Liabilities to banks and customers, and certificated liabilities

Interest-bearing liabilities are accounted for at their nominal value, i.e. at the amount to be repaid. Where liabilities are subject to a discount, such discounts are reported as prepaid expenses and amortized over the life of the respective liabilities, using the effective yield method. Non-interest-bearing liabilities such as zero-coupon bonds are valued at their present value on initial recognition and written up in accordance with the effective yield method at the contracted interest rate. Costs relating to the issuance of debt securities, such as fees relating to placement, underwriting commitments, subscription, management or syndication are recognized in the year that they are incurred, and are reported in "Other expenses".

Liabilities to banks and customers also include repurchase ("repo") transactions.

Trading liabilities

This item primarily includes derivatives with negative market values and obligations to deliver assets arising from short sales of securities, which are carried out in order to benefit from short-term price fluctuations. The securities required to close out short sales are obtained through securities borrowing or repurchase agreements. The valuation of trading liabilities is analogous to that of trading assets.

Other accrued liabilities

Pension and similar reserves are calculated taking local circumstances into account as well as current mortality, morbidity and employee turnover projections. Expected future trends in salaries and wages, retirement rates and pension increases are also taken into account. The notional interest rate used is based on the rate for long-term high-grade corporate or government bonds.

Accrued taxes are calculated in accordance with the relevant local tax regulations.

Miscellaneous accrued liabilities primarily include restructuring provisions, provisions for anticipated losses arising from non-insurance business, provisions for contingent liabilities, for litigation, and for employees (e.g. early retirement, phased retirement, employee awards for long service, and vacation) and agents (e.g. unpaid commissions).

Other liabilities

These include funds held under reinsurance business ceded, accounts payable on direct insurance business, accounts payable on reinsurance business, and miscellaneous liabilities. These are reported at the redemption value.

Deferred tax liabilities

The calculation of deferred taxes is based on temporary differences between the carrying amounts of assets or liabilities in the published balance sheet and their tax basis, and on differences arising from the application of uniform valuation policies for consolidation purposes as well as consolidation in the income statement. The tax rates used for the calculation of deferred taxes are the local rates applicable in the countries concerned; changes to tax rates already adopted as of the balance sheet date are taken into account.

Information on profit

Premiums

Premiums for property and casualty insurance are reported proportionately as income over the term of the insurance contract in relation to the exact risk coverage period. Unearned premiums are calculated separately for each policy, in order to determine the portion of premium income that has not yet been earned.

Premiums from short-term personal accident and health insurance policies are recorded proportionately over the term of the insurance policy. Premiums from long-term personal accident and health insurance policies are reported as earned when due. Unearned premiums are calculated separatly for each individual policy to cover the unexpired portion of written premiums.

In the case of premiums for life insurance products where the policyholder carries the investment risk (e.g. variable annuities), only those parts of the premiums used to cover the risks insured and related costs are treated as premium income.

Life insurance premiums on traditional life insurance policies are recognized as earned when due. Premiums on short duration life insurance policies are recognized as revenues over a period of the contract in proportion to the amount of insurance protection provided. In both cases, unearned premiums are calculated separatly for each individual policy to cover the unexpired portion of written premiums. Benefits and expenses are provided for against such revenues to recognize profits over the estimated life of the policies.

Revenues for financial and investment policies, such as universal life and variable annuity contracts, represent charges assessed against the policyholders' account balances for the cost of insurance, surrenders and policy administration and are included within premiums earned on the Allianz Group's consolidated income statement. Benefits charged to expense include benefit claims incurred during the period in excess of policy account balances and interest credited to policy account balances.