Company Participants

- Dieter Wemmer, Chief Financial Officer & Member-Management Board, Finance, Controlling, Risk
- Maximilian Zimmerer, Member-Management Board
- Michael Diekmann, Chairman-Management Board & CEO
- Oliver Schmidt, Head-Investor Relations

Other Participants

- Andrew J. Ritchie, Analyst
- Andy D. Broadfield, Analyst
- Farooq Hanif, Analyst
- Frank Kopfinger, Analyst
- James A. Shuck, Analyst
- Jon M. Hocking, Analyst
- Michael I. Huttner, Analyst
- Nick Holmes, Analyst
- Paul C. De'Ath, Analyst
- Thomas Seidl, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and 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 for today, Mr. Oliver Schmidt, Head of Investor Relations. Please go ahead, sir.

Oliver Schmidt {BIO 2473131 <GO>}

Thank you, Susanna. Yeah, good afternoon from my side as well and so welcome to our conference call about the result of fiscal 2014.

We will follow the same procedure as last year. Dieter will kick it off with pretty 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 it is not sufficient to cover your questions please come and meet us at our Analyst Meetings next week with 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 for the callers from the States, and good afternoon for the European callers. Let me start with financial highlight so on page three of the presentation. Q4 numbers the revenue was up 12% so we kept our double-digit internal growth rate group operating profit front of €2.3 billion, we had a number of additional smaller one-off we faced as headwinds in the fourth quarter. We booked an operating loss for Brazil of €150 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 results in Korea, but also we had a positive one-off in the Corporate segment. So all in all it's about €200 million which I will consider as one-off in the Q4 that leads it and leads to a 96.5 times combined ratio in the fourth quarter where our Life and Health business continues to grow very strongly, new business margin is 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 the total results €10.4 billion just short of the maximum outlook point of €10.5 billion P&C slightly up and Life and Health had really a great year and Asset Management following the outlook, and since non reputation of the one-off performance fees down and corporate segment slightly up.

When we go to the overall shareholder's equity development on page seven, shareholder's equity record high short of €61 billion, driven by retained earnings increase in unrealized gains also for the benefit of the shareholder, Max will tell you how the course unrealized gains developed in total and our yearend number includes €1.6 billion net of taxes additional pension liabilities for our own pension which where we reduced discount rate from 3.5% to 2%.

Conglomerate solvency which is still only maturing to 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 2014 number higher dividend included than the year before which makes two percentage points and slightly lower leverage actually the number looks almost flat over the year. Although, it was a year as many volatilities built in.

Let me start first with external market movement, the 10 year point of yield swap curve end of 2013 was 200 basis points that was to 80 basis points a year later, so a swap 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 €74 million up. So a total a change that is consistent of our great close efforts in the Life business. So we are taking quite a lot of additional risk on board. But they're also many model changes as we are not disclosing to you a stable economic model. We are as we said in the previous quarter moving gradually forwards to the Solvency II model which we are going to file in the second quarter this year.

So we have our revenues, the appropriate discount rate in the calculation which makes at yearend the 80 base points I mentioned minus 10 base points credit shift plus 13 basis point volatility adjusted to 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 volar (6:36) 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 volar (6:54) 9 points. And we changed in the fourth quarter and moved to U.S. equivalents. I told you in the past that we were agnostic to it because the number was pretty much the same whether we use equivalent or internal model. However, at a 2% interest rate for the 10 year treasury in the U.S. there is a benefit for you as shareholder and hence for us to do it and also it makes our numbers I think more comparable to the peers who have U.S. subsidiaries because we were the only one staying away from it.

As we are also the only one who has so far charged for government bonds into the calculation, I think we should maybe start limited 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 segment. Fourth quarter added a 10% growth, which is I think for many quarters first on that double-digit growth in P&C and the growth is actually carried by quite a number of entities starting with (8:18) which continues to grow number but also AGCS had a very strong year-end performance. In total, we grew in the year 3% flat number over the 12th month, that is our mid-term strategic target to achieve this, but so far we missed it over 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 U.S. When I takes 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 overall, which is also pluses and minuses very much volume driven. So therefore, we could also add 2 million customers over the year, the price effects are across all markets leveling out.

And we move now to the operating profit of the entity, over the whole year, 94.3% absolutely reflects underwriting margin. So we still see that underwriting added €80 million to the profit line additionally that it is equivalent to a net on premium of 4.1% and that is the driver of our additional underwriting profits. While we could say at a first glance you had two percentage points better catastrophe ratio so where is the money? I think the Cat ratio and weather related events was maybe one percentage points better. We had a lot of mid-sized events over the year but also in the fourth quarter. Still our accident year loss ratio worsened and actually when you adjust the attritional accident year loss ratio comparison, it is 1.2% off we had in over the year, but in particular, in Q4 some more large losses.

So that makes the 0.3% and 0.9% will be as a weather related event 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 strengthened reserve in Brazil, Russia and the U.S. U.S. was already at half year number. So therefore when I look just at some countries who is positive run off, it is more or less at the same level as the year before. Expense ratio pretty much flat. We had additional one-off cost on 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 four of the P&C business and also the individual combined ratios of the major (11:57). Obviously Germany doubling operating profit, other markets holding up very well and AGCS is another big plus and it's a negative number, I have already mentioned and I will explain in more detail on the next page where we showed the portfolio overview.

I think still the majority of our units – two-third got the premium below 95%, 27% and the category just above 95% versus stronger growth and 9% of the portfolio as a one above 100%. We have Fireman's Fund at 120% Russia, 140% Brazil, 125% for the whole year. So I think you know the action item Fireman's Fund has been the personal lines business has been sold to AGCS. Where the transaction is expected to close April 1, the commercial business of around $1.5 billion premium going to be integrated with AGCS U.S. actually the integration process started at the beginning of the year.

Russia, we are downscaling the retail operation substantially and that is well advancing that means that the retail earned premium for 2015 will be substantially smaller than last year and the focus is on corporate business and we are also continuing the health business and retail.

Brazil is actually a combination of IT platform issues which are creating – did create some focus around I think underlying business issues emanating from business growth in the second half of 2013 where we did after we understood the iteration much clearer, a lot of cleaning up in the fourth quarter, cleaning up in the second (14:23) our best understanding of the situation and over the turnaround steps are being initiated.

Page 17 on P&C's similar income, I think that Max will comment on it, I think that the highlight I would like to mention that it's very stable over the year actually €17 million more than the year before as a tremendous stable investment income.

Now, let's move to the Life and Health segment; the growth story of the previous three quarters continued in the fourth quarter so the driver of the growth is the German Life business, in the U.S. and Italy, Germany our market share in new business is probably around a third of the market. In the U.S., a great deal of success of the fixed-indexed annuity business continued, so actually when you look at the U.S. fixed-indexed annuities are up by €5.1 billion where actually our VA premium is down by €650 million, so it's really all the fixed-indexed annuity and in Italy the gross number is 2/3 unit-linked and 1/3 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 and we have a strong positive.

When we move then to the profitability of the Life business, €3.3 billion operating profit; that's upper end of our expected range for the year. Please remember that we moved about €110 million operating profit from the smaller Asset Management units into the Life and Health segment as our pension companies in Poland, Spain et cetera so that is a change in the allocation and what drives additional profit? Well, actually clearly the higher investment margin and here we have besides good underlying investment results also one of that is recovery of emerging market currency against the euro that was fairly sizable negative in 2013 and now it is a positive in 2014, so the swing has doubled and also we have gains on the interest rates relative to protecting us against falling interest rate in Q4 so there is also a positive number.

In total, I would say maybe in the Life business there is some €100 million to €150 million of this individual one-off, the increase in expenses all driven by additional expenses for acquisition of the new business, it's obvious with the high volume increase and that can offset in the stronger capitalization of DAC.

You wonder why our technical margin is down when we say we want to write off biometric risk and 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 policyholder, that reduction of €99 million has in the German business very much being offset by the investment partner side that means when you add both numbers together as it is still a total return calculation what we pay for our policyholder as 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 margin, actually at 2.4%. The obvious traction is well in this interest rate environment, would you do the business again in 2015? We have tried to calculate it with cost yields and then business margin would be at 1.7% to 1.8% if you take exactly the same mix but you can be assure that we work on our mix in 2015, so don't take it as a forecast for 2015. So, how did the yield 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 am now on page 27 of the presentation. At first glance 3rd party AuMs paid very stable just €12 billion down from €1,329 billion to €1,313 billion but behind these stable numbers are big movement, the outflows at PIMCO of €236 billion. Inflows at Allianz Global Investors of €10 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, hence rising equity market of 4.2%.

The FX impact is actually in the numbers very much only visible on the balance sheet numbers. And I should have mentioned it right at the beginning of my presentation, the €10.4 billion of operating profit includes roughly €40 million net impact of all the FX changes during the year 2014 compared to 2013 in operating profits, where here at balance sheet items are being calculated at the year end spot rate you see a much bigger impact of the euro-dollar conversion and therefore when we set as 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 as the revenue of the Asset Management business in page 29 at PIMCO declined by 12.5%, Allianz Global Investors 8% up, so great result, 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 more institutional business also weakened the margin slightly. At PIMCO the margin drop of one base 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 happens in the U.S. actually Europe and Asia fairly stable as PIMCO customer.

If we now translate those information to the operating profit development at Asset Management, though it dropped 15% to €2.6 billion, the two drivers are the outflows' 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 number than in 2013 which I think is great news because the quality of an asset manager and its perception with the customers is driven by its investment performance and the investment performance continues to stay high and I think it was really free of any damages due to the management transition which created so much media attention so therefore the basis for 2015 is fully impacted.

When we discuss the outlook, we will also talk about the one-off performance fees at PIMCO we expect at year end 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 expense is not dropped parallel with reduced revenues for several reasons. I think most of the operating expenses (25:51) transactional are variable but staff cost and numbers not moving as fast as we have seen as they moved in the fourth quarter, plus as we explained already in the Q3 results we actually have implemented a special for the pension program which was at the first booking in the fourth quarter and we added substantial marketing budget for the fourth quarter and really raising the presence of PIMCO in many media that it then lead to a cost-income ratio of 61% for PIMCO and for the fourth quarter.

So overall I think a (26:45) transition year for our Asset Management business the total result of €2.6 billion is holding up very well and is still in line with our expectations. So when we then go to the Corporate segment, I think that the big swing is the Banking segment but that growth of fast running cost in 2013 for Allianz Bank Deutschland or (27:15) which we closed almost €100 million restructuring costs it was precisely €88 million. So that was the negative one-off and also we have through our German regional bank called OLD, we have a small shipping portfolio where we have in the last three years put up a loss loan provisions for the shipping portfolio, there was no need to increase reserves in 2014 hence we see also a better operating results.

And the Holding & Treasury segment has a number of one-offs, there's on one hand a higher admin costs and also we had some from the IPO structuring we had in 2013 a release of a restructuring provision but also we changed our company pension in Germany which created €160 million positive impact in 2014. I can now come to the total summary from operating profit to net income, €10.4 billion 3% up compared to the year before. The non-operating items was minus €1.55 billion, looks unusually high but it's special tax treatment I will explain in a moment; actually our harvesting was lower than last year, almost €150 million lower in particular on equity and debt, 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 the income from financial assets and liability carried at fair value that includes some cash flow hedges in France but also the overlay hedge which we do for our U.S. Life business to protect our local statutory capital that will cost us €140 million and now let me explain the tax rate.

We are showing here a tax rate of 32% that is the tax rate paid by the shareholder but as we did win in a large court case in Germany that we can tax deduct real life losses at impairment on investments from the year 2001 and 2002 therefore that's actually almost €1.050 billion as positive tax result.

This tax result we are sharing to a large extent with the Life policyholder in Germany, this is this €901 million. So it is in the end a direct booking from taxes, from the tax authorities directly to the policyholders in the German Life book. We are showing the number here as neutral in the pre-tax and post-tax lines, so we have deposited in the income tax and then a negative in the re-class of tax benefit. From this cost base on the tax position €1.050 billion to €150 million helped our Corporate taxes. Therefore, we are slightly down compared to the 34% of last year, but this is also because we had let one-off.

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 it but have also to see 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 it is very good news for the dividend but I think Michael will quote about it at the end. And overall we have a strong capital and balance sheet position where I think we have bought the available capital better to work than in the previous year. And with this I hand it over to Max.

Maximilian Zimmerer {BIO 2557503 <GO>}

Yes, hi, good afternoon. Coming to B-3, that's the investment portfolio as you can see, so not many changes and we grow our assets by roughly €80 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 the two to pure market view, the real estate parts would be a little bit higher that means would be at a weighting of 4% as you know real estate is booked on the IFRS to book values and it does not include the loan assets, the market value number and 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, so the main reason for that is the lower interest rates, they are an impact not only on the asset side but also on the liabilities side overall, you can see there is a 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, next page, B-4, they've tried to come up with a summary of the investment performance starting with the current impact and we have achieved €21 billion of current income that is a little bit higher than last year, that I am a little bit proud of because the reinvestment yields has been pretty low. Overall, the current year drive now is at 2.7%, it came down from 3.9% and then if you add to that the realized gains and losses impairments, trading results and investment expenses the overall total IFRS result is at €21.6 billion, a little bit higher than last year and then that is more interesting figure if you are seeing of total performance that's a change in unrealized gains and losses, it's a very large number, it's €46 billion and 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 has lead to fewer invested in very long-term bonds outperformed heavily in stocks and what was the surprise for 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 there are active changes you see on page B-5. We invested additionally in equities in which public equity that €3.7 billion the timing was okay but it would have been better if you had started only in the last quarter of last year if you take the January performance I am very happy that we did that and then on the private equity real estate and also alternative debt side based you know has the strategy that you want to have more in that respect and that brings me also to the page B-6 that has shown the real asset-based financing, this is a chapter usually I very much like as you know we had a mid-term goal of €80 billion for the next three years and we have already achieved €74 billion and our next three-year target would be around €110 billion that is not a fixed target only to say that it's very much dependent on market conditions but also on the risk capital we'd need to finance that one.

Overall, I like the sector very well because it's differentiating us from competition and as far as it is a possibility to gain some extra margin, this is truly the margin that goes to the banks. And the second thing is usually if you can add some diversification if you compare the two financing banks at least, that means you avoid cluster risk 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 am happy that we have them not only at Allianz Investment Management but also at Allianz Global Investors. We have real professional teams and I think that we are a little bit ahead of the market.

Now, coming to the new investment yields on page B-7. Overall, they were much lower than the year before but 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% and nearly the same as in 2013 in the Life side because we are longer there, it's 2.7% and if you add to that the current yields under real assets, that's under 4% overall. You can see also the maturity differences, Life in average you can say four years longer if you think of the reinvestments as such.

That brings me to page B-8, that's a comparison between the total yield of our portfolio and the minimum guarantees. The total yield you can relate to your assets, then it would bring you to a yield of 4.7%. But you can also do – at 3.9% but if you relate that to the technical reserves, because we have more assets than technical reserves than 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 what do we need as a reinvestment yield to finance the guarantees in Germany that would bring us to the 0.7%.

You can compare 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, reinvestment yield already said 2.7%, the average guarantee for new business is at 1.0% that means they are still relatively high margin of 1.7%, I think what worked very well that we started the lower guarantee product especially in Germany (39:04) but also in Italy unit-linked and fixed-indexed annuities in the asset but new product and if I were to make a forecast for this year, I think the guarantees for the new business will go further down, I expect something around 0.7% and 0.8%.

Now to B-9, the outlook overall, I think I have not to describe what has happened on the markets in 2014 and the most important event 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 rate dramatically down to an all time lows and fortunately Mrs. (39:49) announced two days ago that we will see at least one or two or three hikes in 2015, I think at least it should work as a kind of stop order for the European rates but it seem overall I think that real assets are much more interesting than bonds because I think (40:09) on the bond side, but this thing I would like to end with. Thank you.

Michael Diekmann {BIO 1733646 <GO>}

Great. So good afternoon, everybody. I have been moved to Section C, that's probably what happens when you are phasing out, I accept that. Then I was a little surprised frankly about the harsh reaction of markets this morning but you don't know, that seems to have lost (40:38) a little bit and I'm very happy that we have the opportunity next week 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 but went – where it went wrong, the revenue and profit growths I think is very good especially translating into – via 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 for

Allianz. And then when we look at the, what I would call outperformers in Germany and Allianz Life and Allianz Global Investors added about an improvement of €1 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 our sales and 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, Ukraine, Middle East, and Nigeria is pretty low.

PIMCO outflows higher end of our expectation and then three underperforming units offer potential for next year but obviously we are not happy about that.

Now when we turn to the next page which we have by business highlights 2014, I would like to point out 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 mature products in Life, I think we made very good progress especially here in the market in Germany and let's just see this year 2014 as a sort of opening up of this market which I think from market leader is the appropriate action, I am very happy you know 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 am going to talk about acquisitions a little later. I think we were very timely in addressing the issues in Russia and Ukraine and we did not wait, we did not wait as long as was Fireman's Fund but Fireman's Fund I think the solution that we found to get into competitive levels in the Corporate business and to find a good home for our private business was ACE, is a very good achievement and then last but not least the transition in PIMCO, I think is working very well despite the noise on the outflow 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 dividend policy I can – information that my colleagues have not given yet and that's about the evaluation of unused budget for external growth. We've spent around €900 million of a budget of €1.2 billion in 2014. So, we will add around €300 million to the budget in 2015 that has been up evaluations.

The next slide, 6.84% I would sense a little bit of dissatisfaction was that most people were expecting something like 7%, now if we compare the 6.84% to what you can achieve from the market today at, you know, 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 side 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 (46:53) region in the 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 am also very happy about the smaller 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 underrepresented in the territory.

Now on the next page coming to underlying growth in P&C, Dieter has already said if you exclude Fireman's from 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 gross and adding premium to the existing customer base. We will have a press conference next week with our German colleagues and they'll 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's mentioned AGC&S. Our AWP thing is 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 Italian book and the move through the unit-linked side with our partner UniCredit works very well. And the fixed income annuities in the U.S. as you can see here are working very well as well. When Dieter and myself were in the U.S. earlier this year showed us asked 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 (sic) [114], 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 arms lengths and we wouldn't do that if the performance wouldn't be justifying that, so we have an outperforming 3rd 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. We are making a lot of progress as I have shown second page on digital products, modular products, lot of them are priced real-time and that the losses for direct quotes were 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's by the way we've introduced in many other countries now as well. We started early to address not only multichannel but multi-access and we get a good integration 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 and now especially when you look at organized motor fraud and on the automation side obviously we are making good progress in process automation of standard cases which (52:16) now to 90%.

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

Now I am turning to the page on our operating outlook. This outlook of €10.4 billion plus/minus €400 million I think is taking two things into consideration. It's a good performance, solid performance in 2014 and also cautious look at you know at 2015 without any (53:14) selling, so giving you an impression of our confidence to manage the volatility, the result even better than in the past. And now when we look at the operating profit outlook 2015 on the segment side, that's next page, and I would just like to give a little add up on where do we think that we have the good indicators, underliers for profit in 2015.

Now, first, I would like to mention again the growth in 2014 of 10%, Life nearly 20%, P&C volume driven close to 4% with good performance of our new modular retail product. We do see a higher operating asset base and together with some investment expertise that Max has talked about, that should help, and also we have a higher reserve levers on the P&C side. Now the one-off in P&C 2014 that's around €500 million at least at Russia Fireman's Fund and Brazil but also about €80 million of integration cost in from Unipol business in Italy. We do see 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 cost, the dollar that has not translated into additional earnings on the PIMCO side yet. Then the long duration of our investments and the growing asset base and 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's just visiting all the places that he doesn't know yet in a way he might not have the time to visit them in a one season chart. But he is obviously a part of all the decisions we are making that have an impact on the future.

And with that, 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.

Q&A

Operator

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

Q - Michael I. Huttner {BIO 1556863 <GO>}

Thank you very much – my first question is on the Solvency. So 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 the positive adjustments, and then negative from low interest rates. But where do you see it kind of settling around and at what level should we start to feel that we need to worry a bit – on the risk curve?

The second is very specific, it's just on the – can you give an update on German that they are down, 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 and 2019 (57:48) cost them operating losses and that's a negative. And then the last point which I suppose is not a really serious question, it's more well done Mr. Dieter and thank you very much, but also given that there's only €200 million missing to be what consensus was, weren't you a bit tempted just a little bit to (58:08) anyway? Thank you very much.

A - Michael Diekmann {BIO 1733646 <GO>}

Yeah, I can start with the second question, I was not tempted because for me it's really important that we have a solid result here and not work on some record results. We had a supervisory board meeting yesterday with auditors in (58:30) and that was my question to the auditors is there anything in the result you know that is mortgaging the future and the clear answer was no, just the opposite. And that's exactly the way how I would like to (58:44).

Q - Michael I. Huttner {BIO 1556863 <GO>}

Thank you.

A - Michael Diekmann {BIO 1733646 <GO>}

Welcome.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yeah, Michael, I think as I tried to explain on all the movement of Solvency II, well, first of all, we cannot guarantee that our internal model has been 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 light will come somewhere in December 2015 and that is for almost all the players in the space.

Secondly, as I tried to indicate we are really trying to do an active management of the level and that means that we think as long as we are a sound level above the 160% and I assume that this is what you actually wanted to ask, if you don't need to be 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 build in quite a lot of conservative things. So, you ask how the RFP and (1:00:15) is developing and the financing, I think when you would calculate all the funds in our German Life subsidiary, we come to a substantial number in the percentage of the reserves, it's clearly above 25% we have on the asset side as well also on the liability side a cushion and I wouldn't see any (1:00:47) financing out of the operating results based on the starting point. And even if we do the calculation longer than the eight years, nine 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 (1:01:15) outgoing to 0.7% down would still be carrying through as a fairly low number. Well, you never know how many years quantitative easing in Europe is holding but it's certainly not in the next couple of decades. Okay.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Thank you very much.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yeah.

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 because I think there is a bit of confusion in the footnote just wanted to understand how yours compares to some of your peers. And then secondly on the Life business, I'm intrigued by your forecast of roughly flat profits given though the great achievements you're making in shifting mix. I thought that you're defending your margins. I was just wondering what you think the drivers are of that. And then associated with that, you mentioned the 2.7% reinvestment yield at Life, but you're making considerable investments in real assets, so what do you think the income yield would be if you're including those real assets on top of the 2.7%? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Okay. I take the easy question on the U.S. RBC ratio. So up – we actually had in the disclosure we called it 100% RBC, that is a classical insurance style misleading information. So we mean 200% of local statutory requirements, so what the 200% is called the company action level that means that it's sufficient. I can also turn it around in the other way. As you calculate now the group solvency as the weighted average between the U.S. number and the internal model number, our U.S. number goes into the calculation with 175% because we run day-to-day also due to our A.M. Best rating of the company at 350% of statutory base requirements, so the 350% divided by 200% capital action level, so you have a 175% ratio how it's then being rated with the ratio of the internal model countries, so it dilutes slightly the ratio. And the forecast on the...?

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Yeah, the forecast only from the life, you can say that the current yield all-in-all will go down something between 0.1% and 0.2% every year because that's the running rate you have in there where real assets are included.

Q - Farooq Hanif {BIO 4780978 <GO>}

No, I mean sorry if I may return on that, the 2.7% that you are making your fixed income maybe I misunderstood your answer, but how much additional yield you make on top of the 2.7%?

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Yeah, that is also described on PB6 if you go only for the real assets all the turn to fixed income assets are included in the 2.7% and if you go now only for the equity part that's real estate, that's equities, and that's the renewable part of infrastructure there, the running yield, current yield is at 4% and then you can say in addition to that also price increases but that depends very much on the asset class that can be something between 2% and 5%. But I can't tell you the influence on the reinvestment yield. What I've said right now is the influence on the yields of the portfolio for the next year and the overall impact of lower interest rates and the lower reinvestment yields including their – include the real assets is about 0.1% or 0.2% lower for next year.

Q - Farooq Hanif {BIO 4780978 <GO>}

And do you think this is why you're focusing flattish-like profits or is there other...?

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Yeah, true, true. Right. Because we have a growth of all in the business itself.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, thank you very much.

Operator

. Our next question comes from Andy Broadfield of Barclays. Please go ahead.

Q - Andy D. Broadfield {BIO 7273415 <GO>}

Hi, there. A couple of question, please. Just on Italy P&C, I see you may have asked this – answered this in the past but I'm just wondering the organic number, the organic growth if you like or internal growth is negative, and given your very strong performance there, I would have thought that was the – part of the strategy was to try and see if you could actually grow that. I was just wondering if you can explain why that was negative to P&C internal growth in Italy. And on your decision to include U.S. equivalents when in the past I think you described 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. And I'm just interested you've included it now – is this now is in for good or is this – is this a sort of strategy to cherry-pick or just whatever is convenient, I'm little confused why you should do that now. And just a final question, just on your slide B 8, 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 is it mean that you'd be break-even by the end, I'm not quite sure how to interpret quite what that statement is?

A - Michael Diekmann {BIO 1733646 <GO>}

So, Andy, hi, maybe I can start with the Italian type. If you look at the market, the price or rate development is negative. We are better than the market here and that's the internal growth, right, 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, and so we divide between organic and un-organic growth.

Q - Andy D. Broadfield {BIO 7273415 <GO>}

I guess my expectation was that given the very, very good margins you're making, I know the market is in general as well but you were still some way ahead of the market that you'd 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 we do, the risk gross is there and the gross of the organic growth is much better than market I think, the market has declined by around four percentage points.

A - Dieter Wemmer {BIO 4755450 <GO>}

And Italian motor market is down 6%, 7% over at least the first nine months or 12 months figures I have not yet seen so both the market minus 4%, motor minus 6%, minus 7%, so minus 1% a small increase in market share.

Q - Andy D. Broadfield {BIO 7273415 <GO>}

Okay. So probably policies in-force is growing but premiums not?

A - Dieter Wemmer {BIO 4755450 <GO>}

Yeah, sure, that is – we are coming from a substantial outperformance on motor combined ratio that is what you expect or not. We are keeping a strong positive distance to the performance of the market but you cannot expect that it just not does not relate to the market. And your question on U.S. equivalent, well, as I said, I think on one hand it is certainly good for the overall capital management, I think it makes us more comparable to our peers and then 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 the approval process and the simplification of it is actually also not bad. And U.S. life businesses in particular for European regulators are quite an alien portfolio. So the simplification overall I think is only helpful to us in (1:10:56) in negotiation 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 effect as the current interest rate level, yes it had a positive effect. But as we all believe that the U.S. will be the first country in the western world to recover interest rate so mid-term the impact on the Solvency ratio is very flattish.

Q - Andy D. Broadfield {BIO 7273415 <GO>}

So you say, you persist with it now that that's in and that's going to stay?

A - Dieter Wemmer {BIO 4755450 <GO>}

Yeah, well, then you're not filing it – well, I can't say forever because what it 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 D. Broadfield {BIO 7273415 <GO>}

And, will you manage the business based on U.S. equivalents or based on maybe sort of consistent...?

A - Dieter Wemmer {BIO 4755450 <GO>}

Internal benchmark and pricing of the product speaks to our internal model which is not completely consistent with the Solvency II model, we have some strict economic assumption and the Solvency II legal tax is stipulating.

Q - Andy D. 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 basis points to 7 basis points. What is shown here was a reinvestment yield of 0.7%, it's a 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 yield of 0.7% to pay all the guarantees.

Q - Andy D. Broadfield {BIO 7273415 <GO>}

So it's effectively no earnings, no dividends?

A - Maximilian Zimmerer {BIO 2557503 <GO>}

There are dividends, but these are minimum dividends there. This is a requirement by law.

Q - Andy D. Broadfield {BIO 7273415 <GO>}

Okay.

A - Maximilian Zimmerer {BIO 2557503 <GO>}

And only to compare that number, it had been at 1%. That means we have lower to minimum numbers also due to some measures we have taken that's also the VVR (1:13:46) but also the extension of the duration and the new products have also worked into that direction.

Q - Andy D. Broadfield {BIO 7273415 <GO>}

Okay, thanks very much. That's very helpful.

Operator

Our next question comes from William Hawkins of RKW (sic) KBW.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you. I think I was at KBW. Three quick questions. What's the outlook through 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 in the rest of the 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. And secondly, I think this has been asked before but I've forgotten the answer. Last year, how are 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 that it was much north of 2% on governments? And then, finally, I think you referred to more performance fees in PIMCO in 4Q of 2015 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 PIMCO performance fees. Yeah, it was not really clear when the maturity of the – that is BASIL II closed fund would happen. It depends in the investment targets reached and then the sales start and that is now being expected in the month more at the end of this year. So, probably starting somewhere in September, October, November, December and that would then bring in the performance (1:15:43) 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 2016 or is it actually an aggregate bigger number?

A - Dieter Wemmer {BIO 4755450 <GO>}

It is certainly an effective number but 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, Q2, and Q3 that is just by the fact of the performance fees. And in 2016, 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 the outlook Life investment margin is still in this range of 75 basis points plus, minus. So with the mark-to-market of some of the investments, it's 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 B-7 I think, the reinvestment yield on governance 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 U.S., and then emerging markets around a little bit more than 20%. And in the developed markets, the average reinvestment yield was at 2.2%, on the emerging markets side it's 4.5%. I wanted to say that emerging markets sits two-thirds usually hedged against euro or U.S. dollar and the rest usually is in local currency. And the average rating on the emerging market was a BBB and on the developed market it's 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 Mitchie (sic) [Andrew Ritchie] of Autonomous. Please go ahead.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Hi, there. A couple of quick questions. First of all, just on the guidance, the midpoint of the guidance there. What's your – what's the overall tailwind from FX that you're building in there. I think roughly back of the envelope it would be a couple hundred million euros. May be just clarify what is your overall FX benefit in 2015? 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 outflows being higher than you expected. So what gives you confidence that we'll start to see some stability in those outflows and may be bring us up-to-date on that? And I guess the other point on PIMCO as the margin continues to deteriorate, what's your feeling in terms of the resilience of the margin from here? That was it. Thanks.

A - Michael Diekmann {BIO 1733646 <GO>}

I don't know whether I really got you right in about the missed guidance, if you refer to the upper end of...

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

No, no, I'm referring to the 2015 outlook and what's the tailwind assumed – the tailwind from FX in the 2015 outlook, that must be quite substantial...

A - Dieter Wemmer {BIO 4755450 <GO>}

Maybe I'll do the FX tailwind. We have used in the outlook calculation, a euro-dollar exchange rate of $1.20. So that means current it's more $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 J. Ritchie {BIO 18731996 <GO>}

That's still an average 10% lower rate – sorry, 10% better rate than 2014 I guess?

A - Dieter Wemmer {BIO 4755450 <GO>}

That is 10% better than 2014 there, it was $1.33 was the average so it's $0.13. So that makes then some €250 million, €300 million for all the U.S. businesses together so that effects for U.S. Life business, which has obviously with the great new business and improved profitability next year and the P&C business right in the U.S. and also the asset management.

A - Michael Diekmann {BIO 1733646 <GO>}

And the confidence on the PIMCO's part, I think we are mentioning this 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 both 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 U.S. corporates plus pension funds as well. So the first wave that we've seen of outflows was linked to retail investors in the U.S. And I think that is probably always the weaker 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 patterns now that we are following, we think this wave one on the retail side, wave two institutional investors and trustees is over. And I have 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 U.S. but also in Europe, Asia, and 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 there is 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'm 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 J. Ritchie {BIO 18731996 <GO>}

So, do you 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 would expect them at lower volumes as we've seen in Q4.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

And the discussion on margin, I know there is a mix effect?

A - Michael Diekmann {BIO 1733646 <GO>}

Sure.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

But in terms of is there any pricing effect as well as a mix effect?

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Well, I would say it's natural if you lose retail clients in order to 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.

It's mainly a mix and going forward in 2015, I think there is more the point that we have still in 2015 the heightened expense level with the retention program. So certainly in 2015, we will not have the cost/income ratio starting with a five. The cost/income ratio will probably start with a six but that is with a heightened expense spending quite obvious but that is the investment and all this will change with restructuring program at PIMCO and I think what we have forgotten to discuss and mention is that actually as the total return fund regained its five-star rating, so I felt a bit premature we reduced forecast and now after everybody recognized that also the new team is actually understanding how the total return fund works actual performance data, it's very good, in particular, last month was really adding a top month. So we are back on track with this month, and it is always getting the highest media attention, I think that it's also been pivoting the development of PIMCO in the future.

A - Dieter Wemmer {BIO 4755450 <GO>}

And 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 location of Allianz. Now, as everybody is talking about equities these days, probably if you could, it would be invested at a much higher rate into equities, welcome back, déjà 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 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 a portfolio manager who is best at that and I think there is no doubt out there that the reputation of PIMCO was not only on for the Gross but by the whole organization.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

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

A - Dieter Wemmer {BIO 4755450 <GO>}

February, it's substantially lighter than January. I think we are not disclosing the number but the trend is really clearly fine.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Okay, thanks.

Operator

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

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

Thank you and good afternoon. I have two questions, please. My first question is just around technology and digital and I was keen to kind of get your thoughts on how we 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 kind of efficient target operating models and implementing best practice throughout the group? And then, kind of looking forward a bit more over the next few years I mean technology and digital is creating a number 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 just to get. But I just wanted to kind of get your kind of big picture thoughts about what the future actually looks like for properly digital enabled companies as Allianz should intend to be?

And then secondly, just in terms kind of earnings growth potential, I mean it's kind of linked to the first question. But at the moment, your guidance for next year is limited in terms of earnings growth, but I clearly understand with the low bond yield environment. But you've got 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 is 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 U.K. So I guess once we get past this initial kind of headwind in the next year or two of lower rates and just invest at the level of investment that's needed, what is the kind of medium-term earnings growth potential for 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 we 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 operating model that I think is really pre-for a change on the business model side. The first thing that needed to be addressed was the move to get away from the sales channel steering to multi-access steering. Then we have rationalized product portfolios and we've rationalized the IT platforms. Then we founded AWP as a sort of central source for our 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 was in the Allianz world and now we can target large corporate customers as well. So there is 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 a higher attention on this.

But the same sort of partnerships that our French friends are undergoing, obviously, we do as well. We do this as little bit more silent on the automotive side, on the telecommunication side. We are talking to Internet companies just as well and we have a little innovator – innovation platform in AWP and here in unit, we know that it provides us with some interesting ideas, but also as a partner for venture capitalist partners in outside of Europe. So I think there is a whole range of things that obviously and that is more a focus from Oliver and our COO. We'll then at some point in time not only reach these levels but also get into efficiency that right now all these gains are being reinvested developing further capabilities. But 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 A. Shuck {BIO 3680082 <GO>}

Okay. Thank you very much.

A - Michael Diekmann {BIO 1733646 <GO>}

You're welcome.

Operator

Our next question comes from Jon Hocking of Morgan Stanley.

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

Hi, good afternoon, everybody. I've got three questions, please. Firstly on capital. I wonder if you could comment as to whether you made any other methodology changes in the fourth quarter in addition to the equivalence and (1:34:06) you mentioned internal model approval you're starting next quarter. Could you comment on whether you'd be above 160 if you're using the standard model and vis-à-vis the internal model? So that's the first question.

Second question on the sort of net cat experience, on the headline numbers, you look like you've got a bit sort of headwinds to the numbers in 2014, but you mentioned some of the smaller losses maybe wouldn't be classified as nat cat over large than normal. I was wondering if you could give the number as the benefit you saw on your viewing 2014 from nat cat. And then just finally on guarantees, on the slide, I think it's B8 you've got minimum guarantee for your business across the life book of 100 basis points, I think. I just wonder what your view was given equity yields have declined, is there an argument that that ratio will be coming down faster than it is, I would argue but I guess even a 0% guarantee is very valuable in this environment? Thank you.

A - Michael Diekmann {BIO 1733646 <GO>}

Sure, let me first start with the capital change within the model. There were a number of changes included which I think in total actually being more or less neutral. We have that equivalence I have spoken about then the reduced – the charge for the government bonds for the (1:35:45) risk from a full chart like a corporate bond to what the regulatory calls the domestic life model. On the other hand, we increased the risk changes because we introduced pension risks for our own pension liabilities and then there are some technical things on the treatment of (1:36:10) that technical in nature. As we are applying for an internal model, we are not talking about our standard model number. On cat net sorry, yes.

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

So I can just come back on the sovereign charge. So how does the sovereign charge work? You said you mentioned domestic life but I'm not familiar with that, how do you say is the smaller charge and the similarly rate for corporate, I guess?

A - Michael Diekmann {BIO 1733646 <GO>}

Domestic life is a variation where are not taking the true full change of life you had in a corporate bond that included process at the group level we only apply a favorable charge only on domestic and government bonds usually in foreign currency not the full, let's say, treatment. These points are then considered to be AAA, otherwise they are assigned the actual rating if held outside the country of issuance. So that was an agreement with supervisory college that actually empower group model. Italian and Spanish bonds are being treated as equal to corporate bonds with their credit checklist but in the local model, they are being treated at a risk free for the standalone legal entity. So that is more on the subsidiary level and not on the group level.

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

And in the cross-border bonds are they getting charged and again...

A - Michael Diekmann {BIO 1733646 <GO>}

Cross-border gets a charge also on the local model. But in the group model, we treat everything well cross-border which means from a churn perspective as a German bonds are anyway AAA, so that that is then not a change.

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

There in the U.K. should be carrying extra capital for the trade, but not on the subsidiaries?

A - Michael Diekmann {BIO 1733646 <GO>}

That is true.

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

Okay. Thank you.

A - Michael Diekmann {BIO 1733646 <GO>}

Yeah. But besides the cross-border, so if you have Italian bonds in France or Spanish bonds in Italy, then you have also it as your model.

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

Okay.

A - Michael Diekmann {BIO 1733646 <GO>}

And I think the net cat traction, I think compared to our standard tax budget in 2014, I think we have around some 336 bonds but million consumed less. So a percentage point plus.

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

Okay, thank you.

A - Oliver Schmidt {BIO 2473131 <GO>}

Now, the question to the guarantees?

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes, the many...

A - Michael Diekmann {BIO 1733646 <GO>}

Yes, I can do it. I said for this year, we expect something between 0.7% and 8% what is the reason for that in the bigger market the German speaking countries, the guarantee levels are lower than – maximum levels are 1.25% that means it would be significantly lower and sequential over all of the business mix and that means we tried 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 these locked-in guarantees for the crediting rates. We have also new product in that respect and what is also very important, I think even more important is if we try to reduce the duration of the guarantees. That is very important because otherwise you can't go for matching approach on the asset side.

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

Do you think you're in a position in Germany where your guarantees can be less competitive given the financial strength of your client or you're still offering a similar level to your competitors?

A - Michael Diekmann {BIO 1733646 <GO>}

No, the (1:40:08) I think is a very good example. We were the first 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 has signaled on the customers to set aside but also competitors try to copy us right now.

A - Dieter Wemmer {BIO 4755450 <GO>}

And that is half of all the sales to the individual customers.

A - Michael Diekmann {BIO 1733646 <GO>}

Right.

A - Maximilian Zimmerer {BIO 2557503 <GO>}

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

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

Okay. Thank you.

Operator

Our next question comes from Thomas Seidl of Bernstein.

Q - Thomas Seidl {BIO 17755912 <GO>}

Hi, thank you. Good afternoon. Three questions from my side, please. First on capital, again, one of the true performer, you had 191% which provide enormous volatility throughout the year if you strip out the life one-off 25% drop in the quarter and also looking at the sensitivities as described by the interest rate, what makes you comfortable that you are not coming pretty close to the 160% threshold for the dividend? First question. Second question, investment management, I think you mentioned rightfully that you're constrained to fixed income. Now, with the additional headwinds from QE and also considering the various trade expertise you have throughout the group, should you not expect Allianz to take here and there more credit risk to mitigate the impact?

And thirdly, on PIMCO, Mike, I think you mentioned for the first time you didn't start the equity seen at the PIMCO probably 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 - Dieter Wemmer {BIO 4755450 <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, some 3% of the total and that will take time to develop. And I think it's good to have that in there, but sorry, it cannot change and should not change the focus on the fixed income side.

Q - Thomas Seidl {BIO 17755912 <GO>}

(1:43:10) I think?

A - Dieter Wemmer {BIO 4755450 <GO>}

Well, we're talking about here, I have my specialist here, what is the equity portion of...

A - Oliver Schmidt {BIO 2473131 <GO>}

€31 billion.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes, €30 billion to over €1 trillion.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay.

A - Dieter Wemmer {BIO 4755450 <GO>}

Is in the 5%.

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Look, I think the active capital management over the same procedure, you have your current position. If you look at how value could reduce that, if required, so you have a list of items which are closed or already in execution and then you have a list of things to keep at the next layer of contingencies, if necessary, and that is how you will manage your number and that gives us the confidence that you can do it.

A - Michael Diekmann {BIO 1733646 <GO>}

You asked about the credit risk, how we ended that. You 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, can you - on the fixed income which is a large - obviously should we not assume that it take more credit risk here and there to mitigate the headwind?

A - Michael Diekmann {BIO 1733646 <GO>}

Yes. And I wanted to start right now with the answer. At first, you have to have a closer look on the credit spread, 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 in therefore take usually more credit risk. If I think of the credit spread levels right now, they are very low point but - and 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, mortgages 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>}

All right, thanks a lot.

Operator

Our next question comes from Frank Kopfinger of Commerzbank.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Good afternoon, everybody. I have two questions on your guidance and the first one is on - could you remind us again? I think, Mike, you mentioned €500 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 the second question is on PIMCO again on the Q4 cost/income ratio to 64%, I understand that that part is driven by the management retention program which stays (1:46:13) but also driven by mixed effects and marketing effects. So what is your guidance overall for the year or what sort of cost/income ratio is reflected within your new guidance?

A - Dieter Wemmer {BIO 4755450 <GO>}

So, first of all, I think that €500 million (1:46:37) that was a misunderstanding. The €500 million, it's a loss of our three P&C units of Russia, Brazil and U.S. which we don't want to repeat because we would fracture 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 in the upside. PIMCO, I said that's a cost/income ratio for 2015 starts with a six.

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Now, you add a zero.

A - Dieter Wemmer {BIO 4755450 <GO>}

And you add a zero, yes. That is then depending on how the whole year plays out and depending also that whether we need some additional investments or whether we can both also start already to come back to normal so that we will see soon as it happens and be 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 without the overall promise of the operating profit of €10.4 billion and we don't want to meet 65 KPI parallel, that is in the end the size of the organization probably has to do.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Thank you. On the low hanging fruit in P&C, what would you say out of this €500 million is a realistic low hanging fruit?

A - Dieter Wemmer {BIO 4755450 <GO>}

Yeah. Well, that would be really disappointing when we have the same result again. In the U.S., 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 this remaining policy, we can't lose €180 million, I believe. And Brazil, I think we have started early to work to translate into a better business. The management team is fairly new in place, six to nine months and will be strengthened further in the next weeks. So I think what we can do is...

A - Maximilian Zimmerer {BIO 2557503 <GO>}

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

Q - Frank Kopfinger {BIO 16342277 <GO>}

Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Thanks.

Operator

Our next question comes from Nick Holmes of Société Générale.

Q - Nick Holmes {BIO 3387435 <GO>}

Hello, hello, guys. Thank you very much. Two questions, please. The first is coming back on equivalents. Thank you for clarifying that you're at 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 U.S. or something like that. I'm sure there are lots of areas for difference. I'm sure you are very conservative in all sorts of areas.

My second question is for Michael, it's again on the U.S. and the question is when I look at the EV sensitivities of the U.S. 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 U.S. new business value in 2014, it's merely 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 - Michael Diekmann {BIO 1733646 <GO>}

Yeah, I think, Nick, I am confused about your question because I thought I explained very well that we are – that our base is 200% number, and not a 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. That is when you want to be an A+ company and the A.M. Best that is what we want to see. And that is exactly what we do, that means in the calculations, 350 divided by 200 is 1.75 and the 1.75 goes then into this average calculation.

Q - Nick Holmes {BIO 3387435 <GO>}

So, Dieter, sorry, are you saying that you're 200% of the authorized control level, the minimum level?

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes.

Q - Nick Holmes {BIO 3387435 <GO>}

Because your peers are definitely saying that they have a coverage of a company action level. And so of the company action level, are you 100%, aren't you?

A - Dieter Wemmer {BIO 4755450 <GO>}

That is the corporate action level, that is exactly the 100% number and that's...

Q - Nick Holmes {BIO 3387435 <GO>}

Exactly. I mean I'm not – I'm saying it's not a strong level. Absolutely, I mean it is a strong – it's 200% or 175%, however you calculated of the authorized control level, the ACL, but my observation, this is just an observation is that the other company, your peers are reporting 200%, 300% and so there does seem to be a difference. But I think there may be lots of differences. You may be calculating capital in a different way and just like that?

A - Dieter Wemmer {BIO 4755450 <GO>}

As a ratio, they are reporting this, but look, as far as I know right when you are in the A.M. Best discussion locally the 350% at base requirement, actually what most companies are doing that is the standard number you find for most large U.S. companies and I'm also used to since the last 20 years. So I think it is pretty much the same everywhere. How you translate it then into a ratio here into the calculation, I can tell you what our peers are doing, I often told you that in our calculation, the ratio is 1.75.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay.

A - Dieter Wemmer {BIO 4755450 <GO>}

Maybe you asked question, what ratio is actually added in this rating average and then you get a good stable (1:14:30).

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 act 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 - Michael Diekmann {BIO 1733646 <GO>}

Maybe I can kick in with the FIA business, I think. We are all a little bit traumatized from the old VA experience here. And you are right, we do have a sensitivity to market movements in this business. Now, if I compare and I'm on page A-62, the KPIs for the new business margin in this business, we have a 3.4% and 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 to 0.3% guarantee and then we have a lot of management levers where we can adjust product on, I think, it's an annual level but may be even more frequently, we have a much better expense efficiency in our – again, that business now because of fee and scale and we do have a dynamic hedging process in place that help us as 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 what the U.S. 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 U.S. business is we don't want to inject capital and we want to see some dividend flows and they have managed very well to stay in line. With that, we've got some €150 million to €250 million dividend from Minneapolis.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Thank you very much.

A - Michael Diekmann {BIO 1733646 <GO>}

Welcome. Do we have more questions, Susanna?

Operator

Yes, we do have one more question. Do you wish to proceed?

A - Michael Diekmann {BIO 1733646 <GO>}

Thank for this. 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 C. De'Ath

Yeah. Hi, everyone. Thanks for squeezing this one in. A couple of very, very, hopefully, quick questions on the investment side of things. So – and going back to slide B8 on 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 guarantee business because that 0.7% number would be significantly higher for those. That's question one.

And the second question quickly is on the increase target for reinvestments. We've significantly increased that mid-term target to €110 billion. However, you've obviously as part of the dividend changed and 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 - Michael Diekmann {BIO 1733646 <GO>}

So let's start with the first question and I need to remind you the – at least if you are seeing the bag of the business in Germany center for it, let's say, 40% of the overall business and also that viewing Germany as a long-term guarantees and also the guarantee level in comparison to most of the other companies is the highest, it is right now 3%. Therefore, we make this calculation especially for last Germany. In Europe, I've seen there is no other country which has an average similar guarantee that it is not the same durations of our total number of 3% won't be reached by them. Now, the RfB, this €25 billion RfB, that is alone €10 billion that is 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 an RfB. We didn't do any calculation for other countries, I need to say that, but they are also not as significant as Germany is.

A - Dieter Wemmer {BIO 4755450 <GO>}

For example, in France, our efforts guarantees 0.7%

A - Michael Diekmann {BIO 1733646 <GO>}

Yes.

A - Dieter Wemmer {BIO 4755450 <GO>}

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

A - Michael Diekmann {BIO 1733646 <GO>}

True.

Q - Paul C. De'Ath

Okay, great.

A - Michael Diekmann {BIO 1733646 <GO>}

Okay, yeah. 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 Meeting. Thank you and good bye 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.