S&P Capital IQ

CONTENTS



# Allianz SE DB:ALV

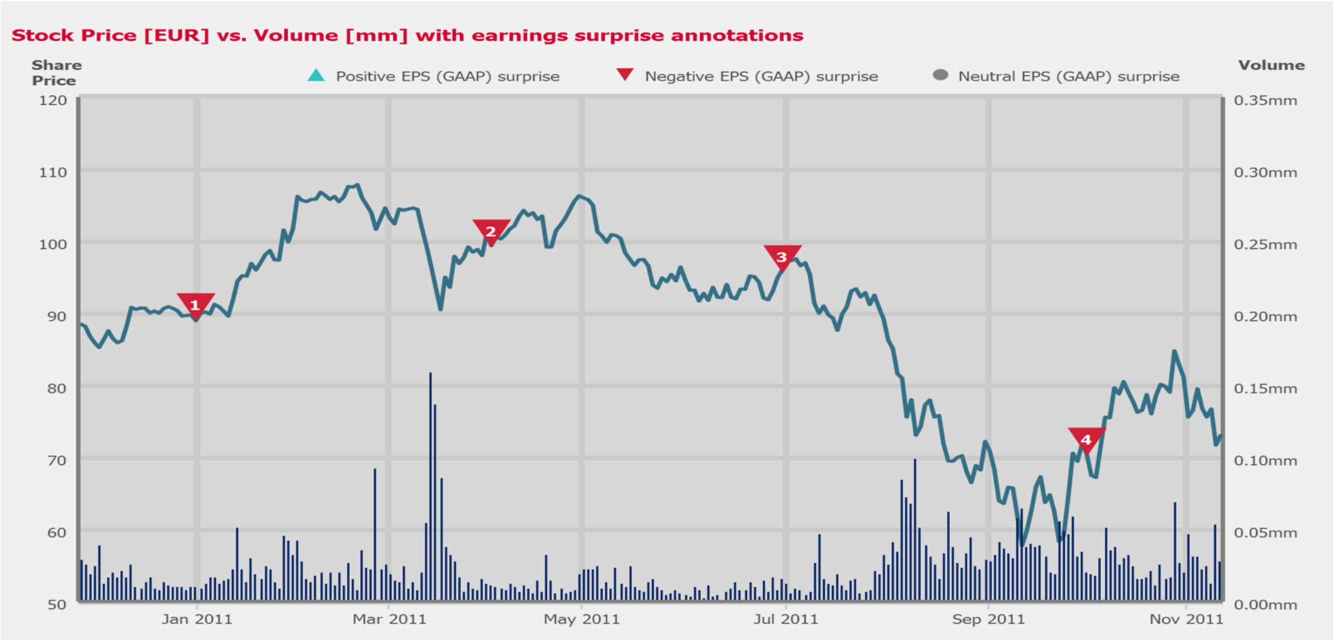
## *FY 2011 Earnings Call Transcripts*

Friday, February 24, 2012 10:30 AM GMT

## S&P Capital IQ Estimates

| | -FQ4 2011- | | | -FQ1 2012- | | |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | SURPRISE | CONSENSUS |
| **EPS (GAAP)** | 2.17 | 1.06 | ▼(51.15 %) | 2.14 | ▲0.67 | 6.86 |
| **Revenue (mm)** | 25334.75 | 25000.00 | ▼(1.32 %) | 28487.00 | ▼(0.84 %) | 99819.40 |

Currency: EUR
Consensus as of Feb-24-2012 9:16 AM GMT



# Call Participants

## EXECUTIVES

**Michael Diekmann**
*Chairman of Supervisory Board*

**Oliver Bäte**
*Chairman of Management Board & CEO*

**Paul M. L. Achleitner**
*Member of International Advisory Board*

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## ATTENDEES

**Unknown Attendee**

# Presentation

**Paul M. L. Achleitner**
*Member of International Advisory Board*

So according to Oliver's BlackBerry, it is actually 11:30 right now. So welcome, everybody here in the room in Munich as well as online or all those other people who are willing to look at this in a time-delayed fashion on the net. I have the honor to do all the important things like welcoming you, asking you to turn off your BlackBerries so that we won't be -- or other handies, in case that somebody doesn't use a BlackBerry, and to actually also assure that you all understand that whatever we say cannot be held against us, i.e, forward-looking statements and all the other disclaimers that are in the back of the brochure that you have in front of you. Oliver tells me that I can make my annual joke for last time about the USB stick that you have that contains the buy order on Allianz stock. Please use it freely as you go forward. And that really is all I have to say before handing over to Michael, who will tell us why Allianz is in good shape.

**Michael Diekmann**
*Chairman of Supervisory Board*

Great. Thanks, Paul. Most of you will not be able to read the German newspapers but those ones who have, I think, have seen quite a mixed reaction to yesterday. A lot of the journalists are questioning the dividend proposal, but I think at least here, we are all on the same page that that's probably the right one. Anyhow...

**Paul M. L. Achleitner**
*Member of International Advisory Board*

[indiscernible] too high.

**Michael Diekmann**
*Chairman of Supervisory Board*

Yes. Yes, too high.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Just to make sure that they understand that.

**Michael Diekmann**
*Chairman of Supervisory Board*

Yes. You could actually ask yourself, I mean, in good shape was the net income? Are we all on the same movie and -- or lost in translation? I would say after 2011, where we really had quite a difficult time starting in January and right up to December, 2012 looks good to me. It feels good, because I think we spent a lot of time in preparing ourselves for 2012, and hopefully, we can support that with a couple of arguments here. And I'm not talking so much about financial crisis and asset base, but what I'm talking about is operational improvement.

Now let's start a couple of slides here. Oliver, it doesn't work.

[Technical Difficulty]

Good. Don't think I need to talk too much about the environment -- this is fast. I mean, the growth has changed just from -- we would have titled this a couple of years ago "perfect storm." Now it's -- I think it's calling this the "ultra normal." And hopefully, we get some relief on that for 2012.

Now when I look at my dashboard, I'm really not happy with 2 KPIs. That's the growth, but I think we have a good explanation for that. And obviously, net income comes in a little weak. We'll talk about that as well. Otherwise, I think all the KPIs are okay, not great but okay.

Now the best thing is that we reached our outlook on operating profit. That was in the first half, by far not as clear as in the years before. So we think that's really good, a lot of thanks to the performance in Asset Management. And I think when I look at all the NatCats we've seen on the P&C side, the result is okay as well, especially supported by the performance in the fourth quarter. Now I think the good thing is, and hopefully we'll get this from Oliver today as well, that the operating asset base in all business segments is growing, despite premium being a little weak.

What I like to show always is the underlying stability of the operating profit. Overall, yes. I think that's a real strong characteristic of the Allianz book. And as you see, the cash-generating units, P&C and Asset Management, are increasing their share. So that's good for financing of new business in Life but also to be able to pay out what needs to be paid out.

Now let's come to the dividend. There has been quite a discussion on getting away from the old policy of 40% payout ratio. But all our talks with our investors have confirmed the sort of unusual payout ratio of 80%-plus. We wanted to stick to our word. And if you look at the payout ratio from operating profit point of view, nothing much has changed, but I don't want to leave you with the wrong impression. We will go back to an accrual policy of 40% in 2012, so please don't hold the 80% against us in our discussions. And we'll come to Frankfurt, we'll come to London, and probably discuss this in every detail going forward.

Now the last year, I mean, wherever we were, especially in Asia and in the U.S., the sovereign debt crisis was the dominating topic. And Paul will probably have 3/4 of the talking time, and this is why I leave this topic to him as well. But I understand from an investor point of view, you want to understand what is the tail risk, yes? And I just want to make very clear that we don't believe in a tail risk that's all about Italy. We think -- and that was our statement right from the beginning. Italy is a totally different case, and I think that's supported by the good progress that the Monti government is making.

Now again, we don't believe in this case, but I would like to take you just through the GIIPS sovereign debt exposure, and that's including now Italy. Around 7% of assets are invested there. Thereof, 72% are matched with domestic liabilities. And if you look at the unrealized losses at the year end, you can see that on the lower end of the left side, this makes about 46% percent of an annual operating profit. And this is -- and that's the last point before policy holders and tax, so 83% of these assets are held in Life.

Now from operating exposure, you see that we produced 14% of revenues, 4% in the GIPS and 10% in Italy; and operating profit at 7% in GIPS and 10% in Italy. So even from operating point of view, I think it's a very manageable exposure.

Now the next point, and this is the next slide now, is where's Life going? We've given you the current yield, 2011, of 5% against the minimum guarantee of 2.7%. So that leaves us 230-basis-points spread. If you look at the reinvestment yield 2011, that has gone down to 4.2%. Guarantees have gone down to 2.1%, so the spread is reduced now to 210 basis points. Now the next question will be where's the reinvestment yield going in 2012. We've planned for 3.8%, and the guarantees are going down to 1.7%, so the spread remains at 210 basis points.

We have a couple of topics that we are working very intensively on. I've given you some global programs we are running. I'm coming back to some of them later. Very important is to draw all the conclusions out of the reinsurance experience we've made in 2011, and there's a lot of things that we are doing on internal reinsurance and external reinsurance and also in our program, the reorganization of P&C in Germany and U.S. We have a very interesting test program for our agencies. And obviously, in these times, we need to work on productivity and margins on the bancassurance side, which we are doing very intensively with our partners.

Now Automotive is one of our global lines that has developed very nicely. We've seen 15% growth over the last 2 years. We have a combined ratio in 2011 of 98%. And we are constantly putting on more business, and I am myself very much involved here in the acquisition of new businesses.

Now digital is a program that we have embarked on for the last 20 to 25 months. We're seeing some very interesting results here, and I'm going to show you one that's on the retail product transformation. We do have a architecture now in place that addresses retail product. We are constantly improving the quality of our data, which obviously is very important in this new environment. And we are trying to get our customers used to digital contact, because that's obviously part of the usage of all our tools and the distribution access.

Now on the back of this, there's a lot of progress going on, on the IT side. We finally do now consolidate IT platforms, so we have concentrated on 3 that we take. We have this one from the Spanish platform that we use for Latin America. We have OpEx programs that we use for emerging markets, and we have the ABS system that we're using for Europe.

Now I've just put this Asset Management chart up, because there were a couple of speculations that the real reason for splitting and separating below Asset Management, PIMCO and Global Investors was to prepare for divesting. That is definitely not the case. The reason is more focused on the distribution side and less complexity in coordinating the activities. And I think going forward, we will see good progress on that, because as you know, whenever you focus, then the results are getting better. And just to make sure that this is really happening, we send one of our best guys as a CFO into that unit, and that's Mr. Naumann from -- who you may know from many other conferences.

German business. I was a little bit reluctant to put this chart up, because it gives the impression that there's a broken business that needs to be restructured again. I would definitely say that's not the case. What we are doing right now is a lot of fine tuning. So we do have model product design for our retail clients. We put a lot of emphasis on the productivity in our distribution channels. We do have some work to do on the claim side, and that is directly related to first-level process optimization that is in place now. And we, for the first time, put a board member of the German team with central claims responsibility, just to make sure that the focus is there. And we'll do quite a couple of activities on the P&C expense side. That's not only reduction of central costs but also support cost in the distribution, which is a little bit top heavy.

This is one of the modular products that we have put in place. It has been a larger success on the sales side than we expected. The difference to our old product design is just on our old product, you would get the complete product and that you could deduct certain coverages. Now we give you the base cover and then you can add on certain of that [ph] covers. And the success of this -- and by the way, this is supported by evidence that we see on modular product in France and in Italy -- is that given the choice, clients buy more, yes? So the average premium goes up by 6%, and the modules are individually priced. So I think that is a really a good success. And by the way, that fits very nicely with the digital back offices as well, because this is a fully industrialized product.

So when we look at our expectation at the German business, we see at least a EUR 500 million improvement, 2014. So we'll target a combined ratio of 95%, and this is a combination of growth, 5.8%; and combined ratio down, 7.9%. And Oliver will give you more details on Germany later.

Let's not forget that there's not only optimizing business model in Germany. We have a very, very strong Life business. Market share on new business has increased continuously, now over 25%. And from total premium, it's now grown over the last 10 years by 4 percentage points market share. And you see, I think, the operating profit development is quite nicely, with very healthy new business margin.

Now coming to the outlook. We will focus very much, obviously, on what's happening on the external side but internally, German P&C, the U.S. P&C and variable annuities. And I assume that we're going to have a couple of discussion points on that one. Distribution very, very high on our list; further development of our global lines; and obviously, capital management.

Now we do have 4 new board members. That's -- basically, half the team is new, and Dieter Wemmer will join us for lunch. You may remember him from other conferences. I was very happy that we could secure him for Allianz. I think that's just as good as getting Max Zimmerer and Gary and Helga on the team.

Now operating profit outlook. We target EUR 8.2 billion plus/minus EUR 500 million. And as last year, everybody will say that's a bit light and conservative. I can't tell you whether it's conservative, yes or no. I will tell you at half year, because God knows what's going to happen this year. But we are pretty confident on P&C. Life, obviously, is more challenged in these times. And I think we have a very solid outlook on

Asset Management, where we always have to make a question mark on performance fees, whether they're coming up. And I think performance fees, Oliver, this year were EUR 455 million, right? So that's the -- the net swings at yes or no.

Now this is my darling chart, but I won't take you through that today. I will do this in our individual meetings just to point at the potential. And with that, I will stop and say we think we're going to have a very, very interesting year in front of us, especially -- and maybe we talk about the weakness of some large, local competitors in major European countries. I think this will offer a very interesting opportunity. And I'm not only talking about acquisition. I'm talking about organic growth.

And with that, I will pass it on to Oliver.

**Oliver Bäte**
*Chairman of Management Board & CEO*

So good morning, everybody. Since we have had the documents out since yesterday morning, I propose that I don't bore you with going through every slide and leave a little more time for a Q&A later, just pointing out to some of the more important items.

Secondly, there is obviously some repetition between -- in my deck, what Michael has said on the environment and what has been driving the numbers. So I'll try to be brief, as requested, and focus in on the key questions that you might have, actually anticipating a few that I've seen coming in yesterday.

Now as Michael has said, we've been operating in a very, very difficult environment. I've been reading the analysis of an industry observer recently that said, "What's so problematic about insurance?" Well, it's everything, particularly if you are in Europe. It's the sovereign debt crisis, the banking exposure. It's the low interest rates. It's the high volatility in the equity market. It's the NatCats. It's the inflation of claims, and there is no growth.

Now so we are operating in a very difficult environment. And given that environment, we believe in delivering very good numbers. Revenues are at EUR 103.6 billion, P&C on track in terms of growth. I've separated out for you the growth of the underlying primary insurance business. In the segment, you often have the mix effect with reinsurance, which a significant part of is internal. And if you look at that, we had, after 2 years of shrinkage, actually for the first time, significant growth, almost 4%.

Asset Management continues to grow slowly, and our Life and Health revenues do in fact reflect, significantly also focus on margin. We've said before that in the past, the margins fluctuated, but the top line would always go up. We really would like to get the right balance here.

Operating profit is EUR 7.9 billion. This is important to also say we've been following a very strict impairment policy. I remember some discussions with many of you around the Greek impairment last year. Things turned out to be very good and on track. And just to preempt one question, based on what we heard 3 days ago, we will not be forced into additional write-downs. We've actually put the mark exactly where the compromise has come out, except for a few line items. The capital position remains resilient, and it's -- and our dividend power, even despite these impairments.

You see that 3-year trend on Page #5. I will not spend a lot of time on that but go rather into the details also on dividends. It's very important to see on Page 6 that we've continuously increased our capital distribution. And as Mike has said on dividend, it's very important to note that we wanted to deliver on the promise. If you are operating in a financial environment, many of our investors do expect reliability on capital distribution. And that's why we, for this year, have decided to stick to our promise despite the volatility in net income.

Now the capital position, this is the IFRS view on Page #7, is very stable. The capital is now at roughly EUR 45 billion, some movements in the unrealized gains and losses and the increase in the retained earnings. There is, if you ask -- what the question has been in addition to the net income and what -- we had some gains of around EUR 340 million in FX, gains offset by a change in shadow DAC of around EUR 700 million and obviously, the dividend we've paid last year of roughly EUR 2 billion. That explains the movement in the capital position. The right-hand side shows you the most important exposure is to interest rates, sharply up, and equity is down.

Now if we move to the conglomerate solvency, which we know is going to be around for a while, we have very strong numbers in the 179%. There's still a deduction in there for Commerzbank of EUR 300 million, so that number could have been bigger. And as you see, since it's not sensitive to interest rates, it hasn't moved as you would see in comparison to the economic numbers. So it's very, very strong on that basis.

The economic solvency, we -- for this time, as we are moving in the first quarter of 2012 to a more Solvency II consistent regime with a confidence interval of 99.5%, I provide you with both numbers, both the new one and the existing one. And it's very important to point out not just the level changes. What also changes is the sensitivity to shocks, of course, because at a 3-basis-points level, the sensitivity is a lot higher. Nevertheless, even in the new environment, the exposure to a combined shock of lower interest rates and equity markets down remain the most important. As always, I look at that almost daily in terms of probability. Last year, an equity-down and interest-rate-down shock was about 17% to 20% probability. The CDSs and the options to delta around 5%, so markets are much calmer at this point in time on the outlook relative to these numbers.

Now there would be a question coming up that I'd like to also address upfront. So why haven't the numbers since the third quarter moved more? And I'd like to explain that to you, because you also had almost an exact 133%. Now the number's actually a few basis points different, but the first thing is that despite the market movement, our risk capital was fairly stable. It declined by EUR 300 million. And the first thing is while we had a significant increase in risk charges, we also had a -- particularly for market risk, we had a decline in underwriting risk by around EUR 400 million and a significant higher tax relief in our shock scenario, because the risk has moved to the Life/Health segment, where we can take the burden of the increased risk.

The risk-bearing funds decreased also by EUR 700 million to EUR 49.2 billion, and that's due to the lower PVFP not accounted for in IFRS, EUR 1.2 billion offset by higher equity values and the lower goodwill deduction, because that's what caused some of the misses in the forecast. We took out some goodwills in -- at the group level, and we'll be talking more about it. So that explains the stability in the numbers. There's no magic, no changing in the liquidity premium or anything like that. It's offsetting the effects on both numbers.

Now capital will remain a core focus for this year, and we have 4 major levers to pursue. The first one is further derisking of peripheral counterparties and sovereign exposures. Everybody looks at governments. Obviously, right behind the governments are the banks, and we've been doing a lot in order to deconcentrate and derisk our exposure. The net exposure to financials overall, we are derisking and either through hedging or other mechanisms. And that's not just in equity, but we're doing this across all asset classes.

And we need to really continue to work on our interest rate and spread sensitivity. We have had huge exposures, particularly in Germany, that we are addressing. We're lengthening duration. And in particular, we are also working on Life product design and in-force management, because a lot of people say you can't do anything about it. Well, we can do a lot. So for example, moving credits for the products to the end of the product life and not continuously crediting has a huge impact.

And I said last year, there is a lot more focus on cash and cash returns. One of the consequence has been the closure of our Japanese Life business, more focus on P&C and asset management growth and further reduction in exposures that we have to mispriced markets. NatCat markets, by the way, regardless of what the reinsurers say, are still, in some areas, underpriced. And we need to take the exposure out. The same is true for options and guarantees that are mispriced in the market. I'm still amazed, given where interest rates and volatilities are, what certain companies are offering as benefit that I'm not being charged for on the consumer side.

Now let's move on to the group section and the growth numbers. That's on Page 12. The total internal growth minus 2.1%, basically driven by lower Life and Health sales. We'll talk about that. 6.9% on an internal basis. That's, by and large, foreign exchange. P&C on average, 2.3%; and Asset Management continues to power ahead with 14.6%.

The operating profit development on the following page, actually, significant improvement in Asset Management. Also in corporate -- would have been higher, we had some one-off in writing down OLB in the nonoperating side. In the operating side, we had higher losses on the bank side this year that we don't expect to repeat themselves. So that should be shooting to EUR 800 million for going forward. Life and Health heavily hit by impairments. In particular also, the Greek government bonds at EUR 2.4 billion, still in the middle of our forecast range. It's actually better than I expected. And the Property/Casualty business significantly hit by NatCat, EUR 600 million more than budget. We had a budget of EUR 1.1 billion to EUR 1.2 billion depending on how you run that. You factor these out, it's EUR 300 million relative to where we thought we would come out.

Now obviously, the low point is the nonoperating items on Page #14. There's nothing to be discussed here. The first line is the realized gains and losses and impairment of investments. That has moved by EUR 1.8 billion down. The right-hand side gives you the movements. Two comments here. The first one, last year, in the equities side, we still had around EUR 164 million of gains on the sale of ICBC. For 2011, that number was only EUR 315 million, and there are no more left. That's one item. And the other one is, of course, given the market volatility, significant impairments on equities and securities on the impairment side.

Now in addition, there are 2 items that need explanation. It's the amortization of intangible assets, and that's the income from financial assets and liabilities carried at fair value. Now let me start with that. The vast majority in the latter position is EUR 316 million from the Hartford warrants. That's a net income impact after tax of EUR 275 million. That's the vast majority of the movements here. And the amortization, we're going to talk about as well. I have a separate section on what we're doing there. Impairments of goodwill is a significant component, around EUR 338 million. The biggest ones are banking, Germany. Then we have a write-off in Korea Life because of very low interest rates on the back book. You know all about back life books in Asia, and we have taken -- the other large one was we've taken the remaining goodwill down on Fireman's Fund. Given the results development, that also should not come as a surprise.

On top of that, we had amortization of intangible assets. That is within the regular schedule and particularly around distribution agreements that we have with Commerzbank and cominvest, also Commerzbank. So these are the major items that I'd like to explain on this page. Reduced expenses of B-units drive the acquisition-related expenses. And last comment is on the interest rate expense. It's up, because we issued the subordinated, and that was a wise decision. So that's money well spent, at least from our perspective.

Exposures to sovereigns, I'm not going to talk about it a lot. Michael has talked about it. Paul will spend a lot of time on it. The only thing I'd like to mention is the volatility and as you see, the unrealized gains and loss position at the year end. And I've added the numbers for the end of January, and you can see the huge movements in the spreads and how they affect the unrealized gains and losses that we see, both gross and net of policyholder participation, has come down by more than EUR 1.3 billion just within 4 weeks, and that shows you the movement in the numbers. I'd also like to mention that Greece, Ireland and Portugal and Spain are really small numbers, if you look at that relative to our portfolio and relative to our earnings power.

The net income development warrants only one comment beyond what I had just said. That's the marginal -- or the effective tax rate, sorry, of 42%. Two comments. The first one is we had a number of special effects last year that drove this number far from we wanted it to be. The first one is that a lot of the losses we take on equities we take in Germany and Luxembourg, where we basically have no capital gains tax. So the moment these losses happen, there is no tax protection.

Second, a number of the NatCat claims, the large ones, have happened in -- and we're booked through Singapore. Singapore has a 10% marginal tax rate. And that's not going to happen again ever, because we have a stop loss on that now. So it transfers the losses back into Munich. And then trade taxes increased, that had a few points also. So there are 3 or 4 items, special items. Now the tax plan rate for

2012, for those that want an orientation, is planned at around 33.7%. That can oscillate, under normal circumstances, by 50 basis points up and down. Now that's again assuming more normal markets going forward.

So with that, I'd like to leave the group section please and move to Page #18, which gives you the highlights and the key messages for the Property and Casualty segment, please. The primary insurance portfolio had growth both from prices and volumes. I think that's very important. In many mature markets, people see only price growth. That's not good, particularly, not good for productivity. We need to have both. It was at 4%, not just positive but the highest number we had in quite a number of years. Reinsurance is down by 15% driven by the discontinuation of all our Munich Re quota share agreement, around EUR 500 million negative. And there will be little more on third party, because we've been cleaning the third party reinsurance portfolio upon renewal this year. Overall growth at 2%.

Operating profit at EUR 4.2 billion. We have some very good trends on the underlying accident year loss ratios. I'm going to look at that in a second, and that's despite continued weakness is in Germany and the U.S. NatCat claims at 4.4% of the combined ratio. And the asset base has been growing, and we had some one-off in the investment income of around EUR 100 million. Now with declining interest rates, a lot of people are expecting the investment income to go on down. Please also bear in mind, we are targeting to grow the business, and we are targeting to grow the asset base.

Page #19 give you the view of the markets and the gross numbers, and I think it's very positive. Even Germany had slight growth on a local basis and adjustments, and it's almost back to EUR 9 billion. Primary insurance, you see on left hand -- lower left-hand side, after 2 years of shrinkage, now a 3.9% growth. That's a strong message, and we'd like to see that continue, again, both from volumes and from prices.

Page #20 give you the usual movements in the operating profit. Investment income up EUR 176 million, underwriting down. There were some questions about what has happened to runoff at the end of the year, where there are huge items that we had in -- earlier in the year, 2 or 3 items here. We basically have, across the OEs, a number of reserve reviews, and there is no specialty, no big hit. However, it's fair to assume that over the long run, we rather stay between 2.5% and 3.5% runoff. So the higher runoff that we had, you cannot expect. We continue to strengthen our reserves, so we'd like to see and have the capacity for positive runoff. Now we've -- I think I'm not -- I don't have the number, but like 26 quarters with positive runoff. That's pretty impressive.

Now 21 gives you an overview of the combined ratio movement. Expense ratio is slightly down and the -- but productivity, overall, is flat. In the portfolio, we have NatCat of 4.4% that I mentioned. Now when you look at the numbers, to be clear, if you exclude NatCat in a fair way -- that is, also look at NatCat for prior year, you would have had one market that had a combined over 100%. That's a pretty impressive portfolio. I haven't seen that anywhere else, and it is seriously a core strength of Allianz going forward.

Now NatCat loss development, I provided an extra slide this year to say what have been the big events and where have we taken the losses. At the left-hand side gives you always our local businesses, OEs is supposed to mean operating entity, and where we have been taking them in Allianz 3. That includes -- the vast majority of that is internal sessions and then some third-party business that only mattered in Christchurch and in Japan. All of -- most of the rest is internal, adding up to the EUR 1.8 billion in total.

So what is the message here? It has been an incredible NatCat year across the globe. So it's not 2 or 3 small items here in Germany or in Japan, and we are taking measures everywhere. And you see that, for example, in Australia, we've been bringing the prices up. Germany, the prices are going up. And we are, at the same time, changing our exposures quite considerably, having absolute aggregates, for example, in order to limit NatCat losses going forward.

Now Page #23 and the most important message is in the upper left-hand side. Accident year loss ratio development x NatCat, down from 71.2% to 69.7%. That trend has to continue going forward, and we need to see what we saw last year, that frequency and severity increases are outweighed by price increases. The runoff, I have commented, and in the interest of time, I'd like to move on.

Page 24 give you the usual development of the expense ratio. It's stable. We don't celebrate 20 basis points. That's actually within statistical variances. Key message is we're working on the admin side, and the issue is the mix. We need to strengthen less expensive channels, and we also need to make sure that our traditional channels become a lot more productive, because if we only grow through price increases, we will give a lot of those price increases forward to the cost base in terms of higher prices and commissions.

Now investment portfolio, 25. The average asset base has grown to EUR 96.3 billion. That supports investment income. The return we had as a current yield on equities was 6%. It had, again, EUR 100 million one-off due to private equity distributions in Italy and in Germany that are not repeating themselves all the time. And the yield on debt and cash has slipped slightly by 5 basis points, from 3.78% to 3.73%. That's a part[ph] . Now we're working very hard on the asset side to find better sources for risk returns and yields, and I think the team is doing a very good job here. The operating investment income difference to Life, a lot less sensitive, of course, to market shocks. Investment expenses are stable. Interest and similar income is up 3.6% to EUR 3.7 billion.

The pricing overview for 2011, we took a lot of price. I don't think it makes a lot of sense to talk about this, because that's history. Very important is what is going to happen going forward. We have a number of pricing actions going forward. In the plan, it's already 2.8%. I'm not sure that's going to be all of it. We need to take price wherever we can. We have a number of markets in the U.S. and Germany that are moving on the uptick, and we need to use the pricing opportunities more strongly. Now in some markets, for example, in credit insurance, we have actually reduced prices in order to grow market share, because we're operating at extremely high levels of profitability. And as I said earlier, we need to also grow the client base, and that has been hugely successful in credit. And we also have, in some pockets in Italy, the opportunity to now grab share, because we have extremely, extremely weak competitors and our profitability is superb now in Italy. So we'll be going and grab clients that are profitable wherever we can.

Now there's a lot to do in P&C still, the usual stuff. We would like to grow the global lines, in particular, South America and Asia-Pacific. And as Mike had said, in some areas, there might be selective bolt-on acquisitions in target markets where we have strong management teams and the capability to integrate. We need to improve reinsurance effectiveness further. We have really, in detail, reviewed the third-party business, particularly the NatCat-exposed business and need to optimize internal sessions. We often take exactly the market rate. But if the market is taking too little price, we need to make sure that we get the appropriate rates, even on internal reinsurance. And we have redesigned the group retail program to include some top perils and, for certain tail risks, protect ourselves better.

Accelerator [ph] prices I've been talking about. In Germany, for example, we had 4% to 5% effective price increases for the in-force for 2012, and there's a lot to be done in commercial lines, particularly in Italy, France and the U.S., of course. Enhanced claims execution is not just a German issue. It's a particular German issue but in Italy and France, and we are rolling out a group-wide antifraud program. In these economic times, fraud detection is really important.

The last but not the least is certainly productivity. As I mentioned, it's not just back offices, because this becomes an ever smaller part of the cost base. It's getting agency productivity up growing and direct and getting digital to actually work on productivity as well. That will remain very important.

So that's the P&C segment. Now let's please focus on Life insurance. Page 30 give you the overview and the key messages. We'd like to point out that we had positive net flows in a very tough environment. The asset base has continuously grown, and that has been supported by stable revenues from core products with very sound new business margins. Rates are down. New business margin is up. Margin discipline and lower bancassurance sales are a key driver of the reduced revenues, and the operating profit has been fairly resilient. Now MCEV, we'll talk about a lot. It's -- I've put it politely, "reflecting high sensitivity to government spreads and volatilities." We can spend a lot of time on MCEV later. It's my favorite subject

Now Page 31 give you the revenue developments. And here, it is to point out that revenues, by the way, down doesn't typically mean something bad. We've talked about it, particularly if it protects margin. But for example, even in the case of Germany, where the numbers look down, we've actually grown market share. And we've actually grown not just market share in terms of revenues but certainly, even more in profit pools. We have moved more to recurring premiums that have higher persistency, higher margins. So the trends in our core market, very strong.

Switzerland, not noteworthy. France is down, because margins are significantly lower than they were in 2010 given the product, in particular, because of the benchmark from the banks. The banks are offering unbelievable depositing rates, and we don't want to get in these types of competition. Italy is most importantly hit because of UCI. UniCredit had other challenges than selling life insurance product in 2011, but we have very clear agreements with the bank of how we're going to get that up where it needs to be. The Benelux is performing very well, Spain. And in Asia-Pacific, there are 2 special effects. The first one is the closure in Japan. That accounts for about half of that. We've decided to stop the business given the margin outlook. And last year, we had a special and positive effect in Taiwan. That was another EUR 890 million of positive flows that didn't repeat themselves. If you compare the numbers for Asia to 2009, that's why we have the table. And we still have, would have had almost 20% growth in the numbers. The 2010 spike is a little bit off the wrong comparison.

Now the operating asset base on 32 shows you the net flow numbers. That's what we really look at relative to market effects on interest and similar income. The French market, I've mentioned before, there have been a lot of maturities. Eastern Europe is flat. In Asia-Pacific, we had EUR 400 million in outflows. Italy is minus EUR 1.2 billion. That reflects the channel -- the banking channel, and we need to make sure that we protect our margins there.

Page #33 give you the new business margin development, 2.3% up. Mind you, these are beginning-of-quarter numbers. We'll talk about that more later. The trend will be down given the fourth quarter numbers, so we are constantly repricing products now to balance the decline in interest rates or increased volatility. While we, in the past, needed about 6 months to do so, now it's down to 6 weeks in many markets. So you should see a temporary dip in new business margin maybe in the first quarter, but the margin should be coming back.

Now operating profit on Page 33 -- 34, excuse me, please, shows the effect of the lower investment income. What has driven the technical results up EUR 78 million, we had a few one-offs due to adjustments on assumptions. Nothing's -- and particularly, in 2 or 3 markets, the U.S. and in France, in particular, the interest investment result net impact of impairment is reflected here for the vast majority of the numbers. And the expense result shows the deterioration. That's also a one-off. The liability adequacy test in Japan when we closed the business required a EUR 60 million write-off of DAC, and that is reflected in this number. Otherwise, it should have been on target with 0.

Asset base growth and yields, just if you compare the number, why is it 4.4%. This is the number on the assets. Michael had the number on the reserves. It's fully consistent, of course.

And the operating investment income development, you see on Page 36. I think that's very important to see. Here are the impairments visible. They came back to a level of 2009 with EUR 1.7 billion. What comes on top, unfortunately, is the movement in the fair value options and in trading, and the vast majority happened here in France and in AZ Life, and we had a foreign exchange hit in this function of EUR 500 million as well. So that has been driving down the operating investment income to this level that, however, remains fairly resilient if I can compare that across the industry.

Last description is the MCEV development. The -- in order to prevent some nitty-gritty question, I've added the -- what has been causing the movements in the economic variances. You see all of the information on what you want on the MCEV in the backup on variances, and what is really free surplus required. And VIF, we stick closely to the principles, and therefore, we show you that all of the movement has been coming out of the value in-force, with EUR 8.6 billion down. There you see a negative number for the free surplus at the end of the year with EUR 549 million. This, by the way, number today is a plus EUR 550 million. We've had a movement of EUR 1 billion just in one month. It basically was the reaction to the fact that in some smaller markets, you had economically sort of negative capital that has cured itself. At the group level, that is obviously nonsense, because we don't need to send cash and lock it up into individual businesses. Normally, that number should have been logically deducted from the VIF.

Now what do we do going forward? Three major levers: protect and enhance new business value; efficient management of the in-force book; and protecting the capital base by improving ALM effectiveness. I spare you the detail. Very important is dynamic credit rate adjustments, particularly in Germany, U.S., Italy and France, getting cost into focus here. And we always talk about cost in P&C and Life. It matters much, particularly with record low interest rates. And we were very closely looking at lapse movements and liquidity, of course, and have in every market program around it. Duration management is another one, and particularly for Germany and Korea. Derisking equity exposure where we can't afford it is very important, and focusing sovereign risk in domestic units is what we have been doing.

So that's the Life and Health segment, probably more questions to come later. In the interest of time, I'd like to move on to the Asset Management segment. We had another outstanding year in Asset Management despite headwinds. It's fair to say that the net inflows that we had with EUR 39 billion are no small feat. Many of our competitors saw significant outflows. And we're now managing EUR 1.7 trillion in assets.

The operating profit is very strong at EUR 2.3 billion, and I still remember ever since -- even when I was COO here, the nagging question is will you ever translate that into cash coming to Allianz? Well, the cash came to Allianz last year, and it was EUR 1.3 billion, almost 47% of net income. And it shows the very nice strategic hedge that we have between the investment result, particularly in Life and Health, and the power that gives PIMCO, because they actually hedge [ph] when interest rates are down, with an outstanding investment performance still. And I'd like to report on January, that we've had significant positive flows, particularly exceeding our targets. And operating earnings are also positive relative to plan, so the machine is humming. To be precise, we had almost EUR 6 billion inflows, EUR 4.5 billion in PIMCO and EUR 1.3 billion in the AGI pillar.

Now Page 41, assets under management. I have described growing both from our own assets and third-party. The flows are on Page 42. 3.4% of beginning of period AuM. Strong message, of course, not the same in 2009 and 2010, and that cannot be assumed to be a regular movement. More importantly, how are we developed in net fee and commission income. It's not just up 11 percentage points. I'd like to pay -- get your attention to look at the third-party asset under management-driven margin. We have crossed 40 basis points margin, which is a very, very strong number. So it's not just about the size. A lot of people worry about when we get bigger, the margin gets smaller. It's not true. We get bigger, and the margin gets better. And that's also despite the fact that after record performance fees in 2010 with EUR 514 million. And this year, the number was EUR 455 million. Congratulations, in particular to our friends in Asset Management. This is no small achievement.

Now at the same time we have been investing in the business, the operating expenses that you see moving are basically there to make sure that we have the technology, and we have the people that can support these enormous amounts of assets. And we're supporting future growth and particularly on the PIMCO side, as Michael has said. Now unleashing them, both of the pillars, to have their own distribution should really help growth going forward.

Page 45 give you the core numbers for fixed income. I think they speak for themselves. Over EUR 2 billion in operating profit from the fixed income segment. And Page 46 give you the equity numbers. Here I would like to point out that when the volatility started in the third quarter, I did not expect operating profit to be stable. There was a lot done by management to maintain stability in profits. And personally, I believe this is also no small achievement. The item on net income contribution I mentioned before. It's on 47. I really enjoy this picture, and it's great for shareholders as well.

Now even that, even with all of that, we have a few items to watch. The first one is investment performance, really positioning the investment portfolios to cope with the very low-yield environment and high market uncertainty. We will therefore review the expense budgets, strict cost containment to ensure best-in-class cost income ratio. In my mind, PIMCO is not just our best unit in terms of growth, but it also has the best cost management base, and we'll need to expand that. PIMCO will now focus on leveraging the distribution globally for continued asset diversification. And now we have AGI under one global structure that can leverage their scale for growth and efficiency.

So with that, I'd like to come to a close on Page #50 and summarize. 2011 had serious shocks for our industry. We were fairly resilient in our performance, and we are strong in contributing our profits and sharing that with shareholders.

Thank you very much for your attention.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Can I get the little -- thank you. Okay. Well, you can switch -- fittingly to the in-good-shape theme, we come to the section FIT, financing, investments and transactions that you know from previous years. Let me start and give you an overview of some of the most important transactions that were done in the last year.

I think if you look at the top of this chart, in terms of the financing, we probably had a pretty good sense of timing last year, which meant that we tapped into the subordinated bond market at a time when that market was still open, in March of last year, and placed a 30-year Solvency II-compliant subordinated bond. We are probably the only ones that have issued also a contingent convertible from an insurance company in the middle of the year. And we have just issued a senior bond note that actually carries a coupon of 3.5% which, for a 10-year note, is also, I think, quite a good achievement.

A little bit less fun we had on the investment side, where, frankly, our investments in CPIC and particularly in Commerzbank were obviously nothing to cheer about given the market developments also for financial institutions. We are enjoying, of course, the fact that our participation in the only credit capital raised earlier this year, at least to date, shows something like a 76% return, but we're not counting before the end. This is just to say that if you are working with partners, strategic partners in the financial services sector, you are sometimes called to help out in certain situations. And some of them work slightly better than others, but the important element, of course, is the overall cooperation and what the results are. And in that context, I'd like to positively also mention our cooperation with Popular in Spain, Banco Popular. That is a very good contributor to our performance and continues to be so.

Our capital structure, I think, can be called sound. And if you look at the debt-to-equity ratio, I think its trend is in line with a world that is going to continue to deleverage going forward. We do this with a reasonably high quality of capital, I would argue. And we are actually in the comfortable situation that there are no pressing reinvestment requirements that are forcing us to go to the market at a time where you might -- where we might not find it particularly attractive to go to the markets. This does not mean that we will not retain the flexibility to buy back or pay back existing debt whenever we find that attractive for us given the market environment.

I don't have to say anything to the dividend policy. I think it's been largely stated. Having said that, I think for the first time, we're showing you the payout ratio relative to operating profit. And even though that is not a KPI or a benchmark commonly used in the industry, I think it is nevertheless a remarkable stability, in sense of stability that one should take note of.

In terms of the investment side, despite the rather difficult capital markets environment that undoubtedly 2011 held, I'm of course very pleased to report that once again, the investment side contributed 2.3% -- sorry, 2.3%, yes, 2/3 of the operating profit all together. Allianz investment management that is responsible for the global investment activities of insurance funds actually holds some of EUR 460 billion under management.

The performance, if you look at that, is -- if you sum it all up, 4.2% across that portfolio. That is based on a rather conservative, and I'll come to that, portfolio, which actually is 90% bonds, and it is actually despite the fact that we hold 6% equities. If you -- and we all know that 2011 was not exactly a particularly attractive year for equities. Despite that very fact, if you compare the 4.2% to the Barclays Euro Aggregate index, very broadly -- that stands at 3.2%, you have a significant outperformance vis-à-vis that index despite the fact that you actually have a drag on the performance through the allocation to equities.

Let me go through that and I think -- in terms of why and how that has been achieved. Before I get to that, in terms of showing you the portfolio, let me also give you a little bit of an outlook in terms of the ongoing investment yields and the reinvestments that we have done and taken which, sheer coincidence, are actually at 4.2% on the Life side and 3.8% on the P&C side, difference of course being due to the maturity and the length of the investments that we have taken.

I think you will see here, and I will also later point out in more detail, of what kind of allocation we have taken so that we can, hopefully, also dispel the notion that this has been done by excessive risk taking. That is not the case. You can see here also, in terms of what allocation we have in various government bonds, and we actually look into individual spreads, particularly also on the corporate side, and I will take you through that also in a second. I think the one point that is important here to say is that for us, rating is only one parameter in the investment decision. We like to make our investment decisions on a single-name basis and a single-investment decision on the underlying credit.

Now this is another attempt to actually show to you that the new investment yields are in line with a conservative investment strategy, as I just claimed, because that's easy to say, but I think it's more important that you can actually follow that based on what we're doing. What you see here is over the course of the last year, the performance yield's okay in emerging markets -- if you want to, on the top -- we're talking about the fixed income portfolio, and the German bund on the very bottom. And what you see is, in between the various large asset classes, if you want to call it that, on the fixed income side -- at least how we look at them, and then you actually see the reinvestment yields that we actually have achieved on Life as well as on P&C. And what you can tell is that this hasn't been achieved by going very much to the extreme. Or if I may put it differently, and we have discussed this many times here before, Allianz is a liability-based investor. Our benchmark are our liabilities, and that's the single most important thing.

Against that benchmark, as every investor, we have 2 risks: the risk to lose money and the risk to miss an opportunity. It is very clear that we are much more willing to miss an opportunity than to risk losing money in terms of our investments. And that's the fundamental philosophy under which we are acting, and I hope that this slide helps you to actually confirm that this is the approach that we are taking. And I find it positive and gratifying that despite of that approach, we can actually achieve the type of results that I can report here in terms of the investment side.

Now rightfully, you will say an important element of this liability-based investor question is duration management. And yes, there, we actually have a challenge, if you want to, because of the pure calculus of how you actually calculate the liability side of a duration management, which is based on swap rates. And as these swap rates actually decrease, very obviously, the duration increases. So as we have kept our asset side, on a duration base, de facto stable, from a pure mathematical point, our duration mismatch has actually increased. Now we are obviously trying to address that, but at this very same point, it is important that one doesn't break out and hyperventilate about every change in swap rates when you talk about something that is as long-term oriented and as important as liability management for long term -- or asset liability management for long-term liabilities that we actually have. Therefore, we're working on this. It is very much in the focal point. But here, very clearly, the last year has shown that the duration gap actually increased.

There's a minor gap increase that is due, or a minor part of that is also due to a model change, which is that, frankly, we're now scaling duration to the asset side, whereas in previous years, we scaled it to the liability side. The reasoning, of course, is that you can steer the asset duration much more actively, and this is a consistent way that we will be using, going forward, to display this. Fact is, yes, duration gap has increased in the past year.

Now let me come to the investment portfolio and the quality of the investment portfolio. First of all, the EUR 460 billion are actually 90% held in debt instruments, 6% in equities, and then 2% each in real estate and other. What I, right off the bat, would like to draw your attention to is that, never mind what we all believe about individual ratings and rating classes and rating migration and anything else, only 3% of that fixed income portfolio is actually held in non-investment-grade securities. 3%.

Now let's get into more detail. Suffice it to say, on the overview slides here, we have an overall realized -- or unrealized gains in this portfolio, which actually has increased in the last year. We have a good diversification over all sectors, and -- but let me go into that in greater detail. 36% of our portfolio is actually invested in a asset class that didn't merit any discussion a couple of years ago but will now draw a lot of focus, and that is government bonds. The government bonds that we actually have also have, okay, an unrealized gain position. And that is despite the fact that, unlike what some people may think, we do not have an excessively large position on German bunds. As a matter of fact, of what you saw before, we're not investing at this point in time in German bunds. Of course, we have an existing position in German bunds, but all together, Germany accounts for only 20% of the total allocation in that context.

France, Italy are the -- almost at par, in terms that may give you comfort or not, but I'm happy to discuss Italy at greater detail. We will come back to that in a second.

You find on the next slide a totally detailed description of our investments in these individual countries, in these individual sovereigns, so that you can draw -- also break -- and broken down by Life and P&C, so that you can draw your own conclusions. And of course, Oliver Schmidt and his able guys are always around to answer questions if you have particular issues on certain of these positions and questions that are allowed.

**Unknown Executive**

Mexico questions.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Mexico. That's a very interesting question we will take up during lunch. The best thing is during lunch -- but seriously, let me actually, as I was encouraged before, maybe pause a second here. What Michael showed you before, okay, was the total exposure to what is called PIIGS, okay, to wit, the acronym. But it's 2 Is. Okay? It Includes Italy, and the only reason that we did that is to give you a comfort level that Italy, even though it is a very important and very significant market for us, from a purely accounting point of view if you look at it, okay, is a situation that would be manageable if the disaster happens. We attach an almost 0 probability to that.

We do not believe, okay, that Italy -- Italy is a wealthy country. It is a rich country. It can handle the debt loads that it has, and it can deal with the issues and challenges that are associated with it. You -- all you have to do is look at Italian companies, Italian wealth, as well as the ability that the current government has shown to address a whole lot of the issues that this country has been dabbling with in the past. So we are firmly convinced that Italy will actually perform well going forward, and that the issues there will be solved.

By the way, I think we're being very unfair to some of the other countries, in terms of what kind of changes are happening there. If you look at what the Portuguese are doing, if you look at what Ireland is doing and yes, also, if you look at -- not to mention Spain, where there's some very radical moves and changes that are currently planned and in the works. But please, if any one of you guys would just pause for a second and look at the changes that are being asked for people in Greece, you bring that into bearing -- you can say that's all deserved and all necessary and so on and so forth, but keep time horizons in mind. I find it mind-boggling that we actually, for 30 years, mispriced capital by applying too much leverage; for 20 years, totally mispriced capital for allocation in countries like these, based on the euro benefits that we have; in addition to the over-leveraging that we all indulged in. And that means that we have mispriced capital, which means by definition that we have misallocated capital, and we now think that, that can be solved in 30 months. It cannot be solved in 30 months. It takes time. And I think if you actually look at the situation of what needs to be done, it's actually pretty straightforward. It is like in any other restructuring.

What do you need for a good restructuring, a corporate restructuring? You need 3 things. You need a acceptable and credible business plan, you need a capable management team that can pull it off, and you need financing that allows the management team to pull off the business plan. And increasingly, we're having all 3 of them in place, in Europe in general, as well as specifically in the individual countries that we're looking at. All management teams have been replaced. The financing is starting to be put in place, and I think everybody starts to know what they need to be doing, in terms of an acceptable business plan, in order to restructure things. We just need to give the management teams, if you want to call it that, the necessary time to implement. Does that mean we should just lean back? No, we need to continue to watch that they're doing what they are required to do, but the basic layup and the basic foundations are in place. And therefore, we are, by far, not as excited, hyperventilating or whatever, as many people tend to be when they get caught up because of the scare of the day or the excitement of the statistic that they've just discussed and so on and so forth. There are other statistics. If Greece would have had the French tax system in 2010, it would have had a 6% budget surplus. So there's one for you.

Now with that, we go to covered bonds, because that's a lot -- much less exciting. As a matter of fact, there's really nothing to report.

**Michael Diekmann**
*Chairman of Supervisory Board*

Talk about the French tax rate after the election.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Well, that should increase the Greek surplus, in that case. So not a lot to be said, frankly, for the covered bond portfolio. Maybe more important, also the corporate side because yes, we have a significant allocation to corporates. We think that, that is justified,, largely based on the experience and the capabilities of PIMCO, because these corporates are not being bought based on global ratings, but they are based on individual credit analysis of one-by-one, title-by-title, company-by-company, issue-by-issue basis. And we have fared very well in that context, and you can see that we have also not inconsiderable unrealized gains on those positions.

A little bit more challenging is the fixed income portfolio, in terms of banks. Now I'd just like to highlight that while it is a very significant amount that we actually have invested in fixed income in banks, it is less than 10% of our total portfolio, because yesterday, in the press conference, we were faced with all kinds of scare numbers in terms of how much that is for the insurance industry in total. In our case, it is less than 10%. Nevertheless, it is a position that warrants very significant attention, and something that we are managing with great care. It is also clear that we are reducing the subordinated debt that we are subscribing to. We have reduced it by 2 billion in the last year, and we will continue to see how we can manage our way down there, also based on redemptions that occur based on the fact that not all of the sub-debts are actually eligible for the new regulatory environment.

A little bit of a legacy is the reporting on ABS, which I would refer in more detail to the backup, where you see a total breakdown of CMBS, munis and others. We had introduced that into our presentation when ABS were the excitement of the moment. There's nothing excitement here -- nothing exciting to report. All the details are there. You can look at it, and we are happy to actually answer whatever questions you have on that.

Always a winner is the question of equities and the equity portfolio. Yes, of course, this equity portfolio last year has suffered like other equity portfolios have, albeit we still have a unrealized gains position of some EUR 2 billion by the end of the year. And obviously, at this point in time, that looks better. The main decrease, of course, was triggered by the stakes and the investments that we actually had in some of the financials, including the banks, and particularly Commerzbank, which you are, of course, aware of in this context.

In that context, here is an evergreen slide, which I think my successor may no longer have to put up, but I couldn't face the idea of leaving the stage without putting up the slide. Those of you who have been with us for that long may remember that when I started here, that we started actually with an equity gearing of 3.0, so I'm particularly happy to report today that we've been [ph] with the gearing of 0.3.

I don't think I need to say a lot more to this slide. It is one of those legacy things that, maybe a year from now, you won't have to bear through anymore, but I think we are in a comfortable, in a clearcut situation. I will say that I continue to be of the opinion that an appropriate small part of equities should be part of such a liability-based portfolio. And I think also from a capital and regulatory capital point of view, it still makes sense.

Another favorite topic, our alternative investments. I again will not bore you with this greatly, except for saying that I think increasingly, people are realizing that alternative investments, particularly in renewables and infrastructure, are very attractive for the likes of us, for long-term-oriented liability-based investors. We have a situation where we have been investing in renewables for quite a while. At this point in time, we actually have some 700 megawatts of solar and more importantly, wind-generation capacity, which actually would provide electricity for 1.2 million people. And that's not something we have discovered now. We've been investing in this for a while.

And also infrastructure, where last year, we invested some EUR 800 million in a Norwegian oil -- sorry, gas pipeline that actually transports gas from Norway down to the Norwegian fields, down to Continental Europe. If I cut through all the chase on this transaction and the situation, this is a running yield between 8% and 10%, which of course, in the totality of the thing, leads to a rather attractive situation for us.

Equally as important and equally as attractive, I would argue, going forward, will continue to be real estate. Real estate is an important asset class for investors like us, not only because of the long-term stability and the lack of volatility but also given its implied inflation hedge from a longer-term point of view. Now obviously, you need to understand what you do in that area so that you don't go into the boom and bust, but I think our track record in terms of selling at the height of folly and reinvesting as we go forward is actually quite good. We have also, in the last year, invested in a whole range of very attractive new properties, or so we believe, while at the same point in time also engaged in a lot of divestments. We can easily see that we invest a lot more in real estate as we go forward. But as you know, we do not incentivize our investment managers by meeting targets in terms of how much they do invest, because we think that, that leads to the wrong type of incentives. We are looking at each investment individually, and each of them are being -- their job is to provide us with opportunities, and our job is to decide if we actually want to take those opportunities or not.

A clear opportunity, in our view, is the debt business in terms of real estate. We -- there are easily-generated headlines about, oh, Allianz wants to enter into commercial real estate debt business. Let me point out to you, we've been in this business for 30 years. Allianz Leben has a mortgage platform of about almost EUR 13 billion that it has actually managed very well for the last 30 years. In the U.S., we have about EUR 6 billion invested in largely more corporate commercial real estate. So it is a business or an asset class that is not new, and we will continue to take advantage as the pricing becomes attractive in the context of a deleveraging and in the context of new regulatory constraints also, on banks and others, that actually provide us with an opportunity to invest it attractive terms. And the spreads in Germany now are something -- are between EUR 175 million and EUR 250 million. And if you look into Italy, you find them at EUR 350 million. So we actually look at that, obviously, with a critical eye to the implied risks. But nevertheless, given our long-term investment orientation, we believe that this is very important. That is why we also decided to actually fund the Deutsche Bank Towers in Frankfurt with a EUR 300 million loan, because we want to make sure that they have adequate facilities for the supervisory board in those things. I'm sorry.

Now where does this take us? Allianz will continue, as I said, to look into direct lending activities, into selected corporates. We are reducing our subordinated exposure to the banks, as we have told you, and we will continue to push the alternative space, including real estate.

I don't think there's anything particularly new on this slide. I would maybe like to use the opportunity to thank those of you who actually have actively helped and encouraged us to pursue and push in the last year that the European institutions, i.e, the EFSF and now also the ESM, will actually be able to issue credit protection on sovereign debt, i.e, the insurance -- credit insurance solution. And I find it reasonably remarkable that this has now been implemented by 17 parliaments, and the EFSF is actually capable of issuing this insurance going forward. And I'm personally convinced it will play a role in the overall funding and rescue mechanism. And I know that many of you, as we had many discussions during the course of last year of how meaningful it is, what can be done, how it should be shaped and how it can be changed, as this instrument has evolved over time, changed and morphed in order to become what it now is -- maybe not 100% ideal of what everyone of us would have liked, but nevertheless, I find it quite remarkable that we have achieved this jointly, and I'd like to thank those of you who actually have been involved and have helped and pushed on this.

Allow me to also use those last 5 minutes to make a few personal remarks, because I will have to leave at 3:30 sharp, and I don't know if I'd get the opportunity to make those at the end of our event. Given the fact that this is the 12th time that I'm sitting up here, it means that this have been 12 years. It has been challenging years, stormy years. But 12 years ago, Allianz was a confederation of national insurance company with an attached German investment domestic long-only investment fund. Today, under Michael's leadership, we are arguably the leading global insurance and investment company.

I am personally convinced that Allianz will be a true winner in this "new normal" -- footnote, a term that has also been coined by an Allianz affiliate. Why do I believe that we are a clear winner? Because unlike many other financial institutions, Allianz does not have to reinvent its business model. We have a sound and solid business model that will work well in a new deleveraged environment. Allianz has capital strength. It has a very well balanced portfolio where you could view P&C as a sleeping giant. You could see the life insurance business as something where we actually have the potential for, clearly, as distinctive value propositions also on the risk Life side. And we have, arguably, one of the world best investment asset management franchises anywhere, that is the envy of many, and it's highly cash generative.

All of these businesses meet a growing demand, a demand that is fulfilled by our product, be it in the risk-averse or increasingly risk-averse graying parts of the world or in the performance-hungry growth parts of this globe. And I think we are well positioned to take advantage of this, because we also have a very strong global brand, which in a world where there is a lot of clutter and noise, brands matter.

Last but not least, Allianz has an incredibly strong culture and strong people. It's a culture that is based on teamwork, and it is a culture that is -- can be summed up with "always be more than you appear to be." That means that we sometimes do a pretty bad job in selling ourselves. Others sell themselves much more aggressively. But don't be fooled. I think our strength is also obvious in terms of the people challenges -- challenges, yes, but changes that we are currently experiencing, that Allianz is experiencing.

If you look at the type of responsibilities that Joachim Faber, Enrico Cucchiani and also myself are taking on, I think they attest to the strength of the Allianz team. But also, if you look at the new guys joining, it tells you how strong the bench is. Helga and Max, who will split my responsibilities, are 2 hardcore Allianz growth -- internal growth guys, who have a lot of respect wherever you look, in the organization and outside. They have both proven themselves. Gary is one of the most respected U.S. professionals in the industry. And Dieter Wemmer, I don't have to explain to any one of you, because you all know him, respect him. But let me just say it won't come as a big surprise to you that he clearly had the choice of where he wanted to go in this world, and the fact that he chose Allianz should also tell you something. So for those of you who are, in an old-fashioned way, still willing to take qualitative criteria into your investment decision, all I can say is Allianz is a definite buy.

Finally, thank you for the -- personally, to all of you, for the professional interaction that we have had in the last 12 years, even in times of strength. I've always enjoyed it. I've also learned a lot. And before this gets too teary-eyed, let's have some lunch. Thank you.
[Lunch]

# Question and Answer

**Paul M. L. Achleitner**
*Member of International Advisory Board*

So 2:00 sharp. Dare I say, shoot. Ladies and gentlemen, please, we are open for business. We are open for your questions. Who wants to take the first shot? Nick Holmes. Why am I not surprised?

**Nick Holmes**
*Nomura Securities Co. Ltd., Research Division*

Nick Holmes, Nomura. I wanted to ask 2 questions on the low interest rate environment and particularly how it affects your German Life business. Firstly, are you looking at limiting the duration of interest rate guarantees to something that is matchable? I think the French have done this quite successfully. And the question is, are you looking to do something similar, and if you're not, why not? And the second question is looking at sensitivity to low interest rates and the use of the RfB to offset the effects of low interest rates, I wondered if you could give us some sort of guidance on, really, the sensitivity to low interest rates and whether, for example, the RfB will preserve your profit margins, your spreads in your German life business for the next few years, or whether there will be pressure coming from the very low German book?

**Oliver Bäte**
*Chairman of Management Board & CEO*

I always get the fun questions. First of all, it's very important to understand since analysts often like to look at the risk-free rate, and as we said earlier, we don't buy bunds at 190, but we have many other options given our capital position. And the new business money is significantly over 4%. That obviously reflects the we're buying French and others, so it's very important to understand that the actual asset yield is much higher than the guarantees one. We have it on the Page 5 that we provided, also under Michael's scenario with a detail on how this works. Second, we are, indeed, lengthening duration. We're having a program on their -- that has been in force and works over longer periods of time given the amounts of assets and how prices move. That's sort of a 12 to 18 months programs to lengthen the duration, and of course, the RfB position will be used. The issue is that we have the strongest in the marketplace, so it's not so much only about what Allianz does, but what happens in the marketplace. Now on top of that there, few regulatory changes coming that are supporting the preparation for a low interest rate environment. So for example, the industry has been forced to support of the so-called additional low interest rate environment reserve since [indiscernible] reserve, it's called, and that has to make sure that whenever the earned yield falls below whatever the highest guarantee is, there have to be additional reserving happening that goes against policyholder benefits. That's very important. So before policyholder benefits are being credited, this reserve needs to built. This, in fact, leads to the fact that when we said in the last presentation last year we can sustain 18 years of this environment, I'm a little bit exaggerating, but by now, we can sort of sustain that -- our policyholder promises with this additional reserve forever. So it's very, very important from -- in terms from a risk perspective, we've been doing a number of things. The other thing that is being discussed, of course, is how the -- and I'm expecting that question, so I'm addressing it already, that currently, we have participating our policyholders when they leave on the unrealized gains on the bond portfolios and on equities, at the same time, and on real estate. While that might make sense for equities and it might make sense for real estate, it doesn't make any sense for bonds because nobody would then envision if these unrealized gains turns into unrealized losses and interest rates go up, so there has to be a revision. It will also support the industry and its sustainability. So at this point in time, I'm fairly relaxed, particularly for Allianz.

**Nick Holmes**
*Nomura Securities Co. Ltd., Research Division*

On the new guarantees?

**Oliver Bäte**

*Chairman of Management Board & CEO*

I'm so sorry?

**Nick Holmes**
*Nomura Securities Co. Ltd., Research Division*

Did you [indiscernible] about the [indiscernible] with Allianz on the guarantee?

**Oliver Bäte**
*Chairman of Management Board & CEO*

Yes, of course, the guarantees are always modeled than completely fresh given the changes that we have, and we are also working, by the way, on new product designs. I think one of the things we are looking at and have been looking at is how do we credit policyholders and differentiate between concurrent credits and final bonus payments. We, for example, have been moving a lot of the policyholder credits to fund the bonus payments that has both positive effects on lapsation because it's less attractive for individuals to leave, and sorry if I may say that bluntly, speculate against the collective of people that save until maturity, and it also makes it more attractive in terms of capital consumption. And going forward, I personally -- as my personal opinion, across the board, I believe there will be product redesigns that will make life insurance less susceptible to credit spread risk, i.e. sudden increases in lapsation. That certainly has to happen because it's a significant capital movement that we've seen in the last 2 years, when we recognized that government bonds are no more risk-free. And that then has certain risks attached to it, and I think, personally believe, that spread risk will become a focus in those companies that have both the opportunity to prevent mass lapses to happen at the product level. And on the portfolio level, our having higher liquidity on the asset side should get benefits both in terms of economics but also in terms of capital.

**Nick Holmes**
*Nomura Securities Co. Ltd., Research Division*

Sorry, just following up on the guarantee duration, why is it that you're reluctant to put, say an 8-year limit to guarantees on your capital [indiscernible] type policies? Because that would eliminate much of the interest rate risk, wouldn't it, the reinvestment risk. I'm just curious as to your strategy in that area.

**Oliver Bäte**
*Chairman of Management Board & CEO*

It's not illegal. You can do that except for so-called Vista [ph] products where you have to give a guarantee upfront that you also have to have. But I personally believe in the long run, in this environment, you would see a repricing option for annuity products upon annuitization because that will save huge amounts of capital and that's normal. I think giving a 50-year guarantee is going to be difficult to sustain.

**Thomas Jacquet**
*Exane BNP Paribas, Research Division*

Thomas Jacquet from Exane BNP. Can you come back on the operating profit guidance on the Non-Life side? Because if I'm correct, we have the same mid of the range guidance for next year, but we have higher volatility, which mean, in fact, to lowering guidance despite the fact that this year, we had a lot of NatCat. We have turnaround story in Germany, and you probably expect to maintain financial income. So what's wrong with the guidance? And is it really as disappointing as it looks?

**Michael Diekmann**
*Chairman of Supervisory Board*

Well, I mean, when you look at the high level of NatCats, we also have a pretty high level of run-offs, and that has been addressed. So we are actually looking at a midpoint of 96.5% combined ratio, and that compare to the current combined ratio, I think. You got to factor in a little decline in interest income. So I don't think it's unambitious when you look at the midpoint.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Fabrizio?

**Fabrizio Croce**
*Kepler Capital Markets, Research Division*

Fabrizio Croce, Kepler. I have 2 questions. The first one is about growth. Growth is actually giving me some headache particularly the fact that in P&C reinsurance, you have actually this minus 15%, while we saw, for several companies, particularly on the Chinese market, huge growth, actually, bombastic growth due to big transactions. And here, is -- so the question is, is Allianz actually missing on the reinsurance side in emerging market, or are other companies simply working with lower, HUD rates, which means ROE of some 8%, and therefore, writing business that you would not write? And the second one is about the dividend. Given that you read the press criticizing you about the size of the dividend, it's important also to mention that there are plenty of people very happy about the current dividend decision. And so here, if you could give a clear message going forward for the dividend being at least at the level of this year or even higher given that you are doing all this improvement from operational point of view?

**Paul M. L. Achleitner**
*Member of International Advisory Board*

I should probably take that last question. It will be easy for me.

**Michael Diekmann**
*Chairman of Supervisory Board*

We have this dividend discussion every year. Let me just stick to the 40% payout ratio. That is something that is sort of commonly agreed with all the other people involved in this decision, and I don't want to mislead you by opening it up again. We will see capital situation is always very, very important. So in February 2012, to talk about something that will happen in February 2013, I wouldn't open it up at this point in time. Now on the reinsurance side, we are not a reinsurer. We're talking about third-party reinsurance here. That is a very, very small part of our book, and basically, that's strategic, meaning we've always made good money on third-party reinsurance, but it was basically to support companies in emerging markets where we have a strategic interest. That was the purpose of our reinsurance. We don't want to compete with the Munich Res and the Swiss Res. Now we've drastically reduced that third-party reinsurance because we've seen that, especially in the emerging markets, the cat loading was getting higher and higher, and we didn't want to put that on top of our CapEx for the -- on our direct books. That's the -- on the 15% reduction in premium, basically, that goes for the overall book. And that is the cancellation of the quota share with Munich Re, which, I think, we canceled already 10 years ago, and now finally, we don't have that anymore.

**Fabrizio Croce**
*Kepler Capital Markets, Research Division*

But our Chinese risk, actually not diversifying your risk that you have for Allianz because your exposure in China is totally negligible, so potentially, from a NatCat perspective, should even be accredited?

**Michael Diekmann**
*Chairman of Supervisory Board*

Well, we do a little bit of reinsurance in China. I'm not totally happy with the pricing there. So I don't think diversification would be a good argument.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Michael?

**Michael Hermann Haid**
*MainFirst Bank AG, Research Division*

Michael Haid, MainFirst Bank. Two questions. The first question on Solvency II and to the value proposition in Life Health. Obviously, the new business is a huge value driver in life insurance, but Allianz is the agent of the policyholders and should act in their best interest. I doubt that it is in the best interest for life insurer -- for policyholders to buy a -- or to be invested in government bonds in an inflationary environment. Solvency II is an institutionalized rate to force you into government bonds. To my understanding, the risk of devaluation of paper money is completely disregarded in Solvency II. Is it also disregarded in your internal risk model, and are you happy with that, and shouldn't you do more lobbying here? Second question, also on life insurance Germany. Obviously, Allianz Leben is a very strong player, the strongest since 2004. We know that the health or the strength of the industry is also in your -- is also a concern of you to keep that here and sort of the risk of your company protector. How confident are you that within the next 5 years, protectors are not going to be used?

**Michael Diekmann**
*Chairman of Supervisory Board*

Before Oliver tells you about the internal model and sensitivity to interest rates, I would decline to answer on the second question.

**Oliver Bäte**
*Chairman of Management Board & CEO*

Michael, on the modeling, there are various items. Of course, I understand, I think the background for everybody that's not in the detail is that government that is considered to be risk-free in the standard formula but, of course, it's not risk-free as we've been seeing. Therefore, even if you end applying huge amounts of capital charges and its latest in the Pillar 2 and the ORSA, you have to demonstrate to your regulator how you're dealing with the factual risks and the factual risks we are dealing with, so therefore, we are managing government risk. Therefore, the asset allocation to the standards -- between the standard formula and if you have an internal model is, of course, different, and Paul mentioned that as a reason why we're not buying government bonds in Germany, not just because of the yield. And that's why -- and I would like to reiterate something that has -- Paul, in his section, that we're having also excessively high charges for real estate and other asset items that are modeled on the most volatile markets. But the funny thing, just to give you an example, if you apply risk charges that you have for the U.K. markets that also offers higher returns to the German market -- that offers lower risk but also lower returns, then the insurance that wouldn't have an internal model would have to stop buying real estate. This is how drastic these things get, and we're obviously not as dumb as the standard formula suggests. So we do it based on our internal model. And therefore, we actually have the inflationary environment in mind. That also is a part of the explanation for why we will not perfectly ever match, particularly not at this point in time, the assets and liabilities. So we have to reduce the duration gap. We have to make it less interest rate-sensitive, but it would be not very clever, let me put it this way, to lock ourselves in that -- the current interest rate levels.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Spencer?

**Spencer Horgan**
*Deutsche Bank AG, Research Division*

Spencer Horgan from Deutsche Bank. Could you just zoom in a little bit on the U.S. property and casualty business [indiscernible]? Because obviously, the combined ratio remains fairly poor, and I guess there's 2 parts to the question. The first part is, what are the near-term challenges? What are the steps being taken? When can we expect the combined ratio to return to below 100%? But then the second part of the question is -- I guess this kind of topic has come up a few times over the years, and are you still completely convinced that the U.S. P&C market is an attractive market to be in longer term? And then the second question was just on capital you've presented to the 2 of the 3 very important views to Solvency I on the economic capital. Could you give us, maybe even qualitatively or preferably quantitatively, if you -- or where the capital sits on an S&P type of view?

**Michael Diekmann**
*Chairman of Supervisory Board*

Good. Let me take this Fireman's Fund question. By the way, since I'm on the board, this comes up on the cycle. Right now, we have a real problem in the expense ratio. And that's because we have done quite a lot of investments on the IT side, on the operation side and, at the same time, been pruning the portfolio to a degree where we now just need more support from markets when it comes to volumes, meaning the company is currently a little too small for the investments that were needed in order to get us back into distribution. Now that is partly self-inflicted, and one tends to forget that because 2 years ago, we've separated a very profitable book out of Fireman's Fund and passed it on to AGC&S because it was in line with our strategy to pool our marine business. And so there was quite a little bit of redundancy that we'll need to work out of the system. Now unfortunately, the U.S. market is not very good when it comes to repricing. We see now some price trends on private lines, and we still miss them on the commercial lines. That's, I mean, one side of our book. That brings me to a question, when are we going to see normal combined ratios? So I'm not talking about 100%. I'm talking about something that is in line with the rest of the book. Today, I'm not confident with the pricing trends in the market that we will return to a normal combined ratio before 2014. Now attractiveness of the market, we've been in a similar situation about 12 years ago. We've then really trimmed this company for performance, and we've got a lot of cash dividends out of that. I think it's, over time, one of the most cash-accretive businesses we have in the portfolio.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Spencer, your question on the S&P level, please look at the S&P report because we're not supposed to comment. We are currently trading at an A level with -- like many others, according to what their capital model is. And second -- and that's very important. They've changed the model a number of times the last few years, always on the same risk, asking for more capital than this before.

**Vinit Malhotra**
*Goldman Sachs Group Inc., Research Division*

Vinit from Goldman Sachs. Just Paul mentioned the partnership that Allianz sees itself as a reliable partner for other financial firms. Now on the theory that banks will not be rolling on the debt, and you have 145 in covered bonds and you certainly find yourself with a lot of cash to reinvest in this year, are you starting to think about that possibility? Is that why there's a conversation there on alternative assets and real estate? Is that part of the plan? So that's the first question -- or is that even a probability you're considering? First question. And second question is on the Asset Management. If I may say so, the fourth quarter had a good bit of a luck factor on the performance fees. So when you're going forward, how -- what do you think about the performance fees when you do this projection? I do remember that you talked -- Oliver talked about the quality of inflows a few quarters ago, which was helping the fee margin on the nonperformance side. So that, we can see coming in, but on the performance side, how does management think about that when you set this target?

**Unknown Executive**

Can I start on the asset opportunity side, if I may call it that? I don't know when you last talked with a banker where it took more than 3 minutes before the term reduction of risk-weighted assets entered the discussion. So it is obviously very clear that there is enormous regulatory pressure, okay, in terms of disposing of risk-weighted assets. It is also clear that as a long-term investor, Allianz actually has a "different risk and investment profile." So if I take an example, if we could buy assets that, for example, help us close the duration gap that we talked about, you might actually get a capital relief by buying those assets rather than an additional capital charge, okay, on a net basis. So therefore, we are definitely looking to buy attractive assets as part of this overall risk-weighted asset reduction process. And it's just a question of timing before we, or Allianz, thinks that the timing is right, that the price has become attractive because so far, those prices have not been attractive enough to bring us to the conclusion of significant trades, even though we have looked at a number of these opportunities because not surprisingly, banks look to divest the less attractive risk-weighted assets before they go into the stuff that we consider to be attractive. But again, given the different interests in terms of also the duration, I think that it is rational to assume that there's going to be a time where the 2 meet.

**Michael Diekmann**
*Chairman of Supervisory Board*

On the performance fees, I think I've answered the question already, but I'll take it up again. I mean, we have, in good years, around $500 million of performance fees. In our calculations, plans, we plan with less than half of that, which, I think, is prudent.

**Jonathan Michael Hocking**
*Morgan Stanley, Research Division*

Jon Hocking, Morgan Stanley. I've got a few questions on the German Life business, please. You've given color and information on reinvestment rate for the overall Life business. Could you give us some color, please, on Germany, specifically, in terms of what the current backlog yield is, the reinvestment rate is or what the average guarantee in the back book is? And then in terms of the mix of assets you're investing into, is that similar in Germany as is your [indiscernible] book? And then just finally, on the -- I think, Paul, you mentioned the fact that you're investing in French bonds. So are you basically investing in French bonds to back German liabilities, and how does that fit the comments about domesticating the balance sheets?

**Michael Diekmann**
*Chairman of Supervisory Board*

Now if you just look at sort of similar picture that I've given you for the overall book, the German book right now has a 5.5% total yield. The average guarantees 2011 has 3.2%, so we have the same spread, 230 basis points. On the reinvestment year, 2011, we have a 4%, and so we're seeing 2.25, and that goes down now to 1.75 in 2012. Now the allocation for the reinvestment yield is covered bonds, 33%; 29% is corporate bonds; and government bonds, 37%. Out of that, is 7% France. Now the cross-border restriction is really more related to those, let's say, terrific debt that our investors find critical, and I haven't seen that that relates now to funds as well.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

And if I may, in terms of adding to the sovereign exposure, if you look at that, what we did last year, out of that $5.4 billion came from France Life, another $1 billion from P&C Life in France, and then you actually have $1.3 billion that came out of German -- Leben activity. So you can calibrate that we're talking about less than 20%, okay, being actually coming from outside of France. So it's not that the group is taking large bets there.

**Michael Diekmann**
*Chairman of Supervisory Board*

Maybe I can add one information. You asked for that, but I didn't give it to you. The expected reinvestment yield for 2012 is 3.6.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Andy?

**Andrew Broadfield**
*Barclays PLC, Research Division*

Andrew Broadfield from Barclays Capital. Two questions, one on M&A. And you -- I think Michael opened up a little bit more to the, it seems anyway, to the prospect of M&A for Allianz. And so I was wondering whether you can give us a sense of what you have in mind, really, and, I guess, where this limits of parameters where you really don't want to stray out of what you're particularly interested in. I think in the past, you talked about P&C, not Life. So just maybe give us some color on that. It'd be really helpful. And I also want you to -- names out there which you have strategic relationships with or financial relations with, just any thoughts on that or not. The second question is a question which I started talking to Oliver, the break on leverage, and we talked a little bit about -- I think you said, Paul, about leverage being too high for many of us over some time. But we look at your business model, particularly the Life business model, as a leverage model. So what are you doing, and how do you think about that within your relatively conservative views on leverage generally? What are you doing to transition it, or are you transitioning it? And do you set parameters of what you'd like to get to on that?

**Michael Diekmann**
*Chairman of Supervisory Board*

Well, on the M&A side, you've seen a couple of companies now in the newspaper, okay? The market has really opened up, so we're seeing a lot more that you don't read about. And what we are interested in is P&C, and I think Paul has alluded to that. We'll only consider that in those markets where we have a machine that is really functioning and a management that is able to deliver because most of the benefits we're going to see are coming from the expense side and not from the growth side. That's, at least, our assumption on this. Now we will be very, very careful because we think there's more assets going to come up over the year, and I certainly don't want to make any comment on our financial investments that you call strategic investments.

**Andrew Broadfield**
*Barclays PLC, Research Division*

Sorry, just to follow up on that briefly, would you consider coming to market for acquisitions at all, or was that the sort of framework you'd say in terms of size you'd like to be able to self-fund it with a plus debt or whatever?

**Paul M. L. Achleitner**
*Member of International Advisory Board*

I would advise Michael not to answer that question. I think we've been very conservative, and we will continue to be very conservative on that front. And what is very difficult to answer at this point is generically talking about of this type of situations because it will depend on the individual situation, if that is something that you would find attractive or not. And to kind of, like, make generic statements where you then have to come back and say, "Yes, in general, that's it, but here, specifically, maybe it's different," isn't going to serve anybody's purpose. So as somebody who will not have to have the responsibility for that at the time, I would just advise that the answer is "no comment," without it leading to one or the other conclusion. It's a time of change in the industry, and we, as an organization, as Allianz, are very well positioned to take advantage of it, and if there's right opportunity, we should take advantage of it. And then let's cross that hurdle when we get there.

**Michael Diekmann**
*Chairman of Supervisory Board*

Maybe I'll make one more comment on this one, totally supportive of what Paul is saying. We do have some very interesting approaches now where people discuss with us, what will it take to take their books on our platform? So we see that smaller players are getting under huge pressure on the IT side. It's a little bit the situation in Fireman's Fund where we had to overinvest just to keep up with the IT developments and the requirements from the distribution side. Now we see similar development on the Asset Management side. We see that small companies, without distinctive investment capabilities, are now approaching us and asking us can we take over the investment function. Now that is a pretty new development. By the way, we've already hinted at that 4 years ago, when we did our large investments into our Allianz business system, which is our European IT system. You've seen the expense ratios. You've seen that we've had to invest quite heavily on getting these machines up-to-date. And so I think we're going to see a staggered approach of people trying to get an advantage by lining up interests that don't necessarily -- are an acquisition right away. And I think these are very, very interesting opportunities going forward.

**Paul M. L. Achleitner**

*Member of International Advisory Board*

If I may, Andy, I'm not sure I agree with you that the life insurance is a leverage play, okay? In the way that we look at our Life business, let's not forget the risk business has the RfB buffer, for example, that we have in Germany is about $17 billion, which people easily forget. Secondarily, it is a question of the duration, i.e. of the liabilities, the length of these contracts that actually allow you to take "certain risks." So in a world even where you are de-levering -- and I think that the value proposition of having a business or a product that offers, de facto, a capital guarantee and then a little bit of interest is actually something that is a valuable proposition to be part of the savings plans that individuals actually have. And if you want to go for performance, you'd take and buy businesses or products that we offer out of our Asset Management division as opposed to out of our Life and Health division. So I do believe that there are some very significant opportunities to straighten out and really design products that are targeted at different customer requirements. And that's why I'm personally of the opinion that the unit-linked space is much less attractive because it's, de facto, an Asset Management product, and they should be serviced this as an Asset Management product.

**Thorsten Wenzel**
*DZ Bank AG, Research Division*

Thorsten Wenzel, DZ Bank. I would appreciate if you could provide a little more insight into the German Non-Life business. And if I remember it correctly, this business was extremely profitable, say, 5, 6 years ago and suddenly, more profitable than the market since then. I think the combined ratio has deteriorated more than 10 percentage points or so, and that's probably less profitable than the average in the market by now. And I think you repeatedly mentioned claims handling as a reason, but my question is, is that just the reason, or is there anything else that needs to be fixed in this business? And then related to that, you target, I think, a combined ratio improvement of 8 percentage points or so in the next 2 years. Is that completely to come from internal improvements or, to some extent, from expected market improvements?

**Michael Diekmann**
*Chairman of Supervisory Board*

Well, see, the German business, again, it's good to have a little bit of historic perspective like with Fireman's Fund. During those times when it outperformed, the German insurance business was full of capital gains. It carried a lot of excess capital that we've reduced over time and rightly so. And we didn't have this fierce, fierce competition on the motor side. So the reserve level is still very high. I don't think that you can compare the German business today, the German insurance business in total with the German insurance business 10 years ago. We've just talked about average premiums on the motor side. The average premium on the motor side is at the level it was 10 years ago. Now if you compare that with Spain or Italy, this is about 60% to 70% of the units in Southern Europe. So it has turned into a very, very competitive market. Now the claims, let's call it restructuring that we have to do, has a lot to do with the restructuring methodology that you have to apply in Germany to large restructuring projects, where you have about one year of discussions with your workers' counsel. During that discussion and negotiation, you cannot approach individuals. So individuals are getting approached by other companies, so you lose good, seasoned claims handlers and managers. And that is something that we have to build up. It's doesn't work as fast as getting an underwriter up-to-speed to us coming from others and then so on. So again, it's not only claims. It's also very heavy expense load, especially on the sales side of -- we said we're going to address that as well. And then let's not forget we are looking at a company with declining volumes, we've lost about 1% market share over the last couple of years. Now I think with the product initiatives we have in place, with our distribution initiatives, we are addressing that in an adequate way. And maybe in more general terms, what sort of went totally unnoticed is that we have to sort of reposition the agency business after 2008, after the sale of Dresdner, quite considerably because at that time, we were implementing a bank agency model in order to drive frequency into the -- or contact frequency into the agencies. Now with the sale of Dresdner, obviously, that has changed. So we have to reposition the whole agency channel, which is still the major sales channel for the P&C business in Germany, but frankly, on Germany, under this contract. I think that's much easier to get back on track than any other OE. And I'm very, very happy with the turns we've seen in the French business, in the Italian business. They take a little longer because these entities are quite complex and large, but once you've started them, it's like a puppy. It will move and very, very hard to stop again.

**Giulia Raffo**
*Autonomous Research LLP*

A few questions. One, I was wondering if you can quantify the loss on the VA side in Q4 and if you can tell us what was policyholder behavior, what was volatility charge and what we should expect in 2012. And the second question, is it fair to assume that the nonoperating profit in a normal year should be roughly $1 billion negative? And my final question, if you can quantify the liquidity premium impact on your Life embedded value and if you can tell us what the new business IRR was.

**Oliver Bäte**
*Chairman of Management Board & CEO*

Liquidity premium impact -- and you always have, by the way, I believe, the right to be there. It's about $5 billion to $5.5 billion on the MCEV. The liquidity premium impact on the new business value is around $500 million. In terms of the VA legacy block is the -- you asked for the operating profit impact? Therefore the VA legacy block was $417 million loss for last year.

**Giulia Raffo**
*Autonomous Research LLP*

Excuse me? The $417 million is the full year or Q4?

**Oliver Bäte**
*Chairman of Management Board & CEO*

$417 million is the full year.

**Giulia Raffo**
*Autonomous Research LLP*

Can you tell us what was Q4?

**Oliver Bäte**
*Chairman of Management Board & CEO*

I'm going to look that up. For what do we need that? We'll give you a number later, Giulia, okay?

**Giulia Raffo**
*Autonomous Research LLP*

And what was the split of the $417 million, if possible, between...

**Oliver Bäte**
*Chairman of Management Board & CEO*

Sorry, Giulia, can we have these conversations offline to talk about the technicalities? It would be great. Oliver will be very happy to provide you any detailed number that you like to have.

**Unknown Executive**

Which Oliver?

**Oliver Bäte**
*Chairman of Management Board & CEO*

The Schmidt. And if that is not enough, I'll help.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

We covered all of your questions?

**Giulia Raffo**
*Autonomous Research LLP*

[indiscernible]

**Paul M. L. Achleitner**
*Member of International Advisory Board*

The split.

**Unknown Executive**

The normal level of nonoperating profit.

**Oliver Bäte**
*Chairman of Management Board & CEO*

I guess with the number that you expect, but to be honest, we do not give the budget, for example, for impairments beyond the certain level. So I guess EUR 1 billion, sorry.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Next question, Nick, unless there's somebody who hasn't asked a question yet. And we go back to Nick.

**Nick Holmes**
*Nomura Securities Co. Ltd., Research Division*

Just wanted to ask a bigger picture question, which is, where do you see Allianz in 5 years' time? And I'm thinking, well, in 2 respects in particular. One is growth. You said that growth is one of your concerns looking at recent performance, and one of your large competitors is targeting double-digit growth out to 2015. I wondered, is this something that you would see as possible with yourselves? I mean, you've got this big German P&C program, which could drive that. So firstly, what is your feeling about growth over the next 5 years? And then secondly, where would you like to see the business go in terms of product and geography?

**Michael Diekmann**
*Chairman of Supervisory Board*

Historically, looking back the last 10 years, I think it's realistic to look at the growth between 3% and 5% for Allianz. Now that is because we don't give any growth targets on the P&C side, I think, for very good reasons. We do have a couple of segments within the P&C where we do have growth targets, but that's more in key business like Assistance and [indiscernible], so we don't want to confuse our underwriters on that side. On the Life side, it totally depends on your bank insurance. I mean, all the swings you've seen are really coming from this part, I mean, this year, the special effect of our Japanese business. You see the swings are basically coming from our large distributors on the bank insurance side. Now that is also the least profitable business, so I'm really, frankly, not too worried about that. The only thing I'm worried about is when I have expense overruns on the Life side. I think that's very helpful to put on some volumes. I think the whole -- and that's not the first time I'm saying that. I think the whole bank insurance relationships need very clear commitment from both sides of both quality service levels, about margin levels and volume, and this is what I meant was restructuring bank insurance agreements, where I think, for instance, in Spain, we've done a very, very good job to do that. We are in discussions with UniCredit. I think we've done a good job on Commerzbank. So I think we are on good way there. But again, the volatility on top line in bank insurance will always remain if there's a competition on liquidity and saving deposits once in full onset. Now I think the Life business, especially in this situation, where, yes, there's pressure on margins, is very helpful for supporting your own type of distribution. I think that it really creates synergies and value. And we watch very, very carefully, line by line, country by country what is the contribution from third-party Life business. Now the -- where do I see Allianz in 5 years? I think I've always said EUR 100 million premium volume loss is so much switching and really driving the business where it's profitable and getting less pressure on growth in those markets where profitability is down. And it doesn't matter whether you have a EUR 110 million, EUR 120 billion book. If there will be an opportunity to get there, yes, we'll get there. If that is only at the cost set, a serious margin decline will not go there. Is that covering the question?

**Nick Holmes**
*Nomura Securities Co. Ltd., Research Division*

Maybe a little bit more quantification about the -- whether you see growth at the higher end of single digit? I mean, does that seem sensible to you with your business mix in a normal environment?

**Michael Diekmann**
*Chairman of Supervisory Board*

Definitely not. Because if you want to see -- if you look at the growth patterns -- I'll give you a couple of numbers. Look at the world market share of Allianz 2001 to 2011, okay? So the world market share in P&C has gone down from 3-point-something to 3 point. On the same time, the life world market share has increased from 1.9 to over 3, yes. So that's the trend in the book. Now if you go back to one of my first charts, we are very much managing this company now for cash proceeds. So we are putting more emphasis on the P&C side and on the Asset Management side, yes, which I think is the right thing to do. So we are rather on the control side for Life growth. Our Life growth over the past 2 years has been double digit -- low-double digit. I think that was an exceptional situation for Allianz, because the real growth is coming from a couple of markets, especially on the emerging markets side. China is one where you see double-digit growth. Our representation in China is minor. So even if we are 50% growth on the Life side year-on-year, that doesn't change the needle.

**Nick Holmes**
*Nomura Securities Co. Ltd., Research Division*

So just to conclude, in terms of product mix, you would see a significant shift towards P&C over the next few years?

**Michael Diekmann**
*Chairman of Supervisory Board*

Well, what is a significant shift there? I mean, we are pretty much on a 50-50. We've been -- maybe we've moved that from 60% P&C, 40% Life when I started, and now it's more the other way around. But if we can pursue organic growth on the P&C side at profitable terms, that would be our preference.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Brian?

**Oliver Bäte**
*Chairman of Management Board & CEO*

And I'm sorry, can I quickly answer Giulia's question, because I haven't forgotten. Because you asked fourth quarter, and I understood. That is in U.S. dollars, $276 million was the total VA loss for the fourth quarter in dollies. That is, not Europe's.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Brian?

**Brian Shea**
*BofA Merrill Lynch, Research Division*

Two questions please. The first one is just on the investment margin part of your life insurance earnings. You've shown us slides where you compared the current yield to the minimum guarantee, which is -- it's very useful, like -- particularly from a risk standpoint, but it doesn't really help figure out how much money you'll earn. And so the question is how do the -- the way in which your current yield will progress compared to the way that you're crediting rate will -- sorry, the question is how your crediting rate progressed? What is your ability to bring that down, or to bring it down? When I say ability, I suppose I'm speaking mainly from a marketing standpoint. And what does that mean for how well the investment margin for the shareholder can hold up? That was the first question. And then secondly, on non-life pricing. Oliver, the slide you showed, if I read it correctly, you achieved a 3.1% price increase last year, and you're targeting 2.8% for the coming year. I think there's a number of examples of markets out there where price momentum is improving. I guess there must be some market share where price momentum is decelerating so that your overall expectation is down in 2012. Or maybe you're just being conservative. Can you just elaborate on why your own pricing is decelerating in the coming year?

**Michael Diekmann**
*Chairman of Supervisory Board*

Well, Brian, obviously, on the crediting rates, we have all flexibility because that will move to volumes then out the next year. I mean, all I tried to explain when Nick was asking for growth, we are not very keen to write a lot of new business when margins are unsatisfactory. I think the situation in Germany is totally different because there, we have an additional competitive advantage, which is a very low expense. Yes? By the way, this is what we measure market-by-market, how much room do we have on the crediting rates because of our low expense in the system. Now the -- if you have followed, for instance, the German situation, we have never been at the top of creditors. Never. And still, the market share has increased by 4 percentage points, which I think is more related to brand and security than to are you crediting 4.2% or 4%? So we've learned that. And I remember when I took over in 2003, that we were talking a lot about crediting rates, and I went to Stuttgart and ask my friends, are we a mutual or are we a shareholder company? And if you look at the profit development from there on, it's showing pretty clearly that we've sort of found a balanced way how to include our shareholders and our policyholders. So short answer to your question, I think we have more flexibility than anybody in the market when it comes to crediting rates, at least in Germany. That does not apply to each and every market here. We've got these -- so I have a little chart here that is 2011 and 2012. I don't think you have that. But you see, the good news on this one is there's very little red and a lot of green. So the overall pricing trend for 2012, we see in the range of 3%. And it's a little heavier on the personal line side than on the commercial side. Now outstanding again are our Anglo-Saxon markets, was U.K. and Australia. Very, very strong in France and in Germany as well. And the only -- there's only 2 countries where we have slightly decreasing prices or rates: that is in Italy on the motor side, where we've taken a lot of price quarter-on-quarter over the last 12 quarters and where we have a high profitability; and the slight decrease on property and liability in Spain, where the market is just turning to be really, really competitive on this one. But again, I think we have the highest profitability in Spain. So there's room for it to develop. So we basically looking at 2011, 2012. I think with the exception of commercial lines in the U.S. and large industrial books that are not exposed to cat risk, everything else is hardening. So we finally see what we've been waiting for, for quite some time.

**Brian Shea**
*BofA Merrill Lynch, Research Division*

Can I just follow up on the -- so back to the first question on the Life margin. Should we then assume that going forward, over the short to medium term, that your Life operating profit can grow in line with your Life AuM? Or should we expect to have some natural drag on margin because of these lower interest rates?

**Michael Diekmann**
*Chairman of Supervisory Board*

I think you should expect a drag, yes? But I don't think that, that's significant. In the end, the capability of that book to produce shareholder profits, even in this environment, is quite exceptional.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Questions. Andy.

**Andrew Broadfield**
*Barclays PLC, Research Division*

Andy from Barclays again. I wanted to understand a little bit about your thoughts on -- I'm trying to square away your thoughts on scale and your sort of industrialization of many of your businesses with your limited ambition for growth on P&C, this is. When I say ambition, your limited focus on growth targets in P&C. And then squaring that away with -- there is clearly pressure for a number of your competitors, a number of your key markets. Now your scale advantage is really emphasized or accelerated if you grow, because your fixed cost basis is leveraged. Yet, if you're not trying to put that pedal down, particularly in those markets where you've got competitors on their -- nearly on their knees, at least, then is that just a missed opportunity? So how are you thinking about that? Are you targeting certain markets? Clearly, Italy is an interesting one in that context, and 1 or 2 others. How are you thinking about taking those advantages, bearing in mind you arguably are suffering on the other side, in the U.S., from some of your actions that you've taken on expenses and profitability.

**Michael Diekmann**
*Chairman of Supervisory Board*

Maybe we have a misunderstanding here. We don't have a limited ambition on the growth side in P&C. What I'm seeing -- I think this was 25 years of experience. If you give growth targets to your P&C businesses, you will suffer badly a couple of years later, no question. Now as I said, there are a couple of business lines that we find quite interesting, where we do have growth targets. The expense synergies, I have mentioned, except when we look at P&C opportunities, we will look at them more from an expense synergy point of view than from a growth point of view. So in a way, I'm just circling back to you and saying the same that you did.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Fabrizio.

**Fabrizio Croce**
*Kepler Capital Markets, Research Division*

Back again. So on the M&A question that Andy already poised -- I mean, you have this growth problem, and the growth problem could be solved in 2 way: organically, which seem difficult for Allianz for the time being; and the second one is, of course, through acquisition. And then the story with the conservatism. I mean, in the past, Allianz did acquisition at some 1.3x, 1.6x, even at 2x book value, and this was not enough conservative. And then, these days, we have actually distressed assets, which are trading at 0.2x, 0.3x book value or tangible. And then if -- even if we would reserve this asset, we would end up maybe at 0.6x, 0.7x. So my question is, where does conservatism stop? And where does fear actually block action in some sort of irrationality?

**Paul M. L. Achleitner**
*Member of International Advisory Board*

The good news is you'll have a new guy or a new lady in charge of M&A. So therefore, that points to opportunities.

**Michael Diekmann**
*Chairman of Supervisory Board*

No. And I would answer that in a different way. You show me one asset that, after getting the reserves in place, comes at 0.6x net asset value, and you're on. Show me one. It's very nice to sit at that side and come with, there are targets out there at 0.2x book, da, da, da. Unfortunately, these targets only exist in the fantasy and not in reality. Or they are not clean targets. Then we are not talking about P&C, then we are talking about the combined book of Life and P&C way. You may have a great P&C opportunity and a very shitty opportunity from the Life side. And so...

**Paul M. L. Achleitner**
*Member of International Advisory Board*

That's a technical term.

**Michael Diekmann**
*Chairman of Supervisory Board*

And let me come back to another point that I'm always making, the history of Allianz M&A buying high and selling low. The only 2 acquisitions that we've made at very high prices and maybe bad timing was Italy and France. Now Italy and France had a totally different M&A background. The M&A background was to get minorities out who are blocking all activities that we needed to get our global business model in place. Now we would not see an AGC&S business without having bought out these minorities, yes, because it meant lifting out parts of the book. We would not see an AIM today. We would not see a reinsurance operation as we have, and we would not see a lot of other things, platforms and blah, blah, blah, because we were totally blocked in every global activity by so little minority things. Now one could say you could have managed your business without getting Italy and France involved, but unfortunately, a lot of the other operations were indirectly helped by these minorities as well. So our Spanish business was 1/2, 1/2. Our credit business was 1/2 Allianz and France, and so and so. This was a precondition to be solved to create the Allianz as it is today compared to the one that Paul has referred to, sort of conglomerate of loose affiliates who are only coming to Germany to suck more cash when needed. I don't think that it's very fair point to make to always come back to these 2 acquisitions. Now I would love to talk about the acquisitions that we've done in Australia, which is one of the real great assets today. That was a very underperforming company as well. We did great acquisitions in the U.S. with the book -- marine book that is now part of the AGC&S. So I think this sort of singling out these 2 acquisitions and maybe another one that was another segment is -- maybe we should bury that in the past and now judge management on the new acquisitions we are doing.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Down. Robert? [ph] We'll start with you or -- Atanasio. Okay. And then...

**Atanasio Pantarrotas**
*CA Cheuvreux, Research Division*

Yes, one question. Atanasio Pantarrotas from Cheuvreux. One question regarding your capital position. You showed your solvency ratio according to the Solvency II calibration, and I wonder if we must consider this one as your new target, new -- sorry, new framework? And I wonder what is your target in terms of solvency capital. I don't know if it is according to Solvency II or your internal economic solvency capital. And the second question, regarding the Solvency II final outcome, what is your feelings about the final outcome in term of time table, in term of final rules regarding, for example, liquidity premium or an inclusion or not of the value force capital.

**Oliver Bäte**
*Chairman of Management Board & CEO*

Let me do it very quickly. We are doing further changes to the internal model in the first quarter of 2012. A number of things will come on that will both increase and decrease some of the solvency components. So we are not final yet. And we're steering our risk capital on the model. We're looking it as a risk management tool, but we are operating under Solvency I, and that's the boundary condition for now. Yes? And that's the one that matters most. And before we see, finally, Solvency II implemented whenever that's going to be, '14, '15 or some day later, we'll know. In the concrete question you had around what the final rules will be, they are all up in the air. As you know, the industry is negotiating with the parliament that's now on stage and the Commission in order to propose a countercyclical premium and a, what we call, SAM, a spread adjusted mechanism, both at the same time, in order to reflect appropriately the illiquidity of our liabilities and the appropriate matching on the asset side. What will come out, we don't know. At the moment, there's a little bit of a mess between the commission, IOPA and the parliament. We will see at the end of March. March 21 is the expected reporting date from the parliament, and then we will go into the trial lock that will begin before the summer. It's unlikely to be finished before the summer, so we'll probably have to wait until year end to get a view on the Level II rulings. And by then, we will know the vast majority of the items. Unfortunately, I cannot tell you it's clear. Unfortunately, there is a lot of movement. Now the key items that are being asked is, again, how do you model the illiquidity and how do you take care of the fact that when many of the enforced books were created, there was no saying that you should account for government spread risk, which we don't do in the standard formula, as I mentioned earlier. But in the internal model, certainly it is part of the AFR computation, available financial resources, because the assets get discounted at the actual spreads. So you already have it in there. And people say, there is no accounting for government risk. It's not true. It's already in the AFR calculation.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Robert? [ph] Could we give a microphone to the gentleman up here? The one with the discrete tie?

**Unknown Attendee**

Yours' red as well, for God's sakes. Yes. Just in terms of -- with you moving to -- this is for Paul -- to the Deutsche side, are you going to be able to sell assets at a cheaper, more favorable price in terms of the -- that you're suggesting earlier on? And is there any increased potential of cooperation between the two of you? And secondly, on the Hartford. As a shareholder, what is your view on the current fun and games going on there in terms of shareholder activism? And then there anything in the relationship or in the, basically, agreement with you 2 that prevents getting involved, and just your views on what's going on there.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Robert, I don't think both of them are very serious questions that you asked, okay? The first one certainly isn't, okay? And let me also simply point out that I am under consideration to be elected Supervisory Board Chairman and not to run the bank, leave alone all the other aspects that you just mentioned. And secondarily, Hartford, as you point out, is a life situation on a publicly quoted U.S. company. So you do not really expect us to comment on that. Hate to disappoint you.

**Unknown Attendee**

Right. I'll ask a serious question then.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Please. Can we give him the chance?

**Michael Diekmann**
*Chairman of Supervisory Board*

We're waiting for a real question.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Here it comes.

**Unknown Attendee**

How much -- how long -- I gather the mismatch, in terms of the duration at the moment, using up about 1 billion to 1.5 billion of capital. How do you -- over what time do you think you're going to look to address them? I had a word with Tom earlier, but basically, how would you look to address that? And over what time period would you be looking to address that? Is that more serious for you?

**Paul M. L. Achleitner**
*Member of International Advisory Board*

That's a more serious question. I think, first of all, you have to ask yourself the question if that is the meaningful allocation of that capital. Because I don't think it's a question of just simply deciding that you eradicate that and, therefore, the capital charge goes. It may actually be an investment decision to stick with some of that on the risk/return type of consideration. So I don't think this is a automatism. And I'm not saying that our direction is not, okay, to actually move into a duration matched-type of situation. But depending on what kind of product you have, that may not be the optimal value proposition, and you then simply have to take the capital charges into account when you actually make your calculations off the product or the product features that you want to have, for example, in the Life side. So I don't think there's an automatism to that, okay? And I think the other aspect that I'd like to highlight is that if you actually have, "erratic short-term changes," as we are indicating here in terms of swap rates simply changing, then that doesn't automatically mean that you're going to throw the switch from day one, okay, because that may change tomorrow, 0.5 year from now, while you're actually talking about value propositions that have a multi-year type of investment horizon and planning horizon. So I'm afraid there is no easy answer in terms of how quickly is it going to be eradicated. It is clear what the direction is. That aim is working out together with the Life operations because it's particularly a life mismatch type of thing. And Oliver, of course, in this case, Bate is on the case of everybody to minimize the regulatory capital requirements on this, rightfully, as it's his job. But the real question is, what's the right trade-off, and where do you best allocate the regulatory capital? And at the very least, it's a meaningful discussion to be had, rather than automatism that says, give it up. Jean-Francois?

**Jean-Francois Tremblay**
*RBC Capital Markets, LLC, Research Division*

Jean-Francois Tremblay, RBC. I think you've acknowledged the pressures on Life operating earnings for the next few years, since we can expect stable earnings at best. Considering the limited growth opportunities in P&C and the fact that we're potentially at the peak in your fixed income cycle and costing us net contribution that's doubled from your asset management business to total operating earnings, how confident are you, and what makes you confident you can deliver earnings growth over the next few years?

**Michael Diekmann**
*Chairman of Supervisory Board*

Very confident.

**Jean-Francois Tremblay**
*RBC Capital Markets, LLC, Research Division*

And what makes you confident?

**Michael Diekmann**
*Chairman of Supervisory Board*

Well, I gave you the explanation already. I mean, at our outlook, I was talking about the potential in P&C. I was lining out the potential on 2014 on the German business, for instance. And I think we've given quite an attractive outlook for the Asset Management business. It was being a little cautious about the performance fees. Yes? So I don't think -- I think it would be a wrong impression if you take out of the meeting today that we have a growth problem. We'll never have a growth problem. If you want us to grow, we can grow as fast as you want to. We can be $150 billion company within 2 years. I think it's very prudent that we don't have this target in this period of time. So I'm not really getting the notion we have a problem in growth. We are not really ambitious on the growth side. Growth, we can deliver as much as you want to. Earnings growth, you were talking about? I pointed out earnings growth is going to come very clearly from the P&C side. Very clearly.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Vinit?

**Vinit Malhotra**
*Goldman Sachs Group Inc., Research Division*

Vinit from Goldman Sachs. Just 2 qualitative questions. Now on this slide, which is C9 from Paul Achleitner, the 65% coming from the asset management or investment income side, I'm just wondering how much do you think the impact has been from ownership of an asset manager. So were you not -- I'm not asking the question that you hear once. I'm not asking that question. Just wondering what is the benefit of owning an asset manager? Would this number look like significantly different? Slightly different? And this is more a qualitative question, and I'm not asking whether you're going to sell or not. The second thing is that you've -- you very consistently communicated on commercial versus personal, and your preference is very clear. Now in the last few months, in the U.S., for example, there has been some upward pricing. Is it just your view that it's not enough and that's why you're not looking in that? Or is there something else there?

**Michael Diekmann**
*Chairman of Supervisory Board*

What we've seen in the years is clear pricing or rate activity on personal lines business. And on commercial, if there's a cat exposure, yes, but not on the normal commercial business, which I think is at least in that price by 5% plus. On the benefit of owning an asset manager, I think it's a little difficult to say. But I would apply at least a 10% of our investment results to having been booked.

**Andreas Schäfer**
*WestLB AG, Research Division*

Andrea Schaefer, WestLB. I just want to come back to the German market. I mean, you made clearly that you have a very competitive advantage in life insurance, and this pays off in increasing market share and very good earnings. I think on Page A20 you have a very concrete outlook and very ambitious outlook, in my view, for the non-life market. I think the first question is do you agree that some your competitors, especially the one in Northern Bavaria, have the same competitive advantage in non-life than you have in life? And the second question on, I think, the combined ratio of 95%. And what does it mean for the market, how much has the market to improve?

**Michael Diekmann**
*Chairman of Supervisory Board*

The's competitive situation under life side is probably working better in our favor than on the P&C side. You're right, because here, we are the clear market leader. And our respect on the brand and solidity comes more than under P&C side asset advantage. I'm not so sure whether this competitor that you are talking about is really in a situation where we can't catch up. I think we've made a lot of improvements in our systems. And I think we have come to terms with the direct approach. We are still careful, because we don't want to grow into a channel that still doesn't have the profitability, at least in Germany, of the other channels. And certainly, we'll need a market recovery in Germany. If you look at a German motor, result of 112 combined. I think that has triggered the pricing activities in all -- with all of our competitors. So clearly, the 95% needs a little drive from the market as well.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Third round, Andy?

**Andrew Broadfield**
*Barclays PLC, Research Division*

Very quick ones, I promise. Andy from Barclays. Just on the capital, 2 questions. One is on the investment and particularly, the alternatives and the capital charges, which I think you rely reasonably heavily on internal model charge calculations versus a standard model under Solvency II, which really makes them quite an attractive asset class. Just trying to think, if you would put yourself in investor shoes and -- as an investor in Allianz's shoes, particularly, and how you look across the insurance sector and you see the unleveled playing field between who can charge what for what it's sort of investment, how do you think we should think about this? Because you can invest in wonderful and probably right -- well, I believe, right infrastructure deals to match your liability payouts. But for us looking in, you can. Another guy can't, because he's using the standard model or is using an internal model that disagrees with that. I'm not quite sure how we should think about that as in terms of the risk/reward on those investments. That's the first question. Second one is you've done a model on the sensitivity to interest rate moves and equities combined on your economic solvency, which takes an -- if it was economic solvency, takes that into 138. And I was just -- we had another -- one of your competitors did a similar thing and frankly, it was in a slightly different scenario, but they went past it in the second half. There's was nothing like as bad as a scenario they had modeled. So I was just trying to get a sense of your feel, how comfortable you are that economic sensitivity model would actually work in that scenario, given this numerous other variables you have to consider?

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Before I let Oliver Bäte answer question #2, I'd like to assure the risk guys in the room that I did not ask Andy to ask this question in terms of how to look at the alternatives and the capital charges and risk charges associated with that. But I have to admit, it is a little bit of a hot button. And let me tell you, we're at least -- personally, I stand on this not to say that I ever got away with it with the risk guys. But it's something that I think one needs to think about. If you actually look at these "capital charges" that are being applied, then you can ask yourself why -- if you compare public equities and, for example, private equity -- why is it that public -- that private equity should receive a higher charge than public equity? And the answer that people will you is because illiquid. Okay? And therefore, it is quite appropriate to have the higher capital charge. That, of course, is an answer that is absolutely true if all you look at is a trading book of a bank, for example, where the question of having to liquidate on day 1. The very essence of the investment model, often insurance company, is that you actually have a large investment portfolio and a large and long-term investment horizon. So if I actually hold 90% of that portfolio in fixed income, liquidity is not exactly the prior -- the primary concern, okay, in terms of having the ability of pay something off, because by the time that I get to the question on having to, "liquidate out of necessity," a private equity holding, all kinds of things have happened before that make it very unlikely that I have to get to that, "risk layer" in my portfolio to be liquidated immediately in today. So I, therefore, would argue that the internal risk model that actually takes the specific situation off that very liability-based, long-term investor called Allianz into account, should take -- should reflect that and should actually enable us to invest in those assets. Footnote: of course, the individual pick of the asset needs to be a good one, and the investment decision needs to be a right one. But we're talking about the general asset or a capital -- risk capital allocation. And therefore, I would maintain that illiquid alternative assets have a very important role to play in a long-term portfolio of an insurance company such as Allianz in light of the portfolio that you actually have and the liquidity fact, or the liquidity characteristics of such a portfolio. Unlike what the standard model would suggest, which, of course, looks at a private equity investment on a stand-alone basis and says, whoops, this is equity and illiquid on top. Very, very difficult, very high capital charge. But that's one man's view, and my guys on the risk side have a lot of fun debating that with us on an ongoing basis.

**Michael Diekmann**
*Chairman of Supervisory Board*

And maybe I can make one comment that's right. We distinguish between what we call a strategic asset allocation where we would like to be and tactical asset allocation where we are forced, more or less, to be and what are the degrees of freedom that we give Paul for alternative investments. Now -- and we've said that before as well. I mean, this is very much the question of political will. And we are spending quite some time with government, talking about all the consequences of Basel III, Solvency II rating models. Very important because it doesn't matter if we have an internal model and the rating model is different. And they don't approve our internal model, then we'll have to take into consideration what is the business model change from the rating point of view. But we are very active in lining and pointing out to governments what are the refinancing needs? What are the financing needs on infrastructure, for instance, going forward? What is the capacity to finance? Where does it come from? And in the end, they will have to make a couple of political decisions as well to drive the regulation in the way that they think fit. Now it's not, in the end, only regulation and the rating agencies. It's also accounting. But we frequently heard from -- back from the accounting boards, you know that they don't feel responsible for the economic impact. So it's, right now, quite an interesting conflict and one that gets sort of mirrored in the company when we talk to our risk managers. And I would give them all the credit for holding up and saying whatever and not what is likely to be. That's the situation. But I think we're going to see movements on the regulation.

**Oliver Bäte**
*Chairman of Management Board & CEO*

By now, I have forgotten the second half of your question. Would you repeat that?

**Paul M. L. Achleitner**
*Member of International Advisory Board*

The sensitivity.

**Danny Jacques**
*Raymond James Euro Equities*

The sensitivity doesn't make sense to economic solvency.

**Oliver Bäte**
*Chairman of Management Board & CEO*

Of course, it makes sense, otherwise, we wouldn't have it. And we're really looking at that. If you actually look at what last year -- we've set out -- when we talked in the second quarter, and let me remind you, I gave you these -- and with the help of some capital market experts who always look at this weekly and the probability of that combined scenario happening was around 17% as priced in the day for the combined scenario, and it turned out to be for real. So we have obviously planning with certain confidence intervals, and the second one is we are obviously planning for when the event happens, how do you protect yourself in the tail event. So therefore, this number gives you only an indication of which risks we need to manage, and that has 2 components. One, how much leeway do we have if the situation happens? Because we'll obviously not be sitting then, waiting for it to happen. We'll be reducing equity exposure, and we'll be addressing the risk once the market turns. So sorry, it's a risk, and it's a great risk management tool. We need to watch it, and we need to work on it. And the issue is, again, having enough levers in your hand to address this. So for example, if we haven't really addressed the interest rate position early enough, it doesn't make sense to buy a lot of swaptions when you might find out that your counterparty will not be around to settle a swaption at the time you need it, number one. And by the way, the instruments need to be available. And the second one is on the equity side. You also need to move and need to be able to move. That's why Michael mentioned that it's very important on the financial stakes that we have, that we can either hedge them or we can adapt them to whatever our risk appetite and our risk capital is. And also, we are working on both and are monitoring it and being able to move. By the way, many can't move. We can move.

**Paul M. L. Achleitner**
*Member of International Advisory Board*

Other questions, or we should open the tabs on the beer? Later, we should open the tabs on the beer. Ladies and gentlemen, on behalf of all of us, thank you very much for coming, and thank you for continuing to be Allianz investors, even more so than in the past.

**Michael Diekmann**
*Chairman of Supervisory Board*

See you next week.