



April 30, 2019

## **Independent Auditor's Report**

To the Board of Directors

We have audited the accompanying condensed financial statements of Allianz Risk Transfer (Bermuda) Limited, which comprise the condensed balance sheet and condensed statement of capital and surplus as of December 31, 2018, and the related condensed statement of income for the year 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 International Standards on Auditing. 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 accounting principles generally accepted in the United States of America***

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

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

***Adverse Opinion on accounting principles generally accepted in the United States of America***

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on accounting principles generally accepted in the United States of America” paragraph, the condensed financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2018, or the results of its operations or its cash flows for the year 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, 2018, and the results of its operations for the year then ended, in accordance with the financial reporting provisions of the Legislation described in Note 3.

*PricewaterhouseCoopers Ltd.*

**Chartered Professional Accountants**

## CONDENSED BALANCE SHEET

Allianz Risk Transfer (Bermuda) Limited

As at December 31, 2018

United States Dollars

| LINE No. |  | 2018        | 2017        |
|----------|--|-------------|-------------|
| 1.       | CASH AND CASH EQUIVALENTS                            | 187,694,432 | 95,185,223  |
| 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  | 34,566,488  | 23,796,402  |
| (b)      | Total Bonds and Debentures                           | 34,566,488  | 23,796,402  |
| (c)      | Equities   |             |             |
|          | i. Common stocks                                     | 2,017,949   | 2,320,284   |
|          | ii. Preferred stocks                                 | -           | -           |
|          | iii. Mutual funds                                    | -           | -           |
| (d)      | Total equities                                       | 2,017,949   | 2,320,284   |
| (e)      | Other unquoted investments                           | -           | -           |
| (f)      | Total unquoted investments                           | 36,584,437  | 26,116,686  |
| 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                               | 944,070     | 4,571,876   |
| (h)      | Total investments in and advances to affiliates      | 944,070     | 4,571,876   |
| 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                    | 166,434     | 103,258     |
| 10.      | ACCOUNTS AND PREMIUMS RECEIVABLE:                    |             |             |
| (a)      | In course of collection                              | 15,197,866  | 15,615,358  |
| (b)      | Deferred - not yet due                               | 32,626,188  | -           |
| (c)      | Receivables from retrocessional contracts            | -           | -           |
| (d)      | Total accounts and premiums receivable               | 47,824,054  | 15,615,358  |
| 11.      | REINSURANCE BALANCES RECEIVABLE:                     |             |             |
| (a)      | Foreign affiliates                                   | 76,146,433  | 91,766,321  |
| (b)      | Domestic affiliates                                  | -           | -           |
| (c)      | Pools & associations                                 | -           | -           |
| (d)      | All other insurers                                   | 624,954     | 33,193,740  |
| (e)      | Total reinsurance balance receivable                 | 76,771,387  | 124,960,061 |

## CONDENSED BALANCE SHEET

Allianz Risk Transfer (Bermuda) Limited

As at December 31, 2018

United States Dollars

| LINE No. |  | 2018        | 2017        |
|----------|--|-------------|-------------|
| 12.      | FUNDS HELD BY CEDING REINSURERS  | -           | -           |
| 13.      | SUNDRY ASSETS:   |             |             |
| (a)      | Derivative instruments   | 4,577,166   | 5,138,976   |
| (b)      | variable annuities   | -           | -           |
| (c)      | other  | -           | -           |
| (d)      | Segregated accounts companies - general business                                     | -           | -           |
| (e)      | Deposit assets   | -           | -           |
| (f)      | Deferred acquisition costs   | -           | -           |
| (g)      | Net receivables for investments sold   | -           | -           |
| (h)      | Other Assets   | 433,360     | 499,806     |
| (i)      | Deferred Tax Asset   | 2,792,033   | 2,509,950   |
| (j)      |  | -           | -           |
| (k)      | Total sundry assets  | 7,802,559   | 8,148,732   |
| 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  | 357,787,373 | 274,701,194 |
|          | <b>TOTAL INSURANCE RESERVES, OTHER LIABILITIES AND STATUTORY CAPITAL AND SURPLUS</b> |             |             |
| 16.      | UNEARNED PREMIUM RESERVE   |             |             |
| (a)      | Gross unearned premium reserves  | 216,282,586 | 149,260,540 |
| (b)      | Less: Ceded unearned premium reserve   |             |             |
| i.       | Foreign affiliates   | 6,857,662   | 21,501,297  |
| ii.      | Domestic affiliates  | -           | -           |
| iii.     | Pools & associations   | -           | -           |
| iv.      | All other insurers   | 197,707,484 | 115,642,087 |
| (c)      | Total ceded unearned premium reserve   | 204,565,146 | 137,143,384 |
| (d)      | Net unearned premium reserve   | 11,717,440  | 12,117,156  |
| 17.      | LOSS AND LOSS EXPENSE PROVISIONS:  |             |             |
| (a)      | Gross loss and loss expense provisions   | 350,867,263 | 280,133,625 |
| (b)      | Less : Reinsurance recoverable balance   |             |             |
| i.       | Foreign affiliates   | 11,683,415  | 7,050,000   |
| ii.      | Domestic affiliates  | -           | -           |
| iii.     | Pools & associations   | -           | -           |
| iv.      | All other reinsurers   | 295,315,845 | 232,452,707 |
| (c)      | Total reinsurance recoverable balance  | 306,999,260 | 239,502,707 |
| (d)      | Net loss and loss expense provisions   | 43,868,003  | 40,630,918  |
| 18.      | OTHER GENERAL BUSINESS INSURANCE RESERVES  | -           | -           |
| 19.      | TOTAL GENERAL BUSINESS INSURANCE RESERVES  | 55,585,443  | 52,748,074  |
|          | <b>OTHER LIABILITIES</b>   |             |             |
| 28.      | INSURANCE AND REINSURANCE BALANCES PAYABLE   | 148,169,525 | 103,481,471 |
| 29.      | COMMISSIONS, EXPENSES, FEES AND TAXES PAYABLE  | -           | -           |
| 30.      | LOANS AND NOTES PAYABLE  | -           | -           |
| 31.      | (a) INCOME TAXES PAYABLE   | 1,652,399   | 1,705,924   |
| (b)      | DEFERRED INCOME TAXES  | -           | -           |
| 32.      | AMOUNTS DUE TO AFFILIATES  | 201,302     | 503,025     |
| 33.      | ACCOUNTS PAYABLE AND ACCRUED LIABILITIES   | 10,428,021  | 18,166,332  |
| 34.      | FUNDS HELD UNDER REINSURANCE CONTRACTS:  | -           | -           |
| 35.      | DIVIDENDS PAYABLE  | -           | -           |

**CONDENSED BALANCE SHEET**

Allianz Risk Transfer (Bermuda) Limited

As at December 31, 2018

United States Dollars

**LINE No.**

|   | 2018        | 2017        |
|---|-------------|-------------|
| 36. SUNDRY LIABILITIES:                                       |             |             |
| (a) Derivative instruments                                    | 3,658,150   | 3,922,594   |
| (b) Segregated accounts companies                             | -           | -           |
| (c) Deposit liabilities                                       | -           | -           |
| (d) Net payable for investments purchased                     | -           | -           |
| (e) Deferred commissions                                      | 4,722,967   | 477,921     |
| (f) Collateral liability                                      | 42,434,053  | 12,823,499  |
| (g) Other sundry liabilities (specify)                        | -           | -           |
| (h) Total sundry liabilities                                  | 50,815,170  | 17,224,014  |
| 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 | -           | -           |
| 38. TOTAL OTHER LIABILITIES                                   | 211,266,417 | 141,080,766 |
| 39. TOTAL INSURANCE RESERVES AND OTHER LIABILITIES            | 266,851,860 | 193,828,840 |
| <b>CAPITAL AND SURPLUS</b>                                    |             |             |
| 40. TOTAL CAPITAL AND SURPLUS                                 | 90,935,513  | 80,872,354  |
| 41. TOTAL   | 357,787,373 | 274,701,194 |

## CONDENSED STATEMENT OF INCOME

Allianz Risk Transfer (Bermuda) Limited  
As at December 31, 2018  
United States Dollars

| LINE No. |  | 2018         | 2017         |
|----------|--|--------------|--------------|
|          | <b>GENERAL BUSINESS UNDERWRITING INCOME</b>              |              |              |
| 1.       | GROSS PREMIUMS WRITTEN                                   |              |              |
|          | (a) Direct gross premiums written                        | 18,462,651   | 61,150,170   |
|          | (b) Assumed gross premiums written                       | 695,389,280  | 424,600,130  |
|          | (c) Total gross premiums written                         | 713,851,931  | 485,750,300  |
| 2.       | REINSURANCE PREMIUMS CEDED                               | 686,041,084  | 459,422,780  |
| 3.       | NET PREMIUMS WRITTEN                                     | 27,810,847   | 26,327,520   |
| 4.       | INCREASE (DECREASE) IN UNEARNED PREMIUMS                 | (63,154)     | (2,486,810)  |
| 5.       | NET PREMIUMS EARNED                                      | 27,747,693   | 23,840,710   |
| 6.       | OTHER INSURANCE INCOME                                   | -            | -            |
| 7.       | TOTAL GENERAL BUSINESS UNDERWRITING INCOME               | 27,747,693   | 23,840,710   |
|          | <b>GENERAL BUSINESS UNDERWRITING EXPENSES</b>            |              |              |
| 8.       | INCURRED   | 19,431,792   | 24,685,308   |
| 9.       | COMMISSIONS AND BROKERAGE                                | (20,235,969) | (11,879,361) |
| 10.      | TOTAL GENERAL BUSINESS UNDERWRITING EXPENSES             | (804,177)    | 12,805,947   |
| 11.      | <b>NET UNDERWRITING PROFIT (LOSS) - GENERAL BUSINESS</b> | 28,551,870   | 11,034,763   |
| 30.      | COMBINED OPERATING EXPENSE                               |              |              |
|          | (a) General and administration                           | 2,031,238    | 2,046,742    |
|          | (b) Personnel cost                                       | 4,408,502    | 5,202,140    |
|          | (c) Other  | 4,077,857    | 85,803       |
|          | (d) Total combined operating expenses                    | 10,517,597   | 7,334,685    |
| 31.      | COMBINED INVESTMENT INCOME - NET                         | 6,547,710    | 18,413,564   |
| 32.      | COMBINED OTHER INCOME (DEDUCTIONS)                       | (353,454)    | 2,447,976    |
| 33.      | COMBINED INCOME BEFORE TAXES                             | 24,228,529   | 24,561,618   |
| 34.      | COMBINED INCOME TAXES (IF APPLICABLE):                   |              |              |
|          | (a) Current  | 6,076,916    | 4,364,289    |
|          | (b) Deferred   | (267,057)    | 3,113,845    |
|          | (c) Total  | 5,809,859    | 7,478,134    |
| 35.      | COMBINED INCOME BEFORE REALIZED GAINS (LOSSES)           | 18,418,670   | 17,083,484   |
| 36.      | COMBINED REALIZED GAINS (LOSSES)                         | (6,088)      | (783,499)    |
| 37.      | COMBINED INTEREST CHARGES                                | -            | -            |
| 38.      | NET INCOME   | 18,412,582   | 16,299,985   |

**CONDENSED STATEMENT OF CAPITAL AND SURPLUS**

Allianz Risk Transfer (Bermuda) Limited  
 As at December 31, 2018  
 United States Dollars

| LINE No. |  | 2018        | 2017       |
|----------|--|-------------|------------|
| 1.       | <b>CAPITAL:</b>  |             |            |
| (a)      | Capital Stock  |             |            |
|          | (i) Common Shares  |             |            |
|          | authorized 120,000 shares of par   | 120,000     | 120,000    |
|          | 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 —  |             |            |
|          | 2018 _____   |             |            |
|          | 2017 _____   |             |            |
|          | (B) Preferred shares issued by a subsidiary:                                 |             |            |
|          | authorized _____ shares of par   |             |            |
|          | value _____ each issued and  |             |            |
|          | fully paid _____ shares  |             |            |
|          | aggregate liquidation value for —  |             |            |
|          | 2018 _____   |             |            |
|          | 2017 _____   |             |            |
|          | (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.       | <b>SURPLUS:</b>  |             |            |
| (a)      | Surplus - Beginning of Year  | 30,872,354  | 14,359,309 |
| (b)      | Add: Income for the year   | 18,412,582  | 16,299,985 |
| (c)      | Less: Dividends paid and payable   | (8,000,000) |            |
| (d)      | Add (Deduct) change in unrealized appreciation (depreciation) of investments | (364,449)   | 266,440    |
| (e)      | Add (Deduct) change in any other surplus                                     | 15,026      | (53,380)   |
| (f)      | Surplus - End of Year  | 40,935,513  | 30,872,354 |
| 3.       | <b>MINORITY INTEREST</b>   |             |            |
| 4.       | <b>TOTAL CAPITAL AND SURPLUS</b>   | 90,935,513  | 80,872,354 |

# ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to the Condensed General Purpose Financial Statements

December 31, 2018

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## 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. In 2018, ART NY became a wholly owned subsidiary of Allianz Global Risks US Insurance Company (“AGR”), an insurance company based in Chicago, Illinois, USA. AGR is indirectly owned by Allianz 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.

### 3. **Accounting Standards**

The condensed general purpose financial statements have been prepared in conformity with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to the Condensed General Purpose Financial Statements (the “Legislation”). The condensed general purpose financial statements are based upon accounting principles generally accepted in the United States of America (“US GAAP”) but are in accordance with the reporting requirements of the Legislation, which varies in certain respects from US GAAP. The more significant variances are as follows:

- A statement of cash flows is not included;
- A statement of comprehensive income is not included;
- The presentation and classification of financial statement line items is in accordance with Schedules IX and XI of the Insurance Account Rules 2016 and differ from the expected presentation and classification under US GAAP; and
- The notes included in the condensed general purpose financial statements have been prepared in accordance with Schedule X of the Insurance Account Rules 2016 and exclude certain information required under US GAAP.



# ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to the Condensed General Purpose Financial Statements

December 31, 2018

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## 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 the Condensed General Purpose Financial Statements

December 31, 2018

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## 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.

#### *(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, 2018

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### 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 the Condensed General Purpose Financial Statements

December 31, 2018

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### 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 condensed statement of 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 in the statement of income.

##### *(g) Derivative financial instruments*

As part of the Company's underwriting strategy, the Company enters into derivative contracts. The Company designates its substantive 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 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, 2018 and 2017, 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 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 2018 were \$102,000 (2017 - \$112,000).

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 2018 were \$101,000 (2017 - \$101,000).

# ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

## Notes to the Condensed General Purpose Financial Statements

December 31, 2018

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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. Foreign exchange gains or losses relating to these transactions are included in the statement of income.

5. See Part I, Note 4.

6. See Part I, Note 4.

7. N/A

#### 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 \$0.2 million during the year (2017 - \$0.2 million). The total minimum future lease payments required under this lease are as follows:

|       |                   |
|-------|-------------------|
| 2019  | \$ 236,250        |
| 2020  | \$ 236,250        |
| 2021  | <u>\$ 167,344</u> |
| Total | <u>\$ 639,844</u> |

# ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Notes to the Condensed General Purpose Financial Statements

December 31, 2018

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

### 8. Commitments and contingencies (continued)

In December 2017 and 2018, 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. ART AG charged a fee of EUR 1,373,978 (2017 – EUR 1,587,720) 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, 2018 by level within the fair value hierarchy:

|                               | <u>Level 1</u> | <u>Level 2</u>       | <u>Level 3</u>       | <u>Total</u>         |
|-------------------------------|----------------|----------------------|----------------------|----------------------|
| <b>Financial Assets</b>       |                |                      |                      |                      |
| Unquoted bonds and debentures |                |                      |                      |                      |
| Catastrophe bonds             | \$ -           | \$ -                 | \$ 24,002,963        | \$ 24,002,963        |
| Total Return Bond Fund        | -              | 10,563,525           | -                    | 10,563,525           |
| Unquoted equities             |                |                      |                      |                      |
| Common stocks                 | -              | -                    | 2,017,949            | 2,017,949            |
|                               | <u>\$ -</u>    | <u>\$ 10,563,525</u> | <u>\$ 26,020,912</u> | <u>\$ 36,584,437</u> |

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.

During 2018, the fair value hierarchy for the Company's unquoted equity investment was transferred from Level 2 to Level 3 to reflect the illiquidity inherent within the investment.

**ALLIANZ RISK TRANSFER (BERMUDA) LIMITED**

## Notes to the Condensed General Purpose Financial Statements

December 31, 2018

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, 2017 by level within the fair value hierarchy:

|                               | <u>Level 1</u> | <u>Level 2</u>       | <u>Level 3</u>       | <u>Total</u>         |
|-------------------------------|----------------|----------------------|----------------------|----------------------|
| <b>Financial Assets</b>       |                |                      |                      |                      |
| Unquoted bonds and debentures |                |                      |                      |                      |
| Catastrophe bonds             | \$ -           | \$ -                 | \$ 13,151,787        | \$ 13,151,787        |
| Total Return Bond Fund        | -              | 10,644,615           | -                    | 10,644,615           |
| Unquoted equities             |                |                      |                      |                      |
| Common stocks                 | -              | 2,320,284            | -                    | 2,320,284            |
|                               | <u>\$ -</u>    | <u>\$ 12,964,899</u> | <u>\$ 13,151,787</u> | <u>\$ 26,116,686</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.

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

|  |                      |
|--|----------------------|
| Due within one year                    | \$ 4,251,429         |
| Due after one year through five years  | 21,838,830           |
| Due after five years through ten years | 4,452,729            |
| Due after ten years                    | <u>4,023,500</u>     |
| Total                                  | <u>\$ 34,566,488</u> |

# ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

## Notes to the Condensed General Purpose Financial Statements

December 31, 2018

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

15. See Note 8.

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

|                                      | Amounts receivable (payable) |                     | Fees charged in year ended |                  |
|--------------------------------------|------------------------------|---------------------|----------------------------|------------------|
|                                      | <u>2018</u>                  | <u>2017</u>         | <u>2018</u>                | <u>2017</u>      |
| ART NY                               | \$ 101,309                   | \$ (176,488)        | \$ 2,799,744               | \$ 3,047,032     |
| ART AG                               | (56,412)                     | (90,702)            | (2,397,413)                | (2,952,084)      |
| Allianz Global Corp & Specialty SE   | (144,889)                    | (2,223)             | 1,078,974                  | 970,636          |
| Allianz Life Re Bermuda Ltd          | -                            | 993,158             | -                          | (993,158)        |
| Allianz Risk Transfer NV             | -                            | -                   | -                          | 8,013            |
| Allianz Global Risk US Insurance Co. | 471,710                      | -                   | 1,656                      | -                |
| ART AG (Bermuda Branch)              | <u>371,050</u>               | <u>3,345,106</u>    | <u>-</u>                   | <u>-</u>         |
|                                      | <u>\$ 742,768</u>            | <u>\$ 4,068,851</u> | <u>\$ 1,482,961</u>        | <u>\$ 80,439</u> |

During 2018, 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 | \$565,799,654 |
| Reinsurance premium ceded to affiliates       | \$ 12,659,605 |

16. The Board of Directors have assessed and evaluated all subsequent events arising from the balance sheet date up until April 30, 2019, the date the financial statements were available to be issued, and have concluded that no additional disclosure is required.

17. None.

### 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). In 2018, the Company declared and paid \$8.0 million in dividends. In 2017, no dividends were declared or paid.



# ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

## Notes to the Condensed General Purpose Financial Statements

December 31, 2018

### Part III - Notes to the Balance Sheet

1. As at December 31, 2018, cash and cash equivalents of approximately \$82.7 million (2017 - \$39.1 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 2018, there were additional collateral deposits and the fair value of the assets at December 31, 2018 was \$8.4 million (2017 - \$8.4 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, 2018 and 2017 are as shown in the following table:

| figures in US\$ million     | <u>Jurisdiction</u> | <u>Rating(S&amp;P)</u> | <u>Collateral asset balance</u> |                     |
|-----------------------------|---------------------|------------------------|---------------------------------|---------------------|
|                             |                     |                        | <u>2018</u>                     | <u>2017</u>         |
| Financial institution 1     | USA                 | BBB+                   | \$ 5,643,435                    | \$ 5,554,287        |
| Corporate swap counterparty | Bermuda             | NR                     | -                               | 4,021,610           |
| Financial institution 2     | Australia           | A                      | 36,533,281                      | 3,028,283           |
| Financial institution 3     | UK                  | A                      | 3,075,621                       | 2,445,726           |
| Financial institution 4     | USA                 | A+                     | -                               | <u>1,900,852</u>    |
|                             |                     |                        | <u>\$45,252,337</u>             | <u>\$16,950,758</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 \$2.0 million (2017 - \$2.3 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 \$24.0 million (2017 - \$13.1 million) and a total return bond fund of 10.6 million (2017 - \$10.6 million).

Management does not consider these investments to be other than temporarily impaired at December 31, 2018.

4. Advances to affiliates of \$0.9 million (2017 - \$4.6 million) include fees billed to 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, 2018

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#### PART III - Notes to the Balance Sheet (continued)

9. Investment income due and accrued of \$0.2 million at December 31, 2018 (2017 - \$0.1 million) represents accrued interest on catastrophe bonds.
10. Accounts and premiums receivable of \$47.8 million at December 31, 2018 (2017 - \$15.6 million) represent premiums receivable from third parties (\$15.2 million) and amounts deferred - not yet due (\$32.6 million).
11. Reinsurance balances receivable of \$76.8 million at December 31, 2018 (2017 - \$125.0 million) represent premiums receivable from third party insurers (\$0.6 million) and from foreign affiliates (\$76.1 million).
12. N/A
13. Sundry assets include derivative assets of \$4.6 million at December 31, 2018 (2017 - \$5.1 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 (2017 - \$37.5 million) and fair value of \$1.7 million (2017 - \$1.5 million). The maturity date of the instrument is December 2030; the contract includes an early termination provision at 2021.
  - b) a derivative with an affiliate representing hedging of the Company's long-term compensation plan exposure with fair value of \$2.8 million (2017 - \$3.6 million).
14. N/A
16. See Part I, Note 4.
17. (a) 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 \$295.3 million (2017 - \$232.5 million) are secured by funds held in trusts for which the Company is a beneficiary.

**ALLIANZ RISK TRANSFER (BERMUDA) LIMITED**

Notes to the Condensed General Purpose Financial Statements

December 31, 2018

**PART III - Notes to the Balance Sheet (continued)**

## 17. (a) (continued)

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

|  | <u>2018</u>                 | <u>2017</u>                 |
|--|-----------------------------|-----------------------------|
| Gross loss and loss expense provisions                         |                             |                             |
| - beginning of year  | \$280,133,625               | \$63,852,852                |
| Less: Reinsurance recoverable                                  |                             |                             |
| beginning of year  | <u>239,502,706</u>          | <u>34,496,866</u>           |
| Net loss and loss expense provisions                           |                             |                             |
| - beginning of year  | 40,630,919                  | 29,355,986                  |
| Net losses incurred and net loss expenses incurred related to: |                             |                             |
| Current year   | 18,879,033                  | 19,911,630                  |
| Prior years  | <u>552,759</u>              | <u>4,773,678</u>            |
| Total net incurred losses and loss expense                     | 19,431,792                  | 24,685,308                  |
| Net losses and loss expenses paid or payable related to:       |                             |                             |
| Current year   | 2,994,098                   | 7,848,967                   |
| Prior years  | <u>12,332,847</u>           | <u>5,698,649</u>            |
| Total losses and loss expenses paid or payable                 | 15,326,945                  | 13,547,616                  |
| Foreign exchange and other                                     | (867,763)                   | 137,241                     |
| Net loss and loss expense provisions - end of year             | 43,868,003                  | 40,630,919                  |
| Add: Reinsurance recoverable at end of year                    | <u>306,999,260</u>          | <u>239,502,706</u>          |
| <b>Gross loss and loss expense provisions at end of year</b>   | <b><u>\$350,867,263</u></b> | <b><u>\$280,133,625</u></b> |

There is a small development in prior year incurred losses relating to property, no additional premiums have been accrued as a result.

The total loss and loss expense provision represents unsecured policyholder obligations.

# ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

## Notes to the Condensed General Purpose Financial Statements

December 31, 2018

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### PART III - Notes to the Balance Sheet (continued)

20 – 27. N/A

28. Insurance and reinsurance balances payable of \$148.1 million (2017 - \$103.5 million) represent reinsurance balances due to third parties of \$145.6 million (2017 - \$102.1 million) and due to affiliates of \$2.5 million (2017 - \$1.4 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 \$0.2 million (2017 - \$0.6 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 \$12.1 million (2017 - \$19.9 million) represent accruals for services due to third parties and technical payments received in advance.

34. N/A

35. N/A

36. Sundry liabilities include derivative liabilities of \$3.7 million at December 31, 2018 (2017 - \$3.9 million). See Part I Note 3 for the description of the policies surrounding the use of derivatives. The balance sheet position represents a derivative with a financial institution with a nominal amount of \$88.3 million (2017 - \$88.3 million) and fair value of \$3.7 million (2017 - \$3.9 million). The maturity date of the instrument is October 2032.

Sundry liabilities also include collateral deposits received from a third party supporting margin requirements for derivative contracts in the amount of \$42.4 million (2017 - \$12.8 million).

Deferred commissions represent the deferral of ceding commissions on quota share and treaty retrocession contracts.

# ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

## Notes to the Condensed General Purpose Financial Statements

December 31, 2018

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### PART III - Notes to the Balance Sheet (continued)

37. N/A

### Part IV - Notes to the Statement of Income

6. N/A

15. N/A

32. Other income (deductions) of \$(0.4) million (2017 - \$2.4 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 \$0.01 million (2017 - \$0.8 million) represent realized losses on unquoted equity investments.