S&P Capital IQ

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Allianz SE DB:ALV

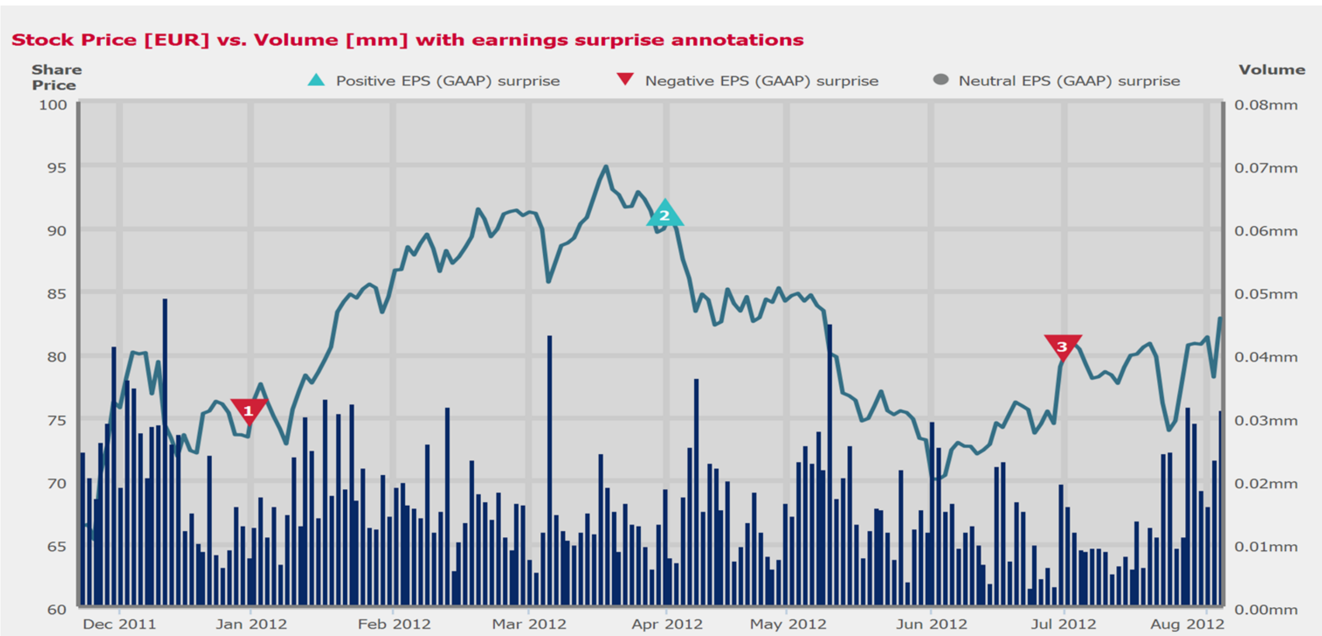
FY 2012 Earnings Call Transcripts

Friday, February 22, 2013 10:30 AM GMT

S&P Capital IQ Estimates

	-FQ4 2012-			-FY 2012-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	ACTUAL	SURPRISE
EPS (GAAP)	2.55	2.66	▲4.31	11.12	11.34	▲1.98
Revenue (mm)	20597.88	25900.00	▲25.74	99949.24	106400.00	▲6.45

Currency: EUR
Consensus as of Feb-22-2013 8:28 AM GMT



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All right. Yes, good morning to everybody here in the room, and good morning to those who have joined us online today. Welcome to our Analyst Meeting on the results of fiscal 2012.

Two quick remarks before we begin. We would appreciate it if you could turn off or switch to silent mode your mobile phones, and as a special request from our legal department, please note our disclaimer on forward-looking statements in the back of our handout. That's all for me for now, and with this, I'll hand over to Michael.

Michael Diekmann
Chairman of Supervisory Board

All right. Good morning, everybody. Thanks for coming to Munich, despite the winter weather and the coming weekend. I hope we don't see delays in flight schedules this afternoon, maybe it looks a little better than this morning. So I'm happy to present with a new team around me with our little test performance yesterday. And I think most people who can read German newspapers saw that I think the reception was pretty good, even if we've touched on some delicate issues, go deep down in the German D&A, on Life insurance evaluation results and other nice stuff.

So before I start, I would like to make a couple of geopolitical comments, because I think there's an abundance of political events waiting: first of all, on the weekend, the Italian elections, the budget discussions in the U.S., what's going to happen in France over the next couple of months and how is the market looking at, what government is going to do or is doing. Then maybe more on the sideline, but not totally irrelevant, we're going to have elections in April in Egypt, which some people don't really have on the focus right now. Government is running out of money on a really fast, fast track. Money is lasting for another 6 months. A lot of the government money is going into subsidies for food, other in electricity, and IMF is being made subject to further budget cuts, which, I think, is a very, very difficult situation in Middle East. And then obviously, we have all these spring elections in Germany, which has already started in the sort of pre-election mood was a lot of statements from politicians from all parties, and I think this is a very concentrated cocktail of decisions that investors should keep in mind when we talk about, I think, the major topic today, which may be dividends.

Now let me start with my little presentation. When we look at 2012, I think the -- from a macro operational level, we've seen very consistent performance of all our operations, with some outstanding, and I'm only mentioning on the positive side, PIMCO, I think P/C Italy is very, very positive, continuous surprise. We have -- and I'm very happy about that, good progress in Germany. On the P/C side, Life is good anyhow.

And on the negative, obviously it's Fireman's Fund, we're going to talk about that, and Allianz Banking and we're going to talk about that as well. And then I'm very happy that Max Zimmerer is going to give us a little more detail on the reinvestment environment, which, I think, is the challenge going forward.

Now when we look at the start of KPI level, I only want to mention 2 points. A little on the weaker side is the new business margin, which, I think, is not a surprise in this interest environment, but I think there's some good news, because, if you look at Q4, the new business margin has slightly recovered, so we see sort of upward trend compared to the 9 months, which was at 1.6, now we're at 1.8, so obviously Q4 was better.

And then the second point that I would like to mention is the rating. We had pretty significant capital or undercapitalizing on this position. That has gone now so we are in a slight excess situation to our AA rating, which obviously is good because rating will probably pay -- or play role in our discussion on the dividend.

Now when we look at the operating profit, and I'm not going to go into the details because otherwise there's little left for Dieter Wemmer. There's one question that one could ask is did we send back when we did the outlook last year? And I think not really, because as good as the result, it's obviously was a very favorable development environment when we look at NatCats on the P/C side. We did some duration lengthening, especially on the German Life book, which obviously led to higher investment margins. And then we had exceptionally high-performance fees that I think could not have been predicted with certainty before. So I think, overall, conservative outlook but no sandbagging.

Now my darling chart, everybody has a darling chart. This is my darling chart. It says we grew operating -- they grew the operating asset base, which is one obvious driver for operating profit and that partly compensates the full year decline going forward. And I think there's an interesting one that we need to analyze a little further. If you see the development after 2008 and then the interests and some of that income in 2009, which obviously then has a direction [ph] to 2008 operating asset base, I think you could make an interpretation that after the start of the crisis, there's a little bit of a flat to quality with assets becoming more sticky and growth of assets faster, obviously helped by market.

Now the line for the last year on the operating profit, I think, is very promising. The underlying profit drivers grows in the operating asset base. Cost-income ratio on the Asset Management side and combined ratio in P/C are getting better, and we're trying to talk to that today, what is the loss ratio development and so on. And then obviously, the composition and diversification works very well, because the cash generators' contribution from P/C and Asset Management are increasing year by year, which, I think, in this environment is a good indicator for future earnings as well. I don't want to go into this one too much, but I want to take you back to what did we do in 2003 to 2011.

And now what is the focus 2012 going forward, and I'm going to talk to all these points in a minute. When we sat down this year and the Board of Management to do a little review about what has happened and what we're going to do going forward, I think the message is we finally left the time of the major minority buyouts and risks behind us, so that we can really concentrate fully now on future and how to position ourselves, and I'm going to give you a couple of examples on that one.

We've talked a lot about derisking. Here are a couple of examples. I'm not talk too much about that because, basically, that's part of the presentation then of Max Zimmerer. But we've talked about reducing risk exposure and here are a couple of facts.

Dividend policy, I heard from Oliver and his team that the reaction on the analysts side was, let's say, not too happy. I'm sorry about that, but I think when we discuss this point, I assume I won't make you happy but maybe understand a little bit more about the rationale behind this decision. Going forward, our first priority now is to work on the net income instead of the payout ratio, and we've done quite a lot in changing the incentive structure of the whole group down to the lines of business and the operations to have a clearer focus on cash and net income. In the past, it was more on operating profit, and I think, in this environment, that's the right steering to do.

Now funding. Obviously the opportunity last year was good to reduce our absolute funding costs, and we see 2 issuances of last year. There's another one coming up, which has a 5% coupon, so there's good opportunity much to replace that as well. Otherwise, if you see the maturity profile of our external funding, I think that is all very good and in good balance.

Now restructuring. We've put a couple of examples here. They're obviously not all. Italy is on a very good track now. The last thing that remains to be done, and that's going to be started well prepared this year, is the merger of the distribution networks. We've waited until everything on the operational side and on the product side is ready, and I think we're in good shape here. Euler, we're going to see the benefits of restructuring from 2010 now and 2014. And Allianz AGI, I think, is in good shape as well. We're going to see the annual benefits coming through in 2015, but we also see the operational benefits much earlier because the focus on AGI on one hand side, PIMCO on the other hand from distribution point of view, from a complexity point of view, I think, is already paying out big time.

And now the latest one is the closing of the Allianz Bank in Germany. It just didn't work. I have to say I'm not too happy about that, because I think our agents missed the big opportunity here. But in this environment, it was just not possible to drive value out of that. So we're going to close it. The benefits are coming through then in 2014, because right now, we're running operating loss every year of about EUR 60 million, and that chapter will be closed and we're going to close the bank or the banking activity middle of the year. And currently, we're in negotiations with our workers consorts.

Yes, Germany is just a little spotlight, where we are in our plans. And I think there was some skepticism when I introduced that on the Merrill Lynch Conference earlier that we're going to achieve our plan. The -- I don't want to take too much away from our Capital Markets Day that we've arranged, I think, for June in Berlin, where you can get the sort of physical experience of where we are. The whole management will be there to present to you at the date down here, it's on June 25 this year. I just want to point out to 2 points here that I think are very encouraging: Improved portfolio persistency. We've taken quite some rate and we see that the lapses are going down so the portfolio becomes more sticky, which, I think, is a good indicator for the whole environment here on the same level when it comes to taking more price. And on the efficiency side, we've done something that we were considering for quite some a while and now it's done. We've put up an internal service company that is dealing with the mass claims and mass policy administration outside of the tariff. It's being put up in Halu [ph], which is a city in Eastern Germany, and that was, obviously, a long debate with our workers consorts, but I think it's an indication that even in a country where you have codetermination, it's positive to do things like this without major disruptions in the motivation of the workforce.

Now Fireman's Fund turns into nearly an annual discussion point. We've announced the starting of the restructuring at the end of 2010. Unfortunately, we were hit by not only adverse claims reserve developments. A lot of that is based on accident years before 2003. Obviously, it has something to do with medical inflation, legal inflation and the discount rates. Then the crop business, I think, that was a discussion between us for quite some time. The drought has taken its toll here, and then storm Sandy in the first quarter on top of that. So while that's obviously a bad result, I think there's a lot of potential here for the next year, because I don't expect the same sort of profits from -- coming again. We've done quite some progress on the restructuring that is a little hidden here. So we've taken out about 16% of expenses already over the last year, and we have some very massive pricing in the books, especially on the commercial lines, which is over 5% in 2012, and alone, the worker's comp book is taken close to 13% price increase.

Now on the Life side. That's the standard chart that I think is of interest. When we look in the technical results, we've got about a 5%. Current yield on our book was a minimum guarantee of 2.6%. So we do have a spread of 270 basis points. When we look at the reinvestment yield for 2012, that's around 3.6%, and the guarantees on new business have come down to 1.7%, so the spread is still at 190 basis points. And you all know that we have these strong buffers, which are part of the discussion that we're having right now in the German environment.

Now in order to become more flexible for a lot of reasons, also a little bit of preparation for something that may come under the heading of systemic, we are eliminating a lot of legal entities, all the cross-border shareholdings that is basically done within one very interesting move. Now you know that 50% of our U.K. operations were in the books of Allianz Life in Stuttgart. We've replaced that now with the distribution agreement with Commerzbank. Now we hold 100% of that U.K. company, which I think is a very good move. And there's more simplification to come, especially out of the Asset Management and AGI where we will -- to reduce the legal entities quite considerably. That makes dividending easier, as just 1 point.

Now we've done another one that -- where we want to test can we combine 2 entities that are running in the same business model? Here, it's the Belgium and Netherlands operation. They are both broker models and we'll get a considerably more scale in order to do the necessary investments into operating systems, and we will get some nice synergies out of that as well. Can't point them out at this point in time because we are still in negotiations with the workers consorts, but that may be an interesting model for the future. We've -- you know that we've tried something similar in the Spanish and Portuguese environment. On the Latin American side, this is a more consequent merger and not just a business model adaptation, and let's see whether that can be blueprint going forward for other entities as well.

Then we've invested on the gross side, and then I'm going to go into some of the points that I've introduced already in the Merrill Lynch Conference and give you some progress report. First of all, I would like to talk about the HSBC deal. I'm talking about that because it's the first time that we've paid upfront for bancassurance. And I've always stated here that, that's something I don't really like, especially when it comes to the wrong economics. I think the economics here are right. It's 2 deals. It's one in Asia, including Australia, and the other one is in Turkey, that we've closed in January. And we've just looked at where the opportunities for M&A in Asia and found them unreasonable from a pricing point of view and also from a scaled point of view. You know that there was ING, and so there was nothing clean that we really wanted to invest in so we thought this is a better opportunity and a cheaper opportunity. I'm happy to talk about that.

Now there is another one that will start very small. We've started with our Chinese strategic partner, CPIC, to apply for health joint venture. I'm mentioning this because we are changing the principle as well. Usually, we go into these joint ventures as a majority partner. And here, we've decided to go as a minority partner, because otherwise, we would not get the benefit of going and being treated as a local and then with the whole market open to us and that means access to the whole distribution network. So I mentioned this because they're a little bit of an exception to the principles we have discussed in the past.

Now in London. I've talked about our intention to build a B2B2C platform that entails our Allianz Global Automotive business. Our Assistance business and our Allianz Worldwide Care business that we are combining now with our French IGO and NGO heads business. The thing is up and running now and the project and the name is Allianz Worldwide Partners. It's not a major operational merger at this point in time, because we want to make sure that we don't lose the steam on the distribution side, and we'll see quite some considerable demand from -- in this area and will also give an innovation boost to the way how we interact with our clients. So that's up and running.

I've talked about another interesting project that is going on and that is distribution enhancement now related to our agency networks. We talked about productivity enhancement. I'm reporting now what are the finer numbers and I'm just talking about the retail product numbers. The status was in 2011 for new agents under this regime, an increase of 16% now in 2012, we have the full numbers. So we have 32% more in policies written by these agencies. We do have a slightly different model for the existing agents. It's another switch when it comes to the support functions, and also here, we see a 6% increase in policy numbers. We have 2,000 of our 10,000 agents running fully on this. Now another 2,000 are in the pipeline right now and until April, we have another 2,000 introduced to that model. And on the left-hand side, you can see that France is in the same model. Some other countries are now starting the rollout and there's another 15 operations who are now taking the program onboard because it's just totally convincing and very successful.

My last one before I come to the outlook is PIMCO. Every year, the performance is getting better and every year, I'm getting the skepticism from investors, how long can that hold? I think there are some very good indications that the trend is not stopping. Last but not least, the new flows in January, which are very encouraging, but I won't take the number away from you, Dieter, so you have some positives as well. But I don't want to go through all these points, but maybe we spend a little time and discussion on them. I am very, very confident that this is going to hold.

Outlook. We will present our numbers going forward in a little different way. We've seen that over the last couple of years, we always had about EUR 200 million to EUR 300 million restructuring costs that we've treated as non-operating cost. Now that this is becoming sort of normal number, we decided that, also from steering point of view, it's better to have these numbers in our operating profit because that also gives us a little bit more discipline on the execution side. And so when you compare the outlook to 2012 results, I'm taking down the EUR 9.5 billion to EUR 9.2 billion, then the outlook will be EUR 9.2 billion plus, minus EUR 500 million. And Dieter will spend a little bit more time in explaining the ranges for the segments. And with that, I'm passing over to you Dieter.

Dieter Wemmer

Thank you very much, Michael, and then good morning to everybody. Let me just go into -- sorry, yes, good morning, everybody.

Let me just go directly into more into the details. I think you have seen the high-level numbers on the group. So revenue number is in the end as it includes 3 totally diverse segments, always a very mixed bag of things, so it is much better to look at it close by segment.

I think on the operating profit, it is important to understand that we are also nicely up with a CAGR of 7.5% against 2010, and the profit comes from all sources, as I will explain during this presentation. Net income, it is driven by higher operating profit and then the lack of amount of impairments we had in 2011. And the balance sheet really looks much stronger under all measurements, and I will show you this during the presentation.

I think interesting to note is that our operating profits now has more contribution from Asset Management than from Life. So Asset Management became our second strongest pillar of the three. And I think, let's go into a little bit of fourth quarter, because we are focusing very much on this presentation on the total 12 months result, because I think that is a more meaningful way to give you more insight how good 2013 looks like than just looking at the last quarter. But it is still nicely to observe that, actually, the contribution also in gross in the fourth quarter were a bit stronger than in the earlier 9 months. And also the last quarter operating profit was actually a quite nice contribution despite Sandy and despite that we are doing every year, in the fourth quarter, the review of the actuarial assumptions in the Life segment. And I will explain this a little bit later why the Life segment in Q4 was a bit weaker than in the earlier quarters.

And so let's start with shareholders' equity, increased to EUR 53.6 billion. Well, so obvious drivers are the unrealized gains and the fixed income portfolio, and then the higher retained earnings. I would actually always focus on taking out unrealized gains and the fixed income because, I think, these are temporary guests in our balance sheet, either interest rate environment goes up again and then the number gets smaller, or as we are mainly keeping the bonds to maturity, that means that unrealized gains are anyway amortizing during -- with the time.

So if you look at the balance sheet, we are still stronger. When you look at our stress tests, we have reduced equity exposures. So a 30% reduction in equity market is almost EUR 1 billion lower as a stress test compared to the year before. And also when you look at interest rate movements, yes, actually with -- and here, I would include the unrealized gains because the 2 numbers just translate into a movement of 200 basis points, would just take away the unrealized gains, which we have currently in the fixed income portfolio.

When you look at our in-numbers for the business as services stated, shareholders equity, 10.5% ROE, so a return to a double-digit ROE. And when you neutralize in our equity, the unrealized gains of the bonds, which are well, materialize as future investment income mostly, our ROE is 11.7%, so actually a quite nice number.

Under the regulatory solvency, the available funds did grow by 2 facts, that is on one hand, retained earnings because a cool for the dividend is obviously unchanged between the 2 years and the other factor are the EUR 2.2 billion additional hybrids we issued in the last half year. So this as a main driver for the higher available funds, and that drives then also the higher conglomerate solvency.

In this calculation, bonds are at amortized cost, that is part of the EU holds. So therefore, the market value of the bonds don't play a role here in this calculation, and -- which you can also see in the stress tests. So the movement of the interest rate levels almost have no impact.

The third measurement is economic solvency. Also this one is at a very healthy level, again, an increase year-over-year also, with all the reasons I mentioned. Additional reason is also that we reduced our duration gap, in particular, on the Life business in Germany, so that is one of the drivers, and then there were quite a number of model updates. But I think we are actually disclosing a lot of detailed information on this question, so that should actually cover then most of the details you could ask for.

Revenue increased, and now when we look at the 3 different segments, on the P&C side to start with, out of the 4.7% total gross, 2.5% is internal. That means eliminating the small acquisitions Michael has already shown on the slide, but also the FX effect, which makes about 1.9% for the P&C segment.

On the Life side, a little reduction in revenues, but I think we have to look here at 2 factors. First of all, we were a bit more restrictive on writing single premiums business, in particular in the areas where the margins are weak. And also I would point here to the bancassurance channel in Italy, where actually weaker margin and also a less focus of the bank on selling insurance products are actually were very much hand-in-hand.

When we would take out Japan, which was still contributing in 2011 to premium volume before we closed it down, then actually like-on-like comparison of the same consolidated group of Life companies, would give a 1% premium growth in total gross number.

Asset management, yes, that is the obvious increase in assets under management, plus a very nice flow of performance fees, in particular in Q3 and Q4, and I will comment to this very much later. I think the color coding on this chart also demonstrates very much how different the quality of the revenues is, because this a little green bar on the chart delivers the same profit than the big blue part of the bar, which really shows you that, that's the total revenue is not a good measurement for the group's weaker segments.

This one is my favorite chart. So because it demonstrates very much that the recovery of operating profit is really coming from all 3 segments where asset management is not only relative, but also absolute. It's the biggest contributor. It's a second dimension, which is actually missing on the chart would be the geographical diversity of the operating profit. When we could add this to the chart, you would also see that the profit recovery comes really from a broad list of countries and is not only focused on one geographic area. And that is also true for the asset management, as I will show you later on the slides.

The only negative point, if you want to say so, is the Corporate and Other, where we have EUR 200 million expenses more than before. However, that is a very deliberate decision how to manage the group because the corporate and others is actually very much driven by the expenses, which we are spending here at -- in Munich, so the EUR 290 million increased costs shown on Page 11 here under Holding and Treasury is roughly EUR 170 million more spent for global IT projects, which drive our strategic direction. Then, additional central admin costs of EUR 70 million, which is not that we are increasing staff by EUR 70 million. It actually includes higher charges for the pension, which we are simply booked for most of Germany, and also we have less investment income here, simply because we are keeping here the cash pool. And I don't need to explain to you where low -- where -- how low yields are at the short end of the interest curve.

Banking and Alternative Investment, a slight recovery. Banking, not yet in positive territory, but I would expect that is going to change in 2013. Overall, as I would expect that this consolidation segment or central expense segment, probably stays in 2013 very much at the level where we see it in 2012.

So now the big here piece between operating income and net income, also nonoperating items. I would highlight a few points because that slide explains very much the swing in the net income between 2011 and 2012. When you look at the bottom line, EUR 2.2 billion less losses in this area clearly explains a big change. It comes obviously from different balance between realized gains and losses, although the realized gains stayed very much on the same level as the year before. We have obviously substantially less impairments. Just to remind you, 2011 impairments were very much driven by write-downs on Greek government bonds and also on the various strategic investments in financials, European banks, in particular, and also less value of the Hartford stake in 2011, which we could actually sell at favorable terms in 2012. So there is another reason for the swing. Where the results we made on the Hartford bonds is not on the realized gains and losses because that is a trading derivative and the trading results are in this fine line as a nonoperating, where you'll see the reduction of EUR 892 million to minus EUR 49 million. We have still a loss here because we still have some extra amortizations also of intangibles. Just to mention, too, that is Selecta, which is a private equity investment where we wrote down some of the goodwill, and the other one we went for an accelerated amortization of our distribution agreement with Commerzbank, which is then from 2013 on hold directly by our Life business in Germany and not anymore in the central segment.

I think that is the most important points. Another point just to mention is the line restructuring charge, which you then see here last time on this page because that will then move to the page of operating items.

For your benefits, the slide also shows how the unrealized gains, in total, developed. But I think that is -- doesn't require any further explanation.

Just to summarize now how to get to the net income development. We have spoken about operating profits, the nonoperating items, so the only open item is income tax. Obviously a 50% increase in absolute numbers just as a consequence of a much higher pretax operating profit or pretax profit in total. But in -- when you look at the effective tax rate written down, we see a way to normalization of the tax rate from -- down from 42% to 36%. Is 36% a good number? Certainly not, because Germany has actually -- should have an effective tax rate between 31% and 32%. So that means we are still a little bit higher over our long-term expectation. There are 2 reasons for this. We have still put some tax provisions up for open tax audits in various European countries for a number of years. And also, we are still not realizing actually gains, which would be, in some of the countries, tax-free. So the financial markets in here have not normalized enough that we can go into a steady flow of tax-free realized gains that is still a missing in our total effective tax rate. So for 2013, I think we can target something around 34%, so a steady move forward in a better effective tax rate.

So now let's go into the first segment, P&C. I have already mentioned the growth, and I will show you this in more detail country-by-country, so let's now spend time on it. It's a strong increase in underwriting results, so cynics among you will say that is all because we're lucky with natural catastrophes, but I will show you that besides having less natural catastrophes, there is also a good contribution from better underwriting and pricing. So page by -- or country-by-country revenues. I think first observation, we returned to organic growth in most core European markets. I think that is a big plus compared to previous years. Yes, Spain is on the negative, but, I think, that is only driven by motor where we have actually more customers and more policies, but the average premium per customer is reducing due to the economic environment, still writing the business at a very good combined ratio, but living on a smaller premium income.

Germany and France are, in particular, driven by motor rate increases; Italy also, but also some growth in volume; Latin America -- the strongest contributors is actually Brazil and the motor business in Brazil. That makes now Latin America equal-sized to our strong central European business. So I think that is a real well developing area.

AGC&S and also the credit insurance, I think, continue to build on their leading global positions, and also our as a sconce [ph] business, which is the market leader continues to go on a very steady pace.

I should make remark here on the U.S. In this gross written premium number is still a substantial portion of the core business, and we are repositioning our activities in the core business in 2013, and that will reduce the gross written premium in U.S. dollars by roughly $1 billion from 2013 on in net and premium that makes, I think, about $400 million.

So when we now go to the improvements of the results, you actually see that the investment income only did fell -- did fall a little bit, so a higher asset base partially compensating for lower yield. The underwriting results plus EUR 700 million improvement of 1.5% in absolute terms combined ratio. I think when you net less natural catastrophes and less runoff result, there is about 0.5 percentage point left for better underwriting and pricing. And that we can also look at on the following page, which, I think, is actually supporting my point that we have a broad geographical support for the improvement in our P&C business. Besides U.S., where we touched already on these very special reasons, all units returned to a combined ratio below 100, also the one where we're not below 100 in the year before. And actually the one who are below 100 we see in some areas, in particular strong underwriting results. We talked about already about Germany. But I think Italy and also France are getting to better underwriting results. Spain, still at a very healthy level and also Latin America contributing with a positive underwriting result despite the high growth.

Australia is an area, which combines very nice net growth. I have forgotten to mention this on the premium chart, we have seen adjusted for foreign currency a 10% growth. Underwritings is at very healthy margins, and actually, that is driven by rate increases to a large extent after the terrible flattened as the net cat events in Australia. We have seen a lot of great recovery on Property and also other lines. That seems to continue, and I think our Australian business has a very good track at the moment.

How can we say more, what can we say and show you more about the underlying loss ratio? I think that when you look at this chart, you would say, "Well, actually, he said it is 50 basis points improvement coming from underwriting pricing, when I do all the calculation on this chart, it's just 20 basis points. So where are the missing 30 basis points?" Well, it is very simple, that the drought and the crop result in the U.S. are technically not qualifying as a cat event. But when you ask me as a person how you would see it, I would say, "Well, the drought is not a 48-hour event. Obviously, it is a multi-month event and, therefore, not officially a cat event. But I think it is a natural catastrophe for the people affected and certainly also for us paying the losses." I think our total loss out of the crop was some $200 million, $220 million in total. So that is -- and I took the liberty to move it to cat losses, because, I think, that gives a better picture how Europe and Australia and the others have worked on pricing and underwriting.

Admin expenses, pretty unexciting story, actually very flat, even this 10 basis points movement is just coming from the addition of book [ph] charge in the last 3 months of the year, because this business has about 10 points higher expense ratio. It is a broker business only and it is 10 points even in the consolidation makes 10 basis points for the group for 1 quarter. So the means, compared to a 2011 level, you should expect for the whole year 2013 when you compare it with '11, a good 30 basis points higher expense ratio due to the consolidation of the new acquisition.

Operating investment income, I have already mentioned a small decrease 2 offsetting factors: Lower yield and EUR 0.5 billion higher asset base.

So now, what about 2013? I think I have seen in some comments that the outlook for Europe is seen as less attractive than the U.S. I personally think, and when you are looking at this slide and this view is shared by most of my business colleagues in the European countries, there is still a lot of opportunity in Europe to grow rates and either it stays at the same growth path as we have seen it in 2012, or there is even more upside, like in Germany.

In the non-European markets, I mentioned already Australia as probably the market, which has the best opportunities and that is, for us, a very important business position.

Then Italy and Spain, driven by motor, have no great hope for further rate increases. That is very obvious. Our motor results in Italy are outstanding, and I think we are going much more for volume. In particular, I should highlight here that our direct business is growing at very attractive rates and also attractive combined ratios. I think the direct business ended the year in 2012 with around a 92 combined ratio, so which gives certainly a good position for the growth.

Now turning to Life and Health. I said already that we were a bit more selective on growth, new business margin solid at 1.8%, and you probably are most interested what drives operating profit recovery.

So the revenues. I think there is no real surprise. Germany Life, actually a very strong last quarter, still a reduction over the whole year. We have put less emphasis on the deposit product, which we have sold more strongly in 2011, but it is a less attractive margin product.

We have good new sales also on full cover in medical. Switzerland, driven by more Group Life business, and Italy is a reduction. It's very much all in the hands of our bank distribution partners. France and Benelux have in a cooperation of a product, which has been developed and is being booked in Luxembourg and sold through French banking partners, have created a very nice additional inflow of more than EUR 700 million. And Spain has, surprisingly, a positive development in new business despite all the news you see about the Spanish economy. And that is coming by a good delivery from our banking partner, as well as positive new business growth in our Asian channel.

In USA, we have reduced our results shared with the customers. That means we have increased our margin slightly and that immediately is visible in the volume solved. And Asia Pacific will, in future, be driven by the new arrangement with HSBC, so the outlook is certainly very, very positive.

Investment margin strongly increased. That is the main driver for our profit recovery in 2012. And here again, 2011 was still impacted by impairments, so we will certainly see or hope to see this not going forward in 2013. But 2012 also included some additional harvesting of realized gains because, as has been explained already, with the 6 and 9 months results, we have lengthened our bond portfolio in Germany, and therefore, we had to sell shorter duration bonds to replace it with the longer-duration bonds.

What is this, the offsetting part for the investment margin is the impact of changing DAC. Well, there is on one hand, that is a mechanic how DAC amortization works that when you have a higher margin then, of course, the amortization accelerates. But also we have reviewed the DAC, in particular, in the U.S. in the last quarter and we have a single accelerated amortization of VA of EUR 125 million, which is affecting the Q4 result of Life, as well as the total change in DAC. And that probably then creates for you the question, "Why was Life in the last quarter only contributing EUR 500 million operating profit or a little bit less than EUR 500 million?"

Yes, one reason is the DAC review in the U.S. and then the increased pension reserves in Germany, Italy and also we added some reserves in our Life book in France, and that is the main driver. And then there was also our reclass of realized gains in Korea from operating to nonoperating. So that are the driver of the lower results in the fourth quarter.

This page, I think, that is more for your reading shows you where the profits are coming from. Still, the big profit contribution from guaranteed savings and annuities. Protection & Health, nice recovery where the driver is -- are the medical results. There is better investment income in the German Life Health Medical business and the better underwriting result in the French Medical business, so level of profits from unit-linked is very much unchanged.

Operating investment income increased by 20%. Well, I think that I could now almost leave to you to explain it. There is the higher asset base driving a natural higher volume of investment income, offset partially by lower yield. It is about, I think, we have EUR 1.1 billion more from higher asset base, roughly EUR 0.5 billion less coming through lower yields and the rest of difference is difference between less impairments in 2012 than in 2011.

New business margin recovered slightly compared to the 9 months number. In 9 months, we had a 1.6%. The new business margins for the last quarter actually contributed 2.0%, which is not driven by a recovery of the financial markets or more profitability in the products, as such it is very much mixed revenue.

Germany had a strong contribution in the fourth quarter and the German new business margin is around 3%, and therefore, that's substantially adding to the average.

I think I leave the new business profitability by region much more to your reading. I think the only statement I would make that we are actually -- including the U.S. above cost of capital, the area where we are still weak and we need to work on is Italy and France, where we are still not returning cost of capital. Of course, that it is also methodology question -- how we -- what interest rates are you allowing in the calculation. That is in particular for Italy $60,000 question. Here, we are using the conservative traditional MCEV approach.

Net inflows in total, 0 in the Life segment, giving you -- well, in the end, a reflection of how we have played the margin and cost game and some market effects and -- actually the interest accrues as for the factors of growth of our asset base.

On the next couple of pages, I want to introduce to you now a new disclosure and it is about profit by source for the Life segment. The technical explanation on pages 32 and 33. I will skip the pages and directly move to the numbers itself and use the numbers to explain to you what is included in what line. Loadings and fees includes also expense charges in the products, and we have split it, whether it comes from premium, whether it comes from reserves or from unit-linked business separately, so you can also see the basis and what margin is included in the product. Where we have profit sharing on expenses with the customers, that is also deducted because we are doing here a profit by source presentation and, therefore, we want to show you the profit contribution and not any cost numbers.

The investment margin is very obvious. That is the investments earned minus guarantees minus profit sharing. Expenses includes, then, all the admin costs and acquisition costs. Technical margin are the profits made on all biometric works, medical, visibility, mortality and so on. And -- well, you can summarize this page very much, that investment margin is pretty much equal to our operating result before you change and amortize the DAC. So total DAC impact is, in the end, neutral because the new DAC capitalization of new business. We still have a very nicely going business in new business terms, is making up for the amortization true-ups and all unlockings in the DAC.

So is this now a good result going forward? Yes, because, I think, with this transparency we can focus much more in the future on actually driving the expense line in the right direction but also creating more profits from the technical margin.

But also on the investment margin, I'm actually not too concerned and let me actually go a bit deeper into the investment margin. What we have done on this Page 35 to confuse you completely, we have changed the yield basis, because, in the end, what we pay out to our customers is not a yield on our average investments. We are paying out the yield to our customers on the policyholder reserves. So therefore, actually from a technical point of view and to put the guarantees and the profit sharing in the right context, you have actually to look what is the absolute investment income you are making and you compare it with your policyholder reserves, because that is the payout basis. And under this measurement, actually, our current yield has not moved a dime between 2011 and '12, so we are still at 5.0%.

Then the next line explains the impact of impairments and realized gains. Yes, year 2012 was better than '11. The minimum guarantee is slightly moving down because the new business generations coming in have lower guarantees. And then the profit sharing that is then a mix of the various countries and also includes, then, the realized gains, loss balance, because we share also this with our customers. So in total, the net margin moved up from 0.6% to 0.9%, and I think that is actually a very good outlook also for the future.

And I have focused on the next page, Page 36, on the 4 main countries, which make really the bulk of our total Life savings balance sheets. It shows you that actually when you start with Germany, a very nice gap between current yield and minimum guarantee, minimum guarantee moving further down. Our new business guarantee is 1.75%. Reinvestment yield in 2012 was still 3.4%, so actually in absolute terms, increasing the gap.

And the U.S. also, moving in the right direction, because we have also here, we've used our new business guarantee to 0.7%, also a healthy reinvestment yields about this level. And I think what is not shown on this picture is also how we manage in the end, the sharing of the excess yields between policyholder and shareholder. In Germany, we have announced a reduction of the profit sharing for 2013 already. And when you -- that drives, of course, also the balance of the net investment margin. Italy, our main measurement was to implement all new policies sold from 2013 on have a 0% guarantee. So it's not a 0 guarantee, it is an explicit 0% guarantee. And in France, for most new policies, we are also at 0% level.

So I think when you look at these numbers, and then Max will certainly talk about more of the reinvestment opportunities, I think we are not too shy looking forward. So that page gives you here a good outlook on profitability but also on the risk management, because that is both in focus.

MCEV, I would not spend too much time on it. The in-force business contribution, maybe, is surprisingly high for you but the explanation is very simple. The regular unwinding is on the market consistent interest rate pull forward and the difference are the real investment income in excess of it. So therefore, you see always in our setup a much stronger contribution in the current environment.

Now let's finish with the last segment, which is the Asset Management business. I think you have already seen assets under management reaching EUR 1.85 trillion, so EUR 1,850 billion, driven by market movements and also net inflows of EUR 114 billion.

I would directly move to the details of the inflow, because, I think, that is the more relevant part. Similar growth story on the third party assets because that is really where we make the money. Our internal asset allocation that is still important for the yield we are making in our core businesses but not important for the growth of the Asset Management area as such. And therefore, I would like to focus you on the mix of our net flows. And I think that slide only shows 2 dimension, but I will also talk about the third dimension of diversification of our inflows.

So the first dimension of diversification is, obviously, the net flow by region. And I think it is not a U.S.-dominated business. It is very well spread and fast growing in Asia and in Europe. It is a good balance between institutional and retail money. And when you would break down the 2012 inflows from PIMCO in particular, you would actually see that only 25% of the inflows are linked to the old so-called coproducts of PIMCO, and that 75% of the new money went into new products and shows how strongly we are diversifying our inflows in as asset classes. And actually I can update this number by the January 2013 number. Our net inflows in January 2013 were EUR 16 billion, 1-6, so don't multiply it with 12, but it is a great start for the year. And out of this EUR 16 billion, EUR 0.5 billion is for Allianz Global Investors, the rest is PIMCO. And within the PIMCO money, 90% of the new net inflows are in the noncore products, or I should say, the former noncore products, because the old core products only make 10% in it.

So it really shows you that we are not that our Asset Management business is not relying and standing still and waiting for the change in yield environment. It is a very active management in customer groups, geography and product classes.

Net fee up. I think I should give you here 2 explanations. Fourth quarter had an outstanding result on performance fees. Of course, performance fees are not returning as reliable as the base fees. But our base fees, when you compare 2012 to 2011, in the end, only half of the growth, which we have seen in 2012, has materialized already in the base fees. Because the other half, obviously, comes with a 6-months delay, and that should be a chance to make up for potential less performance fees in 2013, because the performance fees, we have to see how the performance of the year works.

I think the other things are easy for your reading. And I would probably then go to the out to 2 technical things that are the accounting changes effective January 1, 2013. As you all are being aware, IAS 19 new has to be applied, at latest, in 2013 for all users of IFRS. So therefore, also for us, that means that the off-balance sheet non -- so far, non-recognized gains and losses of our employee benefits have to be booked on balance sheet. That reduces our equity starting January 1 compared to the year-end number by EUR 4.7 billion, to be covered by EUR 1.4 billion of deferred taxes. So the net is EUR 3.3 billion.

Why is the number so big? Well, the reference interest rate you have to use for calculating employee benefits, high-quality duration match corporate bonds. And this rate dropped in 2012, as you all know, substantially. So it is a reduction in the discount rate over the whole year of 130 basis points. And when interest rates are going low on long-term liabilities like pension liabilities, the sensitivities increase. It is getting more convex. And with the level we have now in the books, the convexity is showing you when interest rates will continue to fall 50 basis points further down, will cost us EUR 1.5 billion in reserve, then interest rates go up in the other direction 50 basis points, make EUR 1.4 million, so which gives you already a little view on the convexity. So that is -- should be not a surprise and that interest rates have moved down, credit spreads came down, as base rates came down. It's probably something you are all aware of.

The restructuring charges we will move from below the line for the above the line. I think we have talked about it and explained it, and that then moves me to the operating profit outlook. I hope during my presentation, I have given you enough explanation on outlook that we can actually keep the operating profit in the corridor, which Michael has mentioned before. And I think that is a very strong commitment to continue in a very fragile environment. And how fragile it is, we will see on Sunday when Italy goes to election. And I think besides this, I think we are on a good way with our operating performance.

Then I hand over to Max.

Maximilian Zimmerer
Former Member of Management Board

Thank you very much. Also hello from my side. I have 19 pages, 19 minutes. Hopefully that is sufficient. Should I talk a little bit faster than usual?

Unknown Executive

Please don't.

Maximilian Zimmerer
Former Member of Management Board

Okay. Let's come to the first slide. That's usually the slide where I have to thank all my people from my asset investment management for doing this splendid job. As you can see, the investment income, which is part of the operating profit, increased to EUR 6.2 billion. That is not an unusual number, so to say, if you compare with our 2010, and Dieter provided you already with that comparison. The improvement comes mainly from lower impairment and then also because the asset base has grown, therefore, also in that respect. There was 3% at least higher investment income coming from that.

Now the slide where you can see what are the yields. And the first number is based on the IFRS accounting. There, you can see was that we start with a current yield of 4.1%. If you compare that to 2011, there, the number was 4.2%. It's slowly going down. No surprise, so to say, due to the lower reinvestment yields we achieved. And then if you also take into account the net yield, that means the realized gains but also the impairments, usually the distance between the current yield and the total IFRS yield is around 0.3%. That was also the case in the year 2010. And then you come to 4.4%. If you compare that to 2012 -- to 2011, it's a strong improvement due to the impairments there. The total IFRS yield was only 3.7%.

Now to explain the total performance, that is not a real total performance, also to say that. It's all based on the IFRS book figure, so to say. That means not always we have the market value use but what we have done, we have taken to account all the changes in unrealized gains and losses we achieved in addition to the last year in 2012. And then you come up with a total performance of 10.8%. The main difference between the total IFRS yield and total performance is, you can say, funny money, because the interest rates were going down and therefore, we have higher in reserves in that respect. But what you also can see is that the 4.4% is a real solid number. If you wanted to have higher returns, it would have been very easy to make them in that year, so to say.

Now perhaps, for the first time, I try it now to give you a real market view, that is the column on the right-hand side. On the left-hand side, that you see IFRS number that comes out of the accounting. What is the main difference? There are some asset changes but the main thing is that, on the IFRS side, you do not show the market values for real estate and you do not show the market values for the so-called receivables. These are the loans. If you include them, the number will be a little bit more than EUR 20 billion higher or EUR 22 billion higher, to be precise in that respect. The other changes here are that also we include interest is included in the right-hand side, but also real estate for own use, which is also not included if you take the IFRS number. And then also wind parks are not included because they are consolidated.

The right-hand side view is, for us, very important for the Investment Management because, usually, we are steering our business according to market values. And therefore we'd like to show that you that number. You can see that the main difference is that real estate comes up now to a rating of 4% in comparison to 2%, if you take only the IFRS view. I would not like to confuse you anymore, therefore, in the following pages, we stick to the IFRS view because you can have that also in the balance sheet.

What did we do last year? It was a busy year. On the sovereign side, we have not reduced the exposure. We have only changed the mix. That means reduced and I'll come to that later, for example, in on the GIIPS but on the other hand, have also bought more supranational and also more emerging markets, covered mainly in states and stable. What we usually do is we sell senior banking bonds and go for covered bonds, which we use with development on the corporate side. That is also reflected to be growing more for the industrial bond, so to say, and reduce the banking especially the subordinate one. Their loan, I think, will reduced that position by EUR 1.7 billion.

Equities, what I will show you a bit later, we have reduced major financial stakes. The rest was mainly stable, but due to the strong price development, the overall position is nearly the same as the year before.

Real estate, we try every year to increase a portion by an average, let's say, EUR 2 billion, but also we sell something that meets all net you can save EUR 1.5 billion additional real estate exposure due to active management. And I'll return to it, so I come to it later.

Now -- and that was already mentioned by Dieter, to be active duration management. What we did last year, we extended the duration of the asset side in the, not only in the P/C business but also on the Life business, and that was mainly due to Allianz Leben position. And I show you a special slide on that. The liability side, that is not odd. Usually you should expect that also this number would get higher due to the interest rate development. But there were also some changes, and I think you can see that in the attachment in the system how it will be measure. The duration in that respect, overall, you can see that we have reduced the mismatch between assets and liabilities.

That is not a special example of Allianz Leben position. We decided to go for an active modified duration increase of 1 year to now 8.5. That is -- the 8.5 is including also the market development. We had to sell EUR 9 billion of shorter-dated bonds and then went into the very long-dated. And the mix, you can see here, it was a mixture mainly of France, Italy, Austria and supranationals. These are the countries usually, which provides you with the very ultra-long bonds, which you really use for that over our business, so to say. It was a very good decision to do that because it was mainly done in the first quarter when the interest rates and especially the spreads were very high. And therefore, we gained a lot of reserves due to that. Also, the risk management wanted to have it because -- he's smiling to me, to this action.

This is the reduction of the major financial stakes. You can see here that we reduced it actively by EUR 3 billion. The big bag of that is this EUR 2.4 billion Hartford. That includes also the debentures.

Now as I look on the sovereign exposure, by that I mean the GIIPS countries, including Italy. What you can see that the position we hold in Portugal, Ireland and Greece is not significant any longer. In Spain, we halved it. We have divided the columns in the dark blue one and the light blue one. The dark blue is showing the countries, the OEs, which are in the countries located, and the other one is spread all over Europe. And do you see that the biggest part of the exposure we are usually holding through our domestic insurance companies. In Italy, in the first half of the year, we increased it, our overall exposure, due to the very nice spreads, and also to the duration extension program. And in the second half, then we used also the tighter spreads to reduce the position. Overall, for the full year, I would say it's nearly the same.

Now to the new investment yields. As you can see, we have achieved on the Life side 3.6%. The year before, the number was 4.2%. And on the P/C side, 3.0%. The year before, it was 3.8%. If you compare that was a market development, I think, that is a success. Because overall, the swap rates went down by 0.8% and if you include the corporates, in average it was, I think, 1.3%. Overall, the number therefore, on average, I think these are very good numbers.

That compares now the reinvestment yields of Life and P/C, with the market development in the main sectors of the fixed income. As you can see here, also in that respect, I think, good numbers. We have already seen that picture and you have seen also the details, which Dieter showed in that number. There is only one additional number in there. That's the 4.4% on the left-hand side in the column. The 4.4% shows you the current yield on the assets. And then we go to the 5.0% that's the number relative to the policy reserve, and the 5.3% includes then also the net yield. That means, also, the impairments and the realizations in that respect. And as you can see, and I think Dieter showed it in more detail, we have a wonderful buffer. It's the same as it has been the last 2 or 3 years. It has improved slightly.

And on the guarantee side on the right-hand side, the guarantee -- the average guarantee has been from new business, 2.1% in the year before. In the 2012, it has gone down to 1.7%. Also, this will help us to reduce the average guarantees in our back book.

Now to the outlook. It was a real interesting year, so to say. And up to the moment when, in September, Mr. Draghi announced that he would do everything that the Euros sticks together, I think the interest rate development was really interesting. The base rates were falling but the spreads were very volatile, so to say. It was very difficult to come up with a forecast. Overall, I think we behaved very well in that respect. We do not know what this coming 2013, what makes it a little bit difficult. Is that this more politically driven and usually, we are not so good in forecasting the decisions of politicians, so to say.

Here are a couple of events mentioned. All in all, I'm optimistic that the spreads will, over time, go down, that means for the GIIPS countries. But as you can see, this weekend we have the election in Italy. It's -- even that is very difficult to forecast overall. That means for us, we should be also prudent for the next, let's say, 12 to 24 months. But that makes it difficult to reach also for us interesting reinvestment yields and that is, perhaps, I shouldn't go through that. That is the reason why we think we should also invest in more or in other asset classes, which are not so liquid but where you can earn, I think, a significant premium.

And here, I mentioned the 6 major initiatives we are going for that -- which is from corporate loans to commercial real estate in the U.S, that we are already doing. Then to the retail mortgage platform, which is already in place; but that is within new, the real estate debt team, that is in operation where Allianz Real Estate is responsible for. That means we invest only in loans, in that respect, if we are also optimistic for the real estate exposure itself. If we would also buy, so to say, the real estate, now that we can really say that it's not an additional risk for us. And then also infrastructure debt team, that's a really interesting one because usually, you can achieve in that area spreads between 250 and 350 basis points. That means also very interesting for us, but because it's a new operation, we have also stuffed a little bit our credit team on the inside to have a closer look on what we are doing there.

That gives you an overview over the direct financing. If I include the equity part and the financing part, overall right now, from the EUR 500 billion assets, we have right now is EUR 55.8 billion invested in these asset classes right now. In the near term, we would like to increase that exposure to EUR 80 billion. It's a little bit difficult to say when we will reach that target due to the fact that usually you can't these -- can't buy this stuff. If you would like to do it, usually you need for such a deal at least something between 3 and 6 months, and it is heavily depending what is offered.

Here, in a nutshell, that is the usual complement for what we have done. I think you can read it on your own. Thank you very much.

Oliver Schmidt
Head of Investor Relations

Okay, thank you, Michael, Peter and Max. We will now break for a brief lunch and reconvene in this room in 1 hour at 2:00 p.m. Thank you.

[Break]

Oliver Schmidt
Head of Investor Relations
Yes, welcome back. I hope you enjoyed lunch. And we will now be happy to take your questions.

Question and Answer

Oliver Schmidt
Head of Investor Relations

First question over there, Michael. The gentleman here, yes.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

You mentioned that you changed the targets to the net income in terms of incentives rather than operating profit. And I just wondered whether you could describe that a little bit. And the other point, maybe you could explain a little bit if they -- if you do you have a target in terms of incentives relating to the dividend. And then maybe the final point relating a little bit to that is, and that's pure number questions, in the one-offs in the Life, could you just give us a few numbers in terms of pensions in Germany and Italy and mortality table or something. So just the synthesis background.

Michael Diekmann
Chairman of Supervisory Board

I can start with the incentive income. So far, we had a group target, and it's simply on the Board of Management at this point, where 50% is based on group results, Michael. And that was divided 50-50 between operating income and net income. While the original didn't have a net income target. Okay? So now we're translating for that part as well, a 50-50 split into operating profit, and that's not totally correct. It's a split between net income, operating profit and dividend upstreaming. And then we'd translate that into the CEO targets, who didn't have a net income target as well because when we shifted to AIM, there's a little bit of a complexity, who's

responsible for the investment income. And now we've clarified that, and now the CEOs have the same split

on 50% of their targets. It's half-half net income and operating profit. And that includes a clear dividend upstream target and some incentives for upstreaming excess capital as well.

Dieter Wemmer

So the details of the things I have here, 50 was Korea. As a smaller one, Italy maybe around 30. Germany, I'm just trying to remember because there's difference between the cost number and then after all the mechanics of the sharing, but I think it can also only be, let's call it around 50%. But if it's completely wrong, then Oliver will send you -- email this correction. And then France, is also between 50% and 100%.

Michael Diekmann
Chairman of Supervisory Board

Korea was 50%.

Dieter Wemmer

Korea was 50%.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Okay. Then I go to the duration mismatch shortening. Why did you pick now, given that your capital position is very strong, given maybe you take a view on the yields. I just wondered why you would realize now just at this stage to close the gap. And the last question -- one. Question 2 is regulator constraints, economic capital rating agency, which is the biggest constraint and how much more do think you need to be very happy?

Michael Diekmann
Chairman of Supervisory Board

I'll start with the capital question. In a way we are a little bit in a weird situation. And when you look at Solvency I, it looks very rich. When you look at our internal model, it looks okay as well. And then, obviously, that gets us to the question, what is the right range then? So the real restricting factor is, and this is why, of course, elaborating a little longer on that S&P. And that is for the time being the most stable capital requirement. And as I said, we've been working with S&P on trying to get some model recognition for our internal model, which then would drive S&P's way, but we are not through in that discussion. So for the time, the highest or the most restricting factor was S&P and that is how we manage the company right now. Yes, and I said we're slightly in risk migration, for instance, on the investment side. So it's nothing -- we say we are really overcapitalized in that sense. So I think the target level, we're quite happy with it right now.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

And the duration question, I think I'll relate it to that on Page C 8. What you can see there, we started with it not in January. We started with this exercise in October 2011. And the overall benchmark for us was to achieve at least an equal reserves of policyholder reserves. Then that would bring us to, let's say, nearly 5% in comparison to the policyholder reserves. And that, I think, is an attractive rate. Overall, our current yield increased by that measure. And that was decreased, although we had to sell other bonds for that. And I think therefore the rationale I think was really obvious.

Michael Diekmann
Chairman of Supervisory Board

Do we have some buffers on this stuff that we bought?

Dieter Wemmer

Yes. One example is the Italian bonds we bought in average for a price of EUR 80, and I think they are now a little bit more than EUR 100. Mr. Hawkins?

Unknown Shareholder

Have you tempered on it a little bit in order to keep it fair if possible?

William Hawkins
Keefe, Bruyette, & Woods, Inc., Research Division

I'm William Hawkins from KBW. First of all, I wondered if you could just move beyond your 2013 outlook and talk a little bit about what you think is your medium-term financial potential. I really can't remember what we should be expecting in terms of an IFRS ROE or [indiscernible]. And then secondly, I take very clearly what you said about 40% payout ratio, that it is what it is. Can you remind us how you see the other 60%, the extent to which you want to back out that the number for non-distributable earnings and then the extent in which you're in that, testing an organic or inorganic growth, and particularly whether there's been any change in that since you talked about it last.

Michael Diekmann
Chairman of Supervisory Board

In 2007. That has cost management for 3 years bonus because when with interest that's coming from. So I will refrain from that when the situation of that has sort of come and gone, very happy to go back to that practice. But I'm a bond kit [ph] here in a long-term prognosis. But I could give you a little hint, and I think Dieter has mentioned that. If you look at the capital and you extract the last case, we have a clear target for bonuses. That is based on that number, and the 12% ROE is a starting point for bonuses. Now, the -- what do we do with the next 60%, it's a little bit. We have 2 categories. It's the capital and it's cash at the same time. So it's very hard to say, is it organic growth? And I'm not going to cross only because this gentleman is coming to the Board from time to time and saying, I want to invest a little bit more into real assets in order to the capital requirements for the different asset classes. So it's really a mixture of these 3, where we have to maintain a little flexibility because acquisitions, as much as we would like them in the sense of what we've said before, P&C doesn't matter whether it's emerging markets or Europe and opportunities on the last side, basically on distribution. I mean, you know they are coming or not. I think the consolidation trend is going to increase. And a lot of assets are not clean assets in the sense of P&C. And you know, you can leave Life many times. It's a mixed portfolio. So really it's a sort of flexibility between these 3 categories. And maybe we can just look -- is that in the handout? I think it's in the back half, in one of the last pages. Yes.

William Hawkins
Keefe, Bruyette, & Woods, Inc., Research Division

We do not have it in the last page. Could you maybe...

Michael Diekmann
Chairman of Supervisory Board

C 31.

Oliver Schmidt
Head of Investor Relations

C 31.

Michael Diekmann
Chairman of Supervisory Board

And this is based on our Solvency II, but it gives you a pretty good indication of how expensive it is to move from fixed income to real assets. And we have a couple of discussions with a couple of participants of this little conference here about, is it really the greatest asset mix to have more than 90% in fixed income? Which, depending on timing of inflation kicking in, I think is a very valid question. Does it somehow answer your question?

Oliver Schmidt
Head of Investor Relations

Okay. Next question over there please. Mark, and then Fabrizio. Okay?

Marc Thiele
Mediobanca - Banca di credito finanziario S.p.A., Research Division

Mark Thiele from Mediobanca. My first question is on Fireman's Fund. There had been several restructurings over the past years, and I was just wondering if you could update on strategy, really. How you think about repositioning this long-term or have you considered options like running it off or selling it and freeing up capital to redeploy elsewhere in the group? And my second question is, on the new Life disclosure and the sources. Well, first of all, I think Slide B 60 is very helpful. Just maybe you can help us reconcile a few numbers on the technical result component. I think the run rate in the past was around EUR 800 million. And if I recall correctly, Oliver Bäte was guiding to EUR 1 billion under the old disclosure. So how should we think about the EUR 1.2 billion starting point going forward? Should we assume there could be another EUR 200 million on top of this long-term? Or how should we read the slides.

Michael Diekmann
Chairman of Supervisory Board

And yes, that was Fireman's Fund. Some here are quite long. I've answered these questions many times already. No, we have not considered other options. And I can elaborate on that. But I think they're pretty obvious. The only option we have is fixing it. The clear strategy is focused on what you can and stop what you can't. And I think that is the easiest way. So that means expense reduction. We're still -- I mean that's getting even more important now when we lose the EUR 1 billion crop business. It's concentrating on where we are very good, and that's the high net worth business. We are very good in entertainment. And we are okay on some commercial industries. And that's what we're going to do. We also need to balance a little bit better the long tail versus the short tail business. So we're a little long, frankly, on the liability side of Fireman's Fund, especially, given the inflation environment, where we've seen now for a couple of years that medical inflation and legal inflation is jumping ahead of normal inflation. So it's just that it's a low-interest environment, not a good line to be in or be exposed to.

Dieter Wemmer

So to the Life disclosures. Well, first one, I should say that, that's a new disclosure. It has been worked out under the guidance of my predecessor, so I did not come in January 1 and changed all the reporting. That is a much longer and more complicated process to get this information being built up in a robust quality. The biggest change against the old reporting is that we have taken out the impact of debt from all line items and really summarized it one simple line, which is that movements only. And that is a big shift in also the risk margin. So when you now ask me what is the long-term number, well, maybe around 1.3 is probably a good expected number. With the current mix of business, of course, we want to take more biometric risk going forward. And then the number hopefully changes upwards.

Fabrizio Croce
Kepler Capital Markets, Research Division

The first one is about the dividend level. Sorry that I'd come to this, but I think you expected it already. What we are seeing is actually in the industry, some sort of bondification of the insurance share, which also leads management to put fixed target in terms of dividend, and this will be used as a floor then for the sharp price development. Now, if I look at your dividend and the cycle is currently paying 5%, this would end up to a value of around 90 for your share. And so I couldn't imagine that this is the aim of Allianz Management. So are you going to change these targets at a certain point to a fixed one? The second one is about -- sorry, if I'm coming back on this one, but the study with Solvency II does not really pays, because Solvency II is a process which exceeds in some 10 years and Allianz is investing since over 100 years. So you have a total different experience. So a couple of bureaucrats are actually -- will be creating what kind of asset allocation you have to pursue. And you as a leading insurance company should know both of that. So the question is, why you are not more vehement in that process against the Solvency II regulator? And then the third question is simply for Mr. Zimmerer, and about the question of having kind of a specification. Are you believing in some sort of deflation or stock inflation going forward as your best-case scenario given that you lengthened your duration?

Michael Diekmann
Chairman of Supervisory Board

I would like to make a very clear statement on Solvency II requirements and on S&P. I totally share your view and we are very outspoken. And I mean, I personally have spent a lot of time in many places. And I think the delay in the introduction of Solvency II is not only related to some arguments on how do we view long-term guarantees but also on the investment side. We know what is the capital requirement for certain asset classes. And this is why we are spending a lot of time in our internal model and the appreciation of that model by S&P and going to regulate us and explain to them not only what is our statistic experience of 100 years, as you say, 125 years, and 2 years, but also what are the long-term impacts of all these different regulations that we're getting to invest as we end Solvency II. So rest assured that we are making our voice heard. But sometimes it's better on the political process not to be too loud outside but to work behind the scenes. Now, your bondification issue on the dividend and the multiple you're applying is a very interesting one. Before I exhaust all my arguments, I'll ask Dieter to take that.

Dieter Wemmer

Yes, I think it's really an interesting way to calculate share prices for insurance stocks. Well, when this is a way then we can stop all the other questions because then it really doesn't matter, all those technical details, and then we reduce in the future the presentation to one slide. But to be very serious, is it a really a fair measurement when you put behind every dividend stream the same volatility assumption? Or do you not have -- asset is also in the couple of bond worlds that actually is a level of the coupon reflects also the volatility and the probability that the coupon is being paid every year. And I think that is certainly something, which I think in the model should be considered. And also the question is what's to come on which development part the coupon is and actually when you look at our asset manager, there is I think globally only one really comparable competitor in the asset management space. And this competitor, for example, is also paying out just around 40% of its net income, and I have not heard that this company is being criticized for it. So why are you making the difference between the 2 companies? And I have also not read any analyst report that this, let's say, calculates the dividends as a baseline for the share price development of this competitor. So I think the world is maybe a bit more complicated, I hope. And I also hope that all the work we are doing in our disclosures and presentations, that this helps you to find an individual judgment on an individual company and not put us in a formula for the industry. That would really, really rather disappoint me.

Michael Diekmann
Chairman of Supervisory Board

Before we go to the last one, I would like to add one argument. I had a long, long discussion with the Chief Executive of that asset management company that is part owner of Allianz as well. And he said to me at some time, saying, I would be very disappointed if you paid out more because when I look at the opportunities in the industry at this point in time, and if Allianz would not be one of those companies taking advantage of the opportunities, then I would have doubts in management. And I would take that word by word. I think the opportunities in our industry to really make the move away from being mainstream have never been better than in these days. So I'm very, very happy to sit here next to you and explain cent by cent what did we do with the 60% that we didn't pay out? And then maybe we have a discussion that goes beyond a formulistic discussion but into real quality discussions about, was that good or would have been better to distribute the money?

Maximilian Zimmerer
Former Member of Management Board

Yes. Coming back to the duration decision. At first, I do not think that we've faced a risk of deflation. I do not see a stock inflation because it would mean higher inflation. Stagnation, I think, of the economy, that is right now what we are seeing. And we see at least us in the U.S. that they grow under their potential. And that usually was a question, where should the inflation come from within the next 1, 2 or 3 years? And there are also the central banks who have an interest of to hold the interest very low, even buying government bonds to do that. And that means, overall, at least I would assess the situation as such that, let's say, within the next 1 to 3 years, we will see similarly low interest rates as we have seen in, let's say, the last 2 or 3 years. And then what I usually would like to do, and that is also right, I would like to invest more into real assets. And I think that is always the discussion. But to free up some risk capital to do that, you have to extend the duration. Otherwise, you have the asset liability. Dieter just mentioned that will cost you also risk capital. And also, in retrorespect, I think that is attractive. But what is important if you extend the duration, you need interest rate levels, which are attractive to do so. And that was the reasoning why we did it at the level of 4%. I'm not sure I would like to do the same if I get only 2%. If we'll be stuck with 2% for the next 30 years, I think that there are some risks, that's obvious.

Michael Diekmann
Chairman of Supervisory Board

Maybe we can close that. But I say I've never -- I've been on this board for 15 years. I've never seen such a fierce discussion about market discussion in the board month by month about how do we allocate the capital. How do we extract the excess capital? How do we shift that into organic opportunities, inorganic opportunities or on the investment side? And I think that is a very, very healthy situation, where a lot of opportunities come up and we're not doing this ad hoc and opportunistic, but really in a very systematic way.

Oliver Schmidt
Head of Investor Relations

Okay. More questions. First we turn to the left again. This gentleman on the front, Vinit. It's about time, right?

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

This is Vinit from Goldmans. So 2 questions, one on the restructuring and one on the opportunities. Now on the restructuring, if I may say so, the Fireman's Fund case study has probably started with what was in 2006 or 2007 a good intention, restructuring effort of taking out the Marine book. And then a lot of problems started creeping in. So as the group continues to focus on restructuring, can you talk a bit about what were the lessons learned and how you're keeping those things in mind. Because sometimes cost-cutting in the wrong places tends to create other issues. And that's very important for us to understand. The second thing on the opportunities. I mean, just a comment that if you adjust for the -- if you hit the top end of your target, and adjust for the restructuring, you're back to a EUR 10 billion kind of precrisis kind of operating profits. And still you're quite focused on the growth, which is commendable. But if I take an example, again, the German business, where if I may make a comment on the trading rate for next year, probably amongst the -- I wouldn't say highest in, but reasonably high and attractive enough. So are you still looking for growth in these kind of markets and where this growth is coming from inorganic, sorry, organically -- not inorganic? Where is the organic growth? And the German Life being an example, I'd link to that the question would be that your reinvestment deals are probably amongst the highest we are hearing from the peer group. So is that the confidence driver? And this is, again, an example. You can feel free to comment on more topics, please.

Michael Diekmann
Chairman of Supervisory Board

Yes. Let's go back to the Fireman's Fund side. Your starting point was taking out the marine business, which was probably great for agencies and not so great from a diversification point for Fireman's Fund. Yes, I would agree to that. Unfortunately, we didn't start the restructuring at that time, but we started quite the opposite. We wanted to extend the book because we said now the scale is not really large enough to absorb the natural volatility in the market in the U.S. And I think that's something we may agree on. If you are not the top 1 or top 2 company, there's more volatility in that market than in others. So losing 3 years on a wrong strategic direction, I think, is one of the learnings combined with, let's say, a little bit of too many management shifts on 2 sides, on the operational level plus on the holding level, because during that time, 2006, I think, if I recall, that right, it was Jan Karundi [ph] . And then it was Kan Duz [ph]. And then it was Jay Ralph, who's just joined us. And now for the first time we have somebody who's sitting in the U.S. taking care of nothing else but the Life business and that P&C business in the U.S., which I think is very important for focus and daily observance of what is happening really in the market and the book and so on. And I give you another one. That after 2008, we spent a lot of time in concentrating on the European business because all of a sudden, that business came under quite some stress and challenge, not only from a strategic point of view but very much from an operational point of view. And the forward trends on the distribution side and the IT side and then so on. So maybe a little bit of a overconcentration on one piece of the business instead of the U.S. But I think that has all changed. I mean, by now, we are all over that asset. If you talk to management, probably a little bit too close to that, but we feel a team responsibility now to make this happen. It's a wound and we want to finally close that because I think it reflects badly on the reputation of Allianz and our core business, which is still the P&C. So it's a question of honor to get this right, and I think we see a little bit of a headwind now also from the market because in the last 2 years, there was not a lot of rate in the market. So for total, I agree with your assessment. Let's say, an open flank like this one we should not have for such a long time. Now, would I take the full blame for 2012? Not really. I would say we see a little bit of an exaggeration when it comes to drought, plus Sandy, plus adverse development. But going forward, I think we see good potential here, which also leads us then to our midterm outlook, where I see the potential for improving the combined ratio and so on. Now the second question?

Oliver Schmidt
Head of Investor Relations

The Germany Life.

Michael Diekmann
Chairman of Supervisory Board

It's Life.

Maximilian Zimmerer
Former Member of Management Board

Yes, Life. In Germany, the situation is so that we usually try to grow the business as regular premium, therefore it is not so it important that we invest in either for only 1 year, to say so. And even in that respect, we achieved -- there are more than 8.6% reinvestment yield. But on the other hand, you have to see that was a new business. You are also diluting your overall guarantees because the new business has a guarantee of only 1.75%, and in average, it is at 3.1% right now. In the occupational business or the corporate business, you can't -- you can really offer only the traditional air [ph] products, but that is a growing business right now. But on the other hand, as you know that, we try to come up with ideas to save only this way. And with new products, so to say, where the guarantees are not lifelong guarantees, so at least they include an adjustment mechanism, so to say. That would make it easier for us and also to cope with Solvency II and not coming up with a totally matched position in the end. We are seeing a good product for the customers. What most perhaps do not see and Allianz team is not very strong in unit link because most of the customers in Germany do not like that. But we have other products. For example, we also have only the premium is guaranteed. I'll use the alpha-Balance product as an example or also in the Select, which is an intelligent product and where you can put the money into the main book. But on the other hand, the customer has performance, which is linked to the stock price index. Therefore, also these combinations are offered, and they are quite successful in the market, especially when you think of the financial advisors and banks who are selling these products.

Michael Diekmann
Chairman of Supervisory Board

Maybe a little bit of the covered business [indiscernible].

Maximilian Zimmerer
Former Member of Management Board

Yes, the covered business right now in Germany is perhaps the one which is still growing right now, and the main reason for that is more and more employers are offering these schemes but they are mainly driven by the traditional ones because in most of the occupational business at least you have to offer at least an increase in the immunities of 1% a year and that you can cope with if you have also some profit participation including in that respect. But also there could be possible for example, if the contract industry payout phase, and that you can then adjust the guarantees. That would be at least allowed so to say. We have some problems right now in Germany if you come up with, for example, guarantees only for 10 or 15 years. And due to the accounting there we have to go for a change in the accounting rules. Otherwise we can't offer right now these products in Germany.

Oliver Schmidt
Head of Investor Relations

Okay. Let's swing to the left again. We have Blair in the middle, the gentleman in the middle. And then Michael afterwards.

Blair Thomson Stewart
BofA Merrill Lynch, Research Division

Just a couple of quick questions. Firstly, could you clarify the cost saving opportunity? I think it was a good slide on A 13, I think A 13. But just a little bit unclear about what the opportunity is going forward. So just one clarification there. And also if possible, the restructuring charges you expect this year. And the second question is on the U.S. Life business. Just interested in the acceleration of that. Should we be concerned about that happening again? And also how do you manage the crediting rates versus volume balance in the U.S.? And finally, on PIMCO, I was very interested with your comments about the proportion of new product categories that are attracting force, the vast majority. Could you give a little bit of color on that, hopefully with a view to provide some comfort on why PIMCO might not be greatly affected by a rotational trade of bonds into equities.

Michael Diekmann
Chairman of Supervisory Board

Look, we do not have a huge crust or expense savings program running at this point in time. So I'm not going to come up with one of these numbers that we used to give in the early 2000s. We have sort of changed from these radical programs, which had some detrimental effect on businesses, like we've seen in Germany and so on. The steady expense reduction -- no, I will ask first Jay. Unfortunately, he's gone. Otherwise he could have said it. The phase that we've done this in Italy is proven to be the much better way to work on expenses. Our internal target is we want to do 20 basis points on the P&C side. That's year-by-year. Unfortunately, then you will have effects that will run against that on the acquisition expense side, like you losing the crop business. It will immediately have a negative effect on the acquisition side. Then Dieter has mentioned the administration side. That will have another negative effect. So we see constant improvement on the administration side and the volatile number on the acquisition expense because that's driven by distribution mix, that's driven by product mix. So that I think is not such a relevant number when you compare that year-on-year. The real important number would be more on sales overheads and maybe commission levels. Commission levels is a very competitive issue. And we are currently addressing them more on the Life side because the urgency on the Life side to talk about commission levels, obviously, given the interest environment is very high. That is not an easy discussion because it's very much a competitive issue looking at what the competition is paying. Now in some markets we do have collective agreements with the whole sales force, and in some markets it's an individual issue, agency by agency. And Dieter can talk a little bit about how we approach that in France, how we're approaching that in Italy. And on the Capital Markets Day, maybe Michael Swiss [ph] can talk about what we are doing on the German side. I can tell you that on the German side, in the -- just to give you a little bit of flavor on acquisition expenses, we have massive reduction on sales overheads and a reduction on capacity on the agency side. That takes absolute cost out. But there is an increasing trend working against that. That's coming from the pension liability side. So it looks like there is no work being done on the expense side. If you'd see 10 basis points on the admin side and an ever-increasing part on the acquisition side. But I can guarantee you that there's lot of work just to keep that rate -- ratio stable. Now on PIMCO, it was very unfortunate that our friend Jay has gone. I think we've given a couple of indications here. Let's see on the page...

Oliver Schmidt
Head of Investor Relations

23.

Michael Diekmann
Chairman of Supervisory Board

23. Yes. I give you one that I find interesting. We started, for instance, to do the ETF product line. That has grown quite interestingly. It's only EUR 10 billion at this point in time. but the buildup of that is very rapid. We were talking about the more solution-based product lines, new money. I think Dieter has elaborated to that. It now is flowing 90% into these products compared to the simple mutual funds on -- and 75% on an annual basis and 25% going into traditional products. Now we've talked about diversification on the regional side. It used to be a very institutional U.S.-based asset manager. Now we have the diversification on the regions. Europe has proven to be a very, very interesting ground for PIMCO. And also the shift from institutional to a very interesting mix on institutional and retail, I think, has broadened the scope of PIMCO tremendously. So I'm not sure that is enough argument. For the last 3, 4 years, I always have the same question. When are we peaking? And isn't this the peak? And what happens if interest rates go up? It's, I think, a simple performance question because we will always have the allocation to these asset classes. And as long as you have an outperformance there, then you will see the flows. I mean, if the outperformance goes down, then maybe a little bit of synchrosy [ph] and historical credit to the asset manager. But if that has extended over more than 6 months, 9 months, then you will feel that in the business. And PIMCO is very aware of that. Anymore arguments, gentleman? Yes, wonderful.

Dieter Wemmer

Just to take here, well, we do, of course, routinely in all the portfolios, there's a usual update of all actuarial assumptions of full set. And therefore the update in the U.S. was a routine update and nothing special. Will the assumption move further in the future? Can it go in this or in the other direction? Sure, but I cannot give you a trend of a number because it can also go in the other direction.

Oliver Schmidt
Head of Investor Relations

Okay, we have Michael. And then it's -- I think it's Andy's turn, there in the middle, yes.

Unknown Analyst

Three questions. First question on German life. You decreased the policy or the crediting rate for 2013 presumably more than what you have assumed in your previous embedded volume assumptions. What was the effect, the positive effect on the embedded value in Germany? And was there a positive effect in the new business within Germany, the EUR 160 million you achieved in the fourth quarter? Second question, on the Global business lines. You have a growth target of 11% per annum until 2015. Do you also have a profitability target for these businesses? And third question on acquisitions in Germany. There was in the fourth quarter a rumor that you would take over a mutual -- a large mutual company in Germany. Of course, not every rumor is right. But can you give us your general thoughts about the possible acquisitions and consolidation in Germany?

Michael Diekmann
Chairman of Supervisory Board

Let me just find the chart so it's pretty easy. That's on Allianz Worldwide Partners, right, you're talking about? Yes, that's my chart on...

Unknown Analyst

21.

Michael Diekmann
Chairman of Supervisory Board

21. So right now, we have a combined ratio target for the motor business of Global Automotive. That is on 98%. And there's an additional product, that's a voluntary product and PPI product, in that is much more profitable than 98% combined. The Assistance business is giving us around EUR 100 million of profits. And I don't have the number now for the French Health business. The business for AWC, Allianz Worldwide Care, is something between EUR 30 million and EUR 40 million. So that is a business that has very small policies, besides this Allianz Worldwide Care. And so it's really a scaled business and this is why we think it makes sense to bring that together. All in all, we have a profit expectation for this entity that is around EUR 250 million. But that doesn't reflect the total profitability because part of it is booked in the OEs, especially the local motor business from Global Automotive. We booked in the local operations because they do the claims handling and so on. And then we just booked the reinsurance margin. And the same goes for business that we are writing, for instance, it was our partners in China, CPIC. There we reinsured the business back into the reinsurance department. What was the second question?

Oliver Schmidt
Head of Investor Relations

Rumor.

Dieter Wemmer

It's the rumor.

Michael Diekmann
Chairman of Supervisory Board

Oh, the rumor. We let the rumor be a rumor, just a general observation. Scale and scale count. I think in this environment, if you don't have the investment quality and if you don't have the scale to drive down expenses to market expense below of what we have right now, you cannot survive in this market. And so that is where we are. Now with all the nice regulation coming and increasing capital requirements. That is making that even more evident. So I think we have no -- and that is not only related to Germany -- no owner who doesn't see that business as a core business who's not thinking about what to do going forward.

Dieter Wemmer

So the impact on the new business, I think that is a new business value that is clearly tiny because that is, first of all, 1 year of crediting for policies who will live a very long time. And secondly, certainly it's embedded value model, for you see there is a certain relationship between the various cost yield development in the future and how it is being shared. So it was probably not a real surprise for the model. Let's put it this way.

Oliver Schmidt
Head of Investor Relations

Okay. Then we take the next question from Andy Broadfield, the gentleman in the middle.

Andrew Broadfield
Barclays PLC, Research Division

Andrew Broadfield from Barclays. I wanted to just explore a little bit the internal legal entity structure and the implication that makes on cash flow, on incentives, and also on fencing risks as well. So I guess, especially Dieter, coming from a background with a company that got a lot of credit for centralizing or reducing internal cash flow challenges, I was wondering there, you took a different approach a few years back and said you actually liked to have autonomy at least, control a local legal entity and empower local entities with their own balance sheets. It seems you're not turning around, but you're certainly, I don't know what the right word is, but compromising a little bit on that stance. So I guess the 3 key questions are, what do you think about the dividend discussion we've had? How much is internal fungibility part of the driver and therefore some of the actions you've taken part of the solution? The second question, is you mentioned diversification at a local level, which for a global group, do you need to have diversification at a local level, and given you have it across the group anyway. And secondary to that is the new incentive structure, which you've added dividend repayments as part of that incentive, I think you mentioned. How does that then influence the ability for each legal entity to be part of a global group and benefit from the group diversification when you're then charging them with local entity -- effectively charging them to be diversified themselves? I hope that's not too much.

Michael Diekmann
Chairman of Supervisory Board

Maybe I'll give you a starting point, and then Dieter can come up with his observations after 1 year, what makes sense and what doesn't make sense. Obviously, when you are running a subsidiary, you and your local regulator, have first to keep as much cash and capital in the company as possible because then you can invest that in other business or on the investment side. That was part of our problem in 2002, 2003, because everybody has invested excess capital and equities.

Obviously, when you're running a subsidiary, you and your local regulator have a high interest to keep as much cash and capital in the company as possible because then you can invest that either in business or in the investment side. That was part of our problem in 2002, 2003, because everybody has invested excess capital and equities. We were giving them, from an incentive point, 8% return on that. That was the DVA concept, and that didn't really work out. So to give them incentive, to pay out dividend and to send back excess capital is obviously an exercise that comes from the top because we're going to discuss that. It was local entities, but also to make it part of the daily business. From local management point of view, it's very important because you can go very granular into how do you manage your book of business. By now, we do have the information on a very granular level how do products perform, how do products and distribution channels perform. So that's a very intensive discussion about is it justified to restructure this product, these client relationships. Or should we just repatriate the capital incentive somewhere else where we have better opportunity. So I think it gives a better alignment between the group and the OEs.

I'm coming from a little different background. I always thought that you don't need to incentivize everything because some things should be normal. I was out are paying for it. But I've been convinced over the last couple of years that paying for being a good citizen is speeding up the process. Let's put it this way. We have a long discussion in 2005, 2006, looking at Zurich. Do we want to build a branch network and then concentrate the legal entities in some places like Ireland and so on? We've refrained from that for various reasons, and I think now in this whole European crisis, it really pays out to have ring-fenced operations because you can't be taken hostage by political situations. So we've been going beyond that and said, "It's not only ring-fencing these operations, but separating all pro-spotter [ph] shareholdings between these companies." And that is part of this getting the legal structure back because we had used for some tax reasons, a lot of stockholdings that make very difficult to cash -- to stream up the cash flow early because for some reasons in some countries, you needed to keep the cash for some time in these stockholdings before you could then upstream them. And that's part of the reason why we have quite an interesting construction of internal loan agreements, which are sort of advanced or protecting the cash flows that are coming later than they should come in an easy legal structure. And that is the whole work that we are doing right now to this internal or these stockholdings and so on. Now, Dieter, you came and you've booked that other stuff, and one of the first actions you did was, say, let's put then it looks [ph] together because it doesn't make sense to have 2 local companies there, which is a little bit of what you are thinking but what else?

Dieter F. Wemmer
CFO & Member of Management Board

I think it's, in the end, our economic model still uses global diversification. So therefore, we are not losing any global diversification. I think it is actually much more important that you have sufficiently large homogeneous pieces you can manage and which add up to the majority of the group. Yes, we have also smaller developing countries in particular, and also emerging market regions. But I think in the core markets and matured markets, we have sufficiently big homogeneous balance sheets, which are, from a management point of view, as well as from a capital point of view and cash point of view, efficient. And also when you look at our global lines, they are rather much going into the direction that said will [ph] own network of branches and reduce their legal entities for what the AGC&S is doing or what Le Hamas is doing. And so I think actually, it is a slightly different solution, but it is also a different starting point. And I think it is a very good mix that you go in the global lines for this much more global and self-contained legal entity or branch networks and on the strong markets, where we have major position, you really need to run it completely out of the country, and I think that is paying off at the moment. And I think the situation we have from an operation point of view, as well as from a setup point of view, I think the successes of the year are also flowing that some model works in the current environment quite nicely.

Michael Diekmann
Chairman of Supervisory Board

And maybe, I mean it's an ongoing exercise. I'll give you an example. The restructuring in Italy started in 2006. In 2006, we still have Lordat [ph] , Adriatico, Subalpina, RAS. Now that is done, but the merger of the networks is only taking place now. So it's really quite a long process because there's still the buyout of small minorities that are very resistant in some of these countries that are making the process a little longer than one would wish for. We have another model that is Spain, sort of getting their business model into Portugal and to Latin America. We've just added Mexico. It's just another way of managing these complexities. And Benelux now is a cross-border one, and it's very right what Peter is saying. In contrast to some competitors, we've always been very consequent in not only bidding virtual holdings, but then really bid in legal holdings, meaning extracting other businesses out of our local balance sheets, putting them on one balance sheet, which I think is the right way to get it done, but sometimes it takes a little longer than just creating sort of virtual entities.

Oliver Schmidt
Head of Investor Relations

Okay. Any...

Andrew Broadfield
Barclays PLC, Research Division

I'll just make one quick follow-up. It is practically then, in terms of what you're doing with the legal entities, it's less about consolidating model and not just stitching relationship between them and making it clean. Is it maybe cash-based a little easier rather than putting more into your balance sheets?

Michael Diekmann
Chairman of Supervisory Board

I suppose it's not under the cash flow. The cash flow is a very positive piece that comes out of it, but that's in some consolations, not the first purpose to do it. And some -- that's what I'm saying, it's different models. In the end, the legal decomplexitation is good for the cash flows and the dividend-ing as well, but that's not a purpose in itself.

Oliver Schmidt
Head of Investor Relations

And perhaps you could pass the mic to the gentleman behind you, Rotger?

Rötger Franz
Societe Generale Cross Asset Research

Just one question about your funding requirements. I see that's very soon, the 5.5 Tier 1 within less than a year will be up for call. It will be the first major traded institutional Tier 1 that is up for a call. And I hope to see that you include already all your latest new issues into the solvency ratio and there's no new Solvency II compliant tradable Tier 1 structure, hyper-Tier 1 structure so far. So what are your plans with a Tier 1 or the preferred options that you will consider? Second question is actually about the profit participation, you talked about cutting profit participation in Germany. In France, we see similar developments with some of your competitors cutting very drastically the policyholder dividend. Did you do something similar in France?

Dieter F. Wemmer
CFO & Member of Management Board

Well, Rotger, I think you would be surprised when we would make a clear announcement about what we are doing about a potential of future call. That would be very unusual and therefore, that is in the end not answering your question. On France, the declared reduction is, on average, 18 base points. And what we have done actually to get to a more attractive business mix is that we have actually a skewed policyholder share depending on the rating of the unit-linked part in the overall product. That means we are selling products, which are mixed between unit link and traditional, and the customer gets a little bit more profit-sharing when there is a higher share of unit link in the overall balance and that is a product mix, which we have introduced to drive more towards unit link.

Oliver Schmidt
Head of Investor Relations

Okay. Next question. Okay, let's stay there. Just the gentleman to the right.

Atanasio Pantarrotas
CA Cheuvreux, Research Division

Atanasio Pantarrotas from Cheuvreux. I have 2 questions regarding both on the interest rate environment. You showed that you're running even, the Life business is still quite a good level at around 4.5%. My question is, what happens if the infrastructure are getting to be pretty much low because for policyholder, the Life business is pretty much high? And I would like to know what is the strategy in the middle tavern for the Life business if you think could work out the steps toward the accounting, for example, the solutions cost, which already means the higher costs paid by policyholder? The second question is on the outlook for the P&C market internal tariffs in the next years. I saw your slides, which is a bit mixed regarding the tariff evolution in your main countries. I wonder if you have an idea what is the planned date the low interest rates will push up the P&C tariff further in the next years?

Maximilian Zimmerer
Former Member of Management Board

On the Life business, perhaps, it was a little bit short. This is on Page 13. What we do right now on the bank books is at first, we try to optimize the risk and liability management that could mean also extending the duration. That's for sure. And secondly, these products are built like that. We also shift you every term at first reduce the crediting rate but we can now also shift it to a terminal bonus. Then there are also some countries where you have other levers and to do, for example, we have also countries where it is possible to do a reset of guarantees over time or a reset them shortly before the payout phase starts. For the new business and that then brings you also to a better mix of the overall business, usually, we go, for example, for these hybrid products, which Dieter's already described, we do it in mainly all of the businesses. Yes, and it is also shown on Slide B27. We try to foster the Protection business. That's a very important one and also if you say unit link, it's very easy to also include a write-off, so to say, that's also easy to sell for the banks. We have the initiatives we have in place. Yes, cost assignments, we're servicing everywhere. Acquisition loading should be lower and also the cost involved there.

Oliver Schmidt
Head of Investor Relations

Okay, next question. Let's take Thomas first then [indiscernible].

Thomas Jacquet
Exane BNP Paribas, Research Division

Thomas Jacquet from Exane. I have 2 questions. The first one is on the regulation. You talked often about Solvency II and I understand it's the most important. But there is a product of global SIFI status that is likely to be defined this year. What can you -- maybe you could share your views on that update and if there is any potential consequence for you? And my second question is, on Spain, you have exposure to government bonds. I just wanted to know whether it was a call on the country itself or rather a consequence of your ring-fencing of the government bond portfolio?

Michael Diekmann
Chairman of Supervisory Board

Sorry, I wouldn't like to make a statement on -- that's a call on the country. I think that's not opportunistic to do that. Let's just say the accumulation was too high, looking at the whole investment portfolio there. SIFI is an interesting one. I mean you know that the insurance industry is still trying to prove that we cannot become systemic in the way that banks are. That may become a political call because regulators have identified at least those attuities that are not core attuities of insurance companies that can be systemic. Now we're trying to take them through this one by one. I mean the parts in all of business that could be systemic are pretty insignificant. So we are not ranking highest on the list, which is nice. The areas that are of concern to regulators, I'm probably not saying something that is not public knowledge anyhow. Activity is like preferably annuities, possibly credit insurance business and banking activities. Now besides credit insurance, we are not a large player in these sort of categories. So then it comes back its size in itself something that qualifies as systemic. And then we are starting to circle a little bit in the argument. So we

are trying to make sure that there is clear criteria and then we can discuss clear criteria and not go back to the large ones should be. In the end, it will be an interesting play again as being a global SIFI or a local SIFI and what does that mean in the end. The discussion really on insurance companies is just starting because the whole world is trying to understand banks and shadow banks. And I think they have their hands full with that discussion for the time being. So really, insurance is more discussed on the sideline. It was all a lot of intellectual capacity put behind it. Now the consequences, I think everybody knows, it's you have to make a testament, which is part of the ring-fencing exercise anyhow. It may require more regulation. I would say a true regulation and not more, but that's another intellectual challenge and can require more capital, whatever that means, or scaling down activities. That is the catalog of consequences if you are a SIFI, at least for the time being. Now there's obviously a debate today whether it's good to be a SIFI or it's bad to be a SIFI. So there's different opinions, even in the industry, but we've just discussed that again in the Geneva Association. Does that make a lot sense now to shift and say, "Let's try to become SIFIs." Say no. We've always followed the line. Insurance is different from banking and we're going to follow that line.

Oliver Schmidt
Head of Investor Relations

Okay, Thomas, could you pass the mic to Will in front of you or -- okay, it's gone already. And then we go to the right.

William Hawkins
Keefe, Bruyette, & Woods, Inc., Research Division

So I know corporate questions are inappropriate, but I get asked every day pretty much about Allianz and its ownership of PIMCO. So I'm just wondering if you could sort of give us a full word on are there any circumstances or criteria under which you would judge trying to crystallize the value of PIMCO that may or may not be properly understood by the capital markets at the moment?

Michael Diekmann
Chairman of Supervisory Board

Well if the question is, can you rule out it? Under any circumstances you will ever consider to ask

yourself that question. No, I cannot rule out that question.

Dieter F. Wemmer
CFO & Member of Management Board

We are trying today very hard to crystallize the value of the market. I hope you are listening.

Oliver Schmidt
Head of Investor Relations

Okay. We have questions here on the right. I think perhaps, Michael first and then Martin in the back.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

So a number of questions. Could you give us the figure of the fee this year and last year, just to get a feel for it? I heard it's gone up. Then in terms of cash flow, the impression I have is the SC is sitting on a pool of cash. So I hope you'll take a buff of cash in the morning. But I just wondered maybe you could give us the figure of the cash, the excess cash or have you accounted in '11, '12 and you must have a '13 figure because effectively it's dividends from subsidiaries. On Germany, in German Motors, you said you would beat the target. Does this mean lower than 95% in 2014 or lower than 95% in 2013, which should be even better? And maybe here, you can give us a little bit of insight into the actual rate price in motor just now? And then on EULA -- yes, I just realized, you might sell EULA if you're right about it becoming one of these institutions. The thing on EULA I was a bit surprised by in the results, the combined ratio has worsened quite a bit and they seem to have no intention of improving it try some modest if you listen what the conference call on EULA was. It was kind of quite disappointing. And I'm just wondering, is this you just lift -- taking your eye off the ball because you think it might be sold or is this part of some strategy?

Oliver Schmidt
Head of Investor Relations

Mike, you may have to repeat the color of your questions. So you should keep the mic because at least I didn't get all of it.

Michael Diekmann

Chairman of Supervisory Board

Or the last one is very easy to answer. We will not give a comment on EULA. We think it's a great asset and I'm very sorry that you are disappointed towards the conference call. I don't recall saying that we're going to beat the target that the German organization has set because they have setting target of, I think we've quoted it here, is around 95% combined ratio and I think they are very well underway. But I see no indication that we should raise that from 94% or 93%.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Would the timing be quicker? So...

Michael Diekmann
Chairman of Supervisory Board

Yes, but that's not coming from you. That's coming from one of you saying whether we'll reach that one year earlier. I have never said that. And I would be very happy if they reach that in the given time frame 19 -- 2015. And I think that's quite a way to. Now on cash, we hold a lot of cash because unfortunately, the investment opportunities that we are seeking are sometimes not so easy to fulfill. But it's the excess cash that you are dreaming of,

there is nothing more than a very reasonable cash reserve that we are holding as excess cash on the holding. And coming back to what I said earlier, this gentleman is trying very hard to get as much of this excess cash while the BD are trying to get to this excess cash was either acquisitions or organic growth opportunities because this is where really capital and cash is overlapping. But I have to disappoint you if you think we're sitting on tons of cash that's just waiting. We are not Apple. Unfortunately, not yet.

Dieter F. Wemmer
CFO & Member of Management Board

But we have a better corporate structures than Apple. So -- but Michael, to give you one concrete answer, is the German Motor rate increases roughly 4% going into 2013 and the RfB in total is short of $20 [ph] billion. It's 19.3%. On the mix of free is 4.5%.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Flat from last year, the free?

Dieter F. Wemmer
CFO & Member of Management Board

Well okay, I have to look to my neighbors. So -- a little bit down, I think.

Oliver Schmidt
Head of Investor Relations

Which is, I think ...

Dieter F. Wemmer
CFO & Member of Management Board

Which has been in the past part of SIFI...

Michael Diekmann
Chairman of Supervisory Board

Why don't you ask the CEO, maybe he knows?

Maximilian Zimmerer
Former Member of Management Board

Just now it's a little bit dangerous to tell you the numbers because they are fresh numbers and perhaps we have to wait until next week. Overall, for the market, I think it was an estimate of $5 billion out there if I'm right only for this year, but it was put into the so-called [indiscernible]. Therefore, it was for the market, only to give you an impression of -- couldn't tell you the number, but I shouldn't have to before they have at least their numbers out.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

And the Germany was actually 2014 or '15 but 95%, what you put last year, was 2014. Yes, yes. And I did hear, and I'm sorry to insist on this, I did hear somebody saying that, from your side, not us, that Germany was developing better. That's why the question came.

Michael Diekmann
Chairman of Supervisory Board

Yes, I made the presentation. I know exactly what I said. I'm very happy that they're well on track. Maybe the way translates into better, I don't know.

Oliver Schmidt
Head of Investor Relations

Okay, Michael. Then we take -- I think Marc was the next one.

Marc Thiele
Mediobanca - Banca di credito finanziario S.p.A., Research Division

Oliver, my first question is on the P&C division, in the direct channel, can you give us for the entire group the gross premiums written and the combined ratio, just for the direct channel? And then the same for AllSecur in Germany. And maybe you can make a general remark how you feel about progress in the direct channel. My second question is on German life insurance and this debate related to the flexibility of the reserves, the stuff that is stuck in the upper house or being rejected by the upper house. Looking at your free reserves, should we just take your market share if we think about the old and the new block of business, in case you can open the third part as it's been proposed? Or should we consider other restrictions that may be in place in terms of your reserves and how you deal with the potential challenges going forward in the German Life business?

Maximilian Zimmerer
Former Member of Management Board

The topic is a little bit difficult to tell you something about it, because I think we can still hope that there will be some development, at least, and that we will see a decision of Bundestag and Bundesrat, which goes into the right direction. I think that is not the most critical part of the law, which they have prepared. Therefore, I would not like to give any more information also but then, perhaps, the press is going through that topic again.

Dieter Wemmer

I think that Greig [ph] had, globally, a nice development. We did grow 21% in total. So the gross written premium is above EUR 1.1 billion for the year 2012. I cannot give you an overall combined ratio. I know the Italian one, which was 92, as I mentioned. And Italy is, of course, the largest direct operation we have. It's now at EUR 365 million. So second one is Australia, a little bit smaller than EUR 300 million, and AllSecur also had a nice jump forward now close to EUR 100 million in premium volume. But I cannot give you the individual combined ratios.

Unknown Analyst

Maybe just a guess or a hint? Ballpark number?

Dieter Wemmer

No. Well, I just don't know it. So therefore, a guess would be not a good idea here.

Oliver Schmidt
Head of Investor Relations

Okay. I think, Michael, you are next. And then we stay at the corner, okay?

Unknown Analyst

Just one additional question, I 'm sorry, I must ask about Allianz Bank. Because you made just a very interesting comment when you said that agents missed a good opportunity here. Was it only the environment which caused Allianz Bank to fail? Or did Allianz make mistakes here?

Michael Diekmann
Chairman of Supervisory Board

But in the end, if you have to shut down something, it's always a mistake. But it's a mistake that also [indiscernible] missed opportunity on the agent [indiscernible] because they didn't really take this up. We will have a very fierce fight on income sources from saving banks going forward to lower the interest rate environment, the fiercer the fight for whatever income people can generate. And I think it would have been very good to keep current accounts and some of good clients, especially on the rural side within the Allianz world. But our agents didn't believe in that. Many didn't believe in that. So we never reached the scale to really make it work. And just to keep it as a sort of exotic arm for a couple of hundred agents, it's not really a great business model. So we've communicated that. We've discussed that. But obviously, we have not been convincing enough. So it's a failure of the management and not a failure of the agents. But it's a missed opportunity on their side, I think. But the market likes it because they didn't -- whatever it is that we phrase, banking has a sort of, "Hey, we don't like Allianz to do that." And I'm accepting that as well.

Oliver Schmidt
Head of Investor Relations

Yes, let's stay in the corner. Yes, thank you.

Jochen Schmitt
Metzler Equities, Research Division

Jochen Schmitt, Metzler Equities. I have one question on PIMCO, given its performance over the past years. Would you currently consider launching a new incentive plan for the PIMCO senior staff? Or would you currently rule out any further incentive plan beyond the M-units, say, over the next 1 or 2 years?

Michael Diekmann
Chairman of Supervisory Board

We are certainly not considering another incentive plan. I think the greatest incentive for them is their performance, because they're participating in the performance.

Jochen Schmitt
Metzler Equities, Research Division

But maybe just one follow-up in this context. As far as I understand, the M-units demand PIMCO to increase the OPAD profit by 85% until 2017. And I don't know where they stand exactly, but I believe that they are already approaching this -- to this threshold very rapidly. So therefore, I think the question whether you might start a new incentive plan over the next 2 years or 3 years is a pretty fair one.

Michael Diekmann
Chairman of Supervisory Board

No, no. I didn't say it's an unfair question. I'm just saying we're not considering any, and we have

not been approached by PIMCO to discuss any. Now if we were approached, then, obviously, we would have a discussion. But I think, right now, the performance and the participation in the operating profit gives enough incentive, enough for PIMCO. So I'm sorry, I -- if I gave the impression that I don't like the question, that was a wrong impression.

Oliver Schmidt
Head of Investor Relations

Okay. I think we have -- okay, let's go to Vinit and then we'll swing back again.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Just some minor points from my side. On the life in the U.S., there's an IRR of 12% already at just 0.5% margins. And the reason I ask, how do you view the IRR for you to take more action on that? And the reason I ask is that in September, I think Oliver Bate had said 69 bps and then you again saw a small slip back to 50 bps for the fourth quarter. So that's on the U.S. life. The second thing is that you mentioned the tax rate, again, which is slightly higher than the November guidance, which was for 33%, and now it's 34%. Just want to understand if that is -- if I got it right. Lastly, the -- just clarify, again, this -- the new division management net income target, you said excluding investment component because then, it would be incentivized them to start trying to realize gains. Is that the correct understanding here or is that...

Dieter Wemmer

Sorry, sorry -- again, when we established AIM, our central investment unit, in the first years, we had [ph] the discussion who was responsible for the investment income. Is it AIM now? And do we exclude that from the responsibility of local management? But that was more an intellectual debate. In reality, they were always responsible for the investment income, because we don't want to separate that from the technical income because then, we are sort of making steering really difficult. So now there is a full responsibility of investment income. It was the division in management. It was the operational management, and on top of these guys, so we have a very, very close alignment between operations and investment, which, obviously, is the right way to run it. The strategic asset allocation, that is a different thing. That's the responsibility of the board to decide that.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

So is the new incentive is the -- sorry, the new target is just to minimize non-operating costs, do you think? So why would you introduce a new layer? That's my -- that's not very clear, sorry. I must be...

Michael Diekmann
Chairman of Supervisory Board

I was referring to a discussion that we have with our operations during the introduction of the investment -- central investment function. That discussion is over, and everything is clarified. There is nothing hanging in the loop, and there's not one thing on the balance sheet or on the P&L, where there is not a clear responsibility.

Dieter Wemmer

So the other question was yes, tax rate, 34% was the outlook I gave. In the U.S., yes, we have a little uplift in the new business margin to 2.5% in the fourth quarter. And it is not only through the yield environment. I think we have also -- we are working on our expense assumption and what makes our products more robust, in particular, the fixed index annuities, is that we have a reset option in the products. In case that's a market that's turning down, we can change also for the enforced business the expense loadings, which from this point of view is actually equivalent to a de-risking of the product portfolio.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

I'm sorry, I have just one request. There's a slide somewhere that says what is the operating profit for guarantees -- guaranteed product and unit [indiscernible]. Do we also know that number for 2010? Because -- and the reason I asked is because that's the last time when the Life profit was at just EUR 2.9 billion level. It's just a curiosity. It's not a question as such.

Dieter Wemmer

No. I can tell you to rework this new profit by source. The team did a tremendous job to create a comparable for the prior year. I think I would probably have some people leaving the company when I ask for 2010's.

Oliver Schmidt
Head of Investor Relations

Okay, I think the next one was Fabrizio Croce over here.

Fabrizio Croce
Kepler Capital Markets, Research Division

I have 2 short one on U.S. The first one, if you could give the split of the EUR 7.3 billion of Life premium sold in U.S.? And particularly, how much of those were variably -- variable annuities type? And the second one is still on U.S. What I -- maybe I got it wrong. You will dismiss some EUR 1 billion of premium in crop business. But last year, we had a huge claim on those line. So this year, we have price increases. Why are you going out just now? And particularly, is it a mid-term -- so what is rationale behind this decision?

Michael Diekmann
Chairman of Supervisory Board

The rationale behind that decision is that the consortium that is running that business, which is basically a reinsurance consortium, has changed. So our proportion in that business has changed.

Fabrizio Croce
Kepler Capital Markets, Research Division

Where do you keep out of the consortium? Or what's -- I mean, how does this -- how is it possible for...

Michael Diekmann
Chairman of Supervisory Board

If you're a consortium, okay, today, then the terms and conditions for the prolongation are being fixed and set. Either you like them or you don't like them. Or they like your offer or don't like your offer. So what does it mean? Are you kicked out? Or you sort of manage yourself out of that? It just didn't fit.

Dieter Wemmer

Yes. Maybe for -- as addition -- the decision of the change has been taken for -- without us knowing. So because these things are being fixed long term in advance, you are not doing it at the spot. The other question, out of the EUR 9.4 billion, we have 3.3 variable, 5.5 fixed annuity and 0.6 life products mainly and some others.

Oliver Schmidt
Head of Investor Relations

Okay, we have Andy again here, the gentleman in the middle. Thank you.

Andrew Broadfield
Barclays PLC, Research Division

Andy Broadfield from Barclays. Two questions. Just on P&C, you did go through it real quick, I was wondering -- apologies to ask you the question again. What do you think your overall earning -- because [indiscernible] units are doing incredibly well in the P&C in the moment. And I guess the tendency for us is to look at those and run them forward as they are, and when you factor that some of them are going to be coming back a little bit. So if you could focus on those units where you think you're probably overloading a little bit and where you see scope for that to come in a little bit so we should be quite optimistic about the future? That's the first question. The second question is, I just want to come back to your comment about investment income and its responsibility at the local entity level. I wanted to make sure I understood that. Because I guess you got the AIM team managing it. And that has the responsibility for the performance of the overall portfolio, and then it feels like you may be doubling up that responsibility at the local entities, is that right? And also, is it right that you need that expertise at the local unit if you've already got it centrally as well? So I just want to understand that a little bit better.

Michael Diekmann
Chairman of Supervisory Board

In reality, Max knows that matter better. I mean, you need, as a product manager, to have a very clear line into the investment site. So we're not doubling up. And we are, by the way, not doubling bonuses as well for the same performance. Yes, you need investment expertise on the OE side as well. Obviously, not as much as we used to have when they were running the investment on the country level. So now, I don't want to give you a real assessment, unit by unit. But I can talk a little bit about what is my impression on where there's difficult to achieve improvements. If we go to B18, we see improvement obviously, in Germany. Otherwise, Michael Huttner would jump in my face. I think Switzerland has a good level. France has a good level. Italy is obviously too low. And Dieter has mentioned that we are rather going for using our situation for growth. Spain has been on that level for a long time. I think frequency in Spain will be depressed by the market situation, as well. I think Latin America is a little high. There's improvement potential. Reinsurance I see also more or less a proxy of how much net cap do we have. AGC&S is a little on the high side. U.K., as you see, is very much in line. Credit insurance, we've talked about, looks a little high. But if you reflect the environment, then probably for the time being, I don't want to make a comment on that as a listed company. Australia is on prime level. Asia is somewhat level. CE used to be much lower. I mean, it was one of the big-profit sources in -- of emerging markets. Obviously, U.S. is a little on the high side. And I mean, it's syndicated, a little. And Allianz Global Assistance, that's EUR 100 million business, where it's basically always in a 95 combined.

Andrew Broadfield
Barclays PLC, Research Division

[indiscernible] anyone is perhaps [indiscernible]?

Michael Diekmann
Chairman of Supervisory Board

Yes, but that has nothing to do with profits. That is just the combined ratio. Because if you get more growth at very profitable levels, then that doesn't necessarily mean that the profits are down. So there's a huge opportunity here. I mean, to say it more positive.

Oliver Schmidt
Head of Investor Relations

Okay, are there more questions? Yes, there are. Here at the front, please.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

A couple of questions. So the first one is on the deal appetite. So I don't have the numbers for how much money you've gotten ahead of this. But my guess is it must be around EUR 5 billion of that sort. Otherwise, you'd be saying it's a huge amount like EUR 16 [ph] . The -- so maybe you can give us a few of the deal size. Would you -- are you still aiming to look at things, which are above the EUR 0.5 billion to EUR 1 billion mark? Or have you raised your sites [ph] here? And the second is, going back to the incentive question, the impression I have for the whole day today is we've had a great year last year, and we can do the same again. And I'm battling against that, but not getting better far. But is there any incentive for you, any significant incentive to actually deliver more in terms of either net profit or dividend next year? I don't have that impression from the conversations so far. But maybe you could give us a few numbers.

Michael Diekmann
Chairman of Supervisory Board

There's always an incentive to be better. If you want to have this in the sort of monetary incentive, my bonus that we will discuss -- or the board bonus is around 120% for this year. And the cap for the bonus is 165%. So there's ample room for improvement. The deal appetite, I would -- I can't give you a number, Michael. Whatever makes sense, and we are not talking about mega deals. We're talking about something exactly along the lines as we've discussed the last few years. It needs to be something that we can absorb easily, with good management in place, preferably clean P&C, preferably in emerging markets or growth markets. But we would take it also as a consolidation game on the European side. And whether the EUR 1 billion is the cap, we don't have to cap and say, "If it's EUR 1,000,000,0001, we are not taking it. But if it's EUR 909 million, then it's great." And I think, last year, we've pretty much owned what we like and what we can do. Nothing at very, very good prices last year.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

There's a question that I've brought to Oliver. But I thought maybe we could all enjoy it because it is a positive. Can you give us the feel for the water losses -- the frozen pipes for '11 and '12? I thought that there might be upside here for Germany.

Michael Diekmann
Chairman of Supervisory Board

I don't have the number in mind. Does anybody have the number in mind for water pipes?

Dieter Wemmer

Yes, we do. So Germany was 290 in '11 and 380 in 2012. And I think, in France, it was about 70 million in the beginning of 2012; 2011, I don't know. And there was probably something in Ireland and U.K. But that number, I don't have.

Michael Diekmann
Chairman of Supervisory Board

And draw quick conclusions because we have a very strong force in the Middle East.

Oliver Schmidt
Head of Investor Relations

All right. Do we have more last questions? Or was that the last question for today? Well, there's one more in the middle.

Andrew Broadfield
Barclays PLC, Research Division

So I just -- Andy Broadfield from Barclays again. Just a very quick couple of ones, actually. You mentioned just on Slide B35 that the 90 basis points of margin on the Life business, that you said -- the phrase used is, good outlook for the future. Was that a kind of steer [ph]? Or that's just saying, "We're in a good place in terms of '11."?

Dieter Wemmer

No, I would probably go a little bit lower when you want it to work. The long-term average also when you want to match it with our overall outlook, and it is closer to a 75 there.

Andrew Broadfield
Barclays PLC, Research Division

Okay. And then just on the benefit to AGI and some of the work that's being done there that we've talked about in the past. And can you just -- this might be -- not be a simple -- too simple a question, but how do you see that manifesting so far and over what timeframe? You said likely it's quite imminent in terms of those benefits coming through in distribution, et cetera. How should we think and look at that?

Michael Diekmann
Chairman of Supervisory Board

I think you'll see it very clearly on the flows that are being produced because now on the distribution side, people can focus on a manageable product line. And we are spending much less time internally in coordinating and trying to create synergies that simply sort of -- I'm not good enough to justify that old business model. So is that tangible? No. But can we see it? Yes, we see it everyday. And if you ask the asset managers themselves -- I mean, PIMCO, are very happy, I guess, much as basically every month. And I think the very, very good indication is that we didn't lose any clients, for instance, in Germany. And Germany was the hardest piece of work. Because there, we have the closest -- and on the asset parts as well, the closest connection between the 2 organizations. So there's only positives. I've not seen one negative coming out of that, besides restructuring costs that you obviously need to go forward.

Oliver Schmidt
Head of Investor Relations
Okay, do we have any other questions? Well, it doesn't seem to be the case. So thank you for your time and for your attention. We say goodbye to everybody here in the room and to those who have followed us online. And we wish you a safe home and a very pleasant weekend. Thank you.