

Other assets

Other assets include real estate owned by Allianz and used for its own activities, equipment, inventories, accounts receivable on direct insurance business, accounts receivable on reinsurance business, and other receivables. This caption also includes other assets, deferred acquisition costs and prepaid expenses.

Real estate owned by Allianz and used for its own activities (e.g., real property, and buildings, including buildings on leased land) is carried at cost less accumulated scheduled and unscheduled depreciation. The capitalized cost of buildings is calculated on the basis of acquisition cost and depreciated over a maximum of 50 years in accordance with their expected useful lives. Expenditures to restore the future economic benefit are capitalized if they extend the useful, as are improvements. Costs for repairs and maintenance are expensed. An impairment loss is recognized when the recoverable amount of these assets is less than their carrying amount.

Equipment is carried at cost, less accumulated scheduled and unscheduled amortization. Depreciation is generally computed using the straight-line method over the estimated useful lives of the assets. The estimated useful life of equipment is 2 to 10 years and for purchased information technology equipment is 2 to 8 years. Expenditures to restore the future economic benefit are capitalized if they extend the useful, as are improvements. Costs for repairs and maintenance are expensed. An impairment loss is recognized when the recoverable amount of these assets is less than their carrying amount.

Receivables are recorded at face value less any payments made, net of appropriate valuation allowances.

Deferred policy acquisition costs related to universal life, investment products and traditional participating business that follow the contribution principle are amortized in relation to expected gross profits or estimated gross margins over the life of the policy. Deferred policy acquisition costs related to other traditional life business are deferred and amortized over the premium paying period of the policy in proportion to premium revenues. Deferred policy acquisition costs primarily include commissions paid, as well as other costs, which vary with and are incurred in connection with the acquisition or renewal of insurance policies. All other policy acquisition costs are charged to income as incurred.

In the case of property and casualty insurance enterprises, the amortization period is calculated for each insurance portfolio, based on the average term of the relevant policies, and varies between 1 and 5 years.

All deferred policy acquisition costs are reviewed regularly to determine if they are recoverable from future operations, including anticipated investment income. Deferred policy acquisition costs which are not deemed to be recoverable based on the Allianz Group's review, are charged to income.

Securities borrowing and lending The Allianz Group enters into securities borrowing and lending transactions on behalf of its customers and to fulfill its own obligations to deliver or take delivery of securities and to maximize returns on the investment portfolios of its insurance companies. Such transactions involve the transfer of securities from one market participant (lender) to another counter-party (borrower), for a certain period of time. If the lender retains control, the lender continues to report the securities involved on its balance sheet, whereas borrowed securities are not reported. Securities borrowed and securities loaned are recorded at the amount of cash advanced and received, respectively, and are collateralized primarily by equity and fixed income securities. Securities borrowed transactions generally require the Allianz Group to deposit cash collateral with the securities lender. In a securities loaned transaction, the Allianz Group generally receives cash collateral in an amount equal to or in excess of the market value of the securities loaned. The Allianz Group monitors the fair value of securities borrowed and securities loaned and additional collateral is obtained if necessary. Income and expenses from securities borrowing and lending transactions are recognized on an accrual basis and reported under interest and similar income or interest and similar expenses in the Allianz Group's consolidated income statement.

In cases where securities lending transactions are combined with forward contracts with the same counter-party ("structured securities lending transactions"), both the securities lending transaction and derivative instrument are considered collectively in assessing whether the Allianz Group has surrendered control of the securities, resulting in the derecognition of securities. Upon derecognition, gains and losses are recognized as the difference between the value of consideration received and the carrying value of the securities.

Asset securitizations

The Allianz Group transfers financial assets to certain special purpose entities (SPEs) in revolving securitizations of commercial mortgage or other loan portfolios. The Allianz Group consolidates these SPEs as the Allianz Group continues to control the financial assets transferred and retains the servicing of such loans.

Leases

Property and equipment holdings are used by the Group under operating leases, whereby the risks and benefits relating to ownership of the assets remain with the lessor, and are not recorded on the Group's consolidated balance sheet. Payments made under operating leases to the lessor are charged to administrative expenses using the straight-line method over the period of the lease. When an operating lease is terminated before the lease period has expired, any penalty is recognized in full as an expense at the time when such termination takes place.