Allianz Risk Transfer AG

Annual Report 2018

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

Allianz

Contents

Page

2 Managing Officers / company structure

3 Annual report

- 3 Introduction
- 3 Performance and results
- 4 Investment strategy
- 4 Risk report
- 6 Forecast

7 Annual financial statements

- 8 Balance sheet assets
- 9 Balance sheet liabilities
- 10 Income statement
- 11 Notes
- 14 Notes to the balance sheet
- 17 Notes to the income statement
- 18 Supplementary information about the annual financial statements

19 Report of the Auditors

Managing Officers

Board of Directors
Chris Fischer Hirs (Chairman)
Hartmut Mai
Douglas Pennycuick (until May 4, 2018)
Carsten Scheffel
Thomas C. Wilson

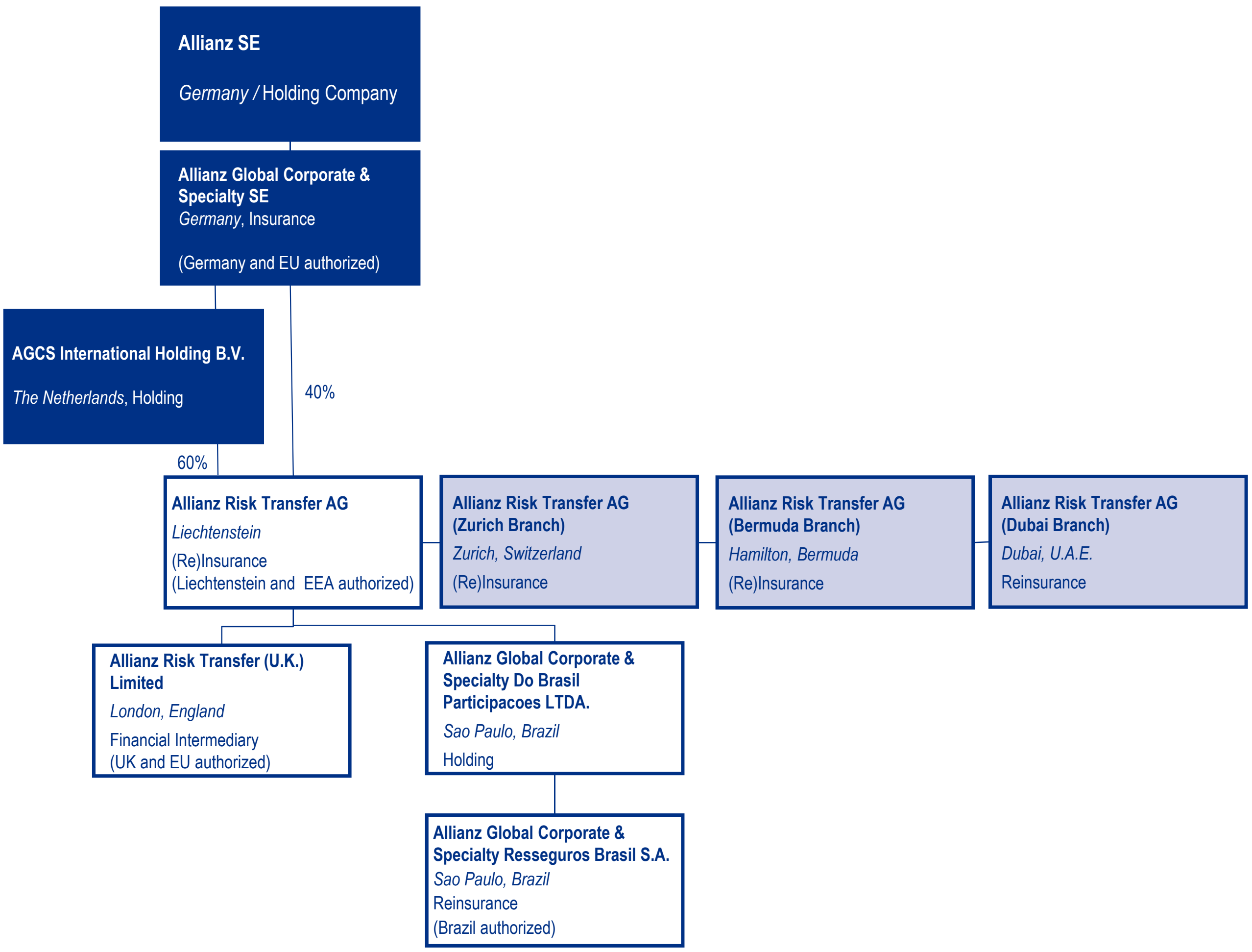
Board of Management
Christoph Müller (Chairman)
Bernhard Arbogast
Richard Boyd
Thomas Bründler
Thomas Schatzmann

Important functions
Michael Bamberger (Head Actuary)
Lara Martiner (Head of Compliance)
Yvonne Pusch (Head of Risk Management)

Internal Auditors
Petra Bösenberg (Head Auditor)

Auditors
PricewaterhouseCoopers AG (PwC), Zurich

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%)

Annual Report

Introduction

Allianz Risk Transfer AG, Schaan (ART AG) is a Liechtenstein-based joint-stock company and indirectly is a wholly owned subsidiary of Allianz Global Corporate & Specialty SE (AGCS SE), headquartered in Munich. 60% of the shares of ART AG are held by AGCS International Holding B.V. in Amsterdam, in which AGCS SE in turn has a 100% stake. 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'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.

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. Together with Group companies of 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).

In the 2018 fiscal year, ART AG sold its shares in Allianz Risk Transfer Inc., a (re)insurance intermediary domiciled in New York [including its subsidiary, Allianz Risk Transfer (Bermuda) Limited, an insurance company domiciled in Bermuda], internally within the Group. These companies will be integrated into the company structure of Allianz Global Risk US Insurance Company, the main insurance company of the AGCS Group in the United States, and will in future be controlled by this company.

PricewaterhouseCoopers AG, Zurich, was appointed as the auditor for the 2018 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 ART AG's Annual Report and other documents at www.agcs.allianz.com/services/alternative-risk-transfer/art-annual-report

Performance and results

The market environment remained very competitive in the 2018 fiscal year. Despite the previous year's loss burden, which was due to natural catastrophes, premium rates recovered only in isolated cases. Gross written premiums increased by 3.0% or EUR 34.2 million year on year to EUR 1,170.0 million. This increase was primarily due to the further expansion of the fronting business. Following a decline in the previous year, net premiums earned were up 7.0% or EUR 18.5 million. Premium development was influenced by the market environment, which remained focused on competition, and the associated pressure on premium rates, which affected liability, transport, fire and aviation insurance lines in particular.

Despite major loss events in the liability and property insurance lines, the loss burden was down slightly by 1.5% or EUR 3.3 million compared with the previous year.

Provisions for premium refunds rose significantly by EUR 11.7 million year on year, while other costs fell by EUR 16.3 million. This led to a lower expense ratio overall.

Higher premium income, a lower loss burden and lower costs resulted in a combined ratio of 90.1%, compared with 104.0% in the previous year.

The company achieved a net technical profit of EUR 15.3 million, following a technical loss of EUR 7.4 million in the previous year.

Investment income rose year on year from EUR 31.4 million to EUR 53.8 million. This increase was largely due to gains from the sale of shares in Allianz Risk Transfer Inc. for EUR 23.3 million within the Group. Current interest and dividend income fell slightly compared with the previous year to EUR 29.7 million (previous year EUR 30.6 million). Expenses for interest, investment and asset management increased slightly.

It was not necessary to carry out any value adjustments on participating interests in the year under review. As the US dollar rose slightly against the euro over the course of the year, there was a currency gain of EUR 4.8 million for 2018, following a loss of EUR 19.8 million in the previous year.

The pre-tax profit came to EUR 71.0 million, well above the previous year's figure of EUR 4.0 million. Tax expenditure totaled EUR 11.4 million (previous year EUR 2.4 million). The annual profit after tax was positive, at EUR 59.6 million (EUR 1.5 million).

Investment strategy

ART AG continued its security-oriented investment strategy in 2018. The company's aim is to generate the most attractive return possible while limiting risk. By diversifying its investments across different asset classes and currencies, the company once again stabilized its investment income 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 international corporate and government bonds. A large proportion of government bonds and bonds from state-linked issuers remain concentrated on core Eurozone countries and the United States.

The company essentially pursues an investment strategy based on matching currencies.

Performance of investments
The book value of ART AG's investment portfolio grew slightly to EUR 1.179 billion in the year under review (EUR 1.161 billion).

Investments in affiliated companies and participating interests totaled EUR 105.8 million (EUR 156.9 million), whereby the decline was due to the sale of shares in Allianz Risk Transfer Inc. within the Group.

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 prudent person principle 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 limited and monitored by means of concentration limits. Derivatives were used only to hedge currency risks in the year under review, in line with the investment strategy.

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 invested almost exclusively in fixed-income securities. As it focuses on non-life insurance business, ART AG typically chooses investments 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 Group 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

Based on its current business situation, ART AG expects the combined ratio to fall to around 75% in 2019. In view of the very specific portfolio, however, this goal will depend heavily on the absence of unexpected natural catastrophes and major events. The gross volume of business has increased substantially in the last two years. However, for planning years we expect fronting and ILM business to be underwritten increasingly through other Allianz units, which means that ART AG's gross business volume will be reduced. Net premiums earned are also likely to fall slightly. We anticipate an increase in commission income from fronting business despite falling volumes, which should lead to a lower cost rate at ART AG.

ART AG will continue its security-oriented investment strategy. In doing so, it will continue to draw on the Allianz Group's extensive 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 essentially based on the assumption that the capital markets will remain stable. As the average interest rate for reinvestment of the portfolio is expected to be below the book interest rate, lower interest income is forecast for the next year. Uncertainty about the future performance of the capital markets may in future have corresponding positive or negative 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

Page	
8	Balance sheet assets
9	Balance sheet liabilities
10	Income statement
11	Notes
14	Notes to the balance sheet
17	Notes to the income statement
18	Supplementary information about the annual financial statements
19	Report of the Auditors

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Balance sheet

EUR thousand	Notes	Dec. 31, 2018	Dec. 31, 2017
Assets			
B. Investments		1,179,084	1,161,565
II. Investments in affiliated companies and participating interests	1, 2, 3	105,767	156,915
1. Shares in affiliated companies		67,102	120,106
2. Debentures of affiliated companies and loans to affiliated companies		38,665	36,809
III. Other investments	1, 3	1,025,895	1,003,329
1. Equities, other non-fixed-income securities and units in invest-ment funds		1,469	1,399
2. Debentures and other fixed-income securities		932,585	821,060
6. Deposits with banks		88,335	177,532
7. Other investments		3,506	3,338
IV. Deposits retained on assumed reinsurance business		47,421	1,321
D. Other accounts receivable		442,337	388,441
I. Receivables from direct insurance business		17,849	14,270
1. from policyholders		2,582	1,458
c) from other policyholders		2,582	1,458
2. from insurance brokers		15,267	12,811
c) from other insurance brokers		15,267	12,811
II. Accounts receivable on reinsurance business		312,630	240,428
1. from affiliated companies		78,048	66,182
3. from other debtors		234,583	174,246
III. Other accounts receivable		111,858	133,743
1. from affiliated companies		93,575	116,349
3. from other debtors		18,283	17,395
E. Other assets		60,630	42,879
I. Tangible assets (excluding land and buildings) and inventories		32	12
II. Current credit balances at banks, post office check balances, checks and cash in hand		60,599	42,867
F. Prepaid expenses		18,172	15,967
I. Accrued interest and rent		16,892	15,351
III. Other prepaid expenses		1,280	616
Total assets		1,700,224	1,608,851

EUR thousand	Notes	Dec. 31, 2018	Dec. 31, 2017
Liabilities			
A. Equity		532,005	473,786
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	155,529	155,341
1. Statutory reserve		131,529	131,529
4. Fluctuation reserves		24,000	23,812
V. Earnings brought forward		185,374	185,374
VI. Annual profit		59,573	1,541
D. Actuarial provisions	5	711,453	699,005
I. Premiums brought forward		75,639	76,122
1. Gross amount		325,880	250,370
2. Of which: share of reinsurers		-250,242	-174,248
III. Provisions for unsettled insurance claims		535,348	538,784
1. Gross amount		1,199,787	1,479,529
2. Of which: share of reinsurers		-664,440	-940,744
IV. Provision for performance-related and non-performance-related premium reimburse-ment		100,466	84,099
1. Gross amount		100,466	84,099
F. Other provisions		11,007	2,845
II. Tax provisions		7,383	-261
III. Other provisions		3,624	3,106
G. Deposits retained on retroceded business		0	44,115
H. Other liabilities		444,761	389,100
I. Liabilities from direct insurance business		1,950	1,099
1. to affiliated companies		255	163
3. to other creditors		1,694	936
II. Accounts payable on reinsurance business		21,817	79,395
1. to affiliated companies		7,033	9,171
3. to other creditors		14,784	70,224
V. Other liabilities		420,995	308,607
2. Social security liabilities		-52	-480
5. Other liabilities to other creditors		421,047	309,087
I. Deferred income		998	0
Total liabilities		1,700,224	1,608,851

It is hereby confirmed that the sum of EUR 711,453 thousand shown in the balance sheet under the item for actuarial provisions (previous year EUR 699,005 thousand) has been calculated in accordance with the provisions of the Liechtenstein Insurance Supervision Ordinance ("VersAV").

Schaan, April 10, 2019

Michael Bamberger
Head Actuary

Income statement

EUR thousand	Notes	2018	2017
1. Premiums earned for own account		281,204	262,670
a) Gross premiums written	7	1,169,963	1,135,755
b) Ceded reinsurance premiums		-895,585	-859,854
c) Change in gross premiums carried forward		-53,625	25,822
d) Change in reinsurers' share of gross premiums carried forward		60,451	-39,053
3. Other underwriting income for own account		0	3,766
4. Charges for insurance claims for own account		-221,472	-234,698
a) Payments for insurance claims		-239,491	-98,615
aa) Gross amount		-820,036	-604,963
bb) Share of reinsurers		580,544	506,348
b) Change in provisions for unsettled insurance claims		18,019	-136,083
aa) Gross amount		326,204	-759,592
bb) Share of reinsurers		-308,185	623,510
6. Cost of performance-related and non-performance-related premium reim-bursement for own account		-12,528	-871
7. Expenses for insurance operations for own account		-31,939	-38,329
a) Acquisition costs		-22,852	-29,044
b) Administrative expenses		-9,087	-9,285
8. Other underwriting expenses for own account		-1	13
9. Change in equalization provisions and similar reserves		0	0
10. Underwriting result for non-life insurance		15,264	-7,449
3. Investment income		53,755	31,397
a) Current income from other investments, of which from affiliated companies		29,704	30,641
d) Income from write-backs		536	630
e) Realized gains on the disposal of investments		23,515	127
5. Investment expenses		-2,664	-4,076
a) Cost of administering investments and interest expenses		-1,533	-1,075
b) Write-downs on investments			
c) Realized losses on the disposal of investments		-1,130	-3,001
7. Other income from ordinary business activities		8,159	49
8. Other expenses for ordinary business activities		-3,495	-26,531
9. Result from ordinary activities		71,019	-6,609
12. Extraordinary result		0	10,578
13. Taxes on income		-11,277	-1,767
14. Other taxes		-170	-661
15. Annual profit/loss		59,573	1,541

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.

The fair value of shares in affiliated companies and participating interests is determined using the equity method.

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.

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.

Other receivables and other assets
In detail, these include:
- Receivables from direct insurance business;
- Accounts receivable on reinsurance business;
- Other accounts receivable;
- Current credit balances at banks, checks and cash in hand and
- Other assets.

These are reported at face value.

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.

Accounts receivable on reinsurance business are 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 always stated at the expected settlement amount. The expected settlement amount is derived from the best estimate.

Liabilities
In detail, these include:
- Deposits retained on retroceded business;
- Liabilities from direct insurance business;
- Accounts payable on reinsurance business;
- Liabilities to banks and
- Other liabilities.

These are reported at the settlement amount.

Accounts payable on reinsurance business are 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, 2018	Dec. 31, 2017
CHF	1.12690	1.17015
USD	1.14315	1.20080
GBP	0.89755	0.88765
AED	4.19895	4.41030

Notes to the balance sheet

1) Investments

EUR thousand	Dec. 31, 2017 Book value	Additions	Transfers	Disposals	Write-backs	Write-downs	Dec. 31, 2018 Book value
B. Investments	**1,161,565**	**303,645**	**–**	**-201,297**	**16,399**	**-101,228**	**1,179,084**
II. Investments in affiliated companies and participating interests	**156,915**	**1,909**	**–**	**-53,004**	–	**-53**	**105,767**
1. Shares in affiliated companies	120,106	–	–	-53,004	–	–	67,102
2. Debentures of affiliated companies and loans to affiliated companies	36,809	1,909	–	–	–	-53	38,665
III. Other investments	**1,003,329**	**252,324**	**–**	**-145,359**	**16,399**	**-100,796**	**1,025,895**
1. Equities, other non-fixed-income securities and units in investment funds	1,399	–	–	–	70	–	1,469
2. Debentures and other fixed-income securities	821,060	252,155	–	-76,660	16,329	-80,299	932,585
6. Deposits with banks	177,532	–	–	-68,699	–	-20,498	88,335
7. Other investments	3,338	168	–	–	–	–	3,506
IV. Deposits retained on assumed reinsurance business	**1,321**	**49,413**	**–**	**-2,934**	**–**	**-379**	**47,421**

2) Holdings of shares in affiliated companies and participating interests

Company	Registered office	Share %	Currency	Share capital	Annual result 2018 in EUR thousand
Allianz Risk Transfer (U.K.) Limited	London	100	GBP	1,000,000	109
Allianz Global Corporate & Specialty do Brasil Participações Ltda.	Rio de Janeiro	99.9	BRL	251,488,094	-10

Allianz Risk Transfer Inc., New York, was sold internally within the Group with effect from December 20, 2018.

Shares in affiliated companies include hidden reserves of EUR 2,650 thousand (previous year EUR 5,720 thousand). A tax rate of 12.5% applies.

3) Fair values of investments

EUR thousand	2018	2017
Investments in affiliated companies and participating interests		
Shares in affiliated companies	91,217	135,558
Debentures of affiliated companies and loans to affiliated companies	38,665	36,809
Other investments		
Equities, other non-fixed-income securities and units in investment funds	1,469	1,399
Debentures and other fixed-income securities	930,825	824,193
Deposits with banks	88,335	177,532
Other investments	3,506	3,338
Deposits retained on assumed reinsurance	47,421	1,540

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	2018	2017
Profit brought forward Jan. 1	185,374,201	185,374,201
Annual profit Dec. 31	59,572,826	1,540,781
Net profit for the year	**244,947,027**	**186,914,982**
Appropriation		
Allocation to the legal reserves	–	–
Allocation to the statutory reserves	–	–
Allocation to other reserves	–	–
Distributions from company capital	–	–
Dividend	-59,572,826	-1,540,781
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 59,572,826.66 from the net profit for the year as at December 31, 2018. 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, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Total insurance business	**711,453**	**699,005**	**1,626,127**	**1,813,998**
Direct insurance business	**91,715**	**83,523**	**217,338**	**222,378**
General liability insurance	52,712	45,267	128,292	134,354
Fire and natural hazards insurance	10,120	3,785	20,758	10,462
Aviation liability insurance	24,258	26,116	56,761	55,703
Comprehensive aviation insurance	1,683	6,281	2,626	9,075
Other property insurance	30	115	30	115
Goods in transit (including commodities, items of luggage and all other goods)	806	559	3,684	4,334
Accident insurance (including industrial accidents and occupational illnesses)	903	745	1,593	1,780
Miscellaneous financial losses	1,203	656	3,593	6,555
Assumed reinsurance business	**619,738**	**615,482**	**1,408,789**	**1,591,620**
General liability insurance	195,446	192,978	386,350	367,237
Fire and natural hazards insurance	311,975	319,717	875,372	1,097,022
Liability insurance for land vehicles with their own engine	12,393	14,522	12,577	14,770
Credit	6,204	7,421	20,416	22,343
Comprehensive land vehicle insurance (excluding rail vehicles)	3,267	3,831	3,267	3,831
Aviation liability insurance	9,086	8,937	12,929	12,258
Comprehensive aviation insurance	491	460	642	737
Other property insurance	15,005	12,157	15,702	12,893
Goods in transit (including commodities, items of luggage and all other goods)	19,937	23,196	22,170	23,819
Accident insurance (including industrial accidents and occupational illnesses)	10,961	9,800	11,928	10,821
Miscellaneous financial losses	34,973	22,463	47,438	25,891

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	2018	2017
Premiums earned for own account	177,476	133,889
Charges for insurance claims for own account	71,577	67,641

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 24,331 thousand (previous year EUR 25,840 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	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Direct business and proportional reinsurance business assumed										
General liability insurance	59,924	70,038	3,157	15,819	-4,563	-4,192	-2,630	-1,389	-4,036	10,238
Fire and natural hazards insurance	24,222	21,995	-20,670	-6,054	-12,426	-4,536	75	-2,669	-33,021	-13,259
Credit	–	–	–	–	–	–	–	-78	–	-78
Comprehensive land vehicle insurance (excluding rail vehicles)	2,757	–	2,869	–	–	–	–	-415	2,869	-415
Aviation liability insurance	12,438	13,166	1,545	3,476	-4,214	-10,992	-1,218	-115	-3,887	-7,631
Comprehensive aviation insurance	1	2,941	63	1,615	-761	-9,330	50	49	-648	-7,666
Other property insurance	3,833	344	-25	229	-701	-960	-892	-997	-1,618	-1,728
Goods in transit (including commodities, items of luggage and all other goods)	1,033	2,351	228	733	-705	-342	-247	-417	-724	-26
Accident insurance (including industrial accidents and occupational illnesses)	8,107	755	1,197	147	-68	-159	-167	-81	962	-93
Miscellaneous financial losses		5,728		2,637	-894	2,091	263	-1,357	-631	3,371
Subtotal	112,315	117,318	-11,636	18,602	-24,332	-28,420	-4,766	-7,469	-40,734	-17,287
Non-proportional reinsurance business assumed										
Subtotal	1,057,647	1,018,437	292,840	244,068	-209,668	-203,383	-27,174	-30,847	55,998	9,838
Total	**1,169,962**	**1,135,755**	**281,204**	**262,670**	**-234,000**	**-231,803**	**-31,940**	**-38,316**	**15,264**	**-7,449**

8) Premium income broken down according to regional origin

EUR thousand	2018	2017
Liechtenstein	713	181
Other EEA treaty states	36,883	37,157
Other states	74,720	79,980
Gross premiums written	112,316	117,318

The amounts shown relate solely to direct insurance business.

9) Personnel expenses

EUR thousand	2018	2017
a) Wages and salaries	17,227	20,403
b) Social security contributions and pension costs	4,001	4,808
of which for pensions	3,444	4,194

Total remuneration for the Board of Management amounted to EUR 3,696 thousand in the year under review. This sum includes salaries, fringe benefits and bonuses awarded for performance in the 2018 fiscal year. In addition, 3,239 RSUs (restricted stock units) with a fair value of EUR 502 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 2023. Total remuneration for the Board of Directors came to EUR 31 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

	2018	2017
Full-time equivalents	105.0	110.2

11) Sureties, guarantees and contingent liabilities

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

Pledged assets totaled EUR 647,781 thousand (previous year EUR 338,700 thousand).

12) Derivative financial instruments

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

The fair value of hedging transactions for the RSUs is EUR 10,769 thousand (previous year EUR 15,394 thousand) and is reported under other accounts receivable.

13) Extraordinary income and extraordinary expenses

While income from the merger of Allianz Risk Transfer N.V., Amsterdam, and ART AG was reported under extraordinary income for 2017, income from the sale of Allianz Risk Transfer Inc., New York, was included in investment income in the reporting period.

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 (pages 8 to 18, without footnote on page 9) and the annual report of Allianz Risk Transfer AG for the fiscal year ending December 31, 2018. The annual financial statements for the fiscal year ending December 31, 2017 were audited by a different auditor, which issued an unqualified audit opinion on May 4, 2018.

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 and Art. 10a (1) of the Liechtenstein Auditors and Auditing Companies Act (Gesetz über die Wirtschaftsprüfer und Revisionsgesellschaften – WPRG), 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.

Zürich, April 12, 2019

PricewaterhouseCoopers AG

Enrico Strozzi
Auditor in Charge

Christian Konopka

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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