Q1 2016 Earnings Call

Company Participants

- Dieter Wemmer, Chief Financial Officer & Member-Board of Management
- Oliver Schmidt, Head-Investor Relations

Other Participants

- Farooq Hanif, Analyst
- Federico Salerno, Equity analyst, CFA
- James A. Shuck, Analyst
- Jon M. Hocking, Analyst
- Michael Haid, Analyst
- Michael Igor Huttner, Analyst
- Nick Holmes, Analyst
- Paul De'Ath, Analyst
- Peter D. Eliot, Analyst
- Thomas Seidl, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to the Allianz Conference Call on the Financial Results for the First Quarter 2016. For your information, this conference is being recorded.

At this time, I would like to turn the call over to your host for today, Mr. Oliver Schmidt, Head of Investor Relations. Please go ahead, sir.

Oliver Schmidt {BIO 2473131 <GO>}

Yeah. Thank you, Maria. Good afternoon from my side as well and welcome to our conference call about the results of the first quarter 2016. I think I can keep it brief. We have published key numbers already last week and you have seen our analyst presentation this morning, so all the details you will now get from Dieter.

Dieter Wemmer {BIO 4755450 <GO>}

Thanks very much, Oliver, and also warm welcome and good afternoon from my side. I used presentation as published on our website this morning. So, I will start with our new strategic introductionary (01:05) chart based on all the targets we have set in our renewal agenda. Of course, one quarter compared to a 12-quarter target is not meaningful in all categories, but I will highlight the points.

Clearly, with a high net income, we will talk later about the EPS growth had a wonderful start into this 12-quarter average period. I would, from the 32 knots (01:39) conclude that we will beat our 5% target in 2018 by a huge margin. But I would say we are well on track and stay ahead of the 5% target. The RoE, similar effect – Q1 effect.

P&C combined ratio, we still have a gap to reaching the flat 94%. I will talk about it with the P&C segment. Our Life & Health OEs with a return on equity above 10%. We have a big shift in the participants here compared to year-end. The stable one is our German life business which ended the year with 25% RoE and started the year with 25% RoE where the other are really moving in and out the U.S. What's in that year-end is now out. France was not in, but it is now in and Italy moved out, Benelux moved in, and our German health business moved out because we had a fairly large booking on increasing risk reserves for the health book which will normalize over the quarters.

So, you see still a lot of volatility with the two disclosed transactions on Korea and Taiwan, which are not yet in the numbers because the transactions are not closed. But with the closing of the two transactions, certainly these are two countries which can permanently move out of the category below 10%.

New business margin, I will talk about later. Interest rate sensitivity down 2 points compared to year-end and on the right track. And on PIMCO, I will, on the cost-income ratio, I will also talk later about, and the other measurements are actually not done on a quarterly basis. So, here we just put less in our year-end numbers. So there are probably more at memoriam and not giving a quarter view.

So, let's move now to the usual numbers. Revenue's down 6%, of which a good 1% is FX. Life is the driver for the reduction and it is our one-third reduction in Life because we sell Life not for volume but for value, and we are up on new business value, and that is how we drive it. And also, on the risk consumption of the new business, we are moving in the right direction. Later, you'll get more P&C plus close to 3% and asset management double-digits down in revenues. We'll talk about it when we look at the asset management numbers.

Operating profit, overall, I must say I feel was close to €2.8 billion. We are repeating the strong start of the year from last year. And personally, I like this year's first quarter results more than last year's first quarter results, and I tell you why because our Life business last year had in Q1 a lot of one-off effects from high realized gains. We did last year a lot of changes in our asset portfolio in the Life segment in last year's run for the low-yield environment.

So, therefore, there was a lot of realization in it which did not repeat this year, and this year we booked also another €82 million loss recognition operationally in our Korean unit because also in Korea the 10-year interest rates almost dropped 50 basis points in Q1, parallel to other currencies. And therefore, I think the quality of the result is really good. Asset management is following the outflows, in particular on the retail space over the previous quarters, we see €90 million less operating profit.

In the corporate segment, well, has another effect from our internal pension. I actually put it in writing already a year ago in our explanation for Q1 that there is a high chance that it repeats in this year, and I can repeat the statement and say and there is a high chance that it repeats again next year. And then we have a positive effect here from some Korean interest rate hedging, which explains the plus €27 million. So, overall, I think that's a really good number, pretty much same level as the good start last year.

And then let's move to the next page, page seven and I'll be approaching the probably this big topic of capital and solvency. Sure, low-yield environment is the best friend for fixed income asset prices, so shareholders' equity had a new record with €67 billion. However, how is the economic picture for it? And that is the Solvency II capitalization, which is down 11 points on market movement and 4 points opening adjustment on the change the German regulator has done on the tax treatment in our Life company. That is a little bit of a complicated story as everything in Solvency II.

But also I have to apologize that I did not watch out more in February that this could have an impact because it is a treatment of the unassigned policyholders' surplus, which is a pre-tax figure in German local statutory accounting and was also pre-tax figure in all our models. So, the regulator said, no, in your model, you have to use it as a post-tax figure, and the tax is still unpaid, that means it is still a tax buffer in the local entity.

With this change actually (08:52) pretty late in February, the consequence is that, actually, the local solvency ratio of our German life business went up because it gave more flexibility of this tax buffer in the overall modeling. However, the transferability of AFR from the Life unit to the group changed in the aggregation formula, and the group is losing 4 points, although we have still the money available and OE solvencies are all higher than before.

And that is not a decision on Allianz model. That is a decision for all German life companies. Whether you use standard model or internal model, it is still all the same. So, it is nothing special for us. But also, I must say, I was a bit surprised that something, which was in each entity positive ends up as a negative group effect, I had also to swallow when I understood the calculations.

So, now moving – the sensitivities, I don't need to explain. I think they are all easy to read. Let's move to the next page and explain more what happened operationally with our Solvency II number during the quarter. Let's start with the upper half of the chart, which shows the development of the AFR, the own funds. We have created a waterfall chart actually mimicking the prior MCEV development, so splitting between operational developments, market developments, and special effects.

So, the first minus €1.7 billion is the tax treatment I have just mentioned so that are the 4 points we lost over midnight January 1. The second part of the waterfall are the operating earnings of the business in the quarter under Solvency II assumptions. So, the €2 billion in Life is probably the number sticking out. The other numbers, Asset Management, P&C, and also Corporate segment are in the end pretty close to the IFRS operating earnings that is there are only small economic variation like the reserve discounting in P&C, which has tiny effects and you can qualitatively forget these differences.

So why is it €2 billion in Life? There is – and please note these are pre-tax numbers here; otherwise, I couldn't compare it with operating profit. So, that means in Life, we have a normal expected business contribution of around €900 million. We have another €600 million coming from operating variance, no assumption changes. And the last point is a good €0.5 billion of value of new business pre-tax.

And as we have aligned our value of new business calculation fully with the Solvency II rules, so you can take €1 for €1 our disclosed new business values, cost it up (12:38) for taxes, and you can add it here in the operating earnings. So, I hope that this, in the long run, makes the numbers easier to understand.

So, the next column is the market impact, €5.8 billion down. You will say, well, that is a huge number and much more than we would have expected from your disclosed sensitivities. But please, there are two effects why the number looks bigger than it really is. First, it's a pre-tax number. So, take out some 30% taxes. You can compare it more easily with the disclosed sensitivities. And the second point is as we wanted to bring it as close to the MCEV, we have actually also calculated the market impact on our U.S. Life business, which is actually under equivalence, does not have a market impact. And you would see the counter position under other. So, therefore, here's this 5.8%. It's probably too big to estimate the impact on our Solvency II ratio.

Then, we accrue for the dividend and with €2.2 billion of net income and the 50% rule, you'll start in the first quarter with a big number, €1.1 billion dividend accrual, so that it's actually a good 3% of our solvency ratio and particularly important when you compare it to our peers who are not accrued during the year for quarterly dividends. And then, other, as I just explained, it's a correction for taxes and equivalents.

So, then, in the SCR, there it is much simpler. I focused just on market impact. That is just swap rates, 50 basis points down in Euroland and also most Asian currencies, equity down 7% and credit spread, no movement then you get to the numbers here. Management actions, we have actually reduced the impact by €1.3 billion, so you can also say when you're all wondered in Solvency II numbers, we had roughly 18 points movement from the market overall, also matching our disclosed sensitivities and we compensated roughly 8 points.

So, that is what you can see. And with this one, I would then move to the next one. And please note, both transaction, Korea and Taiwan, are still included as ongoing concern businesses in our Solvency II calculation. We only take them out when the transactions are closed. And I'm expecting at the moment a positive impact from those transactions.

So, after so much explanation to Solvency II, let's take to the Solvency II training. Page 11 is a page we have stolen from an EIOPA training program they gave in London one or two months ago. So, you'll find it also on the EIOPA website if you want to compare the details yourself. So, this is a standard euro valuation curve for every undertaking using Solvency II in Euroland. It has nothing to do with Allianz. It has nothing to do with internal models. It is the valuation curve.

And the valuation curve is built up out of one-year forward rate and then translated into the spot rate. When you start the first 20 years, the light green is the spot rate which you could also calculate backwards by using the one-year forward rates and then you progress year-after-year. So, the blue line is then an artificial spot rate created out of the observed first 20 years. And then using progressively on a year-by-year basis as a one-year forward rate, the 4.2%. And the formulas down there explain in detail how it is being calculated. But it clearly shows that even in year 60, we are at undertakings using Solvency II far away from using 4.2% as a discounting rate.

So, then there is the whole debate about what happens when the UFR is being reduced. We have disclosed on the comment page what is the impact for Allianz now. The proposal of EIOPA is twofold. On one hand, they feel the 3.7% would be more justified. And then they suggest, but in a year, the movement should not be more than 20 basis points.

So, if we would allow for the 50 basis point reduction of the UFR, that would cost us 5 percentage points in our Solvency II ratio, and that 5 percentage points would be according to the EIOPA proposal then being achieved somewhere in 2019. So, that is the EIOPA proposal. Personally, I think that the 4.2% is still the justified rate, and the political debate will then go backward and forward between the EIOPA proposal and the existing 4.2%. Why do I feel that the 4.2% is justified? Because it is the 2% inflation assumption set by (19:15).

And secondly, we feel that when you look long term, the long-term real rate is 2.2%, EIOPA has now reduced the period they are looking at. Therefore, they came to this calculation, 50 basis points lower, and certainly on a 60-year outlook, you can have a lot of arguments what is the right number. Actually, I recently saw it start from the Bank of England interest rates showing the last three centuries. And then probably the good 2% is the better long-term real rate.

Okay. So, now, enough of Solvency II. Let's go back to our quarterly results. P&C, pretty pleased with the volume growth, the 2.7% internal growth, 1% price. 2% is actually volume effect. And probably you want to know how the price effects, where they are coming from. A very good start into the year by Germany, close to 2%; also France, good 1.5%; and then in particular, important to mention, UK, strong 3.5%; and Spain, 5% price effects. And then, we had small negative in Italy and in the Global Corporate, so large corporate business and also a little bit in credit insurance Australia was more or less flat.

So, from this one, let's move to the results in P&C, page 15. Operating profit, good €150 million up. And, actually, the biggest driver for the difference is the underwriting results, and the underwriting results benefited a lot from low catastrophe development. Actually, we had in the quarter some €20 million cat events. I'm not sure that you can call €20 million a cat event. So, it was cat-free in the quarter.

The accident year loss ratio worsened like-on-like maybe 50 basis points attritional (22:02) over last year. There is on one hand more mid-sized losses where we had last year really nothing. So, therefore, I would say it is normal quarterly volatility or as a interesting anecdote, our AWP business, all our travel and assistance business had actually worsening due to the Zika virus because we had a lot of travel cancellation, which visibly increased in this field, the loss ratio. So, it's not only happening in Brazil. You can also see it in Munich.

Under other, the plus €113 million, we had last year a big restructuring charge under this line for Fireman's Fund. Certainly, that has not been repeated. That explains €90 million difference and the other €20 million is actually good news because we are increasing our fee income business, not only in our assistance business but, in particular, in AGCS and (23:16). So, that is another €20 million of sustainable profit.

Investments, substantially down, €100 million from last year. I come to it in the second one-off results, uneventful, good contribution across the board, no negative. So, that means no reserve strengthenings, in few areas some single-digit million amounts but that is not relevant. And I would also like to mention here that we are actively managing our run-off business with the deal with Enstar. We transferred €1.2 billion of long-term liabilities, which in the past years always gave rise to increased reserves so that volatility is out of the books. And then we have also sold our UK asbestosis business, which was written many decades ago by AGF, and that transaction is going to close probably in Q2 and then we have another offload of long-tail liabilities, which helped actually to reduce also the capital charges for the long-tail liabilities and will stabilize our run-off ratio which I feel is anyway one of the strengths of our group.

So then going to the flagship OEs, overall, I think excellent results. Now, our leader in underwriting profit by distance, Germany, strong 89% combined ratio but also benefiting from a really, really pleasant winter. Not so for the skiers, but for everybody else and in particular the insurers, so that was a good start into the year. Italy still a very strong combined ratio even when we have to accept that in motor, the market is slightly going worse.

And you can also see that in other areas, the business is really looking good. Allianz Worldwide Partners, I explained already. On one hand, the Zika virus is driving the loss ratio up. On the other hand, we had also in our Health business a worsening spot ratio. I think all others look pretty good.

Australia, 101%; that is certainly not our 94% target. But please keep in mind that the first quarter in Australia is the quarter with high natural catastrophes. They call it as the autumn season, so to speak. And we think that 101% is a good start into the year. Also visible that it is 2% better than last year. And when it continues like this, then we end up also 2% better for the full year.

And Latin America is not yet turning. Although in Brazil, the group Health business, which was our most difficult area, had a positive underwriting result, but motor business in the market turned negative and then drove up further. And further, we had also more, I think, a little bit of additional reserving and write-downs for our Argentinean business.

Spain, clearly, the fantastic development in volume, strong combined ratio and the surprise increases. That's really a very nice business to watch.

Interest income in P&C, page 19, I said already €100 million less. The big shift is actually in net harvesting and other. We had last year in Q1 a positive impact from FX and this year a negative, so the swing is €60 million. So, actually, as I'm also hoping that this is not repeating another factor that the sustainable profit should actually be a bit higher. And then, I think the tables on current yield/ reinvestment you can read yourself. And then we move to the Life bit.

Let's start also with an update and, I believe, upgrade of our analyst presentation. A chart which explains you I hope better what is really our Life strategy and how we are doing there. We are splitting our new business into four categories. Guaranteed savings and annuities is all the old stuff, if you want to say so. These are the long-term guarantee businesses.

Then comes the capital-efficient products, these are what we call the hybrids. That includes the fixed index annuity business we sell, of course, mainly in the U.S., but also very successfully in Germany. And then we have some special capital-efficient products in Germany. We're actually in retail in Germany itself. 89% of first quarter new business volume was in these category capital-efficient products. That is a huge swing and a huge achievement of our complex distribution channels and the management team here is really doing a fantastic job to adjust to the low-yield environment.

Next category is unit-linked without guarantees so that is plain mutual funds, including a rep into an insurance product. And then you have all the risk products in protect, mortality, health, disability, et cetera. So, you can really see how it drives the volume mix, but also what does it mean for the new business margin.

I believe we are pretty much on track to achieve our 3% new business margin. The missing part is that actually protection and health was weaker than expected in the first quarter. And the weak part is coming from France, which you will also see in the country figures of France, where we renewed our group health and disability protection business and the market was too soft to get the price increases we wanted, and hence, we ended up with a slightly – a negative new business margin on this book so there is more to fight for an improvement next year.

But the renewal of this book is almost all in Q1 so, therefore, the next three quarters will not have this effect. So, is this a relevant effect? Yes. It cost us 40 basis points in the Q1 new business margin for the whole segment.

And then, I think the right-hand side of the chart is for you go to read. You can, in particular, see that the U.S. had a fantastic quarter. This is a fixed index annuity business. We sold €2.8 billion, a 20% increase over last year and actually also at a new business margin, which was above 4%. So really a very good start into the year.

So, now, the operating profit in Life. As I said in the beginning, the investment margin is lower than last year because we did less on realized gains, but also the Korean impact is booked partially here. We had, in the technical margin, a reduction in the profit because we had to strengthen reserves in the U.S. And also, as I mentioned already earlier, this one-off addition in our German health business so also the sustainable number I would see better than the €270 billion we show as a positive technical margin. I think that it should be clearly above €300 million in a quarter. So, another point I have forgotten to mention in the quality evaluation of the quarter.

So, then I would move on to new business value. Clearly, compared to last year, 37% up in value of new business. So, all the efforts to provide new business for value are really paying off. And I believe that the interest rate development is pretty comparable Q1 2016 over Q1 2015. We dropped 50 basis points, that is seems to be the Q1 story. Let's see how it works next year. Although I'm, this year, less optimistic that we will see a recovery of interest rates over the summer as we saw it last year.

So, we have to make our 3% new business margin in this environment. When we use quarter-end interest rates, the new business margin would drop some 50 basis points. So, what is then my expectation for the second quarter? As I said, that 50 basis points will be roughly compensated by the French group protection business. So, I would expect that in the second quarter, we should be somewhere around the 2.5%. And as we have more measurements and activities planned, I believe even in the low-yield environment, we can make our 3% step-by-step over the next quarters.

So, as I mentioned already to highlight a few strong figures, Germany above 3% and I believe we will see even here an uplift in new business margin over time. U.S. was 3.5% probably at the maximum what they can do. In Italy, I would look for an improvement and also in France. Asia Pacific will certainly benefit from the disposals. For example, Korea had a new business margin of minus 0.6% in Q1. So, that looks to me all pretty much on track in the direction we should go.

Page 27 is our usual due diligence page on can we still pay our guarantees and is any guarantee a huge risk for us. I think in the meantime, you should get used to this chart. And I can only confirm that actually, we are still far ahead of our guarantees, and therefore, we are in safe territory. The details I leave to you for reading, then we have more time for the discussion.

Now coming to asset management. AuM slightly lower than year-end. Actually, two drivers for it that is actually the dollar is weakening again and Allianz Global Investors heavily invested into active equity suffered with the equity market. Otherwise, I think actually PIMCO stand-alone and dollar showed a small plus in assets under management between end of the year and end of the quarter. But as we are euro company and last year benefited from the dollar, so I'm not complaining that this quarter, the dollar went in the other direction.

So that are the biggest points. We had inflows in Allianz Global Investors in Q1 of €1 billion. PIMCO continued with €10 billion outflows very much in the first month of the quarter, but still showing a level which is very comparable what you see with our asset management peers in the industry in active fixed income. The inflows are going to surpass it. And I would still expect that PIMCO, as I said before, and very consistent the second half of the year, we are looking for a positive inflow number in total.

However, with the outflows and, in particular, the cumulated outflows now over four quarters compared to last year, it's no surprise that – I'm now on page 31, that the revenues are dropping by 12%. Actually, when you look at PIMCO stand-alone, we are more than – we are actually 15% down in revenues and Allianz Global Investors, well, 7% decline in the stock markets translates roughly into 7% decline in fees.

So that is not a surprise, but we have also done here one correction. You'll see the big drop in the fee margin at Allianz Global Investors. We found that we have done for years one (39:09) position of advisory fees, albeit shown as assets under management-related as if we're not – we kept them for the P&L, but we are not showing them anymore in this KPI here. So, actually, the drop-off number would be much smaller. I think out of this 3.6 basis points in drop you'd see here, it's about a good 2.5 basis points linked to this change in accounting and 1 basis point is a mix change of underlying fund.

So, that's translates then into a profit and loss statement of our asset management business, dropping 16% in euros from €550 million to €460 million. Performance fees are pretty much at the same level as last year. And the big drivers are volume and margin where the compensating effect you should have seen and the other, but then it is I think consumed by other development. So, performance fee at PIMCO is all coming from this closed-end fund we continue to pay back to the customers and we will see more of this performance fees there. And performance fees of the ongoing funds, there was actually not a lot to book in Q1.

And we continue to book the incentive plan for PIMCO and the expenses are also there. There will be a recovery in the second half of the year, which would then also help the cost income ratio.

And with this one, I come already to the end of the story. Corporate segment, similar numbers as last year. Operating loss of just €74 million. And then, I would go for operating profit to net income. We had quite a large volume of realized gains in Q1, quite a bit of it for the forward sales we did in April last year selling one of our strategic holdings in China at a good market and the accounting was with the completion of the transaction in February or March.

And then we sold also beginning of the year some equity held here at the center and also some fixed income to change the asset allocation to our own pension liabilities for the German business, which we are having here at the holding company and that created in total €568 million profit, where the part which came from equity that was €400 million something as according to the normal tax rules, tax free, and that resulted nicely in a tax rate of 24%.

But let me also pour some water into the wine. The transaction with Korea will close. We are expecting roughly €350 million IFRS loss that would be then also non-operating item. And unfortunately, as this is also a realized loss on shares, it is as tax-free as the gains were in the first quarter. Therefore, the €350 million will then flow to pre-tax, post-tax through our net income.

Even taking this into account, I think we had a very strong start for the year in our net income, operating profit and also in the business we are writing (43:51) for value in P&C and Life, and hence, we keep our outlook unchanged. I think it would be too early to move away from the outlook figure, but having said that, strong start into the year.

And now, I'm happy to listen to your questions.

Q&A

Operator

Thank you. We will now take our first question from Peter Eliot from Kepler Cheuvreux. Please go ahead. Your line is open.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you very much. I have three questions, please. The first one was on slide 11. Thank you, Dieter, very much for the (45:00). I guess you make this point yourself on the slide, but it seems to me that the industry is currently getting quite a big benefit from the shape of the gray curve at 20 years. And it seems quite strange, but it's so sensitive to what happens around sort of years 18, 19, 20.

So if the forward rate of 18, 19 years increases, then the valuation curve will fall and your solvency ratio will fall. I'm not quite sure exactly how the extrapolation formula works, but if you get 18, 19 years going up based on the curve sloping down, then it's quite easy to see the sort of – the gray curve could be even sort of 200 basis points lower sort of around sort of 25, 30 (45:48). So, I'm just – that seems very counterintuitive to me and I'm just wondering if you agree with that and if you have a view on that.

Second one, much quicker. Just given the recent disposals, I was wondering if you could give us an update on the current balance of your M&A budget.

And then the third one, inevitably, thank you very much for your disclosure on slide nine in terms – inevitably, we always ask for more information and we get this useful stuff. I just wanted to check a couple of assumptions. I assume that the operating earnings numbers are based on start-of-quarter assumptions and I assume that the new business contribution is an all-in number, so there's no additional negative pressures anywhere else from growing the business at all.

And lastly, the €0.6 billion number you mentioned for operating assumption changes, could you just say to what extent you consider that number to be repeatable? Thank you. I'm sorry for the lengthy question.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yeah. Thank you, Peter. So, next time, I only do the Solvency II chart and for that, let's skip.

So, on the swap curve, I'm not really following you because the valuation curve is the spot rate. So, what we observed is the green line in the market. We have plotted the gray line because these are the one-year forward rates. So you can, if you want, reconstruct the green line by starting somewhere in year two and then, you do on a pro rata this one-year forward rate to construct the spot rate. But the spot rate is in the end the spot rate and whether the two curves absolutely follow the formula we have added to the base, I'm not sure.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Yeah.

A - Dieter Wemmer {BIO 4755450 <GO>}

But actually when I look at the gray curve, you can also say we have – yes, it's a very steep and the years from 6 to – for 15 (47:59) but this dip between 14 and 20, you can also say that it's not natural. So, actually our valuation and the spot rate is actually too low at the moment and, actually, we see that we have a very artificial market on this one. So, you can also make this point. I cannot conclude your conclusion.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Okay. Could I just quickly explain what I was meaning there? Because I take your points completely, but my interpretation is that the blue part of the curve is basically calculated from the green curve at 20 years and a combination with the green curve and the gray curve. And the reason...

A - Dieter Wemmer {BIO 4755450 <GO>}

No, no, no, no. It's the green curve and then you add every year so one divided by 60 of the 4.2%. That is the formula which is being shown here.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Okay. I guess I'll just follow-up offline with the IR (49:06).

A - Dieter Wemmer {BIO 4755450 <GO>}

Yeah. Maybe I think we set this probably for a longer discussion and would be good for a seminar, yeah.

Well, actually look at the valuation rate, 21. We have actually put the formula in how you move from 20 to 21.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Yes. And the 2.2% in that formula is taken from the gray curve, and it's quite a bit higher than the 20-year point because the curve is steep for 20 years. And so, it rises quite sharply after 20 years because of the...

A - Dieter Wemmer {BIO 4755450 <GO>}

Yeah, I think we stated off. Otherwise, we are doing the rest of the day this one here. Disposals, I think we only update and publish M&A budget when the transactions are closed. I'm not doing now rough, tough estimates. But with the numbers I have given you, you can do your own roll forward (50:05).

And the last one, the operating earnings, no. Again, it's no averaging effect. It is because we did not use any assumption changes. And of the operating variance, maybe €400 million special, €200 million is more normal. So that means if you want to normalize the €2 billion assuming that the pre-tax new business value is unchanged, then we are somewhere at €1.6 billion-plus for a quarter.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Okay. Thanks a lot.

Operator

We will now take our next question from James Shuck from UBS. Please go ahead. Your line is open.

Q - James A. Shuck {BIO 3680082 <GO>}

Good afternoon, Dieter. I also had three questions, please. Just starting – or turning to slide nine. Thanks again for the reconciliation between the two ratios. I just wanted to sort of check my understanding of this because, clearly, the operating Solvency II earnings are flatted somewhat.

But if you normalize for the good luck you had in the first quarter and the operating variance of the €600 million and then express that in relation that you annualize it and expressed it in relation to the SCR, I think you get a view that the organic capital generation in a normal expected year would be in the region of 20 points of Solvency II generation. So, can you just confirm that that number makes sense or if there's anything else I should be thinking of? And, in particular, if you're able to give me an insight into what the level of capital you have to put up against the life new business profit under Solvency II, I'd be very interested to understand that please.

My second point is a little bit tricky, but I just wanted to understand the profit signature under IFRS from the U.S. and the Italian business in particular because, clearly, you've been growing very strongly in both of those regions in Life and Health business and yet, the operating profit in Q1 in the U.S. and in Italy didn't really – they both fell. And I understand the U.S. reflected the reserve increase of about €42 million.

But am I right in thinking that there is an element of profit that's booked up front reflecting the very strong growth? And that if new business profit starts to decline, then there is going to be headwinds on the Life and health earnings in U.S. and in Italy, i.e., there won't be a ton of averaging impact from the assets under management. If new business falls, then that will act as a big headwind from those two divisions.

And then, thirdly, just very quickly, I wonder if you could just comment on how you see the M&A market evolving particularly in the kind of €5 billion to €10 billion sort of range in terms of opportunities and financial returns. Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Okay. That's a very complex list of question. Okay, let me start with the Solvency II generation. We show on the chart 9% pre-tax for the quarter, so that would be 6 points after-tax. So, now, when you say okay 1 points to 1.5 points is coming from these one-off operational gains, then you are more between 4.5% to 5% generation for the quarter minus 3% go into the dividend, then you are net of, well, – and now we can argue, yeah, it is maybe 10 points for the year net.

But important is that it is a positive number because that is not including any changes we do via disposals and other capital management actions. And I think that is a very strong message and I'm very happy that you are picking up on it, James, that we are generating more solvency than we are consuming and we will certainly explore on these points more into the future.

So, second question, operating profit U.S. and Italy. In Italy, we trust didn't have the one-off performance fees we collected under the unit-linked business last year. The stock market was not really strong. That is the biggest effect on the Italian operating profit, therefore it declined. And then in the U.S., the reserve strengthening was, on an old block of business, has nothing to do with our VA or fixed index annuity business.

But also I have to say we had some negatives from the base risk in this very volatile stock market in Q1 so the old VA block had some base risk losses, but that has nothing to do with early booking and late booking. So, I feel that the fixed index annuity business is a very stable source of operating profit and growing nicely with the volume of funds under management.

The last point is the M&A market, €5 billion to €10 billion. Well, I haven't seen a lot of these deals recently in the insurance space. It seems to be happening more outside the insurance space so, therefore, I cannot say whether the pricing of this transaction is better or worse. The data points are so rare that no conclusion is possible.

Q - James A. Shuck {BIO 3680082 <GO>}

Okay. Thank you very much, Dieter.

Operator

We will now take our next question from Michael Huttner from JPMorgan. Please go ahead. Your line is open.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Fantastic. Thank you so much. On the solvency, can you say how much benefit the announced disposals of Korea and Taiwan would be? And on the asset management, you said with confidence that – or understood that the total net outflow this quarter would become a total net inflow by the event and I just wondered if you can maybe share some of your confidence with us.

And then, the final point is – the question is the booklets (57:17), I mean there's lots of nice information but they're getting thinner every time you report. Clearly, that's a voluntary decision. Why do you think the market would reward less information? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Okay. The last point is easy to answer. You probably got asked by my IR colleagues that you should ask this question. So, I think that we are delivering already so many details and certainly Q1 and Q3 are not any more accompanied by a financial statement so, therefore, these are lighter quarters.

But most of our peers have given up on this quarter completely, therefore with our analyst presentation, we give you really a very comprehensive view plus the qualitative explanation what has happened. And then you'll find on our website an additional spreadsheets where you can download a lot of additional details when you want to have more details. And altogether, I believe that is a pretty good service to give enough data points for the development of Allianz. And then in Q2 and Q4, you'll have then the additional financial statements.

The impact of the two Asian disposals is positive, but I'm not giving any numbers. Let's first close upon the action to the full calculation and then we know it. And the asset management confidence, it's reflecting the confidence of the PIMCO management team and I never – (59:15) it's one-on-one. They have some good ideas and plans how to move it forward, but you also know that the asset management industry is a very confidential industry which is not disclosing too early ideas and plans.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Thank you very much.

Operator

We will now take our next question from Paul De'Ath from RBC. Please go ahead. Your line is open.

Q - Paul De'Ath

Yeah. Hi there, and just a couple of questions on the Life business from me. Firstly, on the U.S. and the FIA business, can you remind me what's your view on the impact of the final DOL rule on that business? Because we think the fixed index annuities got brought into scope within that. So, does that change your view on the outlook for that business at all? That's question one.

And then secondly was just on the change in product mix that you've been very successful in doing in the Life business, particularly in Germany. I think you said a huge proportion of new businesses going into capital-efficient product now. Is there a higher cost at the moment of marketing those new style products and changing distribution costs, I guess, of that shift that further down the line, we might see fall away and, therefore, the VNB margin actually increases more into the future because of lower ongoing costs or is that not something that's really big enough to register? Thanks.

A - Dieter Wemmer {BIO 4755450 <GO>}

Okay. Thank you, Paul. The question with the DOL rule is not easy to answer. So, let me offer you actually two answers. First answer is there is still a review of this DOL rule before it is truly final, so the whole story about what is the final rule is not yet over and was still under discussion. It could happen that the fixed index annuity business is dropping off this list again because it came also in – at the last moment.

For us, ourselves, we see it actually even the current version of the rule as an opportunity as we have proprietary channels which should help us to drive actually the volume. And we feel that, overall, the fixed index annuity market will not get smaller. It actually could still grow with the current version of the DOL rule and we see ourselves not as disadvantaged to participate in this market.

So, that is the two answers I can offer you, very precise. In Germany, we don't have higher costs included in this new business. However, you have a good point with your correction. With already announced reduction of the guarantee rate for traditional products from 125 basis points o 90 basis points from January 1 onward is the suggestion of the German treasury. So, with this one, we believe that actually the customer interest in this new product continues to grow.

Actually, the traditional products with guarantees below 1% are probably even more difficult to sell. That means our own agents have no arguments that other competitors of different products, which are easier to explain to the customer and the independent agents so all the financial brokers are anyway selling our products very well, and that will then continue to go in market share overall. For us, I think in Germany, our market position is really an excellent one.

Q - Paul De'Ath

Excellent. Thank you.

Operator

We will now take our next question from Thomas Seidl from Bernstein. Please go ahead. Your line is open.

Q - Thomas Seidl {BIO 17755912 <GO>}

Thank you. Good afternoon. First question on capital management. Let's assume that for the rest of the year you paid 186% because what you earned is basically consumed by capital market. And you would have, let's say, €3 billion M&A budget left by end of the year. Would you still feel comfortable paying this back to shareholders, which would result in a 9% drop from €186 million to €177 million or would you like to be at a higher capital level in order to execute this capital return to shareholders? That's the first question.

Second question, asset management, the revenue margin is going down quarter-by-quarter. 40.9 is now the level. Is this the new normal in a way or are we seeing further reductions on this important metric?

And the third question in P&C, I think if I load it for normal and NatCat, you are more in the range of 96% combined ratio versus the target 94%, especially expenses are now trending in the wrong direction. So, what are the actions to get you to the 94%?

A - Dieter Wemmer {BIO 4755450 <GO>}

Okay. Thank you, Thomas, for the questions. Capital management, we manage the company in a range 180% to 200% as announced and explained at the Capital Market Day in November. We think we have no reason to change any statements made at this Capital Market Day also how we handle the M&A budget. Either it's M&A or we return it to the markets. So, on asset management, in its current mix, the revenue margin of this quarter is obviously the best starting point for the upcoming quarters.

Certainly, midterm, we have clearly to work on it and that will be considered as part of future strategic plans of our two asset managers.

On the P&C ratio, I'm not fully agreeing with you. First of all, each quarter has a slightly different baseline. Our – usually, our full year run-off ratio is also better than the Q1 run-off ratio. And, as I said, we had in the attritional loss ratio some volatility in Q1 which went in the negative direction. So our – we had last year 94.5% (01:07:45). I feel that we are still playing around this number as a combined ratio, but I said that is still a guess to the 94%. So, with this part, I clearly agree with you, Thomas.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. On the – maybe one follow-up (01:08:02). So, let's assume 185 (01:08:04) is the number in Q4. Would you then be willing to go to 175 (01:08:08), assuming you return €3 billion to shareholders or is that violating the 180 to 200 tolerance (01:08:15)?

A - Dieter Wemmer {BIO 4755450 <GO>}

That would violate the 180 (01:08:19), but don't worry.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. Thanks, Dieter.

Operator

We will now take our next question from Farooq Hanif from Citigroup. Please go ahead. Your line is open.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi there. Thank you very much. Just going back to couple of generation, going also back to what James Thomas Seidl Shuck was saying earlier. In numerical terms, you're ending up with a number in a post kind of business evolution increase in SEI. You're ending up with something worth roughly about €7 billion a year. And that number is materially bigger than your previous guidance on free cash flow.

Now, I know the free cash flow is not necessarily the same thing as Solvency II capital generation. But I was wondering if you could just reconcile the two, on which number you would recommend we use when trying to work out how much cash you're generating versus how much you're going to possibly be able to use going forward. So, just to reconcile those – the €7 billion and the €5 billion that you talked about historically.

Also going to capital light products. When you look at the profit under IFRS, as a percentage of reserves, it's a very decent margin compared to the guaranteed product (01:09:42). I guess not surprising. What is the sort of average capital consumption of that business – is it a quarter, is it a fifth of the guaranteed business? Just roughly.

And the last question on actually AWP. To what extent do you think does a bit of repetitive casual continuation of poor combined ratio at that line because that's obviously been high growth decent profitability? Just wondering to what extent we should worry that a reduction in possibility for more than a quarter? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Let me start backwards, AWP. I don't think that it is a long-term deterioration but it might be still in Q2. On the €7 billion number, well, there is still some variation. And I said €400 million is still a – was still a one-off, so therefore you get a bit lower than €7 billion. And also please, this is a pre-tax number. When you want to make free cash flow out of it, usually the tax man wants its share. And therefore that is then maybe a bit going too far out of the Life segment. But overall, I think we are in a good way to manage our Solvency II ratio going forward and still can pay an attractive dividend.

Q - Farooq Hanif {BIO 4780978 <GO>}

May I just return on that actually. So, the €7 billion maybe I should have shared my back of the envelope calculation. But I'm taking tax off of that number. It still seems to me to be materially high than your guidance on cash flow. But obviously, you don't recognize that.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes. But look, the guidance on cash flow was the real cash flow. Here, you have still a Solvency II calculation generating surplus but whether you can distribute the surplus. Let's take a company who is only doing unit links. You could use very stable at nice (01:12:19). And if the company has not a lot of capital and has high new business costs, then there is no cash to be distributed because no supermarket even in the UK will take value enforced as a payment. And therefore you couldn't distribute the value enforced although it's generated surplus.

So, therefore, to translate from surplus – Solvency II surplus generation to distributable cash and plan to build (01:12:55) is still another step. And then we had the capital consumption of the capital-light business that varies very much for each market. I can tell you my favorite example is Germany. Our product Perspektive of which is one of our big, big sellers in the German retail space has roughly 30% capital consumption, let's say, for single premium of €100,000 compared to the traditional product which looks for the customer at first glance, but it's similar.

So, therefore, in total maybe half of the capital consumption is a fair assumption, but that will then show up over time in the business evolution number because the business evolution number is a capital consumed by new business minus capital released by maturing business.

Q - Farooq Hanif {BIO 4780978 <GO>}

Yes. Thank you very much.

Operator

We will now take our next question from William Hawkins from KBW. Please go ahead. Your line is open.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much. Hopefully, these two are quick. The pension benefit that you said will probably recur in first quarter 2017, is that something that could recur in years after that as well or is 2017 the last time it happens? And then secondly, just conceptually, the M&A budget, the €1.2 billion magic figure, how is that affected when you do a disposal as a loss? So, things like Korea and Taiwan relevant for our thinking about that number or would you just completely exclude them from the way you're thinking about the M&A budget? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Okay. Thank you very much, Will. The pension benefit is most likely to recur in 2017. I think in 2018, we will not see it. On the M&A budget, actually, I like the question; I have not thought about it that this would be a possibility, that when we sell something at a loss that we could reduce the budget. I have probably to ask our shareholders what they would think about the idea, but I pick up your proposal and see whether we should subtract it.

Q - William Hawkins {BIO 1822411 <GO>}

I suppose, sadly, I meant it would increase the budget, but I'm -

By the way you think it's excluded from your thoughts about the budget?

A - Dieter Wemmer {BIO 4755450 <GO>}

Until five minutes ago, it was. Yes.

Q - William Hawkins {BIO 1822411 <GO>}

Okay. Cool. Thanks.

Operator

We will now take our next question from Federico Salerno from MainFirst Bank. Please go ahead. Your line is open.

Q - Federico Salerno {BIO 2565091 <GO>}

Yes. Thank you. Dieter, two questions both on P&C for me, please. The first is on France, you have an excellent combined ratio there still at 95% with spread relative to the market gain, why there is possible? Do you have a view how much better it could get from here? That's the first question.

And the second is on Italian Motor, some local players are mentioning less competition, do you have a view on this? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Well, I think also our French business has to contribute to the 94% group target, and we are not giving to anybody relieve to participate in the 94% target. And as a French businessman, you look at the last quarters as somewhere in between 94% flat and 96%, so with an average they're just below 95%. I think we are so far off from this target, and I believe it is certainly possible.

On Italian motor, it depends probably on your starting point, but we feel that the competition is still pretty strong.

Q - Federico Salerno {BIO 2565091 <GO>}

Okay. Thank you.

Operator

We will now take our next question from Jon Hocking from Morgan Stanley. Please go ahead. Your line is open.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Hi good afternoon. I've got three questions please. First the reinvestment yields, (01:17:51) Life and P&C unless you're looking sort of Q1-on-Q1, the gap between the actual reinvestment yield and the economic reinvestment yield is widened. So I guess 10 points last year in Life and Health is now 20, 30 points now being seen as 20 bps. I just wonder whether that's a sign you're actually reaching for more or taking more risks, so you've reach for yield in that business? Wonder if you could comment (01:18:16) how you see the risk of reinvestments? First question.

Second question, looking at slide 21, where you've gone through the split of the new business by product bucket. I think it's really helpful to disclose. I wonder what the earnings in the capital would look like if you split on the similar basis.

And then just finally, in the work you've done in terms of reducing interest rate sensitivity of the capital base. In what scope is the future length and the asset duration more? And what have you been doing in Q2 subsequent to quarter end? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Okay. Thank you. Let me start with reinvestment yields. Well, the disclosure I actually – I did not explain it during my presentation. What is under the economic reinvestment yield, we have just included here the cost of hedging foreign currency exposure. So, it's mainly FX hedging and therefore I would not believe in this that we are taking more risk because this hedging we bring the risk back to the previous level. So, you can only say that we have maybe taken more foreign currency fixed income investments this year than last year and therefore we have a bigger cost of hedging.

So, the new...

Q - Jon M. Hocking {BIO 2163183 <GO>}

Sorry to interrupt you. Since the issue then you've actually – you proportionately invested more in foreign currency or the cost of the hedging has gone up year-on-year?

A - Dieter Wemmer {BIO 4755450 <GO>}

I think it's more volume-driven and not cost of hedging.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Okay. Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

But it is probably decimals points, so tiny movements. The return on capital for the individual buckets of new business, that is a bit similar to Farooq's question on the consumption – capital consumption of our capital-efficient business.

Yes, we have to work on this additional disclosure, how is it capital friendly? It has at least disclosed on the previous page the operating profits coming from these four buckets who gave (01:20:50) capital returns by bucket. We have to think about it. It might have been an idea for our – when we do an end-of-the-year full update on where we stand with our strategic agenda that we could also include something about it. Does this answer your question?

Q - Jon M. Hocking {BIO 2163183 <GO>}

Yes. And then just the question about what you can do from the ALM perspective to reduce the rates?

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes, thank you. Sorry, the ALM part. I think that certainly a helpful step in closing the ALM gap over to Asian disposals. And as a right, we are continued to write longer assets. We have the opportunity in the last almost five months or four-and-a-half months of the year really to participate in sizable infrastructure debt placements of sufficient duration.

So, we certainly continue to write very long-dated bonds. Whether we should participate as – I was being asked this morning by the journalists into the 55 year bond of Spain which has been a bit late during the state here. I don't know. I'm not sure that we have 55 year long liabilities we want to match with these bonds. But that is a decision of our asset management guys whether this year that you get enough margin out of this bond.

Q - Jon M. Hocking {BIO 2163183 <GO>}

So, just to ask a follow-up. On the Korea and the Taiwan disposal, I can see that that's a perfectly sensible thing to do. Your ROE target for the life entities to get everything by to 10% by the end of the target period. That is a very volatile metric. I just wondered whether there is actually underlying that is a more value-based metric. The actions you take today is simply based more on economic capital absorption rather than non-GAAP equity. So, is there actually an underlying metric as well as the ROE?

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes. That is, on one hand, true. But we will evaluate each of our entities whether they exceed a sustainable 10% ROE number. What we can only disclose here in the numbers is the actual number without any adjustments. But in our internal judgment when we look at it, actually, we look for a sustainable 10% ROE number. And when we get our new business mix (01:24:01) when we make our new business margin at 3% with smaller capital consumption for our capital efficient product plus the fact that probably everybody will, over the years, also work on their expenses. I believe that we can create also more sustainability in this number even if there are quarterly jumps bigger than forward on realized gains and losses from investment.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Okay, excellent. Thank you, Dieter.

Operator

We will now take our next question from Michael Haid from Commerzbank. Please go ahead. Your line is open.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good afternoon. Two questions. Can you shed a little bit more light on the weather-related losses in the first quarter? To my understanding, you expect normalized 2.9% weather-related losses. Net capital is only 0.2%. How much was the weather-related losses? And I understand that the definition of weather-related is somewhat difficult.

The second question, you mentioned a negative impact from German health on the operating profits. Can you say what it was and whether it is kind of one-off effect in nature or whether it could be recurring?

A - Dieter Wemmer {BIO 4755450 <GO>}

That was just a strengthening of loss reserves for health claims. That was a one-off effect. I must say it's probably even normalizing during the year. It is more a one-off for the quarter. It is probably more a nil effect for the year. So, it is more a timing issue than a real (01:26:03).

Weather, well, actually that is – weather-related, usually, the first quarter is below our global cat budget. But the question always is what is cat and what is the weather. We usually – actually not even calculating all weather losses because you have, well, slippery streets. And even if you have thousands of accidents because of ice and snow, you will never summarize it to a cat event even if it was very costly for us. A cat event is something, which gets a number as an event and potentially ends up at being paid by the reinsurer.

So that is the simple definition of a cat event. We are collecting information to help fund (01:27:08) together reimbursement of the reinsurer. But what is not reinsured, you never file a cat event even if it was expensive. So, therefore, it is a bit difficult to say what was what.

In two cat events we just had €20 million in the year. And weather related I would say, we had 1 percentage point of the loss ratio but, overall, what came from weather.

In the second quarter, certainly the industry will see more cat events. The Canadian wildfire, which is still devastating Alberta is certainly creating a fairly sizeable insurance event for the industry. We are not very big in Canada, so I don't think that it will hit Allianz a lot, but it is a big industry event.

Q - Michael Haid {BIO 1971310 <GO>}

Okay. Thank you very much. Certainly, the weather-related and plus NatCat in the first quarter, one could say it was around 1.2% and that compares to a normalize...

A - Dieter Wemmer {BIO 4755450 <GO>}

Take 1.2% (01:28:31).

Q - Michael Haid {BIO 1971310 <GO>}

And that compares to the 2.9% which you, on a normalized basis, expect for the whole year?

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes.

Q - Michael Haid {BIO 1971310 <GO>}

Perfect. Thank you very much.

Operator

We will now take our next question from Nick Holmes from Société Générale. Please go ahead. Your line is open.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi, there. Thank you very much. Just two questions. Firstly, coming back to your shift towards Capital Life products, I wonder, Dieter, whether you could say that the objective here is growth or capital efficiency and capital return? And then second question on Asia. You're accessing Korea and Taiwan; do you see investment opportunities elsewhere? And if so, where would they be? Thank you very much.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yeah. Nick, thank you for the questions. Well, actually, we believe that the capital-efficient products offer both, growth and capital returns because the construction of the product allows us actually to run more attractive investment portfolios for our customers. And hence the long-term customer return is improved compared to a traditional product where you harvest the ALM and the low-yield environment almost falls to end up in fixed income only.

So, therefore, we really see it as the right application for the industry, selling just a record around unit links is not what an insurance company can focus on. Then you can – then, the customer can go to an asset manager. Actually, we have a very good one and we can sell our asset management mutual funds directly to the customer. So, it is not covering the same need of the customer. Therefore, we are a strong believer that when the life insurance industry wants to have a right to exist and to cover customer needs, you need more than unit-linked. That is our philosophy.

I know that the philosophy is not fully shared by others, and I also admit that we have also markets where we are relying still too much on unit-linked business, and I'm not against unit-linked, but it is not good enough as a long-term strategy that is what I'm saying. And we will, in these countries where we are currently too much dependent on unit-linked, certainly introduce also our capital-efficient products. And therefore, in our disclosure, we're keeping it clearly separate from the unit-linked box because we see it as two long-term life insurance business, and opportunities for our industry and not just saving capital and shifting the investment work to the customer. In Asia...

Q - Nick Holmes {BIO 3387435 <GO>}

Sorry.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes. We see in Asia...

Q - Nick Holmes {BIO 3387435 <GO>}

Sorry. A quick follow-up to your comment there. Do you think that, therefore, that the growth prospects in life will actually be quite good from this shift to capital-light?

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay.

A - Dieter Wemmer {BIO 4755450 <GO>}

Definitely. Otherwise I – we should change our strategy immediately because the company, which doesn't (01:32:18).

Q - Nick Holmes {BIO 3387435 <GO>}

That's great. Thank you. I'm sorry. With Asia?

A - Dieter Wemmer {BIO 4755450 <GO>}

With Asia. Yeah. We are expanding our bank distribution in Asia in Southeast Asia in particular. Korea was actually not anymore an Asian closed market. Korea is a matured market. Therefore when you buy and invest in businesses in Asia for high growth, then Korea is probably not the place value would start. And in Taiwan, we have not reduced our new business capabilities at all.

We have sold a legacy book and we are not transferring any employee and our new business machine is completely impact and will continue to go with the business. Taiwan is a great place for gathering and accumulate assets. We are, I think, also on the asset management side in combination between PIMCO and AGI. The largest foreign asset management in the country with a very good market share and a very good cost perspective. So, that's it's certainly a market we like a lot and otherwise, the Southeast Asian places we are throwing our business. China is a longer discussion that with quality now go beyond the time we have for the call.

Q - Nick Holmes {BIO 3387435 <GO>}

But would it be correct to say that you do see material investment opportunities in Asia? This is a territory that you're looking at.

A - Dieter Wemmer {BIO 4755450 <GO>}

I would say good investment opportunities work material in context of a group which makes annual €12 billion revenue and €6 billion net income plus the word material is always a big word.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Thank you very much.

A - Dieter Wemmer {BIO 4755450 <GO>}

All right. It's already half past 3:00. So, I guess we have time for one last question, please, if there's any.

Operator

Yes. We will now take our last question from Vinit Malhotra from Mediobanca. Please go ahead. Your line is open.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Many thanks. Thanks. I'll keep it really quick. Just in the P&C – so one on the P&C, please, and then one on (01:35:03), all quick ones. P&C, the attritional improvement that we used to talk about from the turnaround operations, that slide was sort of not here because of its contract structure, if you could comment on that just a bit briefly how the 94.5 goes to 94 (01:35:19) if they still are thinking on the operational side.

A - Dieter Wemmer {BIO 4755450 <GO>}

Vinit, you are really hard to understand. Some of your line is broken and breaking in.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Is this better?

A - Dieter Wemmer {BIO 4755450 <GO>}

Yeah. Yeah. Maybe can you repeat your question? I couldn't get it.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Of course. Sorry. So, on the P&C, the 94.5 going towards 94 (01:35:39), so in the past, there used to be a slide showing the three buckets of combined ratios. And there was a focus also on the turnaround units. Is there still that kind of focus or it's just under the quarterly compression of slides that we haven't seen?

A - Dieter Wemmer {BIO 4755450 <GO>}

You mean our chart with various categories? Yeah. So, we are still having the same focus and nothing has changed there. We still drive our business the same way as before. I see you all made a strong point for the additional appendix, which I really think we surely are overloading you with information. So, it is an unchanged focus and the units which are on the list above 112, you can see it easily, it's Brazil and Argentina still stick out there. And as the main areas and at the moment, AWP is also moved above 100. So, we have to watch out as some of you also observed that we have to see that it's getting back on track. That are actually the main areas to focus on.

Okay. And then you had another question on Life.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Asset management.

A - Dieter Wemmer {BIO 4755450 <GO>}

Or asset management.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Sorry. On Life – or I think the asset management first. So, on PIMCO, when we track the monthly total return fund and the PIMCO income fund flow data, for the quarter they seemed to have netted out each other. And we keep reading about how various strategies are still attracting money. Where is this €10 billion outlook coming from? And I know it's a very good number and the trend is positive, but I'm just quite curious where this is really coming from.

A - Dieter Wemmer {BIO 4755450 <GO>}

I think that's mainly institutional who are attracting their strategies in the environment. That has nothing to do with PIMCO's attitude. Your observation on that the two big ones are netting out is fully correct.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Can I ask one more, please? The French Group life business, what's the motivation to write when the market was weak and the pricing was not good? Was it just the growth you wanted or?

A - Dieter Wemmer {BIO 4755450 <GO>}

This is mainly a renewal of old business. Well, we are following here the (01:38:44) of new and old. So, it's one year contract therefore they show up every year as new business. But probably most are discussed, most of it (01:38:58) two decades. So, we keep our market share in this market and I still believe we can also, in following years, to better rate the customer and have the opportunity to price up this business otherwise you are right. We should not continue all of these policies since we are not getting it to a pricing position where we want to have it.

Q - Vinit Malhotra {BIO 16184491 <GO>}

All right. Thank you very much Dieter.

A - Oliver Schmidt {BIO 2473131 <GO>}

Then, thank you, all. From my side as well, thank you for joining the call. And we say goodbye for now and wish you all a very pleasant remaining afternoon. Bye.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.