Allianz Risk Transfer (Bermuda) Limited

Financial Condition Report

Year ended December 31, 2021

FINANCIAL CONDITION REPORT

for ALLIANZ RISK TRANSFER (BERMUDA) LIMITED

Allianz Risk Transfer (Bermuda) Limited ('ART Bermuda' or the 'Company') is a core part of the Allianz Risk Transfer Line of Business ('ART LOB'), the centre of competence for alternative risk transfer business within the Allianz Group. Our strategy is to provide tailored insurance, reinsurance and other non-traditional risk management solutions to corporate and financial clients worldwide.

The ART LoB business includes all participations in structured insurance , global captive fronting and other fronting, parametric covers, other covers (includes the discontinued structured finance contracts) and capital solutions. The description of the main segments is provided below.

Structured Insurance

This core business segment spans from brokered integrated / structured to tailor-made solutions produced in a highly consultative, customer-focused way. In many cases, these are customized multi-year and/or multi-line arrangements with a profit sharing component allowing for risk diversification between classes, risk spread over time allowing the client to manage the profit & loss volatility and for positive experience sharing over the term with the customers. The offerings complement those provided by Allianz Global Corporate & Specialty ('AGCS'). Reinsurance solutions for captives of corporates are considered to be part of the Structured Insurance business segment as the ultimate client is the corporate company.

Global Captive Fronting and Other Fronting

This business segment includes standalone international fronting programs for corporates which involves the issuance of multiple local policies. The Other Fronting business includes, for example, Managing General Agent ('MGA') programs due to licensing needs of the ultimate risk taker. In both Global Captive Fronting and Other Fronting, no net underwriting risk is retained in ART LoB. These segments offer risk-free commission and fee income, supporting both the net underwriting result and positively influencing the expense ratio. This is one of the main segments driving the high gross volumes (premiums/reserves) without any net impact.

Parametric Covers

A parametric cover is an agreement to make a pre-agreed payment upon the occurrence of a pre-defined triggering event, instead of indemnifying an actual incurred loss. The triggering event is measured by an objective parameter or index that is related to the client's particular exposure. Parameters and indices may measure weather, natural catastrophe, mortality, longevity, and other triggering events.

Other Covers

This business segment includes unique, bespoke, high-margin solutions that do not clearly fit into one of the other segments. This segment may include capital or rating relief transactions, covers for decommissioning risk or “traditionally structured” covers of challenging “non-traditional” risks in the market. The ART managed portfolio, which was discontinued as per March 2009, is included in this segment. The remaining in-force portfolio includes structured finance contracts with various underlying asset classes (such as private equity or project finance) and investments in alternative assets.

Capital Solutions

This is a crossover specialty, focused on the convergence between insurance and capital markets. Insurance Linked Markets (‘ILM’) involve structuring of Insurance Risks into a form that is acceptable to capital market investors. In essence, these structures transform (mainly event driven) insurance exposures such as earthquakes and hurricanes into an investment product accessible to an investor. ART acts in many capacities in this value chain: as structurer and sponsor of catastrophe bonds, broking private placements between Allianz and capital market investors, as a transformer between financial and insurance execution formats and more recently as a manager of these exposures. This is one of the main segments driving the high gross volumes (premiums/reserves) without any net impact.

Business and Performance

The Company's insurance business written by business segment and by geographical region for the year ended December 31, 2021 was as follows (all figures in this section sourced from the 2021 BSCR):

Line of Business	Gross Premium Written	Net Premium Written
Property Catastrophe	$ 470,728,072	$ -
Property	155,100,420	34,781,464
Credit / Surety	11,001,089	1,053,514
Credit / Surety Non-Proportional	922,241	-
Energy Offshore / Marine	3,233,449	-
US Casualty	10,083,588	349,032
International Casualty Non-Motor	216,373,926	-
Total	**$ 867,442,785**	**$ 36,184,010**

Geographical Location	Net Premium Written
Caribbean and Central America	$ 6,260,664
North-East United States	1,053,514
South-East United States	34,781
Mid-West United States	27,826,389
Western United States	1,008,662
Total	**$ 36,184,010**

The Company's insurance business written by business segment and by geographical region for the year ended December 31, 2020 was as follows (all figures in this section sourced from the 2020 BSCR):

	Gross Premium Written	Net Premium Written
Line of Business		
Property Catastrophe	$ 539,799,527	$ -
Property	164,224,620	66,726,957
Credit / Surety	14,151,009	823,892
Credit / Surety Non-Proportional	1,428,493	-
Energy Offshore / Marine	44,175,938	-
US Casualty	78,896,276	863,490
International Casualty Non-Motor	169,670,543	-
Total	**$ 1,012,346,406**	**$ 68,414,339**

	Net Premium Written
Geographical Location	
Caribbean and Central America	$ 12,347,426
North-East United States	823,892
South-East United States	301,701
Mid-West United States	54,290,787
Western United States	623,533
Total	**$ 68,414,339**

The Company's investment performance by asset class for 2021 was as follows:

PIMCO Total Return Bond Fund	-1.25%
Unquoted Equities	0.00%
Catastrophe Bonds – USD (Sold in 2021)	0%

The Company's investment performance by asset class for 2020 was as follows:

PIMCO Total Return Bond Fund	9.17%
Unquoted Equities	0.00%
Catastrophe Bonds – USD	3.43%

Contacts and Structure

Insurance Supervisor:
Name: Bermuda Monetary Authority
Jurisdiction: Bermuda
Email Address: insuranceinfo@bma.bm
Phone Number: 441-295-5278

Group Supervisor
Organization: Federal Financial Supervisory Authority ("BaFin")
Jurisdiction: Germany
Email address: www.bafin.de

Approved Auditor
Organisation: PricewaterhouseCoopers
Jurisdiction: Bermuda
Phone Number: 441-295-2000

Corporate Secretary
Organisation: Walkers Corporate (Bermuda) Limited
Jurisdiction: Bermuda
Email Address: karen.crowe@walkersglobal.com
Phone Number: 441-242-1527

Ownership details:

Owner Name: Allianz Global Risks US Insurance Company.
Owner Percentage: 100%

Group organisation chart is attached at Schedule A

Governance Structure

Board and Senior Executive

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

David Brown ***Director and President***

David Brown joined Allianz Risk Transfer (Bermuda) Limited in 2010 and is currently responsible for the Insurance Linked Markets business team. David works with managers of third party capital to access (re)insurance risk. With over 15 years of industry experience, including both underwriting and brokering, David joined from Allianz Risk Transfer (UK) Limited. His early career was spent at Marsh, where he focused on structuring alternative risk transfer and captive solutions.

David is an Associate of the Chartered Insurance Institute and holds a Master's degree in Mathematical Trading and Finance from Cass Business School.

Thomas Schatzmann ***Director***

Thomas joined Allianz Risk Transfer AG at its formation in 1997. After ten years of service as global Head of Accounting, Thomas became Chief Financial Officer with responsibility for Allianz Risk Transfer AG and subsidiaries in April 2007, serving on the executive board of management since that time. In January 2019, he was appointed to the board of directors of Allianz Risk Transfer (Bermuda) Limited. Thomas started his career with a professional apprenticeship at Winterthur Insurance, Switzerland in 1982 and has worked for more than thirty-five years in various roles within the insurance industry, primarily in an international environment.

Douglas Randy Renn ***Director (Resigned effective June 2021)***

Randy Renn has been the Chief Financial Officer, Allianz Global Corporate & Specialty (AGCS) North America and a member of the company's Board of Directors since 2007. Randy is responsible for all financial functions for North America, including reporting, financial planning, treasury, actuarial, and risk management. As a Six Sigma certified financial executive, Randy has led significant restructuring and business process reengineering initiatives at Allianz, GE Capital, Citi Group, and CNA Insurance.

Randy holds a Master's degree in Finance and Business Administration from the University of Illinois.

Paul Davis *Director (Appointed September 2021)*

Paul Davis is the Managing Director Finance, Allianz Global Corporate & Specialty (AGCS) North America and a member of the company's Board of Directors. Paul joined AGCS in 2003 and has helped lead the company during its growth phases and recent turnaround and transformation challenges. During that time this has included the establishment of branches within Europe for the company and whilst in Asia Pacific supporting the doubling of revenues over a five year period including business case creation leading to investments in South Korea and India.

Paul, a qualified accountant since 1999, is a fellow of the Association of Chartered Certified Accountants (FCCA).

Julie A. Garrison *Director (Resigned September 2021)*

Julie Garrison is Senior Vice President and Head of Legal & Compliance for Allianz Global Corporate & Specialty North America, located in Chicago, Illinois. She joined the Allianz Group in 1999, serving in the General Counsel's Office of Fireman's Fund Insurance Company, and was responsible for providing legal counsel to its Specialty insurance business. In 2005, she transferred to her current position. Ms. Garrison specializes in insurance regulatory and general corporate and transactional matters, and has more than thirty years of experience serving as in-house counsel in the insurance industry.

Prior to joining the Allianz Group, she was General Counsel for Concord General Corporation, a California insurance holding company.

Ms. Garrison received a Bachelor of Arts in Political Science from University of California—Davis and her legal education from University of California—Berkeley, Boalt Hall School of Law. She holds Bar Admissions in the States of California and Illinois (limited in-house admission).

All Directors and Officers are Allianz employees and receive no specific additional fees for their services to the Board. As Allianz employees, they are subject to Allianz guidelines covering performance review and an element of overall remuneration is performance-based. There are no supplementary or early retirement schemes in place nor are there any material transactions with the board or senior executive.

Remuneration Policy

The Company's remuneration program is in line with AGCS guidelines adapted to the specific requirements of the Bermuda market. It includes fixed annual base salary, competitive employee benefits and annual cash bonuses and (for senior management) long-term equity awards based on Group and individual performance.

The compensation program is designed to provide a balanced mix of salary, annual incentive compensation, and long-term incentive compensation, the realisation of which depends upon the attainment of a range of performance metrics.

Employees' performance is formally assessed at least twice a year and is graded against a target bonus based on a mix of financial and personal KPIs. There is an overall calibration as part of the year end compensation review.

The Allianz Group's long-term incentive plan currently consists of Restricted Stock Units (RSUs) that vest following a four-year vesting period.

Fitness and Propriety Requirements

ART Bermuda follows the AGCS Fit and Proper Policy. This policy describes principles, criteria and processes designed to ensure that those people who actually control the Company and work in ley functions do indeed meet the professional qualifications and demonstrate the required personal propriety.

Sound processes during recruitment and both regular and ad hoc reviews as well as appropriate training are necessary to ensure Fitness and Propriety. Based on the information gathered during recruitment, review or an outsourcing due diligence, each case must be assessed individually, considering the following:

Fitness: if it appears that a member of the Senior Management, a Key Function Member or a candidate to such a position suffers from a specific lack of knowledge, competencies or skills, it shall be considered whether this gap can be addressed through specific professional training and if so, the person must be provided with such training.

Propriety: any sign of a possible lack of Propriety must be taken into account for the assessment, including factors such as the type of misconduct or conviction, the severity of the case, the level of appeal (definitive vs. non-definitive conviction), the lapse of time since and the person's subsequent conduct, as well as the person's level of responsibility within the Company and the relevance of the finding for the respective position (i.e. the position's exposure to integrity and fraud risks). Furthermore, any finding with respect to a person's Propriety must be shared with the compliance and legal department.

The members of the Board and senior management shall collectively possess qualification, knowledge and expertise about:

- Insurance and/or asset management and financial markets, i.e. an understanding of the business, economic and market environment in which the Company operates;
- The business strategy and business model of the Company;
- ART Bermuda's system of governance, i.e. an understanding of the risks the Company is facing and the capability of managing them and of assessing the capacity of the Company to deliver effective governance, oversight and controls;
- Financial and actuarial analysis, i.e. the ability to interpret the Company's financial and actuarial information, identify key issues, put in place appropriate controls and take necessary measures based on this information; and
- Regulatory framework and requirements, i.e. an understanding of the regulator.

Risk Management and Solvency Self-Assessment

As a provider of financial services, ART Bermuda considers risk management to be one of its core competencies. It is therefore an integral part of its business process. The Company's risk management framework is fully integrated into the risk management framework of AGCS globally and covers, on a risk-based approach, all operations including IT, processes, products, and departments. The key elements of the risk management framework are:

- Promotion of a strong risk management culture, supported by a robust risk governance structure.
- Consistent application of a risk capital framework (using the Bermuda Solvency Capital Requirement model) to protect the company's capital base and support effective capital management.
- Integration of risk considerations and capital needs into management and decision-making processes.

The framework ensures that risks are identified, analyzed, assessed, and managed in a consistent manner. The risk appetite of ART Bermuda is defined by a risk strategy and limit structure. Close risk monitoring and reporting allows detection of potential deviations from the risk tolerance at an early stage.

For the benefit of shareholders and policyholders alike, the risk management framework adds value through the following four primary components:

Risk underwriting and identification: A sound risk underwriting and identification framework forms the foundation for adequate risk-taking and management decisions such as individual transaction approvals and strategic asset allocations. The framework includes risk assessments, risk standards, valuation methods, and clear minimum standards for underwriting.

Risk reporting and monitoring: The qualitative and quantitative risk reporting and monitoring framework provides management with the transparency and risk indicators to help them decide on our overall risk profile and whether it falls within delegated limits and authorities.

Risk strategy and risk appetite: The risk strategy defines the risk appetite of ART Bermuda. It ensures that rewards are appropriate for the risks taken and that the delegated authorities are in line with the overall risk-bearing capacity. The risk-return profile is improved through the integration of risk considerations and capital needs into decision-making processes. This also keeps risk strategy and business objectives consistent with each other and allows the company to take opportunities within its risk tolerance.

Communication and transparency: Finally, transparent and robust risk disclosure provides the basis for communicating this strategy to internal and external stakeholders, ensuring a sustainable positive impact on valuation and financing. It also strengthens the risk awareness and risk culture throughout the Company.

Strategy and objectives

The risk strategy of ART Bermuda is aligned with and embedded in the overall risk strategy of AGCS and is a core element of the ART Bermuda risk management framework that defines a strategy for the management of risks that the company faces during the pursuit of its broader business plan. With the risk strategy, ART Bermuda aims to:

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

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

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

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

Risk strategy process

The alignment of the Company's business strategy and the risk strategy is integrated into the annual "Strategic Dialogue" and "Planning Dialogue" processes for the AGCS Group.

In the Strategic Dialogue, which takes place in the first half of a financial year, a top down indication of the operating profit and cost targets for the year are agreed. The targets are an update of the prior year's planning, based on actual results, changes in the portfolio, market expectations, new business strategies and their corresponding risks, and other management actions.

Following this outcome, a detailed business plan for a three-year time horizon is developed, and the plan is agreed during the Planning Dialogue in the second half of the financial year. The planning reflects the development of the technical result, taking into account both in-force business as well as new business, and involves planning of capital, dividends, investments and tax. The capital planning process ensures that the business plan is in line with the Company's risk-bearing capacity.

Overall risk organization and roles in risk management

A comprehensive system of risk governance is achieved by setting standards related to organizational structure, risk strategy and appetite, written policies, limit systems, documentation, and reporting. These standards ensure the accurate and timely flow of risk-related information and a disciplined approach towards decision-making and execution. Allianz Risk Transfer (Bermuda) Limited, fully integrated in the risk governance framework of the AGCS Group, adopts relevant policies, standards and functional rules of them.

As a general principle, the "first line of defense" rests with business managers. They are responsible, in the first instance, for both the risks of and returns on their decisions. The "second line of defense" is made up of independent oversight functions such as Risk, Actuarial, Compliance and Legal. "Second line of defense" functions support, challenge and have the oversight of business functions through proactive risk management. Internal Audit forms the "third line of defense".

The risk officer of ART Bermuda operates under the direction of the AGCS Chief Risk Officer, and is independent from the business line management. The risk officer supports the Company's Board of Directors as the primary risk controlling body. The risk officer maintains an independent risk oversight that includes all short and long term risks faced by ART Bermuda and drives the development of an adequate risk framework and a robust risk reporting. The risk officer shall be informed about all major risk related decisions.

Principles for risk management

Risk management at ART Bermuda is based on a common understanding of the risks and comprehensively defined risk management and control processes with clear organizational structures, whereby the following principles apply.

Principle 1: Board of Directors is responsible for the risk strategy

The ART Bermuda Board of Directors establishes and adheres to a Risk Strategy and associated Risk Appetite which is derived from and regularly reviewed for consistency with AGCS' business strategy. The Risk Strategy reflects the general approach towards the management of all material risks arising from the conduct of business and the pursuit of business objectives. The Risk Appetite elaborates on the Risk Strategy through the establishment of the specific level of risk tolerance for all material quantified and non-quantified risks, and thereby the desired level of confidence, in relation to clearly defined risk and performance criteria, taking into account shareholders' expectations and requirements imposed by regulators and rating agencies. The Risk Strategy and Appetite are reviewed at least once a year and, if deemed necessary, adjusted and communicated to all impacted parties.

Principle 2: Risk capital as a key risk indicator

The risk capital based on the BSCR model is the central parameter used to define risk tolerance. It serves as key indicator in the decision-making and risk management process with respect to capital allocation and limits. Capital is to be understood as risk-bearing capacity or available financial resources. Where relevant, ART Bermuda considers its impact on risk capital when taking material business decisions.

Principle 3: Clear definition of the organizational structure and risk processes

An organizational structure is established at ART Bermuda, inclusive of the roles and responsibilities of all persons involved in the risk management process, which is clearly defined and which covers all risk categories. The structure shall be documented and communicated in a clear and complete manner to all relevant addresses

Principle 4: Measurement and evaluation of risks

All material risks, including both single risks and risk concentrations across one or more risk categories, are measured using consistent quantitative and qualitative methods. Quantifiable risks are covered within the scope of the risk capital framework of the BSCR model. Risks that cannot be quantified based on the risk capital methodology, as well as complex risk structures resulting from a combination of multiple risks from one or more risk categories are assessed with the help of qualitative criteria and/or scenario analysis. Strictly non-quantifiable risks are analyzed based on qualitative criteria.

Principle 5: Development of limit systems

A consistent limit system is in place to ensure adherence to the risk appetite and to manage concentration risk exposure and, where appropriate, assist with capital allocation. The limit system is to be based on relevant risk measures where applicable but should also be complemented by steering limits based on accounting or position information, and shall be regularly reviewed by the ART Bermuda Ltd. Board of Directors against the background of the defined risk strategy.

Principle 6: Mitigation of risks exceeding the risk appetite

Appropriate risk mitigation techniques are employed to address instances where identified risks exceed, or otherwise breach, the established risk appetite. Where such cases occur, clear courses of action designed to resolve the breach are initiated, such as the adjustment of the risk appetite following a business review, the purchase of (re-) insurance, a strengthening of the control environment, or a reduction in, or hedging against, the underlying asset or liability giving rise to the risk.

Principle 7: Consistent and efficient monitoring

Risk appetite and risk strategy are transferred into standardized limit management processes covering all quantifiable risks throughout the AGCS Group and taking into account the effects of risk diversification and risk concentration. A clearly defined and strict limit breach reporting and escalation process ensures that risk tolerance limits and target ratings for top risks (including for non-quantifiable risks) are adhered to and that, as appropriate, remediation activities are taken immediately if limits are exceeded. Early warning systems such as the monitoring of limits for high risks and emerging risk assessment are established to identify new and emerging risks, including complex risk structures, and identified risks are subject to continuous monitoring and regular reviews.

Principle 8: Consistent risk reporting and risk communication

The risk officer of ART Bermuda generates internal risk reports at both predefined regular intervals and on an ad hoc basis, which contain relevant, risk-related information in a clear and concise form. Internal risk reporting is supplemented by duties of disclosure concerning emerging risks relevant to external stakeholders or constituents (e.g. regulators, rating agencies, shareholders, society). Information comprising risk reports are primarily sourced by management information systems, which operate within internal control environments designed to ensure adequate data quality, in order to support complete, consistent and timely risk reporting and risk communication to all relevant levels of management.

Ad hoc reporting covers events which are – besides regular reporting – unexpected in terms of size and impact and either contain significant changes to known risk issues or completely new or emerging risk issues that could lead to significant impacts. Impacts in this context includes material quantitative impacts to profit & loss or capitalization as well as material qualitative impacts to reputation, business continuity or non-compliance with laws and regulations.

Principle 9: Integration of risk management into business and transformation processeses

Risk management processes are embedded wherever possible directly within business processes, including processes involving strategic and tactical decisions or otherwise processes dealing with transformation of business and changes, as well as day to day decisions impacting the risk profile. This approach ensures that risk management exists foremost as a forward looking mechanism to steer risk and only secondarily as a reactionary process. Key to supporting this integration is the establishment of a strong risk culture by the Board of Directors, whereby they lead by example in order to make clear throughout the business that the management of risks is an important factor towards the achievement of business objectives.

Principle 10: Comprehensive and timely documentation

All business decisions with potential to materially impact ART Bermudas risk profile, including both regularly recurring and ad hoc decisions and all decisions taken by Board of Directors are documented timely and in a manner that clearly reflects consideration of all material risk implications.

Internal Controls

ART Bermuda has implemented a formalized internal control system, the Enterprise-wide Risk-based Integrated Control (ERIC) System to manage significant operational risks to ART Bermuda through control activities on an ongoing basis and to ensure effectiveness of key controls at all times. In compliance with legal and regulatory as well as Allianz SE requirements, and following internationally recognized control frameworks such as Committee of Sponsoring Organizations of the Treadway Commission (COSO) this approach is designed to ensure that:

- The achievement of strategic business objectives is effectively supported and ART Bermuda's ability to conduct business is safeguarded
- Governance elements and business operations are effective
- ART Bermuda is compliant with applicable laws and regulations and administrative provisions as well as with ART Bermuda Ltd.'s, AGCS and Allianz Group internal corporate rules; and
- Both internal and external financial and regulatory reporting processes produce complete and accurate information to support effective internal management decisions and to meet expectations of external stakeholders

The ERIC System formalizes key controls required to mitigate significant operational risks to ART Bermuda. A holistic view on these risks and controls is facilitated, and reasonable assurance is provided to The Board of ART Bermuda with regards to meeting the above objectives. Through the harmonized approach when engaging with the individual functions for operational risk and control assessments, the ERIC System also fosters the collaboration and information sharing across the Key Governance Functions: Compliance, Risk Management, Actuarial and Internal Audit. As all results of the ERIC System are recorded in the ERIC tool (OpenPages), a primary source of information is available to internal and external stakeholders.

Furthermore, the ERIC System creates risk and control awareness across the organization and provides transparency with respect to risk and control ownership. The quality of key controls is assessed in a structured and efficient manner. Supported by an effective Operational Risk Management Framework, potentially significant operational risks are identified early and measures are taken to avoid or mitigate these risks, in order to meet the operational risk tolerance defined by The Board of ART Bermuda through the ART Bermuda Top Risk Assessment.

The following key principles are the basis of the ERIC System:

- Focus on significant risks
- Focus on key controls
- Risk and control awareness of employees in their day-to-day work.
- Effectiveness of key controls
- Documentation of risks, controls and business processes
- Use of internal or external Providers and integrating them into the Internal Control System
- Control strategies such as segregation of duties and four-eyes-principle.

Risk and control assessment programs form the fundamental procedures to determine those operational risks that are in scope of the ERIC System; they set the focus on the significant risks to the objectives defined above. The programs provide individual views on the ART Bermuda risk and control landscape and complement each other. A balanced combination of these programs ensures a comprehensive coverage through the ERIC System while still being efficient and manageable.

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

- Management level (e.g. Entity-Level Controls, Top Risk Assessments, Global Operational Risk Assessment programs)
- IT level (e.g. IT General Controls)
- Process level (e.g. Financial and Regulatory Reporting Processes)

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

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

The ERIC Core Process follows an annual cycle consisting of four steps:

- Risk scoping
- Integrated risk and control assessments and remediation
- Control testing and deficiencies
- Monitoring and reporting

ART Risk Management and The Board has the oversight of the above mentioned steps.

On a regular basis they form an opinion on:

- the ERIC System with respect to comprehensiveness and consistency
- the existence and execution of clear and consistent operational responsibilities and processes for the ERIC System
- the appropriateness and comprehensiveness of the focus of the risk and control assessment activities (e.g., annual risk focus/improvement areas, key business operations, risk scope, control testing scope);
- the effectiveness of the ERIC System particularly including the materiality of identified control deficiencies

Risk Scoping

Proper risk scoping is crucial to focus risk and control assessment efforts on the significant risks and associated key controls. The scoping is an annual process following a top-down approach coordinated by the ART Risk Management function. Various aspects are considered in this context to ensure comprehensiveness, particularly the consideration of known weaknesses of controls and processes.

Integrated Risk and Control Assessments and Remediation

Based on expert judgment, the inventory of the ERIC risks and controls are regularly reviewed and updated. In particular, all in-scope risks and associated key controls are assessed with respect to their potential negative impact on the ERIC objectives during integrated Risk and Control Assessments.

Control Testing and Deficiencies

Control testing is crucial to demonstrate the effectiveness of ART Bermuda s internal controls to external stakeholders and to build and maintain the trust of stakeholders in the reliability of these efforts. Clear and up-to-date documentation of key controls forms the basis for efficient control testing.

The ART Risk Management function proposes a structured and risk-based control testing scope, considering the outcome of the risk and control assessments. Further aspects such as identified deficiencies and significant changes in processes, controls or IT systems are also considered. The scope is reviewed by The Board with respect to its appropriateness and comprehensiveness.

Following this scope, individual key controls are tested to ensure the effectiveness of risk mitigation activities. Based on documented evidence it is concluded whether or not the control is designed appropriately to mitigate the underlying risks (test of design) and whether or not it is operating effectively (test of operating effectiveness). Control testing activities are carried out through "independent testing" by risk management.

Missing key controls, or key controls that are not deemed to be designed appropriately or operating effectively, lead to a deficiency and require remediation. With the involvement of risk management, the materiality of the deficiency is assessed, and a realistic and detailed remediation plan is set up. When a control deficiency is considered to be remediated, the control needs to be re-tested.

Monitoring and Reporting

On an annual basis, the AGCS Risk Management function prepares the global ERIC report with explicit consideration of ART Bermuda. This report is complemented by the ART Bermuda supplemental letter to the ERIC report, which is prepared by ART Risk Management. The ERIC report as well as the supplemental letter is provided to The Board for signing off the overall effectiveness of the ERIC System.

Compliance Function

On a regular basis, the Compliance Function identifies and assesses the compliance risk associated with the Company's business activities for the assigned/attributed risk areas. This is usually conducted in association with the annual Top Risk Assessment led by the Company's risk officer. The Compliance Function support the Risk Management function in the various risk and control assessment programs under the ERIC Framework (e.g. through providing input to the scoping or assuming risk / control owner responsibilities). The Compliance Function reports on a regular basis to the Board of Directors. This includes reporting on the results of the preceding Compliance Risk Assessment, any changes in the compliance risk profile, a summary of identified breaches and/or deficiencies and the recommended corrective measures.

Internal Audit

The Company outsources the Internal Audit function to Allianz Internal Audit. As a separate unit within Allianz, their stated mission is to enhance and protect organizational value and aligning business improvement with customer and strategic focus by providing independent, objective assurance, advice, and insight, overall assisting the company in improving its internal control system. To accomplish the mission, they endeavor to act as an equal partner who faces conflicts constructively and clearly communicates recommendations and responsibilities.

Actuarial Function

The Actuarial Function of ART Bermuda is embedded in the overall ART Corporate Actuarial function, which is led by the Appointed Actuary (Loss Reserve Specialist) of ART Bermuda. In order to avoid potential conflicts of interest, business actuaries (i.e. actuaries that perform first line of defense tasks in Underwriting) are not part of ART Corporate Actuarial. ART Corporate

Actuarial covers the main areas Reserving/Analysis, Actuarial Diagnostics, Actuarial Risk Modeling and Actuarial Pricing Analytics.

As part of ART Corporate Actuarial, the Actuarial Function fulfills its duties in line with regulatory requirements. The Actuarial Function chairs the Loss Reserve Committee, which decides upon the level of reserves required under GAAP, and provides to the committee the recommended actuarial best estimate reserve level. Within the Loss Reserve Committee, the Actuarial Function is represented by the Loss Reserve Specialist as a voting member. Additionally, the Actuarial Function sets the technical reserves for the EBS and analyzes the sensitivity and the uncertainties around the technical provisions. The Actuarial Function has interfaces and works closely with other functions, in particular with the Risk Management Function, and takes an active role in the Risk Management processes of the Company. Among others, the Actuarial Function provides several inputs and conducts stress tests and scenario analysis for the Solvency Capital calculations under the BSCR and EBS capital models.

Outsourcing

The Company follows the standards of the AGCS Outsourcing policy. Allianz defines Outsourcing, as an arrangement between an Outsourcing Operating Entity ('OE') and a different legal entity (Provider), be it Allianz Group internal or external, by which that Provider performs a certain process or activity (Function or Service) for a period of time, which would otherwise be performed by the Outsourcing Operating Entity itself. As a result, the arrangement transfers the operational tasks of the activity to the Provider.

The Outsourcing process consists of four major phases:

- Decision phase
- Implementation phase
- Operational phase, and
- Exit phase

Group guidance includes the following:

It is incumbent on the Outsourcing OE to remain fully responsible for the proper execution of the outsourced Functions and Services as if the outsourced Functions and Services had not been outsourced. The OE must ensure compliance with all applicable laws and regulations and internal corporate rules. Notwithstanding this, the OE must have in place corporate rules, procedures and processes to the Outsourcing of Functions and Services that are appropriate in relation to the size and scope of the OE's business operations; it shall adopt relevant Group requirements and must enable an effective management of the risks associated with Outsourcing. Before implementing and executing Outsourcing Agreements, all necessary (internal and external) approvals must be obtained and documented. The initial Outsourcing of Functions shall require the approval of the OE's Board of Management, while for the initial Outsourcing of Services, as well as renewals of

Outsourcing Agreements with regard to Functions or Services, the approval by the responsible member of the Board of Management may suffice.

Allianz Risk Transfer centralizes certain key functions, and the managers responsible for actuarial and risk management services are based in operating affiliates of ART Bermuda. There are no material functions that have been outsourced to a third party.

Risk Profile

Key risks/risk categories:

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

Market risk comprises fixed income risk, equity risk, interest rate risk, currency risk and concentration risk. Fixed income risk reflects investment risk from fixed income instruments. Equity risk results from fluctuation in the value of or the income from equity investments. Interest rate risk refers to risk resulting from interest rate changes. Currency risk stems from movements in foreign currency exchange rates. Concentration risk means the risk of exposure to losses associated with inadequate diversification of portfolios of assets or obligations.

Credit risk includes the risk of loss arising from an inability of Allianz Risk Transfer (Bermuda) Limited to collect funds from debtors.

Underwriting risk (synonymously called insurance risk) consists of premium risk, reserve risk and catastrophe risk. Premium risk means the risk that premium is insufficient to meet future obligations. Reserve risk means the risk that an insurer's technical provisions may be insufficient to satisfy its obligations. Catastrophe risk means the risk of a single catastrophic event or series of catastrophic events that lead to a significant deviation in actual claims from the total expected claims.

Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Liquidity risk stems from unexpected financial losses due to a failure to meet, or to meet based on unfavorable altered conditions, short-term current or future payment obligations, as well as the risk that in the event of a liquidity crisis of Allianz Risk Transfer (Bermuda) Limited refinancing is only possible at higher interest rates or by liquidating assets at a discount.

Business risk results from unexpected decrease in actual results compared to business assumptions, which lead to a decline in income without a corresponding decrease in expenses; this includes lapse risk.

Reputational risk is defined as an unexpected drop in the value of Allianz share price, value of in-force or future business caused by a decline in the reputation of Allianz Group or one or more of its specific organizational entities from the perspective of its stakeholders.

Strategic risk is caused by unexpected negative changes in value of the Company arising from the adverse effect of management decisions regarding business strategies and their implementation.

Risk profile/materiality of risks – BSCR view

ART Bermuda measures the quantifiable risks using the BSCR model

In the BSCR model, the largest risk exposures are premium risk, reserve risk, catastrophe risk and credit risk. Other contributors to the risk exposure are fixed income investment risk, equity investment risk, interest rate/liquidity risk, currency risk, concentration risk.

Risk profile/materiality of risks – TRA view

The BSCR model is complemented by way of an annual Top Risk Assessment (TRA) conducted by ART Risk Management jointly with senior management of the company. The TRA is an integrated, comprehensive assessment of all material quantifiable and non-quantifiable eight risk categories to which ART Bermuda is exposed. The focus of the TRA is not on tail events (being reflected by the enhanced capital requirement in the BSCR model), but on the analysis of scenarios occurring once every 25 years or less. Within the TRA, results from internal economic risk modelling are taken into account.

The main risks identified are detailed below. The risk profile for the measurable risk categories emerging based on TRA and the BSCR model are generally in line.

For the Company, insurance risk is the primary risk whereas individual large transactions show high impact at the 1-in 10 years return period.

Based on the AGCS Standard for Operational Risk, the operational risk category includes legal risk, compliance risk and financial reporting risk. Based on occurrence and financial impact considerations legal risk is deemed higher than compliance and financial reporting risk.

Business risk includes the risk of changing regulations impacting operational efficiency. Overall, business risk is seen as a moderate risk with regards to the return period and financial impact.

Reputational risk is viewed to emerge primarily from underwriting or investment practices. In view of the reputational risk referral process implemented in the Allianz Group, which is also followed by ART Bermuda, the bottom-line impact is deemed low, with an unlikely occurrence probability.

Strategic decisions are part of an active management of the company. Management needs to take decisions regarding strategic market positioning, new business segments, underwriting risk appetite and resources. Any such decision may have positive or negative mid-long-term effects, both in terms of Income Statement impact and opportunity cost. Strategic risks are assessed to be unlikely, but may have a significant financial impact.

Risk Mitigation

ART Bermuda has adopted the AGCS Risk Policy. The Risk Policy defines the broad risk categories described above, which are observed throughout the management and reporting of risks.

The approach for risk mitigation depends on the risk category.

Minimum and target capital ratios for quantifiable risks:

Quantifiable risks (i.e. insurance risk, market risk, credit risk and operational risk) are captured in the BSCR model. For managing the BSCR capital adequacy of ART Bermuda and to ensure adequate capitalization at all times, even following a significant adverse event, minimum ("red") capital ratios and target ("amber") capital ratios are defined. The Minimum Capital Ratio represents a capitalization level above the external capital requirements that is targeted not to be breached. It is defined in such a way that the buffer over the external capital requirements adheres to the following. It is:

- large enough such that a breach of the Minimum Capital Requirement does not generally occur in tandem with a breach of the external capital requirement so as to require remediating capital management actions

- while not being too large to avoid an unnecessary level of prudence of the Management Ratio.

The target capital ratio is defined in such a way that there is a reasonable buffer over the Minimum Capital Requirement taking into consideration the typical volatility of the capital ratio, plausible stress scenarios as well as the availability of remediation measures and the timeliness of their implementation.

Adherence to the minimum and target capital ratios is monitored at least annually by the ART Corporate Finance & Treasury Function (CF&T). If the capital ratio drops below the target capital ratio, an action plan is established and followed to ensure that the capital ratio does not decrease further to or below the minimum capital ratio, and how to increase the capital ratio above the target capital ratio in the mid-term (1 year). If the capital ratio drops below the minimum capital ratio an action plan is set up to ensure that the capital ratio increases above the target capital ratio in the mid-term (1 year).

Quantitative limits for underwriting risk:

Quantitative limits for insurance risks are defined in AGCS Functional Rule for Alternative Risk Transfer and Capital Solutions Business Three risk limits are defined for ART and Capital Solutions LoB. These limits define the risk appetite framework of ART and Capital Solutions LoB as stipulated in the AGCS UW Standard:

- gross limit for each contract that binds an AGCS legal entity to a risk written within the Alternative Risk Transfer portfolio; and
- a net limit for each transaction (one or more contracts that constitute an "UW Case");
- a net portfolio limit for the Alternative Risk Transfer portfolio, and

- Adherence to the limits is monitored at the inception.

Quantitative limits for market and credit risk:

Quantitative limits for market and credit risk are defined for Allianz Risk Transfer (Bermuda) Limited. The limits refer to the asset allocation, duration and risk concentrations. Adherence to the limits is monitored centrally by AGCS CF&T at least on a quarterly basis.

Underwriting Risk:

Underwriting risk is mitigated not only by means of limits (see above), but also by following the global underwriting process of the ART and Capital Solutions LoB which includes a thorough risk assessment.

With respect to the residual risks, ART Bermuda regularly monitors the development of technical provisions at the individual contract level. In addition, ART Bermuda carries out annual reserve uncertainty analyses in order to analyze the sensitivity of reserves to the assumptions underlying their calculations.

Excessive risks are mitigated by reinsurance contracts.

Operational Risk:

Operational risk is mitigated through controls in the AGCS Enterprise-wide Risk-based Integrated Control (ERIC) system, which is also implemented for ART Bermuda. The ERIC system is subject to an annual independent testing of the design and operating effectiveness of the controls through Risk Management.

Reputational risk:

ART Bermuda adheres to the AGCS Standard for Reputational Risk and Issues Management. In addition, there are established robust compliance and financial crimes prevention procedures on an individual transaction level. Reputational risk is assessed in the course of the underwriting and transaction approval process.

Liquidity, business and strategic risk:

Liquidity risk is considered to be a secondary risk following loss events, financial market distresses or other events that may generate payments under the company's transactions. The risk of cost for liquidity is strongly mitigated by investments in cash and liquid bonds and access to the Allianz Group cash pool.

Business and strategic risk are assessed through the annual TRA process. Mitigants are implemented by the Board of Allianz Risk Transfer (Bermuda) Limited as required, based on the bespoke top risk scenario identified.

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

Stress Testing and Sensitivity Analysis

Stress testing and sensitivity analyses are performed as part of the annual BSCR submission in line with the guideline for stress/scenario analysis for class 3A (re)insurers published by the BMA. This analysis includes stress scenarios predefined by BMA covering e.g. a financial market stress, a rating downgrade of ART Bermuda and aggregate worst-case aggregate loss scenarios. Moreover, the analysis covers underwriting scenarios defined by ART Bermuda and a reverse stress test scenario.

The worst case financial market scenario is the stress event R8 described in the guideline for stress/scenario analysis for class 3A (re)insurers published by the BMA. This stress is related to inflation and monetary policy risk and leads to a modeled loss of USD 19.9mn.

The considered worst case underwriting scenario resembles the modelled loss in the stochastic model for a material portfolio of property business written by the Company. This scenario leads to a net loss impact of USD 23.4mn.

As part of the underwriting process, stress tests and sensitivity analyses are performed for individual transactions as required. Each transaction model is subject to an independent analytic review and sign-off.

Solvency Valuation

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

Cash and cash equivalents are carried at cost.

Quoted investments: Fixed maturity investments are classified as available for sale or held for trading and recorded at fair value. Changes in unrealized gains or losses, net of related tax effects, for investments classified as available for sale are reflected in the statutory statement of capital and surplus and for investments classified as held for trading in the statement of income. The fair value of fixed maturity 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. Investment income, net of investment expenses, is accrued to the balance sheet date and includes amortization of premiums or discount on fixed maturity securities purchased at amounts different from their par value.

Unquoted Equity securities are accounted for using the cost method of accounting.

Unquoted Bonds and Debenture securities are held at amortised cost.

Unquoted Investments in mutual funds are recorded at the net asset value of the fund at the balance sheet date.

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 statutory statement of income.

Investments in and advances to affiliates, Accounts and Premiums Receivable, Reinsurance Balances Receivable and Funds Held by Ceding Reinsureres are recorded at the recoverable amount.

Derivative instruments are recorded at fair value. 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

The insurance portfolio of ART Bermuda consists of multiple (re-)insurance transactions. The technical provisions are estimated per transaction, using well-known actuarial techniques, for which the initial expected loss ratio and the actual claims development are key inputs. The discount rates used are Solvency II risk free discount curves as published by EIOPA[1]. These discount curves meet the same overall objectives as the rates supplied by the BMA. The Risk Margin has been

[1] The European Insurance and Occupational Pensions Authority

calculated following the principles issued by the BMA and amounts to USD 4.1m as per year end 2021. The amount of (net) Technical Provisions (excluding Risk Margin) amounts to USD 110.5m as per year end 2021. Since the book of business has not changed much compared to previous year, the uncertainty within the estimation of the best estimate reserves remains mostly unchanged compared to previous year, and is overall at a moderate level.

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

Other liabilities are recorded at the payable amount, or, in the case of accruals, the unexpired portion of an accrued expense.

Capital Management

Eligible Capital

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

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

Tier 1 and Tier 2 Eligible Capital

Fully paid common shares	$	120,000
Contributed Surplus		49,880,000
Statutory Economic Surplus (Tier 1)		78,773,850
Statutory Economic Surplus (Tier 2)		-
Total	$	128,773,850

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

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

Regulatory Capital Requirements

As at December 31, 2021, Regulatory Capital Requirements were as follows:

Enhanced Capital Requirement ('ECR')	$	55,502,165
Minimum Margin of Solvency	$	15,523,776

The Company is in compliance with the regulatory capital requirements.

Approved Internal Capital Model used to derive the ECR.

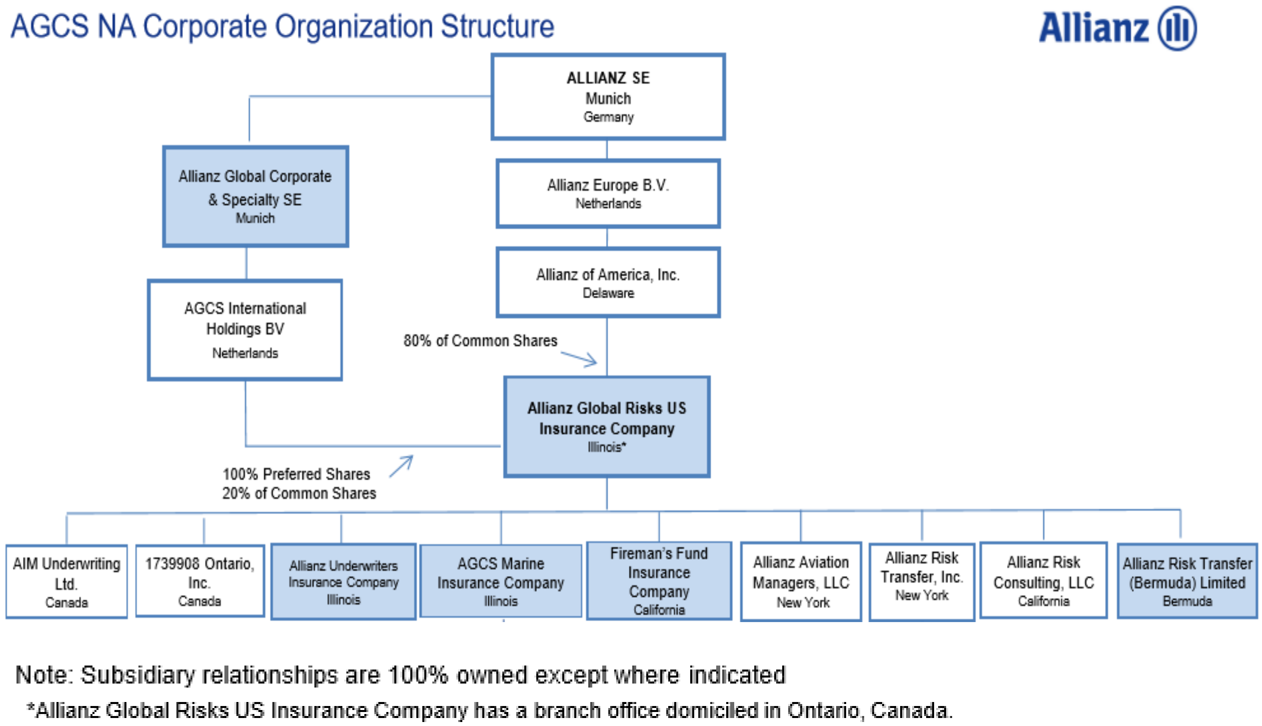
The BSCR model is used for the calculation of all risks; see Risk Profile section for a detailed description of the Company's risk evaluation methodology.

Subsequent Event

The Board of Directors have assessed and evaluated all subsequent events arising from the balance sheet date up until April 29, 2022 the date the financial condition report was available to be issued, and have assessed that the following disclosure is required

On February 22, 2022 Russia commenced an unprovoked military invasion of the Ukraine, for which the international community has responded with unprecedented sanctions against Russia. The Company has evaluated its investment portfolio and insured exposures and does not currently expect a significant impact to results of operations as a result of exposures affected by the conflict. Affected insurance exposures identified to date relate to two fully fronted Aircraft Finance Non-Payment Insurance Policies. There is significant uncertainty in the international aircraft leasing and financing market which may have an impact on the ability of the borrower to repay the loans, and thus whether a claim may occur on the policies in the future.

SCHEDULE A – Group Organisation Chart



DECLARATION ON THE FINANCIAL CONDITION REPORT of

ALLIANZ RISK TRANSFER (BERMUDA) LIMITED (the “Company”)

We, Thomas Schatzmann, Director, and David Brown, President, of Allianz Risk Transfer (Bermuda) Limited, **DO SOLEMNLY DECLARE THAT t**o the best of our knowledge and belief, the Financial Condition Report fairly represents the financial condition of the Company in all material respects.

Signatory ________________DB_________________

Print Name David Brown
Director
Allianz Risk Transfer (Bermuda) Limited

Date 29 April, 2022

Signatory _______________TS__________________

Print Name Thomas Schatzmann
Director
Allianz Risk Transfer (Bermuda) Limited

Date 29 April, 2022