Executive Summary

Basis of Report

With this report, Allianz Risk Transfer AG is, for the third time, presenting a Solvency and Financial Condition Report (SFCR).

This report is a key element of “Solvency II”, the first harmonised Europe-wide system of financial supervision for primary insurance companies and reinsurance companies, which entered into force on 1 January 2016. Its legal basis is the Solvency II directive issued by the European Parliament and the European Council on November 9, 2009 (Directive 2009/138/EC of the European Parliament and of the Council) on the Taking-up and Pursuit of the Business of Insurance and Reinsurance, and which was transposed into the law of Liechtenstein by a fully revised Insurance Supervision Act (VersAG), which came into force on 1 January 2016.

Further precision was provided by the European Commission in the form of a delegated regulation on 10 October 2014 (Delegated Regulation 2015 of the EU Commissions, or the "Solvency II Regulation"), which is directly applicable as a delegated act in the Member States of the European Union and the European Economic Area.

Further details are set out in the implementing technical standards, the Guidelines of the European Insurance and Occupational Pensions Authority (EIOPA), and the notices issued by the Financial Market Authority of Liechtenstein (FMA).

Solvency II flanks risk-based solvency regulations for the equity base with quality-related requirements for the risk management aspect and enhanced reporting duties. In addition to the narrative report to the public presented here, there are obligations to report quarterly figures to the supervisory authority, including a number of electronic reporting forms, additional extensive quality and quantity-based reports to the national supervisory authority and, not least, ad-hoc reporting whose purpose is to notify the supervisory authority in a timely manner of significant events and decisions by management.

Alongside the reporting required under Solvency II, there are the requirements to which annual financial statements are subject under Liechtenstein Persons and Companies Act (Personen- and Gesellschaftsrecht – “PGR”) and the associated reporting duties continue unchanged here.

According to the principles of this still relatively new supervisory system, this report is written from a risk-oriented viewpoint and identifies how the company addresses risks. To this end, the company uses a standardised procedure to evaluate and describe its main business processes. In addition, assets and liabilities valued in economic terms (at market value) are compared with one another in the so-called Solvency Overview. The excess of assets over liabilities is shown here as the equity base.

The Allianz Group has an approved, partial Internal Model for determining the Solvency Capital Requirements, which it refines on an ongoing basis. Allianz Risk Transfer AG (ART AG) uses the standard model.

Contents

The remarks in this report take into account the

Introduction

Allianz Risk Transfer AG (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. 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.

Allianz SE's Solvency II consolidated financial statements will be published on its website in April. The financial statements may be viewed there or requested from the company. ART AG is included in Allianz SE's Solvency II consolidated financial statements. You can find the annual report of ART AG and other documents at: www.agcs.allianz.com/services/alternative-risk-transfer/art-annual-report

Affiliated Companies of ART AG

Company	Registered office	Share %
Allianz Risk Transfer (U.K.) Limited	London	100.0
Allianz Global Corporate & Specialty do Brasil Participações Ltda.		

Allianz Risk Transfer AG
(Zurich Branch)
Zurich, Switzerland
(Re)Insurance

Allianz Risk Transfer AG
(Bermuda Branch)
Hamilton, Bermuda
(Re)Insurance

Allianz Risk Transfer AG
(Dubai Branch)
Dubai, U.A.E.
Reinsurance

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

Legal Entity
Branch

Underwriting Result

EUR thousand

Direct & Proportional Reinsurance Business
In 2019, the direct insurance business and proportional reinsurance business assumed continued to face a very tough competitive environment. Premium rates remained under pressure and only recovered during the course of the year. In total, gross premiums in this segment rose by EUR 193.5 million to EUR 1,120.2 million, while net premiums earned fell by EUR 6.6 million to EUR 91.9 million. The increase in gross premiums is attributable to the continued expansion of the fronting and the ILS business.

The loss burden decreased slightly in this segment. Nevertheless, in 2019 a technical loss was again posted for direct insurance business and proportional reinsurance business assumed. However, at EUR 9.0 million, this was significantly less than the previous year's loss of EUR 41.0 million.

In the following sections, key performance indicators, in particular the underwriting result, will be used to explain the results of the individual business segments.

Fire and other property insurance remains the largest business segment and is shaped to a large extent by ILS business. Net premiums earned decreased again slightly by EUR 1.5 million to EUR 31.5 million. Although the net loss expenses slightly increased by EUR 0.8 million to EUR 43.7 million, this was accompanied by a EUR 14.3 million reduction in costs. This decline is primarily attributable to the higher reinsurance commission from the ILS business. This resulted in a technical loss of EUR 18.6 million, following a loss of EUR 29.0 million in the previous year.

In general liability insurance, net premiums earned stood at EUR 34.6 million, down EUR 1.7 million compared with the prior-year period. Net loss expenses fell by EUR 8.7 million from EUR 36.3 million to EUR 27.6 million, leading to a technical loss of EUR 1.2 million. A loss of EUR 8.3 million had been recorded in the previous year.

Net premiums earned in **marine, aviation and transport insurance** rose by EUR 1.7 million to EUR 15.3 million. Loss expenses likewise incr-6.6 (u)-1.5 (L

In the **various financial losses** business segment, net premiums earned fell by EUR 2.8 million to EUR 7.9 million. The loss expense fell by EUR 23.6 million year on year to EUR 4.4 million. Costs remained stable at EUR 0.7 million. The technical profit amounted to EUR 2.8 million. The loss in the previous year was EUR 8.1 million.

Net premiums in the **other segments** of direct business and proportional reinsurance business assumed declined by EUR 5.7 million and totalled EUR 2.6 million. At the same time, claims expenditure fell by EUR 8.5 million to EUR 0.5 million. Costs declined by EUR 0.2 million to EUR 0.6 million, resulting in a technical profit of EUR 2.4 million. In the previous year the loss amounted to EUR 0.2 million.

Non-Proportional Reinsurance Business

Gross written premiums decreased by EUR 40.8 million to EUR 202.5 million. The net premiums earned likewise fell, by EUR 27.2 million to EUR 155.5 million. The main driver of this decline were adjustments made to the intra-group reinsurance

Underwriting Performance by Country[1)]

The following section presents the underwriting result using key performance indicators. The focus is on the gross underwriting result.

ART AG operates insurance and reinsurance business in most countries in the world. One core area of business is global fronting business for institutional investors through hedge funds and for captives of international corporations. The volume was shaped to a large extent by so-called ILS business, which focuses mainly on the core market of the United States. Business concluded and reinsurance business assumed there mostly includes cover for natural catastrophes. In terms of volumes, business in the United States accounted for around 57% of gross premiums, as in previous years. The volume of claims due to hurricanes and other natural catastrophes originating in the United States was up by EU8 (p5(d)-4T7 (o)-2.3 (s)-14.33.6 (u95 Td [(S)14.8 (t-0.9 (-6.2 (a)2.1 (n)-4.U0 -124.8 (t)-15

Market situation

2019 was a year marked by geopolitical tensions

Type of Investment	Current Income	Profit	Loss	Loss	Loss

A.4 Performance in Other Activities

B Governance System

B.1 General Information about the Governance System

B.1.1 Board of Directors and Executive Board

B.1.1.1 Board of Directors – Principle and Function

The Board of Directors of ART AG consists of at least three members. Members of the Board of Directors hold office for a period of three years, unless a shorter term of office is stipulated in the resolution appointing them. The term of office of members of the Board of Directors ends at the end of the next General Shareholders' Meeting. The General Shareholders' Meeting is entitled to appoint members of the Board of Directors and may approve the actions of members of the Board of Directors. Without prejudice to the above, the Board of Directors may itself co-opt additional members. Additional members co-opted by the Board of Directors must be approved by the next General Shareholders' Meeting.

The Board of Directors currently has four members.

The Board of Directors is responsible for the overall management of ART AG and for supervising corporate governance. It is responsible for establishing the company's organizational structure and an appropriate governance system (including risk management, the actuarial function, compliance, internal control and internal audit). The Board of Directors is also responsible for setting up the accounting function, financial control and financial planning, as well as all duties and responsibilities assigned to the Board of Directors under the applicable regulatory provisions. The Board of Directors represents the company externally and issues the organisational bylaws governing the duties and powers of the Board of Directors and its Chairman, the committees of the Board of Directors and the Executive Board and also the Chief Executive Officer. In addition, the Board of Directors is responsible for appointing the members of the Executive Board and for preparing ART AG's annual report.

The Board of Directors shall meet as often as business requires. Any member of the Board of Directors is entitled to request that a meeting be called without delay, specifying the reason for the meeting. The Board of Directors shall have a quorum if at least half of its members are present. Resolutions by the Board of Directors shall be adopted by an absolute majority of those members of the Board of Directors present or represented at the meeting, with the Chairman casting the deciding vote in the event of a tie.

Directors are entitled to reimbursement of any expenses incurred on behalf of the company, as well as compensation commensurate with their services, to be determined by the Board of Directors itself. Compensation shall be paid only to external members of the Board of Directors who have no other full-time position within the Allianz Group.

The structure of the Board of Directors is specified in the Articles of Association and the organisational bylaws of ART AG. The Articles of Association were revised in September 2016 to reflect the relocation of ART AG's headquarters from Zurich, Switzerland to Schaan, Liechtenstein. The organisational bylaws were most recently revised on 17 April 2019. The main outcome of the revision was the dissolution of two Board of Directors committees (see Section B.1.1.2 Committees). Furthermore, following the intra-group disposal of the Allianz Risk Transfer Inc. shareholding [including the share held in the insurance company domiciled in Bermuda – Allianz Risk Transfer (Bermuda) Limited] in December 2018, ART AG's scope of responsibility was modified with regard to its direct subsidiaries. No other significant changes had been made to the governance system as at the end of the reporting period in December 2019.

B.1.1.2 Board of Directors – Composition

During the 2019 year under review, the Board of

The Executive Board meets as often as business requires and at least once every quarter. Any member of the Executive Board is entitled to request that a meeting be called without delay. The Executive Board shall have a quorum if at least half of its members are present. Resolutions by the Executive Board shall be adopted by an absolute majority of those members of the Executive Board present or represented at the meeting, with the Chief Execu-tive Officer casting the deciding vote in the event of a tie.

Any member of the Executive Board and any member of ART AG's management team shall be entitled to submit any matter associated with his/her area of responsibility to the Executive Board for a decision and/or to request the approvf the Chief Execu-

B.1.1.7 Committees of the Executive Board

The third line of defence provides independent monitoring of the first line of defence and the second line of defence. In particular, its activities

In close consultation with risk management, the compliance function assesses the compliance risk for assigned risk areas on an annual basis and monitors the implementation of appropriate measures to minimise risk.

To fulfil its duties, the compliance function has established a global compliance framework in collaboration with the operating units, which the Allianz Group compliance function regularly reviews as part of a maturity analysis to ensure that it is appropriate and effective.

B.1.3.3

B.1.5 Assessment of the Appropriateness of the Governance System

The effectiveness and appropriateness of the governance system is reviewed by ART AG's ERIC Advisory Group once a year as a rule, and also if there are any special reasons for doing so. The ERIC Advisory Group largely comprises representatives from the four key functions (compliance, risk management, actuarial and internal audit). The review is performed in consultation with the Global Governance function of AGCS SE (which is embedded within the Legal department). The results of the review and the measures derived therefrom in order to further strengthen the governance system are presented to the Risk Management Committee and to the Board of Directors for a final assessment. The Risk Management Committee adjudged the governance system to be appropriate overall. The Board of Directors will adopt a corresponding resolution at the meeting on 6 April 2020.

B.1.6 Information on Material Transactions

ART AG and AGCS SE are parties to Service Level Agreements for the provision of advisory and support services in various fields, such as risk analysis and risk assessment. Compensation for the services provided is invoiced at cost, plus a profit margin.

ART AG grants non-proportional reinsurance to AGCS SE. In turn, AGCS SE protects ART AG's own funds from losses arising from the overall insurance business through an int(r)-11.5 (i)-1-3.3 (h)-7.42p.2 (on18 (r dependability required. AGCS's Fit and Proper Policy includes a definition of the required professional qualifications and personal dependability for the various positions involved. It also describes the processes that must be followed to ensure that the relevant people have the necessary professional qualifications and personal dependability.

The professional qualification requirements for internal and external candidates must be defined in the application procedure. Every candidate must submit a résumé and various interviews must be conducted, including an interview with the Human Resources Department. A review must be carried out of the candidate's personal background, which includes sending copies of relevant credentials, criminal record (or similar document) and proof that the candidate is not and has not been involved in insolvency proceedings as a debtor.

Human Resources must review references and carry out a search in public media. This is optional for key function members, but mandatory for Key Function Holders.

Performance reviews (for all people who are the focus of AGCS's Fit and Proper Policy) and career-development conferences (for executives and Key Function Holders) are mandatory and must be held on a regular basis.

Spontaneous reviews of fit and proper requirements shall be carried out in certain exceptional situations if professional qualifications and/or personal dependability have been called into question.

Ongoing professional training programmes ensure that the professional qualification requirements are always met. Training courses in ethical business conduct, anti-corruption and combating fraud are offered to provide employees with clear rules regarding appropriate behaviour.

AGCS's Fit and Proper Policy sets benchmarks for evaluating professional qualifications and personal dependability regardless of which findings and information have been collected during the application process and regular or spontaneous reviews and as a result of negative evaluations.

B.3 Risk Management System, including Own Risk and Solvency Assessment

B.3.1 Risk Management System

The organisational structure and workflows of ART AG's risk management system make it possible to control local and global risks in an integrated manner and ensure that risks assumed are consistent with the company's risk-bearing capacity and, specifically, with the risk appetite defined in the risk strategy. The organisational structure and workflows of the risk management function fofent Sy th8 Tc 0.002 Tw 423 -1.31888 -1.395 Td [(r)93.1 ( )]T318

- Appropriately implementing the AGCS Risk Policy within the organizational structure and work processes of ART AG;
- Implementing and approving AGCS's overarching risk strategy, which also includes ART AG, the risk tolerance defined therein and the limits, as well as aligning the risk strategy with ART AG's business strategy and the Allianz Group's risk

information is based are embedded in a compre-hensive control environment that ensures adequate data quality for complete, consistent and timely reporting to management.

B.3.2.5 Reporting on Risks and Implementation of Risk Management Processes

ART AG's risk management function generates internal risk reports – that contain the relevant risk-related information in a clear, concise format – both at regular, predefined intervals and on an ad-hoc basis.

The ad-hoc reporting includes events that – in addition to regular reporting – are unexpected in terms of size and impact and involve significant changes to known risk issues or completely new or emerging risks that may have significant repercussions. These include material quantitative effects on financial results and capitalisation, for example, as well as material qualitative effects on reputation, business continuity or non-compliance with laws and regulations. The comprehensive nature of risk management ensures that all material risks within ART AG are identified and systematically managed and that potential deviations from ART AG's risk appetite are identified at an early stage. Appropriate risk-mitigation techniques are used to deal with cases in which identified risks exceed the specified risk appetite (e.g. violations of limits). If such cases occur, clear measures are instituted to address the problem, such as adjustments to the risk appetite or – following an economic review of the situation – conclusion of reinsurance contracts, strengthening of the control environment or reducing/hedging of risks associated with the underlying assets or liabilities.

B.3.3 Set of Rules Governing the Organisation and Workflow of Risk Management

ART AG has established an effective governance system to promote implementation of the business strategy, to ensure adequate monitoring and control of business risks and to guarantee compliance with legal requirements. This system includes guidelines on the methods used to assess risks, on the risk management structures and on risk governance processes.

Additional guidelines deal with capital market risks, credit risks, underwriting risks, business risks and operational risks; they define the risks that are entered into and stipulate risk tolerance in these risk categories. This risk tolerance is the foundation for risk-based control of the business. In addition, the guidelines specify responsibilities and the scope of authority and define measures for minimising risk and for escalation if limits are exceeded.
For each risk category, the guidelines supplement the requirements and provisions in the overarching AGCS Standard on ORSA and the AGCS Guideline on Top Risk Scoping and Assessment.

B.3.4 Specific Material Risks to ART AG

B.3.4.1 Framework for the Top Risk Assessment

The Top Risk Assessment (TRA) is a tool used in the company600.81 (t)-8.3 (h)-12.4 (2 (6r)-5.6 (d o)-3-3.32> BD

Once ART AG's Executive Board and management have identified the critical risks, these risks are assigned to members of ART AG's Executive Board. The risk owner is responsible for making the risk landscape transparent and for defining measures to mitigate the relevant risk if the risk-tolerance level defined by the Executive Board is exceeded.

Risk Category	Definition
Market risk	Unexpected losses due to changes in market prices or a change in parameters that affect market prices, as well as risks arising from options and guarantees embedded in contracts, or changes in the value of assets or liabilities of participating interests resulting from changes in the relevant parameters. In particular, this includes changes in equity prices, interest rates, property prices, exchange rates, credit spreads and implied volatilities. As a result, it also includes changes in market prices caused by a deteriora tion in market liquidity.
Credit risk	Unexpected drops in the market value of the portfolio due to a deterioration in the creditworthiness of counterparties, including failure to meet payment obligations or non-performing instruments (e.g. missed payment deadlines).
Underwriting risk	Losses due to unexpectedly high future claims, including those arising from natural or man-made disasters and run-off losses on existing claim provisions.

The appropriateness of the ORSA processes is reviewed annually.

The findings of all ORSA processes and measures that are decided on are summarised in an ORSA Report. The risk management function coordinates the preparation of the ORSA Report, which contains all information relating to risk that is relevant to the result of the ORSA assessment.

The ORSA Report is normally finalised and adopted by the Executive Board in the second quarter of the fiscal year.

The annual preparation of the report also takes into account feedback from the most recent reviews of previous years' ORSA Reports (e.g. by Group Audit) and any changes in external requirements.
The main stakeholders from the areas of Capital Management, Underwriting, Investment Management and Accounting are also included, and any changes from a regulatory viewpoint are taken into account.

The final draft of the ORSA Report is submitted to the Head of Risk Management for review. The Risk Management Committee discusses the findings of the ORSA Report and decides whether to recommend to the Executive Board that the ORSA assessment and corresponding ORSA Report should be approved or whether the risk management function should coordinate further changes before the report is sent to the Risk Management Committee again.

Upon recommendation, the ORSA Report will be submitted to the Executive Board for approval and to the Board of Directors for information. In a final step, the conclusions of the ORSA assessment and the corresponding report are made available to the FMA and to everyone who plays a key role in decision-making processes relating to the corporate

B.4 Internal Control System

ART AG has implemented a formal Internal Control System, the so-called ERIC system (Enterprise-wide Risk-based Integrated Control System), to control significant operational risks for the company on an ongoing basis by monitoring the control activities and particularly to ensure that key controls are effective. This system has been set out in writing in an internal guideline and is based on internationally recognised control frameworks such as the COSO model (Committee of Sponsoring Organizations of the Treadway Commission). In line with legal and regulatory requirements and Allianz Group regulations, the objectives of the ERIC system are:

- Achievement of the strategic business targets is effectively supported and ART AG's legal capacity is assured;
- Governance aspects and business processes are effective;
- The applicable laws and regulatory provisions, together with internal guidelines of Allianz, AGCS and ART AG, are complied with; and
- The processes deliver complete, accurate information for internal and external financial reporting and for regulatory reporting. This ensures that internal management decisions are supported effectively and that the expectations of external stakeholders are fulfilled.

As part of the ERIC system, the key controls that are formalised are those that are necessary in order to avoid or reduce significant operational risks to ART AG. The ERIC system provides a comprehensive view of these risks and controls and gives ART AG's Executive Board reasonable assurance that the aforementioned targets will be achieved. The ERIC system uses a uniform approach to carry out assessments of operational risks and controls within various functional areas. That means that it also supports cooperation and the sharing of information between the key functions under Solvency II (compliance, risk management, actuarial and internal audit). The results of activities in connection with the ERIC system are stored in a separate database, to enable consistent reporting, for example.

On the whole, the ERIC system promotes awareness of risks and controls within the organisation and creates transparency with respect to responsibilities for risks and controls. The quality of key controls is assessed in a structured and efficient way. With additional support from an effective risk management system for operational risks, potentially significant operational risks are identified at an early stage and the necessary steps are taken to avoid or reduce these risks, making it possible to comply with the risk tolerance limit[1] for operational risks set by ART AG's Executive Board.

B.4.1 Key Principles of the ERIC System

The Internal Control System relates to operational risks. However, to facilitate readability, the term "operational" is omitted below. At the same time, the terms "key control" and "control" are used synonymously.

The ERIC system is based on the following principles:

- A focus on significant risks;
- A focus on key controls;
- Promotion of positive awareness of risks and controls;
- Ensuring the effectiveness of key controls;
- Documentation of risks, controls and business processes;
- Integration of service providers used into the Internal Control System; and
- Control strategies such as separation of duties and dual-control principle.

Risk and control assessment programmes are the main procedures for determining which operational risks are covered by the Internal Control System;

Significant risks and key controls are identified and assessed at three levels:

- Management level (e.g. entity-level controls, global Operational Risk Assessment Programme);
- IT level (e.g. IT general controls) and
- Process level (important business processes, financial and regulatory reporting).

First, these evaluation programmes allow significant risks to be identified and assessed; they are then assigned key controls, which are assessed with regard to their appropriateness/adequacy. In addition, the key controls are subjected to a structured test to determine whether they can be implemented as specified (operating effectiveness).

If a risk level is unacceptable (e.g. because of a lack of key controls or ineffective key controls or due to an inadequate design), countermeasures are defined and implemented in order to bring it back

B.4.2 Compliance Function

The compliance function monitors ART AG’s compliance with regulatory and legal requirements with a focus on risks, and regards itself as an active adviser to the organisation on all matters relating to compliance.

To enable it to fulfil its duties, the compliance function has the right to unrestricted access to information.

B.4.2.1 Compliance Organisation

The compliance organisation consists of the Compliance Department and other functions and departments with tasks relating to compliance. Responsibilities are stipulated in the AGCS Compliance Policy, which has been implemented by ART AG. The AGCS Compliance Policy sets out the respective organisational structure and method of operation at global, regional and local level within the AGCS Group. Detailed guidelines and work instructions supplement the framework for a functioning compliance organisation. The Allianz Code of Conduct is also a central component.2-3.5 (n)-4.5 (n)5(p)t (o)-1Tw 0 -.2-3.50 (p)-10.42b (e)-12.4 (1 (o)-0)-5.2(n) 0 07l(n)-4

reported at the AGCS Group and decides on further measures. This also applies to significant incidents at ART AG. The Global Compliance Officer of AGCS SE is the chair. Other members of this body include the global heads of risk management, audit, legal, communications and human resources and, in the case of situations of relevance to ART AG, the holder of the corresponding function at ART AG.

B.4.3 Fit and Proper Requirements

The Head of Compliance at ART AG holds the key function for the compliance function. For this function, the Head of Compliance must have adequate qualifications and the necessary practical experience to be able to perform the tasks of the compliance function, taking into account the complexity of the company and its activities and the principle of proportionality. The Head of Compliance must be able to record and assess ART AG's compliance risks and monitor compliance with the relevant internal and external legal requirements and regulations and the associated processes. Furthermore, he must be able to identify any changes in the legal environment at an early stage and be able to manage them, and must have the following knowledge:

- Knowledge of the applicable internal and external legal requirements and regulations;
- Knowledge of the insurance markets;
- Knowledge of the business strategy and business model of ART AG and the AGCS Group; and
- Knowledge of the internal organisational structure and workflows of ART AG and AGCS SE.

B.4.4 Resources of the Compliance Function

The resources of the compliance function at ART AG (and the AGCS Group) are planned and used in such a way that tasks can be carried out properly and with due regard to risk. Planning takes place within the framework of the annual risk-related Compli ance Plan.

and procedures for these assessments are coordinated with the risk management function.

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The Audit Committee of ART AG is kept informed of audit activities, the results of audits and significant developments from the point of view of Internal Audit through periodic reports. Furthermore, members of the Audit Committee and the Chief Executive Officer receive final audit reports specific to ART. The Head of Audit also confirms that Internal Audit is independent from an organisational viewpoint in his annual report to the Audit Committee of the Board of Directors and the Chief Executive Officer.

Internal Audit's activities are based on a comprehensive audit plan that is updated annually, which covers all material activities and business segments (audit subjects) in the ART Group and the AGCS Group. As part of the annual planning process, Internal Audit carries out a risk-oriented assessment of audit subjects. An operational plan is drawn up on the basis of the annual plan. Each audit passes through the phases of audit preparation and implementation, reporting and follow-up action based on this.

Audit preparation includes an analysis of the theme of the audit, appropriate assessment of risks, induction into the subject matter of the audit, detailed planning of the procedure for the audit and the obtaining of information.

The audit implementation phase includes the following activities: opening discussion, audit activities (field work), documentation of audit activities, determining the results of the audit and follow-up discussion/concluding discussion. The activities that are necessary in connection with this are stipulated and documented in an internal audit document, the audit programme.

Internal Audit draws up an audit report immediately for each audit as part of its reporting activities. The aim of this is to provide brief, concise and targeted information to the Chairman of the Board of Directors, the senior level of management that is responsible and the units being audited about the object of the audit and the audit results.

After the audit report has been distributed, Internal Audit verifies the timely implementation of the agreed measures relating to the audit findings by the responsible units specified in the audit report (follow-up). In monitoring the progress of implementation, Internal Audit follows all findings irrespective of the risk content.

ART AG has a duty to issue internal company guidelines as part of its organisation of the business. Mandatory guidelines have been adopted by ART AG as part of this (adaptation of the AGCS Audit Policy).

The AGCS Audit Policy constitutes an internal company guideline for Internal Audit (and which has also been implemented by ART AG). As a rule, it is reviewed annually and where there are special reasons for doing so. A central process coordinated by the legal function, was established for this purpose. The unit that is responsible for the subject area firstly reviews the guideline to determine whether it needs to be adapted. If any changes are immaterial, the revised version is submitted to the member of the Executive Board who is responsible and to the Chief Executive Officer for approval. Any material changes are also submitted to the Executive Board and – in the case of fundamental changes – to the Board of Directors for approval, and are then made known within the company.

The structure and correct organisation of Internal Audit as a key function is detailed in the AGCS Audit Policy adopted by the Executive Board, and its takes account of the regulatory guidelines of the Insurance Supervision Act (Versicherungsaufsichtsgesetz) and the requirements of Group Audit. Alongside the organisational structure and position of Internal Audit within the company, this guideline describes the principles of the audit activities, tasks, responsibilities and main processes, as well as reporting lines and rights to information. The AGCS Audit Policy builds on the guidelines in the Group Audit Policy.

The AGCS Audit Manual supplements and clarifies the AGCS Audit Policy and is reviewed and published by the Head of Internal Audit each year and where there are special reasons for doing so.

Internal Audit has a duty to report any material

Internal Audit carries out its tasks autonomously and independently. The Executive Board and Board of Directors ensure that Internal Audit is functionally independent, within the framework of the AGCS Audit Policy approved by them, to maintain the functionality of the company's business organisation (including information and audit rights). This independence is further protected by the position of Internal Audit within the organisational structure; it is independent of the "first and second line of defence" functions.

Internal Audit is not bound by any instructions or subject to other influences when conducting audits, reporting or evaluating the results of audits.
The Audit Committee of the Board of Directors can order additional audits within the scope of its

B.6 Actuarial Function

Section B.1.3.1 provides detailed information about how the actuarial function is implemented at ART AG.

B.7 Outsourcing

ART AG applies the Global Procurement & Outsourcing Policy of the AGCS Group (AGCS P&O Policy), reflecting the significance of outsourcing. All of the requirements specified in the Allianz Group Outsourcing Policy (GOP) are included in the AGCS

Critical and Important Outsourcing Agreements of ART AG

Service provider for ART AG	Country	Description
Allianz Investment Management SE	Germany	Investment Services *
Allianz Global Investors (Schweiz) AG	Switzerland	Investment Services *
PIMCO Deutschland GmbH	Germany	Investment Services *
Allianz Global Corporate & Specialty SE	Germany	Internal Audit **

* Responsibility for function – Chief Financial Officer
** Responsibility for function – Chief Executive Officer

B.8 Other Disclosures

ART AG's governance system ensures that the company can properly identify, measure, control and report risks to which the company is, or may be, exposed. This is supported by the Internal Control System.

ART AG categorises all risks into one of eight risk categories (see Section B.3.4.4). ART AG's risk profile is described below based on these eight categories.

C.1

The risk arising from active internal non-proportional reinsurance is limited with aggregate excess of loss reinsurance. Own funds are protected from losses arising from the overall insurance business through an internal group whole account stop-loss contract with the parent company, AGCS SE.

The sensitivity of the underwriting risk is analysed through sensitivity analyses and stress tests. Here, sensitivity to higher business volumes is analysed, along with the impact of major losses and sensitivity to claims reported at a later date and losses that develop at a later date.

C.2 Market Risk

ART AG defines market risk as the risk of loss due to changes in market prices or in parameters that result in changes in the market prices of financial assets and liabilities. This also includes changes in market prices due to a deterioration in market liquidity.

One significant aspect of insurance business is the investment of the insurance premiums. ART AG employs financial instruments for this purpose. These equity investments provide hedging for existing and future receivables, as well as the claims of our customers. In addition, the equity also covers the capital requirements associated with the insurance business.

A standard formula is used to quantify the market risk, which comprises the following sub-risks:

- Interest rate risk is the possible change in value of the portfolio due to changes in interest rates;
- Share price risk is the possible change in value of the portfolio due to price changes in the equity markets;
- Property risk is the possible change in value of the portfolio due to changes in market values of properties;
- Spread risk is the possible change in value of the portfolio due to changes in the credit spread; and
- Exchange rate risk is the possible change in value of the portfolio due to fluctuations in exchange rates.

In addition, market risk concentrations are assessed using the standard formula.

The risk capital for the total undiversified market risk amounts to EUR 166.8 million at the end of the year under review (EUR 176.8 million). The main market risks for ART AG are exchange rate risk and market risk concentrations. Following diversification, the total risk capital for market risks amounted to EUR 98.4 million (EUR 107.8 million).

Interest Rate Risk

ART AG's interest rate risk amounted to EUR 18.3 million (EUR 15.1 million) at the end of the year under review, representing a year-on-year fall of EUR 3.2 million or 21%. This is largely driven by a decline in the duration of the obligations.

ART AG’s interest rate risk is controlled as part of a comprehensive asset/liability management (ALM) system. In the non-life insurance business, payment obligations are typically shorter-term than the investments hedging them. ART AG’s target duration is based on the assumption that it will continue to operate as a going concern. This results in a longer duration on the asset side than on the liability side. This duration overhang implies interest rate risk. On the asset side, the duration is controlled by limits.

The interest rate risk is driven by the euro and US dollar yield curves.

As of 31 December 2019, sensitivity analyses showed that an increase of 100 basis points in the interest rate would result in a slight decline of the solvency ratio from 149% to 146%

Share Price Risk
ART AG's share price risk is primarily due to its participating interest in the ART AG subsidiary in Brazil.

In addition, ART AG holds two smaller positions totalling EUR 1.5 million that come from an Alternative Asset Portfolio that has been in run-off since 2009.

ART AG's share price risk amounted to EUR 16.2 million, end of the year under review, a year-on-year increase of EUR 0.1 million. Compared to the previous year, the share price risk has therefore remained stable.

The shareholding in the Brazilian subsidiary accounted for 92% of ART AG's share price risk.

As of 31 December 2019, sensitivity analyses showed that a fall of 30% in the shareholding values and the remaining alternative asset portfolio, would result in a slight decline of the solvency ratio from 149% to 145%.

Property Risk
ART AG has no properties in its investment portfolio.

Spread Risk
ART AG's spread risk is driven by bonds, loans and balances at South African banks.

ART AG normally holds fixed-income securities to maturity. As a result, short-term changes in market values have no negative financial effects on us. As a long-term investor, ART AG therefore has the option to invest in securities whose spreads are above the risk-free rate, and also to realise these spreads.

At the year-end 2019, the spread risk of ART AG amounted to EUR 33.2 million (EUR 33.0 million). This means that the spread risk has remained stable compared to the previous year.

The credit quality of the ART AG portfolios is high. ART AG's spread risk is determined by a widely diversified portfolio. The highest individual spread risk amount results from the balances held with banks in South Africa (4%).

As of 31 December 2019, sensitivity analyses showed that an increase of 100 basis points in the credit rate would result in a slight decline of the solvency ratio from 149% to 146%.

Exchange Rate Risk
Aside from the euro, ART AG has assets and liabilities in various currencies, in particular in Swiss francs (CHF), US dollars (USD) and Brazilian real (BRL). If the euro appreciates in value, the assets dominated in non-euro currencies will experience a loss in value. At the same time, however, the corresponding capital requirements from a euro standpoint decrease, which reduces the impact on capitalisation.

The local own funds of ART AG's subsidiary in Brazil are invested in the local functional currency, BRL. ART AG's BRL risk exposure comes exclusively from the participating interest in the Brazilian subsidiary.

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market risk are defined in detail in Allianz’s Standard for Market Risk Management. These include:

- Analysing the market risk capital, identifying concentration risks and monitoring measures to reduce risk;
- Identifying and controlling market risks;
- Monitoring compliance with limits;
- Internal reporting to management and external reporting (including reporting to the supervisory authority) regarding market risk; and
- Optimising the portfolio in terms of profitability and market risk.

Business Prudence Principle

ART AG’s assets are invested in accordance with the business prudence principle (Article 80 VersAG):

- ART AG invests only in assets and instruments whose risks it can adequately identify, measure, monitor, manage, control and report and which it can adequately consider in determining the total Solvency Capital Requirement, and
- All assets, in particular those covering the Solvency Capital Requirement and the Minimum Capital Requirement, shall be invested in such a way as to ensure the security, quality, liquidity and profitability of the portfolio as a whole. Assets held to cover the technical provisions shall be invested in a manner appropriate to the nature and maturity of the insurance and reinsurance liabilities.

The Strategic Asset Allocation (SAA) defines the investment strategy for ART AG’s investment portfolio. It is therefore an important, supplementary instrument for managing the market risk.

The SAA is based on an analysis of assets and liabilities and a medium-term performance perspective. In structuring the SAA, great care is

C.3 Credit Risk

ART AG defines credit risk as the possible loss in value of the portfolio within a defined time horizon caused by changes in the credit quality (creditworthiness) of debtors in the portfolio, including default

- Controlling the investment portfolio;
- Complying with investment accounting (including auditing required write-downs); and
- Including credit risks when estimating the price of insurance policies.

ART AG monitors and controls credit risk exposures and concentrations in order to ensure that it is in a position to satisfy its insurance obligations at all times. ART AG is supported in this by the Allianz Credit Risk Platform (CRisP), an Allianz application for monitoring and controlling credit risks. Among other things, the CRisP application makes it possible to:

- Set limits for individual debtors or groups of debtors; and
- Monitor and control limits based on reporting, including notification of updates for data and limits on names of counterparties who either are subject to a special audit (Watch List) or with whom no business should be concluded (Black List).

The Allianz Group assigns credit limits to Allianz companies in a centralised process via CRisP. CRisP calculates the maximum limit for individual counterparties based on a large number of factors (such as the debtor's rating, total assets, the associated business segment and region) and monitors the respective limit utilisation.

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. The limit assigned by the Allianz Group or the internal limit set by ART AG – whichever is lower – shall determine the discretionary limit for investments, credit risk insurance and/or reinsurance.

The Allianz Public Rating Plus (PR+)G – wc Reia1.6 (0 -1.39
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The expected profit taken into account in connec tion with liquidity risk, which is contained in future premiums, totals EUR 22.4 million at year-end 2019. This expected profit that is factored in to future premiums comes mainly from the internal Group

C.5.3 Risk Mitigation

The risk management system for operational risks is based on the Allianz Group's three lines of defence concept. ART AG's employees are generally aware of potential operational risks and help to control and manage them by taking them into account in day-to-day business. In view of the company's positive risk and control culture, ART AG assumes that decision-makers in particular will make all identified weak spots and risks transparent so that the necessary countermeasures can be carried out in a timely manner.

Operational risks are controlled first and foremost on a cost-benefit basis, whereby the expected reduction in losses should exceed the costs involved in improving controls. However, there may be exceptions to this cost-benefit approach, for example in order to comply with laws and regulations, to protect the reputation of ART AG or to fulfil other strategic goals.

ART AG's risk management system for operational risks has been developed specifically in order to

C.6

D Valuation for Solvency Purposes

Comparison of Balance Sheet Figures

ASSETS Dec. 31, 2019 in EUR thousand	Solvency II	PGR	Difference
Intangible assets	0	0	0

D.1 Valuation of Assets

The valuation methods used in accordance with Solvency II and the PGR are compared below. International Financial Reporting Standards (IFRS) provide the framework for recording and measuring assets and liabilities. IFRS rules essentially serve as an adequate approximation for valuation under Solvency II; however, the specific Solvency II regulations in the Omnibus II Directive (Directive 2014/51/EU) and the Delegated Regulation (Directive 2015/35/EU) take precedence. For assets that are valued at amortised cost under IFRS and for which the difference between market value and amortised cost is immaterial, the amount stated

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Collateralized securities

Market values are provided by independent

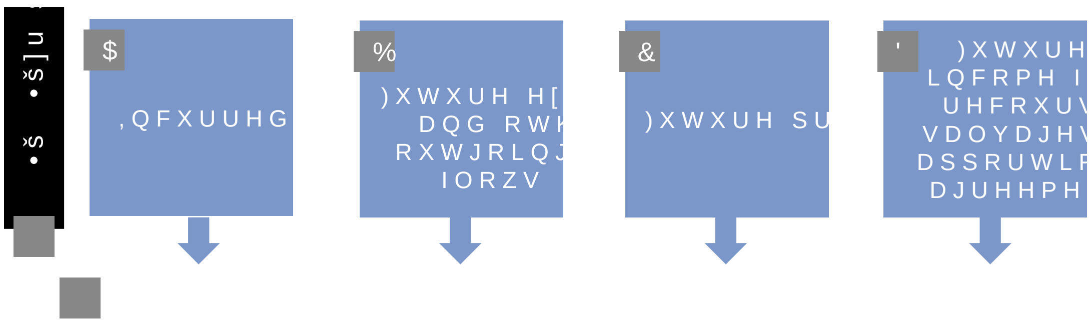
D.2 Measurement of Technical Provisions and Amounts Recoverable

Based on the above, the best estimate for each of the individual components shown in the chart is calculated separately:

- Future claims: the expected loss ratio (excluding internal and external loss adjustment expenses) is applied to the Solvency II unearned premiums;
- The following components are used to calculate future expenses:
  - Not-yet-due portions of agent, broker and lead insurer commissions for existing policies;
  - Not-yet-due premium refunds and profit commissions;
  - Internal and external loss adjustment expenses: the expected loss adjustment expense ratio is applied to Solvency II unearned premiums;
  - Administrative costs: the expected administrative expense ratio is applied to Solvency II unearned premiums;
- Future premiums: premiums under existing policies that will not become due and payable until after the balance sheet date are always included; and
- Other incoming cash flows, if applicable.

Claim provisions

The following chart depicts the calculation of the gross claim provisions:



The undiscounted best estimates for the individual components shown in the chart above are calculated separately. IFRS approaches are used to calculate undiscounted specific case provisions and IBNR provisions:

- Incurred losses: these correspond to the total of specific case provisions + IBNR provisions (in both cases excluding loss adjustment expenses);
- Future expenses and other outgoing cash flows: these correspond to the total of specific case provisions + IBNR provisions for external loss adjustment expenses + provisions for internal loss adjustment expenses;
- Future premiums: reinstatement premiums for reserved damages; and
- Future income from recourse, salvages and apportionment agreements for damages already

AGCS Switzerland and Dubai Division

Provisions are analysed in detail once a year in the third quarter based on data for the first half of the year. In the fourth quarter, an update is calculated

For catastrophic claims, no IBNR provisions had been set up for unknown claims at the end of 2019, because it can be assumed that all losses incurred are already known. However, specific IBNR provisions were set up separately for events that were already known.

The methods described above are applied at the division level. A weighted completion factor is calculated for this purpose that is based on the factors for the individual underlying reserving segments (e.g. branch offices). The projected loss expenses serve as the weights. Reserving segments for which no completion factors were chosen during the annual analysis are not included when calculating the weighted completion factor for the division. In a second step, the IBNR provisions calculated at division level for the three relevant claims categories are allocated to the underlying reserving segments. Various weights can be chosen for the allocation, e.g. premiums earned, the projected loss expense or IBNR provisions according to the Bornhuetter-Ferguson method. However, the allocation method is usually coordinated with the method selected to calculate the IBNR provision. Finally, it is still necessary to review whether the gross IBNR provision for each reserving segment and each claims category is at least as high as the gross figure after facultative reinsurance and whether this, in turn, is at least as high as the net figure. If not, the IBNR provisions for the gross amount and/or the gross figure after facultative reinsurance will be raised accordingly.

The annual reserve analysis is based on run-off triangles and the following projection methods:

- Chain ladder for claim payments;
- Chain ladder for loss expense;
- Loss ratio method;
- Bornhuetter-Ferguson method for claim payments; and
- Bornhuetter-Ferguson method for loss expense.

Internal Group Reinsurance and ART Division Business:
Specific (stochastic) actuarial models for reserving and risk-modelling are produced for the material transactions in this segment. The most suitable risk distributions and parameters are used for each transaction and the contractual arrangements, some of which are complex, are explicitly considered in the model. Smaller transactions are examined on a portfolio basis.

To calculate the IBNR provisions, the models are updated every quarter, every six months or at least every year, depending on the transaction and the availability of new data, and loss scenarios are simulated. The original assumptions from pricing and the actual claims experience are weighted using suitable credibility approaches in order to calculate the expected final loss burden as of the balance sheet date, which is then used to calculate and post the required IBNR provisions.

Discounting
Premium provisions and claim provisions are discounted for each claim year, insurance division, region and currency and for the following cash flows:

Gross:
- Future claim payments;
- Future expenses and other outgoing cash flows;
- Future premiums;
- Future incoming cash flows from recourse, salvages and apportionment agreements; and
- Other incoming cash flows.

Amounts recoverable from reinsurance contracts
The following parameters are used in the Gr:Gr:

Initially, the MVM is calculated for ART AG as a whole. It is then allocated to the insurance lines of business specified under Solvency II, whereby the respective sums of the discounted risk time series for the insurance risks are used as weights. Within the insurance lines of business, there is an allocation to claim provision and premium provision, with the respective undiscounted provisions used as weights. In the final step, both portions are further allocated to reporting segments and regions, whereby the relevant provisions under IFRS serve as weights.

Overview of Technical Provisions

Because the internal calculations are carried out at the level of the reserving segments, which are different from the Solvency II segments, the latter are based on a suitable allocation. The table below shows technical provisions for non-life insurance under Solvency II as of 31 December 2019 in accordance with segmenting pursuant to Solvency II. Technical provisions increased year on year from EUR 620 million to EUR 683 million, for the following reasons:

- Increase of the premium provisions from EUR 35 million as at the year-end 2018 to EUR 68 million as at the year-end 2019. This increase is primarily due to lower future policyholder profnrn-shariny

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Risk of Change in Technical Provisions

ART AG, working jointly with AGCS SE, carries out an annual review of the risk of change to which the technical claim provision is exposed. The following approaches were applied in the various segments in 2019:

AGCS Switzerland and Dubai Division
In order to ensure consistency with the reserve analysis, third-quarter data are used.

The run-off triangles used correspond to the triangles that were also used in the reserve analysis. The run-off patterns selected also use the same basis – the gross figure or the gross figure after facultative reinsurance – as in the reserve analysis.

Two types of methods are generally used to determine the reserve risk: the bootstrapping technique (based on incurred Mack, paid Mack and paid over-dispersed Poisson) and a stochastic Bornhuetter-Ferguson method. The bootstrap procedures are used for short-tail divisions and the Bornhuetter-Ferguson method is used for long-tail divisions. Both the suitability of the model and consistency with the reserve analysis play a role when selecting the method for the individual

Discussion of Material Differences between Solvency II and PGR in Terms of the Valuation of Technical Provisions and Amounts Recoverable from Reinsurance Contracts

Both Solvency II and PGR are based on the Best-Estimate Principle. Nevertheless, there are some differences, which are described below.

Premium Provisions (undiscounted)

Under Solvency II, premium provisions are set up for expected future claims and expenses under existing insurance policies. The provisions are calculated by multiplying the expected loss ratio, the expected loss adjustment expense ratio and the expected administrative expense ratio from the internal actuarial model by the PGR unearned premiums. In addition, the premium income under contracts in existence as of the balance sheet date is deducted from the premium provision and the related, closing expenses are added to the premium provision. Commission due before or as of the balance sheet date is allocated to the premium provisions under Solvency II. Under Solvency II, the entire profit margin from existing insurance policies is reported in own funds.

Claim Provisions (undiscounted)

There are essentially no differences between specific case provisions and IBNR provisions under Solvency II and PGR. For relevant segments, IBNR provisions are calculated using year-under-review data in order to separate a claim year’s newly reported claims from the development of already known claims.

Discounting

While no discounting is stipulated for the non-life insurance business under PGR, the Present-Value Principle applies under Solvency II. That means that future cash flows are discounted using a discount curve specified by the Allianz Group.

Counterparty default risk (credit risk)

Under Solvency II, the adjustment for counterparty default risk is calculated using the simplified

D.3 Valuation of Other Liabilities

Below are separate descriptions of the bases, methods and main assumptions used to value each major group of other liabilities for solvency purposes, as well as comparisons with PGR principles.

Pension commitments
The pension provision contains net obligations arising from company pensions, whereby all existing pension commitments are classed as so-called defined benefit plans within the meaning of IAS 19. Pension commitments are offset against cover funds. If cover funds exceed pension commitments, there will be no pension provision; instead, there will be an excess of pension benefits.

Assumptions must be made about future developments in interest rates and wages in order to measure pension commitments and cover funds. These are reviewed each year and adjusted if necessary. The Solvency Overview in principle contains the amounts in accordance with IFRS.

PGR: There is no pension provision, as company pensions have been outsourced to an external institution.

Provisions other than technical provisions
Under IAS 37, they are measured at the amount that an entity would rationally pay to settle the obligation at the balance sheet date (best estimate). For provisions with a maturity of greater than one year, a present-value approach is advisable if discounting will significantly affect the amount stated. Under Solvency II, these provisions are discounted using a market interest rate, pursuant to IAS 37.

PGR: Non-technical provisions are always stated at the expected settlement amount. The expected settlement amount is derived from the best estimate.

Deposits by reinsurers
These are recorded at face value less repayments, unless the market value is different.

PGR: These are recorded at the repayment amount less repayments.

Deferred tax liabilities
Deferred taxes are calculated for temporary differences in the values of individual assets and liabilities on the Solvency II balance sheet and the balance sheet prepared for tax purposes. Deferred tax liabilities are liabilities that will lead to income tax expenses in future periods.

PGR: No deferred tax liabilities are included.

Financial liabilities other than liabilities to banks
These are measured at fair value pursuant to IAS 39 and Article 14 of Delegated Regulation 2015/35, without taking into account changes in own default risk. Receivables and liabilities are netted where permitted by contract.

PGR: These are recorded at the repayment amount.

Liabilities to insurance companies and intermediaries
These are measured at fair value pursuant to IAS 39 and Article 14 of Delegated Regulation 2015/35, without taking into account changes in own default risk. Receivables and liabilities are netted where permitted by contract.

PGR: These are recorded at the repayment amount.

Liabilities to reinsurers
These are measured at fair value pursuant to IAS 39 and Article 14 of Delegated Regulation 2015/35, without taking into account changes in own default risk. Receivables and liabilities are netted where permitted by contract.

Not-yet-due liabilities (e.g. for reinstatement premiums) are shown under technical provisions.

PGR: These are recorded at the repayment amount. Receivables and liabilities are netted where permitted by contract.

This item also includes provisions for reinstatement premiums for outstanding reinsurance reserves.

Payables (trade, not insurance)
These are measured at fair value pursuant to IAS 39 and Article 14 of Delegated Regulation 2015/35, without taking into account changes in own default risk. Receivables and liabilities are netted where permitted by contract.

PGR: These are recorded at the repayment amount.

Other liabilities not shown elsewhere
These are measured at fair value pursuant to IAS 39 and Article 14 of Delegated Regulation 2015/35, without taking into account changes in own default risk. Receivables and liabilities are netted where permitted by contract.

PGR: These are recorded at the repayment amount.

D.4 Alternative Valuation Methods

As there are no listed market prices for ART AG’s participating interests, these are valued using the adjusted equity method.

D.5 Other Disclosures

All relevant disclosures regarding ART AG’s valuation for solvency purposes are contained in the preceding notes.

E.1.1 Targets, Guidelines and Processes

ART AG's capital base is a central resource for sustainable business activity and corporate management. Capital management encompasses all ART AG activities aimed at ensuring that the company and its branches have an adequate capital base in terms of legal requirements, the capital requirements set by rating agencies, market specifications and the risk-tolerance level specified in the risk strategy.

Capital management principles and processes are defined in AGCS's Global Capital Management Policy, which is implemented by ART AG. In addition to specifications for controlling and planning the capital base and dividends, the policy also includes definitions of relevant duties and processes. It is closely linked with the company's risk strategy, which defines risk-bearing capacity and risk tolerance in the form of a target capitalisation and a minimum capitalization.

ART AG's capital base is reviewed at least once a quarter for compliance with all relevant requirements. The review includes current consistency with the target and/or minimum capitalisation and consideration of developments and measures that might affect future capitalisation, as well as an assessment of their impact. All results, valuations and capital control measures are reported to the Executive Board on a regular basis in order to ensure prompt countermeasures can be taken in the event of non-compliance with the target capital requirement.

The effects of projected business performance on compliance with the target capital requirement are also examined as part of the three-year business plan. At the same time, the target and minimum capital requirements themselves are reviewed. The results of capital and dividend planning are approved by ART AG's Chief Financial Officer and reported to the Executive Board.

E.1.2 Reconciliation of the Excess of Assets over Liabilities in the PGR and Market Value Balance Sheets

The excess of assets over liabilities in the Market Value Balance Sheet totals EUR 459.1 million, while the excess of assets over liabilities in the PGR balance sheet (shareholders' equity) amounts to EUR 476.6 million. The differences between the excess of assets over liabilities under Solvency II (basic own funds) compared with PGR shareholders' equity are due to the differing recognition and valuation requirements under the two approaches. Detailed explanations of the main differences in valuations of individual balance sheet items can be found in Chapter D of this report. The following overview shows the main items for which the valuation and recognition requirements differ under PGR accounting and Solvency II.D si3.3 f

E.1.3 Amount and Composition of Own Funds

EUR thousand	Dec. 31, 2019	Dec. 31, 2018	Change
Excess of assets over liabilities	459,063	502,855	-43,792
Less expected dividend payments	-3,212	-59,573	56,361
Total basic own funds	455,851	443,282	12,569
Plus ancillary own funds	131,529	131,529	0
Total own funds	587,380	574,811	+12,569

Total own funds amount to EUR 587.4 million and are composed of EUR 455.9 million of basic own funds and EUR 131.5 million of ancillary own funds. Basic own funds are equal to the excess of assets over liabilities from the Market Value Balance Sheet after deducting the expected dividend payment of EUR 3.2 million. They consist of the company's paid-in share capital, the statutory reserve, the reconciling entry and net deferred tax assets, which break down as shown in the table below. The company has no subordinated liabilities.

EUR thousand	Dec. 31, 2019	Dec. 31, 2018	Change
Paid-in share capital	131,529	131,529	0
Statutory reserve	131,529	131,529	0
Reconciling entry	184,404	176,977	7,427
Net deferred tax assets	8,388	3,247	5,141
Total basic own funds	455,851	443,282	+12,569

Ancillary own funds come to EUR 131.5 million and consist exclusively of the unpaid 50% portion of subscribed share capital. The debtors of the capital that has not yet been called in are AGCS Holding International B.V., which accounts for 60%, and Allianz Global Corporate & Specialty SE, which accounts for 40% (see also the overview of the corporate legal structure in Chapter A.1). AGCS Holding International B.V. acquired the 60% stake in 2016 from Allianz Global Corporate & Specialty SE and issued a declaration of liability in connection with the acquisition for the unpaid equity attributable to the acquired stake. This obligation is also backed by a directly enforceable guarantee from Allianz Global Corporate & S(o)-8.5 (2)-6.9 (e)-5 (&)wc(o.7 (r)-)-12.E& Slblr All1ital baopd -12.4 (e)af3.4 (b)-12.4 (c)-17.7 (t)af3.4 8ced ireie aebite 0.7 (a)7 btl537j[(b)-9 (a)-5(oni) d- .94(po 4.9 (

Basic own funds consist of EUR 447.5 million of Tier 1 own funds and EUR 8.4 million of Tier 3 own funds. These funds are uncommitted and can be used without restrictions to cover losses.

The paid-in share capital, the statutory reserve and the reconciling entry are classified as Tier 1, unrestricted own funds.

The amount equal to the value of net deferred tax assets is classified as Tier 3 own funds.

The full amount of ancillary own funds, which comes to EUR 131.5 million, is classified as Tier 2. Classification, amount and composition are unchanged compared with the prior year.

The table below shows the classification of basic own funds by tier:

E.1.1.5 Eligible Own Funds

Eligible own funds are those own funds that are available to fulfil the Solvency Capital Requirement (SCR) and/or the Minimum Capital Requirement (MCR) if quantitative maximum limits for tiers are applied to the available own funds.

After these maximum limits for tiers are applied, the total amount of own funds of EUR 587.4 million is available to meet the Solvency Capital Requirement (SCR) as at 31 December 2019. This results in a solvency ratio of 148.8% if we compare eligible own funds with the Solvency Capital Requirement as at 31 December 2019.

The own funds available to meet the Minimum Capital Requirement consist of Tier 1 basic own funds of EUR 447.5 million.

E.1.6 Changes in Own Funds

Total own funds increased by EUR 12.6 million year on year. This change related solely to basic own funds, while ancillary own funds remained unchanged. Tier 1 unrestricted basic own funds increased by EUR 7.4 million, while Tier 3 basic own funds rose by EUR 5.1 million.

Of basic own funds, the paid-in share capital and the statutory reserve remained unchanged year on year. The reconciling entry rose by EUR 7.4 million, while net deferred tax assets increased by EUR 5.1 million.

EUR thousand		2018	2017	Change
Tier 1	Paid-in share capital	131,529	131,529	0

E.2 Solvency Capital Requirement and Minimum Capital Requirement

ART AG uses the standard formula to calculate the Solvency Capital Requirement. To determine exposure to counterparty default risk, the amounts recoverable from reinsurance contracts were calculated using the simplified calculation stipulated in Article 107 of Delegated Regulation 2015/35. The company-specific parameters referred to in Article 59 VersAG were not used.

The table summarizes the Solvency Capital Requirements at year-end 2019.

The diversified Solvency Capital Requirement after ta9.

E.3 Use of the Duration-Based Equity Risk Submodule to Calculate the Solvency Capital Requirement

No duration-based equity risk submodule pursuant to Article 18 VersAV is used to calculate the Solvency Capital Requirement.

E.4 Differences between the Standard Formula and any Internal Models Used

ART AG does not use an internal model.

E.5 Non-compliance with the Minimum Capital Requirement and Non-compliance with the Solvency Capital Requirement

ART AG was in compliance with the Minimum
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Annex I

Selected Reporting Templates (QRT)

In accordance with Article 4 of Implementing Regulation (EU) 2015/2452 of 2 December 2015, insurance and reinsurance companies must publish the following reporting templates as a minimum, as part of their Solvency and Financial Condition Report:

a) Reporting template S.02.01.b

b) Reporting template S.05.01.b

c) Reporting template S.05.02.b

d) Reporting template S.12.01.b no disclosures

e) Reporting template S.17.01.b

f) Reporting template S.19.01.b

g) Reporting template S.22.01.b

h) Reporting template S.23.01.b

i) Reporting template S.25.01.b

j) Reporting template S.25.02.b no disclosures

k) Reporting template S.25.03.b no disclosures

l) Reporting template S.28.01.b

m) Reporting template S.28.02.b no disclosures

You can find these reporting templates (QRT) in this order on the following pages. Tables in which it is not possible to provide any information are not attached.

Appendix I:

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Reporting unit: è- ÿ
Qualifying date: ÿ › ›
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Balance sheet

Assets		Solvency II value	Statutory accounts value
		C0010	C0020
Goodwill	R0010		
Deferred acquisition costs	R0020		
Intangible assets	R0030	0.00	
Deferred tax assets	R0040	8,388,220.00	
Pension benefit surplus	R0050		
Property, plant & equipment held for own use	R0060	5,720,520.00	1,945,593.23
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	1,085,666,350.00	1,022,139,423.20
Property (other than for own use)	R0080		
Holdings in related undertakings, including participations	R0090	69,916,780.00	67,102,314.99
Equities	R0100	1,495,760.00	1,495,759.31
Equities - listed	R0110		
Equities - unlisted	R0120	1,495,760.00	1,495,759.31
Bonds	R0130	971,658,310.00	917,515,149.34
Government Bonds	R0140	290,242,330.00	284,723,279.92
Corporate Bonds	R0150	681,415,980.00	632,791,869.42
Structured notes	R0160		
Collateralised securities	R0170		
Collective Investments Undertakings	R0180		
Derivatives	R0190	11,536,440.00	10,386,240.06
Deposits other than cash equivalents	R0200	31,059,060.00	25,639,959.50
Other investments	R0210		
Assets held for index-linked and unit-linked contracts	R0220		
Loans and mortgages	R0230	28,491,030.00	67,867,426.21
Loans on policies	R0240		
Loans and mortgages to individuals	R0250		
Other loans and mortgages	R0260	28,491,030.00	67,867,426.21
Reinsurance recoverables from:	R0270	669,176,870.00	934,363,488.75
Non-life and health similar to non-life	R0280	669,176,870.00	934,363,488.75
Non-life excluding health	R0290	668,066,080.00	934,363,488.75
Health similar to non-life	R0300	1,110,790.00	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310		
Health similar to life	R0320		
Life excluding health and index-linked and unit-linked	R0330		
Life index-linked and unit-linked	R0340		
Deposits to cedants	R0350	52,362,350.00	52,362,351.18
Insurance and intermediaries receivables	R0360	227,489,030.00	397,939,203.97
Reinsurance receivables	R0370	85,526,540.00	85,526,544.08
Receivables (trade, not insurance)	R0380	52,866,540.00	58,398,348.42
Own shares (held directly)	R0390		

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	1,819,669,020.00	2,206,941,625.38
	459,062,720.00	476,645,026.50

Appendix I:

Reporting unit:
Qualifying date:
Export date:

Premiums, claims and expenses by country

		Home Country	Total Top 5 and home country	Top 5 countries (by amount of gross premiums written) - non-life obligations				
	R0010							
		C0080	C0140	C0090	C0090	C0090	C0090	C0090
Premiums written								
Gross - Direct Business	R0110	11,244,077.51	93,768,807.51	306,633.27	2,792,248.73		58,596.82	0.00
Gross - Proportional reinsurance accepted	R0120	114,821.79	872,292,970.48	749,521,565.71	57,557,535.93	20,160,401.05	24,004,578.80	20,934,067.20
Gross - Non-proportional reinsurance accepted	R0130	0.00	167,267,513.66	15,502,935.30	148,824,482.65	69,960.18	22,476.73	2,847,658.80
Reinsurers' share	R0140	11,419,419.09	946,639,211.91	743,609,832.49	76,519,991.82	80,396,045.10	23,006,393.02	11,687,530.39
Net	R0200	-60,519.79	186,690,079.74	21,721,301.79	132,654,275.49	19,201,567.31	1,079,259.33	12,094,195.61
Premiums earned								
Gross - Direct Business	R0210	14,739,347.66	99,071,332.08	1,493,794.98	2,831,545.43	79,947,695.56	58,948.45	0.00
Gross - Proportional reinsurance accepted	R0220	114,821.79	847,032,832.25	714,193,791.83	66,642,884.06		25,274,427.59	19,459,154.78
Gross - Non-proportional reinsurance accepted	R0230	0.00	162,349,179.03	19,923,698.59	139,822,760.73	73,240.39	22,476.73	2,507,002.59
Reinsurers' share	R0240	13,412,794.52	926,631,100.66	708,766,416.57	88,406,616.85	80,361,998.86	23,954,595.84	11,728,678.02
Net	R0300	1,441,374.93	181,822,242.70	26,844,868.83	120,890,573.37	21,006,689.29	1,401,256.93	10,237,479.35
Claims incurred								
Gross - Direct Business	R0310	12,033,284.84	66,132,747.26	-103,242.75	-45,148.41	54,247,853.58	0.00	0.00
Gross - Proportional reinsurance accepted	R0320	25,441,643.26	1,001,090,839.36	973,115,822.77	16,517,367.92	-24,461,233.03	0.00	10,477,238.44
Gross - Non-proportional reinsurance accepted	R0330	74,812,728.18	-135,939,801.99	-357,876,587.05	79,109,677.87	68,214,420.51	0.00	-200,041.50
Reinsurers' share	R0340	39,414,504.95	706,469,580.21	620,249,804.13	23,887,052.41	21,293,845.70	70,874.52	1,553,498.50
Net	R0400	72,873,151.33	224,814,204.42	-5,113,811.16	71,694,844.97	76,707,195.36	-70,874.52	8,723,698.44
Changes in other technical provisions								
Gross - Direct Business	R0410	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross - Proportional reinsurance accepted	R0420	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross - Non-proportional reinsurance accepted	R0430	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reinsurers' share	R0440	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net	R0500	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Expenses incurred	R0550	693,459.97	21,853,220.28	-1,294,396.55	11,420,880.41	6,441,790.28	890,104.96	3,701,381.20
Other expenses	R1200							
Total expenses	R1300		21,853,220.28					

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0.00	0.00		0.00	0.00	0.00	10.00	0.00	0.00			-10.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
5,178,610.00	518,640.00		4,831,560.00	990,400.00	69,476,540.00	567,287,800.00	335,200,580.00	17,708,240.00			31,111,910.00	7,303,620.00	165,423,710.00	28,923,830.00	118,530,860.00	1,352,486,300.00
	482,160.00		4,373,150.00	895,940.00	65,835,130.00	560,052,800.00	324,970,370.00	16,881,750.00			28,550,270.00	6,603,270.00	150,752,930.00	26,740,200.00	96,959,270.00	1,287,883,920.00
5,187,850.00	520,230.00		4,852,590.00	995,340.00	69,912,680.00	569,753,390.00	336,575,850.00	17,801,160.00			31,390,550.00	7,340,350.00	165,894,610.00	28,965,100.00	118,313,830.00	1,357,503,530.00

Appendix I:

Reporting unit:

Qualifying date:

Export date:

Impact of long term guarantees measures and transitional

		Amount with Long Term Guarantee measures and transitionals	Impact of the Long Term Guarantee measures and transitionals (Step-by-step approach)								
			Without transitional on technical provisions	Impact of transitional on technical provisions	Without transitional on interest rate	Impact of transitional on interest rate	Without volatility adjustment and without other transitional measures	Impact of volatility adjustment set to zero	Without matching adjustment and without all the others	Impact of matching adjustment set to zero	Impact of all LTG measures and transitionals
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100
Technical provisions	R0010					0.00	1,357,503,600.00				5,017,340.00
Basic own funds	R0020	455,850,890.00	455,850,890.00		455,850,890.00					0.00	
Excess of assets over liabilities	R0030	459,062,720.00						-2,007,169.70	457,055,550.30		
Restricted own funds due to ring-fencing and matching portfolio	R0040		0.00	0.00	0.00						
Eligible own funds to meet Solvency Capital Requirement	R0050	587,380,160.00	587,380,160.00						585,372,990.29	0.00	
Tier I	R0060							-2,333,924.78	445,128,745.22		
Tier II	R0070			0.00	131,529,270.00						0.00
Tier III	R0080	8,388,220.00	8,388,220.00	0.00						0.00	
Solvency Capital Requirement	R0090				394,863,177.74	0.00	395,258,339.83				395,162.09
Eligible own funds to meet Minimum Capital Requirement	R0100	447,462,670.00					445,128,745.22		445,128,745.22	0.00	-2,333,924.78
Minimum Capital Requirement	R0110				128,848,523.10	0.00		309,530.88			

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		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	459,062,720.00
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	3,211,830.00
Other basic own fund items	R0730	271,446,760.00
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	184,404,130.00
Expected profits		
Expected profits included in future premiums (EPIFw ET BT l S 801.75 501.75 m 801.75 491.7 l 6.05 T Tf 2 ET BT l S 801.75 501.T 1 0 0 1 736.91 506.8Expected p1.71 40.5 42x (R0760)Tj 0 Tr 15 Tfluded i.5 42x 801.75 481.65 m 8 4QEPIFw ETt 641.66 496.25 Tm75 501.75 m 801.75 491.7 l 6.05 T Tf 2 ET BT l S 801.75NtT8-l01.T 1 0 0 1 736.91 506.8Expected		
		76,067,220.00
		76,067,220.00

Appendix I:

Reporting unit:
Qualifying date:
Export date:

Solvency Capital Requirement - for undertakings on Standard Formula

Article 112? (Y/N)	Z0010	

Basic Solvency Capital Requirement

		Net solvency capital requirement	Gross solvency capital requirement	Allocation from adjustments due to RFF and Matching adjustments portfolios
		C0030	C0040	C0050
Market risk	R0010	98,373,550.36	98,373,550.36	
Counterparty default risk	R0020	103,571,721.45	103,571,721.45	
Life underwriting risk	R0030	0.00	0.00	
Health underwriting risk	R0040	8,249,579.04	8,249,579.04	
Non-life underwriting risk	R0050	249,525,758.97	249,525,758.97	
Diversification	R0060	-103,658,624.54	-103,658,624.54	
Intangible asset risk	R0070	0.00	0.00	
Basic Solvency Capital Requirement	R0100	356,061,985.29	356,061,985.29	

Appendix I:

Reporting unit:
Qualifying date:
Export date:

Article 112? (Y/N)	Z0010	

Calculation of Solvency Capital Requirement		C0100
Adjustment due to RFF/MAP nSCR aggregation	R0120	0.00
Operational risk	R0130	38,801,192.45
Loss-absorbing capacity of technical provisions	R0140	0.00
Loss-absorbing capacity of deferred taxes	R0150	0.00
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0.00
Solvency Capital Requirement excluding capital add-on	R0200	394,863,177.74
Capital add-on already set	R0210	0.00
Solvency capital requirement	R0220	394,863,177.74
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirement for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	
Method used to calculate the adjustment due to RFF/MAP nSCR aggregation	R0450	
Net future discretionary benefits	R0460	0.00

Appendix I:

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Reporting unit: è - ÿ

Qualifying date: ÿ › ›

Export date: ÿ ÿ › ÿ › ÿ y k k

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCRNL Result	R0010	128,848,523.10

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	3,812,740.56	802,878.52
Income protection insurance and proportional reinsurance	R0030	358,283.76	329,698.13
Workers' compensation insurance and proportional reinsurance	R0040	0.00	0.00
Motor vehicle liability insurance and proportional reinsurance	R0050	4,373,144.99	0.00
Other motor insurance and proportional reinsurance	R0060	895,941.79	0.00
Marine, aviation and transport insurance and proportional reinsurance	R0070	34,546,557.45	14,901,536.18
Fire and other damage to property insurance and proportional reinsurance	R0080	70,031,415.80	28,140,157.59
General liability insurance and proportional reinsurance	R0090	98,492,797.52	36,140,923.77
Credit and suretyship insurance and proportional reinsurance	R0100	7,803,793.17	4,967,982.38
Legal expenses insurance and proportional reinsurance	R0110	0.00	0.00
Assistance and proportional reinsurance	R0120	0.00	0.00
Miscellaneous financial loss insurance and proportional reinsurance	R0130	24,553,252.39	7,710,091.96
Non-proportional health reinsurance	R0140	6,603,931.09	3,497,252.99
Non-proportional casualty reinsurance	R0150	141,039,380.78	48,270,946.37
Non-proportional marine, aviation and transport reinsurance	R0160	21,134,402.66	28,756,878.60
Non-proportional property reinsurance	R0170	207,202,162.37	54,808,729.11

Appendix I:

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Reporting unit:	è - ÿ
Qualifying date:	ÿ › ›
Export date:	ÿ ÿ › ÿ › ÿ y k k

Overall MCR calculation		C0070
Linear MCR	R0300	128,848,523.10
SCR	R0310	394,863,177.74
MCR cap	R0320	177,688,429.98
MCR floor	R0330	98,715,794.43
Combined MCR	R0340	128,848,523.10
Absolute floor of the MCR	R0350	3,700,000.00
Minimum Capital Requirement	R0400	128,848,523.10

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