

**ALLIANZ RE BERMUDA LIFE LTD.**

Financial Statements

For the period from September 8, 2016  
(date of incorporation) to December 31, 2017



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## **INDEPENDENT AUDITOR'S REPORT**

### **To the Shareholder and Board of Directors of Allianz Re Bermuda Life Ltd.**

#### **Opinion**

We have audited the financial statements of Allianz Re Bermuda Life Ltd. (the "Company"), which comprise the Balance Sheet as at December 31, 2017, the Income Statement, Statement of Comprehensive Income, Statement of Changes in Shareholder's Equity and Statement of Cash flows for the period from September 8, 2016 (date of incorporation) to December 31, 2017, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards (IFRS).

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Bermuda and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

#### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit 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;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern; and
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*KPMG Audit Limited*

Chartered Professional Accountants  
Hamilton, Bermuda  
April 26, 2018

**ALLIANZ RE BERMUDA LIFE LTD.**

## Balance Sheet


As at December 31, 2017

*(Expressed in thousands of US Dollars)*

	<u>Note</u>	<u>2017</u>
<b>Assets</b>		
Cash and cash equivalents	3.4	7,716
Fixed-income securities - available for sale	5	22,483
Derivative assets - at fair value through profit and loss	7, 14	2,040
Total investments and cash under own management		32,239
Funds withheld	7	396,562
Reinsurance receivable	3.6	1,391
Other assets		192
Deferred acquisition costs	3.7, 8	37,761
<b>Total assets</b>		<b>468,145</b>
<b>Liabilities</b>		
Benefit reserves	9	437,693
Other liabilities	10	1,751
<b>Total liabilities</b>		<b>439,444</b>
<b>Shareholder's equity</b>		
Authorised, issued and fully paid 250,000 shares of		
One Dollar (\$1) par value each	11	250
Contributed surplus	11	29,750
Retained deficit		(1,299)
<b>Total shareholder's equity</b>		<b>28,701</b>
<b>Total liabilities and shareholder's equity</b>		<b>468,145</b>

*The accompanying notes form an integral part of these financial statements*

On behalf of the Board




**ALLIANZ RE BERMUDA LIFE LTD.**

## Income Statement

For the period from September 8, 2016 (date of incorporation) to December 31, 2017

*(Expressed in thousands of US Dollars)*

	<b><u>Note</u></b>	<b><u>2017</u></b>
Premium charges		<u>46</u>
Ordinary investment income		327
Change in fair value of financial instruments		2,541
Other investment expenses		(58)
Interest income on funds withheld		<u>2,818</u>
<b>Net investment income</b>		<u>5,628</u>
<b>Total Revenues</b>		<u>5,674</u>
Change in benefit reserves	<b>14</b>	3,981
Commission and brokerage, change in deferred acquisition costs	<b>14</b>	1,157
Administrative expenses		<u>1,835</u>
<b>Total Expenses</b>		<u>6,973</u>
<b>Net Loss</b>		<u>(1,299)</u>
<b>Net Loss for the year attributable to:</b>		
Equity holders of the Company		<u>(1,299)</u>

The accompanying notes form an integral part of these financial statements

**ALLIANZ RE BERMUDA LIFE LTD.**

Statement of Comprehensive Income

For the period from September 8, 2016 (date of incorporation) to December 31, 2017  
(Expressed in thousands of US Dollars)

	<u><b>2017</b></u>
<b>Net Loss</b>	<u>(1,299)</u>
<b>Other Comprehensive income</b>	
Items that may be subsequently classified to net income	—
<i>Net change in fair value of fixed income securities</i>	
<i>- available for sale</i>	—
<b>Other comprehensive income for the year</b>	<u>—</u>
<b>Total comprehensive loss for the year</b>	<u>(1,299)</u>
<b>Total comprehensive loss attributable to:</b>	
Equity holders of the company	<u><u>(1,299)</u></u>

*The accompanying notes form an integral part of these financial statements*

**ALLIANZ RE BERMUDA LIFE LTD.**

## Statement of Changes in Shareholder's Equity

For the period from September 8, 2016 (date of incorporation) to December 31, 2017  
(Expressed in thousands of US Dollars)

	<b><u>Share capital</u></b>	<b><u>Contributed surplus</u></b>	<b><u>Accumulated deficit</u></b>	<b><u>Total equity</u></b>
<b>At 8 September 2016</b>	—	—	—	—
Share capital and contributed surplus issued and paid during the period	250	29,750	—	30,000
Net loss for the period	<u>—</u>	<u>—</u>	<u>(1,299)</u>	<u>(1,299)</u>
<b>At 31 December 2017</b>	<u>250</u>	<u>29,750</u>	<u>(1,299)</u>	<u>28,701</u>

*The accompanying notes form an integral part of these financial statements*

**ALLIANZ RE BERMUDA LIFE LTD.**

## Statement of Cashflows

For the period from September 8, 2016 (date of incorporation) to December 31, 2017  
*(Expressed in thousands of US Dollars)*

	<b><u>2017</u></b>
<b>Cashflows from operating activities</b>	
Net loss	(1,299)
Adjustments for non-cash items in net loss	
Change in fair value of derivative asset	(2,040)
Amortisation of investments	16
Changes in:	
Funds withheld	(396,562)
Other assets and liabilities (net)	168
Benefit reserves (net)	437,693
Deferred acquisition costs	<u>(37,761)</u>
Cashflows provided by operating activities	<u>215</u>
<b>Cashflows from investing activities</b>	
Purchases of fixed income securities-available for sale	<u>(22,499)</u>
Cashflows used in investing activities	<u>(22,499)</u>
<b>Cashflows from financing activities</b>	
Proceed on share capital	250
Proceed on contributed surplus	<u>29,750</u>
Cashflows provided by financing activities	<u>30,000</u>
Change in cash and cash equivalents	7,716
Cash and cash equivalents at the beginning of the period	<u>—</u>
Cash and cash equivalents at the end of the period	<u>7,716</u>
<b>Supplementary disclosures on the cashflow information</b>	
Interest received	305
Interest paid	146

*The accompanying notes form an integral part of these financial statements*



# **ALLIANZ RE BERMUDA LIFE LTD.**

## Notes to the financial statements

For the period from September 8, 2016 (date of incorporation) to December 31, 2017  
(Expressed in thousands of US Dollars)

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### **1. Corporate information**

Allianz Re Bermuda Life Ltd (the “Company”) is a wholly owned subsidiary of Allianz SE (the “Parent Company”), a company incorporated in Germany. The Company is a limited company incorporated and domiciled in Bermuda. The registered office is located at Overbay, 106 Pitts Bay Road Pembroke HM08, Bermuda.

On 8 September 2016 Allianz Re Bermuda Life Ltd (License No. 51832) was incorporated as a Bermuda exempted company Ltd by shares and was subsequently licensed on 1 April 2017 as a Class E insurer under the Insurance Act 1978. These financial statements have been prepared for the period from 8 September 2016 through to 31 December 2017.

The principal activity of the Company is the provision of life reinsurance solutions globally, focusing initially on annuities risk transfer in selected international markets.

The Company reinsures life insurance business written by its client companies (cedants). The risks assumed generally reflect the risks inherent in the underlying life insurance policies and may include mortality risk, morbidity risk, investment risk, lapse risk and surrender risk. The Company may also assume credit risk in respect of its client companies.

As of the date preparation of these financial statements, the Company has written one contract; a reinsurance agreement with Allianz Life Insurance Company of North America (AZ Life), an affiliated Company, related through common control. Through this agreement, the Company reinsures fixed indexed annuities written by the Cedant.

### **2. Basis of preparation**

#### **2.1 Statement of compliance**

These financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations issued by the International Financial Reporting Interpretations Committee. The financial statements were authorised for issue by the Board of Directors on April 25, 2018.

#### **2.2 Basis of measurement**

The financial statements have been prepared on a historical cost basis except for fixed income securities, certain derivative assets, and a derivative liability associated with fixed indexed annuities, all of which are recorded at fair value. The balance sheet has been presented in order of decreasing liquidity.

## ALLIANZ RE BERMUDA LIFE LTD.

### Notes to the financial statements

For the period from September 8, 2016 (date of incorporation) to December 31, 2017  
(Expressed in thousands of US Dollars)

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## **2. Basis of preparation (cont'd)**

### **2.3 Functional and presentation currency**

The financial statements are presented in United States Dollars (USD), which is also the Company's functional currency.

### **2.4 Use of estimates and judgements**

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The areas involving a higher degree of judgement and where estimates are significant to the financial statements are reinsurance assets and liabilities. This is disclosed further in Notes 3.5 to 3.8 of these financial statements.

## **3. Summary of significant accounting policies**

The financial statements reflect all IFRSs in force as at December 31, 2017, as well as all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), application of which was mandatory for 2017 financial year. Since 2002, the standards adopted by the International Accounting Standards Board (IASB) have been referred to as "International Financial Reporting Standards (IFRS)"; the standards dating from earlier years still bear the name "International Accounting Standards (IAS)". Standards are cited in our Notes accordingly; in cases where the Notes do not make explicit reference to a particular standard, the term IFRS is used.

In accordance with the exemption provided to insurance companies under IFRS 4, the Company uses guidance provided by US GAAP in accounting for its reinsurance contracts.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

### **New accounting standards or accounting standards applied for the first time**

The amendments to existing standards listed below were applicable for the first time in the year under review and had no significant implications overall for the net assets, financial position or result of operations of the Company.

- Disclosure Initiative (Amendments to IAS 7)
- Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)
- Annual Improvements to IFRS Standards 2014-2016 Cycle (Amendments to IFRS 12 Disclosure of Interests in Other Entities)

**3. Summary of significant accounting policies (cont'd)**

**Standards or changes in standards that have not yet entered into force or are not yet applicable**

In January 2016 the IASB issued IFRS 16 “Leases” setting out new principles governing the recognition, measurement, presentation and disclosure of leases. The most significant new requirements relate principally to accounting by lessees. In future, the lessee shall as a general principle recognise a lease liability for all leases. At the same time it shall recognize a right to use the underlying asset. Accounting by lessors remains comparable with current practice, according to which the lessor classifies each lease as an operating lease or a finance lease. The standard is to be applied to annual periods beginning on or after January 1, 2019 and the Company is determining the impact on the financial statements.

In July 2014 the IASB published the final version of IFRS 9 “Financial Instruments”, which supersedes all previous versions of this standard and replaces the existing IAS 39 “Financial Instruments: Recognition and Measurement”. The standard contains requirements governing classification and measurement, impairment based on the new expected credit loss impairment approach and general hedge accounting. Initial mandatory application of the standard is set for annual periods beginning on or after January 1, 2018. In September 2016, however, the IASB published “Applying IFRS 9 Financial instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)”.

These amendments address the implications of the different effective dates for initial application of IFRS 9 and the new standard governing the accounting for insurance and reinsurance contracts. Under the so-called deferral approach provided for in the amendments, entities whose predominant activity is issuing insurance and reinsurance contracts within the scope of IFRS 4 are granted an optional temporary exemption from recognising their financial instruments in accordance with IFRS 9. This exemption cannot be used for periods beginning after January 1, 2021.

The Company is currently reviewing the implications of IFRS 9 and expects that they will relate primarily to the classification of financial instruments.

In May 2014 the IASB issued IFRS 15 “Revenue from Contracts with Customers”. The standard specifies when and in what amount revenue is to be recognised and which disclosures are required for this purpose. IFRS 15 provides a single five-step model framework to be applied to all contracts with customers. In the “Clarifications to IFRS 15 Revenue from Contracts with Customers”, which were published in April 2016, the IASB clarified various principles of IFRS 15 and included additional transition relief provisions. Financial instruments and other contractual rights and obligations which are to be recognized under separate standards as well as (re)insurance contracts within the scope of IFRS 4 “Insurance Contracts” are expressly exempted from the standard's scope of application. Both the standard and the clarifications are to be applied for the first time to annual periods beginning on or after January 1, 2018. Insurance/reinsurance is the Company's pre-dominant activity. Consequently, the services falling within the scope of application of IFRS 15 are not expected to have any significant implications overall for the Company's net assets, financial position or result of operations.

## ALLIANZ RE BERMUDA LIFE LTD.

### Notes to the financial statements

For the period from September 8, 2016 (date of incorporation) to December 31, 2017  
(Expressed in thousands of US Dollars)

### 3. Summary of significant accounting policies (cont'd)

#### Standards or changes in standards that have not yet entered into force or are not yet applicable (cont'd)

In May 2017 the IASB issued IFRS 17 “Insurance Contracts”. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard.

The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. IFRS 17 applies to annual reporting periods beginning on or after January 1, 2021. The Company is currently assessing the impact of the new requirements.

In addition to the accounting principles described above, the IASB has issued the following standards, interpretations and amendments to existing standards with possible implications for the financial statements of the Company, application of which was not yet mandatory for the year under review and which are not being applied early by the Company. Initial application of these new standards is not expected to have any significant implications for the Company's net assets, financial position or result of operations:

#### Further IFRS Amendments and Interpretations:

Published:	Title	Initial application to annual periods beginning on or after the following date:
December 2016	IFRIC Interpretation 22, Foreign Currency Transactions and Advance Consideration	1 January 2018
December 2016	Annual Improvements to IFRS Standards 2014-2016 Cycle	1 January 2018
June 2016	Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018

### 3.1 Reinsurance contracts

IFRS 4 “Insurance Contracts” represents the outcome of Phase I of the IASB project “Insurance Contracts” and serves as a transitional arrangement until the IASB issued IFRS 17. IFRS 4 sets out basic principles for the accounting of insurance contracts. Underwriting business is to be subdivided into insurance and investment contracts. Contracts with a significant insurance risk are considered to be insurance contracts, while contracts without significant insurance risk are to be classified as investment contracts. The standard is also applicable to reinsurance contracts. IFRS 4 contains fundamental rules governing specific circumstances, such as the separation of embedded derivatives and unbundling of deposit components, but it does not set out any more extensive provisions relating to the measurement of insurance and reinsurance contracts. Reinsurance-specific transactions are recognised in accordance with the pertinent provisions of US GAAP (United States Generally Accepted Accounting Principles).

## ALLIANZ RE BERMUDA LIFE LTD.

### Notes to the financial statements

For the period from September 8, 2016 (date of incorporation) to December 31, 2017  
(Expressed in thousands of US Dollars)

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### **3. Summary of significant accounting policies (cont'd)**

#### **3.1 Reinsurance contracts (cont'd)**

The contract written by the Company during the current year does not satisfy the risk transfer requirements of FASB ASC 944-20-15 "Financial Services – Insurance". This type of contract is recognised using the "deposit accounting" method. Income and expenses on the underlying contract are recognised on an accruals basis.

##### *(a) Revenue and Expenses – Reinsurance transactions*

Revenues for annuities, including surrender and market value adjustments, policy administration and other charges are earned when assessed against policyholder account balances during the period.

#### **3.2 Non-derivative financial assets**

The Company recognises the purchase and sale of directly held financial assets including derivative financial instruments as at the settlement date.

##### *(a) Financial assets classified as available for sale*

Financial assets classified as available for sale are carried at fair value. Unrealised gains and losses arising out of changes in the fair value of fixed-income securities held as available for sale are recognised – with the exception of currency valuation differences on monetary items – within accumulated other comprehensive income/(loss), a component of shareholder's equity. All financial instruments that do not satisfy the criteria for classification as held to maturity, loans and receivables, at fair value through profit and loss, or trading are allocated to the category of available for sale. The fair value of fixed-income securities is determined through use of valuation sources which can include quoted market prices, third party commercial pricing services, third party brokers or vendor sourced prices whereby market observable inputs are utilized.

##### *(b) Financial assets as fair value through profit and loss*

Financial assets as fair value through profit and loss includes derivative financial instruments and other financial assets as described under Notes 3.3 and 3.8, respectively.

##### *(c) Ordinary investment income / interest on Fund withheld*

Ordinary Investment income comprises income from financial assets, including, available for sale assets, and assets/liabilities at fair value through profit and loss and time deposits. Interest income on funds withheld represents the Company's Share of investment income on funds withheld assets reported by the cedant. Interest income is recognised as it accrues using either the effective interest rate method or effective yield method depending on the underlying investment terms.

**3. Summary of significant accounting policies (cont'd)**

**3.2 Non-derivative financial assets (cont'd)**

*(d) Netting of financial instruments*

Financial assets and liabilities are netted and recognised in the appropriate net amount if a corresponding legal claim (reciprocity; similarity and maturity) exists or is expressly agreed by contract, in other words if the intention is to offset such items on a net basis or to effect this offsetting simultaneously.

*(e) Impairment loss and reversals*

At each balance sheet date the Company reviews financial assets for impairments. Permanent impairments on all invested assets are recognised directly in the statement of income. IAS 39 “Financial instruments: Recognition and Measurement” contains a list of objective, substantial indication for impairments of financial assets. In the case of fixed-income securities reference is made, in particular, to the rating of the instrument, the rating of the issuer / borrower as well as the individual market assessment in order to establish whether they are impaired. IAS 39 “Financial Instruments: Recognition and Measurement” states, that a significant or prolonged decrease in fair value below acquisition cost constitutes objective evidence of impairment. The cumulative loss – measured as the difference between the carrying amount and the current fair value, less any impairment loss on the financial assets previously recognised in profit and loss is removed from accumulated other comprehensive income/loss and recognised as a loss in the Statement of Income. If in a subsequent period the fair value of a debt instrument classified as available for the sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit and loss, the impairment loss is reversed through profit and loss in the Statement of Income.

**3.3 Derivative financial instruments**

Derivatives are financial instruments, the fair value of which is derived from an underlying instrument such as equities, bonds, indices or currencies. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit and loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes herein are recognised immediately in income.

The fair values of the derivative financial instruments were determined on the basis of the market information available at the balance sheet date.

**3.4 Cash and cash equivalents**

Cash and cash equivalents are carried at face value of \$7,716. This includes \$5,703 physical cash held, and deposits to Allianz Group cash pool of \$2,013. For the purposes of the statement of cashflows, the Company considers all time deposits with an original maturity of ninety days or less and money market funds which can be redeemed without penalty as equivalent to cash.

## **ALLIANZ RE BERMUDA LIFE LTD.**

### Notes to the financial statements

For the period from September 8, 2016 (date of incorporation) to December 31, 2017  
(Expressed in thousands of US Dollars)

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### **3. Summary of significant accounting policies (cont'd)**

#### **3.5 Funds withheld**

Funds withheld are receivables due to reinsurers from ceding companies in accordance with contractual arrangements; they are recognised at acquisition cost (nominal amount). Appropriate allowance is made for credit risks.

#### **3.6 Reinsurance receivable**

Reinsurance receivable is \$1,391, relates to the one contract in force as of the balance sheet date and is calculated as the net settlement based on total net movements in reinsurance premium, reinsurance payments, reserves and investments. This movement can be a receivable or payable, is calculated quarterly and any outstanding amounts are settled no later than 45 days after quarter end.

#### **3.7 Deferred acquisition costs**

Deferred acquisition costs principally consist of commissions, brokerage and other variable costs directly related with the acquisition or renewal of existing reinsurance contracts. These acquisition costs are capitalised and amortised in relation to realization of margin on the underlying policies. The Company performs loss recognition testing of deferred acquisition costs on an annual basis. If loss recognition testing indicates that the present value of future net cashflows from the business currently on the books would be insufficient to recover the deferred acquisition costs and meet the cost of insurance liabilities, the difference, if any, is charged to income as accelerated amortisation of deferred acquisition costs. The Company also performs recoverability testing to ensure that expenses deferred during the current year are recoverable against future profits.

#### **3.8 Benefit reserves**

The Company establishes liabilities for amounts payable to the ceding entity associated with annuity policies reinsured. The obligation is divided into two parts – one part representing the value of the underlying base contract (host contract); and the second part representing the fair value of the expected index benefit over the life of the contract. The index benefit is valued at fair value using current capital market assumptions, such as market index and volatility, to estimate future index levels. The index benefit valuation is also dependent upon assumptions of future policyholder behavior. This includes the Company's assumptions about policyholder activity that could differ from actual experience. The fair value determination of the index benefit is sensitive to the economic market and interest rate environment, as it is discounted at current market interest rates. There is volatility in this liability due to these external market sensitivities.

#### **3.9 Related Party transactions**

IAS 24 defines related parties, among others, as parent companies and subsidiaries, subsidiaries of a common parent company, associated companies, legal entities under the influence of management and the management of the company itself. All related party transactions have been recorded in accordance with IAS 24.

## **ALLIANZ RE BERMUDA LIFE LTD.**

### Notes to the financial statements

For the period from September 8, 2016 (date of incorporation) to December 31, 2017  
(Expressed in thousands of US Dollars)

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### **3. Summary of significant accounting policies (cont'd)**

#### **3.10 Foreign currencies**

Transactions in foreign currencies are converted into the functional currency US Dollar at the transaction rate. In accordance with IAS 21 “The Effects of Changes in Foreign Exchange Rates” the recognition of exchange difference on translation is guided by the nature of the underlying balance sheet item. Exchange differences from the translation of monetary assets and liabilities are recognised directly in the statement of income.

### **4. Management of technical and financial risks**

#### **4.1 Risk management system**

The Company’s risk management system is designed to be commensurate to the nature, scale and complexity of the risk inherent in the business. The Company’s risk management system has been approved by the Company’s Board of Directors and is available to the local regulator, Bermuda Monetary Authority (BMA).

For all material risks, a comprehensive quantitative and qualitative risk management process is in place that incorporates:

- risk identification;
- risk assessment;
- risk response and control activities;
- risk monitoring; and
- risk reporting.

The process is implemented and conducted within the confines of a clearly defined risk strategy and risk appetite and periodically assessed for adequacy.

The Business Strategy steers the Risk Strategy which, in turn, dictates the Risk Appetite. These three core elements of the business influence the Top Risk Assessment (TRA), Solvency Capital Requirements, Risk Reports and Commercial Insurers Solvency Self-Assessment (CISSA). The capital requirements and TRA are also used in both the Risk Reports and the CISSA, and any issues arising from the CISSA may be fed back into the TRA, or back into one of the core elements. The whole process is governed within the Risk Policy.



## ALLIANZ RE BERMUDA LIFE LTD.

### Notes to the financial statements

For the period from September 8, 2016 (date of incorporation) to December 31, 2017  
(Expressed in thousands of US Dollars)

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#### 4. Management of technical and financial risks (cont'd)

##### 4.2 Risk Governance

Risk management is embedded throughout the Company and enacted at all levels of authority from executive management downwards. Responsibilities for risk management are clearly defined and allocated in a manner that allows for the appropriate segregation of duties consistent with the “three lines of defence” concept. The local governance framework is underpinned by the following committees:

- Board of Directors (the Board)
- Risk Committee (RiCo)
- Underwriting Committee (UWCo)
- Finance and Investment Committee (FICo)
- Reserve Committee (ResComm)

##### 4.3 Insurance and Lapse Risk

The Company has limited Insurance risk other than through deferred annuities where specified amounts are payable dependent on investment performance. Investment performance is covered under Market Risks.

The table below shows the profit sensitivity under a range of insurance stresses:

Insurance Sensitivities USD'000	Equity
+ 10% lapse	(59)
+ 5% mortality	(81)

##### 4.4 Market Risk

Market risk is the risk of changes in fair value of financial instruments and in the carrying amount of insurance contracts from fluctuations in interest rates, foreign exchange rates and market prices.

The Company aims to ensure that the assets and liabilities are appropriately matched by currency and duration. Changes to the portfolio of assets is tested against capital limits.

Investments are made in various types and terms of bonds (sovereign, covered, corporate, indices etc.) with the aim of generating maximum return, subject to acceptable risk (credit default, asset-liability mismatch, credit swap, etc.). Hence, all investments have market-based values that are readily verifiable. A small percentage will be held in cash and liquid assets to meet liquidity requirements.

## ALLIANZ RE BERMUDA LIFE LTD.

### Notes to the financial statements

For the period from September 8, 2016 (date of incorporation) to December 31, 2017  
(Expressed in thousands of US Dollars)

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#### 4. Management of technical and financial risks (cont'd)

##### 4.4 Market Risk (cont'd)

Hedge strategies using derivatives help to mitigate the market risk embedded in the underlying products. It is the policy of the Company to minimise the risks from an asset-liability mismatch and position limits for dynamic hedging have been set. The position limits are monitored daily and any breaches have to be mitigated through hedge position updates. The Risk Function monitors the effectiveness of the hedging program and adds to the governance oversight. The Company's sensitivity to interest rates is shown in the following table:

Interest Rate Risk USD'000	Equity
+100 basis points	(1,800)
-100 basis points	2,100

The target level of security of the portfolio of assets, including quantitative limits, is set out in the Risk Appetite Framework document and monitored in the quarterly risk reports.

No foreign exchange risk exists with all assets and liabilities denominated in US dollars.

##### 4.5 Liquidity Risk

Liquidity risk is controlled through the Company's Investment Guidelines which stipulate minimum liquidity requirements as a proportion of the total invested portfolio. Liquidity risk arising from insurance contracts is managed through the use of financial projections and forecasts to ensure the Company is able to meet its expected liquidity requirements.

The Strategic Asset Allocation, including appropriate minimum and maximum parameters, takes cognisance of the Company's liquidity requirements in meeting all liabilities as they fall due over the short and medium term.

However, there are limited incidences of material external cash transfers, mostly in case of dividend payments. As these are known well in advance, liquidity planning is relatively straightforward. For the business assumed it is currently the strategy of the Company only to write business, which can be settled in kind, i.e. without major liquidity calls.

All business ceded to the company is a single product type, therefore all reserves have the same duration of approximately 11 years.

## ALLIANZ RE BERMUDA LIFE LTD.

### Notes to the financial statements

For the period from September 8, 2016 (date of incorporation) to December 31, 2017

*(Expressed in thousands of US Dollars)*

#### 4. Management of technical and financial risks (cont'd)

##### 4.6 Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The primary source of credit risk for the Company arises from funds withheld and investments under own management.

The Company mitigates this risk by adhering to investment policies and limits that provide portfolio diversification on an asset class, asset quality, creditor, and geographical basis; and by complying with regulatory investment limitations. The aggregate credit risk is influenced by risk/return preferences, the economic and credit environment, and the ability to manage this risk through liability portfolio management.

Concentration risk arises due to the funds withheld with AZ Life. This risk is mitigated by holding over 93% of funds withheld in a segregated account at BNY Mellon with AZRB being the sole beneficiary.

Analysis for underlying credit rating of Funds Withheld:

	<u>2017</u>
AAA	11%
AA	11%
A	35%
BBB	43%

Cash and cash equivalents attribute less than 3% of total assets and are held with a Custodian with a minimum credit rating of AA-.

#### 5. Fixed-income securities – available for sale

Investments are classified and measured in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”. The Company has classified its investment in fixed income securities as available for sale. The allocation and measurement of investments is determined by the investment intent. The following table represents the Company’s available for sale investments by asset type.

<b>2017</b>			
<b>Fixed income securities</b>	<b>Amortised cost</b>	<b>Unrealised gain/(loss)</b>	<b>Fair value</b>
Government	4,696	(34)	4,662
Corporate	12,686	55	12,741
Municipal	1,783	18	1,801
Commercial mortgage backed securities	3,318	(39)	3,279
<b>Total</b>	<b>22,483</b>	<b>-</b>	<b>22,483</b>

**ALLIANZ RE BERMUDA LIFE LTD.**

## Notes to the financial statements

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*(Expressed in thousands of US Dollars)*

**5. Fixed-income securities – available for sale (cont'd)**

The table below shows amortised cost and fair value of fixed income securities by contractual maturity.  
**2017**

<b>Fixed income securities</b>	<b>Amortised cost</b>	<b>Fair value</b>
Due in one year	-	-
Due after one through two years	859	865
Due after two through three years	2,031	2,046
Due after three through four years	610	615
Due after four through five years	198	199
Due after five through ten years	11,972	12,098
Due after ten years	6,813	6,660
<b>Total</b>	<b>22,483</b>	<b>22,483</b>

The stated maturities may in individual cases diverge from the contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

**Rating structure of fixed income securities**

	<b>2017</b>				
	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>Total</b>
Fixed-income securities-available-for-sale	5,987	3,100	5,480	7,916	22,483

*Source: S&P*

The maximum credit risk of the items shown here corresponds to their carrying amounts.

## ALLIANZ RE BERMUDA LIFE LTD.

### Notes to the financial statements

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#### 6. Fair value hierarchy

For the purposes of the disclosure requirements pursuant to IFRS 13, the financial instruments recognised at fair value in the balance sheet are to be assigned to a three-level fair value hierarchy. This hierarchy, which reflects characteristics of the price data and inputs used for measurement purposes, is structured as follows:

- Level 1: Assets or liabilities measured at (unadjusted) prices quoted directly in active and liquid markets.
- Level 2: Assets or liabilities which are measured using observable market data and are not allocable using Level 1. Measurement is based, in particular, on prices for comparable assets and liabilities that are traded on active markets, prices on markets that are not considered active as well as inputs derived from such process on market data.
- Level 3: Assets or liabilities that cannot be measured or can only be partially measured using observable market inputs. The measurement of such instruments draws principally on valuation models and methods.

At December 31, 2017, the fixed income securities recognized at fair value are assessed as Level 2 (\$22,483).

The embedded derivative included within funds withheld and presented separately on the balance sheet is classified as Level 3 within the fair value hierarchy as is the derivative associated with liability for fixed indexed annuities. The changes in the balance of level 3 financial assets for the period ended December 31, 2017 were as follows:

	2017	
	<b>Derivative asset</b>	<b>Total</b>
Beginning balance	-	-
Additions, during the period	2,040	2,040
<b>Ending balance</b>	<b>2,040</b>	<b>2,040</b>

**ALLIANZ RE BERMUDA LIFE LTD.**

## Notes to the financial statements

For the period from September 8, 2016 (date of incorporation) to December 31, 2017  
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**7. Funds withheld**

Funds withheld represent assets supporting the reinsurance agreement entered into by the Company during the year. These assets are held in a trust or custodian account that are legally supported from the cedant's general account.

	AAA	AA	A	BBB	Total
Corporate and Sovereign Bonds	9,664	24,527	129,493	155,552	319,236
Residential Mortgage backed securities	24,547	-	-	-	24,547
Asset-backed securities	7,195	17,135	-	-	24,330
<b>Total</b>	41,406	41,662	129,493	155,552	368,113

*Source: S&P*

**2017**

<b>Fixed income securities</b>	<b>Amortised cost</b>	<b>Fair value</b>
Due in one year	-	-
Due after one through two years	1,847	1,836
Due after two through three years	5,084	5,068
Due after three through four years	958	955
Due after four through five years	2,995	3,006
Due after five through ten years	189,282	188,393
Due after ten years	168,005	170,953
<b>Total</b>	368,171	370,211

Total funds withheld (FWH) as at 31 December 2017 were \$396,562. The Company has also recorded an embedded derivative in the amount of \$2,040 which arises as the Company is entitled to investment income and gains/losses associated with funds withheld by the cedant. The embedded derivative is shown separately on the balance sheet.

## ALLIANZ RE BERMUDA LIFE LTD.

### Notes to the financial statements

For the period from September 8, 2016 (date of incorporation) to December 31, 2017  
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#### 7. Funds withheld (cont'd)

In addition to the assets disclosed above, the remaining balance represents amounts receivable from cedant at year-end. These amounts were outstanding at year end owing to timing differences and were settled in January 2018 by way of cedant contributing fixed income securities to the funds withheld account.

#### 8. Deferred acquisition costs

The following table reflects the amounts of acquisition costs capitalized and amortized as of and for the period ended December 31 2017.

	2017
Balance as at 8 September 2016	-
Additions	38,410
Amortisations	(649)
<b>Balance as at 31 December 2017</b>	<b>37,761</b>

#### 9. Benefit reserves

Benefit reserves are comprised of the underwriting reserves for guaranteed claims of AZ Life's reinsurance with the Company. Benefit reserves are determined based on prospective actuarial assumptions relating to persistency, expenses and future interest rate development. Bases are determined using current pricing bases with a provision for adverse deviation in future experience. The actuarial bases used in this context allow an adequate safety margin for the risks of change, error and random fluctuation. They correspond to those used in the premium calculation and are adjusted if the original safety margins no longer appear to be sufficient.

## ALLIANZ RE BERMUDA LIFE LTD.

### Notes to the financial statements

For the period from September 8, 2016 (date of incorporation) to December 31, 2017  
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#### 9. Benefit reserves (cont'd)

Analysis of change in liabilities for life policy benefits and future policy benefits:

	2017
Initial reserve	30
New premium	432,163
Cancelled premium	(4,468)
Interest credited	3,981
Movement in derivative for equity indexed annuities	5,185
Other	802
<b>Ending reserve</b>	<b>437,693</b>

At December 31, 2017, the benefit reserve balance includes a derivative associated with liability for fixed indexed annuities, in the amount of \$5,185.

#### 10. Other liabilities

	2017
Accrued expenses	1,751
<b>Total</b>	<b>1,751</b>

Accrued expenses are made up of investment management and other service level agreement fees.

#### 11. Shareholder's equity

The common shares of the Company amount to 250,000 shares of One Dollar (\$1) par value each and the contributed surplus of \$29,750 represents the amount paid in by the parent. Both the common shares and the contributed surplus were paid in during 2017.

Unrealised gains and losses from the fair value measurement of financial instruments held as available for sale are carried in accumulated other investment income. At December 31, 2017, unrealised gains and losses were \$ nil.



## ALLIANZ RE BERMUDA LIFE LTD.

### Notes to the financial statements

For the period from September 8, 2016 (date of incorporation) to December 31, 2017  
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#### 12. Taxes

Under current Bermuda law, the Company is not required to pay any taxes on profits on 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.

#### 13. Staff and expenditures on personnel

The Company has four staff members.

Staff costs totaled \$942 at year end, which included salaries of four key staff members.

#### 14. Related party disclosures

Service level agreements with affiliated companies include fees under the following SLA's:

- Allianz Risk Transfer (Bermuda) Limited
- Allianz Life Insurance Company of North America
- Allianz Investment Management LLC – North America
- Allianz SE – Munich
- Allianz Investment Management SE – Munich

Fees paid to related parties in accordance with the agreements noted above were \$1,595.

Transactions with related parties:

##### Income Statement:

As at 31 December 2017	Allianz SE (Parent)	Companies related through common control	Total
Net premium earned	-	46	46
Net investment income	13	5,359	5,372
<b>Total revenues</b>	<b>13</b>	<b>5,405</b>	<b>5,418</b>

**ALLIANZ RE BERMUDA LIFE LTD.**

Notes to the financial statements

For the period from September 8, 2016 (date of incorporation) to December 31, 2017  
*(Expressed in thousands of US Dollars)*

**14. Related party disclosures (cont'd)****Income Statement (cont'd)**

Total expenses	-	(1,633)	(1,633)
Commission and brokerage, change in deferred acquisition costs	-	(1,157)	(1,157)
Change in benefit reserve	-	(3,981)	(3,981)
<b>Net income/(loss)</b>	<b>13</b>	<b>(1,366)</b>	<b>(1,353)</b>

**Balance Sheet**

<b>As at 31 December 2017</b>	<b>Allianz SE (Parent)</b>	<b>Companies related through common control</b>	<b>Total</b>
Funds withheld	-	396,562	396,562
Derivative assets at fair value through P&L	-	2,040	2,040
Reinsurance assets	2,013	1,391	3,404
Deferred acquisition cost	-	37,761	37,761
Reinsurance liabilities	-	(437,693)	(437,693)
Other liabilities	-	(1,586)	(1,586)

All transactions and balances arise from the normal course of business.

## ALLIANZ RE BERMUDA LIFE LTD.

### Notes to the financial statements

For the period from September 8, 2016 (date of incorporation) to December 31, 2017  
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#### 15. Statutory requirements

As a Class E insurer, the Company must at all times maintain a solvency margin and an enhanced capital requirement in accordance with the provisions of the Insurance Act. Each year the Company is required to file with the Bermuda Monetary Authority (the “Authority”) a capital and solvency return within four months of its relevant financial year end (unless specifically extended).

The prescribed form of capital and solvency return primarily comprises the Insurer’s Statutory Financial Return, Bermuda Solvency Capital Requirement (“BSCR”), and associated schedules including Form 4 EBS and various other schedules as prescribed by the 1978 Act, The Insurance Account Rules 2016, The Insurance (Prudential Standards) (Class C, Class D and Class E Solvency Requirement) Rules 2011, Insurance (Eligible Capital) Rules 2012, and Insurance (Public Disclosure) Rules 2015. The BSCR includes a standardised model to measure the risk associated with an insurer’s assets, liabilities and premiums, and a formula to take account of insurance related risk exposure. The Minimum Margin of Solvency (MMS) is formulated using predetermined calculations as set out in The Insurance Accounts Rules 2016.

Insurer’s Enhanced Capital Requirement (“ECR”) is calculated as the higher of the capital requirement as measured by the BSCR and MMS. The Authority requires all Class E insurers to maintain their capital at a target level which is 120% of ECR.

As at December 31, 2017 the Company’s statutory capital and reserves met all calculated minimum regulatory requirements.

The Company is prohibited from declaring or paying a dividend if its Class E statutory capital and surplus is less than its ECR or if it is in breach of its solvency margin or if the declaration or payment of such dividend would cause such breach. Further the Company, as a Class E insurer, is prohibited from declaring or paying any dividend of more than 25% of its total statutory capital and surplus (as shown on its statutory balance sheet) unless it files (at least seven days before payment of such dividends) with the Authority an affidavit stating that it will continue to meet its relevant margins. The Company must obtain the Authority’s prior approval for a reduction by 15% or more of the total statutory capital as set forth in its previous year’s financial statements. These restrictions on declaring or paying dividends and distributions under the Insurance Act are in addition to those under the Companies Act 1981, which apply to all Bermuda companies.

Actual statutory capital and surplus, as determined using statutory accounting principles, is as follows:

	2017
Total shareholder's equity	28,701
Non admitted assets	(2,040)
<b>Statutory capital and surplus</b>	<b>26,661</b>

## **ALLIANZ RE BERMUDA LIFE LTD.**

Notes to the financial statements

For the period from September 8, 2016 (date of incorporation) to December 31, 2017  
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### **16. Capital management**

The preservation and consistent enhancement of its capital is a key strategic objective for the Company. The Company satisfies the capital expectations of the rating agencies that assess its financial strength. The Company met the applicable local minimum capital requirements in the year under review. The parent company ensures that the local minimum capital requirements applicable to subsidiaries are always satisfied in accordance with the official requirements defined by insurance regulators.

### **17. Subsequent events**

Effective March 6, 2018, the contract written with AZ Life was closed for new business. This did not impact business ceded under the treaty before March 6, 2018.