S&P Capital IQ

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Allianz SE DB:ALV

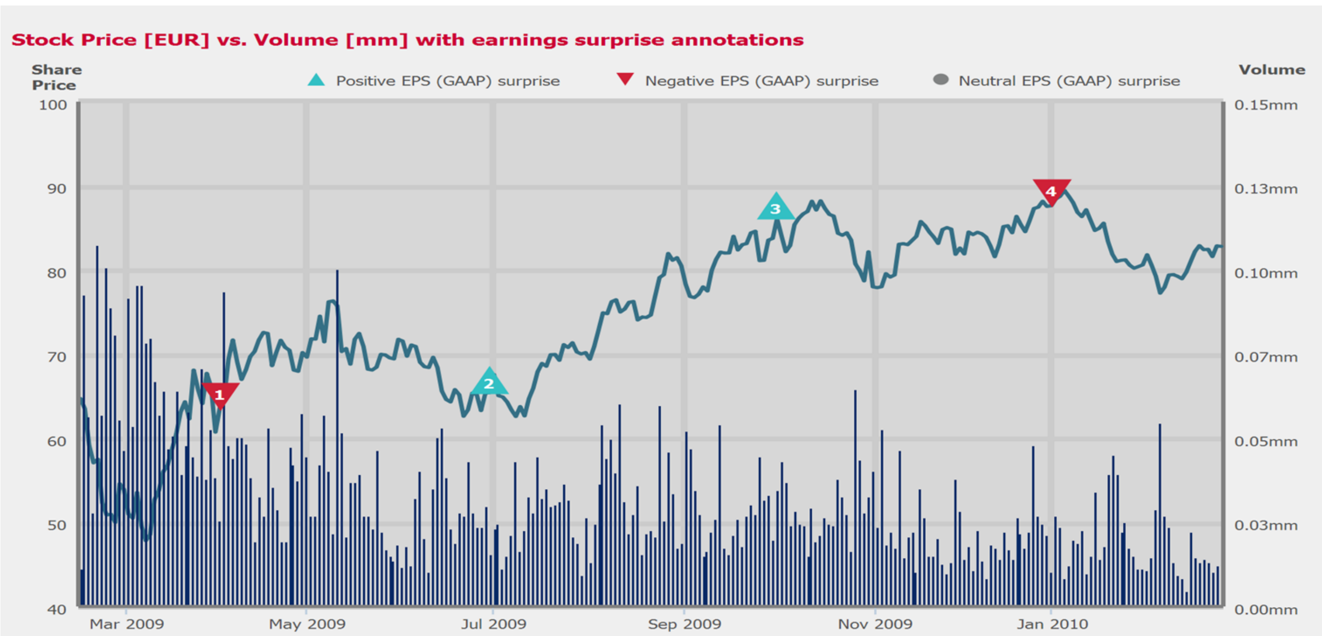
FQ1 2010 Earnings Call Transcripts

Wednesday, May 12, 2010 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2010-			-FQ2 2010-	-FY 2010-	-FY 2011-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	2.76	-	▲24.28	2.70	10.91	11.90
Revenue (mm)	22361.00	30000.00	▲34.16	-	91681.32	92619.40

Currency: EUR
Consensus as of May-12-2010 5:00 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2009	0.47	0.04	▼(91.49 %)
FQ2 2009	2.71	4.14	▲52.77 %
FQ3 2009	2.83	2.94	▲3.89 %
FQ4 2009	2.65	2.39	▼(9.81 %)

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Presentation

Oliver Schmidt
Head of Investor Relations

Good afternoon, ladies and gentlemen. Welcome to our conference call about the result of the first quarter 2010. I know that this must have been a very busy day for you, but as far as I know, this should be the last conference call for you today. So please bear with us for the coming 90 minutes, and then you will, hopefully, be able to call it a day.

The presentation will be given by our CFO, Oliver Bate, and afterwards we will be happy to take your questions. And with that, I hand over to Oliver.

Oliver Bäte
Chairman of Management Board & CEO

So good afternoon, everybody. We're trying to keep the presentation concise. Even though I have to say I saw a lot of comments out of the community today and I'm trying to address some of the questions that jumped at me from seeing those comments. So I'll be trying to anticipate some of your questions, so we can have a concise session today. I also like to remind that this is just the first quarter, so let's not over interpret any of the numbers in our business.

Now we are very happy at Allianz to have had a good start into 2010. Overall, revenues were up 10.3% to 30.6 billion euros. This is the strongest first quarter we've ever had, and it was particularly driven by strong growth in Life/Health and in Asset Management. Our operating profit is up 20.4% to 1.7 billion euros. However, of course, compared to a low first quarter in 2009, net income is a strong 1.6 billion euros, as you already know, benefiting from some gains that were not taxed in the first quarter. And our capital position remains very strong. Our solvency now stands at 168 percentage points.

So far for the top-down messages, Page 4, you've noticed the usual quarterly results overview for revenues, operating profit and net income, and we are happy with the development particularly on operating profit and revenues, as I said, out of Life and Asset Management and the net income numbers, also very strong.

If you turn to Page 5 please, you can see the development of our shareholder equity. Shareholder equity position is up 8.2% to 43.5 billion euros. Let me remind you what is the content of the revenue reserves. It's net income accumulated, unrealized gains of about 787 million euros and a positive FX position of 907 million euros for the quarter. Now on conglomerate solvency, again, as I said, 168% driven by increasing available funds. So we have, again, a very good position, and we've also, I think, improved our position on the rating side further fundamentally.

Now conglomerate solvency ratio of shocks you see on the next page, Page #6. Here, we're very comfortable above our thresholds, and the impact on IFRS equity is also within our limit and our target parameters. So I don't really want to spend a lot of time there. We're very strongly capitalized, and that remains a pillar of our strategy in these very uncertain times. Remember, just a few weeks ago when people said, "Isn't that too much?" Now the picture has changed again with the discussion around sovereign coverage, and we're very happy to maintain our strategy for more than just a few weeks.

Now turning to Page #7, there was a lot of debate what is our sovereign debt exposure. The overview in Page 7 gives you what do we have in terms of sovereign debt in Spain and in Greece, in Ireland and in Portugal. And I'd like to remind you that we have been, and it's just not recent, we have been underweight relative to peripheral sovereign exposures. If you just take the Barclays Euro Aggregate benchmark weight, that benchmark was for Greece at 3.1%. We are less than 1% on this one. And Portugal, the benchmark was 1.3%. We've been at 50 basis points. So we've been running at conservative portfolio, and we will continue to run a conservative investment portfolio and feel very good about the COGS that we've been making.

And again, you can expect from us a long-term orientation as an investor on to be ready for what happens in the marketplace. We'd probably talk about this more a little later, and I'm happy to field any questions that you have. However, I'd like to say if you want any particular country item or split on what sovereign versus covered bonds and ABS, please go to Oliver Schmidt. He is going to provide you with the data. I don't want to spend a lot of people's time on individual items. You can get them through IR.

Now Page 9, revenues show very strong growth, particularly in Life/Health, more than 17% up. And as you will see later, it's not driven by short-term money. This has not driven individual markets. This is broad growth across the portfolio, and we are very happy about it and it is very profitable growth as you will see later.

Asset Management growth is outstanding, we thought, in the third quarter with 33 billion euros. That cannot be topped. We had 37 billion euros in net inflows in the first quarter. So the success story continues. And P&C, we flattened out, basically, on an internal gross basis. So we stopped shrinking. And as you'll see later, some of the price effects are coming. They're not terribly stronger than the portfolio. But also, I remind you, and I will mention it later, the renewal price increases only partially priced themselves into the first quarter numbers, maximum of 40%.

Visible here you see quite a few more effects, and we expect them at least for over the consecutive quarters of this year. And we have had some lower volume effects. We continue to clean portfolios where we do find prices inappropriate, and I'll show you that later. So overall, we believe the revenue side is very strong.

Now operating profit. The picture on Page #10 is more mixed, particularly because of the profit number for Property and Casualty. As we have announced, we had a very severe hit from NatCat, 555 million euros, 5.9% on the combined and then another that we call weather-related events. There were a couple of questions today, "What does that mean?"

And just to try to remind you that our NatCat definition is a very conservative one. We have a high attachment point, and we reinsure a lot of that first internally before we give it to the market. It's very different in other enterprises. So we have, over time, increased our net retention, so that obviously influences our results here. But sometimes we do have severe weather-related events, like, block ice that are not counted at NatCat, but they are unusually strong in the impact. We count them internally as about around 100 million euros effect in the first quarter that we could consider to be extraordinary.

Offsetting was 3.5% runoff. We'll talk about that later on. This is higher than the long-term average that Hamburg [ph] has always announced, but it's not higher than what you typically see fluctuating over time. First quarter of 2008, we already had more than that, 3.6%. So this is what's really driving the Property and Casualty result in the first quarter.

Life/Health is up more than double to 812 million euros after a weak first quarter 2009, and Asset Management at an outstanding 466 million euros. The Corporate segment result stands at 251 million euros. What we have here is a continuous repricing of the net interest income due to lower yields, and then there is a technical effect that hit us this time. This is lower IT service revenues. Last year, we had a one-off positive item that's taken out, and this number should sort of balance out over time. So in our, at least in my perspective, noteworthy.

Let's move to the nonoperating items on Page 11. Couple of explanation points. First, very important the swing in realized gains and losses and impairments of investment. There were a couple of questions whether we had beyond the ICBC's sales huge effects here. This is not the case. I will later refer to other nonoperating where we have a hard-fought gain.

But in the first column, you can see on the right-hand side what's been driven here. This is normal harvesting, no extraordinary activity for us to increase investment income. Interest expense from external debt stands at 222 million euros. It continues to trade lower with reducing interest rate, thankfully. Also, being priced into our debt service, fully consolidated private equity investments are at 37 million euros minus. We continue to sort of be affected by the crisis here on the large MAN Roland and Selecta Holdings restructuring charges. Within the usual parameter, we obviously use the financial crisis. I have to use it to restructure some of our businesses, Ireland, Portugal and a few others.

And then we have acquisition-related expenses. Here, the expenses for acquiring the B units at PIMCO are the key driver. We're happy to pay more this year because we think we make a very good deal, by the way, even taking into account -- or specially taking into account the recent U.S. dollar movement. So we bought actually much cheaper than if we had only bought this. Next year, we're buying more and paying more for higher operating profit.

Now a couple of people have asked, "So what is going to be the future impact for the remaining outstanding units that you buy?" We have created already reserves in the balance sheet for that. The future P&L impact the we are expecting from buying these additional B units that are still outstanding is around 190 million euros P&L impact. So I think that helps you to compute some of the expenses and items going forward.

So let me move then to other nonoperating items. Positive at 66 million euros. This is impacted by the fair value adjustment for the Hartford warrants. Let me remind you, in addition to debentures and shares we hold, the warrants -- and we had to increase the value of these warrants because the share price of the Hartford went up. So there are no changes in assumptions on volatility or interest rate. It is purely the effect of higher Hartford share prices that we needed to book. For reclassification of tax benefit in this quarter, not a major item. So that leaves us with the 259 million euros, non-operating.

Let me just also remind you, particularly if you think about our bond exposure whatever the peripheral sovereign risk is, that in the first quarter of 2010, we had a net gain position across bonds and equities of now 6.8 billion euros. I think that's quite an important number, particularly if you think about the fact that just one year ago, that was a negative 700 million euros. Obviously, these numbers can fluctuate quite significantly.

Now Page #12, you see the reconciliation of net income. Here, the one thing I'd like to mention is that our expected tax rate was 28% -- around 28%. This one is obviously lower this year, this quarter because, and by the way, it's exactly 19.3% for those that are running their machine now. This is because we have realized capital gains that were exempted from tax. These stem mainly from ICBC.

So that is what is really driving the lower income tax number. Discontinued operations were 0, thank you very much. And for Oliver Schmidt's and your purposes, we have deducted the noncontrolling interest. So you get the 1.5 million euros. That helps you with the spreadsheets. So that's the overview for the group, ladies and gentlemen. I'd like to now move to the P&C segment.

What is the summary here? Revenues are flat now at 14 billion euros, stopped shrinking. NatCat claims, I've just mentioned, together with weather-related events that we call extraordinary were above 650 million euros. Operating profit, therefore, is down to 712 million euros, 26% over a year, very low number. And the combined ratio stands on a calendar year basis at 100.4%. That includes 7% from NatCat and weather-related claims and 3.5% favorable runoff as mentioned.

Now when you look, go to Page #15, the only thing I can say about that is what I've been saying at the year-end and at the last quarters. We focus on growing where the margins are good and have continued to let go of volume where it's not profitable. And in difference to many of the surveys we see, we remain sort of cautious around Germany, particularly around motor, and we are continuing to clean the fleet portfolio where necessary and other aspects of the book.

We do that also in France where necessary and in Italy, and we want to make you understand that the U.S. number is heavily impacted by changes in the crop insurance program. So please, be cautious with interpreting that minus 10.9%. And AGC&S, we had lots of changes here. But also there, we are seeing there a couple of market segments that are non -- too competitive for pricing, so we're letting volume go if we don't believe we can make money.

Credit insurance is still suffering from the credit crisis. A couple of customers are considering whether they want to really buy the product going forward because we raised prices quite significantly. Profitability here, however, is strongly improving as you will see in a second.

Now Page #16 shows you the usual split in operating profit impact. I'd like to remind you, on the right-hand side, that we are still on a year-on-year comparison suffering from lower interest rates. As I mentioned in the last call, our investment income will stabilize at the level, that's what we expect, at the level of the fourth quarter of last year. But again, in compare to the first quarter of 2009, we are down 77 million euros as low interest rates get priced into the portfolio. And we have the deterioration, the underwriting result, the swing by 167 million euros to now an underwriting loss for this quarter of 83 million euros. The other position is really not meaningful.

Now if you look at the individual country perspective, you can really see the pervasive impact of NatCat in the first quarter. On Page 17, I've given you additional information on the NatCat impact in the first quarter by country, and these are just the large exposures. I have not sort of added anything on the weather-related side, weather-affected. So Germany, 3.6%; France, 8.7%, quite significant. And the U.S. has had NatCat levels that we haven't seen for the last 5 years, quite unusual for the first quarter. Reinsurance, of course, because we fund a lot of internal reinsurance, is heavily affected as we increased our net retention.

AGC&S, particularly through the Chilean earthquake, 13.5%, very severely hit. And Australia hit -- for those that didn't know that we had 2 large hail storms in Perth and in Melbourne. And just to give you a comparison, last year, which already was -- saw some hits was only 3.3%. So it's more than double the impact that we usually have. So this is what we call quite extraordinary impacts on the combined ratio through NatCat events this quarter. This was part of the business that we run.

So therefore, we need to look a little deeper on what is the underlying trends. So I'd like to have your attention on Page #18 that gives you the usual sort of magnifying glass on the underlying trends on the accident year loss ratio. Let me please start by looking at the upper left-hand side, where you see the 9-quarter overview.

Here, you see in the red line the development of the accident year loss ratio, including NatCat, and you clearly can see the jump up to 75.9%. Now in our mind, the good news is the green line. The green line shows you the, excluding NatCat, 9-quarter development, and we discussed the last time that we were happy to be below 72%. And we wanted to look at the trend where it's going, and I can confirm what we consider to be at least stabilization when we're now at 70%. Can I promise that it's going to stay at 70%? We'll see it over the year, but we believe and --well, look at the right-hand side, that some of the cleaning activity that we've been taking on the portfolio and decreasing number of very large claims, for example, in France, that had hit us, gives us support to our targets.

Now on the right-hand side, you see the reconciliation of the first quarter '10 to the first quarter '09 on accident year ratio. Now the NatCat is about 3.8%. You see a positive development on credit insurance of 60 basis points. And we, by the way, do expect further positive effects. The price effect is only 10 basis points. Again, here, let me remind you that the price increases that we've had on renewals, just the renewal component, is target to be 2.2% and that only gets slowly priced into the portfolio.

The maximum of what we typically get is 40% in the first quarter, and that then has to be translated really into earned premiums. And then we get another 60 basis points on positive effects on the combination of frequency and severity. Now actually, frequency is up because of the weather-related events. This is what I wanted to highlight. We had a lot of winter claims, so the positive severity effect is significant. And you see the reduction of the large claims that we've been recording last year, where we've been telling you we're working on reducing those. And apparently, it's coming through, and we're hoping that the frequency effects would also abate over the next few quarters.

Runoff. There were some comment that the runoff is unusually high. We always give you guidance to say that the reserves are priced to at least give us 2% runoff over longer periods of time. I think that's very clear. Now over the cycle that fluctuates, if we come out of strong years like we've been doing that in 2008 and 2009, the runoff is higher towards the end of the soft cycle. That runoff number tends to taper off, and some of your analysis shows that.

However, that is a little bit misleading, some of the analysis I've seen, because they always take the first year development. If you take the second, third and fourth year development, you see that we are well reserved. So a 3.5% runoff is a high number but is not unusual for a first quarter. Let's look at 2008, for example. We had 3.6% in the first quarter of 2008.

And on the lower right-hand side, you see the non-NatCat versus the NatCat exposure, and that clearly shows you that even on the numbers we had in 2009, we had quite some winter storms particularly in France, we have had more than doubled the level this year and then without the exceptional claims.

Now the question really is, and I've read that in the comments you have, the bull and the bear perspective. And I'd I like to give you what I would call the back-of-the-envelope calculation because people are obviously trying to figure out what is the underlying combined ratio, what does that mean on outlook and whatever. Let me stop here.

Number one is we don't adjust outlook based on the first quarter number, right? We give an outlook on overall year number, and we have sufficient volatility in the portfolio to believe it doesn't make any sense to adjust updates on a quarterly basis. But what I can say is that the overall targets we have for the year on operating profit of 7.2 billion euros and the fluctuation, we do stick and do commit to at this point. That's very important.

But we typically have fluctuations between the various segments, and we believe we have a very well diversified portfolio between Asset Management, Life/Health and P&C. So the weakness in one segment can be balanced by over performance in others as we see it in this quarter, and by the way, as we've seen in last year already. Now looking at P&C then, what is the bear and the bull view? And I'm just going to give you my five cents, and you need to make up your mind what you believe. And I cannot run that number for you.

Some say, well, you have 100.4% combined on the calendar year basis, The excess NatCat of 3.9%, the excess runoff is 1.5%. So really, it's a 98% combined, and that looks a little high because that would mean you would have to have a 96% combined over the next 3 quarters in order to get to the target that you originally announced, plus/minus 96.5%. So one would have to say a 96% combined is not possible even with a normal runoff. I find that extremely conservative. But then you can take that view, particularly if you believe that NatCat activity will be high than would be one view.

The other view is to say, yes, we have had an excess in NatCat-related events, but maybe the runoff is, over the year, going to be more like 2.5% or something like that. So the underlying combined is more than 97%. Then I need, for the quarters 2 to 4, 96.5%, i.e., the overall target in order to come out with 96.6%. And that is why we don't call this a problem. We really depend on the development of the NatCat claims. And so on the other dimension, you need to make your scenarios. We feel at this point, if we can get NatCat under control, we'll feel quite positive. And there's more I'm not going to comment on with regards to the P&C outlook.

Now let's talk about expenses for a second. Page #19, you see the development. A couple of exceptional items. As usual, you can see, I don't want to talk about them in detail, but we have overall cost going slightly up. By the way, also, our revenues are slightly up. The cost ratio is up because we had an increase, in particular, in other acquisition-related expenses. As Michael said at the year-end call, we continue to invest in distribution and to build net sales capacity in Germany, investing in new distribution structures.

Now on the other hand, we need to watch it, right. Every ordinary economist would say you need to make sure that your cost grow in line with your revenue base. And to be very clear, I'm not happy with the fact that our cost ratio is going up. Michael Diekmann is not happy either, and we're taking significant measures here. Particularly, I think, we need to focus on distribution cost and make sure that we get more bang for the buck here.

Now let me turn to the operating investment income, Page #20. What you can see here is relative to the first quarter of 2009, about 40 million euros deterioration. But it's stabilizing, as I said before, at the fourth quarter and third quarter level around 850 million euros interest and similar income, and we expect at that level for operating investment income to stabilize. Net harvesting is within the usual parameters and the investment expenses as well. So overall, net investment income at around 774 million euros is going to be a stable number, and that is obviously before any distortion in capital market.

Page #21 shows you the development of the average asset base. It's going up as it should be because that's important for operating cash flow development, and our current yield now stands at 94 basis points per quarter. As to be expected, equity yields have recuperated to now 65 basis points. Dividends are back up, and we have some mobilization in harvesting.

Now Page 22 gives you the overview on the pricing. As said in the past, and we've really worked with our operations one-on-one to get a confirmation on the pricing for cash, the pricing impact is going to be 2.2% over the year. Again, let me remind you, the renewals priced themselves into the portfolio just slowly. And on top of that, we need to see the nominal tariff increases coming through over the year. You can see what they have been and what they are targeted for the year. We are expecting significant nominal tariff increases in France and in Italy. You can also see that in the numbers of some of our competitors that they are raising prices, particularly in Italy.

Spain, 1.3%; U.S. is targeting 6.5%; the U.K. is getting 4.2% through; and Australia is getting 6.1%. In a number of the markets, we are pushing prices, particularly in light of the NatCat and higher with the related events and a number that faced the market has follow on again. It will take a while for these prices to come through.

On the other hand, by the way, some people don't understand that the claims inflation already hit us early because when we expect claims inflation, we do price that into our claims reserves. So all new claims coming in January 1 do already reflect the expected inflation. So we typically have a first quarter effect that's slightly negative as claims inflation already is in the numbers, but the premium increases are not in the numbers. So we're very careful in terms of forecasting pricing effects on the portfolio.

Now let me turn, please, to Life/Health, Page #24. Here's a summary. Revenues up strong 18% to 15.4 billion euros; operating profit at 812 million euros; investment income, 82% to 3.9 billion euros; and value of new business at almost 250 million euros with a new business margin of 2.2%. I'll talk about these numbers in a second.

Now Page 25 I really do like. Why? Because we're seeing the same picture now in Life/Health that we like to see in P&C, is that we grow where the margins are good, and we do not grow or even shrink new business where the margins are not good. So for example, in the Netherlands, the profitability of Life is currently low, so we don't want to write a lot of business there.

Let me help you with interpreting the U.S. numbers. We had an extraordinary strong first quarter of '09. That didn't repeat itself. The first quarter of '10 with 1.65 billion euros, however, is a very, very strong quarter. So that's a statistical effect here. And that means we're strong and growing strongly across the portfolio. Italy, France, Germany are all extremely strong as is Asia-Pacific, which I'm very happy about because the margins are also good there, and by the way, in deference to many, I think, other participants locally. And even the Eastern Europe is stabilizing.

So we personally believe that is very good news. Also, when you look at the revenue mix, whether that is IFRS, i.e., traditional premium and premium from investment-oriented product, there we have a lot of demand coming back for pure investment products. So that is, from our perspective, good news.

As it is on operating profit, Page 26. And I'd like to look not only at investment, the investment result, which you see on the right-hand side that had an addition of 322 million euros, but also the fact that we've been improving both our technical result and more importantly, the expense result. I mentioned to you the last time that there should be no reason in a large portfolio like Allianz's that we cannot fund investment cases and new products internally and have to produce expense overruns. We have been working very hard on these, and they're going down and I expect them very soon to be at least equal. Over time, by the way, we should manage our expenses well enough to actually make a positive contribution. So the trend here on this dimension is very positive, and I'll talk about investments in just a second.

Let's move to Page 27. 27 shows you developments of our operating investment income, and I'd like to separate, as usual, interest and similar income from net harvesting and others. And it's very important to understand that the net harvesting number -- and we broke that up in a number of components: impairments, FX and realized gains and losses. It is not, and it's very important, it's not driven by a lot of trading in order to create realized gains and losses for shareholders. By the way, given our policyholder participation, we would have to move a lot of the portfolio in order to create the gains. So it's very important. The key driver is not having large impairments like we had them in the first quarter of '09. So no extraordinary generation of profits here, and that's a very important message.

The other one is that our net flows are positive now across the portfolio. You see that on Page 28. In addition, interest income, market effects and FX are all strongly positive. We have positive flows across the portfolio even in very mature portfolios, like, France and particularly Germany, we're having strong net inflows. So the operating asset base now stands larger than 4.2 billion euros.

And you also see that on the pure insurance assets without investment in unit-linked on Page 29. That average asset base is now up to 325 billion euros approximately or 14%. And it's very important because it helps us to drive investment income despite the fact that obviously, also, low interest rates are pricing themselves into our portfolio. Yield stands at 1.11%, and equity, as in P/C, yields are back up to about 48 basis points.

Let's talk about value of new business on Page #30. Present value of new business premiums very strong as already in the fourth quarter. This is very unusual because we typically have a very strong fourth quarter, not always strong in the first quarter. It's typically weaker. This year, it's very different. I'd like to call it flight of quality here. And also, our margin at 2.2% is very good.

Also, for comparison and calibration purposes, we do sell in some markets actually our products with weaker margins. Italy, for example, sells a lot of bank insurance in the first 3 quarters, then the highly profitable agency business comes in the fourth quarter. So that needs to be borne in mind, and you also see that in other markets. So in that light, that number is very strong.

Also, I'd like to remind that ones amongst you, we run our new business margin calculation on a very conservative basis. And compare them to competitors, we have different cost of capital calculations. So we believe on a like-for-like basis our margins are at least as strong as all our other competitors. And I don't want to give specific names. If you want any details, Oliver Schmidt will tell you how the numbers should be computed to be comparable.

So that leaves us with almost 0.25 billion euros of value of new business, and we will continuously push for stronger margins. And my last comment, and that's why I'm particularly happy, in this interest rate environment, having such a margin is not an easy fact.

Now moreover, Page 39 -- Page 31, sorry, the composition is very important. And when you look across Europe, Asia-Pacific and the U.S., we have now positive new business margins everywhere. So it's not the case that Europe is dragging along the rest of the world, where we always have a foothold. U.S. is at a positive 2.1%, Asia Pacific is a very good 1.6% and we have Europe at 2.6%. And you see the development overall, and I think that's very, very important.

Now Asset Management. Asset Management is even nicer. I like, actually, the flow of the story, starting with P&C and then Life/Health and now moving into Asset Management. It's really nice. Third-party Asset Management now exceed 1 trillion euros; total Assets under Management, 1.3 trillion euros; and the third-party net inflows continued in the first quarter with 37 billion euros. Record numbers, and the operating profit stands at 466 million euros, which is truly exceptional.

Page #34 shows you what the AuMs are. Equities are growing, and it's not just market uptick in equities as you will see later. We, for the first time in many quarters, have had positive net flows. This is, by the way, not true for the rest of the market always, of 2 billion euros. So I'm keeping my fingers crossed that our restructuring efforts are really have taken hold and also driving our equity business.

Net flows on 35. I don't want to really comment on really outstanding number. And 36, I think, is something to really think about for a little bit. Our net fee and commission income increased to more than 1,097 billion euros now, up almost 55%. The internal growth rate is actually 61%. And you see a performance fee number here. A lot of people have asked, "So what do we do? Why -- how come?" Because typically, you have performance fees only in the fourth quarter.

Now a couple of comments here. The first one is performance fees are dependent on the product structure and the benchmark and how they're being computed. So a number of the products do now provide quarterly performance piece because that's what investors want to do. The other point is it depends on the level of outperformance. If you achieve outperformance very early in the year to a significant degree, then the performance fees are earned earlier. Important is they are earned and they are paid. They're not just computed.

Can you calculate this number just by multiplying it by 4? No, you cannot, right, because as we know, markets can be very volatile. And so that's the comment I want to make here. And a large part, obviously, of those performance fee come from the fixed income division, but equity products also contributed noticeably to this effect.

Now let's move to the composition of the operating profit on Page 37, please. Here, in addition to mentioning the net fee and commission income moving up by 388 million euros to now over 1,097 billion euros, we have higher operating expenses. All these assets need hands and feets to take care of, and they need computers and people to take care of. So a significant part of that is also investment in building the business.

And of course, there's profit participation in our Asset Management business that is going up as well. But we feel very comfortable because now the cost income ratio stands at 58.2%. As a reminder, we believe that already 65%, what is the target, is already is distinctive benchmark. So this is truly remarkable at this point in time.

Pages 38 and 39 break this up along key performance indicators for fixed income. I think fixed income, you can just take in and enjoy. On Asset Management for equities, Page 39, you see the net inflow number that I mentioned in the Assets under Management and operating profit, which is back to profitability with 26 million euros for the quarter. And we hope to gain more here. Again, as I've said, they also have performance fees at a level of around 5 million euros. What we really have to watch here is the underlying outperformance, that 61% has to move to 70%. That is the target.

So I'm almost done. I just like to summarize what we've been trying to communicate to you. We had a good start into the year, we believe, with revenues up more than 10% to 30.6 billion euros; operating profit, 1.7 billion euros; and net income, 1.6 billion euros. And the very, very strong capital position in Life/Health and Asset Management more than outbalancing the hit that we had to take because of NatCat in P&C.
And now I'm happy to answer your questions.

Question and Answer

Operator

We will take our first question from Michael Huttner from JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Just a couple of questions. On the German merger, can you give a bit more color as to what is happening in the market? I remember seeing a newspaper article saying your rates are rising, et cetera. Clearly, they're not. And the second, can you say what is in the actual revenue numbers in terms of price rises? So I understand the number for 2.2%, which is the renewal rate. So that has to be earned full year, doesn't apply to all the portfolio, et cetera. What was the actual figure included in Q1?

Oliver Bäte
Chairman of Management Board & CEO

Michael, 2 questions you had, German motor price development and what was the revenue impact. We've given the waterfall, I think that's very important, and how it has been affected. We believe that the price effect wasn't -- let me start with the second question. Overall, on the portfolio, plus 20 basis points. Plus 20 basis points, and we had a negative volume effect that was 30 basis points. So that's the overall impact on the portfolio. Now German motor is up for grabs. There's lots of stories around what the future holds. I'm more conservative than many market observers because I just look at the level of excess capital that we have in the German P&C industry. It's huge, particularly for those that don't really have shareholders, whether that's the public insurers or the mutuals. So some of them even have the desire to use that capital up. So I don't expect dramatic price increases in motors any time soon despite the fact that there are a number of competitors losing money significantly. Second observation, the overall P&C market is running below 100%, and that's also not a sign that gives support to motor pricing because people can still cross-subsidize from other lines of businesses. That is the reason why we stay extremely conservative, and a difference to many years back, some journalist's questions in the morning, we will focus on margins. We'll let volume go if required.

Operator

We will take our next question from William Morgan from Goldman Sachs.

Will Morgan
Goldman Sachs Group Inc., Research Division

I have 2 questions, please. The first one relates to -- kind of following on from Michael's question actually and the price increases you talked about in your -- on Slide 22. If only 20 basis points is being earned through in the first quarter, I find that very difficult to reconcile with the numbers you're showing on Slide 22 given that if I look back at presentations you did last year, you were still looking at price increases of north of 1%, I think. So I'm surprised you're only earning through 20 basis points in the first quarter. Could you possibly explain why that is? And related to that, you do sort of talk a lot about discounting impacts. Are these -- perhaps these increases renewals, et cetera, that you're showing here, maybe not including the impacts of discounting that's going on at the agent level. The second question I have relates to your slide on the expenses that you gave on Page 19. I read somewhere this morning that there has been a slight change in allocation between the admin expenses and other acquisition expenses in the first quarter of 2010. But even if I ignore that, if I'd seen that other acquisition expenses and developments in the business and admin expenses are obviously ongoing costs, you're still looking at around a sort of 7% year-on-year increase. Given that your top line is essentially progressing flat, then presumably, that is going to start impacting your combined ratio quite significantly. And especially, if you're only earning 20 basis points through price increases with claims inflation going the other side, I struggle just to see how your combined ratio isn't getting significantly worst over time.

Oliver Bäte

Chairman of Management Board & CEO

Good questions. Now the first thing is on the last year forecast. That is obviously always before effective discounts, and it takes about 2 quarters to figure out really how the renewal gets priced into the portfolio even though we've been -- become extremely restrictive on the use of those discounts. And then -- that's the first question. The second question is on the distribution costs. This is a little bit of fixed cost effect. And it's not true, by the way, that the top line is not -- has not been growing, right. So if you look over a number of quarters, we have been having volatile numbers, but the relative effect have been almost equal. Now you are absolutely right. We cannot have a continuous increase on noncommissioned distribution costs, particularly on investment costs if revenues are not coming or are better loss ratio. By the way, that's the other side of the coin. You can invest in distribution and make sure you get better risks than the market and that is very well-invested distribution costs. So we are watching this extremely carefully. But let me remind you, there are a couple of investments involved that we've been talking about in the last quarter of last year and Michael Diekmann has talked about. The first one is we're building up a global automotive platform in order to systematically rebound based on motor distribution. Most of the new business in the future, the truly new business in motor, is going to go through car dealers and OEMs, and we want to be and continue our market leadership position. So we're building that. For the first time in many years, we have been net growing our distribution capacity on the agency side in Germany, and we invested significant amount of money there. And in Fireman's Fund in the U.S., we mentioned to you we have invested a lot of money and technology in order to grow the business and grab market share. So these investments are partially reflected in the numbers. But you are right, we need to make sure that we see the revenue and the price effects coming through this year. But we are committed to make the plan that we've given ourselves.

Will Morgan
Goldman Sachs Group Inc., Research Division

I mean, if I could just follow up on this. I mean, effectively, you're saying that the price increases you're showing at renewals are not including the effects of discounting. I mean, if we start to think about the impact -- I mean, if you look at the market overall and just stand back from the data and just say, well, given what I know about claims inflation, given what I can see is happening to the nominal pricing and what is actually feeding through into the revenue line. I mean, if we ignore expenses for the moment, I mean, when you look at the loss ratio, would you expect that to actually be improving with this pricing data you're showing? Or do you expect it to be broadly stable, or would you actually expect a slight deterioration going forward given...

Oliver Bäte
Chairman of Management Board & CEO

I think we have to have an improvement, and that's why at least differentiate the renewals. Not all of the business is renewing, right. We have still contracts running 4 to 5 years where the nominal tariff increases we are providing on Page 22, which is at the highest number that we've had in many years now, 3.2%, have to come through. Now what -- you're absolutely right. We need to see them in the book. So they have to be effective. They need to take care of bonus-malus, which we do compute in here, and they need to be actually getting into the book. The key uncertainty, by the way, I see in that completely different area. Well, that is price increases have to be seen in light of losses, right. So because in highly competitive market, when you push price increases, some of the risk that you reprice might actually leave the portfolio and that we will see only over the course of the year. At this point in time, I, however, think the combination of the 2 points that we have here should support the target combined ratio that we've been tuning for, that is before NatCat.

Operator

We'll take our next question from Fabrizio Croce from Kepler.

Fabrizio Croce
Kepler Capital Markets, Research Division

If I think to your government bond exposure and if I add the 28 billion euros that you have in terms of growth exposure for Italy, I end up to one-time growth exposure in proportion to equity. Now if I net this for the policyholder and shareholder fair, I end up to some 29% exposure on equity, worst-case scenario, of course. Now the question is, however, when push comes to shove, so the situation becomes serious, then probably the policyholder-shareholder split won't work exactly as it should. Therefore, what is actually the effective exposure if guarantees kicks in as well? That's my first one. And my second one is, in terms of distribution costs, which you said to be -- you are looking to lower them. So the question is, in a competitive market like the German one, does this not equal to cutting your own leg before a race, actually? And if -- would it not make more sense to work, actually, on the back office and cutting there the cost?

Oliver Bäte
Chairman of Management Board & CEO

So let me start with the second question because I think that's more easy to answer. This question that you gave to me, and I have a lot of respect for you. Sounds a little bit like the [indiscernible] 2012. Anybody can make up his or her favorite doom day scenario. But I don't believe, to be honest, in a doom day scenario. If Italy goes back, we have very different problems to worry about other than policyholder participation, that's my point of view. That doesn't mean we don't manage risks very, very carefully, particularly around peripheral exposures because that's a much more likely scenario that something is going to happen. And as I've said before, we are monitoring that very carefully. Now by the way, that sort of net exposure perspective, I particularly personally do not find ample because policyholder participation is, by the way, as you said it, is very unclear and gets determined at the end of any annual year. What is really the right measure is what is the growth exposure, and if we have to impair our positions, what is the hit to the P&L that we would have to take. And in the case of Greece, that number can, by the way, fluctuate over time. It can be anywhere between 300 million euros and 400 million euros net and I think we can very easily sustain such a hit. So we feel very comfortable with our overall exposure. Now the other point is on Germany. The German expense ratio has actually improved from 28% in the first quarter of '09 to 27.7% in the first quarter of '10. So we're working on it. We're working on the back office. We're doing exactly what you say. On the distribution side, again, it's significantly driven by investments. So the question really is, should we continue to invest in new distribution format or should we not? Is this the right timing to support and prepare ourselves for the new world, or should we curtail investments? And we're keeping a close eye on it, let's be assure, and I think there's more homework to be done. But we will manage those investments very carefully.

Operator

We will now move to Andrew Broadfield from Morgan Stanley.

Andrew Broadfield
Morgan Stanley, Research Division

Just 2 questions, please. One, I was wondering, you've spoken a little bit about the investment in the distribution, I think you said particularly in Germany. I was wondering whether you might be able to just give us a little bit more granularity about exactly what that is and how you intend to or when and how you expect that to deliver the top line or bottom line benefits. So just a little bit more granularity in exactly what you're doing there. And I was also interested by your comment on the claims inflation you were talking about. You're saying that, at the beginning of the year, you already plused that into the claims but it takes a little while to come through on the premium. And that side, I think -- and a lot of this is misleading because what it's telling you is that it wasn't plused into the premium last year, which is the premium you're earning this year and the claims matching that have an inflationary component. So I was just trying to understand whether there's something sort of accounting theme that I've missed there or whether it's just what I've just explained -- described.

Oliver Bäte
Chairman of Management Board & CEO

Yes. It's not misleading. Let me give you an example. In the fourth quarter, Italy is a good example here. In the fourth quarter of last year, we got new tables for compensating bodily injured claims. They were called the Milan tables. We were the first and, by the way, the only company in the fourth quarter of last year already adopting or reserving in claim settlement policy to that new legal environment, which dramatically, in some cases, doubled the amount that you have to reserve and pay out to your claimants. A lot of companies only do that when they have to pay, and that often creates intra-book negative runoff. So we are very conservative, and then increased the reserves where we already know that takeoff [ph], and by the way, because that pushes them also pressure on the front office to make sure that we are getting the prices we need to pay for the claims and not camouflaging that already existing inflation on claims. Now then what we do is then, obviously, reprice the book immediately and that then, however, takes a year to fully be reflective in the portfolio. So you do get the claims inflation hit if you book appropriately and according to actual best practices immediately in these changes, and the benefits of the price increases only come in later. So that is not a misinterpretation of economics. That's how it works if you conservatively manage in C&P portfolio. Now let me give you the German example on the agencies, just to give you granularity. We do, and I say that with all self-criticism, have had a strongly aging sales force. A lot of our agents are above 45. In some countries, the average age is even around 50, and we were not investing enough in the past to drive recruiting of high-quality agents. And we started more than 3 years ago in Germany to address this, and more successfully, recruit new agents. And I think we spent more than 60 million euros on a new recruiting program to bring new high-quality agents on board. We have created the new sales academy in the city of Cologne that has shown to be highly successful. So for example, our attrition rate on new agents in Germany has significantly been falling over the last 24 months. So this is really important. By the way, replenishing sales force is a hugely expensive exercise. It's very cheap in the short run to suppress investments, very expensive to catch up and we're doing some of the necessary catch-up investments that we should have done a number of years ago, just to be very clear.

Andrew Broadfield
Morgan Stanley, Research Division

Okay. Just on two things. Just come back to both of those, if I may, briefly. The claims inflation thing you're saying is, that that's the effect of via a retrofit -- the impact of retrospective changes rather than the normal run rate inflation coming through, that's what you're referring to, I think there, it sounds like. That's the case, is it?

Oliver Bäte
Chairman of Management Board & CEO

Yes. And that's -- yes, but just to give you the order of magnitude, that's more than, from what I can recollect, more than 2 points on the combined, just on that effect on the short term, right? So it's not small -- this is not small change.

Andrew Broadfield
Morgan Stanley, Research Division

Okay. And then the second thing, it sounds like it's effectively human resource you're investing in on that acquisition expense, in particular, in Germany. And I note your comment about frustration or disappointment in your expense ratio, but I would also note that, that was set -- that was said to set some quarters by your predecessor, too. And I just wonder if there's really, in your mind, clear pathway in the sort of coming quarters, years. I don't know how long or time analyzing that you really see that, that is something that is not achievable in theory. But actually, you can see it occurring, that you see that expense ratio coming under control more.

Oliver Bäte
Chairman of Management Board & CEO

Yes, Let's talk about strategy, and let's take them off course. Let's take sort of the recess for 10 minutes because this is, I think, a fundamentally extremely important item. Extremely important item. The first one observation is that we've been telling you, and we've invested a number of years now in bringing our administration expenses down. And despite some of the reclassifications, I'm firmly convinced that we've not just cut headcount and reintroduced a new technology, we are bringing the admin cost down. And I think that is going to happen, and over time, you see an admin cost ratio of below 7%. And we will drive that. And even though it was very difficult and caused some of the distraction in the core markets, we are determined to continue on that path. Is everything said and done? No, it isn't. There are a couple of challenges, and let me mention them, but we're working on them. The first one is that in this industry and different to other more mature industries, labor still excepts -- expects positive salary development year-on-year regardless of what the top line development is. And we have to deal with that. In other industries, you do not get automatic salary increase about 2% to 3%, as you get them in our industries. So we have to manage that. In the family business where I come from, their revenues don't move, you don't get it, get a raise. And the issue that we have to address here is factor of cost inflation. Now we are doing this really well on the nonpersonnel cost, which is about 30% to 35%, but on labor cost, we need to make sure that labor cost inflation works in sync with revenue development. That's the first observation, and that is something we have to address. So for example, we still fit in a number of high-cost locations in Europe and we have to move to the periphery, where we have low personnel cost and we have lower cost for nonlabor. But this is clearly understood. We've been on this journey, and you see that reflected in the number. The other one, and that is more strategic as an issue, is that the universe, in terms of sales architecture and channel architecture, is changing. We have 2% of our revenues in P&C, coming from car manufacturers today. And we're already the market leader. That channel is significantly growing in importance. It's very tough to manage because our global partners do expect global service across the countries, and we are creating a dedicated unit, dedicated manufacturing processes, and that requires investments in the future. We have to revamp our agency channel. For many years, I think, this industry, overall, it's not just Allianz, it has been just milking this channel, and there's a question how you work offline and online. And we're in the middle of the process to determine the new balance, particularly around P&C. The last effect is, and I think, and I -- just bear with me here, a number of the forecast were made at the end of 2007 when we were at the absolute peak in terms of earnings in the P&C industry, in terms of productivity increases. We all know that we have had 4, depending on how you look at the markets, 5 years of declining prices, of declining prices. Now our prices in most of Germany, I think, are lower today than they were 5 years ago. And in that environment, it's extremely tough to bring the expense ratio down. So just managing against that continuous price decline is already a lot of work. So I understand your concerns, also relative to the communication. But this is a very tough environment. And the crisis on top of that has issued further pressure because we have had trucks to insure on the demand. You see that across as revenues go down in our clients, a lot of the commercial lines. P&C revenues go down as well. But the exposures don't decrease all the time. So that has to be understood, and that is putting additional pressure on this industry and the segment. And I have to tell you, if we can come out of the soft cycle with the combined ratio of below 97, that is something to be proud of and not to complain about.

Operator

We will take our next question from Paul Goodhind from Redburn.

Paul F. Goodhind
Redburn (Europe) Limited, Research Division

I've got 2 questions. First is on the Asset Management division. And specifically, just trying to understand of the 128 million euros in performance fee, how much of that you sort of you gave back by bonuses? And I guess the way of asking the question is if you can have that 128 million euros there, there were no performance fees. How much low would the cost base be in the first quarter? And what percentage are you using going forward just to model that?

Oliver Bäte
Chairman of Management Board & CEO

Well, I don't think that I can tell you that. I can say that right away, we will look that up for you and give you, shoot you an e-mail. I already know from my backup that I cannot reconcile performance fees against income of people because I don't know what the structure is at people in particular, so we would have to look that up.

Paul F. Goodhind
Redburn (Europe) Limited, Research Division

Okay. Second question is on the Nonlife side. And I think you said although that the large losses that weren't classified as Cats were about 100 million euros in the first quarter, is that right?

Oliver Bäte
Chairman of Management Board & CEO

Yes. That's other related events last year.

Paul F. Goodhind
Redburn (Europe) Limited, Research Division

Can you give a comparable figure for the first quarter last year? I'm just trying to sort of take out the NatCat volatility as well to see what the underlying claims were doing?

Oliver Bäte
Chairman of Management Board & CEO

Well, last year had almost the same number in the first quarter, which also was already very high. We have had 2 winters now consecutively that were very long and had these extraordinary events. I personally, this is my best guess, this is typically at least double of what you would expect in any year.

Paul F. Goodhind
Redburn (Europe) Limited, Research Division

So what's driving the, on Page 18, the 0.6% drop in the claims ratio from frequency severity? Do you think that was more severity than frequency?

Oliver Bäte
Chairman of Management Board & CEO

Yes.

Paul F. Goodhind
Redburn (Europe) Limited, Research Division

Is that just -- is that the French lumpy commercial losses or something else?

Oliver Bäte
Chairman of Management Board & CEO

Yes, there's a couple of things. We first, as you'll remember last year, had a number of very large claims in excess of 5 million euros. That's this French statistic and more than 2 dozen. And they have come down quite significantly. That is important. And we also had large claims in other countries. So this is really what is driving here. Frequency is actually, as I said before, it's up because of a lot of accidents in the winter, and we hope that tapers out so that effect should continue to be positive.

Operator

We will now move to the Brian Shea from Merrill Lynch.

Brian Shea
BofA Merrill Lynch, Research Division

I'd like to ask 3 questions, if I could. The first here very quick, though. First of all, Oliver, and for Asset Management, you said that the remaining costs for the B units should be 190 million euros. Could you just clarify, are you talking about the remainder of 2010 or the remaining Life over the next, I don't know, 3 or 5 years that of this being outstanding? And then secondly...

Oliver Bäte
Chairman of Management Board & CEO

Sorry, let me give you -- give me the question and then I can talk.

Brian Shea
BofA Merrill Lynch, Research Division

Okay. And then secondly, on Asset Management, your targeted cost income ratio, 65%. For the past 3 quarters, you've been running well below that. Why are there -- you still started 65%, though, so there's some special effects going on here, abnormally high revenues. Maybe it relates back to Paul's question, are there revenues that are going more at the bottom line than you'd normally expect in some of your revenue makeup? I'm just wondering why it is you’re beating that target is still handily, but yet not changing the target?

Oliver Bäte
Chairman of Management Board & CEO

Yes.

Brian Shea
BofA Merrill Lynch, Research Division

And then thirdly, this is more of an, hope you'll accept this as more of an open-ended question. Your capitalization now is bumping up right against the top end of your historic target of 150% to 170%. Over the past, I don't know, 6 or 9 months, you and other companies have really, my sense has been you've been in capital-hoarding mode. You've been attaching little importance to old targets saying there's so much Solvency II certainty out there, we're just going sit on our capital. I just wondered if you could comment on the developments recently with Solvency II. Do you feel there's been enough development that clarity is emerging? And basically, do you feel any confidence if you actually have excess capital, you could be acting on or still a very, very uncertain world out there?

Oliver Bäte
Chairman of Management Board & CEO

Yes. I think it's a very good question. Now the 190 million euros is the P&L effect. We've created some resource already, so this is the incremental P&L effect over the 5-year period. But what is very important, is this if the OpEx level -- I mean, the operating profitability of PIMCO is at the current level. If it further increases, we obviously have to pay more because it's a multiple of this OpEx number, right? So if you expect that PIMCO grows and continues to grow, but I don't -- I wish for, but if no reasonable person can really expect, then that number would go up depending on the growth number. And again, Oliver can provide you with some of the sensitivities. Now because income ratio has the same reason, we've been seeing that bonanza and the flight to quality, particularly again in the first quarter because of the insecurity in the sovereign markets. So people are looking for first-class asset managers, now in fixed income again and PIMCO is, in particular, profiting from that. Can we expect that to continue forever? I think we can't. I think we can't, even I wish for. That's why we're saying we need to be cautious and conservative in terms of what we believe is a sustainable number because we then otherwise get overpriced on the upside. We don't like to get underpriced as we are, I think overall, but we also want to get overpriced in Asset Management. Going forward, it's going to remain volatile, given what is happening in the markets. Now moving to the subject of capital. Since I started the many ways to look at capital, when I came here, we have and we do have a AA rating. We are very strongly capitalized. So I think it's a key asset of Allianz, and that is proven particularly in Life/Health as a strong pro for us. I think it's driving customers towards us. So shareholders are benefiting from a strong capital position because it drives customers in our direction, first observation. And by the way, the same is true for our large corporate business, where increasingly, people are getting worried about ratings. Second observation is it's not that we've been hoarding capital. I think we've consecutively increased now of dividends. By the way, it's not easy in a codetermined Board and bringing dividends upto, if you think about it correctly, 5.6% dividend yields, try to show me many other stocks that have provided that. So I don't believe we are sort of not distributing cash to our shareholders. I actually feel very good about what we've been doing recently.

And indeed, Solvency II insecurity is still very strong. You have to wait for the right results of QIS 5. And particularly, the international groups have to watch what happens around available financial resources and our ability to repatriate excess capital. And I'm nowhere close to a point where say, everything have been done and let's ship. Now, I'm confident that Allianz will emerge relatively strong in comparison to the competition, but the insecurity is very still. However, we would remain committed, that's not just Oliver Bate here, but also Michael Diekmann. We will not sit on excess capital. If we don't need it to support investments, of course, we will then return it back to shareholders.

Operator

We will take our next question from Nick Holmes from Nomura.

Nick Holmes
Nomura Securities Co. Ltd., Research Division

I have a couple of questions. First one is really about accounting definition. I wondered can you explain to us, again, why you have a policy of including realized gains in your participating Life policies as operating income when you have all of your other realized gains outside of operating earnings? I mean, it just seems to create volatility to me. Second one is coming back to Solvency II. Could you tell us what you think of the positive view of diversification benefit, which the easiest take and you're saying there's still a lot of insecurity. But I wondered if you're pretty happy about that?

Oliver Bäte
Chairman of Management Board & CEO

Yes, let me start with the diversification benefits and then we'll talk about accounting and how it's being computed. Now the diversification, I'm very positive because it's a key part. If you sort of look at gross capital in NatCat capital, we do have economic diversification benefits even though people say that in the crisis, diversification turn into correlation where it wasn't expected. That is true. And we need to look at that. But we do have diversification across the portfolio. Actually, I believe, and we've been running comparable number, this is a key driver why we've been increasing net retention across the portfolio to the benefit. I think, of shareholders' net of reinsurance cost. So that is a big part. Again, the key item here is going to be, in my mind, not required capital, but AFR, I mean, Available financial resources, and how the interpretation thereof. Because it's very funny in some groups, the local capitalization is extremely strong, it's also true for Allianz and then you've calculate some virtual numbers and they show a less strong number that doesn't make any sense economically. So we are hoping for some very clear guidance here.

Nick Holmes
Nomura Securities Co. Ltd., Research Division

And Oliver, if I may, just a follow up. I mean, you have insecurity about Solvency II, you mentioned. How insecure are you about the diversification benefits?

Oliver Bäte
Chairman of Management Board & CEO

We have said that, not about the diversification, but about the AFR. It's not, Nick, just -- we're not trying to correct you. The key point is on 2 items. The first one is if you have local excess capital, how much of that excess capital is actually tangible? How much of that excess capital can you actually move in a crisis on a legal basis and approved by regulators across borders? And how much of that capital is then available for you to use? And these items are not clear yet. There are various interpretations, yes. But the first directive was had a very clear wording and now people start to interpret that. And then there's obviously some local regulators that say, well, the capital I have in my company is and my countries is mine. I don't want that to be moved across borders. That obviously doesn't make any sense from a you perspective. So we have to see where that plays out, and that is a huge swing. We've said already at our Shareholders Meeting that, that can be about 40% to 50% of the solvency ratio. These are huge swings, and we want to make sure that we come out. Again, however, we believe overall, we'll be very strongly capitalized relative to the competition because all international groups are exposed to these issues. Now let me move, please, to the first question because it was a good one. This is very important because we have to have realized gains in the operating profit as operating profit gains are shared with policyholders, right? So we have the legal obligation to share them with policyholders, therefore, they need to be in operating, and that's very clear. Otherwise, we run into a legal problem. This is not choice in order to sort of heighten our earnings or -- and we know that it might add volatility. It's very important that it allows us and is required in order to share these profits with our policyholders.

Nick Holmes
Nomura Securities Co. Ltd., Research Division

Had you thought of a way of losing those gains by taking a normalized return of and then showing variations below the operating line, something like that, to avoid volatility?

Oliver Bäte
Chairman of Management Board & CEO

Actually, if you look at the numbers in detail, I cannot give you a specific number on top of my head, but we've analyzed this for the Board. You actually have the vast majority of the realized gains in the operating side to just reflect the nature of the business. I think it's important for shareholders to understand the inherent volatility that you have even if your majority investor have fixed income. Just with the business, I actually think it would be detrimental to put it in nonoperating and try to camouflage the effect. That's why -- by the way, I think that in a number of countries that exactly had led to life insurance companies being undercapitalized and mismanaged. So we are very comfortable with that, and we are managing in that parameter. By the way, that also provides the appropriate incentives for our asset managers, both internally and externally, to keep volatility under control. So to the opposite, I feel very comfortable with the way we are counting for it.

Operator

We will take our next question from Julia Raffle[ph] from Autonomous.

Unknown Analyst

I have 2 questions. The first one, I was wondering if you could please quantify for us what do you think the shareholders' share of the capital gains on the Life segment was? And if I'm not wrong, I think in the past, you tend to accrue more bonuses and share of income towards the final quarters. So I was wondering if, what you did in Q1? And then the second question is on your 40% payout that you quote in the statement, and I was wondering, you clearly add 4 points of solvency ratio in Q1. Would you feel confident about lifting that payout through the rest of the year in order not to exceed your 170%? Or do you think that would be not prudent, considering the uncertainties?

Oliver Bäte
Chairman of Management Board & CEO

Yes, thank you for your question. Julia, on the 40% accrual, we always deduct, as you know, the net income position from our solvency calculation. That is how we would -- we have accrued 600 million euros in dividend for the first quarter. That is a computation that we always do over the year. That does not predetermine dividend payout. Let me remind you, in Germany, unfortunately, the Supervisory Board determines the dividend. We can just propose that, and that's codetermined, so there are lots of influences on already the increase this year. You might not congratulate us [indiscernible] and that wasn't easy, but we've tried really hard. So that does not -- is a precursor to any dividend commitment. But as I've said before to Brian, we are committed to pay out excess capital above what we need to hold for the business. If we hit the ceiling of 170 million euros, then we have to think about what we do with the capital. The opportunity is as we are growing very strongly, for example, in Life/Health to support the growth, this is the first one. The second one is to make sure we have a very conservative risk profile. Currently, we believe there are a couple of opportunities out there also on the investment side. So we're debating whether the investment opportunities that we can use as capital also, there's lots of stuff out there. For the moment, we start to worry about it when we get there. But first one -- the second question was around Life/Health shareholders' share. It was 20% of the total, around 80 million euros. And you if you compute a percentage, then that is 80 million euros over 538 million euros, that's 14.8%.

Operator

We will take our next question from James Quin from Citigroup.

James B. Quin
Citigroup Inc, Research Division

I have 2 questions, please. I'm just looking at the 2 of the segments in the P&C division x the Natural Catastrophe losses. I think Reinsurance is 76%, combined ratio in AGC&S with 80%. And obviously, I don't want to be so selective in picking the ones which look low, but obviously, they do look low. So I'm just wondering is that where all the reserve leases are? And I'm just wondering if you could give us an axe [ph] in your combined ratio for those 2 segments? And then, Oliver, just also in P&C, on the top line, I think you're seeing pretty pleased that you are returning to a sort of growth trajectory again. But if I look down the business units where there's growth, I guess, the one that sticks out is reinsurance, which I don't think we'd be seeing as a sort of core strength of Allianz. And you're still shrinking, and I think what people might look at is the core markets of Germany, France and Italy. I'm just wondering what your thoughts are around that? Clearly, that seems to be a sign that the markets themselves are still very tough. They're not being particularly disciplined. I mean, what do you see from the perspective of the amateur expense ratio because it seems to me just likely that your expense ratio will continue to increase simply because, obviously, if you're going to continue the policy of being pretty disciplined around pricing, it's quite likely you'll continue to lose market share there. But perhaps there are some extenuating circumstances.

Oliver Bäte
Chairman of Management Board & CEO

Yes, James, very good question. Now let me answer the second question first. You asked what the accident year loss ratios were in the first quarter for Allianz Re and AGC&S. Allianz Re was 85%, and AGC&S was 80.5%. So it's not in line with the assumptions. We had some runoffs. We had some in Italy because we've had very conservative, truthfully reserved over the crisis because of the Bersani, our colleagues have been extremely cautious. And despite, by the way, despite our combined ratio initially is much better than the rest of the market. We have the lion's share of the profits in the market despite the fact that we are only 14%. And we have had runoffs in the credit insurance, same effect here. We've had extremely conservative reserving in the crisis, and some of those reserves have proven to be redundant in light of the runoff experience. So there's nothing that is managed here. The second observation you have on reinsurance growth is absolutely right. Reinsurance has 2 components, it's the external reinsurance and the internal reinsurance. That growth came from higher internal sessions. And also that is not market session and cannot sort of be said as external growth. But that only reinforces your point around what is happening in the core markets. Yes, and if you say you are losing market share and thus, the whole story around nobody ever shrink to greatness, in a soft cycle, particularly, as we're nearing the bottom of the cycle, we are prepared to let volume go in order to maintain positive, and even improve margins. In Germany, in particular, we have been continuing to cleaning fleets. That is a lot of top line. But the bottom line improvement is even more significant. So the key thing, what we have to achieve, we have to bring the loss ratio down. And that's typically at least total of 2/3 where we spend our money. And if you ask me, before the tradeoff, yes, I would accept an increasing loss ratio if I have the option -- increasing expense ratio, if I have the option to invest in order to bring the loss ratio down because our point in the last year and a half in my perspective, has been too high of a loss ratio, trend-wise. So that is what we have to bring down. And make sure that we get the strength that we have in underwriting and claims back to the fore. And that is where we're strong. Now there are a couple of cyclic components. Let me point out to them. The first one is the combined ratio was affected significantly by credit. You've seen that very severely hit. Credit is turning the corner. Second, we've had very strong hits in Italy because of the merger and Bersani and there are significant signs that we finally see price improvements, and that the frequency in our portfolio is being -- going down. In particular, also severity is being positively affected. Would I call this a full turnaround yet? No, but I think, over the course of the year, that should be turning positively. We have, in the U.S., a particular impact on expenses from the change in the core structure and how the items -- and we have NatCat, so that should normalize. That leaves us then, at the end of the day, with France and Germany. In France, we had, as we mentioned before, in addition to NatCat, the very large industrial claims last year, which we see disappearing. So that also should provide significant positive momentum on the loss ratio. And then you go back to Germany. And as I've said there, the expense ratio is down relative to prior year first quarter. And we have to get better on the loss ratio because that's the core strength of the German operation. So the momentum on the combined should not come from the top line, that's exactly right, it should come from improving losses, that's what the targets for the people are. I want -- don't want to grow where margins are inappropriate.

James B. Quin
Citigroup Inc, Research Division

Okay. That's -- if I could quickly come back on both of those. I mean, firstly, on Allianz Re and AGCS, I mean, an 85% or an 80.5%, I think, combined ratio looks quite low on x year-end basis. Is there sort of one-off, sort of like of positive within that just in terms of the underlying x year-end numbers? And just as, I guess, to summarize, I think on the -- how you improve your combined ratio, I mean, is it fair to say essentially that the expense ratio isn't going to improve? The pricing, probably, isn't going to be enough to generate improvements. So if there is improvement, it has to come from your own operating efficiencies effectively or...

Oliver Bäte
Chairman of Management Board & CEO

Yes, I think, it's most importantly is selection. Risk selection is extremely important in claims, and it's the way in some areas, like France and Germany, we had some distortions as part of the reorganization. Let's go back to the numbers. The runoff in AGC&S was 11.9%. It was only 0.7% negative. And we added 2 reserves in Allianz Re. But the key thing is technical excellence. This is what has to drive our performance at the bottom of the cycle. That is not sort of sudden price increases somewhere in the market. Now where we can take price, we will take price, as we said, for example, as motor markets are not available, we are increasing prices in nonmotor. We've done that in retail in Germany, for example, and we're doing it in other places to have the targets for that on Page 22.

Operator

We will take our next question from William Hawkins from KBW.

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

Just a couple of questions in your Life business, please. Is there any chance you can indicate how much the surplus value of business, in force, might have moved in the first quarter? I think it might be down a bit, but if you can help quantify, I would be grateful. And then in your IFRS operating profit, the interest in similar income for the Life division, how comfortable are you with the 3.5 billion euros as a reputable quarterly number and given the bond yields continues to fall in the low end? And in that context, finally, the 2.6% new business margin that you're generating, how concerned are you about the sustainability of that number, given that the German bond yields is now below 3%?

Oliver Bäte
Chairman of Management Board & CEO

Yes. Actually, the MCEV number in the first quarter, well, it's up, not down. It's up by 0.5 billion euros to 24.8 billion euros. The first one is -- the second one is more difficult on the interest and...

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

I'm sorry, Oliver, I mean, the surplus value of business in force, not the MCEV. Is that also about 0.5 billion euros?

Oliver Bäte
Chairman of Management Board & CEO

I'm going to look that up in a second. That was the MCEV one and we'll give you the traditional surplus numbers in second. Somebody is going to look that up. New business margin, good question, and that's interesting. There are a couple of things that drive this and how that is being priced. The most important thing that marks very strange is discipline. We have had in this industry, in the past, people that tell us we will have launched a new product, and in order to get in on the shelf of, let's say, broker-dealers in the U.S., we have to have overruns, particularly on the expense side, and that affecting margins. I'm not accepting that anymore. And for example, for the U.S., I can report to you very soon, there will be no more overruns and there's also no more capital subsidy. This has a lot to do with how you run this business. And many of these parts will run some time in the past for top line and not from margin. Second one is what is the composition of the products that you're having across the portfolio? And we are very carefully monitoring what we're doing across the various channels in bank assurance and in our agency force and how we are pricing the options. So we -- I think we have considerably improved the way we are pricing our options and putting them into the product. So we're back with the questions around Life. We're still just on the surplus value and the win force, that's why I couldn't give you the number is very simple because we're only computed once a year for year-end numbers. So if we have further questions, would you be so kind to call IR? We don't have the number now, but we're going to dig something up for you that makes it possible for you to compute whatever you'd like to compute. The -- we were on the margins, and your question was a very good one, how do you feel about your margin and can you sustain them? I was trying to say the first one is around discipline, whether we grow, what countries with what product, and where are we in the cycle. It's also -- let me give you a practical example. We have been taking some guarantees out in markets where we're not getting appropriate returns for that. And a couple of markets, let me give you some markets in Asia, where you include unit in products, are significantly up in terms of volumes and in terms of margins together with equity markets. And that's giving us very good margins at this point in time. Can I forecast for those volumes to continue to come? I cannot. But we have really put in floors that people have to stop selling products if we don't get our target margins. So from my point of view, with the tightening of the controls that we put in for new product development and reviewing the pricing, I feel very good about that. The second component is, and I mean it, is we are the most conservative in terms of computing this number. So I don't have a mean reversion assumption built in into these returns and other features that might make these new business margin look terribly good, and then when we have a low interest rate environment continuing then those margins disappearing. And you can, again, go through the details that we have provided on MCEV disclosure and compare that to other companies, you will see that. So this is more -- I cannot really say around how sustainable they are. If we do continue for a long, long, long time in this low interest rate environment, obviously, that will become more difficult over time to sustain. Now interest in similar income, the one thing I'd like to say is the overall quarterly result. You cannot multiply this number by 4. We'd like to stick with the overall guidance that we have -- somebody mentioned earlier, well, you've always really determined the final outcome in the fourth quarter. Is that an added change? We have decided, we communicated that to you that we want to have it more quarterly reflecting the actual income. So we have not had smoothing effect. And we would like to stick with the overall 2010 expected number on operating income of around 14.3 billion euros. Now as the asset -- if the asset base continues to build well in excess of the low interest rates repricing in the portfolio, obviously, that number can be higher, maybe 200 million euros, 300 million euros, but I don't want to be precise here at this point in time. Is that okay?

Operator

[Operator Instructions] For your information, there are no further questions in the queue.

Oliver Schmidt
Head of Investor Relations

Okay, wonderful. If there aren't any other questions, then we thank you for having joined our call. We say goodbye to everybody. And we wish you a nice remaining afternoon.

Oliver Bäte
Chairman of Management Board & CEO

Oli, I'm not sure, do you think we cut up some of the colleagues also, somebody out there that cut them off? Let's wait another minute or so for maybe people are dialing back in. I don't want to cut anybody off that really wanted to have a question. So last time, we were a little short and I'm ready to invest here an additional time.

Operator

[Operator Instructions] We will take a follow-up question from Michael Haid from Cheuvreux.

Michael Hermann Haid
CA Cheuvreux, Research Division

It's not a follow-up question, in fact. First question is very simple one. The split between Personal Lines and Fleet business in German Motor and the combined ratio in the Fleet business in the first quarter, how high was it? And second question, more long-term question, you mentioned that with the interest rate environment -- in the current interest rate environment, the 2.2% margin is not going to be easy to achieve. And now, will you be able and obviously, willing to buy the government bonds or some government bonds, they probably will keep the interest rates low. And I assume this does not make you very happy. To what extent is this a concern for you? And how do you intend to answer to that, especially in German life, maybe?

Oliver Bäte
Chairman of Management Board & CEO

Yes, I got a couple of answers to that. Somebody is going to dig up the German Motor number for you now, so that's going to take a couple of seconds. What I would like to say on the margin and to the opposite, by the way, I believe that our margin can be sustained only if we have a sort of a 10-year horizon of very low interest rate is going to get increasingly difficult. So we feel very comfortable that we can maintain the margins. And actually, I think in some areas, we can actually further improve. So for example, I would like to push risk for our pure risk products much more aggressively, they give you less top line, but very nice margins. Just to give you an example. In some markets, you combine -- can combine Life products with Accidents and Health, and that's where we're trying to grow. Now, by the way, just as an incurring feedback while we're waiting on the number, the overall Motor combined is 107.2, the Fleet number will -- and the split. I'll give you -- going to give you on a second. Now with the view on the government look, please don't forget that in addition to government bonds that we hold in Germany. And in Germany, we have -- we're investing in covered bonds, which provide a significantly better spreads, even the spreads on German bonds have been going up, and we're supporting the governments to buy the [indiscernible] Bonds, which is also of a nice spreads. So I think they are good investment opportunities out there. And we are earning well in excess of our guaranteed rates. So we are -- we feel very comfortable, by the way, in particular, in Germany. Now total Motor, as I've said, 107 combined. The fleet is at 110. Just to answer your question. So I think we have answered those questions I hope.

Operator

[Operator Instructions]

Oliver Bäte
Chairman of Management Board & CEO

So I Oliver, I think we've...

Oliver Schmidt
Head of Investor Relations

I think we're done.

Oliver Bäte
Chairman of Management Board & CEO

We've done your customer service. Guys out there, thank you very much for being with us today. It was a long day, probably, for all of you. The Germans amongst you will benefit from a holiday tomorrow, as others will be on the road and in the office. So have a great evening.

Oliver Schmidt
Head of Investor Relations
Yes. Have a nice day. Cheers and goodbye.