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Independent Auditor's Report

The Board of Directors
Allianz Risk Transfer (Bermuda) Limited

We have audited the accompanying condensed financial statements of Allianz Risk Transfer (Bermuda) Limited which comprise the condensed balance sheet as of December 31, 2016, and the related condensed statement of income and condensed statement of capital and surplus for the year December 31, 2016 then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Condensed Financial Statements

Management is responsible for the preparation and fair presentation of the condensed financial statements based on the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account



Basis for Adverse Opinion on U.S. generally accepted accounting principles

CONDENSED BALANCE SHEET

Allianz Risk Transfer (Bermuda) Limited
 As at December 31, 2016
 United States Dollars

LINE No.		2016	2015
1.	CASH AND CASH EQUIVALENTS	70,006,897	78,809,086
2.	QUOTED INVESTMENTS:		
(a)	Bonds and Debentures		
	i. Held to maturity	-	-
	ii. Other	-	-
(b)	Total Bonds and Debentures	-	-
(c)	Equities		
	i. Common stocks	-	-
	ii. Preferred stocks	-	-
	iii. Mutual funds	-	-
(d)	Total equities	-	-
(e)	Other quoted investments	-	-
(f)	Total quoted investments	-	-
3.	UNQUOTED INVESTMENTS:		
(a)	Bonds and Debentures		
	i. Held to maturity		
	ii. Other	15,319,187	23,194,756
(b)	Total Bonds and Debentures	15,319,187	23,194,756
(c)	Equities		
	i. Common stocks	2,924,953	4,557,691
	ii. Preferred stocks		
	iii. Mutual funds	10,116,164	5,153,915
(d)	Total equities	13,041,117	9,711,606
(e)	Other unquoted investments		
(f)	Total unquoted investments	28,360,304	32,906,362
4.	INVESTMENTS IN AND ADVANCES TO AFFILIATES		
(a)	Unregulated entities that conduct ancillary services	-	-
(b)	Unregulated non-financial operating entities	-	-
(c)	Unregulated financial operating entities	-	-
(d)	Regulated non-insurance financial operating entities	-	-
(e)	Regulated insurance financial operating entities	-	-
(f)	Total investments in affiliates	-	-
(g)	Advances to affiliates		

CONDENSED BALANCE SHEET

CONDENSED BALANCE SHEET

Allianz Risk Transfer (Bermuda) Limited

As at

December 31, 2016

United States Dollars

LINE No.		2016	2015
38.	TOTAL OTHER LIABILITIES	79,041,427	117,196,526
39.	TOTAL INSURANCE RESERVES AND OTHER LIABILITIES	117,613,945	143,905,182
	CAPITAL AND SURPLUS		
40.	TOTAL CAPITAL AND SURPLUS	64,359,309	57,791,698

CONDENSED STATEMENT OF INCOME

Allianz Risk Transfer (Bermuda) Limited
 As at December 31, 2016
 United States Dollars

LINE No.		2016	2015
	UNDERNOTED ITEMS		
30.	COMBINED OPERATING EXPENSE		
	(a) General and administration	2,968,524	2,465,645
	(b) Personnel cost	4,813,046	4,933,522
	(c) Other	1,754,438	1,123,356
	(d) Total combined operating expenses	9,536,008	8,522,523
31.	COMBINED INVESTMENT INCOME - NET	132,110	(893,245)
32.	COMBINED OTHER INCOME (DEDUCTIONS)	(220,958)	(1,517,957)
33.	COMBINED INCOME BEFORE TAXES	1,565,295	5,882,536
34.	COMBINED INCOME TAXES (IF APPLICABLE):		
	(a) Current	2,331,473	2,081,085
	(b) Deferred	(2,118,497)	(2,463,760)
	(c) Total	212,976	(382,675)
35.	COMBINED INCOME BEFORE REALIZED GAINS (LOSSES)	1,352,319	6,265,211
36.	COMBINED REALIZED GAINS (LOSSES)	(237,484)	(827,766)
37.	COMBINED INTEREST CHARGES		
38.	NET INCOME	1,114,835	5,437,445

CONDENSED STATEMENT OF CAPITAL AND SURPLUS

Allianz Risk Transfer (Bermuda) Limited
As at

LINE No.		2016	2015
1.	CAPITAL:		
(a)	Capital Stock		
	(i) Common Shares	120,000	120,000
	authorized 120,000 shares of par		
	value \$ 1,000 each issued and		
	fully paid 120,000 shares		
	(ii)		
	(A) Preferred shares:		
	authorized _____ shares of par		
	value _____ each issued and		
	fully paid _____ shares		
	aggregate liquidation value for —		
	2016 _____		
	2015 _____		
	(B) Preferred shares issued by a subsidiary:		
	authorized _____ shares of par		
	value _____ each issued and		
	fully paid _____ shares		
	aggregate liquidation value for —		
	2016 _____		
	2015 _____		
	(iii) Treasury Shares		
	repurchased _____ shares of par		
	value _____ each issued		
(b)	Contributed surplus	49,880,000	49,880,000
(c)	Any other fixed capital		
	(i) Hybrid capital instruments	-	-
	(ii) Guarantees and others	-	-
	(iii) Total any other fixed capital	-	-
(d)	Total Capital	50,000,000	50,000,000
2.	SURPLUS:		
(a)	Surplus - Beginning of Year	7,791,698	6,070,037
(b)	Add: Income for the year	1,114,835	5,437,445
(c)	Less: Dividends paid and payable		
(d)			

Part I - General Notes to the Financial Statements

1. Business and organization

Allianz Risk Transfer (Bermuda) Limited ("the Company") is a wholly owned subsidiary of Allianz Risk Transfer, Inc. ("ART NY") and was incorporated in Bermuda on September 20, 1999. The Company is licensed under the Insurance Act 1978 of Bermuda and related regulations to write all classes of property and casualty business.

ART NY was incorporated in the State of New York on April 7, 1998. ART NY is a wholly owned subsidiary of Allianz Risk Transfer AG ("ART AG"), an insurance company based in Schaan, Liechtenstein. ART AG is a wholly owned subsidiary of Allianz Global Corporate and Specialty SE, a stock company based in Germany. ART NY is a risk advisory and licensed reinsurance intermediary company, and also acts as a service company to its affiliates.

2. Business underwritten

The Company specializes in providing customized insurance, reinsurance and additional risk management and financial solutions to corporate clients worldwide. The reinsurance coverage provided relates primarily to the Company's participation in various excess of loss catastrophe reinsurance contracts. Catastrophe reinsurance provides cover for risks arising from unpredictable events such as hurricanes, windstorms, hailstorms, earthquakes, fires, industrial explosions, freezes, floods and other man-made or natural disasters. The Company manages its exposures of catastrophic events by purchasing reinsurance cover for these risks and by obtaining

ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to Condensed General Purpose Financial Statements

December 31, 2016

Part I - General Notes to the Financial Statements (continued)

4. Significant accounting policies

Part I - General Notes to the Financial Statements (continued)

4. Significant accounting policies (continued)

(d) Outstanding losses and loss expenses (continued)

Given the inherent nature of major catastrophic events, considerable uncertainty underlies the assumptions and associated estimates of outstanding losses and loss expenses. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are reflected in income in the period in which they are determined. Due to the inherent uncertainty in estimating the liability for losses and loss expenses arising from catastrophic events, there can be no assurance that the ultimate liability will not be settled for significantly greater or lesser amounts than that recorded.

Based on the current assumptions used management believes, based on the recommendations of the qualified actuary, that the provision for outstanding losses and loss expenses is adequate to cover the ultimate cost of losses incurred to the balance sheet date but the provision is necessarily an estimate and may ultimately be settled for a significantly greater or lesser amount. It is at least reasonably possible that management will revise this estimate significantly in the near term. Any subsequent differences arising are recorded in the period in which they are determined.

Outstanding losses and loss expenses are recorded net of amounts recoverable from reinsurers, which are estimated in a manner consistent with the underlying liabilities.

(e) Fair Value Measurements

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price).

Basis of Fair Value Measurement

Accounting Standards Codification ("ASC") 820 establishes a fair value hierarchy that prioritizes the inputs to the respective valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Labhsifi(f)7(i)(fe)-3(h)13(-3(a)11(g)11(

ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to Condensed General Purpose Financial Statements

December 31, 2016

Part I- General Notes to the Financial Statements

Part I- General Notes to the Financial Statements (continued)

4. Significant accounting policies (continued)

(f) Investments (continued)

Realized gains and losses on sales of investments are determined on the basis of specific identification and are included in the statements of income and comprehensive income. Investment income, net of investment expenses, is accrued to the balance sheet date and includes amortization of premiums or discount on investments purchased at amounts different from their par value.

Investments with unrealized losses considered to be other than temporary are written down to fair value, creating a new cost basis for the investment. The impairment is recorded within realized losses on the statements of income and comprehensive income.

(g) Derivative financial instruments

ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to Condensed General Purpose Financial Statements

December 31, 2016

Part I - General Notes to the Financial Statements (continued)

8. Commitments and contingencies

In 2016, the Company renewed its lease for its Hamilton, Bermuda premises for a five year term that expires on September 15, 2021. The Company recorded total rent expenses of \$0.6 million during the year (2015 -

ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to Condensed General Purpose Financial Statements

December 31, 2016

Part I- General Notes to the Financial Statements (continued)

14. The contractual maturity profile of the Company's fixed maturity and ~~short~~ investments is as follows:

Due within one year	\$	1,750,000
Due after one year through five years		6,123,188
Due after five years through ten years		2,109,500
Due after ten years		<u>5,336,499</u>
Total	\$	<u>15,319,187</u>

15. In May 2000, ART AG provided a parental guarantee of the Company's obligations up to a maximum guaranteed amount of approximately ~~765~~ 765,975,000. In 2016, ART AG charged a fee of CHF 2,215,528 (2015- CHF 2,419,730) for the guarantee which is recorded ~~iecor2t13(u)2(a(d)2()-3(m)~~
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Notes to Condensed General Purpose Financial Statements

December 31, 2016

Part III - Notes to the Balance Sheet (~~contd~~)

3. (continued)

Unquoted Mutual Funds comprises an investment ~~total~~ return fund with a carrying value of \$10.1 million. In 2015, the balance of \$5.2 million represented an investment in ~~at least~~ fixed

Part III - Notes to the Balance Sheet (continued)

17. For certain catastrophic events there is considerable uncertainty underlying the assumptions and associated estimates of outstanding losses and loss adjustment expenses and these estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments could require a material change in the amount estimated. The uncertainty surrounding reserves for property catastrophe exposures arises from problems such as policy coverage issues, multiple events affecting one geographic area and the impact on claims adjusting by ceding companies. These issues can cause significant delays to the timing of notification of changes to loss estimates reported by ceding companies.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. F >e1(t)-3(h5

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Notes to Condensed General Purpose Financial Statements

December 31, 2016

