February 27, 2020

Dale Bruggeman, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners

Via email

Dear Mr. Bruggeman:

I am writing on behalf of the American Academy of Actuaries[1] Committee on Property and Liability Financial Reporting (COPLFR). We are following up on previous correspondence regarding Schedule P Instructions for Retroactive Reinsurance between Affiliates and Non-Affiliates.

COPLFR appreciates that the Statutory Accounting Principles Working Group (SAPWG) is looking into certain inconsistencies that were identified in our May 21, 2019, letter to you. In July, Julie Lederer, acting in her capacity as a member of the Casualty Actuarial and Statistical (C) Task Force, posed several questions about specific details in our initial comment letter. Her comments and COPLFR's replies are presented here.

Julie Lederer's Comment

1. I'm not sure what Allianz/Allianz Re agreement the letter is referring to. The letter suggests that this agreement was enacted in 2015 and that the accounting changed between year-ends 2015 and 2016, but Allianz Re's 2018 MD&A (which is said to be included as an attachment to COPLFR's letter but is not) suggests that the agreements between Allianz and Allianz Re weren't enacted until 2016. Allianz Re did assume retroactive business from a different entity, Fireman's Fund, in 2015:

[1] The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

> Beginning in 2015, the Company was revitalized to manage various run-off liabilities of its former parent, Fireman's Fund Insurance Company ("FFIC"), in a dedicated and efficient manner. Effective January 1, 2015, the Company entered into a reinsurance agreement with FFIC by which FFIC ceded and the Company agreed to reinsure certain Asbestos & Environmental liabilities. Effective July 1, 2015, the Company entered into a reinsurance agreement with FFIC by which FFIC ceded and the Company agreed to reinsure certain Workers' Compensation and Construction Defect liabilities.
>
> In 2016, the Company acquired additional run-off portfolios from both FFIC and Allianz Global Risks US ("AGR"), FFIC's parent. Effective January 1, 2016, the Company entered into a reinsurance agreement with FFIC by which FFIC ceded and the Company agreed to reinsure certain Professional Healthcare liabilities and Company entered into a reinsurance agreement with AGRUS by which AGR ceded and the Company agreed to reinsure certain liabilities from AGR's Global Discontinued Business Division ("GDBD") portfolio. Effective July 1, 2016, the Company entered into a reinsurance agreement with AGR by which AGR ceded and the Company agreed to reinsure certain General Liability and Excess liabilities underwritten by FFIC.

a. There's hardly any workers comp data in Allianz's 2015 Schedule P. There's a lot of WC data at year-end 2016, which appears to be due to the addition of Firemen's Fund to the pooling agreement.
b. When I compare Allianz Re's 2015 and 2016 Schedule Ps, I don't see major changes. There is significant assumed premium reported in CY 2015 in both statements, and both statements show assumed reserves only for AYs 2012 and prior. I think this is related to Allianz Re's transaction with FFIC (as mentioned in the MD&A above), not with Allianz.

COPLFR's Response

The May 21, 2019, COPLFR letter is referring to the July 1, 2015, reinsurance agreement between FFIC and Allianz Reinsurance America ("Allianz Re"), where Allianz Re agreed to reinsure certain workers' compensation (WC) and construction defect liabilities. The 2015 Schedule P, Part 1 of Allianz Re (page 4 of the May 21 letter PDF) shows $1.1 billion of 2015 accident year direct and assumed WC earned premium, presumably this Loss Portfolio Transfer. The 2016 Schedule P of Allianz Global Risk US Ins Co. ("Allianz or FFIC") (page 7 of the May 21 letter PDF) shows $1.1 billion of 2015 accident year WC ceded earned premium, about equal to the assumptions of the Allianz Re premium discussed in the prior sentence. Allianz Global Risk US is synonymous with FFIC, as we understand it.

In our May 21, 2019, letter, we did state that "Initially, as of December 31, 2015, Allianz included all of the ceded losses in accident year ('AY') 2015." We did only include the 2016 Allianz Schedule P; it would have been clearer to include the 2015 Allianz Schedule P as well, which we have attached as page 15 of the May 21 letter PDF (Attachment A). We agree with the comment in a. above that the additional data is due to the addition of Fireman's Fund in the pooling agreement. Similarly, for b., we only show Allianz Re's 2015 Schedule P.; we should additionally obtain Allianz Re's 2016 Schedule P. We would not expect much change from the 2015 to 2016 Schedule P. Finally, our comments were not intended to suggest that the agreement between Allianz and Allianz Re was not enacted until 2016. We did, however, want to point out that as of Dec. 31, 2015, Allianz included all of the ceded losses in AY 2015, and in the following year, as of Dec. 31, 2016, Allianz recorded the ceded losses across the subject AYs 2012 and prior, as shown in Schedule P, Part 2 of Allianz (see page 8 of the PDF).

Julie Lederer's Comment

2. I believe some of the attachments noted in the letter are missing:
   a. The letter includes Allianz Re's 2015 Schedule P and Allianz's 2016 Schedule P, but the text of the letter suggests that Allianz's 2015 and 2016 Schedule Ps are included.

i. Regardless, it's pretty hard to compare Allianz's 2015 and 2016 Schedule Ps anyway, since Fireman's Fund was added to the intercompany pool in 2016 and the historical AYs in Allianz's 2016 Schedule P were adjusted accordingly.
ii. When I compare Allianz Re's 2015 and 2016 Schedule Ps, I don't see major changes. The assumed premium is reported in CY 2015 in both statements, and both statements show assumed reserves only for AYs 2012 and prior.

b. Attachment A1SAO (Allianz Re's 2018 SAO) is missing. I looked up the SAO myself and found this passage, which is rather vague, doesn't name the counterparties, and doesn't discuss the accounting for the agreements:

> The Company entered into several significant reinsurance arrangements during calendar years 2015 – 2018, some of which serve to mitigate the risk factors discussed above.
>
> 1. Effective January 1, 2015, the Company entered into a reinsurance agreement whereby the Company assumed and agreed to reinsure certain A&E reserves. Effective July 1, 2015, the Company further assumed and agreed to reinsure certain WC and CD reserves.
> 2. Effective January 1, 2016, the Company entered into a reinsurance agreement by which the Company ceded 50% of the Company's carried A&E, WC, and CD liabilities acquired in 2015.
>
>   Additionally, effective January 1, 2016, the Company entered into reinsurance agreements whereby the Company assumed and agreed to reinsure certain Professional Healthcare liabilities and certain A&E, GL/Excess and WC liabilities. Effective July 1, 2016, the Company entered into another reinsurance agreement by which the Company assumed and agreed to reinsure certain GL/Excess exposure.

c. Attachment A2MDA (Allianz Re's 2018 MD&A) is missing. I looked this up myself and included a relevant passage above in item #1.

COPLFR's Response

The attachments were in the Academy's submission to the CASTF and were in the CASTF materials for a call in June, but apparently were omitted by NAIC staff in materials provided for subsequent calls and referrals.

We too consider the excerpt you provided to be vague. To help clarify the issue, we are attaching MD&As from 2015 and 2016 that include Fireman's Fund Insurance Company in their scope (attachments B and C). One of the difficulties in tracking this issue is the series of actions taken by Allianz since 2015.

Julie Lederer's Comment

3. GEICO's Note 21, included as an attachment, is useful, but it's not clear what we should take away from GEICO's 2014 Schedule P alone. It might have been useful to attach the 2013 Schedule P as well. By comparing the 2013 and 2014 Schedule Ps, it's clear that GEICO made significant cessions in 2014 and that these were spread among older AYs.

COPLFR's Response

Our takeaway from GEICO's 2014 Schedule P alone is that Schedule P, Part 2 (page 13 of the PDF) shows $3.3 billion of decreased development. This is a distortion as we understand it and is supported by the 2013 and 2014 comparison noted above. That distortion would carry over to the RBC filings of the respective entities (based on our understanding of the RBC formula and related instructions). Industry Schedule P data can also be distorted based on what is and is not included in industry totals based on the data scrubbing performed.

We believe that this additional information clarifies our original comments and will help SAPWG to move forward with its own analysis. If you have additional questions, contact Marc Rosenberg, the Academy's senior casualty policy analyst, at 202-785-7865 or rosenberg@actuary.org.

Sincerely,

Kathy Odomirok, MAAA, FCAS
Chairperson, COPLFR
American Academy of Actuaries

3 attachments

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Attachment A

AMERICAN ACADEMY *of* ACTUARIES

Objective. Independent. Effective.™

May 21, 2019

Phil Vigliaturo, Chair
Casualty Actuarial and Statistical (C) Task Force
National Association of Insurance Commissioners

Dale Bruggeman, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners

Via email

RE: Schedule P Instructions for Retroactive Reinsurance between Affiliates and Non-Affiliates

Dear Messrs. Vigliaturo and Bruggeman:

The Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries[1] has noticed that the existing guidance for portfolio retroactive reinsurance that is accounted for as affiliated prospective reinsurance (SSAP 62R, paragraph 31) but that does not meet the definition of Run-Off Agreements (SSAP 62R, paragraphs 81-84) is ambiguous with regards to reporting requirements, particularly regarding the NAIC Statutory Annual Statement's Schedule P. The ambiguity, as we observe the practices adopted by statutory insurance company filers, has led to materially different presentations in Schedule P. We believe that this ambiguity in Schedule P presentation should be addressed, given that industry Schedule P is utilized for risk-based capital (RBC) purposes as well as other purposes, and given the increased propensity for companies to entertain partial loss portfolio transfers that do not fully meet the requirements of "Run-Off Agreements."[2] We wish to point out these ambiguities and offer suggested revisions.

Attached to this letter are two insurance company examples of filed Schedule P's illustrating this ambiguity. We note that the Schedule P information is publicly available data.

In 2015 Allianz Global Risks US Insurance Company ("Allianz") ceded much of its 2012 & prior Workers Compensation ("WC") business to a U.S. affiliate, San Francisco Reinsurance ("San

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[2] SSAP 62R gives guidance on the accounting treatment of "Run-Off Agreements," but that definition only applies to situations where an insurer exits "essentially all the risks ... of a specific line" and no longer writes business in that line. That guidance does not address the increasingly common situation where an insurer cedes reserves from all or a portion of prior writings for a line but continues to write new/renewal business for that line, i.e., partial portfolio transfers.

Francisco Re"). San Francisco Re is now named Allianz Reinsurance of America, Inc. ("Allianz Re"). In doing so it treated all the consideration paid as calendar year ("CY") 2015 ceded earned premium. Initially, as of December 31, 2015, Allianz included all of the ceded losses in accident year ("AY") 2015. However, for the following year (as of December 31, 2016), Allianz recorded the ceded losses across the subject AYs 2012 and prior. This approach distorted the 2015 CY and AY loss ratios and the loss development patterns for AYs 2015 and 2012 and prior. We have attached the relevant Schedule P excerpts from Allianz's 2015 and 2016 Annual Statements as Attachment A. Descriptions of the transaction are described in the Allianz Re Statement of Actuarial Opinion as of December 31, 2018, also a public document, in Attachment A1SAO. The Management Discussion and Analysis for Allianz Re as of December 31, 2018, is attached as Attachment A2MDA.

In 2014, Government Employees Insurance Company ("GEICO") ceded half of its loss and Loss Adjustment Expense (hereinafter collectively referred to as "loss") reserves as of January 1, 2014, to its indirect parent, National Indemnity Company ("NICO"). In doing so it treated the consideration paid as ceded earned premium spread to prior CYs (based on the allocation of loss reserves by AY as of January 1, 2014), with the ceded losses also spread across prior AYs. This avoided distorting the CY/AY loss ratios but did distort the loss development patterns. We have attached the Schedule P and Note 21 excerpts from the 2014 GEICO Annual Statement as Attachment B.

Both transactions had the potential to materially distort industry totals with regard to loss development. They also most likely did distort data used in the RBC calculations for those companies. We note that it is unclear from either SSAP 62R or Schedule P instructions whether either should have done anything different. Whether to record ceded earned premium all to one CY, or to all the CYs with impacted AYs, appears to be up to the individual company's option. We also note that these transactions can distort other schedules on the Annual Statement such as Page 3, the Underwriting and Investment Exhibits, and Schedule F.

For those agreements meeting the definition of "Run-Off Agreements" in SSAP 62R (paragraph 81), the required accounting is clear. The ceded earned premium from such agreements is to be recorded as a negative paid loss, so as not to distort the incurred development data by AY. But neither the GEICO nor the Allianz agreements were "run-off" agreements as they transferred only a portion of the prior book (and the ceding companies were still writing new business for that line/market).

We suggest that the NAIC expand the Annual Statement Instructions, and recommend SSAP 62R be clarified, as follows:

- Provide consistent guidance on the reporting treatment in these situation to both the ceding entity and assuming entity, where both are members of the same group and are consolidated in the same Combined Annual Statement.

- Clarify the reporting method to be used if the ceding entity and assuming entity are not in the same group.

We note that the treatment of these transactions impacts the industry RBC calculation. If both sides handle the transaction the same way and both are U.S. reporting entities, the industry RBC calculation might not be impacted. However, the industry RBC calculation would be impacted if the two sides handle the transaction differently, or if one side was a U.S. company and the other side was a non-U.S. company. Therefore, we recommend clarification to the Annual Statement

Instructions and SSAP 62R.

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COPLFR appreciates this opportunity to provide input to the Casualty Actuarial and Statistical Task Force and the Surplus Lines Task Force. We hope these observations are useful, and we welcome any further discussion or review that may be helpful to this process. If you have any questions about our comments, please contact Marc Rosenberg, senior casualty policy analyst (rosenberg@actuary.org; 202-223-8196).

Sincerely,

Kathleen C. Odomirok, MAAA, FCAS
Chairperson, COPLFR
American Academy of Actuaries

Cc: Bob Schump, NAIC staff
Kris DeFrain, NAIC staff
NAIC P&C RBC Working Group
American Academy of Actuaries RBC Committee

(Four attachments.)

SCHEDULE P - PART 1 - Workers' Compensation

($000 Omitted)

Years in Which Premiums Were Earned and Losses Were Incurred	1 Premiums Earned: Direct and Assumed	2 Premiums Earned: Ceded	3 Premiums Earned: Net (Cols. 1-2)	4 Loss Payments: Direct and Assumed	5 Loss Payments: Ceded	6 Defense and Cost Containment Payments: Direct and Assumed	7 Defense and Cost Containment Payments: Ceded	8 Adjusting and Other Payments: Direct and Assumed	9 Adjusting and Other Payments: Ceded	10 Salvage and Subrogation Received	11 Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	12 Number of Claims Reported Direct and Assumed
1 Prior	XXX	XXX	XXX	24,464	188	2,586	0	1,750	0	0	28,611	XXX
2 2006	0	0	0	834	0	88	0	49	0	0	971	0
3 2007	0	0	0	681	0	70	0	41	0	0	792	0
4 2008	0	0	0	893	0	135	0	46	0	0	1,074	0
5 2009	0	0	0	1,796	0	116	0	48	0	0	1,960	0
6 2010	0	0	0	1,562	0	282	0	63	0	0	1,906	0
7 2011	0	0	0	3,093	0	471	0	97	0	0	3,661	0
8 2012	0	0	0	4,899	0	595	0	106	0	0	5,600	0
9 2013	0	0	0	0	0	0	0	0	0	0	0	0
10 2014	0	0	0	0	0	0	0	0	0	0	0	0
11 2015	1,093,283	0	1,093,283	0	0	0	0	0	0	0	0	0
12 Totals	XXX	XXX	XXX	38,222	188	4,343	0	2,200	0	0	44,575	XXX

	13 Losses Unpaid Case Basis: Direct and Assumed	14 Losses Unpaid Case Basis: Ceded	15 Losses Unpaid Bulk + IBNR: Direct and Assumed	16 Losses Unpaid Bulk + IBNR: Ceded	17 Defense and Cost Containment Unpaid Case Basis: Direct and Assumed	18 Defense and Cost Containment Unpaid Case Basis: Ceded	19 Defense and Cost Containment Unpaid Bulk + IBNR: Direct and Assumed	20 Defense and Cost Containment Unpaid Bulk + IBNR: Ceded	21 Adjusting & Other Unpaid: Direct and Assumed	22 Adjusting & Other Unpaid: Ceded	23 Salvage and Subrogation Anticipated	24 Total Net Losses and Expenses Unpaid	25 Number of Claims Outstanding Direct and Assumed
1 Prior	529,635	1,153	289,790	0	0	0	41,318	0	13,374	0	0	872,964	0
2 2006	12,748	0	4,457	0	0	0	1,219	0	375	0	0	18,799	0
3 2007	14,250	0	4,208	0	0	0	1,326	0	313	0	0	20,096	0
4 2008	6,054	0	7,438	0	0	0	1,267	0	352	0	0	15,111	0
5 2009	5,847	0	7,489	0	0	0	1,626	0	365	0	0	15,328	0
6 2010	10,834	0	12,147	0	0	0	3,087	0	478	0	0	26,546	0
7 2011	23,608	0	18,282	0	0	0	4,832	0	739	0	0	47,460	0
8 2012	14,775	0	20,801	0	0	0	6,189	0	806	0	0	42,572	0
9 2013	0	0	0	0	0	0	0	0	0	0	0	0	0
10 2014	0	0	0	0	0	0	0	0	0	0	0	0	0
11 2015	0	0	0	0	0	0	0	0	0	0	0	0	0
12 Totals	617,751	1,153	364,612	0	0	0	60,864	0	16,802	0	0	1,058,876	0

	26 Total Losses and Loss Expenses Incurred: Direct and Assumed	27 Total Losses and Loss Expenses Incurred: Ceded	28 Total Losses and Loss Expenses Incurred: Net	29 Loss and Loss Expense Percentage (Incurred/Premiums Earned): Direct and Assumed	30 Loss and Loss Expense Percentage (Incurred/Premiums Earned): Ceded	31 Loss and Loss Expense Percentage (Incurred/Premiums Earned): Net	32 Nontabular Discount: Loss	33 Nontabular Discount: Loss Expenses	34 Inter-Company Pooling Participation Percentage	35 Net Balance Sheet Reserves After Discount: Losses Unpaid	36 Net Balance Sheet Reserves After Discount: Loss Expenses Unpaid
1 Prior	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	818,272	54,692
2 2006	19,770	0	19,770	0.0	0.0	0.0	0	0	0.0	17,205	1,594
3 2007	20,888	0	20,888	0.0	0.0	0.0	0	0	0.0	18,458	1,638
4 2008	16,185	0	16,185	0.0	0.0	0.0	0	0	0.0	13,492	1,619
5 2009	17,287	0	17,287	0.0	0.0	0.0	0	0	0.0	13,336	1,992
6 2010	28,451	0	28,451	0.0	0.0	0.0	0	0	0.0	22,981	3,565
7 2011	51,122	0	51,122	0.0	0.0	0.0	0	0	0.0	41,890	5,570
8 2012	48,172	0	48,172	0.0	0.0	0.0	0	0	0.0	35,576	6,995
9 2013	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
10 2014	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
11 2015	0	0	0	0.0	0.0	0.0	0	0	0.0	0	0
12 Totals	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	981,210	77,665

SCHEDULE P - PART 2 - Workers' Compensation

	1	2	3	4	5	6	7	8	9	10	11	12
	INCURRED NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED)										DEVELOPMENT	
Years in Which Losses Were Incurred	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	One Year	Two Year
1 Prior	755	4,782	6,660	9,018	9,184	11,628	18,993	18,696	18,911	896,993	878,082	878,297
2 2006	0	0	0	0	0	0	0	0	0	19,346	19,346	19,346
3 2007	XXX	0	0	0	0	0	0	0	0	20,534	20,534	20,534
4 2008	XXX	XXX	0	0	0	0	0	0	0	15,788	15,788	15,788
5 2009	XXX	XXX	XXX	0	0	0	0	0	0	16,875	16,875	16,875
6 2010	XXX	XXX	XXX	XXX	0	0	0	0	0	27,910	27,910	27,910
7 2011	XXX	XXX	XXX	XXX	XXX	0	0	0	0	50,287	50,287	50,287
8 2012	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	47,260	47,260	47,260
9 2013	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
10 2014	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	XXX
11 2015	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	XXX	XXX
12 Total											1,076,082	1,076,297

SCHEDULE P - PART 4 - Workers' Compensation

Years in Which Losses Were Incurred		BULK AND IBNR RESERVES ON NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED)									
		1	2	3	4	5	6	7	8	9	10
		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1	Prior	395	0	500	392	(1,084)	1,605	6,723	5,900	5,708	331,108
2	2006	0	0	0	0	0	0	0	0	0	5,676
3	2007	XXX	0	0	0	0	0	0	0	0	5,533
4	2008	XXX	XXX	0	0	0	0	0	0	0	8,706
5	2009	XXX	XXX	XXX	0	0	0	0	0	0	9,115
6	2010	XXX	XXX	XXX	XXX	0	0	0	0	0	15,233
7	2011	XXX	XXX	XXX	XXX	XXX	0	0	0	0	23,113
8	2012	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	26,990
9	2013	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0
10	2014	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0
11	2015	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0

SCHEDULE P - PART 1 - Workers' Compensation

($000 Omitted)

	Years in Which Premiums Were Earned and Losses Were Incurred	1	2	3	4	5	6	7	8	9	10	11	12
		Premiums Earned			Loss and Loss Expense Payments								
					Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments				
		Direct and Assumed	Ceded	Net (Cols. 1-2)	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Salvage and Subrogation Received	Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	Number of Claims Reported Direct and Assumed
1	Prior	XXX	XXX	XXX	60,328	55,605	5,347	5,261	1,922	1,952	0	4,779	XXX
2	2007	180,051	849	179,202	82,235	2,489	6,736	146	48,686	31	454	134,991	12,546
3	2008	140,259	795	139,464	68,516	2,009	5,917	212	43,170	70	1,186	115,312	9,821
4	2009	120,600	640	119,960	69,979	1,564	6,033	172	43,507	66	600	117,717	8,677
5	2010	127,176	856	126,320	80,871	2,184	8,186	440	11,236	107	586	97,562	11,073
6	2011	139,307	812	138,495	90,678	6,935	10,187	840	14,517	142	654	107,465	11,457
7	2012	139,822	573	139,249	69,447	26,850	9,626	3,365	13,628	199	288	62,287	9,736
8	2013	117,182	66	117,116	42,795	(1,616)	6,645	(72)	24,952	155	171	75,925	6,735
9	2014	95,298	(1)	95,299	22,207	(2,432)	3,669	582	26,280	158	3,041	53,848	4,883
10	2015	84,691	1,096,983	(1,012,292)	15,672	(182)	2,254	(1)	11,536	192	(34)	29,453	4,051
11	2016	81,500	37,233	44,267	6,229	24	546	4	0	0	4	6,747	2,908
12	Totals	XXX	XXX	XXX	608,957	93,430	65,146	10,949	239,434	3,072	6,949	806,086	XXX

		13	14	15	16	17	18	19	20	21	22	23	24	25
		Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting & Other Unpaid				
		Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR						
		Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Salvage and Subrogation Anticipated	Total Net Losses and Expenses Unpaid	Number of Claims Outstanding Direct and Assumed
1	Prior	646,927	679,687	252,710	253,070	623	1,058	36,144	35,994	9,909	8,774	0	(32,269)	5,521
2	2007	11,851	1,696	3,877	3,877	0	0	442	442	192	146	0	10,200	81
3	2008	11,329	2,585	12,688	6,908	(34)	0	357	774	(315)	327	0	13,432	125
4	2009	4,573	972	8,003	8,003	0	0	896	896	184	310	0	3,476	108
5	2010	9,944	2,394	12,386	12,386	0	0	1,396	1,396	594	498	0	7,647	181
6	2011	19,313	2,532	14,379	14,362	0	0	1,728	1,719	691	664	0	16,835	276
7	2012	11,015	1,843	23,701	23,701	0	0	2,642	2,642	643	929	0	8,886	290
8	2013	10,928	2,225	(586)	(20,425)	0	0	(43)	(11,350)	4,735	721	916	43,863	421
9	2014	7,992	1,397	23,079	8,178	0	0	1,732	(6,760)	4,556	735	1,078	33,810	392
10	2015	12,018	(815)	(2,260)	(25,768)	0	0	589	(12,816)	(9,153)	895	1,468	39,698	599
11	2016	13,484	79	27,590	(810)	0	0	2,876	(90)	5,279	0	1,590	50,050	1,008
12	Totals	759,374	694,594	375,568	283,483	589	1,058	48,759	12,846	17,316	14,000	5,051	195,626	9,002

		26	27	28	29	30	31	32	33	34	35	36
		Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred/Premiums Earned)			Nontabular Discount			Net Balance Sheet Reserves After Discount	
		Direct and Assumed	Ceded	Net	Direct and Assumed	Ceded	Net	Loss	Loss Expenses	Inter-Company Pooling Participation Percentage	Losses Unpaid	Loss Expenses Unpaid
1	Prior	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	(33,120)	851
2	2007	154,018	8,827	145,191	85.5	1039.7	81.0	0	0	100.0	10,154	46
3	2008	141,629	12,885	128,744	101.0	1620.7	92.3	0	0	100.0	14,525	(1,092)
4	2009	133,176	11,983	121,193	110.4	1872.4	101.0	0	0	100.0	3,601	(126)
5	2010	124,613	19,405	105,209	98.0	2266.9	83.3	0	0	100.0	7,551	96
6	2011	151,493	27,194	124,300	108.7	3349.0	89.8	0	0	100.0	16,798	37
7	2012	130,702	59,529	71,173	93.5	10389.0	51.1	0	0	100.0	9,173	(287)
8	2013	89,427	(30,361)	119,788	76.3	(46001.3)	102.3	0	0	100.0	28,542	15,320
9	2014	89,516	1,858	87,658	93.9	(185758.8)	92.0	0	0	100.0	21,496	12,314
10	2015	30,657	(38,494)	69,151	36.2	(3.5)	(6.8)	0	0	100.0	36,342	3,356
11	2016	56,004	(793)	56,797	68.7	(2.1)	128.3	0	0	100.0	41,804	8,245
12	Totals	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	156,866	38,760

SCHEDULE P - PART 2 - Workers' Compensation

	1	2	3	4	5	6	7	8	9	10	11	12
	INCURRED NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED)										DEVELOPMENT	
Years in Which Losses Were Incurred	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	One Year	Two Year
1 Prior	1,363,472	1,464,398	1,469,018	1,506,222	1,705,343	1,774,182	1,772,283	1,813,625	1,393,292	779,869	(613,423)	(1,033,756)
2 2007	96,498	98,577	98,810	115,352	107,525	117,505	118,394	117,295	107,759	96,490	(11,269)	(20,805)
3 2008	XXX	92,774	85,884	87,822	83,678	90,600	89,155	88,497	96,718	86,286	(10,432)	(2,211)
4 2009	XXX	XXX	72,007	83,965	77,066	87,258	89,632	90,983	91,622	77,877	(13,745)	(13,106)
5 2010	XXX	XXX	XXX	91,281	86,700	99,699	115,477	112,953	113,569	93,984	(19,585)	(18,969)
6 2011	XXX	XXX	XXX	XXX	116,821	119,114	143,200	135,068	136,858	109,898	(26,960)	(25,170)
7 2012	XXX	XXX	XXX	XXX	XXX	104,076	110,637	115,235	(504,584)	58,031	562,615	(57,204)
8 2013	XXX	XXX	XXX	XXX	XXX	XXX	75,542	85,604	92,304	90,977	(1,327)	5,373
9 2014	XXX	XXX	XXX	XXX	XXX	XXX	XXX	62,935	68,190	57,715	(10,475)	(5,220)
10 2015	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	44,320	67,856	23,536	XXX
11 2016	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	51,517	XXX	XXX
12 Total											(121,067)	(1,171,069)

SCHEDULE P - PART 4 - Workers' Compensation

Years in Which Losses Were Incurred		BULK AND IBNR RESERVES ON NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED)									
		1	2	3	4	5	6	7	8	9	10
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1	Prior	317,103	317,821	251,603	217,303	355,281	381,466	358,102	377,962	12,591	(210)
2	2007	50,160	27,859	20,236	23,857	9,244	19,248	15,838	13,735	8,454	0
3	2008	XXX	50,888	23,883	20,728	8,753	11,767	11,280	9,109	14,285	5,363
4	2009	XXX	XXX	37,460	24,602	8,924	13,316	13,882	12,162	12,096	0
5	2010	XXX	XXX	XXX	45,939	15,898	16,524	23,679	17,695	17,658	0
6	2011	XXX	XXX	XXX	XXX	60,402	24,431	38,698	22,723	22,258	26
7	2012	XXX	XXX	XXX	XXX	XXX	58,843	40,415	33,034	32,912	0
8	2013	XXX	XXX	XXX	XXX	XXX	XXX	45,641	36,464	35,609	31,146
9	2014	XXX	XXX	XXX	XXX	XXX	XXX	XXX	35,763	36,534	23,394
10	2015	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	22,846	36,913
11	2016	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	31,365

SCHEDULE P INTERROGATORIES

1. The following questions relate to yet-to-be-issued Extended Reporting Endorsements (EREs) arising from Death, Disability, or Retirement (DDR) provisions in Medical Professional Liability Claims Made insurance policies. EREs provided for reasons other than DDR are not to be included.

1.1 Does the company issue Medical Professional Liability Claims Made insurance policies that provide tail (also known as an extended reporting endorsement, or "ERE") benefits in the event of Death, Disability, or Retirement (DDR) at a reduced charge or at no additional cost? Yes [ ] No [X]

If the answer to question 1.1 is "no", leave the following questions blank. If the answer to question 1.1 is "yes", please answer the following questions:

1.2 What is the total amount of the reserve for that provision (DDR Reserve), as reported, explicitly or not, elsewhere in this statement (in dollars)? $0

1.3 Does the company report any DDR reserve as Unearned Premium Reserve per SSAP #65? Yes [ ] No [X]

1.4 Does the company report any DDR reserve as loss or loss adjustment expense reserve? Yes [ ] No [X]

1.5 If the company reports DDR reserve as Unearned Premium Reserve, does that amount match the figure on the Underwriting and Investment Exhibit, Part 1A – Recapitulation of all Premiums (Page 7) Column 2, Lines 11.1 plus 11.2? Yes [ ] No [ ] N/A [X]

1.6 If the company reports DDR reserve as loss or loss adjustment expense reserve, please complete the following table corresponding to where these reserves are reported in Schedule P:

	Years in Which Premiums Were Earned and Losses Were Incurred	DDR Reserve Included in Schedule P, Part 1F, Medical Professional Liability Column 24: Total Net Losses and Expenses Unpaid 1 Section 1: Occurrence	2 Section 2: Claims-Made
1.601	Prior	0	0
1.602	2007	0	0
1.603	2008	0	0
1.604	2009	0	0
1.605	2010	0	0
1.606	2011	0	0
1.607	2012	0	0
1.608	2013	0	0
1.609	2014	0	0
1.610	2015	0	0
1.611	2016	0	0
1.612	Totals	0	0

2. The definition of allocated loss adjustment expenses (ALAE) and, therefore, unallocated loss adjustment expenses (ULAE) was changed effective January 1, 1998. This change in definition applies to both paid and unpaid expenses. Are these expenses (now reported as " Defense and Cost Containment" and "Adjusting and Other") reported in compliance with these definitions in this statement? Yes [X] No [ ]

3. The Adjusting and Other expense payments and reserves should be allocated to the years in which the losses were incurred based on the number of claims reported, closed and outstanding in those years. When allocating Adjusting and Other expense between companies in a group or a pool, the Adjusting and Other expense should be allocated in the same percentage used for the loss amounts and the claim counts. For reinsurers, Adjusting and Other expense assumed should be reported according to the reinsurance contract. For Adjusting and Other expense incurred by reinsurers, or in those situations where suitable claim count information is not available, Adjusting and Other expense should be allocated by a reasonable method determined by the company and described in Interrogatory 7, below. Are they so reported in this Statement? Yes [X] No [ ]

4. Do any lines in Schedule P include reserves that are reported gross of any discount to present value of future payments, and that are reported net of such discounts on Page 10? Yes [ ] No [X]

If yes, proper disclosure must be made in the Notes to Financial Statements, as specified in the Instructions. Also, the discounts must be reported in Schedule P - Part 1, Columns 32 and 33. Schedule P must be completed gross of non-tabular discounting. Work papers relating to discount calculations must be available for examination upon request.

Discounting is allowed only if expressly permitted by the state insurance department to which this Annual Statement is being filed.

5. What were the net premiums in force at the end of the year for:
(in thousands of dollars)

5.1 Fidelity 0
5.2 Surety 0

6. Claim count information is reported per claim or per claimant (Indicate which). per claim

If not the same in all years, explain in Interrogatory 7.

7.1 The information provided in Schedule P will be used by many persons to estimate the adequacy of the current loss and expense reserves, among other things. Are there any especially significant events, coverage, retention or accounting changes that have occurred that must be considered when making such analyses? Yes [X] No [ ]

7.2 (An extended statement may be attached.)

(a) In 2014, the Intercompany Pooling Agreement was amended such that AGRUS retains 100% of the pooled results and AMIC and AUIC receive 0% of the pooled results. This change affected the reserves as of January 1, 2014 and all results thereafter. Schedule P was revised according to NAIC guidance such that all Schedule P history was restated based upon the new pooling percentages following the change (Note 26).

(b) Quota share treaties with corporate affiliates were commuted in 2010 and 2012. See 2010 and 2012 Annual Statements, Note 23.

(c) The allocation of A&O expense payments and reserves to accident year is based on calendar year paid losses and ending case reserves which have been adjusted for unusual movements. We believe that this provides a measure reasonably consistent with expected claim counts.

(d) In 2015 FFIC entered into 2 loss portfolio transfers. Personal lines business was 100% ceded to ACE, an unaffiliated reinsurer. Worker's Compensation business with accident years 2012 and prior, Construction Defect risks with accident years 2014 and prior, and Asbestos and Environmental risks were 100% ceded to SF Reinsurance, an affiliated company.

(e) In 2016, AGRUS entered into loss portfolio transfers, in which loss and LAE reserves for certain primary and excess liability reserves were 100% ceded to SF Reinsurance, an affiliated company.

(f) In 2016, FFIC entered into a loss portfolio transfer, in which loss and LAE reserves on the professional liability healthcare business with accident years 2015 and prior were 100% ceded to SF Reinsurance, an affiliated company.

(g) In 2016, a new intercompany pooling agreement was entered into with FFIC such that AGRUS retains 100% of the pooled results and FFIC received 0% of the pooled results. This change affected the reserves as of January 1, 2016 and all results thereafter. Schedule P was revised according to NAIC guidance such that all Schedule P history was restated based upon the new pooling percentages following the change (Note 26).

SCHEDULE P - PART 1 - Private Passenger Auto Liability

($000 Omitted)

	1	2	3	4	5	6	7	8	9	10	11	12
	Premiums Earned			Loss and Loss Expense Payments								
				Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments				
Years in Which Premiums Were Earned and Losses Were Incurred	Direct and Assumed	Ceded	Net (Cols. 1-2)	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Salvage and Subrogation Received	Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	Number of Claims Reported Direct and Assumed
1 Prior	XXX	XXX	XXX	6,801	4,168	1,156	578	426	213	268	3,424	XXX
2 2005	4,413,391	51,549	4,361,842	2,694,546	26,169	133,676	1,018	329,428	397	56,384	3,130,066	774,022
3 2006	4,759,059	35,763	4,723,296	2,981,984	14,433	154,847	1,974	353,659	659	65,744	3,473,423	839,849
4 2007	5,006,304	36,903	4,969,401	3,271,743	10,818	180,497	2,249	380,206	1,187	72,693	3,818,193	913,990
5 2008	5,163,686	69,727	5,093,959	3,351,743	22,260	189,317	3,629	380,529	2,254	70,741	3,893,446	909,611
6 2009	5,552,631	154,606	5,398,025	3,750,156	52,206	212,681	8,540	397,905	4,240	76,217	4,295,756	1,008,431
7 2010	5,938,546	315,049	5,623,498	4,061,145	112,545	210,709	18,930	468,173	7,623	92,678	4,600,929	1,085,323
8 2011	6,433,627	538,357	5,895,270	4,284,153	191,056	177,812	30,146	513,627	13,442	92,653	4,740,948	1,155,621
9 2012	6,905,908	896,581	6,009,327	4,042,541	318,667	121,700	33,509	498,614	26,595	81,028	4,284,085	1,169,921
10 2013	7,156,036	2,700,656	4,455,380	3,582,867	741,705	68,439	25,836	554,349	122,202	56,598	3,315,911	1,156,944
11 2014	7,353,036	2,815,450	4,537,586	2,267,067	1,142,524	18,430	9,242	185,042	92,521	20,910	1,226,253	1,119,353
12 Totals	XXX	XXX	XXX	34,294,746	2,636,550	1,469,265	135,651	4,061,956	271,333	685,917	36,782,434	XXX

	13	14	15	16	17	18	19	20	21	22	23	24	25
	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting & Other Unpaid				
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR						
	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Direct and Assumed	Ceded	Salvage and Subrogation Anticipated	Total Net Losses and Expenses Unpaid	Number of Claims Outstanding Direct and Assumed
1 Prior	32,282	24,236	162,184	117,651	2,160	1,597	10,952	7,764	1,660	830	0	57,162	777
2 2005	6,093	3,047	414	207	516	258	639	319	1,212	606	0	4,436	1,021
3 2006	10,979	5,490	4,400	2,200	917	458	1,237	618	1,925	962	0	9,729	1,521
4 2007	17,279	8,640	2,973	1,487	1,455	727	2,760	1,380	2,836	1,418	0	13,652	2,001
5 2008	37,981	18,990	2,697	1,349	3,241	1,621	4,527	2,263	5,454	2,727	0	26,950	3,900
6 2009	81,064	40,536	7,383	3,693	6,907	3,453	8,651	4,326	10,758	5,379	0	57,375	6,811
7 2010	177,952	89,026	10,220	5,114	15,767	7,888	15,775	7,891	20,048	10,024	0	119,818	10,629
8 2011	345,748	173,078	40,715	20,379	31,922	15,981	32,267	16,151	40,114	20,057	0	245,119	16,246
9 2012	629,594	315,967	99,521	49,861	59,143	29,682	61,459	30,804	76,018	38,009	0	461,414	26,318
10 2013	1,095,688	550,760	281,806	141,374	103,165	51,852	106,236	53,370	153,825	76,913	0	866,450	47,973
11 2014	2,306,610	1,157,950	565,589	284,362	188,522	94,636	152,150	76,549	523,778	261,889	0	1,861,263	346,286
12 Totals	4,741,270	2,387,720	1,177,904	627,677	413,714	208,154	396,652	201,435	837,628	418,814	0	3,723,368	463,483

	26	27	28	29	30	31	32	33	34	35	36
	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred/Premiums Earned)			Nontabular Discount			Net Balance Sheet Reserves After Discount	
	Direct and Assumed	Ceded	Net	Direct and Assumed	Ceded	Net	Loss	Loss Expenses	Inter-Company Pooling Participation Percentage	Losses Unpaid	Loss Expenses Unpaid
1 Prior	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	52,580	4,581
2 2005	3,166,523	32,020	3,134,503	71.7	62.1	71.9	0	0	0.0	3,253	1,183
3 2006	3,509,946	26,794	3,483,152	73.8	74.9	73.7	0	0	0.0	7,690	2,039
4 2007	3,859,750	27,906	3,831,845	77.1	75.6	77.1	0	0	0.0	10,126	3,525
5 2008	3,975,489	55,093	3,920,396	77.0	79.0	77.0	0	0	0.0	20,339	6,611
6 2009	4,475,505	122,374	4,353,131	80.6	79.2	80.6	0	0	0.0	44,218	13,157
7 2010	4,979,789	259,041	4,720,748	83.9	82.2	83.9	0	0	0.0	94,032	25,786
8 2011	5,466,358	480,291	4,986,067	85.0	89.2	84.6	0	0	0.0	193,005	52,113
9 2012	5,588,592	843,093	4,745,499	80.9	94.0	79.0	0	0	0.0	363,288	98,126
10 2013	5,946,375	1,764,013	4,182,361	83.1	65.3	93.9	0	0	0.0	685,360	181,090
11 2014	6,207,188	3,119,673	3,087,515	84.4	110.8	68.0	0	0	0.0	1,429,886	431,377
12 Totals	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	2,903,778	819,590

SCHEDULE P - PART 2 - Private Passenger Auto Liability

		1	2	3	4	5	6	7	8	9	10	11	12
		INCURRED NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END ($000 OMITTED)										DEVELOPMENT	
	Years in Which Losses Were Incurred	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	One Year	Two Year
1	Prior	1,658,527	1,548,990	1,527,340	1,484,273	1,465,990	1,466,584	1,391,681	1,389,176	1,376,838	1,315,566	(61,272)	(73,610)
2	2005	3,112,946	2,925,892	2,866,433	2,847,546	2,828,882	2,829,485	2,813,509	2,810,988	2,809,954	2,804,866	(5,088)	(6,121)
3	2006	XXX	3,363,214	3,204,427	3,188,870	3,186,093	3,166,048	3,142,109	3,136,646	3,136,598	3,129,190	(7,408)	(7,456)
4	2007	XXX	XXX	3,603,759	3,558,334	3,537,939	3,511,675	3,481,734	3,473,536	3,472,147	3,451,407	(20,740)	(22,129)
5	2008	XXX	XXX	XXX	3,809,222	3,696,632	3,658,872	3,639,131	3,604,863	3,589,746	3,539,395	(50,351)	(65,468)
6	2009	XXX	XXX	XXX	XXX	4,326,922	4,146,370	4,135,650	4,088,760	4,058,439	3,954,088	(104,351)	(134,672)
7	2010	XXX	XXX	XXX	XXX	XXX	4,612,803	4,564,959	4,499,672	4,491,672	4,250,173	(241,499)	(249,499)
8	2011	XXX	XXX	XXX	XXX	XXX	XXX	5,076,898	4,913,166	4,898,511	4,465,824	(432,687)	(447,342)
9	2012	XXX	XXX	XXX	XXX	XXX	XXX	XXX	5,068,519	4,988,762	4,235,471	(753,291)	(833,048)
10	2013	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	5,266,416	3,673,302	(1,593,114)	XXX
11	2014	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	2,733,105	XXX	XXX
12	Total											(3,269,802)	(1,839,345)

Common stocks	13,726,169,380	13,726,169,380	11,804,417,380	-	1,921,752,000	-
Preferred stocks	1,549,800,000	1,312,000,000	-	-	1,549,800,000	-
Cash equivalents	509,986,400	509,963,655	-	509,986,400	-	-
Short-term investments	6,074,694,166	6,074,494,644	20,001,266	6,054,692,900	-	-
Other invested assets	132,254,334	87,217,996	-	-	132,254,334	-
Total	$ 24,141,757,265	$ 23,695,939,972	$ 11,824,418,646	$ 8,713,532,285	$ 3,603,806,334	$ -

21. OTHER ITEMS

A. Extraordinary Items

Not Applicable

B. Troubled Debt Restructuring: Debtors

Not Applicable

C. Other Disclosures

The Company entered into a Loss Portfolio Agreement of Reinsurance effective January 1, 2014 with its indirect parent, National Indemnity Company (NICO). Under this agreement, NICO assumed 50% of the Company's outstanding net loss and loss adjustment expense reserves at January 1, 2014. The Company also entered into a Quota Share Agreement of Reinsurance effective January 1, 2014 with NICO. Under this agreement NICO assumed 50% of unearned premium reserves of the Company as of January 1, 2014.

The consideration of $5,244,199,057 was paid on February 14, 2014.

The consideration paid under the two reinsurance agreements was accounted for as ceded earned premium. This accounting was based on the NAIC's Statement of Statutory Accounting Principles No. 62R Paragraph 26. This agreement is not considered retroactive reinsurance consistent with Statement of Statutory Accounting Principles No. 62R Paragraph 31(d), which states that accounting principles for retroactive reinsurance shall not apply to "… intercompany reinsurance agreements, and any amendments thereto, among companies 100% owned by a common or ultimate controlling person provided there is no gain in surplus as a result of the transaction." The ceded earned premium under the portfolio agreement was allocated to accident year based on the distribution of the loss and LAE reserves as of December 31, 2013. The ceded earned premium under the quota share agreement was allocated entirely to the 2013 accident year.

Under the Quota Share Agreement of Reinsurance, NICO assumes 50% of all premiums written net of general expenses on all business written on and after January 1, 2014. NICO also assumes 50% of all losses and loss adjustment expenses incurred on and after January 1, 2014. The outstanding reinsurance recoverable for paid claims was $1,191,490,837 and the ceded premiums payable was $1,293,300,154 as of December 31, 2014. These balances were settled on February 13, 2015. Settlement terms of the reinsurance agreement are 45 days after the quarter ends.

Net realized capital gains in 2014 and 2013 include impairment losses for securities that were determined to be other than temporarily impaired of $243,983,453 and $59,660,241, respectively.

SCHEDULE P - PART 1D - WORKERS' COMPENSATION
(EXCLUDING EXCESS WORKERS' COMPENSATION)
($000 OMITTED)

Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned			Loss and Loss Expense Payments								12
	1	2	3	Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments		10	11	Number of Claims Reported Direct and Assumed
	Direct and Assumed	Ceded	Net (1 - 2)	4 Direct and Assumed	5 Ceded	6 Direct and Assumed	7 Ceded	8 Direct and Assumed	9 Ceded	Salvage and Subrogation Received	Total Net Paid Cols (4 - 5 + 6 - 7 + 8 - 9)	
1. Prior	XXX	XXX	XXX	4,217	1,660	371	112	167	0	0	2,982	XXX
2. 2006	1	0	1	0	0	0	0	0	0	0	0	0
3. 2007	1	0	1	0	0	0	0	0	0	0	0	0
4. 2008	2	0	2	0	0	0	0	19	0	0	19	0
5. 2009	(1)	0	(1)	0	0	0	0	0	0	0	0	0
6. 2010	0	0	0	0	0	0	0	0	0	0	0	0
7. 2011	0	0	0	0	0	0	0	0	0	0	0	0
8. 2012	0	0	0	0	0	0	0	0	0	0	0	0
9. 2013	484	0	484	0	0	0	0	0	0	0	0	0
10. 2014	0	0	0	0	0	0	0	0	0	0	0	0
11. 2015	0	0	0	0	0	0	0	0	0	0	0	0
12. Totals	XXX	XXX	XXX	4,217	1,660	371	112	186	0	0	3,001	XXX

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid		23	24	25
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR						
	13 Direct and Assumed	14 Ceded	15 Direct and Assumed	16 Ceded	17 Direct and Assumed	18 Ceded	19 Direct and Assumed	20 Ceded	21 Direct and Assumed	22 Ceded	Salvage and Subrogation Anticipated	Total Net Losses and Expenses Unpaid	Number of Claims Outstanding Direct and Assumed
1. Prior	24,236	10,657	18,240	2,664	536	564	2,948	450	1,108	0	0	32,733	198
2. 2006	0	0	0	0	0	0	0	0	0	0	0	0	0
3. 2007	0	0	0	0	0	0	0	0	0	0	0	0	0
4. 2008	3,430	0	5,712	0	(31)	0	(423)	0	(463)	0	0	8,225	0
5. 2009	0	0	0	0	0	0	0	0	0	0	0	0	0
6. 2010	0	0	0	0	0	0	0	0	0	0	0	0	0
7. 2011	0	0	0	0	0	0	0	0	0	0	0	0	0
8. 2012	0	0	0	0	0	0	0	0	0	0	0	0	0
9. 2013	0	0	(170)	0	0	0	0	0	0	0	0	(170)	0
10. 2014	0	0	0	0	0	0	(35)	0	0	0	0	(35)	0
11. 2015	0	0	0	0	0	0	0	0	0	0	0	0	0
12. Totals	27,666	10,657	23,782	2,664	505	564	2,490	450	645	0	0	40,754	198

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred /Premiums Earned)			Nontabular Discount		34	Net Balance Sheet Reserves After Discount	
	26 Direct and Assumed	27 Ceded	28 Net	29 Direct and Assumed	30 Ceded	31 Net	32 Loss	33 Loss Expense	Inter-Company Pooling Participation Percentage	35 Losses Unpaid	36 Loss Expenses Unpaid
1. Prior	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	29,155	3,578
2. 2006	0	0	0	0.0	0.0	0.0	0	0	100.0	0	0
3. 2007	0	0	0	0.0	0.0	0.0	0	0	100.0	0	0
4. 2008	8,244	0	8,244	412,207.2	0.0	412,207.2	0	0	100.0	9,142	(917)
5. 2009	0	0	0	0.6	(10.0)	0.5	0	0	100.0	0	0
6. 2010	0	0	0	0.0	0.0	0.0	0	0	100.0	0	0
7. 2011	0	0	0	0.0	0.0	0.0	0	0	100.0	0	0
8. 2012	0	0	0	0.0	0.0	0.0	0	0	100.0	0	0
9. 2013	(170)	0	(170)	(35.1)	0.0	(35.1)	0	0	100.0	(170)	0
10. 2014	(35)	0	(35)	(21,627.0)	0.0	(21,627.0)	0	0	100.0	0	(35)
11. 2015	0	0	0	70.0	0.0	73.3	0	0	100.0	0	0
12. Totals	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	38,127	2,627

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Attachment B

Allianz

Allianz Global Corporate & Specialty

FIREMAN'S FUND INSURANCE COMPANY AND ITS AFFILIATED PROPERTY AND CASUALTY INSURERS MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2015

OVERVIEW

ORGANIZATION

Fireman's Fund Insurance Company (FFIC), a California domiciled corporation, is a wholly-owned subsidiary of Allianz Global Risks US Insurance Company (AGR US) dba Allianz Global Corporate & Specialty (AGCS), which in turn is a subsidiary of Allianz of America, Inc. (AZOA), which belongs to the Allianz Group under the group management of Allianz Societas Europaea (Allianz SE), Berlin and Munich.

FFIC directly owned the following property and casualty insurance companies as of December 31, 2015: American Automobile Insurance Company (AAIC); Associated Indemnity Corporation (AIC); Chicago Insurance Company (CIC); Fireman's Fund Insurance Company of Hawaii, Inc. (FFHI); Fireman's Fund Insurance company of Ohio (FFOH); The American Insurance Company (TAIC); Fireman's Fund Indemnity Corporation (FFC); National Surety Corporation (NSC); and Interstate Fire and Casualty Company (IFCC); this group of companies referred to as the FFIC Group.

On January 1, 2015, FFIC distributed all of the issued and outstanding shares of common stock of its wholly owned subsidiary, San Francisco Reinsurance Company (SFRe), to its sole shareholder, AZOA. The dividend was valued at the statutory book value of SFRe totaling $395.5 million which includes a capital contribution made by FFIC to SFRe on January 1, 2015 in the amount of $321.0 million.

On January 1, 2015, AZOA contributed all of the issued and outstanding shares of common stock of FFIC, its wholly owned subsidiary, to AGR US in the amount of $1.7 billion and FFIC became a subsidiary of AGR US.

FFIC has 1,000,000 common stock shares authorized, 280,000 shares issued and outstanding, with a par value of $15 as of December 31, 2015.

OPERATIONS

Historically, the FFIC group operated with three major business segments: Commercial Insurance, Personal Insurance, and Crop. As discussed further in the significant transaction section below, FFIC sold its personal lines business to ACE American Insurance Company effective April 1, 2015.

On September 17, 2014, FFIC announced that its commercial property and casualty (P&C) business would be integrated into AGCS, the global corporate insurance group of Allianz Group for all active product lines. AGCS serves the needs of international corporate and specialty insurance customers through an internal business structure of branches and affiliates, and external business partners. The AGCS business model focuses on large commercial risks and facilitates the ability of the Group to negotiate and issue a master policy to the home office of an international customer, while providing compliant local policies through affiliates worldwide. This integration is meant to ensure continuity of service for existing commercial policyholders and agents, while also presenting one brand and team to customers across all segments of the US P&C market. The integration will also seek to build on the Company's product range globally, targeting opportunities to use FFIC's specialist knowledge of entertainment and Mid-Corp insurance in international markets.

SIGNIFICANT TRANSACTIONS

Effective January 1, 2015, following receipt of approval from the California Department of Insurance on December 15, 2014, the FFIC entered into a reinsurance agreement with SFRe. Per the reinsurance agreement, FFIC ceded and SFRe agreed to reinsure certain asbestos and environmental liabilities for policies written prior to January 1, 1988 and asbestos liabilities for policies written between January 1, 1988 and December 31, 2003 by FFIC and its subsidiaries in exchange for a reinsurance premium equal to the reserves for such liabilities, valued at $954 million, SFRe offered reinsurance up to a limit of $1,604 million.

Effective March 17, 2015, FFIC and Allianz SE (AZSE) terminated the Keep Well Commitment pursuant to which AZSE had committed to make certain capital contributions to FFIC in the event of adverse development of prior years' reserves for accident years 2003 and prior. On March 20, 2015, AZSE paid $488.2 million to FFIC in satisfaction of AZSE's outstanding obligation under the terminated Keep Well agreement.

On March 18, 2015, the California Insurance Commissioner provided consent to the Master Transaction Agreement (MTA) executed December 18, 2014 between the FFIC and ACE American Insurance Company (ACE) and the form of the quota share reinsurance and service agreements contained therein. The agreements provide the framework for the sale of FFIC's personal lines business to ACE, a Pennsylvania property and casualty insurer licensed in California. The business transferred to ACE consists of private passenger auto, liability, homeowners, and personal inland marine policies.

On April 1, 2015, FFIC closed the sale of its personal lines insurance business to ACE. The sale includes the renewal rights and reinsurance of existing liabilities. FFIC recognized a pre-tax gain of $428.0 million on the sale. FFIC and ACE entered into a Run-Off Agreement for liabilities as of March 31, 2015. This included $382.7 million in loss and LAE reserves and $428.4 million in unearned premium reserves. The agreement was approved by both the California and Pennsylvania Departments of Insurance. In addition, FFIC and ACE entered into a 100% quota share reinsurance agreement for business written on policies effective April 1, 2015 and subsequent, until such a time that the policies can be renewed on ACE paper.

Effective July 1, 2015, following receipt of approval from the California Department of Insurance on July 23, 2015, FFIC entered into a reinsurance agreement with SFRe by which FFIC ceded and SFRe agreed to reinsure certain workers compensation liabilities for losses occurring on or before December 31, 2012 and construction defect liabilities for losses occurring on or before December 31, 2014 by FFIC and its subsidiaries, in exchange for a reinsurance premium equal to the reserves for such liabilities of $1,329 million in exchange for reinsurance up to a limit of $1,805 million.

On December 15, 2015, FFIC paid an extraordinary cash distribution out of gross paid in and contributed surplus of $500 million to its parent, AGR US.

The U.S. Department of Justice (DOJ) conducted an investigation into whether certain employees of FFIC engaged in violations of the False Claims Act in connection with FFIC's involvement as a provider of federal crop insurance from 1997 to 2003. The investigation concerned the issue of whether FFIC's employees submitted false claims to the government through various practices, including backdating and inappropriately designating new producer status. Two former claims employees and one contract adjuster pled guilty to assisting farmers in asserting fraudulent crop claims. The DOJ and FFIC reached a settlement on March 23, 2015 which ended the investigation. The settlement amount was $44 million. The claims settled by FFIC per the agreement were based upon allegations only, and there was no determination of liability.

ACCOUNTING POLICIES

The financial statements of the Company are presented on the basis of accounting practices prescribed or permitted by the National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures manual. These accounting practices and procedures have been adopted as a component of prescribed or permitted practices by the state of California.

FINANCIAL POSITION

Statutory admitted assets, liabilities, and capital and surplus of the FFIC Group at December 31, 2015 and 2014:

(in millions)	2015	2014	Change
Cash & investment assets	$4,228.3	$7,727.3	($3,499.1)
Investment income due and accrued	38.9	65.8	(26.9)
Agents' balances and deferred premiums	568.9	688.1	(119.2)
Reinsurance recoverable	168.5	183.3	(14.7)
Funds held by or deposited under reinsurance contracts	2.6	2.7	(0.1)
Current federal and foreign income tax recoverable and interest thereon	82.6	2.8	79.8
Net deferred tax asset	0.0	128.0	(128.0)
Receivables from parent, subsidiaries and affiliates	14.7	11.5	3.2
Claims checks outstanding	54.4	35.9	18.5
Other assets	81.1	511.1	(430.0)
Total assets	$5,240.0	$9,356.4	($4,116.5)
Loss & loss adjustment expense reserves	$2,909.1	$5,777.4	($2,868.3)
Reinsurance payable on paid losses and loss adjustment expenses	50.2	1.5	48.7
Other underwriting liabilities	194.6	276.8	(82.2)
Net deferred tax liability	2.6	0.0	2.6
Unearned premium reserves	503.1	1,059.9	(556.8)
Ceded reinsurance premiums payable	11.8	(7.7)	19.5
Funds held by company under reinsurance treaties	1.3	2.4	(1.1)
Amounts withheld or retained by company for account of others	22.6	(1.1)	23.7
Provision for unrecoverable and unauthorized reinsurance	32.2	25.1	7.2
Payable to parent, subsidiaries and affiliates	44.8	1.5	43.3
Restructuring provision	87.2	0.0	87.2
Other liabilities	55.4	64.0	(8.6)
Total liabilities	$3,915.0	$7,199.7	($3,284.8)
Total capital and surplus	$1,325.0	$2,156.7	($831.7)
Total liabilities / capital & surplus	$5,240.0	$9,356.4	($4,116.5)

CASH AND INVESTMENT ASSETS

The composition of the FFIC Group's portfolio (carrying value) at December 31, 2015 and 2014:

(in millions)	2015	2014	Change
US Treasury securities and obligations of the US government	$408.8	$517.2	(108.4)
Foreign government securities	76.6	109.3	(32.7)
Obligations of states and political subdivisions	712.2	1,157.1	(444.9)
Corporate securities	1,785.4	3,483.3	(1,697.9)
Mortgage-backed securities	900.4	1,749.6	(849.2)
Mortgage loans	273.2	309.4	(36.2)
Cash, cash equivalents and short-term investments	(8.2)	319.3	(327.5)
Equity securities - non-affiliates	17.1	16.8	0.3
Other invested assets	62.8	64.5	(1.7)
Receivables for securities	0.1	0.9	(0.8)
Total invested assets	$4,228.3	$7,727.3	($3,499.1)

Total cash and investment assets decreased by $3.5 billion in 2015 to $4.2 billion compared to $7.7 billion in 2014. This decrease is primarily attributed to the contribution of SFRe to AZOA consisting of $416 million of cash and invested assets, the settlement of the new reinsurance agreements of approximately $1.4 billion for Asbestos & Environmental (A&E) with SFRe, $1.4 billion for Workers' Compensation (WC) and Construction Defect (CD) with SFRe, and $288 million for personal lines with ACE respectively in satisfaction of reinsurance agreements as detailed above (see Significant Transactions), and the $500 million return of capital to AGR US, partially offset by $488 million from AZOA for the Keep Well settlement.

The FFIC Group invests primarily in investment grade corporate and government securities with the objective of providing a reasonable total return while limiting liquidity risk and credit risk. The asset allocation has remained relatively consistent year-over-year with a slight shift between assets classes. At December 31, 2015, over 97% of the FFIC Group's debt security portfolio was invested in securities with an NAIC designation of two or higher. The majority of the FFIC Group's debt securities are carried at amortized cost.

A two-year comparison of the aggregate fair value to the carrying value of the debt securities is as follows:

(in millions)	2015	2014	Change
Aggregate fair value	$3,954.1	$7,244.4	($3,290.2)
Carrying value	$3,883.3	$7,016.5	($3,133.1)
Fair value over (under) carrying value	$70.8	$227.9	($157.1)

The FFIC Group reviews the entire investment portfolio each quarter to determine whether or not declines in fair value are other than temporary. The FFIC Group's investment policy for equity securities is that if the fair value is at least 20% below average cost at the end of a quarter or is in an unrealized loss position for nine consecutive months, the security is considered other than temporarily impaired. Other factors, including market analysis, current events, and management's judgment, are also used to determine whether equity securities are considered other than temporarily impaired and may result in an equity security being impaired. Once an equity security is deemed impaired, the FFIC Group limits its outlook for fair value recovery and intent to hold to one quarterly reporting period. Fixed-income securities meeting the 20% below average cost criteria are also reviewed for possible impairment. However, additional factors including credit quality, market analysis, current events, and management's judgment, are also used to determine whether fixed-income securities are considered other than temporarily impaired. In the event that the FFIC Group does not have the intent to hold securities in a loss position, an other than temporary impairment is taken on the securities. Impairments in the value of securities held by the FFIC Group, considered to be other than temporary, are recorded as a reduction of the cost of the security, and a corresponding realized loss is recognized in the statement of operations. In 2015, a loss of $13.6 million was recognized for corporate bonds with impairments considered to be other than temporary.

ASSETS – OTHER THAN CASH AND INVESTMENT ASSETS

Cash and invested assets account for approximately 81% of the FFIC Group's overall assets at December 31, 2015. The FFIC Group's other assets include the following:

At December 31, 2015, FFIC Group had net admitted assets of $568.9 million in agent's balances and deferred premiums receivable due primarily from agents, brokers and reinsurers as compared to $688.1 million at December 31, 2014. Gross receivables decreased by $116.2 million, along with a non-admitted agent's balances decrease of $3.0 million. The decrease in gross receivables is primarily driven by the reinsurance of personal lines business to ACE. The non-admitted asset decrease is not considered significant, though the FFIC Group continues to focus on collections to manage down the statutory non-admitted balances. Based upon FFIC Group's experience, less than 1% of the balance may become uncollectible and the potential loss is not material to the FFIC Group's financial condition.

The decrease in reinsurance recoverables of $14.7 million to $168.5 million at December 31, 2015 is due to decreased losses ceded to affiliated and non-affiliated reinsurers unrelated to pooling transactions.

Current federal and foreign tax recoverable increased by $79.8 million to $82.6 million at December 31, 2015 due to the fact that AZOA agreed to waive its right to defer reimbursement of tax benefit on losses not utilized on separate company basis with respect to losses incurred through September 30, 2015. Pursuant to this waiver, AZOA paid FFIC and its subsidiaries approximately $97 million for the benefit of the losses utilized on a consolidated basis, in early 2016. The FFIC Group is generally paid for the tax benefit on its losses and the extent it can utilize those losses on a separate company basis.

At December 31, 2015, the FFIC Group is in a deferred tax liability position as compared to a $128.0 million deferred tax asset at prior year end. The deferred tax asset in 2014 was driven by the realization of deferred taxes based on the projected gain on the sale of personal lines to ACE. In 2015, without the benefit of the ACE gain, future profits have declined year over year reducing the amount of admitted DTA's thereby shifting the company into a DTL position.

Receivables from parent, subsidiaries and affiliates increased by $3.2 million to $14.7 million as of December 31, 2015 due to normal intercompany activity associated with the intercompany servicing agreements.

Paid loss suspense decreased by $18.5 million to $54.4 million at December 31, 2015. Loss transactions still outstanding when the claims system closed at the end of December will be fully processed in January to record the paid loss activity and the corresponding reduction in loss reserves as applicable. This is standard monthly processing with no material impacts to financial results.

Other assets of $81.1 million at December 31, 2015 are primarily cash clearing suspense amounts remaining due to the timing of transactions recorded at month-end when the treasury close out for the month occurs. This is normal transactions processing each month, with amounts clearing from suspense in the following month, and having no impact on the financial results of the company.

LIABILITIES – LOSS AND LOSS ADJUSTMENT EXPENSE (LAE) RESERVES

Loss and LAE reserves are based on long-range projections subject to uncertainty. Uncertainty regarding reserves for a given accident year is gradually reduced as new information emerges each succeeding year, allowing more reliable valuations of such reserves.

Net loss and LAE reserves as of December 31, 2014 were $5,777 million. The prior accident year reserves were reduced during 2015 by loss payments of $1,550 million and the reinsurance agreements with SFRe and ACE of $2,253 million, partially offset by unfavorable development of $186 million primarily related to Professional Liability and Commercial Automobile. The remaining prior accident year reserves as of December 31, 2015 were $2,137 million.

Overall, management believes that FFIC Group's loss and LAE reserves as of December 31, 2015 are adequate and reflect their best estimate by line and in the aggregate.

LIABILITIES – OTHER THAN LOSS AND LAE RESERVES

FFIC Group's other liabilities include the following:

Reinsurance payable on paid losses and loss adjustment expenses of $50.2 million at December 31, 2015 primarily consist of $48.4 million of reinsurance payable to California Casualty Indemnity exchange and $2.3 million payable to AGCS Marine Insurance Company (AMIC).

Other underwriting liabilities of $194.6 million at December 31, 2015 consists of commissions, other expenses and taxes, licenses and fees that decreased overall by $82.2 million. This is due primarily to a decreased reserve for litigation following settlement with the DOJ (see Significant Transactions), as well as a decrease in accrued employee related expenses and lower commissions driven by lower premium written in 2015, which are offset by higher taxes, licenses and fees.

Unearned premiums of $503.1 million at December 31, 2015 decreased $556.8 million from prior year primarily driven by the reinsurance of personal lines business to ACE and lower written premium in 2015.

Ceded reinsurance premiums payable increased by $19.5 million to $11.8 million at December 31, 2015 due to an increase in payables to affiliated and non-affiliated reinsurers unrelated to intercompany pooling transactions.

The provision for reinsurance at December 2015 of $32.2 million reflects a $7.2 million increase from prior year due primarily to an increase in provision for unauthorized reinsurance.

Payables to parent, subsidiaries and affiliates increased by $43.3 million to $44.8 million at December 31, 2015 from $1.5 million at prior year end due primarily to payroll and other operating expenses being paid, on behalf of the FFIC Group, by AGR US.

FFIC implemented a restructuring plan in 2015 related to the integration of its commercial property and casualty business with AGCS. As a result, FFIC has set up a restructuring provision consisting of lease payments, expected to be paid out on the non-cancelable lease arrangement associated with the FFIC's San Marin location that expires in 2018 and severance and termination costs. Restructuring liabilities of $11 million were amortized during 2015 and the remaining restructuring provision was $87.2 million as of December 31, 2015.

Other liabilities decreased by $8.6 million to $55.4 million at December 31, 2015 primarily due to lower miscellaneous payable balances in suspense compared to 2014.

CAPITAL AND SURPLUS ACCOUNTS

(in millions)	2015	2014
Policyholders' surplus	$1,325.0	$2,156.7
Change from prior year	($831.7)	($321.9)
Percentage of net written premiums to surplus	-89.8%	114.1%

Policyholders' surplus decreased by $831.7 million in 2015 from $2,156.7 million at December 31, 2014. Decreases in surplus included the following: a return of capital from FFIC to the parent company, AGRUS, of $500.0 million, the $395.5 million dividend of SFRe to AZOA, an increase in non-admitted assets of $121.2 million, net unrealized capital losses of $76.2 million, a decrease in deferred income tax of $43.5 million, an increase in pension liability of $10.6 million, an increase in the provision for reinsurance of $7.5 million, and unrealized foreign exchange losses of $2.0 million. Offsetting the decreases was net income of $278.7 million and $46.2 million of the Keep Well settlement that was a capital contribution to FFIC.

OFF-BALANCE SHEET ARRANGEMENTS

None

RESULTS OF OPERATIONS

Underwriting Results

(in millions)	2015	2014	Change
Net premiums written	($1,189.5)	$2,460.5	($3,650.0)
Net premiums earned	(632.7)	2,494.3	(3,127.0)
Losses and loss expenses incurred	(838.3)	2,245.8	(3,084.1)
Other underwriting expense incurred	593.5	855.6	(262.1)
Underwriting gain (loss)	($388.0)	($607.1)	$219.2
Net investment income earned	200.0	299.5	(99.5)
Net realized capital gains (losses)	67.2	(1.0)	68.2
Other income (loss)	292.9	(7.3)	300.2
Federal and foreign income taxes incurred (benefit)	(106.6)	(403.9)	297.3
Net income (after tax)	$278.7	$88.0	$190.8
Loss ratio	132.5%	90.0%	42.4%
Current accident year loss ratio	-194.1%	73.8%	-268.0%

The 2015 net underwriting results of the FFIC Group are most significantly impacted by prior year unfavorable development of approximately $186 million, primarily in Professional Liability and Commercial Automobile and higher than expected current accident year loss ratio and expense ratio.

Net written premium, net earned premium, and loss and LAE incurred line decreases were primarily attributed to the accounting for the reinsurance agreements with SFRe and ACE. The below table provides an overview of the impacts.

(in millions)	2015	SF Re	ACE	2015 Adj
Net premiums written	($1,189.5)	$3,237.0	$428.0	$2,475.5
Net premiums earned	(632.7)	$3,237.0	-	$2,604.3
Losses and loss expenses incurred	(838.3)	$3,237.0	-	$2,398.7

The decrease in other underwriting expense incurred is primarily driven by lower commission expense as a result of lower premium written in 2015 as well as a decrease in miscellaneous expenses.

The decrease in the investment income as of December 31, 2015 is due primarily to a decrease in FFIC Group's asset base driving lower investment income compared to 2014. The asset base decreased primarily as a result of the securities that were transferred to SFRe and ACE.

The realized capital gains of $67.2 million primarily represent the gain on the transfer of SFRe to AZOA. The FFIC subsidiary was transferred at statutory book value whereupon unrealized gains on the value of the asset at January 1, 2015 were realized.

Other income of $292.9 primarily represents the gain on sale of business to ACE of $428.0 million, partially offset by restructuring expenses of $129.7 million.

REINSURANCE

As part of its overall strategy in the management of risk and cash flow, FFIC engages in reinsurance transactions. Property and casualty insurance is ceded and assumed through aggregate excess of loss and pro rata treaties and facultative placements. In addition, FFIC and its subsidiaries are members of various pools and associations. FFIC has a contingent risk with respect to insurance ceded to the extent that reinsurers would be unable to meet the obligations assumed under reinsurance contracts.

Allianz Global Corporate & Specialty SE (AGCS SE) is the lead company of the AGCS Group, a globally operating company domiciled in Munich, Germany. AGCS SE also serves as lead reinsurer of the AGCS companies, allowing the aggregation of risks to be retroceded to high quality reinsurers. AGR US and FFIC participate in the AGCS reinsurance structure and will continue to benefit from this protection going forward.

Effective January 1, 2015 some of FFIC's more significant lines of business had corresponding treaty and retention limits as follows:

- Property – Treaty limit – $175 million xs $25 million, Occurrence Limit $200 million
- Entertainment – Treaty limit – $135 million xs $15 million, Occurrence Limit $150 million
- Casualty – Treaty limit - $35 million xs $15 million, Occurrence $50 million
- Multiline Clash – Treaty limit - $150 million xs $100 million
- CAT Americas – Treaty limit - $950 million xs $250 million through April 2015
- CAT Americas – Treaty limit - $1,140 million xs $160 million from May 2015 to Dec 2015
- Mega CAT – Treaty Limit $300M xs $1,200 million through April 2015

Also, effective January 1, 2015, FFIC entered into an Aggregate Excess of Loss Stop Loss Agreement which covers 100% of the ultimate net loss over and above an initial Ultimate Net Loss Ratio of 90% subject to a maximum of 80% of the Company's Ultimate Net Loss Incurred.

Effective January 1, 2014 some of FFIC's more significant lines of business had corresponding treaty and retention limits as follows:

- Property – Treaty limit – $185 million xs $15 million, Occurrence Limit $200 million through March 2014
- Property – Treaty limit – $175 million xs $25 million, Occurrence Limit $200 million from April 2014 to December 2014
- Entertainment – Treaty limit – $135 million xs $15 million, Occurrence Limit $150 million
- Casualty – Treaty limit - $35 million xs $15 million, Occurrence $50 million
- Multiline Clash – Treaty limit - $150 million xs $100 million
- CAT Americas – Treaty limit - $1,150 million xs $250 million through April 2014
- CAT Americas – Treaty limit - $950 million xs $250 million from May 2014 to December 2015
- Mega CAT – Treaty Limit $700M xs $1,400 million through April 2014
- Mega CAT – Treaty Limit $300M xs $1,200 million from May 2014 to December 2015

INCOME TAXES

Reconciliation of Federal Tax Rate to Actual Effective Rate

	2015	Effective Tax Rate	2014	Effective Tax Rate
Income (loss) after capital gains tax	$172.1		($317.8)	
Realized capital gains tax	5.5		8.3	
Pretax Income (loss)	$177.6		($309.5)	
Income tax expense computed at the statutory rate	62.2	35.0%	(108.3)	35.0%
Tax exempt income deduction	(8.3)	-4.7%	(12.6)	4.1%
Dividends Received Deduction	(0.1)	0.0%	(0.1)	0.0%
Realized gain on disposal of affiliate	(22.2)	-12.5%	0.0	0.0%
Proration adjustment	1.3	0.7%	1.9	-0.6%
Tax Credits	(4.8)	-2.7%	(2.2)	0.7%
Nondeductible expenses	8.0	4.5%	0.4	-0.1%
Corporate-owned life insurance	(1.0)	-0.6%	(1.3)	0.4%
Consolidated tax adjustments	0.0	0.0%	(0.2)	0.1%
Prior year adjustments	(1.4)	-0.8%	(0.6)	0.2%
Valuation Allowance	(85.6)	-48.2%	218.0	-70.4%
Tax from net profit and loss	($52.1)	-29.3%	$94.9	-30.7%
Tax from surplus changes	(24.5)		(2.5)	
Total income taxes	($76.5)		$92.4	

	2015	2014
Federal and foreign income taxes incurred	($106.6)	($403.9)
Realized capital gains tax	5.5	8.3
Change in net deferred income taxes	24.6	488.0
Total Statutory Income Taxes	($76.5)	$92.4

The provision for income taxes incurred and the change in net deferred income taxes resulted in an effective tax rate of -29.3% and -30.7% at December 31, 2015 and 2014, respectively. The 2015 effective tax rate has decreased year-over-year due to the higher 2015 pre-tax income of $177.6 million, which is a $487.1 million increase from ($309.5) million in 2014. Factors affecting the 2015 effective tax rate resulting in a difference between effective and statutory tax rates are the tax exempt income deduction of $7.0 million net of proration, $22.2 million realized gain on disposal of affiliate, and $85.6 million change in valuation allowance. Total statutory income taxes of ($76.5) million reflect a $168.9 million decrease from $92.4 million in 2014, due primarily to an increase in pretax income offset by a change in valuation allowance, decreases in net deferred tax assets and unrealized capital gains from prior year.

Deferred income taxes result from temporary differences in the recognition of income and expense for tax and statutory financial reporting purposes. All changes in deferred tax assets and liabilities are recognized as a separate component of gains and losses in unassigned funds, except to the extent deferred taxes are allocated to, and netted against, changes in unrealized gains and losses and changes in pension minimum liability.

CASH FLOW AND LIQUIDITY

(in millions)	2015	2014	Change
Net cash provided by (used in)			
Operations	($3,108.3)	$99.2	($3,207.5)
Investing activities	3,107.0	486.5	2,620.5
Financing & other sources	(322.1)	(224.4)	(97.7)
Net change in cash, cash equivalents and short-term investments	($323.5)	$361.2	($684.7)
Cash, cash equivalents and short-term investments at December 31st	($8.2)	$320.3	($328.5)

Net cash used in operations in 2015 was primarily due to benefit and loss related payments of ($1,616.1) million, premiums collected net of reinsurance of ($1,053.7) million, commissions, expenses paid, and aggregate write-ins for deductions of ($1,003.2) million, and dividends paid to policyholders of ($0.8) million, partially offset by other income of $293.8 million, net investment income of $251.0 million, and federal and foreign income taxes paid of $20.8 million. Investing activities cash flows for the year ended December 31, 2015 were primarily due to proceeds from the sale of mature investments of $4,347.1 million partially offset by investment purchases of $1,240.1 million. Cash used in financing and other sources of ($322.1) million for the year primarily resulted from the $500.0 million return of capital to AGR US, the $395.5 million dividend of SFRe to AZOA, the ($46.2) million Keep Well settlement, a $378.7 million decrease in other assets (primarily the $442.1 million Keep Well receivable from 2014 that was settled in 2015), and a $90.5 million increase in other liabilities (primarily the $87.2 million restructuring provision).

The cash flows related to operating activities and investing activities were significantly impacted by the reinsurance activities with SFRe and ACE. Operating cash flows reflected the reduction in the business that was reinsured to SFRe and the Investing cash flows reflected the corresponding disposal of fixed income to settle the reinsurance.

The maximum amount of ordinary dividends that can be paid by a California domestic property and casualty insurer to shareholders without prior approval of the Insurance Commissioner is limited to the greater of ten percent of prior year-end statutory surplus or prior year net income. A California domestic insurer may pay ordinary dividends only from earned surplus (unassigned funds), excluding unrealized gains. Within these limitations, the FFIC has exceeded the restrictions of ordinary dividends and will require approval for extraordinary dividends through December 15, 2016.

The FFIC Group leases office space and operating equipment under cancelable, non-cancelable, and open-ended agreements. Rent expense was $36.6 million in 2015. The FFIC Group's office space leases with various landlords expire through 2026. Certain rental commitments have renewal options extending beyond the year 2026. Some of these renewals are subject to adjustment in future periods. At January 1, 2016 the minimum aggregate rental commitments amount to $132.2 million, mostly consisting of the restructuring provision for FFIC's lease of its former home office location in San Marin, California in 2015. The Company leases several sites that are subleased to other businesses or organizations. Subleases typically cover spaces previously occupied by the Company's business operations that are no longer needed for those purposes. Lease terms differ to the extent that subtenants are responsible for all portions of property taxes, insurance and maintenance costs related to the subleased property. The lease payments received under non-cancelable leasing arrangements during 2015 were $4.5 million. Future minimum lease payment receivables under non-cancelable leasing arrangements as of December 31, 2014 are $12.0 million.

The FFIC Group anticipates that current operations and cash call provisions included in treaties will provide adequate cash flow and liquidity to meet future cash needs. The FFIC Group has minimal commitments for leases and has no debt. Additionally, more than 70% of bonds are invested in publicly traded bonds that are in a net unrealized gain position.

Various lawsuits against the FFIC Group have arisen in the course of business. Contingent liabilities arising from litigation, income tax and other matters are not considered material in relation to the financial position of the FFIC Group.

SUBSEQUENT EVENTS

Effective January 1, 2016, FFIC entered into a reinsurance agreement with SFRe by which FFIC ceded and SFRe agreed to reinsure discontinued business liabilities for losses incurred by FFIC and its subsidiaries, in exchange for a reinsurance premium equal to the reserves for such liabilities.

In March 2016, AGR US and FFIC received permission from the Illinois and California DOI to enter into an Amended and Restated Pooling Agreement (the Restated Pooling Agreement), by and among AGR US, AMIC, AUIC and FFIC which would amend the existing AGR US Pooling Agreement. Pursuant to the Restated Pooling Agreement, with effect from January 1, 2016, AGR US will reinsure and be liable on all policies and contracts of insurance and assumed reinsurance of FFIC, AUIC and AMIC written before or after January 1, 2016. Please note, the reinsurance agreements pursuant to which FFIC's nine insurance subsidiaries cede business to FFIC will remain in place and unchanged, but all such reinsured business will be retroceded by FFIC, together with FFIC direct business, to AGR US pursuant to the Restated Pooling Agreement.

Under the Restated Pooling Agreement, no business will be retroceded by AGR US to FFIC, AMIC or AUIC. As consideration for the transfer of the liabilities to AGR US, investment assets will be transferred, or funds withheld recorded, among the Companies in amounts equal to the statement value of the change in balance sheet accounts realized by the Companies. As a result of the Restated Pooling Agreement, the surplus as regards policyholders of FFIC and each other Company shall remain unchanged from its December 31, 2015 balance. The net underwriting liabilities transferred from FFIC to AGR US pursuant to the Restated Pooling Agreement amount to $2.9 billion for which FFIC will establish a funds held payable in the amount of $400 million.

FORWARD-LOOKING INFORMATION

This management and discussion analysis filing (the Filing) includes statements which may relate to anticipated future events (forward-looking statements) rather than actual present conditions or historical events. Forward-looking statements, by their nature, are subject to a variety of inherent risks and uncertainties that could cause actual results to differ materially from the results projected. Any forward-looking statements made in this document are made by the FFIC Group as of the date of this Filing.

FIREMAN'S FUND INSURANCE COMPANY

Peter Richard Locy
Vice President & Controller

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Attachment C

Allianz

Allianz Global Corporate & Specialty

ALLIANZ GLOBAL RISKS US INSURANCE COMPANY AND ITS AFFILIATED PROPERTY AND CASUALTY INSURERS MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016

OVERVIEW

ORGANIZATION

The accompanying management's discussion and analysis of Allianz Global Risks US Insurance Company and its Affiliated Property and Casualty Insurers (the Company or Companies) consists of the following companies as of December 31, 2016 and 2015:

Company	NAIC#	Domiciliary State
Allianz Global Risks US Insurance Company	35300	Illinois
AGCS Marine Insurance Company	22837	Illinois
Allianz Underwriters Insurance Company	36420	Illinois
Fireman's Fund Insurance Company	21873	California
The American Insurance Company	21857	Ohio
National Surety Corporation	21881	Illinois
Interstate Fire & Casualty Company	22829	Illinois
American Automobile Insurance Company	21849	Missouri
Chicago Insurance Company	22810	Illinois
Associated Indemnity Corporation	21865	California
Fireman's Fund Indemnity Corporation	11380	New Jersey
Fireman's Fund Insurance Company of Ohio	39640	Ohio
Fireman's Fund Insurance Company of Hawaii	39500	Hawaii

Allianz Global Risks US Insurance Company (AGR US) is owned by AGCS International Holdings B.V., a wholly owned subsidiary of Allianz Global Corporate & Specialty SE and an indirect subsidiary of Allianz Societas Europaea (Allianz SE), and Allianz of America, Inc. (AZOA), which belongs to the Allianz Group under the group management of Allianz SE, Berlin and Munich. AGR US also has a Canada Branch.

AGR US is the lead company and direct parent of the following group of wholly owned property and casualty insurance companies based in the United States of America (U.S.): AGCS Marine Insurance Company (AMIC); Allianz Underwriting Insurance Company (AUIC); and Fireman's Fund Insurance Company (FFIC), the AGR US Group. FFIC and its property and casualty insurance subsidiaries (the FFIC Group) consists of the following insurance companies as of December 31, 2016: FFIC; American Automobile Insurance Company; Associated Indemnity Corporation; Chicago Insurance Company; Fireman's Fund Insurance Company of Hawaii, Inc.; Fireman's Fund Insurance Company of Ohio; The American Insurance Company; Fireman's Fund Indemnity Corporation; National Surety Corporation; and Interstate Fire and Casualty Company.

For 2016 and going forward, the AGR US Group and the FFIC Group will file one combined annual statement, audited financial statement, and Management Discussion and Analysis (MD&A). This MD&A should be read in conjunction with the statutory financial statements.

HISTORICAL TRANSACTIONS

Effective December 31, 2012, AGR US's equity ownership of FFIC stock was distributed up to AZOA, and FFIC ceased to be a subsidiary of AGR US.

On January 1, 2015, AZOA contributed all of the issued and outstanding shares of common stock of its wholly owned subsidiary, FFIC, in the amount of $1.7 billion, back to AGR US.

AGR US has 350,000 common stock shares authorized and 350,000 non-voting preferred stock shares authorized with a par value of $100. All shares are Class A shares.

Effective December 7, 2016, AGR US issued 262,339 shares of Class A Series A $100 par value preferred stock to AZOA in exchange for 262,339 shares of AGR US $100 par value common stock. Further effective December 7, 2016, through a sequence of intercompany transactions, the preferred shares were conveyed in their entirety to AGCS International Holding B.V.

As of December 31, 2016, 29,150 common shares were issued and outstanding. 23,320 shares were held by AZOA representing 80.0% of outstanding common stock, and 5,830 shares were held by AGCS International Holding B.V. representing 20.0% of outstanding common stock. AGCS International Holding B.V. also remained the holder of record of 262,339 shares of AGR US Class A Series A preferred stock.

OPERATIONS

The Company provides commercial property and casualty insurance to the private and public sectors in the United States, Canada, and several U.S. territories. The Company's field organization is aimed at providing strategic underwriting which focuses on ten industry categories. Primary distribution channels are through insurance brokers and independent agents. The Company is licensed in all 50 states, Guam, Puerto Rico and Canada. The most significant lines of business are other liability, commercial multiple peril, inland marine, fire, and ocean marine. The Canada Branch writes property, liability, engineering, automobile and aviation insurance.

On September 17, 2014, FFIC announced that its commercial property and casualty (P&C) business will be integrated with AGR US for all active product lines. This ensures continuity of service for existing commercial policyholders and agents, while also presenting one brand and team to customers across all segments of the US P&C market. The integration also seeks to build on the Company's product range globally.

AGR US Group is a group of affiliated insurers that utilize an Intercompany Reinsurance Agreement (the Agreement). Under the terms of the original, and subsequently amended Agreement, the affiliates cede and AGR US assumes net liabilities under all policies and contracts of insurance of the affiliates. The Agreement applies to all lines of business. AGR US is the lead insurer in the pool. It retains its percentage and cedes the balance of the pool business to the other members of the pool in accordance with the applicable share percentages of participation.

In March 2016, AGR US and FFIC received approval from the Illinois Department of Insurance (Illinois DOI) and California Department of Insurance (California DOI) to enter into an Amended and Restated Pooling Agreement (the Restated Pooling Agreement). Effective January 1, 2016, the Agreement was revised for the inclusion of FFIC as a party to the agreement together with AGR US, AUIC, and AMIC. The Restated Pooling Agreement provides for the initial pooling of 100.0% of existing underwriting liabilities and reserves of the Companies with participation of 100.0% by AGR US, and 0.0% for AUIC, AMIC, and FFIC. The reinsurance agreements pursuant to which FFIC's nine insurance subsidiaries cede business to FFIC will remain in place and unchanged, but all such reinsured business will be retroceded by FFIC, together with FFIC's net business, to AGR US pursuant to the Restated Pooling Agreement.

Approximately 9.5% and 8.7% of direct premium written originated in Canada in 2016 and 2015, respectively. The most significant state in terms of direct written premium in 2016 was California with 15.4% of total production. No state accounted for more than 10.0% of direct written premium during 2015. In 2016, 13.7% of assumed business was written by affiliates outside the U.S. and 13.2% in 2015.

ACCOUNTING POLICIES

The financial statements of the Company are presented on the basis of accounting practices prescribed or permitted by the National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures manual. These accounting practices and procedures have been adopted as a component of prescribed or permitted practices by the state of Illinois.

Prior year comparative exhibits contained within the body of this document have been restated to reflect a combination of the 2015 combined annual statement presentations of the former AGR US and FFIC Group.

FINANCIAL POSITION

Statutory admitted assets, liabilities, and capital and surplus at December 31, 2016 and 2015:

(in millions)	2016	2015	Change
Admitted Assets			
Debt securities, at statement value	$ 5,041.6	$ 6,041.2	$ (999.6)
Equity securities, at fair value	5.7	24.0	(18.3)
Mortgage loans on real estate	448.6	414.3	34.3
Cash, cash equivalents, and short-term investments	162.0	64.4	97.6
Other invested assets	304.7	122.8	181.9
Receivable for securities	9.3	0.1	9.2
Securities lending reinvested collateral assets	123.2	56.4	66.8
Cash and invested assets	$ 6,095.1	$ 6,723.2	$ (628.1)
Accrued investment income	43.9	58.1	(14.2)
Premium receivables and agents' balances	693.9	764.8	(70.9)
Reinsurance recoverable on paid losses	301.3	201.4	99.9
Funds held by or deposited with reinsurers	16.8	10.3	6.5
Current federal and foreign income tax recoverable	-	95.8	(95.8)
Net deferred tax asset	196.7	89.3	107.4
Due from affiliates	63.0	36.0	27.0
Other assets	67.3	216.4	(149.1)
Total admitted assets	$ 7,478.0	$ 8,195.3	$ (717.3)
Liabilities and Capital and Surplus			
Loss and loss adjustment expense reserves	3,688.7	4,361.5	(672.8)
Reinsurance payable on paid losses	37.4	52.0	(14.6)
Ceded reinsurance premiums payable	158.9	95.2	63.7
Unearned premiums	995.9	1,042.1	(46.2)
Provision for reinsurance	76.0	69.2	6.8
Accrued expenses	285.6	300.6	(15.0)
Current federal and foreign income taxes payable	11.2	-	11.2
Funds held by Company	19.7	7.0	12.7
Due to affiliates	0.4	46.4	(46.0)
Payable for securities lending	123.2	56.4	66.8
Other liabilities	149.2	274.0	(124.8)
Total liabilities	$ 5,546.2	$ 6,304.4	$ (758.2)
Capital and surplus:			
Common capital stock	2.9	29.1	(26.2)
Preferred capital stock	26.2	-	26.2
Gross paid-in and contributed surplus	1,727.9	1,824.9	(97.0)
Unassigned surplus (deficit)	174.8	36.9	137.9
Total capital and surplus	$ 1,931.8	$ 1,890.9	$ 40.9
Total liabilities and capital and surplus	$ 7,478.0	$ 8,195.3	$ (717.3)

CASH AND INVESTMENT ASSETS

The composition of the Company's portfolio (carrying value) at December 31, 2016 and 2015:

(in millions)	2016	2015	Change
US Treasury securities and obligations of the US government	$ 490.9	$ 571.2	$ (80.3)
Foreign government securities	425.9	407.5	18.4
Obligations of states and political subdivisions	1,134.0	1,347.3	(213.3)
Corporate securities	2,990.8	3,715.2	(724.4)
Mortgage loans	448.6	414.3	34.3
Cash, cash equivalents, and short-term investments	162.0	64.4	97.6
Equity securities - non-affiliates	5.7	24.0	(18.3)
Other invested assets	304.7	122.8	181.9
Receivable for securities	9.3	0.1	9.2
Securities lending reinvested collateral assets	123.2	56.4	66.8
Total cash and invested assets	$ 6,095.1	$ 6,723.2	$ (628.1)

The Company invests primarily in investment grade corporate and government securities with the objective of providing a reasonable total return while limiting liquidity risk and credit risk. The asset allocation has remained relatively consistent year-over-year with a slight shift between asset classes. At December 31, 2016, approximately 98.0% of the Company's debt security portfolio was invested in securities with an NAIC designation of two or higher and the majority of the Company's debt securities are carried at amortized cost.

Total cash and investment assets decreased by $628.1 million in 2016 to $6,095.1 million compared to $6,723.2 million in 2015. This decrease is primarily attributed to the settlement of new reinsurance agreements entered into with San Francisco Reinsurance Company (SFRe), an affiliate, wherein $639.0 million in net loss and loss adjustment expense reserves on certain discontinued lines of business, including legacy asbestos and environmental, mass tort, worker's compensation, medical malpractice, and excess general liability were ceded in 2016.

A two-year comparison of the aggregate fair value to the carrying value of the debt securities is as follows:

(in millions)	2016	2015	Change
Aggregate fair value	$ 5,143.0	$ 6,153.6	$ (1,010.6)
Carrying value	5,041.6	6,041.2	(999.6)
Fair value over (under) carrying value	$ 101.4	$ 112.4	$ (11.0)

Mortgage loans increased by $34.3 million in alignment with the Company's investment strategy. The current strategy involves a continued increase in future mortgage loan investments.

Other invested assets increased by $181.9 million primarily driven by an increase of $118.0 million in the investment in Allianz Energy Partners of America LLC (AREPoA), an affiliate. AREPoA was established in 2015 as a part of the Allianz strategy of investing in renewable energy.

Upon approval from the Illinois DOI, other invested assets also increased due to a loan agreement entered into by the Company to lend $52.5 million to AZOA as borrower. The five year loan is fully funded and interest accrues at 2.08% per annum on the outstanding principal balance of the original loan. The loan balance outstanding for the loan including accrued interest as of December 31, 2016 is $52.9.

The Company reviews the entire investment portfolio each quarter to determine whether or not declines in fair value are other than temporary. The Company's investment policy for equity securities is that if the fair value is at least 20% below average cost at the end of a quarter or is in an unrealized loss position for nine consecutive months, the security is considered other than temporarily impaired. Other factors, including market analysis, current events, and management's judgment, are also used to determine whether equity securities are considered other than temporarily impaired and may result in an equity security being impaired. Once an equity security is deemed impaired, the Company limits its outlook for fair value recovery and intent to hold to one quarterly reporting period. Fixed-income securities meeting the 20.0% below average cost criteria are also reviewed for possible impairment. However, additional factors including credit quality, market analysis, current events, and management's judgment, are also used to determine whether fixed-income securities are considered other than temporarily impaired. In the event that the Company does not have the intent to hold securities in a loss position, an other than temporary impairment is taken on the securities. Impairments in the value of securities held by the Company, considered to be other than temporary, are recorded as a reduction of the cost of the security, and a corresponding realized loss is recognized in the statement of operations. In 2016, a loss of $13.1 million was recognized for corporate bonds with impairments considered to be other than temporary.

AGR US and AMIC participate in a securities lending program. The securities lending program requires a minimum of 102% of the fair value of securities loaned under securities lending agreements to be maintained as collateral. Cash collateral received is invested and an offsetting collateral liability is established as payable for securities lending. In 2016, securities lending collateral assets increased by $66.8 million driven by an increase in cash equivalent lending by AGR US. The aggregate fair value of all securities from the sale, trade or use of the accepted collateral is $123.2 million at December 31, 2016.

ASSETS – OTHER THAN CASH AND INVESTMENT ASSETS

Cash and invested assets account for over 79.4% of the Company's overall assets at December 31, 2016. The Company's other assets include the following:

At December 31, 2016, the Company had net admitted assets of $693.9 million in agent's balances and deferred premiums receivable due primarily from agents, brokers and reinsurers as compared to $764.8 million at December 31, 2015. Gross receivables decreased by $54.9 million driven by lower installment premiums written in 2016 and non-admitted agent's balances increased by $12.9 million. Overall, these fluctuations are not considered significant and the Company continues to focus on collections to manage down the statutory non-admitted balances. Based upon the Company's experience, less than 1% of the balance may become uncollectible and the potential loss is not material to the Company's financial condition.

In 2016, the Company reported a pre-tax loss of $169.3 million and reported a liability for current federal income taxes net of realized capital gains (losses) of $11.2 million. The 2016 tax liability balance is primarily driven by a foreign tax redetermination. Canadian taxes paid in prior periods, for which the Company took a foreign tax credit, were refunded in 2016. The taxes were refunded due to loss carrybacks and as a result reduced the amount of foreign tax credits that could be utilized to offset prior year federal income taxes by $9.1 million. As of December 31, 2015, the Company reported pre-tax income of $153.9 million and reflected a net recoverable of $95.8 million. The 2015 tax recoverable balance was driven primarily by the fact that AZOA agreed to waive its right to defer reimbursement of tax benefit on losses not utilized on separate company basis with respect to losses incurred through September 30, 2015 resulting in a receivable from AZOA to FFIC and its subsidiaries of approximately $97.0 million.

The gross deferred tax assets (DTA) decreased by $42.8 million. The reduction is driven by four primary factors. The first factor is the decrease in non-admitted asset driven mainly by decreases in receivables from parent, subsidiaries, and affiliates (PSA). The second factor is a reduction in the pension accrual due mainly to re-measurement of discounted pension obligation and fair value of related plan assets. The third factor is a decrease in currency translation adjustment for the Canadian Branch due to fluctuations in Canadian dollar (CAD) to US dollar (USD) foreign exchange rates. The final factor is a decrease in restructuring provision related to the 2015 integration of FFIC due to payments during the year. These decreases were partially offset by an increase in NOL carry forward at FFIC. The net DTA increased by $107.4 million as a result of the pooling of FFIC to AGR US, creating taxable income in 2016 that can be used to carryback losses and projected future income.

Reinsurance recoverable on paid losses increased by $99.9 million resulting from higher incurred loss activity this year end compared to 2015.

Receivables from PSA increased by $27.0 million due to $31.6 million higher receivable from Allianz Aviation Managers, LLC, a non-insurance affiliate. Over 90% of balances in the receivables from PSA are current and will be settled in Q1 2017.

Other assets decreased by $149.1 million in 2016 to $67.3 million. This change was driven mainly by a reduction in miscellaneous assets, claim checks outstanding, and paid loss suspense, as a result of the netting of asset and liability suspense balances.

LIABILITIES – LOSS AND LOSS ADJUSTMENT EXPENSE (LAE) RESERVES

Loss and LAE reserves are based on long-range projections subject to uncertainty. Uncertainty regarding reserves for a given accident year is gradually reduced as new information emerges each succeeding year, allowing more reliable valuations of such reserves.

Restated net loss and LAE reserves as of December 31, 2015 were $4,361.5 million with inclusion of the FFIC Group. As of December 31, 2016, $1,260.9 million has been paid for incurred losses and LAE attributable to insured events of prior years. Net loss and LAE reserves remaining for prior years are now $2445.1 million, which therefore leads to $655.5 million in favorable prior year development.

The favorable prior year development reflects transactions with affiliates. As a result of reinsurance agreements entered into with SFRe, $639.0 million in net loss and LAE reserves on discontinued lines of business was ceded in 2016.

Excluding the effect of these reinsurance transactions, prior year loss and LAE development was $16.5 million favorable. It was driven mainly by the release of reserves on December 2015 catastrophe events in Property, Marine, and Aviation, and on other short-tail exposures, including Crop. Favorable development is partially offset by an unfavorable development on unallocated loss adjustment expenses.

Changes in the estimate for incurred loss and loss adjustment expenses are generally the result of ongoing analyses of recent loss development trends. Original estimates are revised as additional information becomes known regarding individual claims and trends around loss and loss adjustment expense emergence.

LIABILITIES – OTHER THAN LOSS AND LAE RESERVES

The reinsurance payable on paid losses and loss adjustment expenses has decreased by $14.6 million due to a reduction in assumed business with California Casualty, a non-affiliate, which is offset by an increase in assumed business with Allianz Mexico, an affiliate.

Ceded reinsurance premiums payable of $158.9 million at 2016 increased overall by $63.7 million as a result of increases in quota share treaties with affiliates, including an increase in the number of programs ceded to Allianz Global Corporate & Specialty SE (AGCS SE), an affiliate.

Unearned premiums of $995.9 million at December 31, 2016 decreased $46.2 million from prior year mainly affected by lower premiums written in 2016 compared to prior year, as well as ceding undesirable books of business in order to focus on writing and maintaining more profitable products.

Other underwriting liabilities of $381.3 million at December 31, 2016 consists of provisions for reinsurance, accrued expenses, and funds held by Company that increased overall by $4.5 million. This is due to a $12.7 million increase in funds held and a $6.8 million increase in provisions for reinsurance, offset by a $15.0 million decrease in accrued expenses.

Payable to parent, subsidiaries and affiliates and other liabilities decreased by $46.0 million due to lower borrowing from the Allianz cash pool transactions.

Other liabilities decreased by $113.6 million in 2016 to $160.4 million. This change was driven mainly by a reduction in miscellaneous liabilities, as stated in the other assets section, this is attributed to netting of asset and liability suspense balances. Other drivers include a reduction in the restructuring provision and funds on deposit for claim adjusters. This is offset by an increase in federal and foreign income tax payable.

CAPITAL AND SURPLUS ACCOUNTS

The policyholders' surplus as of December 31, 2016 and 2015 consisted of the following factors:

(in millions)	2016	2015	Change
Balance at beginning of year	$ 1,890.9	$ 2,915.8	$ (1,024.9)
Add (deduct):			
Net income (loss)	(93.3)	249.4	(342.7)
Change in net unrealized gain, net of tax	16.5	(18.0)	34.5
Change in net unrealized gain (loss) on equity in affiliates	(28.3)	2.1	(30.4)
Change in nonadmitted assets	100.7	(180.3)	281.0
Change in provision for reinsurance	(6.8)	(19.4)	12.6
Change in unrealized foreign exchange gain (loss), net of tax	10.3	(30.1)	40.4
Dividend to stockholders	-	(330.7)	330.7
Change in pension plan obligation, net of tax	24.1	(13.0)	37.1
Change in net deferred income taxes	114.9	(42.0)	156.9
San Francisco Reinsurance sale adjustment	-	0.8	(0.8)
Surplus adjustments: paid-in-capital	(97.0)	(643.6)	546.6
Balance at end of year	$ 1,931.8	$ 1,890.9	$ 40.9
Percentage of net written premiums to surplus	83.9%	-5.1%	

In 2016, policyholders' surplus increased by $40.9 million to $1,931.8 million. The increase is primarily driven by favorable changes in net deferred income taxes and nonadmitted assets. This is largely offset by dividend paid to AZOA and a net loss for the year.

OFF-BALANCE SHEET ARRANGEMENTS

None

RESULTS OF OPERATIONS

Underwriting Results

(in millions)	2016	2015	Change
Net premiums written	$ 1,621.7	$ (96.2)	$ 1,717.9
Net premiums earned	1,672.0	455.9	1,216.1
Losses and loss expenses incurred	1,224.9	(55.0)	1,279.9
Commissions incurred	287.1	348.4	(61.3)
Other underwriting expenses incurred	532.5	600.9	(68.4)
Underwriting gain (loss)	$ (372.5)	$ (438.4)	$ 65.9
Net investment income earned	210.2	278.8	(68.6)
Net realized capital gains (losses)	3.2	6.9	(3.7)
Other income (loss)	(10.2)	306.6	(316.8)
Income (loss) before federal and foreign income taxes	(169.3)	153.9	(323.2)
Federal and foreign income taxes incurred (benefit)	(76.0)	(95.5)	19.5
Net income (after tax)	$ (93.3)	$ 249.4	$ (342.7)
Loss ratio	73.3%	-12.1%	85.3%

The large changes in underwriting activity relate mainly to significant reinsurance transactions with SFRe and ACE American Insurance Company (ACE). As presented in the table below, a decrease of $2,198.1 million in written premium ceded is the main driver of the $1,717.9 change in net premiums written.

(in millions)	2016	2015	Change
Gross premiums written	$ 3,435.8	$ 3,916.0	$ (480.2)
Ceded premiums written	(1,814.1)	(4,012.2)	2,198.1
Net premiums written	$ 1,621.7	$ (96.2)	$ 1,717.9

Effective January 1, 2015, the Company entered into a reinsurance agreement with SFRe, by which FFIC ceded and SFRe agreed to reinsure certain asbestos and environmental liabilities.

Effective July 1, 2015, the Company entered into an additional reinsurance agreement with SFRe, by which FFIC ceded and SFRe agreed to reinsure certain Workers' Compensation and Construction Defect Liabilities.

On April 1, 2015, FFIC closed the sale of its personal lines insurance business to ACE. The sale includes the renewal rights and reinsurance of existing liabilities. FFIC recognized a pre-tax gain of $428.0 million. FFIC and ACE entered into a Run-Off Agreement for liabilities as of March 31, 2015. This included $382.7 million in loss and loss adjustment expense reserves and $428.4 million in unearned premium reserves. Upon approval by both the California and Pennsylvania DOI, FFIC and ACE entered into a 100% quota share reinsurance agreement for business written on policies effective April 1, 2015 and subsequent, until such a time that the personal lines policies can be renewed on ACE paper.

Effective January 1, 2016, the Company entered into a reinsurance agreement with SFRe, by which AGR US ceded and SFRe agreed to reinsure legacy asbestos and environmental, mass tort, worker's compensation, medical malpractice, and discontinued business liabilities for losses by AGR US Group in the amount of $253.0 million with a limit of up to $383.0 million.

Effective July 1, 2016, the Company entered into a reinsurance agreement with SFRe, by which FFIC ceded and SFRe agreed to reinsure certain admitted and non-admitted general liability and excess liabilities for losses by FFIC Group in the amount of $337.0 million with a limit of up to $461.6 million.

Commissions incurred decreased due to favorable rates on new business compared to prior year, as well as a lower volume written.

The decrease in the investment income of $68.6 million is due primarily to a lower invested asset base.

The realized capital gains change between 2016 and 2015 is not material.

Other income decreased significantly in 2016 as the 2015 results reflected the one-time gain on sale of personal lines business to ACE of $428.0 million, offset by a reduction in restructuring expenses of $124.2 million.

REINSURANCE

As part of its overall strategy in the management of risk and cash flow, the Company engages in reinsurance transactions. Property and casualty insurance is ceded and assumed through aggregate excess of loss and pro rata treaties and facultative placements. In addition, the Company is a member of various pools and associations. The Company has a contingent risk with respect to insurance ceded to the extent that reinsurers would be unable to meet the obligations assumed under reinsurance contracts.

AGCS SE, a globally operating company domiciled in Munich, Germany, is the lead company of the AGR US Group. AGCS SE also serves as the lead reinsurer of the Company, allowing the aggregation of risks to be retroceded to high quality reinsurers. The Company participates in the AGCS reinsurance structure and will continue to benefit from this protection going forward.

Effective January 1, 2016 some of the Company's more significant lines of business had corresponding treaty and retention limits as follows:

- Property – Treaty limit – Euro 250 million xs Euro 50 million, Occurrence Limit Euro 300 million
- Engineering – Treaty limit – Euro 175 million xs Euro 25 million, Occurrence Limit Euro 350 million
- Energy Onshore – Treaty limit - $170 million xs $30 million, Occurrence $200 million
- Energy Offshore – Treaty limit - $130 million xs $20 million
- Multiline Clash – Treaty limit - $200 million xs $50 million
- CAT Americas – Treaty limit - $1,245 million xs $55 million after AAD of $82.5M
- CAT International – Treaty limit – Euro 375 million xs Euro 75 million after AAD of 75M Euro

Also, effective January 1, 2016, the Company entered into a Stop Loss Agreement which covers 100% of the ultimate net loss over and above an initial Ultimate Net Loss Ratio of 85% subject to a maximum of 25% of the Company's Ultimate Net Loss Incurred. For Canada the Ultimate Net Loss Ratio is 95% subject to a maximum of 75% of the Company's Ultimate Net Loss Incurred.

Effective January 1, 2015 some of the Company's more significant lines of business had corresponding treaty and retention limits as follows:

- Property – Treaty limit – Euro 250 million xs Euro 50 million, Occurrence Limit Euro 300 million
- Engineering – Treaty limit – Euro 175 million xs Euro 25 million, Occurrence Limit Euro 350 million
- Energy Onshore – Treaty limit - $170 million xs $30 million, Occurrence $340 million
- Energy Offshore – Treaty limit - $90 million xs $35 million
- Multiline Clash – Treaty limit - $150 million xs $100 million
- CAT Americas – Treaty limit - $950 million xs $250 million through April 2015
- CAT Americas – Treaty limit - $1,140 million xs $160 million from May 2015 to Dec 2015
- CAT International – Treaty limit – Euro 400 million xs Euro 100 million
- Entertainment – Treaty limit – $135 million xs $15 million, Occurrence Limit $150 million
- Casualty – Treaty limit - $35 million xs $15 million, Occurrence $50 million
- Mega CAT – Treaty Limit $300M xs $1,200 million through April 2015

Also, effective January 1, 2015, the Company entered into a Stop Loss Agreement which covers 100% of the ultimate net loss over and above an initial Ultimate Net Loss Ratio of 80% subject to a maximum of 25% of the Company's Ultimate Net Loss Incurred. For Canada the Ultimate Net Loss Ratio is 90% subject to a maximum of 75% of the Company's Ultimate Net Loss Incurred.

INCOME TAXES

Reconciliation of Federal Income Tax Rate to Actual Effective Rate

(in millions)	2016	Effective Tax Rate	2015	Effective Tax Rate
Income after capital gains tax	(169.3)		153.9	
Realized capital gains (loss) tax	6.1		6.1	
Pretax income	(163.2)		160.0	
Income tax expense computed at the statutory rate	(57.1)	35.0 %	56.0	35.0 %
Tax exempt income deduction	(11.1)	6.8	(11.5)	-7.2
Dividends received deduction	(0.1)	0.1	(0.1)	-0.1
Dividends from 100% owned affiliates	(0.2)	0.1	-	0.0
Realized gain on disposal of affiliate	-	0.0	0.3	0.2
Proration adjustment	1.7	-1.0	1.7	1.1
Tax credits	(3.0)	1.8	(4.8)	-3.0
Nondeductible expenses	1.1	-0.7	8.6	5.4
Corporate-owned life insurance	(0.4)	0.2	(1.0)	-0.6
Prior year adjustments	0.6	-0.4	(2.1)	-1.3
Valuation allowance	(132.4)	81.1	(85.6)	-53.5
Other	(0.8)	0.5	(0.2)	-0.1
Tax from net profit and loss	(201.7)	123.5 %	(38.7)	-24.1 %
Tax from surplus changes	41.7		(32.8)	
Total income taxes	(160.0)		(71.5)	
Federal and foreign income taxes incurred	(76.0)		(95.5)	
Realized capital gains tax	6.1		6.1	
Change in net deferred income taxes	(90.1)		17.9	
Total Statutory Income Taxes	(160.0)		(71.5)	

The change in the provision for income taxes incurred and the change in net deferred income taxes from 2015 to 2016 is driven primarily by three items. The first item is the decrease in pre-tax income of $323.2 million from $160 million of income in 2015 to a $163.2 million loss in 2016. The second is the change in the deferred taxes driven mainly by the release of the remaining valuation allowance due to the pooling of the Fireman's Fund Insurance Company underwriting business up to its parent as of January 1, 2016, partially offset by a decrease in overall deferred taxes. The final item is a decrease in the nondeductible expenses from 2015 due to a portion of the settlement paid to the Department of Justice in 2015 being nondeductible and non-recurring.

Deferred income taxes result from temporary differences in the recognition of income and expense for tax and statutory financial reporting purposes. All changes in deferred tax assets and liabilities are recognized as a separate component of gains and losses in unassigned funds, except to the extent deferred taxes are allocated to, and netted against, changes in unrealized gains and losses and changes in pension minimum liability.

CASH FLOW AND LIQUIDITY

(in millions)	2016	2015	Change
Net cash provided by (used in)			
Operations	$ (629.3)	$ (3,149.2)	$ 2,519.9
Investing activities	573.8	3,059.6	(2,485.8)
Financing & other sources	153.1	(235.3)	388.4
Net change in cash, cash equivalents and short-term investments	97.6	(324.9)	422.5
Cash, cash equivalents and short-term investments at the beginning of year	64.4	389.3	(324.9)
Cash, cash equivalents and short-term investments at the end of year	$ 162.0	$ 64.4	$ 97.6

Net cash used in operations in 2016 was mainly the result of commissions, expenses paid, and aggregate write-ins for deductions of $1,147.1 million partially offset by net investment income of $316.4 million and federal and foreign taxes recovered of $189 million. Investing activities cash flows of $573.8 million were generated by proceeds from the sales and maturing of investments of $1,671.6 million partially offset by investment purchases of $1,097.8 million. Cash provided by financing and other sources of $153.1 million in 2016 was driven by a $73.6 million decrease in liability write ins relating to Canadian foreign exchange, a favorable change in payables to affiliates of $67.7 million, an increase in securities lending payable of $66.8 million, a $24.1 million increase in write-ins for gains in surplus, and a foreign exchange adjustment for $16.3 million. These are offset by a $97.0 million dividend paid to AZOA.

The Company anticipates that current operations and cash call provisions included in "treaties" will provide adequate cash flow and liquidity to meet future cash needs. The Company has minimal commitments for leases and has no debt. Additionally, more than 72% of investments in publicly traded bonds are in a net unrealized gain position.

The 2015 cash flows related to operating activities and investing activities were significantly impacted by the reinsurance activities with SFRe and ACE. Operating cash flows reflected the reduction in the business that was reinsured to SFRe and ACE, as well as the Investing cash flows reflected the corresponding disposal of fixed income to settle the reinsurance.

Net cash used in operations in 2015 was driven mainly by benefit and loss payments of $2,332.4 million, and commissions, expenses paid, and aggregate write-ins for deductions of $1,447.6 million. This is somewhat offset by net investment income of $346.0 million, and $304.3 million of other income. Investing activities cash flows in 2015 were primarily due to proceeds from the sales and maturing of investments of $4,660.4 million partially offset by investment purchases of $1,600.8 million. Cash used in financing and other sources of $235.3 million for the year primarily resulted from a dividend payment to AZOA of $625.0 million, offset by a $412.6 million decrease in other assets relating to the Keep Well receivable from 2014 that was settled in 2015.

In 2013, the Illinois DOI approved the participation of AGR US and AMIC in an intercompany investment/borrowing agreement (Cash Pool Agreement) with Allianz SE. The Cash Pool Agreement provides the Company additional liquidity by allowing each company to finance operating needs via internal Allianz SE funds under favorable conditions on a short-term basis.

CAPITAL MANAGEMENT

Risk-Based Capital

The NAIC has a uniform capital adequacy standard, referred to as the risk-based capital (RBC), that serves as one of the solvency monitoring regulatory tools to measure and assess the amount of capital that is appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The standard utilizes a formula to calculate a company's minimum capital requirement (company action level RBC) based on insurance, business, asset, interest rate, market, credit, underwriting and risk associated with its business. There is no regulatory action required if a company maintains an actual capital level greater than the company action level RBC. A RBC model law does, however, mandated four levels of regulatory action based on a company's degree of capital impairment. As of December 31, 2016, the total adjusted capital of each insurer comprising the Company was above the company action level RBC.

Financial Strength Ratings and Outlook

The Company's most recent outlook and financial strength ratings were stable with an A+ (excellent) and AA (excellent) from A.M. Best and Standard & Poor's, respectively. The A.M. Best rating was publicized in August of 2016 and the Standard & Poor's in May of 2016.

Dividend Activities

In March 2016, AGR US paid an extraordinary distribution in the amount of $97.0 million to AZOA. The distribution was reported as a return of capital.

The maximum amount of ordinary dividends that can be paid by an Illinois domestic property and casualty insurer to shareholders without prior approval of the DOI is limited to the greater of ten percent of prior year-end statutory surplus or prior year net income. An Illinois domestic insurer may pay ordinary dividends only from earned surplus (unassigned funds), excluding unrealized gains. Pursuant to these limitations, the Company has exceeded the restrictions of ordinary dividends and will require approval for extraordinary dividends through March 29, 2017.

SUBSEQUENT EVENTS

Effective January 1, 2017, Fireman's Fund Insurance Company of Ohio (FFOH) was sold to a third party, United Specialty Insurance Company, a Delaware insurance company. Effective with the sale, FFOH's participation in the Fireman's Fund Intercompany Pooling Agreement was terminated and existing liabilities, including outstanding FFOH loss and loss adjustment expense reserves were reinsured by FFIC via a separate Indemnity Reinsurance and Assumption Agreement. Upon completion of the sale, United Specialty Insurance Company subsequently renamed the Company "Independent Specialty Insurance Company", now domiciled in Delaware.

FORWARD-LOOKING INFORMATION

This MD&A filing (the Filing) includes statements which may relate to anticipated future events (forward-looking statements) rather than actual present conditions or historical events. Forward-looking statements, by their nature, are subject to a variety of inherent risks and uncertainties that could cause actual results to differ materially from the results projected. Any forward-looking statements made in this document are made by the Company as of the date of this Filing.

ALLIANZ GLOBAL RISKS US INSURANCE COMPANY
AND ITS AFFILIATED PROPERTY AND CASUALTY INSURERS

Pt Z

Peter Richard Locy
Vice President & Controller