Allianz Risk Transfer AG

Annual Report 2019

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

Allianz

Contents

Managing Officers

Board of Directors
Chris Fischer Hirs (resignation on 30 November 2019)
Hartmut Mai (Vice President)
Carsten Scheffel
Thomas C. Wilson

Joachim Müller (elected Chairman on 25 November 2019)

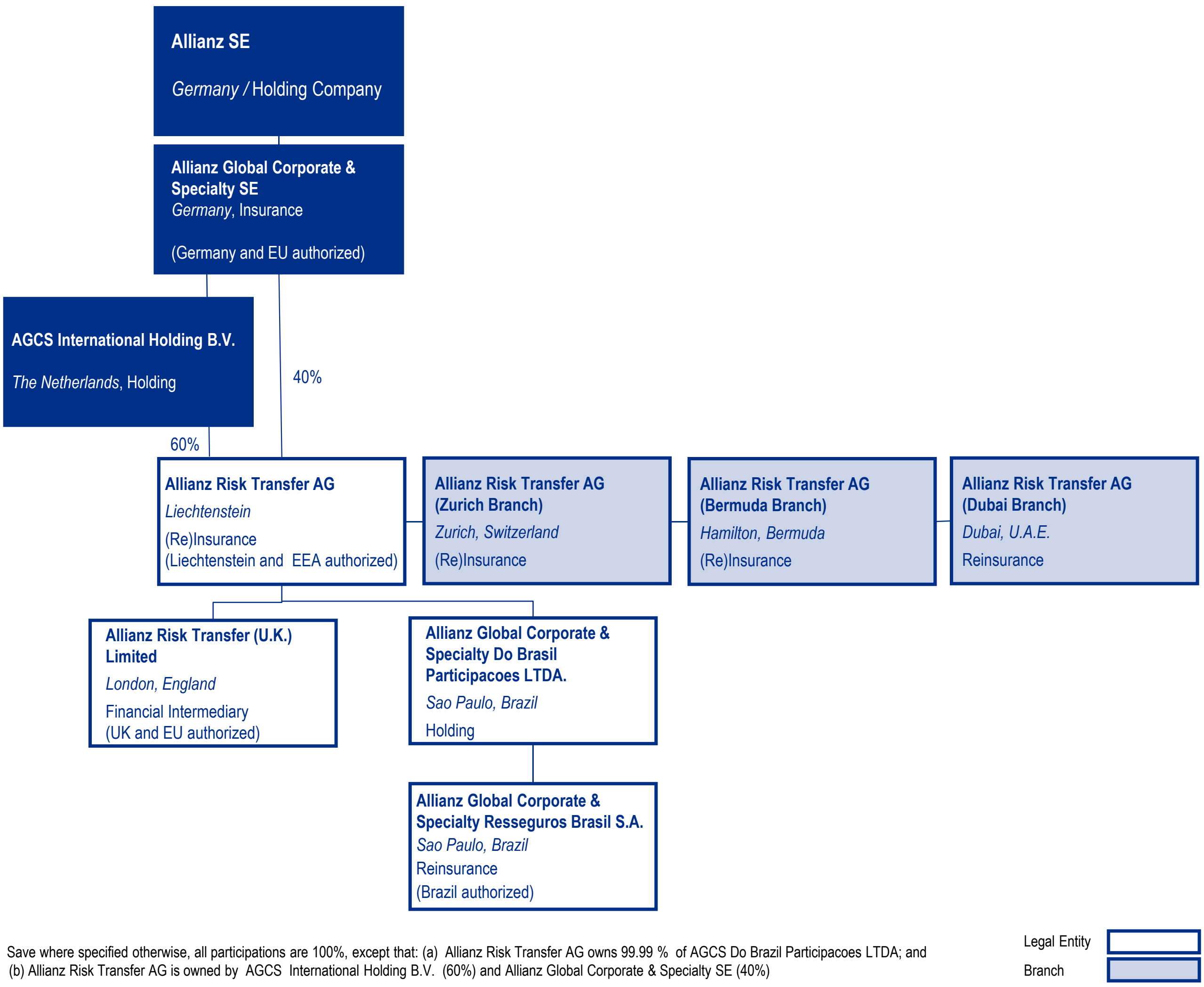
Board of Management
Christoph Müller (Chairman)
Bernhard Arbogast
Richard Boyd
Thomas Bründler
Thomas Schatzmann

Important functions
Michael Bamberger (Head Actuary)
Henning Sohnemann (Head Claims)
Robert Makelaar (Head Alternative Risk Transfer)
Lara Martiner (Head Compliance)
Yvonne Pusch (Head 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%)

[1] Appointment effective with the approval of the Liechtenstein Financial Market Authority on 27 February 2020.

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 the shares in ART AG are held by AGCS International Holding B.V. in Amsterdam, which is, in turn, a wholly owned subsidiary of 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'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 programmes, 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 200 countries. ART AG maintains branch offices in Zurich (Switzerland), Hamilton (Bermuda) and Dubai (United Arab Emirates).

PricewaterhouseCoopers AG, Zurich, was appointed as the auditor for the 2019 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 relevant other documents at:
www.agcs.allianz.com/services/alternative-risk-transfer/art-annual-report

Performance and Results

Once again, the market environment was extremely competitive during the 2019 fiscal year. Despite a higher claims frequency in the previous years, the premium rates remained under pressure. A broad recovery was only evident during the course of the year. However, this only had a very marginal effect on the share of the premium for the current fiscal year.

Gross written premiums increased by 13.1% or EUR 152.7 million year on year to EUR 1,322.7 million. This increase was primarily due to the further expansion of the fronting business. Following the increase in the previous year, the net premiums earned fell by 12.0%, or EUR 33.8 million, to EUR 247.4 million. Premium performance was influenced by the market environment, which remained focused on competition, and the associated pressure on premium rates. A sustained rise in premium rates only become evident during the course of the year. This will however first be reflected in the premium income in the coming years.

Despite persistent large-sized loss events, at 2.4% or EUR 5.2 million, the loss burden was slightly below the previous year's level. However, a reduced income from premiums saw the claims ratio rise to 87.4% (previous year 78.8%).

In turn, provisions for premium refunds rose significantly, by EUR 17.3 million year on year, while other costs fell by EUR 12.4 million. This led to a lower net expense ratio.

Due to lower income from premiums, large-sized loss events and greater expenses for premium refunds, the combined ratio increased to 107.3% from 94.6% year on year.

The company achieved a technical loss of EUR 18.1 million, following a net technical profit of EUR 15.3 million in the previous year.

Investment income fell year on year from EUR 53.8 million to EUR 24.0 million. This decline was largely due to gains from the sale of shares in Allianz Risk Transfer Inc. for EUR 23.3 million within the Group, which was taken into account in the previous year. Current interest and dividend income fell compared with the previous year to EUR 22.8 million (EUR 29.7 million). Expenses for interest, investment and asset management also decreased slightly.

The pre-tax profit amounted to EUR 5.3 million, whereas EUR 71.0 million was achieved in 2018. The tax expenditure amounted to EUR 2.1 million (EUR 11.4 million). The annual profit after tax was EUR 3.2 million (EUR 59.6 million).

Investment Strategy

ART AG continued its security-oriented investment strategy in 2019. 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 2019.

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 fell to EUR 1.103 billion in the year under review (EUR 1.179 billion).

Investments in affiliated companies and participating interests amounted to EUR 106.5 million (EUR 105.8 million).

Risk Report

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

- a strong risk management culture, promoted by a robust risk organisation 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, analysed 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 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 to the greatest extent possible that companies with strong credit profiles are selected. 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 region; the respective limit utilization is also factored into setting the limit.

ART AG does however have 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

The underwriting result for the year under review was clearly short of our target figure. This was primarily due to a lower income from premiums and higher expenses for premium refunds and a year-on-year increase in the claim ratio. For 2020, we are expecting a significantly improved combined ratio – subject to the claims development attributable to COVID-19 (the coronavirus). This statement is conditional on the sum of the improvements in pricing, claims development and productivity being sufficient to offset the underlying claims development. Although the progression of NatCat claims has been highly volatile in recent years, we are nevertheless proceeding according to the assumption that the effects will be in line with the historical claims experience. However, the effects of COVID-19 were not calculable at the time of preparing this report.

Despite the consequences of COVID-19, it is expected that the short-term claims performance in 2020 will show a year-on-year improvement. However, it cannot be ruled out that COVID-19 will result in premium rates performing negatively in certain divisions, and future contractual renewals may therefore take place very selectively.

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 of there being a conservative investment portfolio without significant equity exposures. 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 2020. Current uncertainty about the future performance of the capital markets may, in future, led to continued volatility with 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.

The spread of COVID-19 had developed into a global pandemic following the balance sheet date. Significant drops in gross premiums, especially economy-related ones, are anticipated along with claims, namely in the Entertainment and Financial Lines divisions. Because of the reduced equity exposure, we are not expecting any major impacts on the investment result for 2020 attributable to the current market turbulence triggered by the COVID-19 epidemic.

All in all, the pandemic is creating risks regarding the validity of the assumptions made, the fulfilment of the forecasts contained in this Annual Report, and the achievement of the budgetary targets.

Following the end of the reporting period, on 25 February 2020 regional customers and brokers were notified of the cessation of operations at the branch office in Dubai. From 30 April 2020 no new business will be written at the branch office in Dubai, and the company (acting through the head office in Liechtenstein and the branch office in Zurich) will take care of the run-off process for the existing obligations of the Dubai branch office following the cessation of its operations.

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

Annual financial statements

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Balance sheet

EUR thousand	Notes	Dec. 31, 2019	Dec. 31, 2018
Assets			
B. Investments		1,102,572	1,179,084
II. Investments in affiliated companies and participating interests	1, 2, 3	106,479	105,767
1. Shares in affiliated companies		67,102	67,102
2. Debentures of affiliated companies and loans to affiliated companies		39,376	38,665
III. Other investments	1, 3	942,184	1,025,895
1. Equities, other non-fixed-income securities and units in investment funds		1,496	1,469
2. Debentures and other fixed-income securities		911,478	932,585
6. Deposits with banks		25,640	88,335
7. Other investments		3,571	3,506
IV. Deposits retained on assumed reinsurance business		53,909	47,421
D. Other accounts receivable		571,752	442,337
I. Receivables from direct insurance business		20,689	17,849
1. from policyholders		3,634	2,582
c) from other policyholders		3,634	2,582
2. from insurance brokers		17,055	15,267
c) from other insurance brokers		17,055	15,267
II. Accounts receivable on reinsurance business		496,596	312,630
1. from affiliated companies		139,193	78,048
3. from other debtors		357,403	234,583
III. Other accounts receivable		54,467	111,858
1. from affiliated companies		34,736	93,575
3. from other debtors		19,731	18,283
E. Other assets		64,866	60,630
I. Tangible assets (excluding land and buildings) and inventories		1,946	32
II. Current credit balances at banks, post-office check balances, checks and cash in hand		62,920	60,599
F. Deferred income		11,581	18,172
I. Accrued interest and rent		11,456	16,892
III. Other prepaid expenses		124	1,280
Total assets		1,750,770	1,700,224

EUR thousand	Notes	Dec. 31, 2019	Dec. 31, 2018
Liabilities			
A. Equity		476,645	532,005
I. Called-up capital		131,529	131,529
1. Subscribed capital		263,059	263,059
2. Thereof: non-called-up capital		-131,529	-131,529
IV. Profit reserves	4	156,530	155,529
1. Statutory reserve		131,529	131,529
4. Fluctuation reserves		25,000	24,000
V. Profit brought forward		185,374	185,374
VI. Annual profit		3,212	59,573
D. Technical provisions	5	707,419	711,453
I. Premiums brought forward		86,909	75,639
1. Gross amount		329,658	325,880
2. Thereof: Share of reinsurers		-242,749	-250,242
III. Provisions for unsettled insurance claims		554,119	535,348
1. Gross amount		1,245,734	1,199,787
2. Thereof: Share of reinsurers		-691,614	-664,440
IV. Provision for performance-related and non-performance-related premium reimbursement		66,391	100,466
1. Gross amount		66,391	100,466
F. Other provisions		4,473	11,007
II. Tax provisions		268	7,383
III. Other provisions		4,205	3,624
G. Deposits retained on retroceded business		0	0
H. Other liabilities		561,158	444,761
I. Liabilities from direct insurance business		5,855	1,950
1. to affiliated companies		191	255
3. to other creditors		5,664	1,694
II. Accounts payable on reinsurance business		367,619	21,817
1. to affiliated companies		111,473	7,033
3. to other creditors		256,146	14,784
V. Other liabilities		187,684	420,995
2. Social security liabilities		167	-52
5. Other liabilities to other creditors		187,517	421,047
I. Deferred income		1,074	998
Total liabilities		1,750,770	1,700,224

It is hereby confirmed that the sum of EUR 707,419 thousand (previous year EUR 711,453 thousand) shown in the balance sheet under the item for actuarial provisions has been calculated in accordance with the provisions of the Liechtenstein Insurance Supervision Ordinance (“VersAV”).

Schaan, April 6, 2020

Michael Bamberger
Head Actuary

Income statement

EUR thousand	Notes	2019	2018
1. **Premiums earned for own account**		**247,444**	**281,204**
a) Gross premiums written	7	1,322,669	1,169,963
b) Ceded reinsurance premiums		-1,065,610	-895,585
c) Change in gross premiums carried forward		2,613	-53,625
d) Change in reinsurers, share of gross premiums carried forward		-12,228	60,451
3. **Other underwriting income for own account**		**–**	**–**
4. **Charges for insurance claims for own account**		**-216,233**	**-221,472**
a) Payments for insurance claims		-204,084	-239,491
aa) Gross amount		-931,552	-820,036
bb) Share of reinsurers		727,468	580,544
b) Change in provisions for unsettled insurance claims		-12,148	18,019
aa) Gross amount		-30,038	326,204
bb) Share of reinsurers		17,890	-308,185
6. **Cost of performance-related and non-performance-related premium reimbursement for own account**		**-29,853**	**-12,528**
7. **Expenses for insurance operations for own account**		**-19,493**	**-31,939**
a) Acquisition costs		-111,826	-115,102
b) Administrative expenses		-12,935	-9,087
c) Commission received and profit-sharing on retroceded business		105,268	92,250
8. **Other underwriting expenses for own account**		**-1**	**-1**
9. **Change in equalisation provisions and similar reserves**		**–**	**–**
10. **Underwriting result for non-life insurance**		**-18,136**	**15,264**
3. **Investment income**		**23,980**	**53,755**
a) Current income from other investments Of which from affiliated companies		22,839 –	29,704 –
d) Income from write-backs		0	536
e) Realised gains on the disposal of investments		1,141	23,515
5. **Investment expenses**		**-1,825**	**-2,664**
a) Cost of administering investments and interest expenses		-1,150	-1,533
b) Write-downs on investments		–	–
c) Realised losses on the disposal of investments		-676	-1,130
7. **Other income from ordinary business activities**		**4,740**	**8,159**
8. **Other expenses for ordinary business activities**		**-3,456**	**-3,495**
9. **Result from ordinary activities**		**5,303**	**71,019**
12. **Extraordinary result**		**–**	**–**
13. **Taxes on income**		**-1,322**	**-11,277**
14. **Other taxes**		**-768**	**-170**
15. **Annual profit**		**3,212**	**59,573**

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 31 December 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 amortised 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 recognised at their expected realisable value.

Debentures and other fixed-income securities
These are carried at amortised 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 the direct insurance business, general loss allowances are made to account for the general credit risk.

Tangible assets and other assets are measured at amortised cost. The amortisation 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 recognised 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 recognised 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 realised 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, 2019	Dec. 31, 2018
CHF	1.08700	1.12690
USD	1.12250	1.14315
GBP	0.84735	0.89755
AED	4.12315	4.19895

Notes to the balance sheet

1) Investments

EUR thousand	Dec. 31, 2018 Book value	Additions	Transfers	Disposals	Write-backs	Write-downs	Dec. 31, 2019 Book value
B. Investments	**1,179,084**	**6,247**	**61,119**	**-71,903**	**12,976**	**-84,951**	**1,102,572**
II. Investments in affiliated companies and participating interests	**105,767**	**731**	**-42**	**–**	**21**	**–**	**106,479**
1. Shares in affiliated companies	67,102						67,102
2. Debentures of affiliated companies and loans to affiliated companies	38,665	731	-42		21		39,376
III. Other investments	**1,025,895**	**65**	**60,657**	**-71,903**	**12,421**	**-84,951**	**942,184**
1. Equities, other non-fixed-income securities and units in investment funds	1,469				27		1,496
2. Debentures and other fixed-income securities	932,585		63,854	-11		-84,951	911,478
6. Deposits with banks	88,335		-3,197	-71,892	12,394		25,640
7. Other investments	3,506	65					3,571
IV. Deposits retained on assumed reinsurance business	**47,421**	**5,451**	**504**		**533**		**53,909**

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	261
Allianz Global Corporate & Specialty do Brasil Participações Ltda.	Sao Paulo	99.9	BRL	251,488,094	-50

Shares in affiliated companies include hidden reserves of EUR 2,814 thousand (previous year: EUR 2,650 thousand). A tax rate of 12.5% applies.

3) Fair values of investments

EUR thousand	2019	2018
Investments in affiliated companies and participating interests		
Shares in affiliated companies	69,917	91,217
Debentures of affiliated companies and loans to affiliated companies	39,376	38,665
Other investments		
Equities, other non-fixed-income securities and units in investment funds	1,496	1,469
Debentures and other fixed-income securities	925,958	930,825
Deposits with banks	25,640	88,335
Other investments	3,571	3,506
Deposits retained on assumed reinsurance	53,909	47,421

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	2019	2018
Profit brought forward Jan. 1	185,374,201	185,374,201
Annual profit Dec. 31	3,211,830	59,572,826
Net profit for the year	**188,586,031**	**244,947,027**
Appropriation		
Allocation to the legal reserves	–	–
Allocation to the statutory reserves	–	–
Allocation to other reserves	–	–
Distributions from company capital	–	–
Dividend	-3,211,830	-59,572,826
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 3,211,830 from the net profit for the year as at 31 December 2019. 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	
EUR thousand	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Total insurance business	**707,419**	**711,453**	**1,641,783**	**1,626,127**
Direct insurance business	**91,006**	**91,715**	**239,824**	**217,338**
General liability insurance	66,731	52,712	159,172	128,292
Fire and natural hazards insurance	-9,300	10,120	12,026	20,758
Credit	4,538	-	4,538	-
Aviation liability insurance	23,631	24,258	49,965	56,761
Comprehensive aviation insurance	2,249	1,683	3,808	2,626
Other property insurance	-22	30	-21	30
Goods in transit (including commodities, items of luggage and all other goods)	1,412	806	4,905	3,684
Accident insurance (including industrial accidents and occupational illnesses)	880	903	2,400	1,593
Various financial losses	888	1,203	3,031	3,593
Assumed reinsurance business	**616,414**	**619,738**	**1,401,959**	**1,408,789**
General liability insurance	198,548	195,446	838,368	386,350
Fire and natural hazards insurance	309,190	311,975	426,020	875,372
Liability insurance for land vehicles with their own engine	4,461	12,393	4,461	12,577
Credit	5,293	6,204	18,063	20,416
Comprehensive land vehicle insurance (excluding rail vehicles)	919	3,267	919	3,267
Aviation liability insurance	8,036	9,086	10,460	12,929
Comprehensive aviation insurance	800	491	1,066	642
Other property insurance	15,252	15,005	16,897	15,702
Goods in transit (including commodities, items of luggage and all other goods)	28,654	19,937	35,051	22,170
Accident insurance (including industrial accidents and occupational illnesses)	9,854	10,961	10,586	11,928
Various financial losses	35,407	34,973	40,067	47,438

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	2019	2018
Premiums earned for own account	89,930	177,476
Charges for insurance claims for own account	95,584	71,577

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 17,538 thousand (previous year EUR 24,331 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

EUR thousand	Gross premiums written 2019	Gross premiums written 2018	Net premiums earned 2019	Net premiums earned 2018	Net claims incurred 2019	Net claims incurred 2018	Net operating expenses 2019	Net operating expenses 2018	Net underwriting result 2019	Net underwriting result 2018
Direct business and proportional reinsurance business assumed										
General liability insurance	55,516	59,924	21,316	3,157	-24,364	-4,563	-2,627	-2,630	-5,675	-4,036
Fire and natural hazards insurance	23,818	24,222	-25,290	-20,670	23,113	-12,426	-3,535	75	-5,711	-33,021
Credit	4,819	-	301	-	-20	-	-723	-	-442	-
Comprehensive land vehicle insurance (excluding rail vehicles)	-	2,757	-	2,869	-	-	-	-	-	2,869
Aviation liability insurance	12,631	12,438	2,876	1,545	-8,818	-4,214	-214	-1,218	-6,156	-3,887
Comprehensive aviation insurance	3,808	1	2,003	63	1,048	-761	18	50	3,069	-648
Other property insurance	28	3,833	74	-25	228	-701	-835	-892	-533	-1,618
Goods in transit (including commodities, items of luggage and all other goods)	4,418	1,033	-593	228	-694	-705	-82	-247	-1,369	-724
Accident insurance (including industrial accidents and occupational illnesses)	666	8,107	-211	1,197	-8	-68	-39	-167	-258	962
Various financial losses	10,898	-	2,496	-	-402	-894	109	263	2,201	-631
Subtotal	116,603	112,315	2,972	-11,636	-9,917	-24,332	-7,928	-4,766	-14,874	-40,734
Non-proportional reinsurance business assumed										
Subtotal	1,206,066	1,057,647	244,472	292,840	-236,169	-209,668	-11,565	-27,174	-3,262	55,998
Total	**1,322,669**	**1,169,962**	**247,444**	**281,204**	**-246,086**	**-234,000**	**-19,493**	**-31,940**	**-18,136**	**15,264**

8) Premium income broken down according to regional origin

EUR thousand	2019	2018
Liechtenstein	490	713
Other EEA treaty states	37,745	36,883
Other states	78,368	74,720
Gross premiums written	**116,603**	**112,316**

The amounts shown relate solely to direct insurance business.

9) Personnel expenses

EUR thousand	2019	2018
a) Wages and salaries	18,479	17,227
b) Social security contributions and pension costs	4,278	4,001
of which for pensions	3,630	3,444

Total remuneration for the Board of Management amounted to EUR 4,375 thousand in the year under review. This sum includes salaries, fringe benefits and bonuses awarded for performance in the 2019 fiscal year. In addition, 3,200 RSUs (restricted stock units) with a fair value of EUR 514 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 2024. Total remuneration for the Board of Directors came to EUR 11 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

	2019	2018
Full-time equivalents	107.6	105.0

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 totalled EUR 643,282 thousand (previous year EUR 647,781 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 10,386 thousand (previous year EUR 10,769 thousand) and is reported under other accounts receivable.

13) Extraordinary income and extraordinary expenses

No transactions were reported as extraordinary income in the 2018 and 2019 fiscal years.

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 31 December 2019.

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 fulfil 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.

Zurich, April 6, 2020

PricewaterhouseCoopers AG

Enrico Strozzi	Christian Konopka
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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