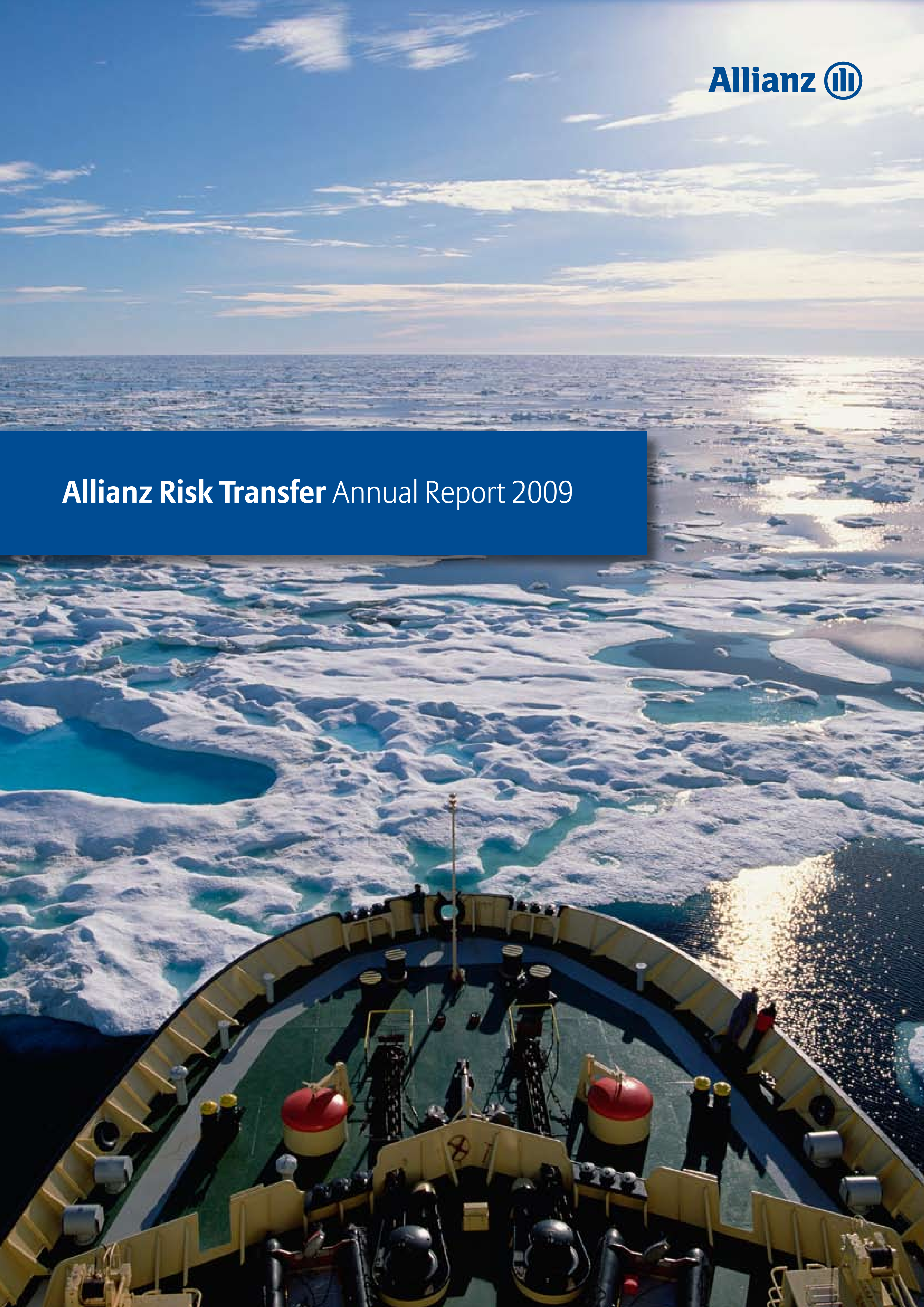
Allianz Risk Transfer Annual Report 2009



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Introduction

Ladies & Gentlemen,

Allianz Risk Transfer ("ART") delivers a wide range of unique, non-traditional risk solutions. We work with our clients to develop sustainable solutions by leveraging our experience, knowledge and expertise and drawing on our strong relationships within the market.

Since our foundation, we have grown by adapting to the changing needs of our clients and to the evolving market conditions. The year under review presented more than the usual number of challenges, characterised by a financial crisis unprecedented in modern times. However, our underwriting approach and specialist skills allowed us to navigate our way through this difficult environment and grow our core lines of business.

The year under review was in many respects a time of change for us. In March 2009, ART – together with its shareholder Allianz Global Corporate & Specialty – turned its focus to those business segments which directly support Allianz Group's strategic objectives and enhance its core product offerings. As a result, we decided that ART would no longer offer new risk financing solutions in the Alternative Assets segment. Within our Alternative Risk Transfer line of business we now focus exclusively on our Corporate Solutions, Reinsurance Solutions and Insurance Linked Markets businesses.

During 2009, we also underwent some key personnel changes. ART's founding CEO Jay Ralph retired as our Vice Chairman of the Board of Directors and was replaced by Chris Fischer Hirs (former CEO of ART Group). In April 2009, William Scaldaferri replaced Chris Fischer Hirs as CEO of ART Group. In addition, ART expanded its Executive Board to ensure that all functional disciplines are fully represented.

Historically, we published our financial information along with what we called the "Annual Object": a presentation that described our business in more informal terms than a conventional Annual Report. In response to the views of our customers, we decided to break with this tradition and issue a more comprehensive Annual Report this year.

This change in our reporting approach is designed to enhance transparency and provide our clients with more pertinent information that describes ART's operations and financial conditions. We believe that this will constitute a more informative and useful communications vehicle, and we welcome any feedback. This change of reporting method does not represent any dilution of our unique and creative spirit, which we believe will continue to serve us well in the future.

In 2009, ART delivered a stable underwriting performance and achieved a solid operating profit in the midst of extreme financial market turbulence and worldwide economic crisis. We continued to grow our core lines of business and successfully closed the largest number of transactions in our 13-year history.

We remain focused on our customers and on delivering unique solutions to their problems. This has been the cornerstone of our success to date, and we will maintain this focus in the future.

We would like to thank our customers for their support through the years. We have no doubt that, backed by our robust capital base and the strong support from our shareholder and the broader Allianz Group, we will continue providing our customers with exceptional solutions and developing our core lines of business in 2010 and beyond.

Allianz Risk Transfer AG

Axel Theis
Chairman of the Board of Directors

William Scaldaferri
Chief Executive Officer

19 May 2010

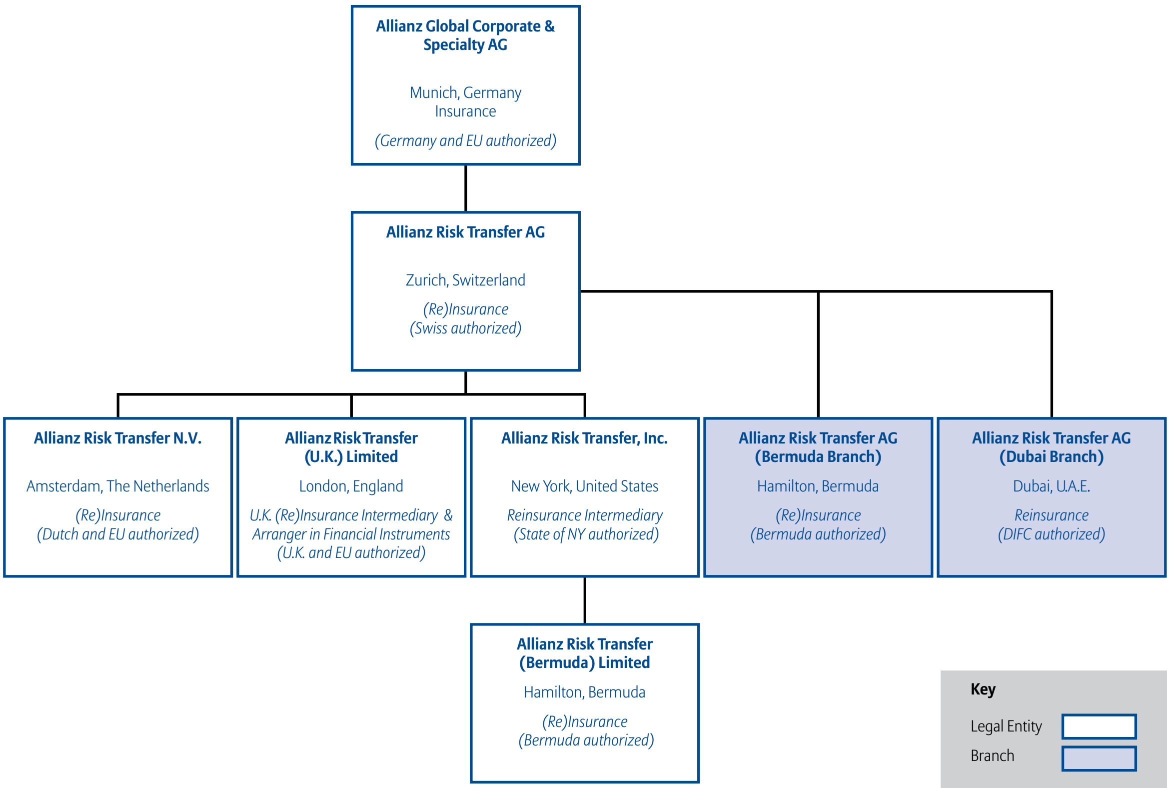
Corporate Information

Allianz Risk Transfer Group ("ART Group" or "ART") is the centre of competence for alternative risk transfer business within the Allianz Group. We are a wholly-owned subsidiary of Allianz Global Corporate & Specialty AG, the corporate and specialty insurance arm of the Allianz Group. Headquartered in Zurich, ART Group operates through affiliated companies and maintains offices in Amsterdam, Bermuda, London, New York and Dubai.

Since 1997, we have offered tailor-made insurance, reinsurance and other non-traditional risk management solutions to industrial and financial clients worldwide. Our client base spans all industry sectors.

Corporate profile of ART Group

The corporate structure of ART Group is designed to support the business in its core markets by providing an efficient legal, regulatory and tax framework. The chart below shows the corporate structure of the core entities of ART Group* (including the branches of Allianz Risk Transfer AG ("ART Zurich" or the "Company")) and highlights the regulatory status of the companies.



*All equity interests shown in the chart are 100% shareholdings.

ART Group serves its global customer base through a number of affiliated companies, including its core underwriting entities set out below authorised to conduct insurance and reinsurance business:

- ART Zurich is incorporated in Switzerland and regulated by the Swiss Financial Market Supervisory Authority ("FINMA"). The Company maintains branch offices in Bermuda and in the United Arab Emirates (Dubai International Financial Centre) subject to local supervision by the Bermuda Monetary Authority and the Dubai Financial Services Authority respectively.
- Allianz Risk Transfer N.V. is incorporated in The Netherlands and is principally regulated by the Dutch Central Bank (De Nederlandsche Bank N.V.).
- Allianz Risk Transfer (Bermuda) Limited is a company incorporated in Bermuda and licensed as a Class 3A Insurer regulated by the Bermuda Monetary Authority.

ART Zurich and its subsidiaries ("ART Group Companies") are member companies of Allianz Group. Allianz SE, the ultimate parent of the ART Group Companies, is one of the world's leading integrated financial services providers, registered in Germany. Allianz Group has 153,000 employees and serves 75 million customers in over 70 countries (www.allianz.com).

ART Zurich is a wholly-owned subsidiary of Allianz Global Corporate & Specialty AG ("AGCS") registered in Germany. Within Allianz, AGCS Group provides corporate and specialty insurance solutions to large corporate clients (www.agcs.allianz.com).

Board of Directors

The Board of Directors of ART Zurich comprises:

- Axel Theis, Chairman; principal activity: Chief Executive Officer of Allianz Global Corporate & Specialty AG
- Chris Fischer Hirs, Vice Chairman; principal activity: Chief Financial Officer of Allianz Global Corporate & Specialty AG
- Thomas Wilson, Director; principal activity: Chief Risk Officer of Allianz Group
- Prof. Ulrich Zimmerli, independent Director; principal activity: various directorships and law professor emeritus of the University of Berne

The Board of Directors of ART Zurich provides strategic direction for ART Group, exercises management oversight of the Company and performs the duties imposed by Swiss Company Law and Insurance Supervisory Laws. The Board of Directors performs its responsibilities in accordance with the organisational regulations of the Company, pursuant to which certain functions are delegated to the following Committees:

- Business Approval Committee
- Remuneration Committee
- Audit Committee

The Business Approval Committee is (among others) responsible for transactional matters where a specific transaction exceeds the authority limits delegated to the Executive Board or falls outside the approved scope of business.

Executive Board

The Executive Board of ART Zurich comprises:

- William Scaldaferri, Chief Executive Officer
- Bernhard Arbogast, Chief Portfolio Officer & Appointed Actuary
- Thomas Bruendler, General Counsel
- William Guffey, Chief Underwriting Officer
- Kathrin Anne Meier, Chief Risk Officer
- Thomas Schatzmann, Chief Financial Officer

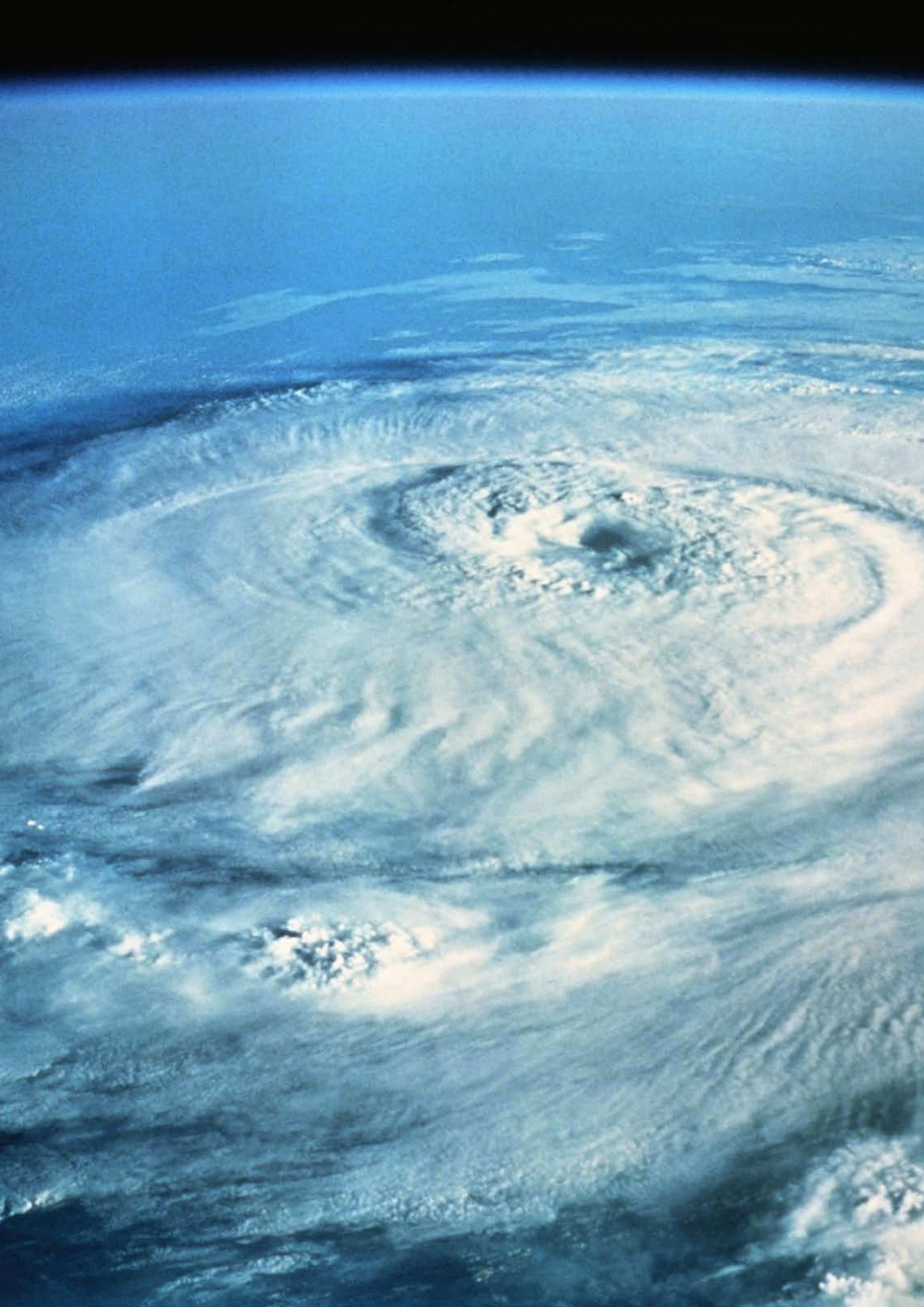
The Executive Board has executive management responsibility for ART Zurich and its business. Under the leadership of the Chief Executive Officer, it provides strategic direction to ART Group consistent with the business strategy approved by the Board of Directors.

ART Group Committee Structure

The Executive Board has established Committees for certain critical functions or decisions of ART Group, including:

- Underwriting Committee
- Risk Management Committee
- Reserving Committee
- Investment Committee
- Legal Committee

The ART Group Committees perform their responsibilities pursuant to their respective charters. The committees act as policy-setting or decision-making bodies within the scope of their functional remit. The committee structure allows ART Group to fully leverage the broader knowledge base of its global staff.



Business Overview

ART Group separates its business into two distinct segments. The first is our primary Alternative Risk Transfer Business, focused on providing alternative (re)insurance protections for corporate and insurance clients. The second segment is related to unique relationships with other Allianz entities.

The segments are governed by distinct procedures and processes including unique underwriting, portfolio and risk management guidelines. Each business segment employs dedicated staff underwriting the relevant business. As of year-end 2009, ART Group employed 102 staff members globally, of which 62 staff members were dedicated to the Alternative Risk Transfer Business.

Alternative Risk Transfer Business

Corporate Solutions

We develop and utilise innovative risk management solutions for a wide range of corporate clients. Many of these corporations are leaders in the energy, construction, pharmaceutical, retail and other industry sectors. In the majority of deals, premiums range from between EUR 5m to EUR 300m per client.

We specialise in tailoring long-term agreements covering a broad range of risks. In many cases, these are multi-year and multi-line arrangements. Our offerings complement the traditional products provided by Allianz Global Corporate & Specialty ("AGCS"), a leading insurer for corporate and specialty risks. ART works closely with AGCS to devise joint solutions for its clients. Our activities span the globe.

Given the market turmoil in 2009, we had modest expectations for our Corporate Solutions business. Despite this, we ended not only ahead of the previous year but with a record number of new clients. We benefited from clients' "flight to quality" and made significant contributions to broadening the Allianz relationship with major corporate clients. For 2010, ART aims at further fostering its quality commitment. ART's openness to client concerns combined with the strength of the Allianz Group are unmatched by any of our competitors.

Reinsurance Solutions

Our reinsurance arm provides bespoke risk transfer solutions for insurance and reinsurance companies. We serve tens rather than hundreds of clients – but for each of these, we provide highly specialist boutique services often unavailable elsewhere.

We look at many classes of business and territories. Our product range includes prospective solutions such as structured quota shares, structured whole account covers and structured per risk covers. We also consider retroactive products such as loss portfolio transfers. In addition to structured solutions, we look opportunistically at dislocated areas of the market where capacity is in short supply.

In 2009, our renewed focus on Reinsurance Solutions led to a substantial expansion of our client base. This coalesced with our vision of developing a well-rounded and diversified portfolio. For 2010, we will strike a balance between continued expansion and the challenges presented by a potentially softening market.

Insurance Linked Markets

Insurance Linked Markets ("ILM") is a crossover specialty, focused on the convergence between insurance and capital markets. ILM involves structuring insurance risks into a form acceptable to capital market investors.
In essence, these structures transform mainly event-driven exposures such as earthquakes and hurricanes into investment products.

We act in many capacities in this value chain: as a structurer and sponsor of catastrophe bonds, as a facilitator of private placements between Allianz Group companies and capital market investors and as a transformer and manager of such exposures.

The ILM division of ART is dedicated to underlying exposures emanating from insurance and reinsurance companies outside the Allianz Group. Our activities complement the efforts of Allianz Re, which utilises ILM products alongside traditional reinsurance placements of Allianz exposures.

ILM had another successful year in 2009. We enhanced our visibility in the market and continued to strengthen our relationship with key clients. While it will be a challenge to match this performance in 2010 given the market outlook, our ability to conduct business throughout the value chain gives us considerable flexibility to operate successfully in differing market conditions.

Core Allianz Related Businesses

International Corporate Business

The International Corporate Business represents the core business of our parent company AGCS. Within this business segment, we offer insurance products to large corporate clients across the whole spectrum of corporate and specialty risks. Since 2007, the Swiss business for international large corporates has been conducted by our division "AGCS Switzerland".

Since January 2009, ART has taken a quota share participation in the facultative corporate client business written by Allianz SE Dubai Branch in the business lines of property, engineering and energy. From January 2010, this facultative reinsurance business from clients located in the Middle East & North Africa region will be underwritten by the Company's newly formed Dubai Branch.

The International Corporate Business is still in a build-up phase, and the business segment is developing in line with our expectations.

Traditional Reinsurance Business

This portfolio consists of ART's participation in select traditional reinsurance treaties which have been written for strategic reasons for the Allianz Group. The Traditional Reinsurance Business is supported by a stop loss protection from Allianz Re. This segment is dominated by a single quota share contract with a large reinsurance company. We expect that this quota share will no longer be renewed in 2010. While historically significant to gross premium volumes, this business segment has not been a significant earnings contributor for the last two years.

Risk Management

ART Group has an effective Risk Management system in place. Risk Management identifies, analyses, manages and monitors all material risks that could adversely affect ART's operations. It ensures global awareness of risk and return and fosters a "no surprise" culture as well as provides guidance for business opportunities. We strive to refine and improve our Risk Management capabilities as an ongoing priority.

Risk Governance

Since its foundation, ART has always attached great importance to risk awareness. The Company's Board of Directors has implemented a risk governance framework such that Risk Management is an integral part of all business processes and decisions.

The Risk Management Committee is the main decision body for Risk Management. It is chaired by the Chief Portfolio Officer who heads the Portfolio Management unit. This unit includes the Corporate Actuarial function and actuarial and financial analytics for the quantitative evaluation of individual transactions as well as the whole portfolio.

The Chief Risk Officer heads the Risk Management department and manages the overall risk landscape of ART Group. Furthermore, the Chief Risk Officer independently monitors limits and risks at aggregate levels. Both the Chief Risk Officer and the Chief Portfolio Officer are members of the Executive Board reporting directly to the Chief Executive Officer.

ART's risk vision and objectives are described in our risk strategy which outlines risk governance, capital base protection and value creation. The risk tolerance is expressed in ART's comprehensive limits system that sets out individual and aggregate limits.

Enterprise Risk Management

To understand ART's overall risk profile, an integrated, comprehensive assessment of all relevant risks is performed at least annually. This top risk assessment identifies key "risk buckets" to which ART is exposed and actions taken or to be taken to mitigate such risks.

Internal Control System

ART has an Internal Control System ("ICS") which provides assurance to the Board of Directors and the Management regarding the proper functioning of the business operations. In particular, it ensures the effectiveness of business processes, the accuracy and reliability of accounting and financial reporting, and compliance with relevant laws and regulations as well as internal policies and guidelines. The ICS ensures that potential risks are identified early and measures are introduced to avoid or mitigate significant risks and risk accumulations.

Risk Management Systems and Technical Framework

ART operates its business based on a defined capital deployment framework, while targeting to provide above-average return on capital by writing diversified books of business containing transactions with low correlation.

The risk-based capital is measured through ART's portfolio model, applying event-driven discounted cash flow modelling using Monte Carlo techniques. All transaction models are aggregated into the portfolio model by accessing a set of common events and scenarios depending on their sensitivity to relevant scenarios.

With the portfolio model, various analyses are regularly performed and risk measures calculated. In addition to standard risk calculations, stress tests are performed and scenarios evaluated to enhance the assessment of "tail risks".

Financial Information

Discussion of Financial Condition and Results of Operations

ART categorises its business into the following operating segments:

- Alternative Risk Transfer Business
- Industrial Corporate Business
- Traditional Reinsurance Business

The following results, expressed in Swiss Francs (CHF), show the financial performance of each of the business segments according to International Financial Reporting Standards ("IFRS") as of year ended 2009 and prior years.

Alternative Risk Transfer Business

In our core segment, we differentiate between Corporate Solutions, Reinsurance Solutions and Insurance Linked Markets ("ILM").

The key figures of the Alternative Risk Transfer Business segment are:

Alternative Risk Transfer Business			
For year ended 31 December (CHF thousand)	2009	2008	2007
Net premiums earned	217,169	252,425	129,304
Other transactional income	48,932	20,194	(95)
Benefits incurred	(125,799)	(110,033)	(72,164)
Underwriting expenses	(112,689)	(128,461)	(40,173)
Underwriting income	**27,613**	**34,125**	**16,872**
Investment income (net)	49,053	39,173	57,341
Realised losses on transactions	(45,859)	(22,223)	(21,488)
Operating profit	**30,807**	**51,075**	**52,725**
Taxes	1,086	(7,836)	(9,967)
Net income	**31,893**	**43,239**	**42,758**
Combined ratio	89.6%	87.5%	86.9%

Fee-based income not recognised as premium is included in other transactional income. In 2009, there was an increase in other transaction income, principally driven by the ILM business.

Realised losses on transactions represent deal impairments and write-downs. In the course of the financial crisis, ART incurred substantial impairments in relation to its discontinued Alternative Assets portfolio.

The combined ratio for the Alternative Risk Transfer Business segment does not reflect the same relevance as for traditional insurance business due to certain investment items associated with alternative risk transfer transactions.

International Corporate Business

The International Corporate Business represents the core business of ART's parent company – Allianz Global Corporate & Specialty – and serves the insurance needs of large international corporates.

The key figures of the International Corporate Business segment are:

International Corporate Business			
For year ended 31 December (CHF thousand)	2009	2008	2007
Net premiums earned	62,904	31,601	13,600
Benefits incurred	(32,685)	(39,799)	(8,414)
Underwriting expenses	(15,857)	(7,602)	(8,254)
Underwriting income	**14,362**	**(15,800)**	**(3,068)**
Investment income (net)	143	(1,932)	(107)
Operating profit	**14,505**	**(17,732)**	**(3,175)**
Non-operating items	(800)	(800)	0
Taxes	(2,944)	4,075	1,426
Net income	**10,761**	**(14,457)**	**(1,749)**
Combined ratio	77.2%	150.0%	122.6%

The International Corporate Business has become more established and premium volume has grown significantly each year since the start of this business in 2007.

In 2008, the business incurred a large property loss, which had a disproportionate impact due to the low business volume during the initial build-up phase of the business segment. In the absence of major losses and low attritional losses, the combined ratio experienced in 2009 reflects an excellent underwriting year for this segment.

Traditional Reinsurance Business

Traditional reinsurance comprises mainly quota share business with other large reinsurers written for the Allianz Group.

The key figures of the Traditional Reinsurance Business segment are:

Traditional Reinsurance Business			
For year ended 31 December (CHF thousand)	**2009**	**2008**	**2007**
Net premiums earned	387,002	806,505	996,367
Benefits incurred	(302,058)	(576,754)	(672,310)
Acquisition expenses	(96,638)	(248,287)	(325,063)
Underwriting income	**(11,694)**	**(18,536)**	**(1,006)**
Investment income (net)	17,813	24,319	30,986
Operating profit	**6,119**	**5,783**	**29,980**
Taxes	(283)	(467)	(4,604)
Net income	**5,836**	**5,316**	**44,980**
Combined ratio	103.0%	102.3%	100.1%

Net premiums earned decreased in 2009 due to the non-renewal of a large quota share with a related company. The year-on-year combined ratio has remained stable.

Investment income decreased in 2009 due to the continuing low interest environment.

In 2008, investment income was impacted by significant write-downs in the bond portfolio.

Unaudited Consolidated Financial Statements

The following unaudited consolidated financial statements present a consolidated view of the entire ART Group. The consolidated financial statements have been prepared in accordance with the critical IFRS accounting policies set out in this report. These consolidated statements were not audited by KPMG.

The ART Group comprises Allianz Risk Transfer AG and its (direct or indirect) subsidiaries:

- Allianz Risk Transfer N.V., Netherlands
- Allianz Risk Transfer (U.K.) Limited, England
- Allianz Risk Transfer, Inc., U.S.A.
- Entertainment Funds Solutions, U.S.A.
- Prism Re Ltd., Bermuda
- Allianz Risk Transfer (Bermuda) Limited, Bermuda

The branch offices of the Allianz Risk Transfer AG in Bermuda and Dubai are an integral part of the financial statements of the Company.

Consolidated Balance Sheet

Consolidated Balance Sheet		
As at 31 December (CHF thousand)	2009	2008
Cash and cash equivalents	281'029	872'464
Investments	1'604'816	1'322'143
Total invested assets	**1'885'845**	**2'194'607**
Receivables	578'485	308'356
Fixed assets	1'736	1'842
Deferred acquisition costs	51'889	23'088
Insurance reserves ceded	444'499	272'029
Deferred tax assets	21'952	2'287
Intangible assets	2'400	3'200
Total other assets	**1'100'961**	**610'802**
TOTAL ASSETS	**2'986'806**	**2'805'409**
Unearned premium reserve	424'228	421'111
Profit share and aggregate reserve	28'763	44'102
Loss and loss adjustment expense reserve	1'366'093	1'455'310
Technical reserves	**1'819'084**	**1'920'523**
Other liabilities	591'506	373'438
Deferred tax liabilities	1'647	5'189
Total liabilities	**2'412'237**	**2'299'150**
Issued capital	200'000	200'000
Legal reserve	200'000	200'000
Unrealized gains / (losses) on available-for-sale investements and foreign currency	(63'136)	(87'021)
Retained earnings	189'218	159'182
Current year earnings	48'487	34'098
Total shareholders' equity	**574'569**	**506'259**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2'986'806**	**2'805'409**

Consolidated Income Statement

Consolidated Income Statement		
For year ended 31 December (CHF thousand)	2009	2008
Gross premiums written (incl. fee income)	1'177'227	1'491'318
Net premiums earned (incl. fee income)	**716'006**	**1'110'725**
Claims paid and increase in loss reserves	(467'038)	(713'187)
Profit shares paid and accrued	6'496	(13'399)
Benefits (net) payable to policyholders	**(460'542)**	**(726'586)**
Underwriting expense (net)	(225'184)	(384'350)
Net underwriting income	**30'280**	**(211)**
Investment income (net)	21'148	39'337
Other income and expense	(800)	(800)
Net income before tax	**50'628**	**38'326**
Taxes	(2'141)	(4'228)
Net income	**48'487**	**34'098**

Critical Accounting Policies under IFRS

We set out below an overview of the accounting policies adopted by the Company for the purpose of Allianz Group reporting pursuant to IFRS.

IFRS does not provide specific guidance concerning all aspects of the recognition and measurement of insurance contracts, reinsurance contracts and investment contracts. The provisions embodied under accounting principles generally accepted in the United States of America ("U.S. GAAP") have been applied to those aspects where specific guidance is not provided by IFRS 4, Insurance Contracts.

The financial statements of the Company are prepared as of and for the year ended 31 December, and presented in thousands of Swiss Francs (CHF), unless otherwise stated.

The preparation of consolidated financial statements requires Management to make estimates and assumptions that affect the amount of reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The major estimates reflected in the Company's consolidated financial statements include (but are not limited to) outstanding losses and loss expenses, estimates of written and earned premiums, the fair value of derivatives and asset-backed investments and the evaluation of impairment losses on loans recorded at amortised cost.

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

(a) Premiums earned and acquisition expenses

Premiums assumed are recorded on the accruals basis and are included in income on a pro-rated basis over the lives of the policies with the unearned portion deferred in the balance sheet. Reinsurance premiums ceded are similarly pro-rated over the terms of the policies with the unearned portion being deferred in the balance sheet as prepaid reinsurance premiums.

Acquisition expenses, mainly commissions and brokerage, related to unearned premiums are deferred and amortised to income over the periods in which premiums are earned. The method followed in determining the deferred acquisition expenses limits the amount of the deferral to its realisable value by giving consideration to losses and expenses expected to be incurred as premiums are earned.

(b) Deposit accounting

The Company accounts for certain insurance and reinsurance contracts that do not result in the transfer of insurance risk as financing arrangements rather than (re)insurance. Depending upon whether the relevant insurance or reinsurance contracts transfer only significant timing risk, only significant underwriting risk, or neither significant timing nor underwriting risk, the Company measures these contracts utilising the interest method or the unexpired portion of coverage provided method.

(c) Underwriting fees

Underwriting fees are accrued to the balance sheet date and include fees earned on risk bearing and non-risk bearing contracts. Fees are recognised on a pro-rated basis over the contract period.

Underwriting fees also include profit commission income earned on ceded reinsurance contracts, which is estimated in a manner consistent with the underlying liabilities and is included in income on a pro-rated basis over the period in which the related premiums are earned.

(d) Outstanding losses and loss expenses

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

Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying liabilities.

Given the inherent nature of major catastrophic events, considerable uncertainty underlies the assumptions and associated estimates of outstanding losses and loss expenses. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Any such adjustments are reflected in income in the period in which they are determined. Due to the inherent uncertainty of catastrophic events, there can be no assurance that the ultimate liability will not be settled for significantly greater or lesser amounts than that recorded.

Based on the current assumptions used and the recommendations of the Appointed Actuary, Management believes that the provision for outstanding losses and loss expenses will be adequate to cover the ultimate cost of losses incurred to the balance sheet date. However, the provision necessarily represents an estimate and may ultimately be settled for a significantly greater or lesser amount. It is reasonably possible that Management will revise this estimate significantly in the near term. Any subsequent differences arising are recorded in the period in which they are determined.

(e) Investments

Fixed maturity investments and equity securities are classified as available-for-sale and carried at fair value with unrealised gains or losses, net of related tax effects, included in the balance sheet as a separate component of consolidated shareholders' equity. The fair value of fixed maturity securities is based upon quoted market values where available, "evaluated bid" prices provided by third party pricing services ("pricing services") where quoted market values are not available, or by reference to broker or underwriter bid indications where pricing services do not provide coverage for a particular security. Carrying values are based upon values per unit provided by third party managers.

Asset-backed investments are valued at fair value by Management. When estimating the fair value of asset-backed investments, Management considers their cost, the financial condition and operating results of the counterparty, industry and macroeconomic data, the type of investment held, and other relevant factors such as the credit quality of the underlying assets that generate the respective cash flows and the level of over-collateralisation of asset-backed investments.

Although Management uses its best judgement in estimating the fair value of asset-backed investments, there are inherent limitations in its estimation techniques. Because of the uncertainty in such valuations, Management's estimates of fair value may differ significantly from the value that would have been used had a ready market existed for the investments, and such differences could be significant. Due to these factors, asset-backed investments are classified as "Level 3" securities as defined by IFRS 7.

Realised gains and losses on sales of investments are determined on the basis of specific identification and are included in the consolidated statements of income and comprehensive income. Investment income, net of investment expenses, is accrued to the balance sheet date and includes amortisation of premiums or discount on investments purchased at amounts different from par value.

Investments with unrealised losses considered to be other than temporary are written down to fair value, creating a new cost basis for the investment.

(f) Loans

Loans are recognised when amounts are advanced to borrowers. Loans are measured at amortised cost using the effective interest method, less impairment losses. Impairment losses are determined by an evaluation of the exposures on a loan-by-loan basis, and include a consideration of the following factors:

- the viability of the borrower's business model and capability to generate sufficient cash flow to service its debt obligations;
- the amount and timing of expected receipts and recoveries;
- the extent of other creditors' commitments ranking ahead of or pari passu with the Company;
- the realisable value of the loan (or other credit mitigants); and
- where available, the secondary market price for the loan.

Illiquid credit markets, volatile investments and foreign currency markets may increase the uncertainty inherent in estimates of impairments. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Audited Financial Statements Allianz Risk Transfer AG

The following financial statements of Allianz Risk Transfer AG are prepared in accordance with the Swiss Code of Obligations and the relevant rules issued by the Swiss Financial Market Supervisory Authority (FINMA). Our independent auditors KPMG have audited the financial statement for financial year 2009 and provided an unqualified opinion.

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of Allianz Risk Transfer AG, which comprise the balance sheet, income statement and notes for the year ended 31 December 2009.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the Company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2009 comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Ian Sutcliffe	Patrick Scholz
Licensed Audit Expert	*Licensed Audit Expert*
Auditor in Charge	

Zurich, 15 April 2010

Balance Sheet

Balance Sheet		
As at 31 December (CHF)	**2009**	**2008**
Non-current assets		
Participations	105'875'485	107'847'753
Shares	6'383'123	209'431'411
Bonds	1'228'838'460	692'334'759
Loans to third parties	56'303'378	88'548'635
Loans to associated enterprises	124'787'436	129'386'040
Short-term investments	78'745'880	687'650'856
Investments	**1'600'933'761**	**1'915'199'454**
Office equipment	976'941	1'172'329
Reinsurers' share of the technical provisions	429'185'559	240'043'353
Outstanding share capital	200'000'000	200'000'000
Total non-current assets	**2'231'096'261**	**2'356'415'136**
Cash and cash equivalents	178'306'714	142'640'234
Receivables		
- reinsurance deposits	41'276'373	49'408'812
- due from third parties	218'631'053	133'034'089
- due from group companies or shareholders	9'979'090	70'253'292
- group cash pooling	173'639'672	17'080'074
- other receivables	16'814'457	1'910'210
Accrued income	22'573'676	19'943'763
Deferred acquisition cost	32'407'593	1'460'318
Total current assets	**693'628'628**	**435'730'792**
TOTAL ASSETS	**2'924'724'889**	**2'792'145'928**
Unearned premium reserve	408'526'029	395'395'506
Reserve for policyholder dividends	67'142'586	106'270'117
Provision for outstanding claims	1'594'394'092	1'623'669'052
Technical provisions	**2'070'062'707**	**2'125'334'674**
Other non-technical provisions	28'129'990	18'733'706
Payables due to insurance companies		
- due to third parties	93'431'661	6'964'835
- due to group companies or shareholders	0	26'285'877
Other short-term liabilities	49'318'843	1'418'573
Other liabilities	**170'880'494**	**53'402'991**
TOTAL LIABILITIES	**2'240'943'201**	**2'178'737'665**
Share capital	400'000'000	400'000'000
General reserves	200'000'000	200'000'000
Retained earnings brought forward	83'781'688	13'408'263
TOTAL SHAREHOLDERS' EQUITY	**683'781'688**	**613'408'263**

Income Statement

Income Statement		
For year ended 31 December (CHF)	2009	2008
Gross premium written	1'153'787'045	1'331'242'370
Premium ceded	(477'311'927)	(203'111'450)
Change in unearned premium reserve	98'947'263	86'077'158
Net premium earned	**775'422'381**	**1'214'208'078**
Claims paid	(656'652'120)	(732'415'515)
Change in claims reserve	122'509'367	(95'803'304)
Total claims incurred	**(534'142'754)**	**(828'218'820)**
Profit shares paid	(45'235'321)	(125'428'057)
Change in profit share provisions	39'708'359	57'549'023
Total profit shares	**(5'526'963)**	**(67'879'035)**
Change in aggregate policy reserve	**0**	**35'931'097**
Commissions	**(187'782'536)**	**(325'979'373)**
Other technical income	**13'226'804**	**(8'228'575)**
Administration expenses	**(16'309'397)**	**(22'439'535)**
Underwriting result	**44'887'536**	**(2'606'162)**
Interest and dividends	57'465'054	95'838'866
Write-ups	6'787'185	2'367'880
Realised gains on investments	7'053'353	936'990
Investment income	**71'305'592**	**99'143'736**
Administrative expenses	(1'497'187)	(2'253'432)
Technical interest expense	0	0
Realised losses on investments	(14'976'992)	(47'467'111)
Write downs of investments	(13'017'002)	(24'121'904)
Investment expenses	**(29'491'182)**	**(73'842'447)**
Investment result	**41'814'410**	**25'301'289**
Income and expenses from currency translation	(373'354)	(48'360'990)
Other financial income and expenses	(3'423'084)	11'647'465
Other income and expenses	**(3'796'438)**	**(36'713'524)**
Profit / loss before income taxes	**82'905'508**	**(14'018'397)**
Income taxes	(7'532'082)	2'780'750
Profit / loss of the year	**75'373'425**	**(11'237'647)**
Retained earnings brought forward	8'408'263	24'645'910
Retained earnings at the end of the year	**83'781'688**	**13'408'263**

Notes to the Financial Statements

1 Fire insurance value of fixed assets

	2009	2008
Tangible assets	CHF 1'000'000	CHF 1'000'000

2 Participations

The Company has a 100% share in Allianz Risk Transfer N.V., Netherlands; Allianz Risk Transfer, Inc., U.S.A; and Allianz Risk Transfer (U.K.) Ltd., U.K.

The paid in capital per company:

Allianz Risk Transfer N.V., Amsterdam	EUR 22.7 million
Allianz Risk Transfer, Inc., New York	USD 58.5 million
Prism Re Ltd., Hamilton	USD 18.2 million
Allianz Risk Transfer (U.K.) Ltd., London	GBP 1.0 million

The investment in Prism Re was reclassified from common investments to participations due to the de-investment of one of the former sponsors.

3 Contingent liabilities

The company is part of the Allianz insurance clearing-group for VAT purposes and is therefore jointly liable for VAT liabilities incurred by that group towards the Swiss tax administration.

The Company has guaranteed to secure the obligations of its subsidiaries Allianz Risk Transfer (Bermuda) Ltd. and Allianz Risk Transfer N.V. under each and every insurance, reinsurance or other risk transfer agreement written by these companies in order to allow these subsidiaries to benefit from the financial strength of the parent company.

4 Risk assessment

The Board of Directors is ultimately responsible for the risk assessment of the Company. In 2009, the Board of Directors evaluated and assessed the operational, financial and compliance risks of the Company and ensured that there are procedures in place to monitor and/or mitigate these risks.

5 Other

There are no further facts which would require disclosure in accordance with Art. 663b of the Swiss Code of Obligations.

Shareholders' Equity

Under Swiss GAAP, the shareholders' equity of the Company as at 31 December 2009 consists of:

Issued and paid-in share capital	CHF 200'000'000
Issued and unpaid share capital	CHF 200'000'000
General reserves	CHF 200'000'000
Retained earnings	CHF 83'781'688
Total shareholders'equity	**CHF 683'781'688**

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Website

This annual report is available on the internet at www.art.allianz.com.

Cautionary note on forward-looking statements

The statements contained herein may include statements of future expectations and other forward-looking statements that are based on Management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words "may", "will", "should", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts", "potential", or "continue" and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation: (i) general economic conditions, including in particular economic conditions in ART Group's business and markets, (ii) performance of financial markets, including market volatility, liquidity and credit events, (iii) frequency and severity of insured loss events, including from natural catastrophes and development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) credit default levels, (vii) interest rate levels, (viii) currency exchange rates, including the CHF/U.S. Dollar or CHF/Euro exchange rate, (ix) changing levels of competition, (x) changes in laws and regulations, including monetary convergence, (xi) changes in the policies of central banks and/or foreign governments, (xii) the impact of acquisitions, including related integration issues, (xiii) reorganization measures, and (xiv) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities or other major catastrophic events and their related consequences. The Company assumes no obligation to update any forward-looking statement.

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