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Independent Auditor's Report

To 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, 2017, and the related condensed statement of income and condensed statement of capital and surplus for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation and fair presentation of the condensed financial statements

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CONDENSED STATEMENT OF INCOME

Allianz Risk Transfer (Bermuda) Limited
 As at **December 31, 2017**
 United States Dollars

| LINE No. | | 2017 | 2016 |
|----------|--|--------------|-------------|
| | GENERAL BUSINESS UNDERWRITING INCOME | | |
| 1. | GROSS PREMIUMS WRITTEN | | |
| | (a) Direct gross premiums written | 424,600,130 | 70,959,557 |
| | (b) Assumed gross premiums written | 61,150,170 | 383,733,599 |
| | (c) Total gross premiums written | 485,750,300 | 454,693,156 |
| 2. | REINSURANCE PREMIUMS CEDED | 459,422,780 | 357,306,709 |
| 3. | NET PREMIUMS WRITTEN | 26,327,520 | 97,386,447 |
| 4. | INCREASE (DECREASE) IN UNEARNED PREMIUMS | (2,486,810) | (1,420,128) |
| 5. | NET PREMIUMS EARNED | 23,840,710 | 95,966,319 |
| 6. | OTHER INSURANCE INCOME | - | - |
| 7. | TOTAL GENERAL BUSINESS UNDERWRITING INCOME | 23,840,710 | 95,966,319 |
| | GENERAL BUSINESS UNDERWRITING EXPENSES | | |
| 8. | INCURRED | 24,685,308 | 27,000,691 |
| 9. | COMMISSIONS AND BROKERAGE | (11,879,361) | 57,775,477 |
| 10. | TOTAL GENERAL BUSINESS UNDERWRITING EXPENSES | 12,805,947 | 84,776,168 |
| 11. | NET UNDERWRITING PROFIT (LOSS) - GENERAL BUSINESS | 11,034,763 | 11,190,151 |
| 30. | COMBINED OPERATING EXPENSE | | |
| | (a) General and administration | 2,046,742 | 2,968,524 |
| | (b) Personnel cost | 5,202,140 | 4,813,046 |
| | (c) Other | 85,803 | 1,754,438 |
| | (d) Total combined operating expenses | 7,334,685 | 9,536,008 |
| 31. | COMBINED INVESTMENT INCOME - NET | 18,413,564 | 132,110 |
| 32. | COMBINED OTHER INCOME (DEDUCTIONS) | 2,447,976 | (220,958) |
| 33. | COMBINED INCOME BEFORE TAXES | 24,561,618 | 1,565,295 |
| 34. | COMBINED INCOME TAXES (IF APPLICABLE): | | |
| | (a) Current | 4,364,289 | 2,331,473 |
| | (b) Deferred | 3,113,845 | (2,118,497) |
| | (c) Total | 7,478,134 | 212,976 |
| 35. | COMBINED INCOME BEFORE REALIZED GAINS (LOSSES) | 17,083,484 | 1,352,319 |
| 36. | COMBINED REALIZED GAINS (LOSSES) | (783,499) | (237,484) |
| 37. | COMBINED INTEREST CHARGES | - | - |
| 38. | NET INCOME | 16,299,985 | 1,114,835 |



ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to the Condensed General Purpose Financial Statements

December 31, 2017

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. (rsubsidiary 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 non-traditional 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 liabilities 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 retrocessional cover for these risks and by obtaining collateral for a significant portion of these exposures. Between 2012 and 2016, the Company entered into an annual stop loss contract with an affiliate covering a range of the affiliate’s non-life lines of business.

3. **Accounting Standards**

These condensed general purpose financial statements are prepared in accordance with rule 17A (2A) of the Insurance Act 1978 and the Insurance Accounts Rules 2016 (the “Legislation”). The recognition and measurement principles applied are in line with accounting principles generally accepted in the United States of America (“US GAAP”). The Legislation differs from US GAAP in a number of material ways, primarily:

- The format of the statements is prescribed by schedules IX and X of the Legislation;
- The Company does not prepare a Statement of Cash Flows or equivalent; and
- Certain disclosures required by US GAAP are not included.

US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the recorded amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to the Condensed General Purpose Financial Statements

December 31, 2017

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 will be 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 (Level 3 measurements). An asset’s or liability’s classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The three levels of the fair value hierarchy are described further below:

ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to the Condensed General Purpose Financial Statements

December 31, 2017

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

As part of the Company's underwriting strategy, the Company has entered into several derivative contracts. The Company designates its derivative contracts in accordance with ASC 815 which

ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to the Condensed General Purpose Financial Statements

December 31, 2017

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

4. Significant accounting policies (continued)

(i) *Federal income taxes*

The Company uses the asset and liability method of accounting for income taxes. Deferred tax assets and deferred tax liabilities are recognized for the future tax consequences related to temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for income tax purposes, measured by applying currently enacted tax laws. The effect on deferred tax assets and deferred tax liabilities of a change in tax rates is recognized in the period that includes the enactment date. The Company recognizes deferred tax assets if it is more likely than not that a benefit will be realized.

(j) *Foreign exchange*

Transactions denominated in currencies other than United States Dollars are translated to United States Dollars at the prior month end exchange rate. Financial assets and liabilities held in foreign currency are translated to United States Dollars at the rate prevailing at the balance sheet date.

ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to the Condensed General Purpose Financial Statements

December 31, 2017

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

8. Commitments and contingencies (continued)

In December 2016, Allianz Risk Transfer AG provided a parental guarantee of the Company's obligations up to a maximum guaranteed amount of approximately EUR 700,000,000. In 2017, ART AG charged a fee of EUR 1,587,720 (2016 – CHF 2,215,528) for the guarantee which is recorded in combined operating expenses.

9. – 12. N/A

13. **Fair Value Measurements**

The following table sets forth the fair value of the Company's quoted and unquoted investments as of December 31, 2017 by level within the fair value hierarchy:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|-------------------------------|----------------|----------------|----------------|
| Financial Assets | | | |
| Unquoted bonds and debentures | | | |
| Catastrophe bonds | \$ - | \$ - | \$ 13,151,787 |
| Total Return Bond Fund | - | 10,644,615 | - |
| Unquoted equities | | | |
| Common stocks | - | 2,320,284 | - |
| Mutual funds | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | \$ - | \$ 12,964,899 | \$ 13,151,787 |
| | <u>=====</u> | <u>=====</u> | <u>=====</u> |

During 2017, the Company's investment in a Total Return Bond Fund was reclassified from Unquoted Mutual Fund equities to Unquoted Mutual Fund bonds.

During 2017 the fair value hierarchy for the Company's investments in Catastrophe bonds was transferred from Level 2 to Level 3 to reflect the inherent uncertainty and non-market inputs of the valuations for these investments.

The Company uses consensus pricing as a valuation technique for its Level 3 investments, with lack of observable market data noted as an unobservable input.

ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to the Condensed General Purpose Financial Statements

December 31, 2017

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

13. Fair Value Measurements (continued)

The following table sets forth the fair value of the Company's quoted and unquoted investments as of December 31, 2016 by level within the fair value hierarchy:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|-------------------------------|----------------|-------------------|----------------|
| Financial Assets | | | |
| Unquoted bonds and debentures | | | |
| Catastrophe bonds | \$ - | \$ 15,319,187 | \$ - |
| Unquoted equities | | | |
| Common stocks | - | 2,924,953 | - |
| Mutual funds | <u>-</u> | <u>10,116,164</u> | <u>-</u> |
| Total | \$ - | \$ 28,360,304 | \$ - |
| | <u>=====</u> | <u>=====</u> | <u>=====</u> |

14.

ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to the Condensed General Purpose Financial Statements

December 31, 2017

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

15. (continued)

During 2017, the Company assumed from affiliates and retroceded to affiliates certain reinsurance transactions. The amounts related to this for the year are as follows:

Gross premium writte

ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to the Condensed General Purpose Financial Statements

December 31, 2017

Part III - Notes to the Balance Sheet

1. As at December 31, 2017, cash and cash equivalents of approximately \$39.1 million (2016 - \$29.6 million) is held by one U.S. financial institution. The Company's management evaluates the financial strength and stability of the U.S. financial institution on a periodic basis.

During 2012, collateral assets with fair value of \$5.0 million were deposited with a second U.S. financial institution with a Standard and Poor's credit rating of A. These funds represent margin collateral posted under a Participation Agreement of a Loan Syndications and Trading Association contract. During 2013 through 2017, there were additional collateral deposits and the fair value of the assets at December 31, 2017 was \$8.4 million (2016 - \$8.3 million).

The Company maintains collateral balances at a number of financial institutions supporting transactions written using International Security Dealers Association derivative contracts. The balances for the years ending December 31, 2017 and 2016 are as shown in the following table:

| figures in US\$ million | <u>Jurisdiction</u> | <u>Rating(S&P)</u> | <u>Collateral asset balance</u> | |
|-----------------------------|---------------------|------------------------|---------------------------------|---------------|
| | | | <u>2017</u> | <u>2016</u> |
| Financial institution 1 | USA | BBB+ | \$ 5.6 | \$ - |
| Corporate swap counterparty | Bermuda | NR | 4.0 | - |
| Financial institution 2 | Australia | A | 3.0 | - |
| Financial institution 3 | UK | A | 2.5 | 2.4 |
| Financial institution 4 | USA | A+ | <u>1.9</u> | <u>-</u> |
| | | | <u>\$ 17.0</u> | <u>\$ 2.4</u> |

2. See Part I Note 4 for the method of valuation for quoted investments.
3. See Part I Note 4 for the method of valuation for unquoted investments. Unquoted equity securities of \$2.3 million (2016 - \$2.9 million) comprise an equity participation in an unquoted limited liability company focused on investing in energy and infrastructure opportunities on a global basis.

Unquoted bonds and debentures comprise investments in catastrophe bonds of \$23.8 million (2016 - \$15.3 million) and a total return bond fund of \$10.6 million. In 2016, the total return bond fund was classified as an unquoted Mutual fund (\$10.1 million).

Management does not consider these investments to be other than temporarily impaired at December 31, 2017.

4. Advances to affiliates of \$4.6 million (2016 - \$3.5 million) include fees billed by related parties for general advice and consulting assistance in analyzing and structuring deals. Outstanding balances are interest-free and carry no fixed repayment terms.
5. – 8. N/A

ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to the Condensed General Purpose Financial Statements

December 31, 2017

PART III - Notes to the Balance Sheet (continued)

9. Investment income due and accrued of \$0.1 million at December 31, 2017 (2016 -

ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to the Condensed General Purpose Financial Statements

December 31, 2017

Part IV - Notes to the Statement of Income

6. N/A

15. N/A

32. Other income (