Allianz Risk Transfer

The following unaudited consolidated financial statements present a consolidated view of the entire Allianz Risk Transfer Group (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.

Headquartered in Zurich, ART Group operates through affiliated companies and maintains offices in Amsterdam, Bermuda, London, New York, Dubai and Rio de Janeiro.

The ART Group comprises Allianz Risk Transfer AG (incorporated in Switzerland) and the following (direct or indirect) core subsidiaries:

- Allianz Risk Transfer N.V., The Netherlands
- Allianz Risk Transfer (Bermuda) Limited, Bermuda
- Allianz Risk Transfer, Inc., United States of America
- Allianz Global Corporate & Specialty Resseguros Brasil S.A., Brazil
- Prism Re (Bermuda) Limited, Bermuda

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

Allianz

As at December 31 (CHF 000s)

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

Premiums assumed are recorded on the accruals basis. They 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 amortized 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 realizable value by giving consideration to losses and expenses expected to be incurred as premiums are earned.

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 utilizing the interest method or the unexpired portion of coverage provided method.

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

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, outputs from various catastrophe loss models, industry loss experience, underwriters' experience, general market trends and Management's judgment.

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

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 uncertainties of catastrophic events, there can be no assurance that the ultimate liability will not be settled for significantly greater or lesser amounts than those 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.

Fixed maturity investments and equity securities are classified as available for sale. They are carried at fair value with changes in unrealized gains or losses, net of related tax effects, and are 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. The "evaluated bid" prices are 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.

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-collateralization of asset-backed investments.

Although Management uses its best judgment 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. Realized 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 amortization of premiums or discount on investments purchased at amounts different from par value.

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

Loans are recognized when amounts are advanced to borrowers. Loans are measured at amortized cost using the effective interest method, less important 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 the other creditors' commitments ranking ahead of or pari passu with the Company;
- the realizable 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.

The following financial statements of Allianz Risk Transfer AG are prepared in accordance with the Swiss Code of

As at December 31 (CHF)		
Non-current assets		
Participations	205,726,221	92,824,973
Shares	1,656,373	1,699,990
Derivative	7,039,912	
Bonds	728,711,776	1,609,632,714
Loans to third parties	26,334,129	33,014,117
Loans to associated enterprises	84,476,000	84,973,000
Short-term investments	17,240	213,521,035
Investments	**1,053,961,650**	**2,035,665,829**
Offce equipment	472,975	726,825
Reinsurers' share of the technical provisions	607,461,107	380,427,985
Outstanding share capital	200,000,000	+

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Tangible assets	CHF 1,000,000	CHF 1,000,000

2. Participations

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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 owing 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/USD or CHF/EUR exchange rate, (ix) changing levels of competition, (x) changes in laws and regulations, including changes in laws and regulations, including monetary disruptions, (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

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