interest rate predicted as of the balance sheet date was used as the basis.

The effect resulting from the change in the discount rate is reported under other non-technical result.

Additional information on the accounting of company pension commitments and similar commitments is provided under "Supplementary information on Equity and Liabilities" and "Contingent Liabilities" below.

LIABILITIES

These include the following:

- funds held under reinsurance business ceded
- liabilities from direct insurance business
- accounts payable on reinsurance business

- liabilities to banks
- other liabilities

These liabilities are stated at the amounts payable on maturity.

Since 2015, settlement liabilities from reinsurance business have been netted separately for incoming and outgoing reinsurance for each contractual partner.

APPROXIMATION AND SIMPLIFICATION METHODS

To the extent that calculations from ceding insurers are not received in time for the fiscal year, the corresponding amounts are estimated on the basis of past experience, taking into account current developments.

CURRENCY TRANSLATION

Transactions are generally recorded in the original currency and converted into Euro at the relevant daily rate (middle forex spot rate) on the day of the transaction.

On the balance sheet date, receivables and liabilities denominated in foreign currencies are translated at the daily rate and valued in accordance with the rules of commercial law for currency translation. For residual terms of one year or less, gains and losses from the translation are recognised in the income statement in accordance with §256a HGB.

Provisions in foreign currency are determined on the closing date and revalued and translated at the daily rate.

The acquisition or production costs of the basic assets, as well as the acquisition costs of the loans and mortgage receivables, are determined at the average spot exchange rate at the time of acquisition. Fluctuations in value due to changes in exchange rates are recognized in the income statement as of the balance sheet date (strict lower-value or market principle taking into account the acquisition and realization principles).

For the valuation of investments denominated in foreign currencies, the fair value in the original currency is translated into Euro at the daily rate on the balance sheet date.

In the case of affiliated companies and participations, the moderate lower value principle is applied when comparing the acquisition costs in Euro with the fair value in Euro, taking into account the acquisition costs and realisation principle.

For the other investments, the strict lower value principle is applied, taking into account the acquisition and realisation principles, with the exception of investments with a remaining term of one year or less.

The following applies to all investments: currency gains and losses are recorded independently, but not separately in the currency translation result.

The net effect of exchange rate changes and fluctuations in value in the original currency is recognized in write-ups, write-downs and realized gains and losses on these asset classes and reported in the investment result.

In the case of investments carried at amortised cost, changes in exchange rates are recognised in write-ups and write-offs and in realised gains and losses on these investment categories and shown in the investment result, unless there is a credit-related write-off.

REQUIREMENT TO REINSTATE ORIGINAL VALUES AND WRITE-UPS

The requirement to reinstate original values applies to assets that were written down to a lower market value in past years. If their value

at the balance sheet date is higher than the book value, they must be written up again. The write-up is made either up to amortized cost or to a lower long-term or market value.

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SUPPLEMENTARY INFORMATION ON ASSETS

Change of assets A., B.I. through B.III.

| | Balance sheet value 31.12.2017 | |
|---|--------------------------------|-------------|
| | € thou | % |
| A. Intangible assets | | |
| 1. Self-produced industrial property rights and similar rights and assets | 43,434 | |
| 2. Licenses acquired against payment, industrial property rights and similar rights and assets as well as licenses for such rights and assets | 166,243 | |
| Subtotal A. | 209,677 | |
| B.I. Real estate, real property and equivalent rights including buildings on land not owned by AGCS SE | 77,149 | 1.0 |
| B.II. Investments in affiliated enterprises and participations | | |
| 1. Shares in affiliated enterprises | 2,004,758 | 27.2 |
| 2. Loans to affiliated enterprises | 89,688 | 1.2 |
| 3. Participations | 47,251 | 0.6 |
| 4. Loans to affiliated enterprises in which a participating interest is held | 23,270 | 0.3 |
| Subtotal B.II. | 2,164,967 | 29.4 |
| B.III. Other investments | | |
| 1. Stocks, investment fund units and other variable income securities | 2,781,242 | 37.8 |
| 2. Bearer bonds and other fixed-income securities | 2,049,192 | 27.8 |
| 3. Mortgages, land charges and annuity land charges | 76,183 | 1.0 |
| 4. Other loans | | |
| a) Registered bonds | 70,071 | 1.0 |
| b) Note loans and loans | 124,830 | 1.7 |
| 5. Bank deposits | 15,041 | 0.2 |
| Subtotal B.III. | 5,116,559 | 69.5 |
| Subtotal B.I. through B.III. | 7,358,676 | 100.0 |
| Total | 7,568,353 | |

Intangible assets (Assets A.)

This balance sheet position essentially comprises the capitalized expenses in connection with a long-term distribution agreement with Standard Chartered Bank (€ 59,483 thou). In addition, it mainly comprises capitalized expenses for the system integration of own and third-party software.

The total amount of the research and development costs for self-generated immaterial assets in fiscal 2018 is € 27,093 thou, of which € 25,618 thou were capitalized.

Real estate, real estate rights and buildings (Assets B.I)

The carrying amount of directly held properties is € 76 667 thou. No land or buildings of this portfolio are used for our own business activities.

| Additions | Reclassifications | Disposals | Revaluation | Depreciation | Net change | Balance sheet value 31.12.2018 | |
|------------------|-------------------|------------------|---------------|---------------|------------------|--------------------------------|-------------|
| | | | | | | € thou | % |
| € thou | € thou | € thou | € thou | € thou | € thou | € thou | % |
| 25,618 | 2,067 | | | 5,628 | 22,057 | 65,492 | |
| 23,821 | (2,067) | | | 29,553 | (7,799) | 158,443 | |
| 49,439 | | | | 35,181 | 14,258 | 223,935 | |
| 1,259 | | | | 1,741 | (482) | 76,667 | 1.1 |
| 200,349 | | 3,328 | | 412 | 196,609 | 2,201,367 | 30.4 |
| 17,077 | | 1,917 | 451 | 139 | 15,472 | 105,160 | 1.5 |
| 4,071 | | 5,243 | 60 | | (1,111) | 46,140 | 0.6 |
| 1,475 | | 1,918 | | | (443) | 22,827 | 0.3 |
| 222,972 | | 12,406 | 511 | 551 | 210,526 | 2,375,494 | 32.8 |
| 228,010 | | 564,636 | 415 | 3 | (336,213) | 2,445,029 | 33.7 |
| 968,890 | | 939,479 | 10,901 | 26,210 | 14,102 | 2,063,294 | 28.5 |
| 15,029 | | 19,417 | | | (4,389) | 71,795 | 1.0 |
| 1,421 | | 5,351 | 1,827 | | (2,103) | 67,968 | 0.9 |
| | | 16,804 | | | (16,804) | 108,025 | 1.5 |
| 22,865 | | | | | 22,865 | 37,906 | 0.5 |
| 1,236,215 | | 1,545,688 | 13,143 | 26,213 | (322,543) | 4,794,016 | 66.2 |
| 1,460,446 | | 1,558,094 | 13,654 | 28,504 | (112,498) | 7,246,177 | 100.0 |
| 1,509,885 | | 1,558,094 | 13,654 | 63,686 | (98,241) | 7,470,112 | |

Investments in affiliated enterprises and participations (Assets B.II)

List of participations in accordance with §285 No. 11 HGB in conjunction with §286 (3) No. 4 HGB

€ thou

| Name and location | Interest % | Equity | Net income |
|--|------------|-----------|------------|
| AGCS-Argos 76 Vermögensverwaltungsgesellschaften mbH, Munich ⁹ | 100.00 | 8,088 | - |
| AGCS-Argos 86 Vermögensverwaltungsgesellschaft mbH, Munich ⁹ | 100.00 | 6,505 | - |
| AGCS Infrastrukturfonds GmbH, Munich ⁹ | 100.00 | 7,393 | - |
| AGCS International Holding B.V., Amsterdam ³ | 100.00 | 1,223,068 | 37,282 |
| AGCS Marine Insurance Company, Chicago ³ | 83.00 | 171,926 | 8,727 |
| AIM Underwriting Limited, Toronto ⁸ | 83.00 | - | - |
| Alida Grundstücksgesellschaft mbH & Co. KG, Hamburg | 4.73 | 404,789 | 9,960 |
| Allianz Aviation Managers LLC, New York ⁸ | 83.00 | - | - |
| Allianz EM Loans S.C.S., Luxemburg | 11.11 | 130,132 | 4,196 |
| Allianz Finance VII Luxembourg S.A., Luxemburg | 6.00 | 1,597,885 | 3,994 |
| Allianz Finance VIII Luxembourg S.A., Luxemburg | 20.00 | 481,755 | -62 |
| Allianz Fire and Marine Insurance Japan Ltd., Tokyo ^{1,5} | 100.00 | 29,672 | 2,069 |
| Allianz Fund Investments 2 S.A., Luxemburg | 100.00 | 673 | 11,829 |
| Allianz Fund Investments S.A., Luxemburg | 100.00 | 35 | - |
| Allianz Global Corporate & Specialty do Brasil Participações Ltda., Sao Paulo ⁶ | 100.00 | 54,272 | 1,906 |
| Allianz Global Corporate & Specialty of Africa (Proprietary) Ltd., Johannesburg ⁴ | 100.00 | 7,291 | 430 |
| Allianz Global Corporate & Specialty of Bermuda Ltd., Hamilton ⁸ | 83.00 | - | - |
| Allianz Global Corporate & Specialty Resseguros Brasil S.A., Sao Paulo ⁶ | 100.00 | 53,989 | 1,850 |
| Allianz Global Corporate & Specialty SE, Escritorio de Representação no Brasil Ltda., Sao Paulo ⁶ | 99.99 | 26 | 2 |
| Allianz Global Corporate & Specialty South Africa Ltd., Johannesburg ⁴ | 100.00 | 7,426 | 429 |
| Allianz Global Risks US Insurance Company Corp., Chicago ³ | 83.00 | 1,618,839 | 198,528 |
| Allianz Infrastructure Luxembourg I, Luxemburg | 1.53 | 3,371 | 45,800 |
| Allianz Infrastructure Luxembourg HoldCo II S.A., Luxemburg | 10.10 | 480,285 | -63 |
| Allianz Infrastructure Luxembourg HoldCo IV S.A., Luxemburg | 10.10 | 33 | - |
| Allianz Jewel Fund ICAV, Dublin | 5.00 | 163,862 | -15,863 |
| Allianz Marine (UK) Ltd., London ² | 100.00 | 10,618 | 33 |
| Allianz Renewable Energy Fund II S.A. SICAV-SIF, Luxemburg | 10.83 | 168,207 | 1,598 |
| Allianz Renewable Energy Partners of America LLC, Wilmington ⁸ | 27.66 | 789,550 | 112,647 |
| Allianz Risk Consulting GmbH, Munich | 100.00 | 2,196 | 275 |
| Allianz Risk Consulting LLC, Petaluma ⁸ | 83.00 | - | - |
| Allianz Risk Transfer AG, Schaan | 100.00 | 476,786 | 1,541 |
| Allianz Risk Transfer (Bermuda) Ltd., Hamilton ³ | 83.00 | 70,745 | 14,259 |
| Allianz Risk Transfer Inc., New York ⁸ | 83.00 | - | - |
| Allianz Risk Transfer (UK) Ltd., London ² | 100.00 | 1,493 | 13 |
| Allianz Services (UK) Ltd., London ² | 100.00 | 6,149 | 189 |
| Allianz Underwriters Insurance Company, Chicago ³ | 83.00 | 64,332 | 1,613 |
| American Automobile Insurance Company Corp., O'Fallon ³ | 83.00 | 68,258 | 667 |
| AS Gasinfrastruktur Beteiligung GmbH, Vienna | 10.00 | 338,796 | 41,327 |
| Associated Indemnity Corp., Petaluma ³ | 83.00 | 78,746 | 594 |
| Assurance France Aviation S.A., Paris | 99.88 | 2,567 | -157 |
| Autobahn Tank & Rast Gruppe GmbH & Co. KG, Bonn | 1.06 | 371,387 | -106,819 |
| Brunei National Insurance Company Berhad Ltd., Brunei ⁷ | 25.00 | 11,387 | 2,171 |
| Caroline Berlin S.C.S., Luxemburg | 3.80 | 211,391 | 3,559 |
| Chicago Insurance Company Corp., Chicago ³ | 83.00 | 58,172 | -211 |
| Fireman's Fund Financial Services LLC, Wilmington ⁸ | 83.00 | - | - |
| Fireman's Fund Insurance Company, Petaluma ³ | 83.00 | 1,213,651 | 86,769 |
| Fireman's Fund Insurance Indemnity Corp., Liberty Corner ³ | 83.00 | 13,073 | -170 |
| Interstate Fire & Casualty Company, Chicago ³ | 83.00 | 61,306 | -325 |
| National Surety Corp., Chicago ³ | 83.00 | 64,564 | -139 |
| PIMCO Corporate Opportunities Fund II Lux Feeder S.C.S., Luxemburg | 3.95 | 44,132 | 4,733 |
| Professional Agencies Reinsurance Ltd., Hamilton ⁸ | 11.87 | - | - |
| Q207 S.C.S., Luxemburg | 10.00 | 87,373 | 3,378 |
| Sirius S.A., Luxemburg | 10.32 | 320,277 | 6,273 |
| SpaceCo S.A., Paris | 100.00 | 527 | 353 |
| SPREF II Pte. Ltd., Singapore | 2.50 | - | - |
| Autobahn Tank & Rast Management GmbH, Bonn | 1.06 | 25 | - |
| T&R MLP GmbH, Bonn | 1.06 | 24 | -5 |

| | | | |
|---|-------|---------|-------|
| T&R Real Estate GmbH, Bonn | 1.06 | 140,827 | -15 |
| The American Insurance Company Corp., Columbus ³ | 83.00 | 58,324 | -748 |
| The FIZZ Student Housing Fund S.C.S., Luxemburg | 4.46 | 164,703 | 1,986 |
| Triskelion Property Holding Designated Activity Company, Dublin | 2.50 | 4 | 1 |
| Wm. H. McGee & Co. Inc., New York ⁸ | 83.00 | - | - |
| Wm. H. McGee & Co. Ltd, Hamilton ⁸ | 83.00 | - | - |
| Ontario Ltd., Toronto ⁹ | 83.00 | - | - |

All figures from 2017

1_Fiscal year from April to March figures from March 2018

2_Converted from GBP to EUR closing rate 12/31/2018: 0,89755

3_Converted from USD to EUR closing rate 12/31/2018: 1,1432

4_Converted from ZAR to EUR closing rate 12/31/2018: 16,44420

5_Converted from JPY to EUR closing rate 12/31/2018: 125,42070

6_Converted from BRL to EUR closing rate 12/31/2018: 4,43060

7_Converted from BND to EUR closing rate 12/31/2018: 1,55815

8_Due to local regulations no annual financial statements are made

9_Because of a control and profit transfer agreement, the annual result is shown as zero.

Interests in investment funds in accordance with §285 No. 26 HGB

€ thou

| Name of fund | Investment goal | Redemption of fund shares | Balance sheet 31.12.2018 | Fair value 31.12.2018 | Revaluation reserve 31.12.2018 | Dividend distribution for the fiscal year |
|---|-----------------|---------------------------|--------------------------|-----------------------|--------------------------------|---|
| Mixed funds | | | | | | |
| ALLIANZ GLR FONDS | Mixed funds | each trading day | 1,164 | 1,341 | 177 | 86 |
| Allianz Renewable Energy Fund II, S.A.S | Mixed funds | each trading day | 36 | 36 | - | 1 |
| Subtotal | | | 1,200 | 1,377 | 177 | 87 |
| Bond funds | | | | | | |
| ALLIANZ GLRS FONDS | Bond fund | each trading day | 732 | 808 | 76 | 8 |
| ALLIANZ GLU FONDS | Bond fund | each trading day | 86 | 105 | 20 | 6 |
| ALLIANZ GRGB FONDS | Bond fund | each trading day | 298 | 309 | 12 | 4 |
| Subtotal | | | 1,116 | 1,222 | 108 | 18 |
| Total | | | 2,316 | 2,599 | 285 | 105 |

Fair value of investments

€ thou

| | Market value 2018 | Market value 2017 |
|---|-------------------|-------------------|
| B. I. Real estate, real property and equivalent rights including buildings on land not owned by AGCS | 122,097 | 109,549 |
| B. II. Investments in affiliated enterprises and participations | | |
| 1. Shares in affiliated enterprises | 2,594,917 | 2,388,276 |
| 2. Loans to affiliated enterprises | 111,387 | 94,506 |
| 3. Participations | 55,202 | 50,990 |
| 4. Loans to affiliated enterprises in which a participating interest is held | 22,827 | 23,270 |
| B. III. Other investments | | |
| 1. Shares, investment fund units and other variable interest securities | 2,729,169 | 3,294,121 |
| 2. Bearer bonds and other fixed-interest securities | 2,126,619 | 2,134,311 |
| 3. Mortgages, land charges and annuity land charges | 73,469 | 77,011 |
| 4. Other loans | | |
| a) Registered bonds | 70,874 | 75,267 |
| b) Promissory notes and loans | 112,071 | 132,905 |
| 5. Bank deposits | 37,906 | 15,041 |
| B. IV. Funds held by others under reinsurance business assumed | 80,609 | 95,082 |
| Total investments | 8,137,146 | 8,490,329 |

THE FOLLOWING VALUATION METHODS WERE USED TO DETERMINE FAIR VALUES:

The fair value of land and buildings is valued as of 31 December of the fiscal year, using the discounted cash flow method.

The fair value of shares in affiliated enterprises and participations are determined by different methods depending on the purpose and the size of the enterprise. Insurance companies and similar enterprises are valued by means of the German income approach or based on proportional equity. For asset holdings, the look-through principle is used to determine the fair value. In this method, those assets that are used to determine net assets are valued by different valuation methods such as the net-asset value method, stock values and the discounted cash-flow method. Individual shares in affiliated enterprises were carried at acquisition cost in the first year of investment. Non-essential companies are valued at book value. In certain individual cases, the net asset valuation model is used.

The fair values of stocks, interests in investment funds and other variable-rate securities were determined on the basis of the stock exchange price quoted on the last trading day of the year, if available. For special funds, the value communicated by the investment company was used.

The fair values of exchange-listed fixed-term securities such as bearer bonds and other fixed-rate securities were determined on the basis of the stock exchange price quoted on the last trading day of the year.

For non-quoted fixed-term investments (other loans) the fair value was determined on the basis of evaluations by independent pricing services or according to the discounted cash-flow method. For this, the effective interest rate was used.

For Asset Backed Securities (ABS) the market values are supplied by independent commercial banks. With the exception of a small number of cases, these were calculated with valuation models based on readily observable market data.

Unrecognized impairments

The fixed asset investments carried at acquisition cost less cumulated depreciation include unrecognized impairments in the amount of € 4,619 thou.

The following table shows the composition of the unrecognized impairments in 2018:

| € thou | Book Value | Market Value | Unrecognized impairments |
|--|----------------|----------------|--------------------------|
| Shares in affiliated | 7,619 | 7,565 | 54 |
| Loans to affiliates | 4,007 | 3,140 | 866 |
| Participations | 2,455 | 2,399 | 56 |
| Stocks, investment fund units and other variable income securities | 102,357 | 99,851 | 2,506 |
| Annuity land charges | 7,245 | 7,216 | 29 |
| Registered bonds | 10,060 | 9,191 | 869 |
| Notes receivable and loans | 14,500 | 14,261 | 239 |
| Sum | 148,243 | 143,623 | 4,619 |

No write-down to fair value was made because an analysis according to standardized methods found that the long-term market value of the investments concerned exceeded their fair value.

Miscellaneous assets (Assets D.III.)

This position mainly involves options on Allianz SE shares, which are used to hedge company risks in connection with Allianz Equity Incentives.

Deferred tax assets

Based on the capitalization option of §274 (1) sentence 2 HGB the surplus of deferred tax assets over deferred tax liabilities will not be recognized.

The main differences between accounting and tax-based valuation arise from the balance sheet items investments and reserve for loss and loss adjustment expenses, which result in deferred tax assets.

Deferred tax assets in Germany are valued with a tax rate of 31% and in other countries with the applicable local tax rate.

ASSETS TO MEET LIABILITIES RESULTING FROM RETIREMENT PROVISION COMMITMENTS (Assets F.)

Assets used to cover debt from pension liabilities or similar long-term liabilities and which are inaccessible to all other creditors must mandatorily be offset against the reserves for these obligations. If the fair value of these assets exceeds the value of the corresponding reserves, the excess must be recognized as "Excess of plan assets over pension liability/pension provisions" on the asset side of the balance sheet. This item amounts to € 4,530 (4,437) thou.

Bar on dividend distribution

The amount barred from dividend distribution according to §268 (8) HGB in connection with §301 AktG amounts to € 65,671 (45,069) thou and relates in the amount of € 65,492 (43,434) thou the recognition of self-generated intangible assets and in the amount of € 179 (1,635) thou to the valuation of assets at fair value pursuant to

§253 (1) HGB. The amount barred from dividend distribution is completely covered by unappropriated reserves and is thus transferred in full.

Valuation units

To hedge stock-based compensation plans (Allianz Equity Incentive plans), forward transactions (hedge RSUs) are contracted with Allianz SE. These forward transactions are combined with the corresponding underlying transactions if they are linked by a direct hedging relationship.

The underlying transactions are recorded under other reserves while the hedging transactions are recorded under miscellaneous assets.

For the valuation units formed, a micro-hedge approach is used to completely exclude price fluctuation risks stemming from market price fluctuations.

The prospective and retrospective effectiveness of the valuation units for the equity-based remunerations plans which will expire at the latest in 2022 is determined by means of the critical term match method.

At the balance sheet date, the underlying transactions, which consist of benefits to be provided at a future date, amounted to a total of € 26,610 (29,453) thou. Valuation units are accounted for by means of the "freezing" method. The valuation units are used to hedge risks in the form of changes in value in the amount of € 7,290 (15,564) thou.

SUPPLEMENTARY INFORMATION ON EQUITY AND LIABILITIES

Shareholders' equity (A.I.)

As of 31 December 2018, the issued capital of € 36,741 thou is divided into 36,740,661 fully-paid in barer shares with a nominal value of € 1 each.

These shares can be transferred only with the company's consent. Allianz SE is the sole shareholder of AGCS SE.

Gross insurance reserves (included in Assets & Liabilities B)

ACCORDING TO INSURANCE BRANCH GROUPS, INSURANCE BRANCHES AND TYPES OF INSURANCE

| | Total | | Gross reserves for loss and loss adjustment expenses | | Claims equalization reserve and similar reserves | |
|---|-------------------|-------------------|--|------------------|--|----------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Direct insurance business written | | | | | | |
| Personal accident | 13,072 | 13,168 | 7,601 | 7,875 | - | - |
| 3rd party liability | 3,550,553 | 3,298,591 | 3,233,487 | 2,989,701 | 16,954 | 55,225 |
| Automotive liability | 21,957 | 11,249 | 19,592 | 7,290 | - | - |
| Other automotive | 21,480 | 15,502 | 16,237 | 11,264 | - | - |
| Fire and property | 1,116,084 | 1,127,544 | 761,088 | 724,964 | 48,033 | 109,691 |
| including: | | | | | | |
| Fire insurance | 402,748 | 465,028 | 306,202 | 307,638 | 47,675 | 109,446 |
| Other property insurance | 713,336 | 662,516 | 454,886 | 417,326 | 357 | 245 |
| Transport and aviation insurance | 1,003,324 | 1,063,030 | 830,103 | 915,197 | 104,202 | 85,898 |
| Other insurance | 233,741 | 279,510 | 149,799 | 232,929 | 77 | 64 |
| Total ¹ | 5,961,578 | 5,808,824 | 5,018,370 | 4,889,229 | 169,266 | 250,877 |
| Reinsurance business assumed Total | 4,751,813 | 4,614,491 | 3,668,836 | 3,588,138 | 435,517 | 453,082 |
| Insurance business total | 10,713,391 | 10,423,315 | 8,687,207 | 8,477,367 | 604,782 | 703,959 |

¹In addition to the insurance branch groups, insurance branches and types of insurance listed above individually, the total also includes amounts for the insurance branches Health, Assistance and Legal Protection with gross premiums of less than € 2,000 thou each that are not essential for the overall business of AGCS SE.

Other accrued liabilities (Equity and Liabilities C.)

PENSION RESERVES AND SIMILAR COMMITMENTS

AGCS SE has made pension commitments for which pension reserves are constituted. A part of these pension commitments is secured by a Contractual Trust Arrangement (Methusalem Trust e.V.). These trust assets constitute offsettable plan assets, with the asset value/market value being used as the fair value. The settlement amount is calculated on the basis of the projected unit credit method and/or stated as the present value of the entitlement acquired. For securities-linked commitments, the fair value of the underlying assets is used.

| | 2018 | 2017 |
|--|-------|-------|
| Discount rate (10-year average)*: | 3.21% | 3.68% |
| Discount rate (7-year average)*: | 2.32% | 2.81% |
| Rate of assumed pension increase | 1.70% | 1.50% |
| Rate of assumed salary increase (incl. average career trend) | 3.25% | 3.25% |

In derogation of the above, the contribution-based pension plan is calculated with the guaranteed interest rate of 2.75% per year and the guaranteed rate of pension increase of 1% per year of these pension promises.

The biometric base for calculations are the current RT2005G mortality tables of Dr. Klaus Heubeck, which have been adjusted with respect to mortality, disability and fluctuation to reflect company-specific circumstances. The company-specific adjustments were introduced in 2010 and reviewed and redefined in 2018. The retirement age applied is the contractual age or the legal age according to the RV-Altersgrenzenanpassungsgesetz 2007.

In the case of some of the pension commitments, use is made of the option under Art. 67 (1) EGHGB. The resulting overfunding amounted to € 4,217 thou as of 31 December 2018.

The settlement amount calculated as of 31 December 2018 with the 7-year discount rate of the offset debt amounts to € 103,369 thou.

The settlement amount of the netted liabilities calculated using the 10-year average interest rate as of 31 December 2018 amounts to € 98,730 thou. This results in a difference of € 4,639 thou between the settlement amounts calculated using the 7-year and 10-year average interest rates.

TAX RESERVES

In the reporting year tax reserves in the amount of € 58,910 (58,169) thou were constituted essentially in the branch offices in Germany, Belgium and France.

OTHER RESERVES

JUBILEE AND PHASED-IN EARLY RETIREMENT COMMITMENTS AND ALLIANZ VALUE ACCOUNTS

AGCS SE has obligations resulting from jubilee payments, a long-term credit account and phased-in early retirement, which are reported under other provisions. The assets held as a reserve to secure the phased-in early retirement and long-term credit account obligations at Methusalem Trust e.V. constitute offsettable plan assets, with the asset value/market value being used as the fair value.

These obligations are essentially calculated in the same way as the pension obligations by using the same actuarial assumptions (with the exception of the interest rate).

Other reserves for fiscal 2018 include the following positions:

€ thou

| | 2018 | 2017 |
|---|----------------|----------------|
| Long-term distribution agreement with Standard Chartered Bank | 65,078 | 65,017 |
| Restructuring | 26,541 | 42,110 |
| Remunerations not yet definitely determined | 36,635 | 38,136 |
| Invoices not yet received | 36,596 | 33,272 |
| Allianz Equity Incentives | 19,770 | 22,600 |
| Holidays and flexible working hours | 12,294 | 12,061 |
| Employee jubilees | 4,797 | 5,213 |
| Other | 14,092 | 14,313 |
| Total other provisions | 215,802 | 232,720 |

PLAN ASSETS

The historical cost of the offset assets amounts to € 105,133 (90,435) thou and the fair value of these assets is € 105,312 (93,862). The settlement amount of the offset liabilities is € 107,497 (96,315) thou.

Funds held under reinsurance business ceded (Equity and Liabilities D.)

This item essentially contains premiums from the net quota share agreement with Allianz SE.

SUPPLEMENTARY INFORMATION ON THE INCOME STATEMENT

Supplementary information on insurance branch groups, insurance branches and types of insurance

€ thou

| | Gross premiums written | | Gross earned premiums | | Net earned premiums | |
|--|------------------------|------------------|-----------------------|------------------|---------------------|------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Direct insurance business written | | | | | | |
| Personal accident | 9,038 | 8,717 | 8,904 | 9,388 | 4,619 | 5,245 |
| 3rd party liability | 915,359 | 803,551 | 872,608 | 799,239 | 374,688 | 370,594 |
| Automotive liability | 7,866 | 14,494 | 9,520 | 14,823 | 266 | 76 |
| Other automotive | 15,052 | 13,861 | 14,232 | 14,003 | (243) | 17 |
| Fire and property | 563,084 | 571,473 | 550,321 | 558,915 | 178,786 | 179,167 |
| including: | | | | | | |
| Fire insurance | 199,224 | 191,833 | 198,524 | 209,511 | 56,075 | 75,337 |
| Other property insurance | 363,860 | 379,640 | 351,797 | 349,404 | 122,710 | 103,830 |
| Transport and aviation insurance | 447,358 | 407,508 | 444,334 | 415,922 | 160,202 | 130,699 |
| Other insurance | 172,213 | 138,662 | 136,225 | 123,614 | 40,805 | 32,021 |
| Total¹ | 2,132,782 | 1,958,795 | 2,038,320 | 1,936,214 | 759,070 | 717,803 |
| Reinsurance business assumed | 2,037,380 | 2,076,385 | 1,990,727 | 2,048,796 | 561,828 | 501,922 |
| Insurance business total | 4,170,162 | 4,035,180 | 4,029,047 | 3,985,010 | 1,320,898 | 1,219,725 |

¹ This total cannot be derived from the insurance branches listed above because it also contains non-essential amounts for the insurance branches Health, Assistance, Legal Protection and Credit & Surety with gross premiums of less than € 2,000 thou each that are not listed individually.

Gross premiums incurred for direct insurance business according to area of origin

€ thou

| | Germany | | EU | | Other countries | |
|----------------------------------|----------------|----------------|------------------|------------------|-----------------|----------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Personal accident | 2,416 | 2,189 | 2,780 | 3,255 | 3,841 | 3,273 |
| 3rd party liability | 298,119 | 273,993 | 477,422 | 432,328 | 139,818 | 97,230 |
| Automotive liability | - | - | - | - | 7,866 | 14,494 |
| Other automotive | (10) | - | 1 | - | 15,061 | 13,861 |
| Fire and property | 160,646 | 154,553 | 325,357 | 354,272 | 76,080 | 62,648 |
| including: | | | | | | |
| Fire insurance | 46,320 | 45,004 | 121,781 | 116,521 | 31,122 | 30,308 |
| Other property insurance | 114,326 | 109,549 | 203,576 | 237,751 | 45,958 | 32,340 |
| Transport and aviation insurance | 146,620 | 133,436 | 235,480 | 225,918 | 65,258 | 48,154 |
| Other insurance | 43,162 | 51,657 | 90,063 | 55,983 | 38,988 | 31,023 |
| Total¹ | 650,945 | 615,829 | 1,131,111 | 1,071,757 | 350,727 | 271,209 |

¹ This total cannot be derived from the insurance branches listed above because it also contains non-essential amounts for the insurance branches Health, Assistance, Legal Protection and Credit & Surety with gross premiums of less than € 2 000 thou each that are not listed individually.

| Gross expenditure for insurance claims | | Gross expenditure for insurance business | | Reinsurance balance | | Net underwriting result | | Number of insurance contracts with at least a 1-year period | |
|--|------------------|--|----------------|---------------------|----------------|-------------------------|---------------|---|---------|
| 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| 1,743 | (133) | 2,414 | 2,562 | (2,435) | (2,973) | 2,315 | 4,002 | 8,577 | 8,752 |
| 688,623 | 584,186 | 160,227 | 160,616 | (40,126) | (44,432) | 21,293 | 12,905 | 26,270 | 25,665 |
| 19,309 | 7,799 | 4,268 | 7,203 | 11,594 | (1,017) | (2,463) | (1,196) | 31,478 | 46,444 |
| 15,014 | 10,145 | 5,179 | 4,030 | 3,853 | (906) | (2,108) | (1,077) | - | - |
| 398,656 | 406,590 | 112,187 | 115,558 | (128,029) | (54,725) | (28,347) | 1,546 | 25,997 | 24,164 |
| 192,504 | 247,991 | 35,139 | 45,978 | (39,847) | 46,833 | (7,998) | (25,061) | 7,156 | 6,984 |
| 206,152 | 158,599 | 77,048 | 69,580 | (88,183) | (101,558) | (20,349) | 26,607 | 18,841 | 17,180 |
| 228,357 | 400,090 | 108,397 | 110,685 | (89,997) | 111,778 | (1,188) | 18,677 | 35,896 | 38,209 |
| 57,982 | 215,147 | 23,849 | 19,682 | (44,938) | 73,734 | 9,714 | (36,990) | 4,720 | 4,591 |
| 1,412,120 | 1,623,902 | 421,877 | 420,487 | (289,432) | 81,386 | (5,755) | (2,128) | 133,080 | 147,883 |
| 1,246,787 | 1,739,660 | 504,942 | 495,892 | (246,990) | 268,460 | (1,672) | 73,909 | | |
| 2,658,907 | 3,363,562 | 926,819 | 916,379 | (536,422) | 349,846 | (7,427) | 71,781 | | |

Run-off

The run-off in direct insurance amounted to € -18,642 (118,472) thou net; in business assumed it was € -7,293 (59,954) thou.

Underwriting expenses - net (Income Statement I.5.)

| € thou | 2018 | 2017 |
|--|----------------|----------------|
| a) Gross expenditure for insurance business | 926,819 | 916,379 |
| b) Less: received provisions and profit sharing from reinsurance ceded | 516,022 | 522,858 |
| Total | 410,797 | 393,521 |

Of the gross expenditures for the insurance business, € 787,677 (770,986) thou are attributable to closing expenses and € 139,142 (145,392) thou to administrative expenses.

Commissions and other remuneration for insurance agents, payroll costs

| € thou | 2018 | 2017 |
|--|----------------|----------------|
| a) Commission of any kind for insurance agents within the meaning of clause 92 HGB for direct insurance business | 200,336 | 200,610 |
| b) Other remuneration of insurance agents within the meaning of §92 HGB | 9 | 9 |
| c) Wages and salaries | 235,585 | 230,871 |
| d) Social security contributions and other social contributions | 40,487 | 41,564 |
| e) Pension costs | 20,950 | 23,118 |
| Total | 497,367 | 496,172 |

Investment income (Income Statement II.1.)

| € thou | 2018 | 2017 |
|--|----------------|----------------|
| a) Income from investments | 194,536 | 203,617 |
| a) Income from participations | 15,513 | 75,052 |
| including in affiliated enterprises € thou 14,893 (2017: 74,612) | | |
| aii) Income from other investments | 179,023 | 128,565 |
| aa) income from real estate, real property and equivalent rights including buildings on land not owned by AGCS | 5,235 | 4,973 |
| bb) Income from other investments | 173,789 | 123,592 |
| b) Income from write-ups | 13,656 | 617 |
| c) Gains from disposals | 95,169 | 107,670 |
| d) Income from transfer of profit agreements | 1,525 | 207 |
| Total | 304,887 | 312,110 |

Investment expenses (Income Statement II.2.)

| € thou | 2018 | 2017 |
|---|---------------|----------------|
| a) Investment management, interest, charges and other investment expenses | 10,045 | 10,276 |
| b) Depreciation and write-downs on investments | 28,504 | 84,154 |
| c) Losses from disposals | 9,102 | 18,538 |
| d) Expenses from transfer of losses | 31 | 572 |
| Total | 47,682 | 113,540 |

Depreciation of investments

Unscheduled write-downs in accordance with §253 (3) HGB were made on investments and participations in affiliated enterprises in the amount of € 551 (3,132) thou.

Unscheduled write-downs in accordance with §253 (4) HGB were made on bearer bonds as well as stocks, interests in funds, debt securities and other fixed and variable income securities in the amount of € 26,213 (75,736) thou.

Write-downs on intangible assets

According to §253 (3) HGB, scheduled write-downs on intangible assets, taking into accounts their respective useful lives, were made in the reporting year for a total of € 35,181 (24,431) thou.

Other income and other expenses (Income Statement II.3/4.)

Other income and other expenses include:

| € thou | Pensions and similar obligation | Other obligations |
|---|---------------------------------|-------------------|
| Actual return from the fair value of the offset assets | 2018 | 2018 |
| | (2,535) | (32) |
| Imputed interest cost for the settlement amount of the offset liability | 2,750 | 142 |
| Effect resulting from the change in the discount rate for the settlement amount | 87 | 47 |
| Net amount of the offset income and expense | 303 | 157 |

In addition, other income includes currency losses in the amount of € 52,669 (profit of 251,527) thou.

Income taxes (Income Statement II.7.)

For AGCS SE, the lower taxable income in Germany and the United Kingdom compared with the previous year, which is partially offset by higher taxable income of the foreign branches, mainly results in lower income taxes of € 93,985 (111,115) thou.

Appropriation of earnings

Before the transfer of profit, the profit for fiscal year 2018 amounts to € 89,931 thou, which was transferred to Allianz SE under the terms of the existing transfer-of-profit agreement.

OTHER INFORMATION

Contingent liabilities

Guarantee obligations exist within the framework of pension plans. The basis for the pension plans of the employees of AGCS SE who entered until 31 December 2014 is generally the membership in the Allianz Versorgungskasse VVaG (AVK), which, as a legally independent pension fund, is subject to the supervision of the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht). The benefits provided by AVK are financed according to the lump-sum contribution system under which the member companies make payments to the fund based on salary conversion. In addition to Allianz SE, the member companies include Allianz Deutschland AG, Allianz Versicherungs-AG, Allianz Lebensversicherungs-AG and, among others, AGCS SE.

AGCS SE has a legal obligation to make employer contributions and to cover the administrative costs of AVK on a pro-rated basis if required. For employees who joined by 31 December 2014, the member companies also make contributions to the Allianz Pensionsverein e.V. (APV), an insurance-backed Group support fund.

Due to the substantially lower discount rate, the plan assets of APV as of 31 December 2018 are lower than its pension commitments. The missing amount as of 31 December 2018 is € 17,302 (5,750) thou.

The company made use of its option right according to Article 28 (1) Sentence 2 EGHGB to not constitute a provision for contingent liabilities in this respect because the legally required adjustment of pensions to the consumer price index is financed by means of additional contributions to APV. Both AVK and APV were closed to new entrants effective 1 January 2015.

For new entrants since 1 January 2015, the company pension plan was uniformly reorganized. For new entrants since 1 January 2015, the company pays a monthly contribution to a direct insurance plan with Allianz Lebensversicherungs-AG, which is financed by the employee in the framework of deferred compensation. In addition, a monthly employer contribution is granted as a direct commitment.

Allianz SE has assumed joint and several liability for part of the pension commitments of AGCS SE. The latter reimburses the cost, and Allianz SE has undertaken to fulfill these commitments. For this reason, the pension commitments are reported by Allianz SE and not by AGCS SE. In 2015, the contract governing the reimbursement was amended to the extent that Allianz SE will bear the interest risk in the future.

Effective 1 January 2017, AGCS SE only reimburses its employees for work service costs while risks from interest rates, inflation and biometry are no longer reimbursed.

AGCS SE's joint and several liability from these pension commitments and the corresponding liability, which are matched by rights of relief against Allianz SE, amount to:

€ thou

| | 2018 | 2017 |
|--|--------|--------|
| Settlement amount of the offset liabilities | 69,661 | 64,250 |
| Provision amount that has not yet been recognized (article 67 (2) EGHGB) | - | - |
| Joint liability and/or rights of relief against Allianz SE | 69,661 | 64,250 |

As a result of changes in the financing of the Pensions-Sicherungs-Verein VVaG pension fund in 2006 there is a joint and several liability of € 38 (49) thou, which is not shown in the company's balance sheet because this liability is matched by rights of relief for the same amount against Allianz SE.

Liabilities can also arise from co-insurance and management clauses and from related hedging agreements.

AGCS SE has issued a directly enforceable guarantee for the unpaid share of AGCS Holding International B.V., Amsterdam, in the equity of Allianz Risk Transfer AG, Schaan, amounting to € 78.9 mn.

AGCS SE enters into contingent liabilities only after careful consideration of the risks involved. On the basis of a continuous evaluation of the risk situation of the contingent liabilities entered into and taking into account the knowledge gained up to the preparation date, it can be assumed that the obligations underlying the contingent liabilities can be met by the respective principal debtors.

AGCS SE therefore does not consider the risk of a claim to be probable for all the liability relationships listed.

LEGAL OBLIGATIONS

Legal obligations to assume any losses result from control and profit transfer agreements with the following companies:

- AGCS-Argos 76 Vermögensverwaltungsgesellschaft mbH, Munich
- AGCS-Argos 86 Vermögensverwaltungsgesellschaft mbH, Munich
- AGCS Infrastrukturfonds GmbH, Munich.

Other obligations

At the balance sheet date, no liens on capital investments were granted in connection with group-internal cessions, and no such liens were granted to affiliated enterprises. € 320,587 (283,060) thou were deposited in trust accounts, including € 300,148 (262,029) thou in favor of affiliated enterprises. These contingent liabilities will only be claimed if AGCS SE is unable to fulfill its obligations from the reinsurance business. In view of the solid capitalization and the adequate reserves of AGCS SE the risk of such a claim is considered to be very low. Other liabilities from purchasing contracts amount to € 59,173 (54,590) thou and in particular from real estate purchasing contracts in the amount of € 19,124 (26,720) thou.

Payment obligations under long-term leases amount to € 43,261 thou, of which € 38 824 thou is due to affiliated companies.

There are residual payment obligations of € 52.6 mn to Allianz Risk Transfer AG, Schaan, for shares not fully paid up.

Information on the members of the executive bodies

The information required by §285 No. 10 HGB on the members of the Supervisory Board and Executive Board can be found on page 5. Also listed on page 5 are all current members of the Supervisory Board and those who retired in the fiscal year, as well as current members of the Management Board who retired in the fiscal year.

Remuneration of the Board of Management and the Supervisory Board

The total remuneration of the Board of Management amounted to € 6 610 thou in the reporting year.

Pension reserves for former members of the Board of Management and their surviving dependents were as follows:

| € thou | 2018 | 2017 |
|--|-------|-------|
| Cost of acquisition of the offset assets | 5,103 | 4,174 |
| Fair value of the offset assets | 5,103 | 4,174 |
| Settlement amount of the offset liabilities | 6,628 | 5,549 |
| Provision amount that has not yet been recognized (article 67 (2) EGHGB) | - | - |
| Pension reserves/Excess of plan assets over pension liability | 1,525 | 1,375 |

1_The settlement amount calculated as of 31 December 2018 with the 7-year average discount rate of the offset debt amounts to € 7,209 thou. The difference pursuant to §253 (6) sentence 1 HGB thus amounts to € 581 thou.

2_The fair value of the offset assets is based on the asset value of the reinsurance.

A total of 12,070 restricted stock units were issued to the members of the Board of Management. The fair value of these instruments at the date of grant amounts to € 1,879 thou.

The total remuneration of the Supervisory Board of AGCS SE amounted to € 58,8 thou.

Number of employees (annual average)

The average number of employees of AGCS SE for the reporting year was 2,414 (2,426) (not including trainees, interns and employees on parental leave).

| | 2018 | 2017 |
|---------------------|--------------|--------------|
| Full-time employees | 2,131 | 2,120 |
| Part-time employees | 283 | 306 |
| Total | 2,414 | 2,426 |

Services provided by the auditors

PricewaterhouseCoopers GmbH WPG has audited the annual financial statements and the solvency overview of AGCS SE as well as the annual financial statements of various subsidiaries. For the overall

group audit and the group solvency overview, the half-year financial statements were reviewed and group packages audited. In addition, other permissible non-audit services were provided to a limited extent.

Total remuneration of the auditor according to §285 (17) HGB

The total remuneration of the auditor is reported in the corporate financial statements of Allianz SE, Munich.

Group affiliation

AGCS SE is a member of the Allianz Group headed by Allianz SE, Munich. The Allianz SE Consolidated Financial Statements and the Management Report are published in that company's Annual Report in March and published in the German Electronic Federal Gazette subsequent to the Allianz SE Annual General Meeting in May. They can be consulted there or are available upon request from our company. The Annual Report is also available on the website of Allianz SE.

AGCS SE is incorporated into Allianz SE's Consolidated Financial Statements and Management Report. The Consolidated Financial Statements and the Management Report legally dispense our company from any other reporting obligations so that AGCS SE does not establish Consolidated Financial Statements and a Management Report of its own.

Registration

AGCS SE is headquartered at Königinstraße 28 in Munich and is listed in the Commercial Register B of the Munich District Court under the number HRB 208312.

Events after the balance sheet date

There were no significant events after the end of the financial year.

ASSURANCE BY THE LEGAL REPRESENTATIVES

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements of Allianz Global Corporate & Specialty SE give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company. The management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Munich, 14 February 2019

Allianz Global Corporate & Specialty SE
The Board of Management



Fischer Hirs



Browne



Dietsche



Klingspor



Mai



O'Neill



Scaldaferrì

INDEPENDENT AUDITOR'S REPORT

To Allianz Global Corporate & Specialty SE, Munich

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

AUDIT OPINIONS

We have audited the annual financial statements of Allianz Global Corporate & Specialty SE, Munich, which comprise the balance sheet as at 31 December 2018, and the income statement for the financial year from 1 January to 31 December 2018, and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of Allianz Global Corporate & Specialty SE for the financial year from 1 January to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f Abs. [paragraph] 4 HGB [Handelsgesetzbuch: German Commercial Code] (disclosures on the quota for women on executive boards).

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2018 and of its financial performance for the financial year from 1 January to 31 December 2018 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other

German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Measurement of shares in affiliated enterprises and participations
2. Measurement of reserve for loss and loss adjustment expenses

Our presentation of these key audit matters has been structured in each case as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter we present the key audit matters:

1. Measurement of shares in affiliated enterprises and participations

1. In the Company's annual financial statements, shares in affiliated enterprises and participations amounting to EUR 2,248 million (24.1% of total assets) are reported under the "Investments in affiliated enterprises and participations" balance sheet item. Shares in affiliated enterprises are measured at the lower of cost or fair value in accordance with German commercial law. The earnings model is used to determine the fair value of all material entities with operating activities, since neither quoted nor other market prices are available. Net asset value or the earnings model is used for material asset management companies. In this context, the executive directors must make judgments, estimates and assumptions in particular regarding future business development and changes in macroeconomic factors. Minor changes to those assumptions or to the methods used may have a material impact on the measurement of shares in affiliated enterprises and participations. On the basis of the values determined, write-downs and reversals of write-downs were required in a non-material amount.

Due to the material significance of the amounts of shares in affiliated enterprises and participations for the assets, liabilities and financial performance of the Company as well as the considerable scope for judgment on the part of the executive directors and the related un-

certainties in the estimations made, the measurement of shares in affiliated enterprises and participations was of particular significance in the context of our audit.

2. Given the significance of shares in affiliated enterprises and participations, as part of our audit we assessed the measurement methods used by the Company and the assumptions made by the executive directors. The assessment was based on our industry expertise and experience, among other things. We also assessed the measurement process with respect to the Company's affiliated enterprises and participations measured using the earnings model. On this basis, we conducted tests of detail on the measurement of selected shares in affiliated enterprises and participations. We selected these on a risk-oriented basis with respect to their size and significance for the Company's annual financial statements, as well as in instances where there were specific indications that impairment was permanent. Our tests of detail relating to the earnings model included assessing the selected measurement methodology and the mathematical correctness of the procedure applied. We also examined the appropriateness of the assumptions underlying the calculation (in particular the budget, derivation of the discount rate and assumptions regarding perpetuities). Where net asset values were used, we assessed the appropriateness of the measurement methods as well as the carrying amounts derived from the audited financial statements of the asset management companies. Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors for the purpose of measuring the shares in affiliated enterprises and participations are substantiated and sufficiently documented.

3. The Company's disclosures on the measurement of shares in affiliated enterprises and participations are included in section "Investments in affiliated enterprises and participations (Assets B.II)" of the notes to the financial statements.

2. Measurement of reserve for loss and loss adjustment expenses

1. In the annual financial statements, the Company reports EUR 8,687 million gross/ EUR 3,271 million net (35.1% of total equity and liabilities) under the "Reserve for loss and loss adjustment expenses" balance sheet item (so called claims provisions). Insurance companies are required to recognize claims provisions to the extent necessary in accordance with reasonable business judgment to ensure that they can meet their obligations from insurance contracts on a continuous basis. Defining assumptions for the purpose of measuring the claims provisions requires the Company's executive directors, in addition to complying with the requirements of commercial and regulatory law, to make estimates of future events and to apply appropriate measurement methods. The methods used to determine the amount of the claims provisions and the calculation parameters are based on judgments and assumptions made by the executive directors. In particular the lines of business with long claims settlement periods, low loss frequency or high individual losses are usually subject to increased estimation uncertainties and consequently require a high degree of judgment by the Company's executive directors. Minor changes to those assumptions or to the methods used may have a material impact on the measurement of the claims provisions. Due to the material significance of the amounts of these provisions for the

assets, liabilities and financial performance of the Company as well as the scope for judgment on the part of the executive directors and the associated uncertainties in the estimations made, the measurement of the claims provisions was of particular significance in the context of our audit.

2. Given the significance of the claims provisions for the Company's overall business, as part of our audit we worked with our internal valuation specialists to assess the assumptions made by the executive directors and used by the Company. In doing so, we based our assessment on our industry expertise and experience, among other things, and considered recognized methods. We also evaluated the design and effectiveness of the controls established by the Company for the purpose of calculating and recording claims provisions. On that basis, we carried out tests of detail relating to the measurement of the claims provisions. Among other things, we also reconciled the data on which the calculation of the settlement amount was based with the underlying documents. In this context, we assessed the results of the Company's calculations of the amount of the provisions with reference to the applicable legal requirements and evaluated the consistent application of the measurement methods and the accrual basis of accounting. Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors for the purpose of measuring the claims provisions are substantiated and sufficiently documented.

3. The Company's disclosures on the measurement of the reserve for loss and loss adjustment expenses can be found under "Reserve for loss and loss adjustment expenses" in section "Accounting, valuation and calculation methods" of the notes to the financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f Abs. 4 HGB (disclosures on the quota for women on executive boards).

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited annual financial statements, the audited management report and our auditor's report.

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report. The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.
- From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as auditor by the supervisory board on 9 April 2018. We were engaged by the supervisory board on 25 July 2018. We have been the auditor of Allianz Global Corporate & Specialty SE, Munich, without interruption since the financial year 2018.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Christine Keller.

Munich, 21 March 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Richard Burger
Wirtschaftsprüfer
(German Public Auditor)

Christine Keller
Wirtschaftsprüferin
(German Public Auditor)

INSURANCE LINES COVERED

Direct insurance business

HEALTH INSURANCE

Health insurance written on a non-life basis

PERSONAL ACCIDENT INSURANCE

Aviation personal accident, test persons, automobile personal accident, other general personal accident insurance

3RD PARTY LIABILITY

Private liability, public and professional liability, environmental liability, financial loss liability, radiation and nuclear liability, neighbor's liability fire, liability for terrestrial vehicles without mandatory coverage, other liability insurance (including cyber risk)

AUTOMOBILE INSURANCE

Automobile third party liability insurance, other automobile insurance

AVIATION INSURANCE

Comprehensive aircraft insurance, comprehensive spacecraft insurance

LEGAL PROTECTION INSURANCE

FIRE INSURANCE

Industrial fire, other fire

MARINE INSURANCE

Hull (including hulls of sea-going, inland waterway and river-going vessels, building risk), goods in transit, valuables (commercial), film property, risk of war, liability in traffic cases, other transport

CREDIT & SURETY

BUSINESS INTERRUPTION INSURANCE

Fire business interruption, engineering, other business interruption

ASSISTANCE INSURANCE

AVIATION AND AEROSPACE LIABILITY INSURANCE

Aviation liability, aerospace liability

OTHER PROPERTY INSURANCE

Burglary insurance, water pipe insurance, glass breakage insurance, storm insurance, engineering insurance, extended coverage insurance for fire and interruption to business, business interruption insurance

OTHER PROPERTY AND CASUALTY INSURANCE

Other property damage (including nuclear plant property), other economic loss (including machine guarantee, loss of license, check cards), as well as other combined insurance (including dynamic property insurance), other types of other property and casualty insurance

Reinsurance business assumed

PERSONAL ACCIDENT INSURANCE

3RD PARTY LIABILITY

AUTOMOBILE INSURANCE

AVIATION INSURANCE

FIRE AND PROPERTY

MARINE INSURANCE

BUSINESS INTERRUPTION INSURANCE

AVIATION AND AEROSPACE LIABILITY INSURANCE

OTHER PROPERTY INSURANCE

OTHER CASUALTY INSURANCE

ADVISORY COUNCIL

KLAUS EBERHARDT

(Chairman)
former Chairman of the Board of Management
Rheinmetall AG

DOMINIK ASAM

Member of the Board of Management
Infineon Technologies AG

GEORG BAUER

President
Fair

WERNER BAUMANN

Member of the Board of Management
Bayer AG

KLAUS ENTENMANN

Chairman of the Board of Management
Daimler Financial Services AG

DR. JÜRGEN M. GEIBINGER

CEO
JMG Business Consulting

STEPHAN GEMKOW

Chairman of the Board of Management
Franz Haniel & Cie. GmbH

DR. MICHAEL KERKLOH

Chairman of the Board of Management
Flughafen München GmbH

CARSTEN KNOBEL

Member of the Board of Management
Henkel AG & Co. KGaA

HANS-GEORG KRABBE

Chairman of the Board of Management
ABB AG

CHRISTOPH KÜBEL

Managing Partner
Robert Bosch GmbH

ROBERT LORENZ-MEYER

Member of the Supervisory Board
Ernst Russ GmbH & Co. KG

SIMONE MENNE

Former Member of the Board of Management
Boehringer Ingelheim

ARMIN PAPPERGER

Chairman of the Board of Management
Rheinmetall AG

LARS HENNER SANTELMANN

Chairman of the Board of Management
Volkswagen Financial Services AG

PETRA SCHARNER-WOLFF

CFO
Otto (GmbH & Co.KG)

PROF. KLAUS-DIETER SCHEURLE

Chairman of the Board of Management
DFS Deutsche Flugsicherung GmbH

ANDREAS SCHMID

Chairman of the Board of Administration
Flughafen Zürich AG

ECKHARD SCHULTE

Member of the Board of Management
SMS Holding GmbH

DR. EBERHART VON RANTZAU

Managing Partner
Deutsche Afrika-Linien GmbH & Co. KG

REINER WINKLER

Chairman of the Board of Management
MTU Aero Engines AG

DR. MATTHIAS ZIESCHANG

Member of the Board of Management, Controlling and Finance
Fraport AG

DR. REINHARD ZINKANN

Managing Partner
Miele & Cie. KG

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