



KPMG Audit Limited
Crown House
4 Par-la-Ville Road
Hamilton HM 08 Bermuda

Mailing Address:
P.O. Box HM 906
Hamilton HM DX Bermuda

Telephone +1 441 295 5063
Fax +1 441 295 9132
Internet www.kpmg.bm

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 Rules 2016 with respect to Condensed General Purpose Financial Statements ("the Legislation"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these condensed financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the condensed financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the condensed financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the condensed financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the condensed financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the condensed financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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

As described in Note 3 to the condensed financial statements, the condensed financial statements are prepared by the Company on the basis on the financial reporting provisions of the Legislation, which is a basis of accounting other than U.S. generally accepted accounting principles.

The effects on the condensed financial statements of the variances between the basis of accounting described in Note 3 and U.S. generally accepted accounting principles are material.

Adverse Opinion on U.S. generally accepted accounting principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. generally accepted accounting principles” paragraph, the condensed financial statements referred to above do not present fairly, in accordance with U.S. generally accepted accounting principles, the financial position of the Company as of December 31, 2016, or the results of its operations or its cash flows for the year December 31, 2016 then ended.

Opinion on Condensed Financial Statements

In our opinion, the condensed financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016, and the results of its operations for the year December 31, 2016 then ended, in accordance with the financial reporting provisions of the Legislation described in Note 3.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 28, 2017

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	15,319,187	23,194,756
	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	3,526,528	5,877,502
(h)	Total investments in and advances to affiliates	3,526,528	5,877,502
5.	INVESTMENTS IN MORTGAGE LOANS ON REAL ESTATE:		
(a)	First liens	-	-
(b)	Other than first liens	-	-
(c)	Total investments in mortgage loans on real estate	-	-
6.	POLICY LOANS	-	-
7.	REAL ESTATE:		
(a)	Occupied by the company (less encumbrances)	-	-
(b)	Other properties (less encumbrances)	-	-
(c)	Total real estate	-	-
8.	COLLATERAL LOANS	-	-
9.	INVESTMENT INCOME DUE AND ACCRUED	283,442	228,003
10.	ACCOUNTS AND PREMIUMS RECEIVABLE:		
(a)	In course of collection	419,318	506,014
(b)	Deferred - not yet due	864,488	7,089,367
(c)	Receivables from retrocessional contracts	-	-
(d)	Total accounts and premiums receivable	1,283,806	7,595,381
11.	REINSURANCE BALANCES RECEIVABLE:		
(a)	Foreign affiliates	42,867,612	43,786,126
(b)	Domestic affiliates	-	-
(c)	Pools & associations	-	-
(d)	All other insurers	26,001,948	26,983,761
(e)	Total reinsurance balance receivable	68,869,560	70,769,887
12.	FUNDS HELD BY CEDING REINSURERS	-	-

CONDENSED BALANCE SHEET

Allianz Risk Transfer (Bermuda) Limited

 As at **December 31, 2016**
United States Dollars

LINE No.		2016	2015
13.	SUNDRY ASSETS:		
(a)	Derivative instruments	3,745,175	4,652,712
(b)	Segregated accounts companies - long-term business - variable annuities	-	-
(c)	Segregated accounts companies - long-term business - other	-	-
(d)	Segregated accounts companies - general business	-	-
(e)	Deposit assets	-	-
(f)	Deferred acquisition costs	-	-
(g)	Net receivables for investments sold	-	-
(h)	Other Assets	273,746	857,947
(i)	Deferred Tax Asset	5,623,796	-
(j)	Other Sundry Assets (Specify)	-	-
(k)	Total sundry assets	9,642,717	5,510,659
14.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS		
(a)	Letters of credit	-	-
(b)	Guarantees	-	-
(c)	Other instruments	-	-
(e)	Total letters of credit, guarantees and other instruments	-	-
15.	TOTAL	181,973,254	201,696,880
	TOTAL INSURANCE RESERVES, OTHER LIABILITIES AND STATUTORY CAPITAL AND SURPLUS		
16.	UNEARNED PREMIUM RESERVE		
(a)	Gross unearned premium reserves	110,482,355	77,200,175
(b)	Less: Ceded unearned premium reserve		
	i. Foreign affiliates	10,277,435	2,075,762
	ii. Domestic affiliates	-	-
	iii. Pools & associations	-	-
	iv. All other insurers	90,988,388	66,899,280
(c)	Total ceded unearned premium reserve	101,265,823	68,975,042
(d)	Net unearned premium reserve	9,216,532	8,225,133
17.	LOSS AND LOSS EXPENSE PROVISIONS:		
(a)	Gross loss and loss expense provisions	63,852,852	20,978,498
(b)	Less : Reinsurance recoverable balance		
	i. Foreign affiliates	750,000	-
	ii. Domestic affiliates	-	-
	iii. Pools & associations	-	-
	iv. All other reinsurers	33,746,866	2,494,975
(c)	Total reinsurance recoverable balance	34,496,866	2,494,975
(d)	Net loss and loss expense provisions	29,355,986	18,483,523
18.	OTHER GENERAL BUSINESS INSURANCE RESERVES	-	-
19.	TOTAL GENERAL BUSINESS INSURANCE RESERVES	38,572,518	26,708,656
	LONG-TERM BUSINESS INSURANCE RESERVES		
20.	RESERVE FOR REPORTED CLAIMS	-	-
21.	RESERVE FOR UNREPORTED CLAIMS	-	-
22.	POLICY RESERVES - LIFE	-	-
23.	POLICY RESERVES - ACCIDENT AND HEALTH	-	-
24.	POLICYHOLDERS' FUNDS ON DEPOSIT	-	-
25.	LIABILITY FOR FUTURE POLICYHOLDERS' DIVIDENDS	-	-
26.	OTHER LONG-TERM BUSINESS INSURANCE RESERVES	-	-
27.	TOTAL LONG-TERM BUSINESS INSURANCE RESERVES	-	-
(a)	Total Gross Long-Term Business Insurance Reserves	-	-
(b)	Less: Reinsurance recoverable balance on long-term business		
	(i) Foreign Affiliates	-	-
	(ii) Domestic Affiliates	-	-
	(iii) Pools and Associations	-	-
	(iv) All Other Insurers	-	-
(c)	Total Reinsurance Recoverable Balance	-	-
(d)	Total Net Long-Term Business Insurance Reserves	-	-
	OTHER LIABILITIES		
28.	INSURANCE AND REINSURANCE BALANCES PAYABLE	71,287,036	72,163,680
29.	COMMISSIONS, EXPENSES, FEES AND TAXES PAYABLE	-	-

CONDENSED BALANCE SHEET

Allianz Risk Transfer (Bermuda) Limited

As at

December 31, 2016**United States Dollars**

LINE No.		2016	2015
30.	LOANS AND NOTES PAYABLE	-	-
31.	(a) INCOME TAXES PAYABLE	2,520,128	1,102,304
	(b) DEFERRED INCOME TAXES		
32.	AMOUNTS DUE TO AFFILIATES	628,151	939,313
33.	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	400,391	9,031,860
34.	FUNDS HELD UNDER REINSURANCE CONTRACTS:	-	-
35.	DIVIDENDS PAYABLE	-	-
36.	SUNDRY LIABILITIES:		
(a)	Derivative instruments	4,205,721	33,959,369
(b)	Segregated accounts companies	-	-
(c)	Deposit liabilities	-	-
(d)	Net payable for investments purchased	-	-
(e)	Other sundry liabilities (specify)	-	-
(f)	Other sundry liabilities (specify)	-	-
(g)	Other sundry liabilities (specify)	-	-
(h)	Total sundry liabilities	4,205,721	33,959,369
37.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS:		
(a)	Letters of credit		
(b)	Guarantees		
(c)	Other instruments		
(d)	Total letters of credit, guarantees and other instruments	-	-

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
41.	TOTAL	181,973,254	201,696,880
		TRUE	TRUE

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CONDENSED STATEMENT OF INCOME

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

LINE No.		2016	2015
	GENERAL BUSINESS UNDERWRITING INCOME		
1.	GROSS PREMIUMS WRITTEN		
	(a) Direct gross premiums written	70,959,557	50,481,892
	(b) Assumed gross premiums written	383,733,599	321,842,275
	(c) Total gross premiums written	454,693,156	372,324,167
2.	REINSURANCE PREMIUMS CEDED	357,306,709	283,472,200
3.	NET PREMIUMS WRITTEN	97,386,447	88,851,967
4.	INCREASE (DECREASE) IN UNEARNED PREMIUMS	(1,420,128)	(8,071,094)
5.	NET PREMIUMS EARNED	95,966,319	80,780,873
6.	OTHER INSURANCE INCOME	-	-
7.	TOTAL GENERAL BUSINESS UNDERWRITING INCOME	95,966,319	80,780,873
	GENERAL BUSINESS UNDERWRITING EXPENSES		
8.	INCURRED	27,000,691	13,632,639
9.	COMMISSIONS AND BROKERAGE	57,775,477	50,331,973
10.	TOTAL GENERAL BUSINESS UNDERWRITING EXPENSES	84,776,168	63,964,612
11.	NET UNDERWRITING PROFIT (LOSS) - GENERAL BUSINESS	11,190,151	16,816,261
	LONG-TERM BUSINESS INCOME		
12.	GROSS PREMIUMS AND OTHER CONSIDERATIONS:		
	(a) Direct gross premiums and other considerations	-	-
	(b) Assumed gross premiums and other considerations	-	-
	(c) Total gross premiums and other considerations	-	-
13.	PREMIUMS CEDED	-	-
14.	NET PREMIUMS AND OTHER CONSIDERATIONS:		
	(a) Life	-	-
	(b) Annuities	-	-
	(c) Accident and health	-	-
	(d) Total net premiums and other considerations	-	-
15.	OTHER INSURANCE INCOME	-	-
16.	TOTAL LONG-TERM BUSINESS INCOME	-	-
	LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES		
17.	CLAIMS - LIFE	-	-
18.	POLICYHOLDERS' DIVIDENDS	-	-
19.	SURRENDERS	-	-
20.	MATURITIES	-	-
21.	ANNUITIES	-	-
22.	ACCIDENT AND HEALTH BENEFITS	-	-
23.	COMMISSIONS	-	-
24.	OTHER	-	-
25.	TOTAL LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES	-	-
26.	INCREASE (DECREASE) IN POLICY RESERVES (ACTUARIAL LIABILITIES):		
	(a) Life	-	-
	(b) Annuities	-	-
	(c) Accident and health	-	-
	(d) Total increase (decrease) in policy reserves	-	-
27.	TOTAL LONG-TERM BUSINESS EXPENSES	-	-
28.	NET UNDERWRITING PROFIT (LOSS) - LONG-TERM BUSINESS	-	-
29.	COMBINED NET UNDERWRITING RESULTS BEFORE THE UNDERNOTED ITEMS	11,190,151	16,816,261

CONDENSED STATEMENT OF INCOMEAllianz 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 December 31, 2016
United States Dollars

LINE No.		2016	2015
1.	CAPITAL:		
(a)	Capital Stock		
	(i) Common Shares		
	authorized	120,000	
	value	\$ 1,000	
	fully paid	120,000	
		shares of par	each issued and
			shares
	(ii)		
	(A) Preferred shares:		
	authorized		
	value		
	fully paid		
	aggregate liquidation value for —		
	2016		
	2015		
	(B) Preferred shares issued by a subsidiary:		
	authorized		
	value		
	fully paid		
	aggregate liquidation value for —		
	2016		
	2015		
	(iii) Treasury Shares		
	repurchased		
	value		
		shares of par	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)	Add (Deduct) change in unrealized appreciation (depreciation) of investments		
(e)	Add (Deduct) change in any other surplus	5,452,776	(3,715,784)
(f)	Surplus - End of Year	14,359,309	7,791,698
3.	MINORITY INTEREST		
4.	TOTAL CAPITAL AND SURPLUS	64,359,309	57,791,698

ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to Condensed General Purpose Financial Statements

December 31, 2016

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 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. In 2012, 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 Condensed General Purpose Financial Statements

December 31, 2016

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

4. **Significant accounting policies**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amount of reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The major estimates reflected in the Company's financial statements include, but are not limited to, outstanding losses and loss expenses, estimates of written and earned premiums and the fair value of derivatives and unquoted investments. Also, as the financial statements are condensed, they do not include a statement of cash flows and certain other footnote disclosures required by generally accepted accounting principles.

The following are the significant accounting policies adopted by the Company:

(a) *Premiums earned*

Premiums written, assumed and ceded are recorded on the accruals basis and are included in income on a pro-rated basis in proportion to the amount of protection provided over the term of the underlying agreements, with the unearned portion deferred in the balance sheet, net of prepaid reinsurance premiums. Profit commission expenses are recorded on the accruals basis and are included in income on a pro-rated basis over the period in which the related premiums are earned. Profit commissions are based on the best estimate of ultimate premiums and losses under the agreements.

(b) *Underwriting fees*

Underwriting fees are accrued to the balance sheet date and are recognized on a pro-rated basis over the contract period.

(c) *Cash and cash equivalents*

Cash and cash equivalents include cash on hand, demand deposits with banks as well as money market funds with no restrictions on redemption.

(d) *Outstanding losses and loss expenses*

Losses and loss expenses paid are recorded when advised by the ceding insurance companies. Outstanding loss estimates comprise the amount of reported losses and loss expenses received from cedants plus a provision for losses incurred but not reported ("IBNR"). IBNR reserves are estimated by management using various actuarial methods, output from various catastrophe loss models, industry loss experience, underwriters' experience, general market trends and management's judgement.

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 (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 Condensed General Purpose Financial Statements

December 31, 2016

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

4. Significant accounting policies (continued)

(e) Fair Value Measurements (continued)

Level 1 — Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities, that the Company has the ability to access at the measurement date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these instruments does not entail a significant degree of judgment.

Level 2 — Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals, broker quotes and certain pricing indices.

Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement. These measurements include circumstances where there is little, if any, market activity for the asset or liability. In these cases, significant management assumptions can be used to establish management's best estimate of the assumptions used by other market participants in determining the fair value of the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement of the asset or liability. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and the Company considers factors specific to the asset or liability.

(f) Investments

The Company classifies its investments as available for sale which are carried at fair value with unrealized gains or losses, net of related tax effects, included in the condensed balance sheets as a separate component of capital and surplus.

The fair value of fixed income securities is based upon quoted market values where available, "evaluated bid" prices provided by third party pricing services ("pricing services") where quoted market values are not available, or by reference to broker or underwriter bid indications where pricing services do not provide coverage for a particular security.

The carrying value of investments in unquoted equity instruments is established using the audited net asset value per unit, and which approximates fair value.

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 (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 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. This standard requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value, with changes in the fair value recorded in earnings. The fair values of derivatives are estimated by management. The estimation of fair value is complex and requires management to exercise significant judgment. The fair values of derivatives are recorded as assets or liabilities as appropriate and changes in fair values are recorded in current earnings.

As at December 31, 2016 and 2015, the Company does not have transactions which qualify as fair value hedges.

Estimation of the fair values of the Company's derivative contracts requires management to make estimates in respect of such factors as future credit default and recovery rates, the timing of future credit default events, mortality rates, longevity rates and other future events. As such, the fair values estimated by management may differ significantly from the ultimate settlement value of these transactions. Adjustments to the fair value of these derivatives are reflected in income in the period in which they are made.

(h) Pension plans

The Company operates a defined contribution retirement plan for Bermudian employees. The plan is funded currently with employer contributions of 10% of an employee's salary and bonus (all contributions made up to the legal limits). The Company's contributions to the plan in 2016 were \$108,063 (2015 - \$98,469).

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 (continued)

(h) *Pension plans (continued)*

The Company operates a separate defined contribution retirement plan for International employees. The plan is funded currently with employer contributions of 10% of an employee's salary. The Company's contributions to the plan in 2016 were \$103,853 (2015 - \$92,500).

(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.

(i) *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. Foreign exchange gains or losses relating to these transactions are included in the statements of income and comprehensive income.

5. See Part I, Note 4.

6. See Part I, Note 4.

7. N/A

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 - \$0.6 million). The total minimum future lease payments required under these leases are as follows:

2017	\$ 236,250
2018	\$ 236,250
2019	\$ 236,250
2020	\$ 236,250
2021	\$ 167,344
Total	<u>\$1,112,344</u>

The Company sub-leased a portion of its Bermuda premises for a five year term that expired on September 14, 2016. In 2016, the Company recorded total rental income of \$0.3 million (2015 - \$0.3 million).

In May 2000, Allianz Risk Transfer AG provided a parental guarantee of the Company's obligations up to a maximum guaranteed amount of approximately CHF 763,975,000. In 2016, ART AG charged a fee of CHF 2,215,528 (2015 - CHF 2,419,730) for the guarantee which is recorded in combined operating expenses.

9. - 12. N/A

13. Fair Value Measurements

The following tables set 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	-	10,116,164	-
Total	\$ -	\$ 28,360,304	\$ -

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-term 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 CHF 763,975,000. In 2016, ART AG charged a fee of CHF 2,215,528 (2015 – CHF 2,419,730) for the guarantee which is recorded in the statement of income.

Amounts receivable (payable) and fees charged in the year to/from affiliates are as follows:

	Amounts receivable (payable)		Fees charged in year ended	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
ART NY	\$ 2,827,849	\$ 2,819,353	\$ 3,457,649	\$ 3,401,832
ART AG	157,589	(126,382)	(2,572,974)	(1,754,758)
Allianz Risk Transfer (U.K.) Limited	-	-	848,438	988,290
Allianz Global Corp & Specialty, AG	167,114	(483,990)	-	-
Allianz Re Business	-	160,000	-	-
Allianz Risk Transfer NV	77,693	(2,202)	5,155	46,351
ART AG (Bermuda Branch)	<u>(331,869)</u>	<u>2,571,410</u>	<u>-</u>	<u>(787,727)</u>
	<u>\$ 2,898,376</u>	<u>\$ 4,938,189</u>	<u>\$ 1,738,268</u>	<u>\$ 1,893,988</u>

In addition to the above, general and administrative and personnel costs relating to the Bermuda office in the amount of \$3.2 million were billed to ART AG (Bermuda Branch) in 2016. Equivalent income totaling \$3.7 million was reflected against the general and administrative and personnel costs line items in 2015.

During 2016, 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 written assumed from affiliates	\$315,044,828
Reinsurance premium ceded to affiliates	\$ 23,617,547

16. The Board of Directors have assessed and evaluated all subsequent events arising from the balance sheet date up until April 28, 2017, the date the financial statements were available to be issued, and have concluded that no additional disclosure is required.

17. None

ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to Condensed General Purpose Financial Statements

December 31, 2016

PART II - Notes to the Statement of Capital and Surplus

- 1 (a). Common stock, authorized, issued and fully paid – 120,000 shares of par value \$1 each.
- 1 (b). Contributed surplus represents amounts contributed by ART NY in cash in addition to their subscription to issued share capital.
- 2 (c). No dividends were declared or paid in 2016 or 2015.

Part III - Notes to the Balance Sheet

1. As at December 31, 2016, cash and cash equivalents of approximately \$29.6 million (2015 - \$55.6 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 2016, there were additional collateral deposits and the fair value of the assets at December 31, 2016 was \$8.3 million (2015 - \$8.3 million).

During 2015, collateral assets with fair value of \$2.9 million were deposited with a third U.S. financial institution with a Standard and Poor's credit rating of A. These funds represent margin collateral posted under a Credit Support Annex of an International Security Dealers Association contract. During 2016, the ISDA contract terminated and the collateral assets were released.

During 2016, collateral assets with fair value of \$2.4 million were deposited with a U.K. subsidiary of a French financial institution with a Standard and Poor's credit rating of A. These funds represent margin collateral posted under a Credit Support Annex of an International Security Dealers Association contract.

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 \$2.9 million (2015 - \$4.6 million) comprise an equity participation in an unquoted limited liability company focused on investing in energy and infrastructure opportunities on a global basis. In October 2015, the preferred shares of Slalom Re Ltd. ("Slalom Re"), an insurance company incorporated in Bermuda were redeemed. The Company received \$16.0 million principal and accrued interest of \$1.2 million.

Unquoted bonds and debentures comprise investments in catastrophe bonds of \$15.3 million (2015 - \$20.3 million). In 2015, the Company also carried an investment in a global project financing floating rate bond of \$2.9 million, which expired at par during 2016. Management does not consider these investments to be other than temporarily impaired at December 31, 2016.

ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to Condensed General Purpose Financial Statements

December 31, 2016

Part III - Notes to the Balance Sheet (continued)

3. (continued)

Unquoted Mutual Funds comprises an investment in a total return fund with a carrying value of \$10.1 million. In 2015, the balance of \$5.2 million represented an investment in a short-term fixed income fund; this investment was realised during 2016.

4. Advances to affiliates of \$3.5 million (2015 - \$5.8 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
 9. Investment income due and accrued of \$0.3 million at December 31, 2016 (2015 - \$0.2 million) represents accrued interest on catastrophe bonds.
 10. Accounts and premiums receivable of \$1.3 million at December 31, 2016 (2015- \$7.6 million) represent premiums receivable from third parties.
 11. Reinsurance balances receivable of \$68.9 million at December 31, 2016 (2015 - \$71.0 million) represent premiums receivable from third party insurers (\$26.0 million) and from foreign affiliates (\$42.9 million).
 12. N/A
 13. Sundry assets include derivative assets of \$3.7 million at December 31, 2016 (2015 - \$4.7 million). See Part I Note 3 for the description of the policies surrounding the use of derivatives. The balance sheet position represents:
 - a) a derivative with a financial institution with a nominal amount of \$37.5 million (2015 - \$37.5 million) and fair value of \$1.1 million (2015 - \$0.9 million). The maturity date of the instrument is December 2030.
 - b) a derivative with an affiliate representing hedging of the Company's long-term compensation plan exposure with fair value of \$2.6 million (2015 - \$3.0 million).
 - c) in 2015, the balance included an additional derivative with a financial institution with a nominal amount of \$2.5 million and a fair value of \$0.8 million. This derivative expired in 2016.
 14. N/A
 16. See Part I, Note 4.
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ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to Condensed General Purpose Financial Statements

December 31, 2016

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. Failure of reinsurers to honour their obligations could result in losses to the Company. Consequently, allowances are established for amounts deemed uncollectible. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

Outstanding losses recoverable from reinsurers of \$33.7 million (2015 - \$2.5 million) are secured by funds held in trusts for which the Company is a beneficiary.

The table below represents the movements in the loss and loss expense provisions for the current year and previous year:

	<u>2016</u>	<u>2015</u>
Gross loss and loss expense provisions		
- beginning of year	\$20,978,498	\$21,325,036
Less: Reinsurance recoverable		
beginning of year	<u>2,494,975</u>	<u>2,121,804</u>
Net loss and loss expense provisions		
- beginning of year	18,483,523	19,203,232
Net losses incurred and net loss expenses incurred related to:		
Current year	25,930,514	20,112,505
Prior years	<u>1,070,177</u>	<u>(6,479,866)</u>
Total net incurred losses and loss expense	27,000,691	13,632,639
Net losses and loss expenses paid or payable related to:		
Current year	14,673,521	12,035,531
Prior years	<u>1,324,907</u>	<u>2,307,487</u>
Total losses and loss expenses paid or payable	15,998,428	14,343,018
Foreign exchange and other	(129,800)	(9,330)

ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to Condensed General Purpose Financial Statements

December 31, 2016

Part III - Notes to the Balance Sheet (continued)

17. (continued)

Net loss and loss expense provisions end of year	29,355,986	18,483,523
Add: Reinsurance recoverable at end of year	<u>34,496,866</u>	<u>2,494,975</u>
Gross loss and loss expense provisions at end of year	<u>\$63,852,852</u>	<u>\$20,978,498</u>

20 – 27. N/A

28. Insurance and reinsurance balances payable of \$71.3 million (2015 - \$72.1 million) represent reinsurance balances due to third parties of \$69.5 million (2015 - \$72.0 million) and due to affiliates of \$1.8 million (2015 - \$0.1 million).

29. N/A

30. N/A

31. (a) *Bermuda*

Under current Bermuda law the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event of any such taxes being imposed the Company will be exempted from taxation until the year 2035.

United States

In 1999 the Company made an election under Section 953(d) of the Internal Revenue Code to be taxed as a U.S. domestic insurance company for federal tax purposes and to be included in a consolidated tax return for ART NY. Under the dual consolidation loss rules of the 953(d) election, tax loss benefits generated by the Company will only be available to offset income of the Company.

31. (b) N/A

32. Advances due to affiliates of \$0.6 million (2015 - \$0.9 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.

33. Accounts payable and accrued liabilities of \$0.4 million represent accruals for services due to third parties and technical payments received in advance.

34. N/A

ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to Condensed General Purpose Financial Statements

December 31, 2016

Part III - Notes to the Balance Sheet (continued)

35. N/A
36. Sundry liabilities include derivative liabilities of \$4.2 million at December 31, 2016 (2015 - \$34.0 million). See Part I Note 3 for the description of the policies surrounding the use of derivatives. The balance sheet position represents:
- a) a derivative with a financial institution with a nominal amount of \$88.3 million (2015 - \$88.3 million) and fair value of \$4.2 million (2015 - \$4.5 million). The maturity date of the instrument is October 2032.
 - b) in 2015, the balance included a derivative with a financial institution with a nominal amount of \$21.4 million and a fair value (liability) of \$20.1 million. This derivative expired in 2016.
 - c) in 2015, the balance also included a portfolio of swaps covering weather-related risks with fair value of \$9.4 million. These derivatives expired in 2016.

37. N/A

Part IV - Notes to the Statement of Income

6. N/A
15. N/A
32. Other deductions of \$0.2 million (2015 - \$1.5 million) represent the net impact of unrealized foreign exchange gains and losses on balance sheet items held in currencies other than US Dollars.
36. Realized losses of \$0.2 million (2015 - \$0.8 million) represent realized losses on unquoted equity investments.
-