FY 2014 Earnings Call

Company Participants

- Dieter Wemmer, CFO
- Maximilian Zimmerer, CIO
- Michael Diekmann, CEO
- Oliver Schmidt, Head of IR
- Unidentified Speaker, Unknown

Other Participants

- Andrew Ritchie, Analyst
- Andy Broadfield, Analyst
- Farooq Hanif, Analyst
- Frank Kopfinger, Analyst
- James Shuck, Analyst
- Jon Hocking, Analyst
- Michael Huttner, Analyst
- Nick Holmes, Analyst
- Paul De'ath, Analyst
- Thomas Seidl, Analyst
- William Hawkins, Analyst

Presentation

Operator

Good day, ladies and gentlemen. Welcome to the Allianz conference call on the financial results for 2014.

For your information, this conference is being recorded. At this time, I'd like to turn the conference over to your host today, Mr. Oliver Schmidt, Head of Investor Relations. Please go ahead, sir.

Oliver Schmidt {BIO 2473131 <GO>}

Thank you, Suzette. Yes. Good afternoon from my side, as well. Welcome to our conference call about the results of fiscal 2014. We will follow the same procedure as last year. Dieter will kick it off with the key numbers. Then Max will talk about our investments. And, last but not least, Michael will wrap it up and comment on the outlook 2015.

We have scheduled two hours for the call. In case that is not sufficient to cover your questions, please come and meet us at our analyst meetings next. We will hold one in Frankfurt, one in London. And one in Paris.

That's all from my side so far. And with that, I hand over to Dieter.

Dieter Wemmer {BIO 4755450 <GO>}

Okay. So. Good morning, all the callers from the States. Good afternoon for the European callers. Let me start with the financial highlights. So on page three of the presentation.

Q4 numbers, revenues up 12%. So we kept our double-digit internal growth rate. Group operating profit shown of EUR2.3 billion. We had a number of additional smaller one-offs we faced as headwinds in the Fourth Quarter. We booked an operating loss for Brazil of EUR150 million, Russia $40 million. We had a new regulatory fine in France for very old cases from the time where we still did not own the Company. And we booked additional premium deficiency reserves in Korea. But also we had a positive one-off in the corporate segment. So all in all, it's about EUR200 million that I would consider as one-offs in the Q4.

That leads -- that, then, leads to a 96.5 combined ratio in the Fourth Quarter, where our Life and Health business continues to grow rather strongly, new business margin doing well. And I will go into more detail of the asset management business, as usually, later in the presentation.

When we go to page five and look at total results, EUR10.4 billion, just short of the maximum outlook point of EUR10.5 billion. P&C slightly up, Life and Health had, again, a great year. And Asset Management following the outlook. And the non-repetition of the one-off performance fees down. And Corporate segment slightly up.

When we got to the overall shareholders' equity development on page 7, shareholders' equity a record high, short of EUR61 billion, driven by retained earnings, increase in unrealized gains, also for the benefit of the shareholder. Max will tell you how the gross unrealized gains developed in total. And our year-end number includes EUR1.6 billion, net of taxes, additional pension liabilities for our own pensions, which -- where we reduced the discount rate from 3.5% to 2%.

Conglomerate solvency, which is still only mattering the revenues, has stayed fairly flat over the year. The Solvency II capitalization stayed, also, almost flat over the year. Actually, when you include that we have now in the year-end '14 number a higher dividend included than in the year before, which makes 2percentage points and slightly lower leverage, actually, the number looks almost flat over the year, although it was a year with many volatilities built in.

Let me start, first, with the external market movement. The 10-year point of the US swap curve end of 2013 was 200 basis points. That swapped to 80 basis points a year later. So, a drop of 60% in one year. Parallel, the volatility in the fixed income doubled. So, actually it was a year which really did stress the whole system calculation. And also, the risk-bearing capability.

But we managed this parallel with actually increasing our risk taking substantially. When you will look at Max's figures, you will see that our investment portfolio is more than EUR700 million up. So, a total exchange that is cognizant of our great growth efforts in the life business. So we are taking quite a lot of additional risk on board.

But there are also many model changes, as we are not disclosing to you a stable internal economic model. We are, as we said in the previous quarter, moving gradually forward to the Solvency II model, which we are going to file in the Second Quarter this year.

So we have already used the appropriate discount rate in the calculation, which makes at year end the 80 basis points I mentioned, minus 10 basis points credit shift, plus 13 basis points volatility adjuster. So some 83 basis points for the 10-year euro point.

So we have seen not only the parallel shift I have mentioned, actually the yield curve over the year flattened. And in particular in Q4. And the doubling of the VOLA is also very much a Q4 event. So when you just look at the number between end of September to end of December, you can say flattening yield curve about 7 points, parallel shift 8 points, doubling VOLA 9 points.

And we changed in the Fourth Quarter and moved to US equivalents. I told you in the past that we were agnostic to this, because the number was pretty much the same, whether we used equivalents or internal models. However, at a 2% interest rate for the 10-year Treasury in the US, there is a benefit for you, as shareholders. And, hence, for us to do it. And also it makes our numbers, I think, more comparable to the peers who have US subsidiaries, because we were the only one staying away from it. In fact, we are also the only one who has. So far, a charge for government bonds into the calculation, I think we should, maybe, start limiting the differences, also, to our peers a little bit.

So let's move to the more exciting figures, that is actually the growth in the P&C sector. Fourth quarter added a 10% growth, which is, I think, for many quarters the first time that we would have double-digit growth in P&C. And the growth is actually carried by quite a number of entities, starting with the UK, which continues with great numbers. But also AGCS had a very strong year-end performance.

In total, we grew in the year 3% flat, that's a flat number over the 12 months. That is our mid-term strategic target to achieve this. But so far, we missed it always a little bit. Actually, that number includes, even, that we are shrinking in Russia substantially, as we explained that we have a negative premium development in Brazil. And also in the US. When I take the three out, 4.5% is the growth rate for all our Anglo markets and other core markets, which is a fantastic number.

It's all -- overall, with all the pluses and minuses, very much volume-driven. So therefore, we could also add 2 million customers over the year. The price effects across all markets leveling out.

When you move now to the operating profit of the entity, over the whole year 94.3% absolutely flat underwriting margin. So we still see that underwriting added EUR80 million to the profit line additionally. That is equivalent to a net earned premium of 4.1%. And that is the driver of our additional underwriting profit.

While you could say, at a first glance, you had a 2percentage point better capacity ratio. So, where is the money? I think the cat ratio and better related events was maybe 1percentage point better. We had a lot of mid-size events over the year. But also in the Fourth Quarter.

Still, our accident-year loss ratio worsened. And, actually, when you do just the attritional accident-year loss ratio comparison, it is 1.2% off. We had over the year. But in particular in Q4, some more large losses. So that makes the 0.3% and 0.9% for the other weather-related events I mentioned already.

So the one-off ratio is slightly lower than last year. The positive developments of the majority of the countries unchanged to last year. But in 2014 we had to strengthen reserves in Brazil, Russia. And the US. US was already at the half-year number. So, therefore, when I look just at the countries with positive runoff it is, more or less, at the same level as the year before.

Expense ratio pretty much flat. We had additional one-off costs from the Unipol transaction. And we had also additional expense loads from the write-down of premiums in Brazil in Q4.

So moving to our operational profits slide for the P&C business. And also the individual combined ratios of the major OEs, well, obviously, Germany doubling operating profit, other markets holding up very well. And AGCS is not a big plus. And the negative numbers I have already mentioned and I will explain in more detail on the next page, where we show the portfolio overview.

I think, still, the majority of our units, two-thirds of the gross written premium below 95%. And 27% in the category just above 95% with stronger growth. And 9% of the portfolio are the ones above 100 where Fireman's Fund had 120%, Russia 140%, Brazil 125% for the whole year.

I think you know the action items. Fireman's Fund has been -- the personal lines business has been sold to ACE, where the transaction is expected to close April 1. The commercial business if around $1.5 billion of premium going to be integrated with AGCS US. Actually, the integration process started with the beginning of the year.

Russia we are downscaling the retail operation substantially. And I just will add one thing, that means that the retail earned premium for 2015 will be substantially smaller than last year. And the focus is on profitable business. And, yes, also continuing the health business in retail.

Brazil is actually a combination of IT platform issues, which are creating -- did create some thought around our underlying business issues emanating from business written in the second half of 2013, where we did, after we understood the situation much clearer, a lot of cleaning up in the Fourth Quarter, cleaning up in the sense that we have now booked our best understanding of the situation. And also the turnaround steps are being initiated.

Page 17, on CMV's [ph] similar income, I know that Max will comment on it. I think the highlight I would like to mention is that it stayed stable over the year, actually EUR17 million more than the year before, as a tremendous stable investment income.

Now let's move to the Life and Health sector. The growth story of the previous three quarters continued at the full Fourth Quarter. So the driver of the growth is the German life business, the US. And Italy. Germany, our market share in new business is, obviously, around of the third of the market. In the US, the great sales success of the fixed index annuity business continues.

So actually, when you look at the US, fixed business annuities are up by EUR5.1 billion, where actually our VA [ph] premium is down by EUR650 million. So it's really all the fixed index annuity.

And in Italy, the growth number is two-thirds unit-linked and one-third non-unit-linked.

In Asia-Pacific, the growth is clearly supported by our HSBC distribution arrangement. And in country terms, it's mainly Taiwan. But also our local sales activities in Korea have a strong positive.

When we move, then, to the profitability of the Life business, EUR3.3 billion operating profit at the upper end of our expected range for the year.

Please remember that we moved about EUR110 million operating profit from the smaller Asset Management units into the Life and Health segment with our pension companies in Poland, Spain, et cetera. So that is a change in the allocation.

And what drives the additional profit? Well that is actually clearly the higher investment margin. And here we have, besides good underlying investment results, also one-offs that it's a recovery of emerging market currency against the euro that was a fairly sizable negative in 2013. And now it is positive in '14. So the swing is double. And also, we have gains on the interest rate protecting us against falling interest rates in Q4. So, that is also a positive number. In total, I would say maybe in the Life there is some EUR100 million to EUR150 million of these individual one-offs.

The increase in expenses, all driven by additional expenses for acquisition of the new business is obvious with the high volume increase that is offset in the stronger capitalization of debt.

You wonder why our technical margin is down, when we say we want to have more asset risk? Well that is the change in Germany where we are now only giving -- or allowed to take 25% for the shareholder on technical result and 75% goes to the policy holder. That reduction of EUR99 million has, in the German business, very much been offset on the investment margin side. That means when you add both numbers together that it is still a total decline calculation what we paid our policy holder in profit, the number is pretty much zero.

So moving to the new business value, new business value up 45%, mainly driven by volume growth but also new business margins, actually at 2.4%. The obvious question is, well, in this interest rate environment, would you do the business again in 2015?

We have tried to calculate with current yields and then it would -- the new business margin would be at 1.7% to 1.8%, if you take exactly the same mix. But you can be assured that we work on our mix in 2015. So don't take it as a forecast for 2015.

So how did the yields work. And, actually, what are the guarantees? I think that Max has in his presentation the same slide. So, I would refrain from here on making further comments. And let me directly move to the Asset Management business. So I'm now on page 27 of the presentation.

At first glance, third-party AUMs stayed very stable, just EUR12 billion from EUR1,329 billion to $1,313 billion. But behind the stable numbers are big movements. The outflows at PIMCO of EUR236 billion, inflows at Allianz Global Investors of EUR10 billion. And this is being -- the outflows, then, are being compensated by 11% foreign currency impact and a market impact in the falling yield environment. And the rising equity markets of 4.2%.

The FX impact is actually in the numbers very much only visible on the balance sheet numbers. I should have mentioned right in the beginning of my presentation. The EUR10.4 billion of operating profit include roughly EUR40 million net impact of all the FX changes during the year '14 compared to '13 in operating profit, whereas balance sheet items are being calculated at the year-end spot rates, you see a much bigger impact of the euro to dollar conversion.

And therefore, when we -- that is the basis for our earnings in 2015. So very important to understand for the outlook. However, when we look at the dynamic of the 2013 results, first at the revenue of the Asset Management business on page 29, a PIMCO decline by 12.5%, Allianz Global Investors 8% up with great results that did not stop that we have overall an 8.6% decline in revenues.

And actually the margin at Allianz Global Investors dropped for two reasons. We included some advisory-based business, which added some AUM. But no fees. And then also the mix in more institutional business also weakened the margin slightly.

At PIMCO, the margin drop of 1 basis point is very much explained by the outflows during the year were more on the retail space than on the institutional space. And it all happened in the US. Actually, euro and Asia are fairly stable with PIMCO customers.

Let me now translate both information to the operating profit development at Asset Management. So it dropped 15% to EUR2.6 billion. The two drivers the outflows with the margin compression I just explained. But also the one-off performance fees of the year 2013.

Actually, when we take out the one-off performance fees from 2013, the recurring performance fees, also at PIMCO, were actually higher in absolute numbers than in 2013, which I think is great news, because the quality of its asset manager and its perception with the customers is driven by its investment performance. And investment performance continues to stay high. And I think we're really free of any damages with the management transition which created so much media attention. Therefore, the basis for 2015 is fully in place.

When we discuss the outlook, we will also talk about one-off performance fees at PIMCO we expect at (inaudible) and 2015. But let me first complete the P&L of the Asset Management sector.

We have certainly a reduction in expenses based on the profit sharing at PIMCO, the 70/30 formula. However, our expenses did not drop parallel with the reduced revenues for several reasons. I think most of the operating expenses which have been transactional are variable. But staff, of course, numbers are not moving as fast as we have the seen move in the First Quarter, plus, as we explained already in the Q3 results, we are actually -- have implemented a special retention program, which was -- had the first booking in the Fourth Quarter. And we added a substantial marketing budget for the Fourth Quarter and really raising the presence of PIMCO in many media. That did, then, lead to a cost to income ratio of 61% for PIMCO in the Fourth Quarter.

So overall, I think in this (inaudible) transition year for our (inaudible) business, the total result of EUR2.6 billion is holding very well. And is still in line with our expectations.

So when we then go to the Corporate segment, I think the big swing at the banking segment but that was the restructuring costs in 2013 for Allianz Bank Deutschland, a retail bank which we closed, almost EUR100 million restructuring costs, precisely EUR88 million. So that was a negative one-off. And also we have, through our German regional bank called OLB, we have a small shipping portfolio where we have in the last three years put up loss-loan provisions for the shipping portfolio. There were no -- there was no need to increase reserves in 2014. And we see, also, a better operating result.

And the Holding and Treasury segment has a number of one-offs. There is, on one hand higher admin costs. And also we had from the IT restructuring we had in 2013 a release of a restructuring provision. But also we changed our Company pension in Germany, which created EUR160 million positive impact in 2014.

I can now come to the total summary from operating profit to net income. EUR10.4 billion, 3% up compared to the year before. So non-operating items with minus 1.55 billion look unusually high. But there is a special tax treatment I will explain in a moment. Actually our harvesting was lower than last year, almost EUR150 million lower is the figure on equity and debt. So that means we are not churning in the P&C segment our future.

Impairments are lower as we had almost non sizable impairments. What is shown under -- as the income from financial assets and liabilities is carried at fair value. That includes some cash flow hedges in France. But also the overlay hedge, which we do for our US life business to protect our local statutory capital that could us EUR140 million.

And now, let me explain the tax rate. We are showing here a tax rate of 32%, the tax rate paid by the shareholder. But as we did in a large court case in Germany that we can tax deduct realized losses and impairments on investments from the years 2001 and '02, that order is actually almost EUR1.05 billion as positive tax result.

This tax result we are sharing, to a large extent, with the life policy holders. This is this EUR901 million. So it is, in the end, a direct booking from taxes back from the tax authorities directly to the policy holders in the German life book.

We are showing the number here as neutral in the pre; and post-tax lines. So, we have the positive in the income tax. And then the negative in the reclass of tax benefits from this court case on the tax decision EUR1.05 billion. So, EUR150 million helped our corporate taxes. Therefore, we are slightly down compared to the 34% of last year. But this is also because we had less one-offs.

Going forward, I think 32% is a good starting point, also, for the year 2015. But, of course, we are always trying to work on that. But have also foreseen that some countries are working against us with their policy to increase the tax burden for their corporations.

Overall, let me summarize. The revenue double-digit up, operating profit 3.3% up, shareholders' net income 4% up. I did not mention that this is very good news for the dividend. But I think Michael will talk about it at the end.

And overall, we have a strong capital and balance sheet position where I think we have brought available capital back towards the previous year.

And with this, I hand over to Max.

Maximilian Zimmerer {BIO 2557503 <GO>}

Yes, hi. Good afternoon. Coming to B3, that's the investment portfolio.

As you can see, seems there are not many changes and we grow our assets by roughly EUR80 billion. The main reason for that is, let's say, half of that is business growth and the other half, a little bit more than that, is purely performance driven.

This is the IFRS number. If I would compare that to the pure market view, the real estate part would be a little bit higher that means it would be at a weighting of 4%. As you know, real estate is booked under IFRS to book values. And it does not include the own assets. The market value number, the 4%, would include those.

But this is the main difference. If you think of the quality of the investment portfolio, it has really not changed. The duration numbers have changed. You see them on the right side. The main reason for that is the lower interest rates. They had an impact on the asset side. But also on the liability side, overall.

You can see there the slight mismatch. We are longer on the asset side on the P&C side. And a little bit shorter on the Life side. But we are pretty long, also, I think in comparison to the market. That saves us, if you think of the very low interest rates. But I come to that later.

Now, the next page, B4, there I tried to come up with a summary of the investment performance, starting with the current income. We achieved EUR21 billion of current income. That is a little bit higher than last year. I am a little proud of, because the reinvestment rates have been pretty low overall. The current yield right now is at 2.7%, which came down from 3.9%. Then if you add to that the realized gains and losses, impairments, trading result. And investment expenses, the overall total investment of our investments is at EUR21.6 billion, a little bit higher than last year.

Then that's a more interesting figure if you think of total performance, that's a change in unrealized gains and losses, it's a very large number. It's EUR46 billion. That brings us, then, to the total performance of 11.8%.

But let's face it, most of that comes from lower interest rates. That's wonderful for the performance, not so nice for the reinvestment yields in the end.

What was really interesting in this year is that fixed income, at least if you were invested in very long-term bonds, outperformed heavily stocks, what was a surprise to me, I can tell you. Stocks did, also, very well. But not to the same extent as long-term bonds.

Now, what did we do last year on the investment side? The active changes you see on page B5. We invested additionally in equities, public equity that EUR3.7 billion. The timing was okay. But it would have been better if we had started only in the last quarter of last year. If you take the January performance, I'm very happy that we did that.

Then on the private equity, real estate. And also alternative debt side, we, as you know, have a strategy that we want to have more in that respect. And that brings me, also, to the page B6. There it is shown the real asset-based financing.

This is a chart that usually I very much. As you know, we had a mid-term goal of EUR80 billion for the next three years. We already achieved EUR74 billion. And our next three-year target would be around EUR110 billion. That is not a fixed target, only to say that it's very -- very much dependent on market conditions. But also on the risk capital we would need to finance that.

Overall, I like this sector very well, because it's differentiating us from competition. And affords to the possibility to gain some extra margin. This is truly the margin that goes to the bank. And the second thing is usually you can add some diversification if you compare that to financing banks, at least, to avoid cluster risks. And also, I think, the transparency of the risks are better if you do it directly. But what is needed there, you need really professional expert teams. I'm happy that we have them, not only at Allianz Investment Management. But also at Allianz Global Investors. We have really professional teams. And I think that we are a little bit ahead of the market.

Now coming to the new investment yields on page B7, overall they were much lower than the year before, in comparison to the very low yields we have right now, they are pretty strong, I think. On the P&C side, it's 2.4%, near the same as in the year 2013. On the life side, because we are longer there, it's 2.7%. If you add to that the current yields on the real assets, that's the 4% overall. You can see also maturity differences and Life, in average, you can say four years longer if you think of the reinvestments as such.

That brings me to page B8. That's a comparison between the total yield of our portfolio and the minimum guarantees. The total yield you can relate to your assets. And it will bring you to a yield of 4.7%. But you can also do -- 3.9%. But if you relate it to the technical reserves, because we have more assets than technical reserves, the number is at 4.7%.

That means we have still a margin of 2.3% in comparison to the minimum guarantees of 2.4%. I think that's really a strong buffer. And what is also stated here that now the reinvestment yield in Germany is only at 0.7%. If we would cut all the crediting rates at once. And would say do we need at a reinvestment yield to finance the guarantees of Germany, that would bring us to the 0.7%.

You can compare that with the 2.7% we had as a reinvestment yield, that means we have strong buffers, also, in that respect.

Now, if you compare that to the new business, the reinvestment yield, I already said, 2.7%. The average guarantee for new business is at 1.0%. That means, obviously, there still a relatively high margin of 1.7%. I think what worked very well that we started the lower guarantee products, especially in Germany, (inaudible). But also in Italy, using linked and fixed-index annuities in (inaudible) product. And if would take -- make a forecast for this year, I think the guarantee for the new business will go further down, (inaudible) around 0.7% and 0.8%.

Now to remind the outlook overall, I think I forgot to describe what has happened on the markets in 2014. And the most important for us was the announcement for us was the announcement of the quantitative easing by the ECB that will start in 1st of March this year, that brought the interest rates dramatically down to all-time lows.

Fortunately, Mrs. Yellen announced two days ago that we will see at least one or two or three hikes in 2015. I think, at least, that should work as a kind of stop order for the European rates. But you're seeing overall, I think, that real assets are much more interesting than bonds, because, I think, we are in bubble mania on the bond side.

That's the thing I would like to end with. Thank you.

Michael Diekmann {BIO 1733646 <GO>}

Great. So. Good afternoon, everybody. I've been moved to Section C. That's probably what happens when you are phasing out. I accept that.

Then, I was little surprised, frankly, about the harsh reaction of markets this morning. (inaudible) down now, that seems to level out a little bit. And I'm very happy that we have the opportunity to talk to you and sort of talk about all the technical questions around solvency and sensitivity and so on.

Anyhow. So, if I make the assessment of what went well, what went wrong, the revenue and profit growth, I think, is very good, especially translating into real customer growth of 2 million. So as Dieter has said, it's volume-driven and not price-driven.

Capital strength I would still defend as a very strong point of Allianz. Then, when we look at the -- what I would outperformance in Germany of Allianz Life and Allianz Global Investors, added about an improvement of EUR1 billion, I think that's very encouraging.

Now, difficult -- the reinvestment environment. But I would also say from a competitive point of view, it's an opportunity. So regulatory uncertainties remain. But I don't want to go too deep into that, because otherwise we're going to lose ourselves in technical details. And obviously, the political tensions that we see all around Europe are bad. Now, for us, it's good that our direct exposure to Russia, Middle East. And Nigeria is pretty low.

PIMCO outflows higher end of our expectations. And then three underperforming units offer potential for next year. But, obviously, we're not happy about that.

Now, when we turn the next page, which we head by Business Highlights 2014, I would like to point out a little bit of the operational underlying trends.

And here you can see under P&C non-motor retail very good progress in digital products. I think that's going to be a competitive advantage, going forward. And the shift on the Life side to asset-liability matched products in Life. I think we've made very good progress, especially here in the market in Germany. Let's just see this year, 2014, as a sort of opening up of this market, which I think, for a market leader is the appropriate action. And I'm very happy that the market accepts this proposal so we can work on that stronger in 2015.

Now, turning to our portfolio measures on the next page, I'm going to talk about acquisitions a little later. I think we were very timely in addressing the issues in Russia and Ukraine. We did not wait. We did not wait as long as with Fireman's Fund. But Fireman's Fund, I think the solution that we found to get to competitive levels in the corporate business. And to find a good home for our private business with ACE is a very good achievement. Then, last but not least, the transition in PIMCO, I think is working very well, despite the noise on the portfolio side.

Now, if I look at the next page, operating profit, I was a little disappointed on the Q4 in P&C, as well. But as Dieter has explained, I think it's the right actions that we took to make sure that 2015 we're not getting any surprises here.

Now, the capital management and growth, we discussed for years and years the dividend policy. Now we have a dividend policy I can (inaudible) information that my colleagues have not given yet. And that's about the evaluation of unused budget for external growth.

We've spent a lot, EUR900 million of a budget of EUR1.2 billion in 2014. So we will add around EUR300 million to the budget in 2015 that is, then, up evaluations.

The next slide, EUR6.84 I've sensed a little bit of dissatisfaction with that, as people were expecting something like 7. Now, if we compare the 6.84 to what you can achieve from the market today at the low volatility of the result of Allianz, I think we should give this a little bit of a positive sense. And let's not forget there's a ratchet here, which I think should make the stock very attractive, going forward.

Now, when we look at the next slide and the acquisition side, we also have regular debates about how disciplined is Allianz on the acquisition side. If we look at the activities in 2014, I think they are totally in line with the discussions we had. The 725 agencies that we've added in Italy, exactly in the right region, in a business that is scalable. And, by the way, the 722 agencies have been fully integrated into the digital agency model now. I think it's going to be a good contribution to the performance in Italy in the future.

I'm also very happy about the small. But not unimportant addition that we could achieve in Australia, where we have a great management and this will add to diversification, because we were under-represented in the territory.

Now, on the next page, coming to underlying growth in P&C, Dieter has already said if you exclude Fireman's Fund, Russia. And Brazil where we are shrinking the business, we have an underlying growth of 4.5%. Very happy about the smallest number here, 2.6% in Germany, because that really shows us that we have crossed the line now of negative growth and adding premium to the existing customer base.

We will have a press conference next week with our German colleagues and they will actually tell us about net growth in customers on the P&C side. And also much more activity on the non-motor side, which I think is good, as well.

Dieter has mentioned AGCS or AWP. I think that's working very well. And that's an important one, because that's the backbone of our digital strategy where we add a lot of service components from Allianz worldwide partners.

Now the Life side, I've talked about the German shift. And we definitely have to accelerate that. The lower traditional guarantees in the Italian and the move to the unit-linked cycles our partner, UniCredit, works very well. And the fixed-income annuities in the US, as you can see here, are working very well, as well.

When Dieter and myself were in the US earlier this year, shareholders urged us to increase that business because it's just the right environment and the right offer in that environment.

Now, coming to PIMCO on page 14, we not only believe in PIMCO as our subsidiary. But we also believe in them as investing our assets. You can see on the right-hand side that Allianz manages about 55% of our assets. And this is at arm's length. And we wouldn't do that if the performance wouldn't be justifying that.

So we have been outperforming third-party assets under management of 88%, which, I think, helps us also on the competitiveness side, with our Life business.

Now, the market gives us the feedback on our digital strategy that we are well positioned. And I would confirm that, that we are making a lot of progress, as I've shown on the second page on digital products, modular products, a lot of them are priced real time. And the (inaudible) for direct quotes where, just to give you a number, since we've introduced direct quote in Italy in 2012, we've made over 10 million quotes already. So that's becoming more and more a standard that, by the way, we've introduced in many other countries now, as well.

We've started early to address not only multi-channel. But multi-access. And we get a good integration now of online and agent channels. Our advanced analytics, just to give you one practical case where we apply that, that's for the detection of fraud cases. That's a very interesting move, now especially when you look at organized motor fraud. And on the automation side, obviously, we are making good process in process automation of standard cases, which in (inaudible) is now up to 90%.

Data protection becomes a more issue. And we've started early with our data center consolidation project, where we are in the middle of consolidating 140 data centers down into 7, which, then, will help us much better to deal with the personal data protection.

Now, I'm turning to the page on our operating outlook, where this outlook of EUR10.4 billion, plus/minus EUR400 million, I think, is taking two things into consideration.

It's the good performance, solid performance, in 2014. And also cautious look at 2015, without any up-selling. So, giving you an impression of our confidence to manage the volatility result even better than in the past. And now, when we look at the operating profit outlook 2015 on the segment side, that's the next page, I would just like to give a little add up on where do you think that we have a good indicators, underliers for profit in 2015.

Now, first, I would like to mention, again, the growth in 2014 of 10%. It was actually nearly 20% P&C volume-driven, close to 4% was good performance of our new modular retail products. We do see a higher operating asset base. And together with investment expertise that Max has talked about, that should help. And, also, we have higher reserve levels on the P&C side.

Now, the one-off in P&C 2014 that's around EUR500 million, at least, at Russia, Fireman's Fund. And Brazil. But also about EUR80 million of integration costs in Unipol business in Italy. We do see a consistent great performance of PIMCO and Dieter has talked about the performance fees, the success fees.

Then we have a clear expectation for higher performance fees from closed funds in Q4 2015. We have the exchange (inaudible) the dollar that has not translated into additional earnings on the PIMCO side. Then the long duration of our investments and the growing asset base.

Then last but not least, we have replaced two board members with two very experienced new board members. So the technical expertise and the market expertise on the board has not weakened at all. I think it's even stronger than it was before. And then last but not least, the transition to the new CEO is working very well. There are no frictions in the team. And Oliver is just visiting all the places that he doesn't know yet and where he might not have the time to visit them once he is in charge. But he is, obviously, a part of all the decisions we are making that have an impact on the future.

On this note I would like to close, just on time. And open the Q&A, if Oliver doesn't want to do that.

Oliver Schmidt {BIO 2473131 <GO>}

Now we are ready and happy to take your questions.

Questions And Answers

Operator

(Operator Instructions)

Our first question comes from Michael Huttner of JPMorgan. Please go ahead.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you very much. Answer however many of them that you like. You can cut me off.

My first question is on the solvency. Just to get a feel for how you judge it internally, the ratio of 191% isn't great compared to what we've been used to. I know the moving parts you said positive adjustments and then negative from low interest rates. But where do you see it kind of settling around. And at what level should to feel, ooh, we need to worry a bit, we can't find the liftoff?

The second is very specific. It's just can you give an update on German ZZR, albeit the premium refund reserve calculation, et cetera. And also the unrealized gains in Switzerland. Zurich gave a very good answer, which was to say that past 2018. So in 2019, funding the ZZR would cost them operating losses. So that's a negative.

Then the last point, which was not really serious question, it's more well done, Mr. Diekmann. And thank you very much. But also given that there's only EUR200 million to be missing to be at consensus was, weren't you a bit tempted, just a little bit, to (inaudible)?

Anyway, thank you very much.

A - Michael Diekmann {BIO 1733646 <GO>}

Yes, I can start with the second question. No. I was not tempted, because for me it's very important that we have a solid result here, not work on some record results. We had a Supervisory Board meeting yesterday with audits and boffins. And that was my first question to the auditors, is there anything in the result that was mortgaging the future? And the clear answer was no, just the opposite. And that's exactly the way how I would like to exit.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you.

A - Michael Diekmann {BIO 1733646 <GO>}

You're welcome.

A - Dieter Wemmer {BIO 4755450 <GO>}

Michael, I think I would like to explain on all the movement of Solvency II. Well first of all, we cannot guarantee that our internal model as being approved as applied for. So that is an uncertainty I think all companies in Europe have to live with until they get the green light from the regulator and you can anticipate that the green lights will come somewhere in December 2015. And that is for almost the players the same.

Secondly, as I've tried to indicate, we are really trying to do an active management of the level. And that means that we think our -- as long as we are a sound level above the 160%. And I think that is what you actually wanted to ask, you don't need to concerned about the dividend announcement. And we will keep the level soundly above the 160 level, as you would expect. And we will actively manage the number. But I think we have also built in quite a lot of conservative things.

So you ask how the RfB and ZZR is developing and the financing. I think when you would calculate all the funds in our German Life subsidiary, you come to a substantial number in percentage of the reserves as clearly above 25%. We have in -- on the asset side, as well as on the liability side, in cushion. And I wouldn't see any ZZR financing out of the operating results, based on this starting point.

And even if we do the calculation longer than the 8-9 years, because I think Max said, when we do reinvest our money at 0.7% in Germany, we can pay off all the guarantees. That means, in the end, even with the ZZR going to 0.7% down would still be carrying through as a fairly low number. Well you never know how many years the quantitative easing in Europe is holding. But it's certainly not in the next couple of decades.

Q - Michael Huttner {BIO 1556863 <GO>}

Okay. Thank you very much.

A - Dieter Wemmer {BIO 4755450 <GO>}

You're welcome.

Operator

Our next question comes from Farooq Hanif of Citi.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, there. Thank you very much.

I just want to ask one more question on solvency. Can you tell us what your kind of minimum RBC ratio assumption is? I think there's a bit of confusion in the footnote. I just wanted to understand how yours compares to some of your peers.

Then secondly, on the life business, I'm intrigued by your forecast of roughly flat profits, given the great achievements you're making in shifting mix, the fact that you're defending your margins, I was just wondering kind of what the drivers are on that? Then, associated with that, you mentioned the 2.7% reinvestment yield in Life. But you're making considerable investments in real assets. So what do you think the income yield would be, if you included those real assets on top of the 2.7%?

Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Okay, I'll take the easy question on the US RBC ratio. So we had in the disclosure we called it 100% (inaudible). That is a classical insurance-style misleading information. So we mean 200% of local statutory requirements. So the 200% is called the Company actual level. That means that it's sufficient.

I can also turn it around in the other way. As you calculate now the Group solvency, at the weighted average between the US number and the internal model number, our US model goes into the calculation with 175%, because we run day to day, also due to our A.M. Best rating the Company at 350% of statutory base requirements. So the 350 divided by 200% capital actual level. So you have 175% ratio how it is, then, being weighted with the ratio of the internal model countries. So it dilutes, slightly, the ratio.

Q - Farooq Hanif {BIO 4780978 <GO>}

And the forecast on the --

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Yes. The forecast, only driven by Life. You can say that the current yield, all in all, will go down, perhaps something between 0.1% and 0.2% every year, because that's the running rate you have in there. The real assets are included.

Q - Farooq Hanif {BIO 4780978 <GO>}

Oh, no, I meant, sorry -- If I may return on that, I meant the 2.7% you're masking on fixed income -- maybe I misunderstood your answer -- but how much additional yield do you make on top of the 2.7%?

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Yes. That is also discovered on PB6. If you go only for the real assets, all the return to fixed-income assets are included in the 2.7%. And if go now only for the equity part, that's real estate, that's equities. And that's the renewable part in infrastructure, there the running yield, current yield, is at 4%. Then you can say, in addition to that, also, price increases. But that depends very much on the asset classes. That can be something between 2% and 5%.

But what -- I can't tell you the influence on the reinvestment yield. What I've said right now is the influence on the yield of the portfolio for the next year. And the overall impact of lower interest rates and the lower reinvestment yields, including real assets, is about 0.1% or 0.2% lower for next year, yes?

Q - Farooq Hanif {BIO 4780978 <GO>}

And do you think this is why you're forecasting flat to slight profits, or is there other --?

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Yes. Too. But because we have a growth overall in the business, itself.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

Operator

(Operator Instructions) Our next question comes from Andy Broadfield of Barclays. Please go ahead.

Q - Andy Broadfield {BIO 7273415 <GO>}

Oh, hi there. A couple of questions, please.

Just on Italy P&C I fear you may have answered this in the past. But I'm just wondering, for the organic number, organic growth if you like, or internal growth, is negative, given your very strong performance there I would have that would be -- part of the strategy was to try and see if you could actually grow that. I'm just wondering if you can explain why that was negative, the P&C internal growth in Italy?

On your decision to include US equivalents when in the past I think you -- you described it as being agnostic -- I thought you'd take it as a sort of slightly more purist view that you would just have a consistent methodology across the Group. I'm just interested. You've included it now. Is this now, it's in for good, or is this a sort of strategy to cherry pick, or just whatever is convenient? I'm a little confused why you should do that now?

And just a final question, just on your slide B8, which references the 0.7% reinvestment yield, I just want to understand what that really means. Does that mean if you were to retain all the profits you made between now and the running yield collapsing to below the guarantee levels, you'd be able to take all those. And that would pay for the losses afterwards, or does it mean that you would be breakeven by the end? I'm not quite sure how to interpret quite what that statement is.

A - Oliver Schmidt {BIO 2473131 <GO>}

That's right. It's okay.

A - Michael Diekmann {BIO 1733646 <GO>}

So Andy, hi. Maybe I can start with the Italian side. If you look at the market, the price or rate you're going to find, is negative. We are better than the market here. And that's the internal growth side. So that's minus 1.2%.

Now, if you add Unipol, then you arrive at a growth of 4.1%. That's the total growth, yes? So we divide between organic and un-organic growth.

Q - Andy Broadfield {BIO 7273415 <GO>}

I guess my expectation was that, given the very, very margins you were making, I know the market is, in general, as well. But you were still somewhere ahead of the market, that'd you be able to give more. And, therefore, grow more on the sort of -- on the non-Unipol part of the business.

A - Michael Diekmann {BIO 1733646 <GO>}

Well that's what we do. The risk growth is there. And the growth of the -- the organic growth is much better than market. I think the market has declined by around 4percentage points.

Q - Andy Broadfield {BIO 7273415 <GO>}

Okay.

A - Michael Diekmann {BIO 1733646 <GO>}

And the Italian was down 6%, 7% over at least the first nine months. The 12 months I guess I have not yet seen. So total market minus 4, motor minus 6, 7. So, minus 1 is still a small increase in market share.

Q - Andy Broadfield {BIO 7273415 <GO>}

Okay. So probably policies in force has grown. But premiums not? Okay?

A - Michael Diekmann {BIO 1733646 <GO>}

Yes, sure. That is -- coming from a substantial outperform on the combined ratio, that is what you expect.

A - Dieter Wemmer {BIO 4755450 <GO>}

We are keeping a positive -- a strong positive distance to the performance of the market. But you cannot expect that it just does not relate to the market.

And your question on US equivalents, well, as I said, I think, on one hand, it is certainly good for the overall status of management. I think it makes us, indeed, more comparable to our peers. And also, I think we have figured out -- we have, already, probably the largest number of legal entities in our internal model, which are going through approval process. And the simplification of it is, actually, not bad. And US Life business is, in particular, for European regulators, quite an alien portfolio.

So the simplification overall, I think, is probably helpful for us in all the negotiations and all the explanation we have to do in the first nine months. So that is probably what makes it to be a reasonable decision, plus the fact at the current interest rate level, yes, it had a positive effect. But as we all believe that the US will be the first country in the Western world to recover interest rates. So mid-term, the impact on the solvency ratio is very flattish.

Q - Andy Broadfield {BIO 7273415 <GO>}

So you say you persist with that now, that's the end. And that's going to stay?

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes. Well not filing it -- well, I can't say for ever, because what is also true is that as soon as the internal model is approved, we will actually file a new application, beginning of 2016 for a number of changes we do in our internal Group organization and new software packages, et cetera.

So this approval process is, anyway, a new industry, which has been created.

Q - Andy Broadfield {BIO 7273415 <GO>}

And will you manage the business based on US equivalents, or based on sort of consistent --

A - Dieter Wemmer {BIO 4755450 <GO>}

It's the internal benchmark and pricing of the product which we stick to our internal model, which is not completely consistent with the Solvency II model. We have done some stricter economic assumption in it. And the Solvency II will (inaudible) stipulating.

Q - Andy Broadfield {BIO 7273415 <GO>}

Okay. Thanks.

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Now coming to the question to Life Germany, you know that the average guarantee right now in Life Germany is around 3%. But it goes down every year by, let's say, 5 to 7 basis points. What is shown here with the reinvestment yield of 0.7% is the pure risk scenario that is not what I expect, only to say that. And that works into the assumption of a run-off. And that means, also, we cut all the crediting rates to the customers. We pay only the minimum dividend to the shareholders. And then, the buffers we have right now would be sufficient, with the reinvestment of 0.7%, to pay all the guarantees.

Q - Andy Broadfield {BIO 7273415 <GO>}

So effectively, no earnings, on dividends?

A - Maximilian Zimmerer {BIO 2557503 <GO>}

There are dividends. But these are minimum dividends, they are -- this is a requirement by law, yes?

Q - Andy Broadfield {BIO 7273415 <GO>}

Okay.

A - Maximilian Zimmerer {BIO 2557503 <GO>}

And only to compare that number it has been at 1%. That means we have lowered the minimum numbers, also, due to some measures we have taken. That's also the ZZR. But also the extension of the duration. And the new products have also worked into that duration.

Q - Andy Broadfield {BIO 7273415 <GO>}

Okay. Thanks very much. That's very helpful.

Operator

Our next question comes from William Hawkins of RKW [ph].

Q - William Hawkins {BIO 1822411 <GO>}

Oh, thank you. I think I'm still at KBW.

Three quick questions. What's the outlook for your Life investment margin? You had a good 80 basis points last year. You did talk about sort of -- I think you talked about gains and the rest of it hedging benefits. So should that figure be trending down, or do you think it's a figure that you can sustain in a low-yield environment?

Secondly, I think this has been asked before. But I've forgotten the answer. Last year, how were you achieving 2.5% to 2.7% yields on government bonds, when the vast majority of your portfolio is in Europe? And can you just remind us what the new money investment rate is? Because, again, I'd be amazed if it was much north of 2% on governments.

Then finally, I think you referred to more performance fees in PIMCO in 4Q of '15. And I thought, Dieter, previously you were saying that actually the performance fees would be lumpier from 2016. So has something changed in the timing of PIMCO's performance fees?

Thanks.

A - Dieter Wemmer {BIO 4755450 <GO>}

Okay. I'll start with the PIMCO performance fees. Yes. It was not really clear when the maturity of the other two closed funds would happen. It depends when the investment targets are reached. And then the sales start. And that is now being expected in the months more at the end of this year. So probably starting somewhere in September, October, November, December. And that would, then, bring in the performance fees into this year, 2015. And there will be, also, some overhangs in 2016.

Q - William Hawkins {BIO 1822411 <GO>}

May I just cut in there? Does that mean we're effectively just accelerating what you'd hoped from '16, or is it actually an aggregate bigger number?

A - Dieter Wemmer {BIO 4755450 <GO>}

It is certainly an effective number. But I did -- we did only mention it that you will not say when you look at the average result of PIMCO in the first three quarters and say, how do you want to make your target range for the whole year? Q4 will have a substantially higher operating profit than Q1, 2. And 3. That is just by the fact of the performance fees. And in

'16 I think we will certainly still have some of the one-off performance fees. The total might also be higher than what we talked about a year ago.

So also, Life investment margin is still in the range of 75 basis points, plus or minus. With the mark-to-market of some of the investments, it is not absolutely controllable to the last basis point.

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Now to the question on the investment side, you're referring to page B7, I think. The reinvestment yield for governments for the Life business, it was at 2.7% last year and, as shown, the average maturity was 15 years. And that is mainly, let's say, between 70% and 80% developed markets. These are mainly euro markets. But also US. And then emerging markets are around a little bit more than 20%. And the developed markets, the average yield, reinvestment yield, was at 2.2% and the emerging market side is 4.5%.

To say that emerging markets it's two-thirds, usually, hedged against euro or US dollar. And the rest you read in the local currency. And the average rating on the emerging market was BBB and on the developed markets it's an A.

Q - William Hawkins {BIO 1822411 <GO>}

And where are we right now, give or take, right now?

A - Maximilian Zimmerer {BIO 2557503 <GO>}

That's a very good question. I can't give you the number. I can only tell you that in the last quarter, reinvestment yield, overall, went down from 2.7% to 2.3%. That's the only thing I can say.

January, I think, is a little bit too early to call the number for the year.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you.

Operator

Our next question comes from Andrew Ritchie of Autonomous. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Oh, hi there. A couple of quick questions. First of all, just on the guidance, the mid-point of the guidance, let's say, what's your -- what's the overall tailwind from FX that you're building in there? I think it -- roughly, back of the envelope, it would be a couple of hundred million euros. Maybe just clarify what is the overall FX benefit in '15?

Secondly, on PIMCO, I guess I just wanted to understand a bit more about your confidence in the result and the outlook. And it sounds like a large part of that is the performance fees, because, Michael, you referred to outflows being higher than you expected. So what gives you confidence that we'll start to see some stability in those outflows. And maybe bring us up to date on that?

And I guess the other point on PIMCO is the margin continues to deteriorate. What's your feeling in terms of the resilience of that margin from here?

That was it, thanks.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes, I don't know whether I got you the right answer. But in this guidance you refer to outlook upper end of --

Q - Andrew Ritchie {BIO 18731996 <GO>}

No, no, I'm referring to the 2015 outlook. And what the tailwind from FX in the 2015 outlook? It must be quite substantial.

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Maybe I do the FX tailwind. We have used in the outlook calculation a euro/dollar exchange rate of 1.20. So that means current -- a small, 1.13, 1.14. So we did not go this far. We have taken, as you know us, a conservative stand on this point.

So that's --

Q - Andrew Ritchie {BIO 18731996 <GO>}

That's still an average 10% lower rate, or a 10% better rate than '14, I guess.

A - Maximilian Zimmerer {BIO 2557503 <GO>}

That is 10% better than '14. There it was 1.33 was the average. So it's 13%. So that makes, then, some EUR250 million, EUR300 million for all the US businesses together. So that affects the US Life business, which has, obviously, with the great new business an improved profitability next year. And the P&C business we write in the US. And also the Asset Management.

A - Michael Diekmann {BIO 1733646 <GO>}

And the confidence on PIMCO, I think we are mentioning these performance fees because it will give us some additional tailwind. But I'm actually building my confidence on different things. First, I'm talking on a weekly basis to large clients of PIMCO. And to large distributors like UBS, Morgan Stanley. And so on. So basically, the confidence of our investors is unbroken. I'm not only talking about German or European corporates, I'm including Asians, Middle East. And US corporates, plus pension funds, as well.

So the first wave that we've seen of outflows was linked to retail investors in the US. I think that is probably always the weakest spot, because you don't have a direct contact to these clients.

Then you have, obviously, over the change of the year, the execution of trustee decisions that might have been taken already in October and November. So if I look at the pattern now, that we are following we think this wave one on the retail side, wave two institutional investors and trustees is over. And I've talked to a couple of the PIMCO guys yesterday. And asked them for -- give me some hints on where do we see inflows.

So we are collecting new money. And not only in the US. But also in Europe, Asia. And the Middle East. So I think this sort of negative spill that you're getting into is something that is basically linked to the Bill Gross departure and consequent decisions. And has nothing to do with the current situation and performance.

So that makes me confident. I'm not declaring victory here. But it's really the feedback that I'm getting from investors. And just to give you an idea how I do this. So I going to call -- I would call the CEO of a large corporate client and tell him I want to talk to you in three days about PIMCO and your investments. So please talk to your investment people so that we don't have an uneducated discussion. But really an educated one. So I put a high reliability on these feedbacks in the market.

Q - Andrew Ritchie {BIO 18731996 <GO>}

So you're still anticipating net outflows through the first half? Is that correct?

A - Michael Diekmann {BIO 1733646 <GO>}

Yes, I wouldn't be surprised. But I expect them at a lower volumes, as we've seen in Q4.

Q - Andrew Ritchie {BIO 18731996 <GO>}

And the discussion on margins. I know there's a mix effect.

A - Michael Diekmann {BIO 1733646 <GO>}

Yes, sure.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Is there any pricing effect, as well as mix effect?

A - Michael Diekmann {BIO 1733646 <GO>}

Well I would say, it's natural, if you lose retail clients, that basically come in at a higher margin, that the margin is weakening a little bit. But if I look at the development, this is not a substantial shift here, yes?

A - Dieter Wemmer {BIO 4755450 <GO>}

It's mainly mix-driven. And going forward in '15, I think that it's more the point that we have, still, in '15 the heightened level with the retention program. So certainly, in '15 we will not have the cost/income ratio starting with a 5. The cost/income ratio will probably start with a 6. But that is with the heightened expense. Spending's quite obvious. But that is an investment in the -- all this re-change, restructuring program at PIMCO. And I think what we have forgotten to discuss and mention is that actually the Total Return Fund regained its 5-star rating.

So it was, I felt, a bit prematurely reduced to 4 stars. And now, after everybody recognized that, also, the new team is actually understanding how the Total Return Fund works, actually performance data's very good. In particular, last month was really adding a top month.

So we are back on track with this fund. As this is always getting the highest media attention, I think that it's also there that pivoting that development of PIMCO in the future.

A - Michael Diekmann {BIO 1733646 <GO>}

And yes, I would also like to add another one, because we've been asked this by the media this morning, the same question. And I was referring back to Max and the asset allocation of Allianz.

Now, as everybody's talking about equities these days, probably if you could, you would be invested at a much higher rate into equities, some welcome back deja vu, 2002-2003. Unfortunately, capital, solvency and so on, will not allow people to do what they would like to do as private people these days. So there will always be a very high allocation to bonds. And I think at some point in time, people will realize that if you have to manage a bond portfolio, you better get the portfolio manager whose best at that. And I think there is no doubt out there that the reputation of PIMCO was not only earned by Bill Gross. But by the whole organization.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. And just to be clear, are you giving us the numbers for outflows in January and February?

A - Dieter Wemmer {BIO 4755450 <GO>}

In February it's substantially lighter than January. I think the -- we are not disclosing the number. But the trend is clearly, absolutely fine.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thanks.

Operator

Our next question comes from James Shuck of UBS. Please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Thank you. Good afternoon. I had two questions, please.

Michael, the first question is just around technology and digital. And I was keen to kind of get your thoughts on how we've progressed over the past sort of two or three years under your stewardship, what you think Allianz has done well, particularly at the center, in terms of using efficient operating models. And implementing best practice throughout the Group?

Then, kind of looking forward a bit more over the next few years, I mean, technology and digital is creating a lot of challenges for companies like Allianz. And you're likely to come into contact with greater competition from non-insurance companies. There's a number of things going on, whether it's usage-based insurance, or whether it's connected cars or connected homes.

So obviously, you're not disappearing into the sidelines. But I just wanted to kind of get your kind of big picture thoughts about what the future actually looks like for a properly digitally enabled company as Allianz should intend to be?

Then secondly, just in terms of kind of the earnings growth potential, I mean, kind of linked to the first question. But at the moment, your guidance for next year is limited in terms of earnings growth. But that's clearly understandable in the low bond yield environment. But you have a number of one-offs dragging on the numbers. The near-term outlook probably doesn't look too strong, in terms of growth.

But there's going to be a time when you become operationally more efficient. And that should be as a lot of this technological change starts to grind through. Your competitive positioning looks stronger. And particularly in places like France and Germany and the UK.

So I guess once we get past this initial kind of headwind, in the next year or two of lower rates and just the level of investment that's needed, what is the kind of medium-term earnings growth potential of Allianz?

Thank you.

A - Michael Diekmann {BIO 1733646 <GO>}

I think that's a very good question for Oliver. I don't want to put him on the spot here.

But if look at what we've done in Allianz so far, we've always started from the architectural side. So architecture means business model first. And then we go into applying that.

So business model in this sense was the target (inaudible) model that I think is really a (inaudible) for a change than on the business model side. The first thing that needed to be addressed was to move to get away from a sales channels tiering to multi-access tiering. Then we have rationalized product portfolios. Then we've rationalized the IT platforms.

Then we founded AWP as a sort of central source for digital partnerships. And our service components. And now, just to give you another flavor, not only from the insurance side. But from the Asset Management side, we've just put in place an affinity platform for Asset Management products that we can -- we have tested that. It was in (inaudible) and now we can apply that to large corporate customers, as well.

So there's a whole bouquet of activities now. And then you have an innovation piece that we never talk about. Some of our competitors do. And maybe get higher attention on this. But the same sort of partnerships that our French friends are undergoing, obviously, we do, as well. We do this a little bit more silent on the automotive side, on the telecommunications side. We are talking to Internet companies, just as well. And we have a little innovator -- innovation platform in AWP and here in Munich that provides us with some interesting ideas but also as a partner for venture capitalist partners outside of Europe.

So I think there's a whole range of things that, obviously. And that is more the focus from Oliver and our COO, will, then, at some point in time, not only reach sales levels. But also get into efficiency that right now all these gains are being reinvested developing further capabilities.

I think Oliver will be very happy to talk about this going forward, because it's, obviously, one of the future questions for the industry and for Allianz.

Q - James Shuck {BIO 3680082 <GO>}

Okay. Thank you very much.

A - Michael Diekmann {BIO 1733646 <GO>}

You're welcome.

Operator

(Operator Instructions) Our next question comes from Jon Hocking of Morgan Stanley.

Q - Jon Hocking {BIO 2163183 <GO>}

Good afternoon, everybody. I've got three questions, please.

Firstly, on capital, I wonder if you could comment as to whether you've made any other methodology changes in the Fourth Quarter, in addition to the equivalents? And in association with this, Dieter mentioned internal model approvals starting next quarter. Could you comment on whether you be above 160 if you were using the standard model, vis-a-vis the internal model? So this is the first question.

Second question, on the sort of nat cat experience, on the headline numbers you look like you've got a big sort of headwind to the numbers in '14. You mentioned some of the smaller losses that maybe wouldn't be classified at nat cat but were larger than normal. I just wonder whether you could give a number as the benefit you saw on your view in '14 from the nat cat?

Then just finally, on guarantees, on the slide, I think it was B8, you've got the minimum guarantee for new business across the Life book of 100 basis points, I think. I just wondered what your view was, given how quickly yields have declined, is there an argument that that rate should be coming down faster than it is? Is there an argument, I guess, even a zero % guarantee is very valuable in this environment?

Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Well sure, let me first start with capital challenges in the model. There were a number of changes included (inaudible) and, in total, actually being more or less neutral. We have the equivalents I have spoken about, then the reduced -- the charge for the government bonds for the (inaudible) risk from a full chart like a corporate bond to what the regulatory calls the domestic light model.

On the other hand, we increased the risk charges because we introduced pension risk for our own pension liabilities. And there are some technical things on the treatment of the third-party bonds. And things like that. But that is a lot more technical in nature.

As we are applying for an internal model, we are not talking about our standard model number.

On the cat nat -- sorry, yes, Jon?

Q - Jon Hocking {BIO 2163183 <GO>}

So I can just on the sovereign charge there. How does the sovereign charge work? You said you mentioned the domestic Life model. I'm not familiar with that. How does -- is it a smaller charge than the similarly rated corporate, I guess?

(multiple speakers)

A - Dieter Wemmer {BIO 4755450 <GO>}

Domestic light is a variation where we are not taking the full charge of (inaudible) at the Group level (inaudible) only on domestic bonds, government bonds issued in bond currency, not the full treatment.

These bonds are then considered to be AAA. Otherwise, they are assigned their actual rating if held outside the country of issue. So that was an agreement with the supervisory college that actually in our Group model, Italian and Spanish bonds are being treated as equal to corporate bonds with their credit spread risk. But in the local model, they are being treated as risk-free for the stand-alone legal entity. So that is more on the subsidiary level and not on the Group level.

Q - Jon Hocking {BIO 2163183 <GO>}

Okay. So, it's the cross-border bonds that are getting the charge. And (inaudible).

A - Maximilian Zimmerer {BIO 2557503 <GO>}

It's the cross-border --

A - Dieter Wemmer {BIO 4755450 <GO>}

Cross-border gets the charge, also, on the local model. But in the Group model, we treat everything -- well, cross-border, which means from a German perspective, as a German bond. Anyway, (inaudible) so, that is, then, not a change.

Q - Jon Hocking {BIO 2163183 <GO>}

Does that mean you're basically carrying extra capital at Group but not in the subsidiaries?

A - Dieter Wemmer {BIO 4755450 <GO>}

That is true.

Q - Jon Hocking {BIO 2163183 <GO>}

Okay. Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Besides the cross-border. So if you have Italian bonds in France or Spanish bonds in Italy, then you have also it as a local model.

Q - Jon Hocking {BIO 2163183 <GO>}

Okay.

A - Dieter Wemmer {BIO 4755450 <GO>}

And I think the nat cat question, I think, compared to our standard cat structure in 2014, I think we have around EUR250 million to EUR400 million consumed less. So a percentage point, roughly.

Q - Jon Hocking {BIO 2163183 <GO>}

Okay. Thank you.

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Now the question to the guarantees.

A - Dieter Wemmer {BIO 4755450 <GO>}

(inaudible).

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Yes, I can do it. I said for this year we expect something between 0.7% and 0.8%. What is the reason for that? In the bigger market, the German-speaking countries, the guarantee leverage by law, the maximum leverage are at 1.25%. That means it would be significantly lower. That's a question, overall, of the business mix.

That means we try to offer more products which are not standard. So that we can come up with lower guarantees overall. But where we also work on is that we try to avoid this lock-in guarantees for the crediting rates. We have launched a new product in that respect. And what is also very important, I think even more important, is that we try to reduce the duration of the guarantees. That is very important because otherwise we can't go for a matching approach on the asset side.

Q - Jon Hocking {BIO 2163183 <GO>}

Do you think in a position in Germany where your guarantees can be less competitive, given the financial strength (inaudible)? Or are you still offering similar levels to your competitors?

A - Maximilian Zimmerer {BIO 2557503 <GO>}

The (inaudible), I think, is a very good example. We were the first insurer who offered that kind of product. And it was possible for us because of our financial strength. So it's obvious. It was a very big success, right from the beginning, although we were heavily criticized by the press, right from the start. But now I see not only customers are satisfied. But also competitors try to copy us right now.

A - Michael Diekmann {BIO 1733646 <GO>}

And that is half of all the sales to individuals.

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Right.

A - Michael Diekmann {BIO 1733646 <GO>}

And that has a 0.7% guarantee, which is a de facto guarantee when you just give a premium (inaudible) guarantee. So that is, even now, with the official guarantee rate in Germany of 1.25%, still 60 basis points lower. And last year it was more than a % lower than the standard guarantee.

Q - Jon Hocking {BIO 2163183 <GO>}

Thank you. Thank you.

Operator

Our next question comes from Thomas Seidl of Bernstein.

Q - Thomas Seidl {BIO 17755912 <GO>}

Thank you. Good afternoon. Three questions from my side, please.

First, on capital again. So on a true pro forma you're at 191%. You had quite enormous volatility throughout the year. If you strip out the Life one-off, a 25% drop in the quarter. And also, looking at the sensitivities, level spreads by the interest rate, what makes you comfortable that you're not coming pretty close to the 160 threshold for the dividend? The first question.

Second question -- investment management, I think you mentioned, rightfully, that you're constrained to fixed income. Now with the additional hedging from QE and also considering the various credit expertise you have throughout the Group, should we not expect Allianz to take, here and there, more credit-risk to mitigate the impact?

And thirdly, on PIMCO, Michael, I think you mentioned for the first time you didn't staff the equity team at PIMCO properly. And, hence, it was not a big success. Now when I look at the number, it's still showing zero for PIMCO. So should we expect, at some point the equity team to deliver at PIMCO, or will it remain a fixed-income shop?

A - Michael Diekmann {BIO 1733646 <GO>}

Well the last question is easy to answer. It will remain a fixed and mixed-income shop, because the sheer volume of the equity funds, is some 3% of the total. And that will take time to develop. And I'm -- I think it's good to have that team there. But, sorry, it cannot change and should not change the focus on the fixed-income side.

Q - Thomas Seidl {BIO 17755912 <GO>}

Still showing zero, right, I think?

A - Michael Diekmann {BIO 1733646 <GO>}

Well we're talking about here -- I have my specialist here. What is the equity portion of --?

A - Unidentified Speaker

(inaudible).

A - Michael Diekmann {BIO 1733646 <GO>}

Yes, 30 billion to over 1 trillion. It's not quite a %.

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Look, I think active capital management is always the same procedure. You have your current position. If you look at how well you could reduce, if required. So you have a list of items which close or already in execution. And then you have a list of things you keep as the next layer of contingencies, if necessary. And that is how you manage your numbers. And that gives us the confidence that we can do it.

You asked about the credit risk, how we handle that? May we have the question again?

Q - Thomas Seidl {BIO 17755912 <GO>}

Sorry. Given the credit expertise you have throughout the group. And given the additional headwinds of QE on the fixed-income, which is the largest asset class, obviously, should we not assume that you take more credit risk here and there to mitigate the headwinds?

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Yes. I wanted to start right now with the answer. We -- first, you have to have a closer look on the credit spreads. Also, the credit spreads have come down significantly, usually that's the case if interest rates go down. People are keen to achieve some return. And, therefore, take usually more credit risk.

If I think of the credit spread leverage right now, they are at a very low point. But, still, way above the default rates. That means it is still attractive to do so. I think where we can earn some extra money is especially on the alternative debt side. And that's the area we are in.

By that, I mean usually private placements, (inaudible) but also infrastructure debt. Unfortunately, you have to do it transaction by transaction. That means to grow that part of the portfolio takes some time.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. All right. Thanks a lot.

Operator

Our next question comes from Frank Kopfinger of Commerzbank.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes. Good afternoon, everybody. I have two questions on your guidance.

The first one is on, could you remind us, again, I think, Michael, you mentioned EUR500 million restructuring charges for 2014. Is this the figure we should look at 2014 and, on the other side, do we have some sort of restructuring charges, also, reflected within your new guidance. And, if so, how much?

And on the second question, if -- on PIMCO, again, on the Q4 cost to income ratio, the 64%, I understand that part is driven by the management retention program, which (inaudible) but also driven by mix effects and marketing effects. So what is your guidance, overall, for the year, or what sort of cost to income ratio is reflected within your new guidance?

A - Michael Diekmann {BIO 1733646 <GO>}

So first of all, I think this EUR500 million restructuring charge is a misunderstanding. The EUR500 million is the loss of our three P&C units Russia, Brazil. And US, which we don't want to repeat, because we restructure it. But it's slightly different than a restructuring charge.

So that is what we see on the P&C side as, really, the easiest and low-hanging fruit. And the upside.

PIMCO I said that the cost/income ratio for 2015 starts with a 6.

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Now you add the zero.

A - Michael Diekmann {BIO 1733646 <GO>}

And you add a zero, yes, that is, then, depending on how the whole year plays out. And depending whether we need some additional investments, or whether we can, also, start or go back to normal so that we will see as soon as it happens. And the more cost efficient we can be for the rest of the year. But let's now start the year with our overall guidance. And, in the end, we have never the aim to achieve every KPI we are talking about. It is, in the end, about the overall promise of the operating profit of EUR10.4 billion and we don't want to meet 65 KPIs parallel. That is, in the end, the side of the organization, probably hard to do.

Q - Frank Kopfinger {BIO 16342277 <GO>}

But on -- thank you, on the low-hanging fruit in P&C, what would you say, out of the EUR500 million is a realistic low-hanging fruit?

A - Michael Diekmann {BIO 1733646 <GO>}

Yes. Well that would be really disappointing when we have the same result again. And the US we have already started the work of the restructuring and integration. And there is also the partial disposal to ACE, closing in April. Then in Russia the portfolio is shrinking very fast. So on those remaining policies you can't lose EUR180 million, I believe.

And Brazil I think we have started to work to translate and do a better business. The management team is fairly new in place, six to nine months. And will be strengthened further in the next weeks.

(multiple speakers)

So I think what we can do (inaudible) --

A - Dieter Wemmer {BIO 4755450 <GO>}

(inaudible).

A - Michael Diekmann {BIO 1733646 <GO>}

No, no, no, Dieter, I don't want to prejudice you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Thank you.

A - Oliver Schmidt {BIO 2473131 <GO>}

Frank, are you fine with that?

Q - Frank Kopfinger {BIO 16342277 <GO>}

Thanks, yes.

Operator

Our next question comes from Nick Holmes of Societe Generale.

Q - Nick Holmes {BIO 3387435 <GO>}

Oh, hello there. Thank you very much. Two questions, please.

The first is, coming back on equivalents. Thank you for clarifying that you're 100% the Company action level. But I think your peers are saying that they're all between 200% to 300%. And my question, I guess, is kind of why did you choose 100%. And are there other areas of Solvency II where you're different? I mean, you may be a lot more conservative in, I don't know, how you treat the surplus capital within the US, or something like that. I'm sure there are lots of areas for difference. And I'm sure you're very conservative in all sorts of areas.

My second question is, for Michael. It's, again, on the US. And the question is, when I look at the PV sensitivities of the US Life business, it does seem to be particularly sensitive to the macro. I mean, if you look at the credit spreads, for example 100 bps movement is worth 2.4 billion, which is just massive.

And you've doubled your US new business value in 2014. It's nearly as big as Germany. And the question, Michael, is why do you want to write this business, which is kind of -- it looks kind of high risk? But maybe that's wrong, maybe it's much lower risk. And we're missing something.

Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes, I think, Nick, I'm confused about the question, because I thought I explained very well that we are -- that our base is the 200% number and not the 100% number. And that is what I also understand from some of the peers exactly the same what they are doing. And that looks to me, reasonable.

And in the end, what I explained is we run the Company due to the A.M. Best requirement at a local 350% level. Then is when you want to be an A-plus company under A.M. Best, that is what they want to see.

Q - Nick Holmes {BIO 3387435 <GO>}

Yes.

A - Dieter Wemmer {BIO 4755450 <GO>}

And that is exactly what we do. That means in the calculation, 350 divided by 200 is 175. And the 175 goes, then, into this average calculation.

Q - Nick Holmes {BIO 3387435 <GO>}

So Dieter, sorry. Are you saying that the -- that you are 200% of the authorized level control, the minimum. Because your peers are definitely saying they have a coverage at the company action level. And so, of the company action are you -- you're 100%, aren't you?

A - Dieter Wemmer {BIO 4755450 <GO>}

That is the corporate action level. That is exactly the 200% number. And that's --

Q - Nick Holmes {BIO 3387435 <GO>}

Exactly. I mean, I'm not saying it's not a strong level. Absolutely, it is a strong -- it's 200% or 175% or however you calculate it of the authorized control level, the ACL. But my observation -- this is just an observation -- is the other companies, your peers, are reporting 200% to 300%.

And so, there does seem to be a difference. But I think there may be lots of differences. You may be counting capital surplusing a different way. And things like that.

A - Dieter Wemmer {BIO 4755450 <GO>}

As a ratio, they are reporting this. But, look I -- as far as I know, when you are in the A.M. Best discussion, locally the 350 of the NAIC base requirement is actually what most companies are doing. That is the standard number you find for most large US companies. And I'm also used to, since the last 20 years, I think it is pretty much the same everywhere.

How you translate it, then, into a ratio here into the calculation, I can't tell you what our peers are doing. I only tell you that in our calculation, the ratio is 175.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. And maybe --

A - Dieter Wemmer {BIO 4755450 <GO>}

Maybe you ask the question what ratio is actually added in this weighting average. And then you get a good (inaudible).

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. And just one final point on that. Given that there are lots of companies that are reporting different definitions here, different ratios, when do you think we're going to get harmonization on equivalents.

A - Dieter Wemmer {BIO 4755450 <GO>}

When it is written into the delegated acts and that is an April activity of the Brussels parliament.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. So in April we can expect clarification.

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Maybe I can kick in with the FIA business. I think we are all a little bit traumatized from the old VA experience. And you are right, we do have a sensitivity to market movements in this business.

If I compare. And I'm on page A62, the KPIs for the new business margin in this business, we have a 3.4%. Internal rate of return, we have a 12.3% so, at current levels, the business is great.

So what do we do if sentiment changes? We want to remind you there's a very low guarantee level, because basically what we do, we offer protection of principal. So if you sort of translate that, that's a 0.3% guarantee.

Then we have a lot of management levers where we can adjust this product on, I think it's an annual level. But maybe even more frequently. We have a much better expense efficiency in our Italian Life business now because of the scale. And we do have a dynamic (inaudible) process in place that has served us well to manage volatilities.

Q - Nick Holmes {BIO 3387435 <GO>}

Thank you. That's very clear.

One very quick follow-up. Michael, how big do you want the US to be? I mean, it's grown a lot. What sort of growth do you envisage going forward?

A - Michael Diekmann {BIO 1733646 <GO>}

Well our current -- and, obviously, that can change over time, the current message for the US business is, we don't want to inject capital. And we want to see some dividend growth. And they have managed very well to stay in line with that.

We've got, for instance, this year EUR250 million dividend from Minneapolis.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Thank you very much.

A - Michael Diekmann {BIO 1733646 <GO>}

You're welcome.

Operator

Our next --

A - Oliver Schmidt {BIO 2473131 <GO>}

All right -- do we have more questions, I understand?

Operator

Yes. We do have a number of questions. Do you wish to proceed?

A - Oliver Schmidt {BIO 2473131 <GO>}

Thanks, operator. We will take one more question, please. And then we will end the call. Thank you.

Operator

Perfect. Our final question comes from Paul De'ath of RBC. Please go ahead.

Q - Paul De'ath

Yes, hi, everyone. Thanks for squeezing this all in. And a couple of very -- actually very quick questions. And on the investment side of things. So, going back to that slide, B8. And the Life Germany number, 0.7% yield required to cover the guarantees.

Presumably, that is backed up by the large RfB in Germany. And I wonder if you could comment on the position for any of the other countries where you've got significant guarantees. Is this (inaudible) that 0.7% number would be significantly higher for those? And that's question one.

The second question, quickly, is on the increased target for real investment. So you've significantly increased that mid-term target to EUR110 billion. And how have you -- obviously, as part of the dividend change you now are no longer allocating additional money to pay for that additional capital investment. And I'm just wondering kind of where you see that additional capital coming from?

Thanks.

A - Maximilian Zimmerer {BIO 2557503 <GO>}

And I start with the first question. And I would remind you the -- at least (inaudible) the business in Germany stands for, let's say, 40% of the overall business. And also usually Germany has very long-term guarantees. And, also, the guarantee level in comparison to most of the other companies is the highest. It's right now, 3%.

Therefore, we made this calculation for Life Germany. In Europe, I think there is no other country which has an average similar, guarantees, at least, not %, duration, or also the number of 3% won't be reached by them.

Now, the RfB of this EUR25 billion RfB, that's alone EUR10 billion that is in the German RfB but a lot of other countries do not have any RfB. Therefore, the overall system is different. For example, you have special reserves in France and Italy. But they are not comparable to the system with a RfB.

We didn't do any calculation for other countries only to say that. But they are, also, not as significant as Germany is.

A - Dieter Wemmer {BIO 4755450 <GO>}

For example, in France, our average guarantee is 0.7%.

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Yes.

A - Dieter Wemmer {BIO 4755450 <GO>}

So a reinvestment yield of 0.7% would also be okay.

A - Maximilian Zimmerer {BIO 2557503 <GO>}

True.

Q - Paul De'ath

Okay. Great.

A - Oliver Schmidt {BIO 2473131 <GO>}

Okay, yes, thanks to everybody for joining the call. We will end this call right now, two hours are over. But please keep in mind that we will be available for further questions next week at our analyst meetings. Thank you. And goodbye to everybody.

Operator

Thank you. Ladies and gentlemen, that will conclude today's conference call. Thank you for your participation. And you may now disconnect.