Allianz Risk Transfer AG
Annual Report 2017

This document is an unofficial English translation of the annual report.
Only the original German version of the annual report is authoritative.

Allianz

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Managing Officers

Board of Directors
Chris Fischer Hirs (Chairman)
Hartmut Mai
Douglas Pennycuick
Carsten Scheffel
Thomas C. Wilson

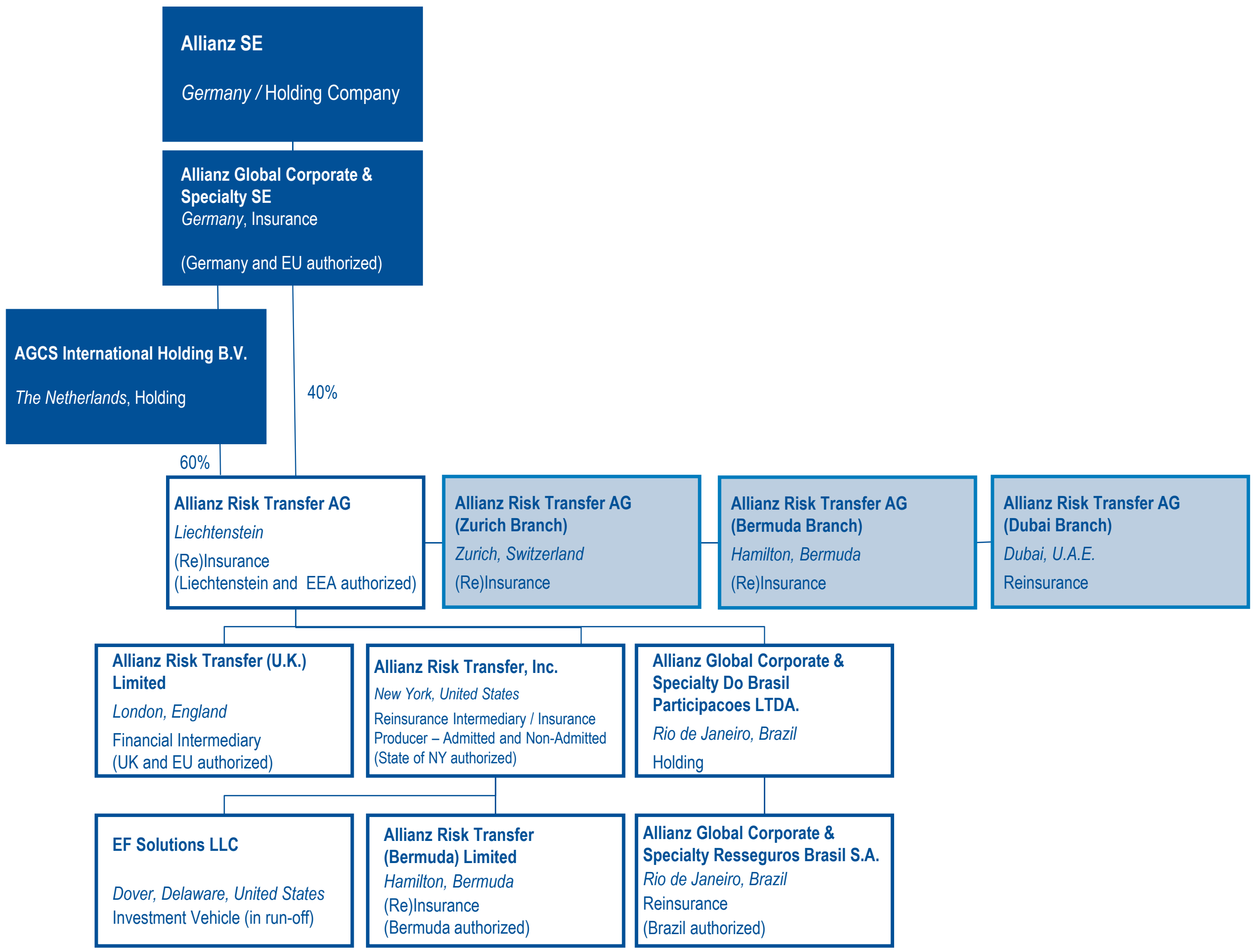
Board of Management
Christoph Müller (Chairman since January 1, 2018)
Bill Guffey (Chairman until November 10, 2017)
Bernhard Arbogast
Richard Boyd
Thomas Bründler
Thomas Schatzmann

Important functions
Michael Bamberger (Head Actuary)
Lara Martiner (Head of Compliance)
Bruno Nietlispach (Head of Risk Management)

Internal Auditors
Petra Bösenberg (Head Auditor)

Auditors
KPMG (Liechtenstein) AG, Schaan

Company structure



* Save where specified otherwise, all participations are 100%, except that: (a) Allianz Risk Transfer AG owns 99.99 % of AGCS Do Brazil Participacoes LTDA; and (b) Allianz Risk Transfer AG is owned by AGCS International Holding B.V. (60%) and Allianz Global Corporate & Specialty SE (40%)

Legal Entity
Branch

Annual Report

Introduction

Allianz Risk Transfer AG, Schaan (ART AG) is a Liechtenstein-based stock corporation and indirectly a wholly owned subsidiary of Allianz Global Corporate & Specialty SE (AGCS SE), with registered domicile in Munich. 60% of shares in ART AG are held by AGCS International Holding B.V. in Amsterdam, which in turn is wholly owned by AGCS SE. ART AG was founded in Switzerland in 1997 as a globally operating risk entity of Allianz in the field of Alternative Risk Transfer for special insurers and reinsurers. It transferred its registered domicile to Liechtenstein in 2016.

ART AG offers clients with international operations a broad range of insurance and reinsurance policies, predominantly in the fields of general liability, asset insurance, property and technical insurance as well as in the special fields of transport, marine and aviation insurance and energy supply. These services also include efficient claims processing, cross-border solutions within the context of international insurance programs, captive and fronting services, risk consulting and structured risk transfer solutions. In addition, ART AG has teams in seven countries through its branch offices and subsidiaries. Together with AGCS SE and a network of Allianz affiliates in more than 70 countries as well as partner companies in other regions, it can provide support for clients in 160 countries. ART AG maintains branch offices in Zurich (Switzerland), Hamilton (Bermuda) and Dubai (United Arab Emirates).

A subsidiary of ART AG, Allianz Risk Transfer NV, Amsterdam, was merged with the parent company – ART AG – in the 2017 fiscal year.

KPMG (Liechtenstein) AG, Landstrasse 99, 9494 Schaan, Liechtenstein, was appointed as the auditor for the 2017 fiscal year.

ART AG is part of the Allianz Group, which is headed by Allianz SE, Munich. The latter is overseen by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin), Graurheindorfer Strasse 108, 53117 Bonn.

ART AG is included in Allianz SE's Solvency II consolidated financial statements. Allianz SE's annual report and Solvency II reports are published on its website. The reports may be viewed there or requested from the company.

You can find the annual report of ART AG and other documents at www.agcs.allianz.com/services/alternative-risk-transfer/art-annual-report.

Performance and results

ART AG's field of business encompasses national and international industrial client business as well as special client-specific solutions in all areas of non-life insurance and reinsurance for all risks. In addition, ART AG acts as a reinsurer for internal group risks.

The 2017 fiscal year was shaped by a market environment that remained difficult and a series of major losses and natural catastrophes in North America, which had a negative impact on the underwriting result.

Gross written premiums increased by 4.2% or EUR 45.5 million year on year to EUR 1,135.8 million. Adjusted for exchange rate effects, growth came to EUR 178.8 million or 16.4%. This increase was primarily due to the further expansion of the fronting business. Net premiums earned fell by 15.5% year on year. Premium development was influenced by the market environment, which remained focused on competition, and the associated pressure on premium rates, which affected transport, fire and aviation insurance lines in particular. This was intensified by exchange rate effects, particularly as a result of the depreciation of the US dollar against the euro. With adjustments for exchange rate effects, the decline in net premiums earned came to 8.8% or EUR 27.3 million.

Serious natural catastrophes such as hurricanes Harvey, Irma and Maria, together with a major loss in the United Arab Emirates at the beginning of the year, led to a year-on-year increase in claims expenditure. Despite a slight drop in the expense ratio, the company's combined ratio rose from 78.8% to 102.8%.

In total, the company sustained a net technical loss of EUR 7.4 million, compared with a technical profit of EUR 66.0 million in the previous year. Investment income rose from EUR 27.4 million in the previous year to EUR 31.4 million. Despite ongoing low interest rates, current interest and dividend income grew by 21 % to EUR 30.6 million. This growth was mainly attributable to interest income from a fund for the run-off of discontinued insurance policies. Expenses for interest, investment and asset management remained stable year on year.

It was not necessary to carry out any value adjustments on participating interests in the year under review. In the previous year these came to EUR 13.2 million. The strengthening of the euro against the US dollar and the Swiss franc led to write-downs on currencies amounting to EUR 19.8 million, following a gain of EUR 7.4 million in the previous year.

The merger with Allianz Risk Transfer N.V. (ART NV), Amsterdam, in March 2017 resulted in a gain of EUR 10.6 million.

In total, the pre-tax profit fell to EUR 4.0 million (previous year EUR 81.6 million).
Tax expenditure dropped from EUR 15.5 million to EUR 2.4 million. The net result after tax declined from EUR 66.1 million to EUR 1.5 million.

Investment strategy

ART AG continued its security-oriented investment strategy in 2017. The company's aim is to generate the most attractive return possible while limiting risk. By diversifying its investments across many different asset classes and currencies, the company once again absorbed the effects of historically low interest rates in the year under review.

In view of financial commitments from insurance business, the bulk of the company's portfolio is invested in fixed-income investments.

Among fixed-income investments, the focus is on corporate bonds and international government bonds. A large proportion of government bonds and bonds from state-linked issuers remain concentrated on core Eurozone countries.

The company pursues an investment strategy based on matching currencies. All major currencies depreciated significantly against the euro over the course of the year.

Performance of investments
The book value of ART AG's investment portfolio grew to EUR 1,161.6 million in the year under review (previous year EUR 1,058.5 million). This increase was mainly due to the transfer of investments from the merger with ART NV.

Investments in affiliated companies and participating interests totaled EUR 156.9 million (previous year EUR 184.7 million), whereby most of the decline was due to the merger with ART NV.

Risk report

The main elements of ART AG's risk management system are:

- a strong risk management culture, promoted by a robust risk organization and effective risk principles (risk governance);
- a comprehensive risk capital calculation with the aim of protecting the capital base while supporting effective capital management, and
- inclusion of capital requirements and risk considerations in the decision-making and management process.

This comprehensive approach ensures that risks are appropriately identified, analyzed and evaluated. The risk appetite is described in the risk strategy and made operational through the associated system of limits. Further limits are stipulated and detailed in specific standards and guidelines. Rigorous risk monitoring and corresponding reports enable any failure to comply with risk tolerance criteria to be identified at an early stage. The principal risks to which ART AG is exposed are actuarial, market and credit risks.

Actuarial risk
Actuarial risk is subdivided into premium and reserve risk, i.e. the risk that insurance premiums may be insufficient to cover future claims, or that existing claims may lead to settlement losses relative to the recorded claim provisions.

Premium risks are managed through underwriting guidelines, among other measures. Underwriting guidelines limit the insurance or liability sum per contract. As part of strategic planning, future business volumes and associated risks, as well as their impact on solvency, are forecast. With regard to reserve risk, the company regularly monitors the development of provisions for insured events at individual policy level. In addition, ART AG performs annual reserve uncertainty analyses in order to evaluate the sensitivity of reserves to the assumptions on which the calculations are based.

Market risk
Market risk is the risk of losses due to fluctuations in market value, differentiated according to the type of investment.

ART AG's investments are managed centrally by specialists at Allianz Investment Management SE as part of the outsourcing of functions. The investment strategy is geared towards the requirements of ART AG's asset/liability management. Allianz Investment Management SE implements the investment strategy within the framework of a risk and limit system for investments stipulated by ART AG. The company adjusts the risk and limit system each year.

The company's strategic asset allocation stipulates that the company must essentially invest in fixed-income securities. Investments are made in accordance with the principle of corporate caution and are usually held to maturity.

Interest rate risk is managed as part of a comprehensive asset/liability management system. Credit risks arising from fixed-income securities are monitored by means of concentration limits. Derivatives were used only to hedge currency risks in the year under review.

Credit risk
Credit risk encompasses counterparty default risk owing to the insolvency or financial difficulties of reinsurers, policyholders, insurance brokers and issuers of securities and the creditworthiness risk arising from losses in value due to a deterioration in the creditworthiness of debtors.

Premium income and own funds required to cover written risks are mainly invested in fixed-income securities. As its business focuses on non-life insurance, ART AG typically invests in fixed-income securities with short to medium-term maturities, which reduces the credit risk.

The credit risk with respect to reinsurers arises due to insurance risks that ART AG transfers to reinsurance companies in order to reduce its own actuarial risks. Potential losses may arise either from payment defaults linked to existing settlement claims arising from the reinsurance business or from defaults on reinsurance receivables.

Reinsurance partners are checked by the Allianz Security Vetting Team (SVT). The SVT ensures that companies with strong credit profiles are selected wherever possible. It may also request letters of credit, cash deposits or other financial collateral to further reduce the credit risk.

Credit limits are managed centrally within the Allianz Group. The limits for individual counterparties are based on a large number of factors such as the debtor's rating, its total assets, the associated business segment and the region; the extent to which the limit has been utilized in each case is also taken into account when stipulating limits.

ART AG has the option to revise downward the assigned limits for maximum risk with respect to a debtor or group of debtors by stipulating its own limit.

For detailed information about ART AG's risk profile, please refer to the Solvency and Financial Condition Report.

Solvency and Financial Condition Report

Insurance companies are required to publish a report each year on their solvency and financial situation, taking account of qualitative and quantitative aspects as well as historic, current and forecast components, based on data from internal and external sources. This report does not form part of the annual report.

ART AG publishes the "Solvency and Financial Condition Report" as a separate document on its website at www.agcs.allianz.com/services/alternative-risk-transfer/art-annual-report.

Forecast

ART AG expects intense competition and excess capacity to continue on the market in the coming years. However, there are initial signs that pressure on the development of rates is weakening, partly as a result of the exceptionally high global burden of losses from natural catastrophes in 2017. ART AG's gross written premiums are expected to decline year on year in fiscal 2018. This forecast is essentially based on expected developments in exchange rates and an anticipated decline in fronting and insurance-linked markets business.

The company's performance is expected to remain positive in 2018, and the combined ratio is expected to be below 70 %.

The group will continue its internal reinsurance business with only minor modifications. The reinsurance structure that was in place in 2017 has been maintained for 2018 with a few small changes. As in the previous year, part of the internal reinsurance business assumed has been placed with Allianz Re (the reinsurance division of Allianz SE) for the purposes of capital protection. Reinsurance premiums have increased slightly in some cases, which is attributable to the historically high burden of losses owing to natural catastrophes in 2017. The stop-loss contract concluded with AGCS SE will remain in force in 2018.

ART AG will continue its security-oriented investment strategy. In doing so, it will continue to draw on the Allianz Group's wealth of experience of investment in its domestic market and abroad. To reduce its dependence on the performance of the capital market, it will monitor its portfolio constantly and will restructure it if necessary.

ART AG's investment planning is based on the assumption that the capital markets will remain stable. Security-oriented investment, coupled with a drop in interest rates for reinvestment, is likely to lead to a decline in interest income in 2018. Uncertainty about the future performance of the capital markets may in future have corresponding negative or positive effects on market values and on ART AG's investment income.

These statements are subject to the provision that natural catastrophes, adverse developments on the capital markets and other factors may negatively affect the forecasts to a greater or lesser extent.

No events of special importance occurred after the end of the reporting period.

Annual financial statements

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EUR thousand	Notes	Dec. 31, 2017	Dec. 31, 2016
Assets			
B. Investments		1,161,565	1,058,511
II. Investments in affiliated companies and participating interests	1, 2, 3	156,915	184,702
1. Shares in affiliated companies		120,106	142,796
2. Debentures of affiliated companies and loans to affiliated companies		36,809	41,906
III. Other investments	1, 3	1,003,329	861,888
1. Equities, other non-fixed-income securities and units in investment funds		1,399	1,591
2. Debentures and other fixed-income securities		821,060	856,496
6. Deposits with banks		177,532	0
7. Other investments		3,338	3,800
IV. Deposits retained on assumed reinsurance business		1,321	11,922
D. Other accounts receivable		388,441	316,068
I. Receivables from direct insurance business		14,270	12,663
1. from policyholders		1,458	2,795
c) from other policyholders		1,458	2,795
2. from insurance brokers		12,811	9,868
c) from other insurance brokers		12,811	9,868
II. Accounts receivable on reinsurance business		240,428	173,221
1. from affiliated companies		66,182	32,111
3. from other debtors		174,246	141,110
III. Other accounts receivable		133,743	130,184
1. from affiliated companies		116,349	113,367
3. from other debtors		17,395	16,816
E. Other assets		42,879	26,927
I. Tangible assets (excluding land and buildings) and inventories		12	22
II. Current credit balances at banks, post office check balances, checks and cash in hand		42,867	26,905
III. Other assets			
F. Prepaid expenses		15,967	9,999
I. Accrued interest and rent		15,351	8,778
III. Other prepaid expenses		616	1,220
Total assets		1,608,851	1,411,505

EUR thousand	Notes	Dec. 31, 2017	Dec. 31, 2016
Liabilities			
A. Equity		473,786	547,489
I. Called-up capital		131,529	131,529
1. Subscribed capital		263,059	263,059
2. Of which: non-called-up capital		-131,529	-131,529
IV. Profit reserves	4	155,341	164,506
1. Statutory reserve		131,529	131,529
4. Fluctuation reserves		23,812	32,977
V. Earnings brought forward		185,374	185,374
VI. Annual profit		1,541	66,080
D. Actuarial provisions	5	699,005	589,238
I. Premiums brought forward		76,122	72,933
1. Gross amount		250,370	304,717
2. Of which: share of reinsurers		-174,248	-231,784
III. Provisions for unsettled insurance claims		538,784	428,086
1. Gross amount		1,479,529	785,975
2. Of which: share of reinsurers		-940,744	-357,889
IV. Provision for performance-related and non-performance-related premium reimbursement		84,099	88,219
1. Gross amount		84,099	88,219
F. Other provisions		2,845	9,579
II. Tax provisions		-261	3,249
III. Other provisions		3,106	6,330
G. Deposits retained on retroceded business		44,115	71,687
H. Other liabilities		389,100	193,511
I. Liabilities from direct insurance business		1,099	423
1. to affiliated companies		163	0
3. to other creditors		936	423
II. Accounts payable on reinsurance business		79,395	180,562
1. to affiliated companies		9,171	91,089
3. to other creditors		70,224	89,473
V. Other liabilities		308,607	12,526
2. Social security liabilities		-480	-30
3. Other liabilities to affiliated companies			
5. Other liabilities to other creditors		309,087	12,556
Total liabilities		1,608,851	1,411,505

It is hereby confirmed that the sum of EUR 699,005 thousand shown in the balance sheet under the item for actuarial provisions (previous year EUR 589,238 thousand) has been calculated in accordance with the provisions of the Liechtenstein Insurance Supervision Ordinance ("VersAV").

Schaan, April 21, 2018

Michael Bamberger
Head Actuary

Income statement

EUR thousand	Notes	2017	2016
1. Premiums earned for own account		262,670	311,009
a) Gross premiums written	7	1,135,755	1,090,285
b) Ceded reinsurance premiums		-859,854	-828,395
c) Change in gross premiums carried forward		25,822	47,974
d) Change in reinsurers' share of gross premiums carried forward		-39,053	1,145
3. Other underwriting income for own account		3,766	3,662
4. Charges for insurance claims for own account		-234,698	-205,572
a) Payments for insurance claims		-98,615	-280,212
aa) Gross amount		-604,963	-367,592
bb) Share of reinsurers		506,348	87,380
b) Change in provisions for unsettled insurance claims		-136,083	74,640
aa) Gross amount		-759,592	-4,404
bb) Share of reinsurers		623,510	79,043
6. Cost of performance-related and non-performance-related premium reimbursement for own account		-871	9,995
7. Expenses for insurance operations for own account		-38,329	-53,076
a) Acquisition costs		-29,044	-47,047
b) Administrative expenses		-9,285	-6,029
8. Other underwriting expenses for own account		13	-63
9. Change in equalization provisions and similar reserves		0	0
10. Underwriting result for non-life insurance		-7,449	65,956
3. Investment income		31,397	27,421
a) Current income from other investments, of which from affiliated companies		30,641	25,247
d) Income from write-backs		630	770
e) Realized gains on the disposal of investments		127	1,405
5. Investment expenses		-4,076	-15,319
a) Cost of administering investments and interest expenses		-1,075	-1,624
b) Write-downs on investments		0	-13,218
c) Realized losses on the disposal of investments		-3,001	-476
7. Other income from ordinary business activities		49	7,382
8. Other expenses for ordinary business activities		-26,531	-3,879
9. Result from ordinary activities		-6,609	81,561
10. Extraordinary income	13	10,578	0
12. Extraordinary result		10,578	0
13. Taxes on income		-1,767	-15,318
14. Other taxes		-661	-163
15. Annual profit		1,541	66,080

Notes

Accounting principles

The company prepares the annual financial statements and the annual report in accordance with the provisions of the Liechtenstein Persons and Companies Act (Personen- und Gesellschaftsrecht – "PGR"), as well as the Liechtenstein Insurance Supervision Act (Versicherungsaufsichtsgesetz – "VersAG") and the Liechtenstein Insurance Supervision Ordinance (Versicherungsaufsichtsverordnung – "VersAV").

The annual financial statements have been drawn up in thousands of euros (€ thousand). The fiscal year corresponds to the calendar year, which means that December 31 is the balance sheet date.

The accounts of non-domestic branch offices are usually drawn up in the respective national currency. For the periodic financial statements, balance sheet items are converted into EUR at the rate on the reporting date, while income statement items are converted at the average rate.

Due to rounding, totals and percentages may differ slightly from the figures shown.

Accounting, valuation and calculation methods

Intangible assets
Intangible assets are reported at production or acquisition cost and are amortized on a straight-line basis over their useful lives (maximum of five years).

Shares in affiliated companies, loans to affiliated companies, participating interests
These items are reported at acquisition cost. In the event of impairment that is expected to be permanent, the corresponding value adjustments are made.

Other investments

Shares, units or shares in investment funds, bearer debt securities, other fixed-income and variable-income securities.

The company's own investments are valued at the lower of cost or market and are reported at the average acquisition cost or the market value if lower.

The fair values of stock market-listed investments are determined based on the stock market value on the balance sheet date or, if this is not a trading day, on the last trading day before the balance sheet date. Investments that are not listed are recognized at their expected realizable value. The fair value of shares in affiliated companies and participating interests is determined using the equity method.

Debentures and other fixed-income securities
These are carried at amortized cost.

Mortgage claims, other lending and loans
These are stated at face value and adjusted for any impairments.

Deposits with banks
These are reported at face value.

Requirement to reverse write-downs, write-backs
Assets that have been written down to a lower market value in previous years can be subject to write-backs if the value of these assets is deemed to have increased again as at the balance sheet date. Write-backs may be carried out up to amortized cost or the market value if lower.

Deposits retained on assumed reinsurance
These are reported at face value.

Receivables and other assets
In detail, these include:
a) Receivables from direct insurance business
b) Accounts receivable on reinsurance business
c) Other receivables
d) Current credit balances at banks, checks and cash in hand
e) Other assets

These are reported at face value less repayments.

For accounts receivable from direct insurance business, general loss allowances are made to account for the general credit risk.

Tangible assets and other assets are measured at amortized cost. The amortization period is determined based on the useful life and is usually five years.

Since 2015, accounts receivable on reinsurance business have been reported separately under reinsurance assumed and reinsurance ceded for each contracting party.

Actuarial provisions

Premiums brought forward
In direct insurance business, premiums brought forward are usually determined using the daily calculation method. In technical insurance, premiums brought forward are deferred in accordance with the risk pattern for each insurance contract. Flat rates are applied to a limited extent.

For reinsurance business assumed, premiums brought forward are reported on the basis of information provided by the ceding insurers.

The reinsurance share deducted from gross unearned premiums is generally determined using the daily calculation method.

In the case of quota charges with participation in the original costs, the proportional unearned premiums are recognized in accordance with the quota share of the reinsurer.

Provisions for unsettled insurance claims
The probable insurance payout is determined for each known insurance claim based on claims records.

For claims that have occurred but have not yet been reported by the balance sheet date, statistical methods are applied to calculate an additional provision for each risk group, and provisions are recognized for reinsurance business assumed in accordance with the information provided by the ceding insurers.

For reinsurance business ceded, the reinsurers' share in provisions is determined in accordance with the contractual agreements.

Provisions for performance-related and non-performance-related premium reimbursement
This item is determined on the basis of individual contracts and is defined in accordance with the respective payout sum that is anticipated.

Other provisions
Non-technical provisions are generally stated at the expected settlement amount. The expected settlement amount is derived from the best estimate.

Liabilities
In detail, these include:
a) Deposits retained on retroceded business
b) Liabilities from direct insurance business
c) Accounts payable on reinsurance business
d) Liabilities to banks
e) Other liabilities

These are reported at the settlement amount.

Since 2015, accounts payable on reinsurance business have been reported separately under reinsurance assumed and reinsurance ceded for each contracting party.

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 current developments into account.

Currency conversion

As a general rule, all transactions are recorded in the original currency and converted into the balance sheet currency at the relevant mean spot exchange rate on the date of the transaction.

Assets and liabilities denominated in foreign currencies are generally converted at the mean spot exchange rate on the balance sheet date. Shares in affiliated companies are converted at historic rates. The lowest value principle is applied, which means that losses resulting from conversion are always taken into account but profits are realized only if they have a residual term of one year or less.

As a result of this valuation method, currency gains and losses are not determined separately and are therefore not included in the currency conversion result.

Conversion rates (1 EUR):

	Dec. 31, 2017	Dec. 31, 2016
CHF	1.17015	1.07200
USD	1.20080	1.05475
GBP	0.88765	0.85360
AED	4.41030	3.87400

Notes to the balance sheet

1) Investments

EUR thousand	Dec. 31, 2016 Book value	Additions	Transfers	Disposals	Write-backs	Write-downs	Dec. 31, 2017 Book value
B. Investments	**1,058,511**	**468,472**	**–**	**-278,390**	**527**	**-87,555**	**1,161,564**
II. Investments in affiliated companies and participating interests	**184,702**	**–**	**–**	**-27,787**	**–**	**–**	**156,915**
1. Shares in affiliated companies	142,796	–	–	-22,690	–	–	120,106
2. Debentures of affiliated companies and loans to affiliated companies	41,906	–	–	-5,097	–	–	36,809
III. Other investments	**861,887**	**468,472**	**–**	**-240,152**	**527**	**-87,405**	**1,003,329**
1. Equities, other non-fixed-income securities and units in investment funds	1,591	–	–	–	–	-192	1,399
2. Debentures and other fixed-income securities	856,496	290,940	–	-239,690	527	-87,213	821,060
6. Deposits with banks	–	177,532		–	–	–	177,532
7. Other investments	3,800	–	–	-462	–	–	3,338
IV. Deposits retained on assumed reinsurance	**11,922**	**–**	**–**	**-10,451**	**–**	**-150**	**1,321**

2) Holdings of shares in affiliated companies and participating interests

Company	Registered office	Share %	Currency	Share capital	Annual result 2017 in EUR thousand
Allianz Risk Transfer, Inc.	New York	100	USD	58,460,000	558
Allianz Risk Transfer (U.K.) Limited	London	100	GBP	1,000,000	62
Allianz Global Corporate & Specialty do Brasil Participacoes Ltda.	Rio de Janeiro	99.9	BRL	251,488,094	-2

Allianz Risk Transfer NV Amsterdam was merged retroactively with ART AG with effect from January 1, 2017.

Shares in affiliated companies include hidden reserves of EUR 5,720 thousand (previous year EUR 6,478 thousand). A tax rate of 12.5 % applies.

3) Fair values of investments

EUR thousand	Dec. 31, 2017	Dec. 31, 2016
Investments in affiliated companies and participating interests		
Shares in affiliated companies	135,558	158,248
Debentures of affiliated companies and loans to affiliated companies	36,809	41,906
Other investments		
Equities, other non-fixed-income securities and units in investment funds	1,399	1,591
Debentures and other fixed-income securities	824,193	861,572
Deposits with banks	177,532	–
Other investments	3,338	3,800
Deposits retained on assumed reinsurance	1,540	11,922

4) Equity and proposal for the appropriation of profit for submission to the General Shareholders' Meeting

Allianz Global Corporate & Specialty SE (AGCS SE), with registered domicile in Munich, owns (directly and indirectly) 100% of shares in ART AG, with registered domicile in Schaan, Liechtenstein. AGCS SE holds 40% of shares in ART AG directly, while 60% of shares in ART AG are held by AGCS International Holding B.V. in Amsterdam. AGCS SE is a wholly owned subsidiary of Allianz SE, Munich. The annual financial statements of Allianz SE are available at www.allianz.com.

ART AG's share capital is divided into 263,058,540 registered shares worth EUR 1.00 each. These are 50% paid-up.

Appropriation of profit in EUR	2017	2016
Profit brought forward Jan. 1	185,374,201	185,374,201
Annual profit Dec. 31	1,540,781	66,079,602
Net profit for the year	**186,914,982**	**251,453,803**
Appropriation		
Allocation to the legal reserves	–	–
Allocation to the statutory reserves	–	–
Allocation to other reserves	–	–
Distributions from company capital	–	–
Dividends	-1,540,781	-66,079,602
Profit brought forward	**185,374,201**	**185,374,201**

The Board of Directors will ask the General Shareholders' Meeting to pay a dividend of EUR 1,540,781.90 from the net profit for the year as at December 31, 2017. The company would like to point out that equity includes an item for fluctuation reserves.

5) Gross actuarial provisions

	Actuarial provisions		of which gross provisions for unsettled insurance claims	
EUR thousand	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Total insurance business	**699,005**	**589,238**	**1,813,998**	**1,178,911**
Direct insurance business	**83,523**	**86,375**	**222,378**	**216,775**
General liability insurance	-45,267	-74,468	-134,354	-150,573
Fire and natural hazards insurance	-3,785	17,843	-10,462	588
Aviation liability insurance	-26,116	-24,251	-55,703	-47,622
Comprehensive aviation insurance	-6,281	-3,069	-9,075	-5,627
Other property insurance	-115	-58	-115	-58
Goods in transit (including commodities, items of luggage and other goods)	-559	-914	-4,334	-10,091
Assumed reinsurance business	**615,482**	**502,863**	**1,591,620**	**962,136**
General liability insurance	-192,978	-235,937	-367,237	-418,852
Fire and natural hazards insurance	-319,717	-170,067	-1,097,022	-434,071
Liability insurance for land vehicles with their own engine	-14,522	-12,553	-14,770	-12,553
Credit	-7,421	–	-22,343	–
Comprehensive land vehicle insurance (excluding rail vehicles)	-3,831	-3,324	-3,831	-3,324
Aviation liability insurance	-8,937	-15,025	-12,258	-20,505

The figures shown are not comparable with the 2016 annual report, as the lines of business are structured in accordance with the Liechtenstein Insurance Supervision Act ("VersAG"). The lines of business in accordance with Solvency II were shown in the previous year.

Actuarial provisions do not include any fluctuation reserves.

ART AG generates sales with affiliated companies, which exclusively comprise Allianz Group companies, primarily in the fields of reinsurance and services.

These services are charged on the basis of framework agreements and service level agreements, as would be the case between third parties.

The most extensive transactions with affiliated companies are listed below.

EUR thousand	2017	2016
Premiums earned for own account	133,889	156,019
Charges for insurance claims for own account	67,641	14,109

Administrative expenses and other income and other expenses for ordinary business activities also include the provision of various services within the group.

The resulting net expenses come to EUR 25,840 thousand (previous year EUR 27,527 thousand).

6) Liabilities

The company does not have any liabilities with a remaining term of more than five years or any liabilities that are secured by liens or similar rights in rem on its accounts.

There are no deferred tax liabilities in accordance with the valuation principles of commercial law.

Notes to the income statement

7) Income broken down according to lines of business

	Gross premiums written		Net premiums earned		Net expenditure for insurance claims		Net expenditure for insurance operations		Net underwriting result	
EUR thousand	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Direct business and proportional reinsurance business assumed										
General liability insurance	70,038	43,846	15,819	23,377	-4,192	-3,516	-1,389	-3,216	10,238	16,645
Fire and natural hazards insurance	21,995	18,252	-6,054	-9,587	-4,536	-9,120	-2,669	-1,487	-13,259	-20,194
Credit	–		–		–		-78	-189	-78	-189
Comprehensive land vehicle insurance (excluding rail vehicles)	–		–		–	308	-415	-102	-415	206
Aviation liability insurance	13,166	12,225	3,476	3,245	-10,992	-3,856	-115	-799	-7,631	-1,410
Comprehensive aviation insurance	2,941	3,283	1,615	1,718	-9,330	-1,731	49	86	-7,666	73
Other property insurance	344	214	229	200	-960	-1,174	-997	-1,391	-1,728	-2,365
Goods in transit (including commodities, items of luggage and all other goods)	2,351	2,876	733	892	-342	-672	-417	-571	-26	-351
Accident insurance (including industrial accidents and occupational illnesses)	755	1,081	147	277	-159	195	-81	-113	-93	359
Miscellaneous financial losses	5,728	2,781	2,637	545	2,091	2,505	-1,357	1,666	3,371	4,716
Subtotal	117,318	84,558	18,602	20,667	-28,420	-17,061	-7,469	-6,116	-17,287	-2,510
Non-proportional reinsurance business assumed										
Subtotal	1,018,437	1,005,727	244,068	290,342	-203,383	-174,854	-30,847	-47,023	9,838	68,465
Total	**1,135,755**	**1,090,285**	**262,670**	**311,009**	**-231,803**	**-191,915**	**-38,316**	**-53,139**	**-7,449**	**65,955**

The figures shown are not comparable with the 2016 annual report, as the lines of business are structured in accordance with the Liechtenstein Insurance Supervision Act ("VersAG"). The lines of business in accordance with Solvency II were shown in the previous year.

8) Premium income broken down according to regional origin

EUR thousand	2017	2016
Liechtenstein	181	77
Other EEA treaty states	37,157	13,323
Other states	79,980	71,158

The amounts shown relate solely to direct insurance business.

9) Personnel expenses

EUR thousand	2017	2016
a) Wages and salaries	-20,403	-21,350
b) Social security contributions and pension costs	-4,808	-4,859
bb) Of which for pensions	-4,194	-4,361

Total remuneration for the Board of Management amounted to EUR 2,821 thousand in the year under review. This sum includes salaries, fringe benefits and bonuses awarded for performance in the 2017 fiscal year. In addition, 3,787 RSUs (restricted stock units) with a fair value of EUR 1,055 thousand were allocated to members of the Board of Management. Payment of these RSUs is linked to certain conditions and is scheduled to take place in March 2022. Total remuneration for the Board of Directors came to EUR 30 thousand in the year under review. There were no pension commitments for former members of the Board of Directors or the Board of Management in the year under review.

Supplementary information about the annual financial statements

Information about the total fees paid to the auditor can be found in the consolidated annual financial statements of Allianz SE, Munich (www.allianz.com).

10) Average number of employees during the year

	2017	2016
Full-time equivalents	110.2	111.9

11) Sureties, guarantees and contingent liabilities

Sureties, guarantees and contingent liabilities include a guarantee from Allianz Risk Transfer AG for the benefit of Allianz Risk Transfer (Bermuda) Ltd., Hamilton (ART Bermuda). This serves to protect ART Bermuda's commitments arising from insurance and reinsurance contracts.

Pledged assets totaled EUR 338,700 thousand (previous year EUR 211,803 thousand).

12) Derivative financial instruments

ART AG uses derivative instruments solely to protect its long-term incentive scheme (RSU) and for individual foreign currency items. The scope of these hedging instruments is very limited.

The fair value of hedging transactions for the RSU is EUR 15,394 thousand (EUR 13,913 thousand) and is reported under other accounts receivable.

13) 13) Extraordinary income and extraordinary expenses

Extraordinary income for the year under review included a gain of EUR 10,578 thousand from the merger of ART NV, Amsterdam with ART AG.

14) Significant events after the balance sheet date

The company is not aware of any reportable events after the balance sheet date.

Report of the Auditors

As the auditor, we have audited the annual financial statements (comprising the balance sheet, income statement and notes) and the annual report of Allianz Risk Transfer AG for the fiscal year ending December 31, 2017.

The Board of Directors is responsible for the annual financial statements and the annual report, while our task is to audit and assess these. We confirm that we fulfill the legal requirements with regard to professional qualification and independence.

Our audit was conducted in accordance with the standards of the profession in Liechtenstein, which require an audit to be planned and performed in such a way that any material misstatements in the annual financial statements and the annual report can be identified with reasonable assurance. We examined the items and disclosures in the annual financial statements on the basis of spot checks using analyses and surveys. We also assessed the application of the relevant accounting principles, key decisions on valuation and the overall presentation of the annual financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our view, the annual financial statements give a true and fair view of the net assets, financial position and results of operations in accordance with Liechtenstein law. Furthermore, the annual financial statements, the annual report and the proposal for the appropriation of the net profit for the year comply with Liechtenstein law and with the Articles of Association.

The annual report is in line with the annual financial statements and in our view does not contain any material misstatements.

We recommend that these annual financial statements should be approved.

Schaan, May 4, 2018

KPMG (Liechtenstein) AG

Hans Vils	Patrick Scholz
Auditor	FCCA
Auditor in Charge	

This document is an unofficial English translation of the annual report.
Only the original German version of the annual report is authoritative.

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