

Allianz Risk Transfer AG

Annual Report 2016

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

Managing Officers

Board of Directors

Chris Fischer Hirs (Chairman)

Hartmut Mai

Douglas Pennycuik

Carsten Scheffel

Thomas C. Wilson

Important functions

Michael Bamberger (Head Actuary)

Lara Martiner (Head of Compliance)

Christoph Müller (Head of AGCS Business)

Board of Management

Bill Guffey (Chairman)

Bernhard Arbogast

Richard Boyd

Thomas Bründler

Thomas Schatzmann

Company structure

Introduction

The net claims burden rose slightly due to major claims in the non-proportional reinsurance field from EUR 199.2 million to EUR 205.6 million. This meant the claims ratio rose from 57 % in the year 2015 to 66 % in the year 2016.

Although commission revenues from reinsurance declined during the financial year, the overall cost ratio was nevertheless maintained. The positive result was boosted by revenues from profit shares that were not performance-related.

The net claims-cost ratio rose from 64 % to 79 % in the year under report. The previous year was favoured by the dissolution of fluctuation reserves. Adjusted to take the dissolution of fluctuation reserves into account, the ratio rose from 72 % to 79 %, primarily due to the above-mentioned decline in earned net premiums.

Relative to the previous year, revenues from capital assets rose from EUR 19.4 million to reach EUR 27.4 million. Despite the persistently low level of interest rates, current interest and dividend revenues in-

Risk report

The principal elements of the risk management system of ART AG are:

- a well-developed 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
- the integration of capital requirements and risk considerations in the decision-making and management process.

This comprehensive approach ensures that risks are reasonably identified, analysed and evaluated. The risk appetite is described in the risk strategy and made operational through the associated system of limits. In addition, further limits are identified and detailed in specific standards and guidelines. Rigorous risk monitoring and corresponding reports enable any possible 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

The actuarial risk is subdivided into the premium risk and the reserve risk, i.e. the risk that the insurance premiums are insufficient to cover future claims, or that existing claims lead to settlement losses relative to the recorded loss provisions.

Premium risks are controlled inter alia by subscription guidelines. Subscription guidelines limit the insurance or liability sum per contract. Within the context of the strategic planning, future business volumes and associated risks as well as their impact on solvency are planned. In respect of the reserve risk, the development of provisions for insurance cases is regularly monitored at the individual contract level. In addition, ART AG conducts annual reserve uncertainty analyses in order to analyse the sensitivity of the reserves against the assumptions upon which their calculations are based.

Market risk

The market risk is the risk of losses arising out of market fluctuations, differentiated according to the

Reinsurance partners are assessed by the Allianz Security Vetting Team (SVT). The SVT ensures that companies with strong credit profiles are selected whenever possible. In addition, if necessary documentary credits, cash deposits or other financial securities may also be required to further reduce the credit risks.

Credit limits are centrally controlled within the Allianz Group. The limits for individual counterparties are based on a variety of factors, such as for example the rating of the debtor, its balance sheet total, the relevant segment as well as the business region; account is also taken of the respective limit utilisation when setting the limits.

ART AG is also able to independently reduce the allocated limits for the maximum risk vis-à-vis a debtor or a group of debtors.

For detailed information about the risk profile of ART AG, see the Report on the Solvency and Financial Situation.

Solvency and financial condition report

Notes

General information

ART AG relocated its registered domicile from Switzerland to Liechtenstein on 3 October 2016. At the same time, the reporting currency was changed from CHF to EUR. Figures for the previous year have also been converted to EUR, whereby historic values were applied for the shares in affiliated companies. The other balance sheet items were converted at reporting date prices, while the income statement was converted at average prices.

at th

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 financial statements for the 2016 financial year has been drawn up in euro thousand (TEUR). The financial year corresponds to the calendar year, meaning that 31 December is the balance sheet reporting date.

As a rule, non-domestic branch offices are reported in the respective national currency. For the periodic financial statements the balance sheet items were converted at the reporting date price, while the income statement items were converted into euro at the average price.

Requirement to reinstate original values and write-ups

The requirement to reinstate original values applies to assets that were written down to a lower market value in past years; if their value on the balance sheet reporting date is higher than the book value, they must be written up again. The write-up is made either up to amortised cost or to a lower long-term or market value.

Accounts receivable under reinsurance business assumed

These are reported at their nominal values.

Receivables and other assets

Specifically:

a) Receivables from own reinsurance business

with the receivable law

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

with the provisions of the German Commercial Code

Actuarial provisions

Premiums brought forward

In the direct insurance business, premiums brought forward are predominantly determined using the daily calculation method. In actuarial terms, premiums brought forward are deferred in accordance with the risk pattern of each insurance contract. Flat rates are applied to a limited extent.

For reinsurance business assumed, the premiums brought forward were reported on the basis of information provided by the ceding insurers. The reinsurance share deducted from the gross unearned premiums are predominantly determined according to the daily calculation method.

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

Provisions for unsettled insurance claims

The probable insurance payout is determined for each known insurance claim on the basis of the claims records.

Statistical methods are applied for each risk group to calculate an additional provision for claims that have occurred but that have not yet been filed by the balance sheet reporting date, with the insurance business that assumed the reinsurance applying the provisions in accordance with information provided by the ceding party.

For reinsurance business ceded to reinsurers, the provisioning shares of the reinsurers are calculated in accordance with the contractual agreements.

Provisions for performance-related and non-performance-related premium reimbursement

This item is determined on an individual contract basis, and is defined in accordance with the respective anticipated payout sum.

Notes to the balance sheet

1) Shares in affiliated companies and shareholdings

Company	Registered office	Share %	Currency	Share capital	Annual result 2016 in TEUR
Allianz Risk Transfer, Inc.	New York	100	USD	58,460,000	-4,179
Allianz Risk Transfer (U.K.) Limited	London	100	GBP	1,000,000	31-4,179

2) Statement of fixed assets

3) Time-weighted value of the investments

4) Utilisation of profit – proposal for the Shareholders' Meeting

Utilisation of profit in euro	2016	2015
Profit brought forward 31.01	185,374,201	185,374,201
Annual profit 01.01	66,079,603	59,405,681
Net profit for the year	251,453,804	244,779,882
Utilisation		
- Dividends	-66,079,603	-59,405,681
Profit brought forward	185,374,201	185,374,201

The Board of Directors proposes to the Shareholders' Meeting that a dividend amounting to EUR 66,079,602.52 from the net profit as at 31 December 2016 shall be paid out. The company draws attention to the fact that the equity capital includes an item for fluctuation reserves.

5) Gross actuarial provisions

The actuarial provisions do not contain any

8) Premium revenues according to regional origin

In TEUR	2016	2015
Liechtenstein	77	65
Other EEA treaty states	13,323	11,226
Other states	71,158	83,643

9) Personnel expenses

In TEUR	2016	2015
a) Wages and salaries	-21,350	-24,713
b) Social security and other pension costs	-4,859	-4,408
bb) of which in respect of old age pensions	-4,361	-3,866

Supplementary information about the annual financial statements

Allianz Global Corporate & Specialty SE (AGCS SE) with registered domicile in Munich is the (direct / indirect) parent company of ART AG, with registered domicile in Schaan, Liechtenstein. AGCS SE is a wholly-owned subsidiary of Allianz SE, Munich. The annual financial statements of Allianz SE are available under www.allianz.com.

Information about the total fees paid to the audit company are set out in the consolidated annual financial statements of Allianz SE, Munich (www.allianz.com).

10) Number of employees on an annual average

	2016	2015
Full time equivalents	111.9	108.0

11) Sureties, guarantees and contingent liabilities

Amongst the respective insurance and reinsurance contracts, the sureties, guarantees and contingent liabilities item includes two solidarity sureties in favour of the insurance and reinsurance clients of Allianz Risk Transfer NV, Amsterdam ("ART NV") and of Allianz Risk Transfer (Bermuda) Ltd., Hamilton ("ART Bermuda") to secure the corresponding liabilities of ART NV and of ART Bermuda respectively.

The sum of pledged assets amounts to TEUR 211,803 (TEUR 216,751).

12) Derivative financial instruments

ART does not use any derivatives, except to hedge the long term incentive scheme (RSU). The scope of these hedging instruments is marginal.

The attributable time-weighted value is TEUR 13,913 (01.01.16 TEUR 16,033.1 ((n)2(9)35)6 (3)10.2 (y -6.rmen)4R10.2 (y

Report of the Auditors

As auditors, we have audited the annual financial

