

Acquisition cost

The amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition.

Affiliated enterprises

The parent company of the Group and all consolidated subsidiaries.

Subsidiaries are enterprises where the parent company can exercise a dominant influence over their corporate strategy in accordance with the control concept. This is possible, for example, where the parent Group holds, directly or indirectly, a majority of the voting rights, has the power to appoint or remove a majority of the members of the Board of Management or equivalent governing body, or where there are contractual rights of control.

Aggregate policy reserves

Policies in force – especially in life, health, and personal accident insurance – give rise to potential liabilities for which funds have to be set aside. The amount required is calculated actuarially.

Allowance for loan losses

The overall volume of provisions includes allowance for credit loss – deducted from the asset side of the balance sheet – and provisions for risks associated with hedge derivatives and other contingencies, such as guarantees, loan commitments or other obligations, which are stated as liabilities.

Identified counterparty risk is covered by specific credit risk allowances. The size of each allowance is determined by the probability of the borrower's agreed payments regarding interest and installments, with the value of underlying collateral being taken into consideration.

General allowances for loan losses have been established, on the basis of historical loss data.

Country risk allowances are established for transfer risks. Transfer risk is a reflection of the ability of a certain country to serve its external debt. These country risk allowances are based on an internal country rating system which incorporates economic data as well as other facts to categorize countries.

Where it is determined that a loan cannot be repaid, the uncollectable amount is written off against any existing specific loan loss allowance, or directly recognized as expense in the income statement. Recoveries on loans previously written off are recognized in the income statement under net loan loss provisions.

Assets under management

The total of all investments, valued at current market value, which the Group has under management with responsibility for maintaining and improving their performance. In addition to the Group's own investments, they include investments held for variable annuity policyholders, bank loans and advances, and investments held under management for third parties.

Associated enterprises

All enterprises, other than affiliated enterprises or joint ventures, in which the Group has an interest of between 20% and 50%, regardless of whether a significant influence is actually exercised or not.

At amortized cost

Under this accounting principle the difference between the acquisition cost and redemption value (of an investment) is added to or subtracted from the original cost figure over the period from acquisition to maturity and credited or charged to income over the same period.

Benefits (net) payable to policyholders

The expense of policyholder benefits (less amounts ceded in reinsurance) comprises loss and loss adjustment expenses, premium refunds, and the net change in insurance reserves.

Capital relating to participating certificates

Amount payable on redemption of participating certificates issued. The participating certificates of Allianz AG carry distribution rights based on the dividends paid, and subscription rights when the capital stock is increased; but they carry no voting rights, no rights to participate in any proceeds of liquidation, and no rights to be converted into shares.

Cash flow statement

Statement showing movements of cash and cash equivalents during an accounting period, classified by three types of activity:

- normal operating activities
- investing activities
- financing activities

The accounting terms explained here are intended to help the reader understand this Annual Report. Most of these terms concern the balance sheet or the income statement. Terminology relating to particular segments of the insurance or banking business has not been included.

Certificated liabilities

Certificated liabilities comprise debentures and other liabilities for which transferable certificates have been issued.

Consolidated interest (%)

The consolidated interest is the total of all interests held by affiliated enterprises and joint ventures in affiliated enterprises, joint ventures, and associated enterprises.

Contingent liabilities

Financial obligations not shown as liabilities on the balance sheet because the probability of a liability actually being incurred is low. Example: guarantee obligations.

Corridor approach

Under this approach to pension plans, actuarial gains and losses are not recognized immediately. Only when the cumulative gains or losses fall outside the corridor is a specified portion recognized in the income statement from the following year onwards. The corridor is 10% of the present value of the pension rights accrued or of the independent pension fund assets at market value, if greater.

Credit risk

The risk that one party to a contract will fail to discharge its obligations and thereby cause the other party to incur financial loss.

Current service cost

Net expense in connection with a defined benefit pension obligation, less any contributions made by the beneficiary to the independent pension fund.

Current value

The current value of an investment is normally the same as the market value. If the market value cannot be calculated directly, fair market value is used.

Deferred acquisition costs

Expenses of an insurance company which are incurred in connection with the acquisition of new insurance policies or the renewal of existing policies. They include commissions paid and the costs of processing proposals.

Deferred tax assets/liabilities

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

Defined benefit pension plans

Under these retirement plans the enterprise promises the beneficiary a particular level of benefit. The contribution payable is based on the age of the beneficiary and depends on the level of benefit promised.

Defined contribution pension plans

The central feature of these post-employment benefit plans is the contribution which an enterprise pays into an independent pension fund. The enterprise has no further obligations beyond the amount that it agrees to contribute to the fund and has no interest in the financial results of the independent pension fund. Benefits have to be claimed from the independent pension fund.

Derivative financial instruments (derivatives)

Financial contracts, the values of which move in relationship to the price of an underlying asset. Derivative financial instruments can be classified in relation to their underlying assets (e.g. interest rates, share prices, exchange rates or prices of goods). Important examples of derivative financial instruments are options, futures, forwards and swaps.

Earnings from ordinary activities

Pre-tax profit or loss from activities which an enterprise undertakes in the normal course of business. This does not include extraordinary items, i.e. income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and are therefore not expected to recur frequently or regularly.

Earnings per share (basic/diluted)

Ratio calculated by dividing the consolidated profit or loss for the year by the average number of shares issued. For calculating diluted earnings per share the number of shares and the profit or loss for the year are adjusted by the dilutive effects of any rights to subscribe for shares which have been or can still be exercised. Subscription rights arise in connection with issues of convertible bonds or share options.

Equity consolidation

The relevant proportion of cost for the investment in a subsidiary is set off against the relevant proportion of the shareholders' equity of the subsidiary.

Equity method

Investments in joint ventures and associated companies are accounted for by this method. They are valued at the Group's proportionate share of the net assets (= shareholders' equity) of the companies concerned. In the case of investments in companies which prepare consolidated financial statements of their own, the valuation is based on the sub-group's consolidated net assets. The valuation is subsequently adjusted to reflect the proportionate share of changes in the company's net assets, a proportionate share of the company's net earnings for the year being added to the Group's consolidated income.

Expense ratio

Underwriting costs (including change in deferred acquisition costs) as a percentage of premiums earned.

Fair value

The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

FAS

U.S. Financial Accounting Standards on which the details of U.S. GAAP (Generally Accepted Accounting Principles) are based.

Forwards

The parties to this type of transaction agree to buy or sell at a specified future date. The price of the underlying assets is fixed when the deal is struck.

Funds held by/for others under reinsurance contracts

Funds held by others are funds to which the reinsurer is entitled but which the ceding insurer retains as collateral for future obligations of the reinsurer. The ceding insurer shows these amounts as "funds held under reinsurance business ceded."

Futures

Standardized contracts for delivery on a future date, traded on an exchange. Normally, rather than actually delivering the underlying asset on that date, the difference between closing market value and the exercise price is paid.

Goodwill

Difference between the purchase price of a subsidiary and the relevant proportion of its net assets valued at the current value of all assets and liabilities at the time of acquisition. Minority interests are always valued at carried-forward historical cost. Goodwill is amortized over its useful life.

Gross/Net

In insurance terminology the terms gross and net mean before and after deduction of reinsurance respectively. (Net is also referred to as "for own account"). In connection with income from interests in affiliated enterprises, joint ventures and associated enterprises, the term "net" is used where the relevant expenses (e.g. depreciations and losses on the disposal of assets) have already been deducted. In the context of investments the term "net" is used where the relevant expenses (e.g. for investment management or valuation write-downs) have already been deducted from the income. This means that investment income (net) from investments in affiliated enterprises, joint ventures and associated enterprises signifies the net result from these investments.

Hedging

The use of special financial contracts, especially derivative financial instruments, to reduce losses which may arise as a result of unfavorable movements in rates or prices.

IAS

International Accounting Standards.

IFRS

International Financial Reporting Standards. Since 2002, the designation IFRS applies to the overall framework of all standards approved by the International Accounting Standards Board. Already approved standards will continue to be cited as International Accounting Standards (IAS).

IFRS Framework

The framework for International Financial Reporting Standards (IFRS) which sets out the concepts that underlie the preparation and presentation of financial statements for external users.

Investments held on account and at risk of life insurance policyholders

Mainly investments funding variable annuities plus investments to cover obligations under policies where the benefits are index-linked. Policyholders are entitled to the gains recorded on these investments, but also have to carry any losses.

Issued capital and capital reserve

This heading comprises the capital stock, the premium received on the issue of shares, and amounts allocated when option rights are exercised.

Joint venture

An enterprise which is managed jointly by an enterprise in the Group and one or more enterprises not included in the consolidation. The extent of joint management control is more than the significant influence exercised over associated enterprises and less than the control exercised over affiliated enterprises.

Loss frequency

Number of losses in relation to the number of insured risks.

Loss ratio

Loss and loss adjustment expenses as a percentage of premiums earned.

Market value

The amount obtainable from the sale of an investment in an active market.

Minority interests in earnings

That part of net earnings for the year which is not attributable to the Group but to others outside the Group who hold shares in affiliated enterprises.

Minority interests in shareholders' equity

Those parts of the equity of affiliated enterprises which are not owned by companies in the Group.

New cost basis

Historical cost adjusted by depreciation to reflect permanent diminution in value.

Options

Derivative financial instruments where the holder is entitled – but not obliged – to buy (call option) or sell (put option) the underlying asset at a predetermined price sometime in the future. The grantor (writer) of the option, on the other hand, is obliged to transfer or buy the asset and receives a premium for granting the option to the purchaser.

OTC derivatives

Derivative financial instruments which are not standardized and not traded on an exchange but are traded directly between two counterparties via over-the-counter (OTC) transactions.

Pension and similar reserves

Current and future post-employment benefits payable to current and former employees under company pension schemes, accrued as a liability.

Premiums written/earned

Premiums written represent all premium revenues in the year under review. Premiums earned represent that part of the premiums written used to provide insurance coverage in that year. In the case of life insurance products where the policyholder carries the investment risk (e.g. variable annuities), only that part of the premiums used to cover the risk insured and costs involved is treated as premium income.

Reinsurance

Where an insurer transfers part of the risk which he has assumed to another insurer.

Repurchase and reverse repurchase agreements

A repurchase (“repo”) transaction involves the sale of securities by the Group to a counterparty, subject to the simultaneous agreement to repurchase these securities at a certain later date, at an agreed price. The securities concerned are retained in the Group’s balance sheet for the entire lifetime of the transaction, and are valued in accordance with the accounting principles for trading assets or investment securities, respectively. The proceeds of the sale are reported in liabilities to banks or to customers, as appropriate.

A reverse repo transaction involves the purchase of securities with the simultaneous obligation to sell these securities at a future date, at an agreed price. Such transactions are reported in loans and advances to banks, or loans and advances to customers, respectively.

Interest income from reverse repos and interest expenses from repos are accrued evenly over the lifetime of the transactions and reported under interest income/interest expenses and similar income/expenses.

Reserve for loss and loss adjustment expenses

Reserves for the cost of insurance claims incurred by the end of the year under review but not yet settled.

Reserve for premium refunds

That part of the operating surplus which will be distributed to policyholders in the future. This refund of premiums is made on the basis of statutory, contractual, or company by-law obligations, or voluntary undertaking.

Revenue reserves

In addition to the reserve required by law in the financial statements of the Group parent company, this item consists mainly of the undistributed profits of Group enterprises and amounts transferred from consolidated net income.

Securities available for sale

Securities available for sale are securities which are neither held with the intent that they will be held to maturity nor have been acquired for sale in the near term; securities available for sale are shown at their market value on the balance sheet date.

Securities held to maturity

Securities held to maturity comprise debt securities held with the intent and ability that they will be held to maturity. They are valued at amortized cost.

Segment reporting

Financial information based on the consolidated financial statements, reported by business segments (life/health, property/casualty, and financial services) and by regions and products.

Subordinated assets

Assets are recorded as subordinated assets if, in the case of liquidation or bankruptcy, the related claim cannot be realized before the claims of other creditors are realized.

Subordinated liabilities

Liabilities which, in the event of liquidation or bankruptcy, are not settled until after all other liabilities.

Swaps

Agreements between two counterparties to exchange payment streams over a specified period of time. Important examples include currency swaps (in which payment streams and capital in different currencies are exchanged) and interest rate swaps (in which the parties agree to exchange normally fixed interest payments for variable interest payments in the same currency).

Trading assets

Trading assets are debt issues and stocks as other financing instruments (essentially derivatives, note loans and precious metals holding) which have been acquired solely for sale in the near term. They are shown in the balance sheet at fair value.

Trading income

Trading income includes all realized and unrealized profits and losses from trading assets and trading liabilities. In addition, it includes commissions as well as any interest or dividend income from trading activities as well as refinancing costs.

Trading liabilities

Trading liabilities include primarily negative market values from derivatives and short selling of securities. Short sales are made to generate income from short-term price changes. Short sales of securities are recorded at market value on the balance sheet date. Derivatives shown as trading liabilities are valued the same way as trading assets.

Underwriting costs

Commissions, salaries, general expenses and other expenses relating to the acquisition and ongoing administration of insurance policies. The net figure is after expenses recovered from reinsurers have been deducted.

Unearned premiums

Premiums written attributable to income of future years. The amount is calculated separately for each policy and for every day that the premium still has to cover.

Unrecognized gains/losses

Amount of actuarial gains or losses, in connection with defined benefit pension plans, which are not yet recognized as income or expenses (see also "corridor approach").

Unrecognized past service cost

Present value of increases in pension benefits relating to previous years' service, not yet recognized in the pension reserve.

U.S. GAAP

U.S. Generally Accepted Accounting Principles.

Variable annuities

The benefits payable under this type of life insurance depend primarily on the performance of the investments in a mutual fund. The policyholder shares equally in the profits or losses of the underlying investments.