

The ILM market involves structuring of insurance risks into a form that is acceptable to capital market investors. In essence, these structures transform insurance exposures, mainly event-driven exposures such as earthquakes and hurricanes, into an investment product accessible to an investor.

We get in many capacities in this value chain as structure and processor of catastrophe bonds.

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broking private placements between Allianz and capital market investors, as a sourcing vehicle, transformer and leverage provider of event-driven exposures.

Climate Solutions

Business and Performance

The Company's insurance business written by business segment and by geographical region during the reporting period was as follows:

Line of Business

Property Catastrophe	\$	281,562,179	\$	21,433,200
Property		86,671,534		(585,199)
Credit / Surety		1,652,032		1,652,032
US Casualty		863,178		863,178
Structured Reinsurance		83,944,233		74,023,236
Total	\$	<u>454,693,156</u>	\$	<u>97,386,447</u>

Net Premium Written

Geographical Location

Oceania	\$	77,801
Western Europe		71,468,680
North-East United States		2,264,139
South-East United States		16,710,937
Mid-West United States		2,973,124
Western United States		3,891,776
Total	\$	386,447

The Company's investment performance by asset class for 2016 was as follows:

Catastrophe Bonds – USD	4.5%
Catastrophe Bonds – non-USD	0.2%

Governance Structure

Board and Senior Executive

The Board of Allianz Risk Transfer (Bermuda) Limited consists of four [4] Directors. Names, roles and responsibilities for the Directors and Officers are as follows:

William Guffey Director, President and Principal

Mr. Guffey is also the Chief Executive Officer for the ART Group and a qualified Actuary. With over 20 years of relevant industry experience, Mr. Guffey is a senior executive member of the management team with authority to make key strategic, underwriting or investment decisions.

~~Richard Morris Director, Chief Financial Officer, Bermuda~~

~~Mr. Morris is a qualified Chartered Accountant with over 20 years' experience of the Bermuda market and covers 15 years' experience of structured finance.~~

based. There are no supplementary or early retirement schemes in place nor are there any material transactions with the board or senior executive.

Fitness and Propriety Requirements

ART Bermuda follows the AGCS Fit and Proper Policy. This policy facilitates the implementation of regulatory requirements and safeguards a high Fit and Proper standard across the Company for Senior Management and Key Function Members. For these positions, the

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Risk Management and Solvency Self Assessment

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As a provider of financial services, ART Bermuda considers risk management to be one of its core competencies. It is therefore an integral part of its business process. The Company's risk management framework is fully integrated into the risk management framework of the ART Group and ultimately in the AGCS Group and covers, on a risk-based approach, all operations

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sustainable positive impact on valuation and financing. It also strengthens the risk awareness and risk culture throughout the Company.

Strategy and objectives

The risk strategy is a core element of the ART Bermuda risk management framework that defines a strategy for the management of risks that the company faces during the pursuit of its broader business strategy. With the risk strategy, ART Bermuda aims to:

- protect the Allianz brand and reputation,
- remain solvent even in the event of extreme, worst case scenarios,
- maintain sufficient liquidity to always meet its obligations, and

provide resilient profitability.

Implementation of the risk strategy is supported through the risk appetite, which establishes in more concrete terms the risk tolerance level of the company with respect to all material qualitative and quantitative risks in a manner that: takes into account requirements imposed by regulators and rating agencies and shareholders' expectations.

In line with Allianz Group requirements, risk appetite is defined through the following five core elements:

- setting target ratings for top risks,
- defining minimum (target) capital ratios,
- managing liquidity to ensure flexibility,
- defining quantitative financial limits, and
- defining corporate rules that govern the conduct of business (i.e. policies, standards and

tax. The capital planning process ensures that the business plan is in line with the Company's risk-bearing capacity.

Overall risk organization and roles in risk management

A comprehensive system of risk governance is achieved by setting standards related to organizational structure, risk strategy and appetite, written policies, limit systems, documentation and reporting. These standards ensure the accurate and timely flow of risk-

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related information and a disciplined approach towards decision-making and execution. ART Bermuda, fully integrated in the risk governance framework of the ART and AGCS Groups, adopts relevant policies, standards and functional rules of these Groups.

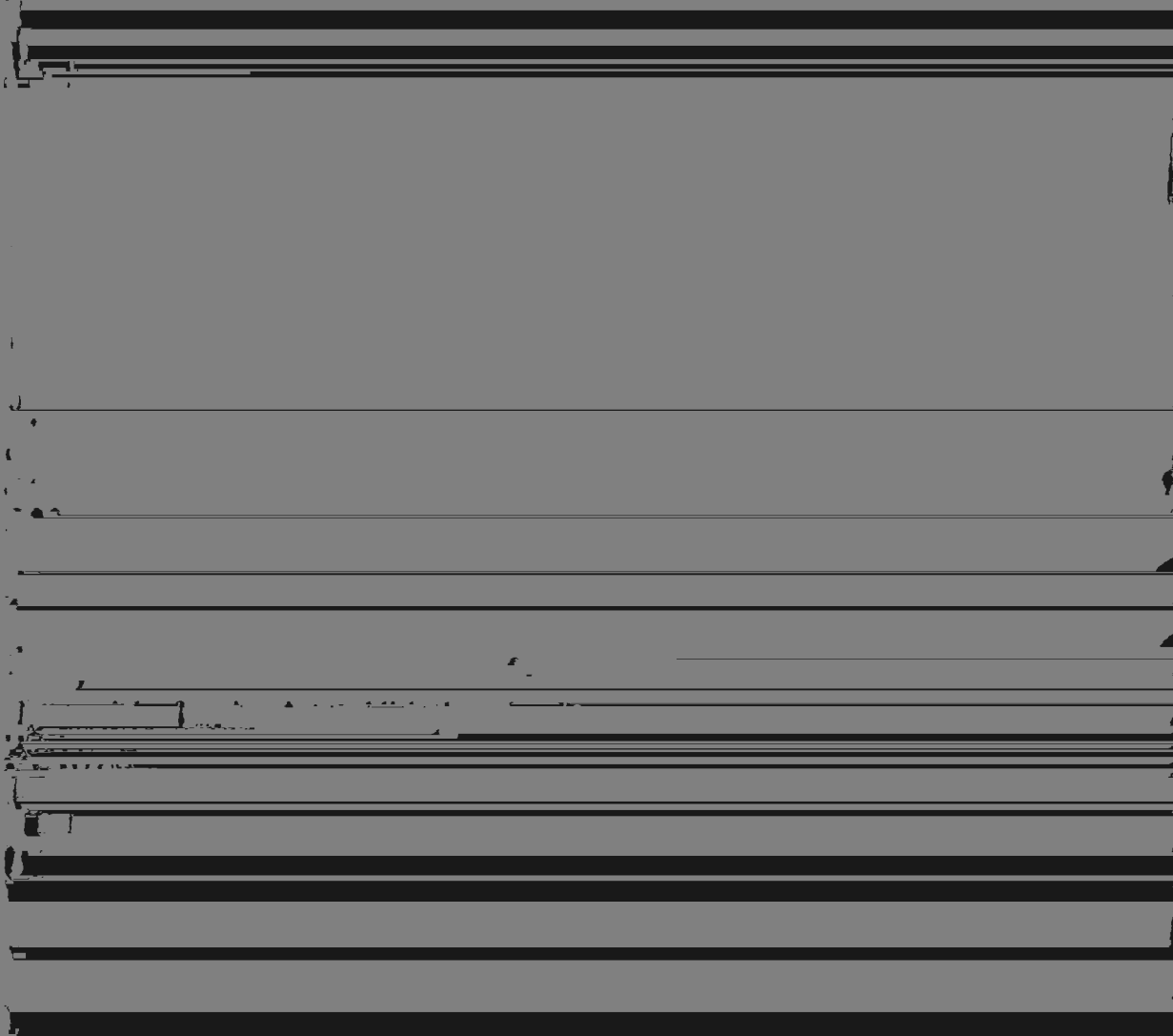
As a general principle, the "first line of defense" rests with business managers. They are responsible, in the first instance, for both the risks of and returns on their decisions. The "second line of defense" is made up of independent oversight functions such as Risk Actuarial

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capital allocation and limits. Capital is to be understood as risk-bearing capacity or available financial resources. Where relevant, ART Bermuda considers its impact on risk capital when taking material business decisions.

Principle 3: Separation of line management responsibility and independent risk oversight

In line with the AGCS Governance Policy adopted by ART Bermuda, a separate independent



Principle 8: Consistent and efficient monitoring

Risk appetite and risk strategy are transferred into standardized limit management processes covering all quantifiable risks throughout the AGCS Group and taking into account the effects of risk diversification and risk concentration. A clearly defined and strict limit breach reporting and

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and following internationally recognized control frameworks such as Committee of Sponsoring Organizations of the Treadway Commission (COSO) this approach is designed to ensure that:

- The achievement of strategic business objectives is effectively supported and ART Bermuda's ability to conduct business is safeguarded
- Governance elements and business operations are effective
- Internal and external financial reporting and regulatory reporting processes produce complete and accurate information to support effective internal management decisions and to meet expectations of external stakeholders

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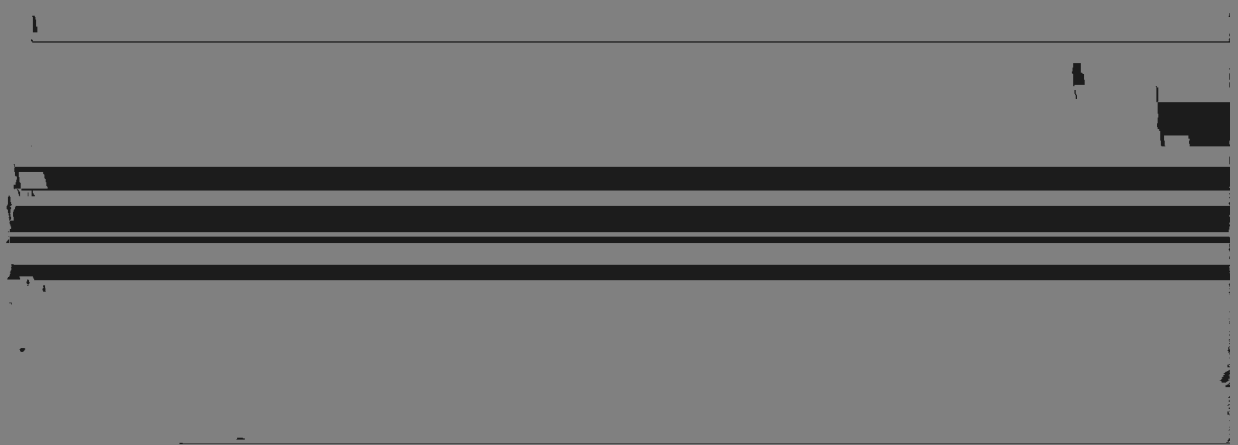
Significant risks and key controls are identified and assessed along three levels:

- Management level (e.g. Entity-Level Controls, Global Operational Risk Assessment programs)

- IT level (e.g. IT General Controls)

- Process level (e.g. Financial and Regulatory Reporting Processes)

Through these assessment programs, significant risks are first identified and evaluated, then existing associated key controls are explicitly identified and assessed in terms of their appropriateness. Furthermore, operating effectiveness of key controls is assessed through control testing under the ERIC System



If the level of risk is not acceptable (e.g., due to missing or ineffective key controls or due to inappropriate design of key controls), remediation activities will be defined and taken to meet the risk tolerance.



Risk Scoping

Proper risk scoping is crucial to focus risk and control assessment efforts on the significant risks and associated key controls. The scoping is an annual process following a top-down approach coordinated by the APT Group Risk Management function. Various aspects are considered in

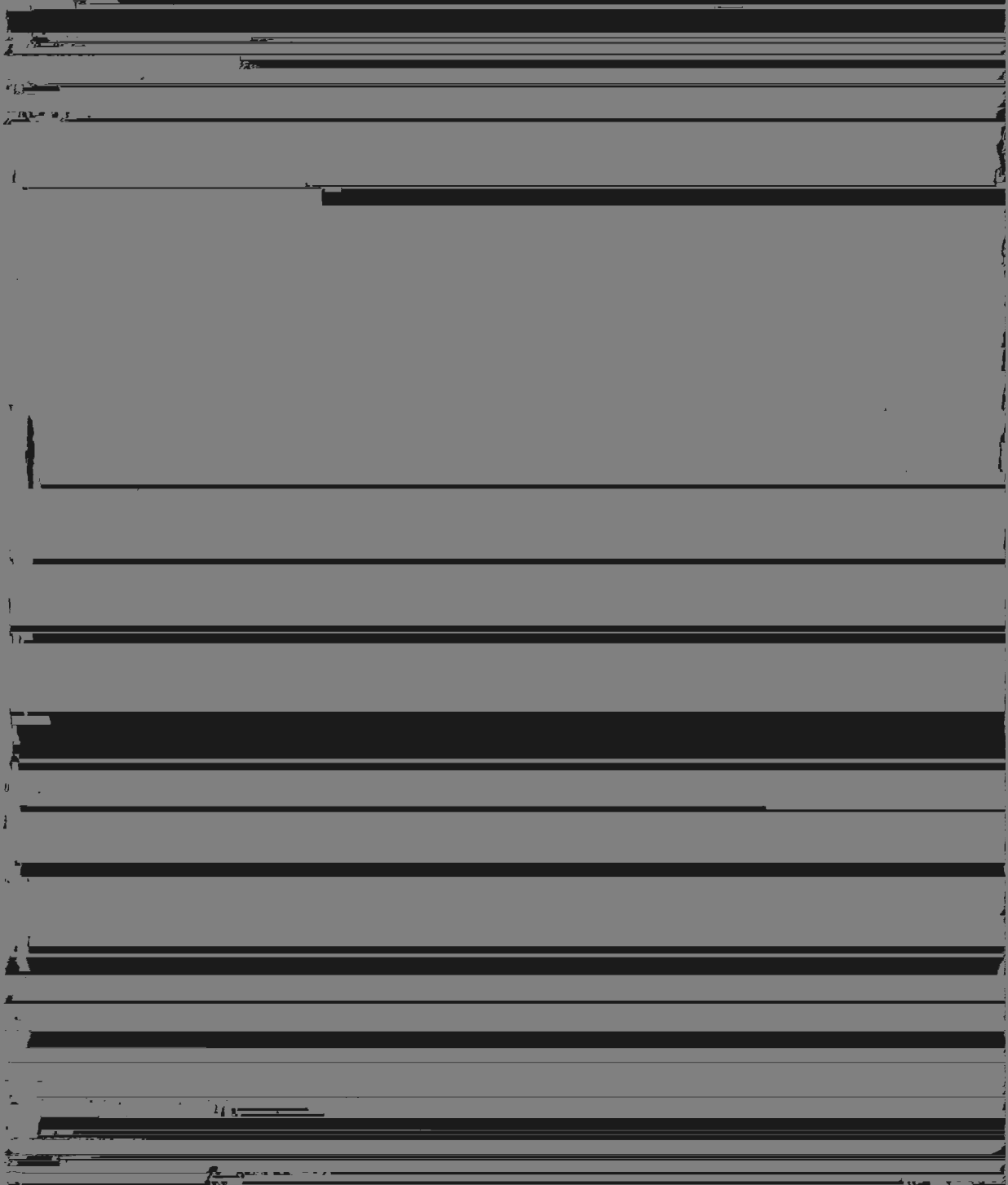
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Monitoring and Reporting

On an annual basis, the ART Group Risk Management function prepares the ART ERIC Report which is presented first to the ART ERIC Advisory Group and then to the ART Group Risk

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Additionally, the Actuarial Function sets the technical reserves for the EBS and analyzes the sensitivity and the uncertainties around the technical provisions. The Actuarial Function has interfaces and works closely with other functions, in particular with the Risk Management



Risk Profile

Key risks/risk categories

ART Bermuda is exposed to quantifiable and non-quantifiable risks. Quantifiable risks consist of the following risk categories: market risk, credit risk, underwriting risk and operational risk. Non-quantifiable risk categories are: liquidity risk, business risk, reputational risk and strategic risk.

Market risk comprises fixed income risk, equity risk, interest rate risk, currency risk and concentration risk. Fixed income risk reflects investment risk from fixed income instruments

Equity risk results from fluctuation in the value of or the income from equity investments. Interest rate risk refers to risk resulting from interest rate changes. Currency risk stems from

Adherence to the limits is monitored on a quarterly basis. If any limits are breached, an action

plan is set up to resolve the limit breach mid-term (1 year).

Quantitative limits for market and credit risk are defined for ART Bermuda. The limits refer to the asset allocation, duration and risk concentrations. Adherence to the limits is monitored

The effectiveness of the mitigation methods is ensured through the ERIC system, which includes controls on entity level as well as on process level. The effectiveness of the ERIC system is assessed by the ERIC Advisory Group for the ART Group.

Stress Testing and Sensitivity Analysis

Stress testing and sensitivity analyses are performed as part of the annual BSCR submission in



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Solvency Valuation

The valuation bases, assumptions and methods used to derive the value of each asset class are as follows:

Cash and cash equivalents are carried at cost.

Quoted investments: Fixed maturity investments are classified as available for sale and recorded at fair value. Changes in unrealized gains or losses, net of related tax effects, are reflected in the statutory statement of capital and surplus. The fair value of fixed maturity securities is based

remains mostly unchanged compared to previous year, and is overall at a moderate level.

Recoverables from reinsurance contracts includes the unearned portion of premiums written on ceded reinsurance contracts and loss reserves recoverable under those contracts.

Capital Management

Eligible Capital

The Company uses the BSCR model to determine capital needs for business planning. There have been no material changes during the course of the reporting period.

The Company's eligible capital by categories is as follows:

Tier 1 Basic Capital

Fully paid common shares	\$	120,000
Contributed Surplus		49,880,000
Statutory Economic Surplus		14,709,976
Encumbered assets not securing policyholder obligations		(10,968,023)
Total	\$	<u>53,741,953</u>

The categorisation above is in accordance with the Eligible Capital Rules used to meet the Enhanced Capital Requirement and the Minimum Margin of Solvency.

Differences in shareholder's equity as stated in the condensed financial statements versus available statutory capital and surplus arise as a result of the net after tax impact of the accounting treatment of deferred tax assets, deferred acquisition costs and prepayments.

Regulatory Capital Requirements

As at December 31, 2016, Regulatory Capital Requirements were as follows:

Enhanced Capital Requirement ('ECR')	\$	16,997,412
Minimum Margin of Solvency	\$	14,907,967

The Company is in compliance with the regulatory capital requirements

Subsequent Event

No significant events have occurred since the balance sheet date up to the date of filing this

[REDACTED]

report.

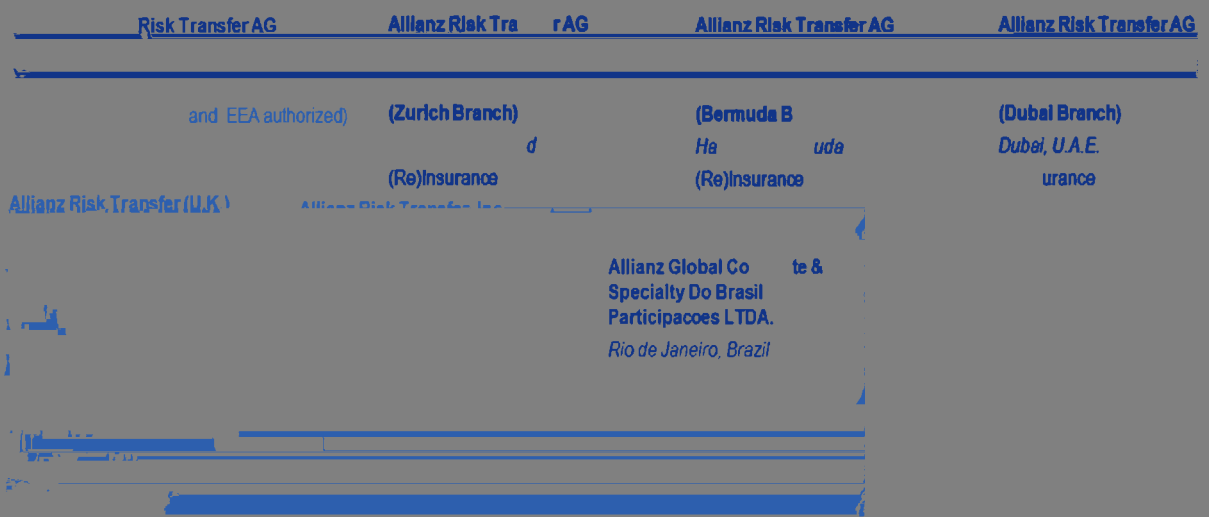
SCHEDULE A – Group Organisation Chart

Allianz SE
Germany Holding Company



Specialty SE
Germany Insurance 46%

60%



Legal Entity
Branch