For equities the first indicator of an impairment is present if the market value of the equities has remained more than 20 % below the average amortized cost during a period of more than 6 months prior to the period balance sheet date. Unless further analyses cause management to come to a different conclusion, an impairment charge is recorded if the 6-months/20 % criteria has been met.

Independent of the application of the 6-months /20 % criteria, all equities having an unrealized loss status are also examined to determine whether the market value at the period balance sheet date has remained permanently below the group-wide amortized IRFS cost for a period of more than 12 months. If this is the case, an impairment charge is systematically recorded. This rule was first applied at the end of 2003.

If the market value of the equity was more than 80 % below amortized cost at the period balance sheet date, an impairment charge was systematically recorded, independent of the length of the period during which the market value has remained below amortized cost at this time.

An impairment charge is recorded on debt instruments if financial difficulties on the part of the issuer, a default or delay in interest service or repayment of principal or an impending or actual insolvency indicate that repayment of the principal can no longer be expected.

Debt securities for which the recoverable amount remains continually at least 20 % below their carrying amount for a period of at least 6 months are examined more closely and an impairment charge is recorded, if other impairment criteria occur.

In the event that the justification for impairment write-downs in previous periods is no longer applicable, impairments are reversed through the income statement. The maximum amount up to which such reversals of impairment may occur is the acquisition cost or amortized cost, as applicable, or book value.

Real estate used by third parties (i.e. real property and equivalent rights and buildings, including buildings on leased land) is carried at cost less accumulated scheduled depreciation and impairment write-downs. Buildings used by third parties are depreciated using the straight-line method on the basis of their cost of acquisition over a maximum of 50 years. Real estate used by third parties is valued at the lower of cost or market. In order to determine the need for impairment write-downs on real estate used by third parties the discounted cash flow method is used. Expenditures to restore the future economic benefits of the assets are capitalized if they extend the useful life of the asset, otherwise they are recognized as an expense.

Funds held by others under reinsurance contracts assumed relate to cash deposits to which the Allianz Group is entitled, but which the ceding insurer retains as collateral for future obligations of the Allianz Group. The cash deposits are recorded on the balance sheet at face value, less any for balances that are deemed to not be fully recoverable.

Investments held on account and at risk of life insurance policyholders

These investments are comprised of investments funding unit-linked life insurance policies and investments covering obligations under policies where the benefits are index-linked. They are valued at market value on the balance sheet date. Group enterprises maintain and invest these investments separately from the Group's own investments. Unrealized gains and losses arising from market valuations lead to a corresponding increase or decrease in the related insurance reserves. Policyholders are entitled to all gains and losses pertaining to these investments and therefore to the total amount of all the investments shown under this heading.

Derivatives

The Group's insurance companies use derivative financial instruments in the course of their investment activities. In particular, they are used for the efficient management of price, interest rate and currency risks. In the Group's banking business, derivatives are used both for trading purposes and to hedge against movements in interest rates, currency and other price risks of investments, loans, deposit liabilities and other interest sensitive assets and liabilities.

For derivatives used for hedging purposes, the Allianz Group designates its derivative instruments with respect to their purpose as a fair value, cash flow, or hedge of a net investment in a foreign entity.

Fair value hedges The risk of changes in the fair value of reported assets or liabilities is hedged by a fair value hedge. Changes in the fair value of a hedging instrument are recognized in current income, and classified together with the corresponding changes in fair value of the hedged instruments in the income statement.

Cash flow hedges Cash flow hedges reduce the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or attributable to future cash flows from a firm commitment or a forecasted transaction. Any value changes in derivative instruments that constitute an effective hedge are recorded under shareholders' equity, and recognized in income when the offsetting gain or loss associated with the hedged item is recognized. The ineffective part of the hedge is recognized directly in the income statement.