S&P Capital IQ

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Allianz SE DB:ALV

FQ2 2011 Earnings Call Transcripts

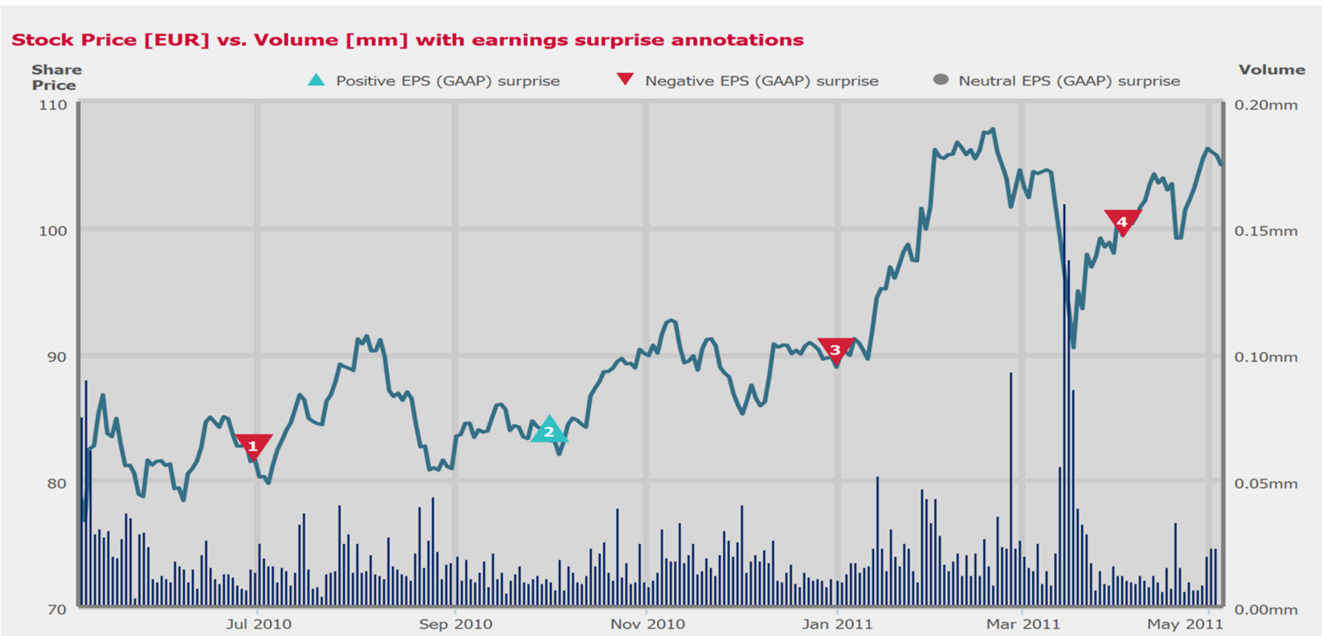
Friday, August 05, 2011 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2011-			-FQ3 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	2.57	2.17	▼(15.56 %)	3.43	11.33	12.88
Revenue (mm)	24360.25	24600.00	▲0.98	21504.30	101363.06	108062.76

Currency: EUR

Consensus as of Aug-05-2011 12:36 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2010	2.50	2.21	▼1 (11.60 %)
FQ3 2010	2.72	2.78	▲2 1.83 %
FQ4 2010	2.62	2.49	▼3 (4.96 %)
FQ1 2011	1.99	1.88	▼4 (5.53 %)

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Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Allianz conference call and financial results for the second quarter of 2011. For your information, this conference is being recorded. At this time, I would like to turn the call over to your host today, Mr. Oliver Schmidt, Head of Investor Relations. Please go ahead, sir.

Oliver Schmidt
Head of Investor Relations

Thank you, Annie. Well, good afternoon, ladies and gentlemen. Welcome to our conference call about the results of the second quarter 2011. As always, Oliver will present the facts and figures to you, so let me directly hand over to him.

Oliver Bäte
Chairman of Management Board & CEO

So thank you for attending today particularly given what is happening in the markets. The timing couldn't be more exciting. I have had some feedback and collect some feedbacks on how we should conduct these calls particularly given the environment, we'll try to be very pointed and brief today in order to allow time for questions. On the questions side, I'd also like to focus on short and precise answers. Longer debates around technical items, I will direct to Oli Schmidt. His team will be very happy to support you.

And with that, the usual sequence going through the deck and that you have received this morning -- be able to look at first, going through the highlights and group results then touching as usual on P&C, Life/ Health and Asset Management.

Now starting with a summary, I'd like to point out a few items. The first thing is we believe that the quarterly operating profit with EUR 2.3 billion is a very good result, particularly given the challenges that we are facing in the markets. And Asset Management and P&C in particular have performed very well this quarter and are on a very good track for a successful 2011.

Life and Health, with an operating profit of roughly EUR 700 million and new business margin of 2% is doing fine particularly given the write-down we have taken on the Greek debt and we'll probably spend some time today to discuss this. I will not preempt any questions but give you a few details before we get to the Q&A session later.

Net income is lower because of the burden of EUR 326 million from the impairment on the Greek sovereign bonds, but also because we have, as last year, refrained from realizing gains artificially in order to support net income. And that is an important thing to note. We also don't need that because our capital position remains strong. I will talk to you about what has been driving the various numbers. But we're very happy, both on the notional amount, of course, and the conglomerate solvency but also the internal solvency number. There appear to be some questions about how the numbers have worked and again, I'll happily address that.

Page #4 gives you the usual quarterly results overview. Just on the revenue side, I comment the 3.2% number doesn't look too attractive relative to EUR 24.5 billion. The reality is 2/3 of that number influenced by the deteriorating U.S. dollar-euro exchange rate, so it's 90 basis points below a very high prior year number. And I'd also like to point out again that we have had EUR 1.1 billion net income before minorities despite EUR 326 million in Greek sovereign impairment, which we've been taken fully and consequently across all maturities of our portfolio, which is different to what others have done.

Now capital position, Page #5. I didn't understand really the estimates and I'd like to go through the number a little more in order to explain what has created the movement. The difference between the EUR 43.6 billion and the EUR 42.6 billion are as follows: We've recorded EUR 1 billion in net income, unrealized gains are up EUR 281 million. But we've paid dividends of EUR 2.03 billion and had a negative foreign exchange effect on the quarter of EUR 135 million. That creates the majority of the effect. And we had around EUR 195 million other effects. Some of that is shadow DAC in the U.S. You've known these things. If we have unrealized, they are shadow DACs just tacked onto [ph] equity. But they are within the normal fluctuation, and then I'll explain that. We believe the position is still very strong as you will see in the second -- actually unrealized gains have increased EUR 281 million. That is not the case in many other balance sheets.

Conglomerate solvency, I will not touch. Let's move to economic solvency on Page #7, please. The ratio is up, and let me explain what it is because there were also some misunderstandings based on the comments I've seen this morning. By the way, that's a good service also, not just for investors but for me because I didn't understand where the questions are coming from. Available financial resources up EUR 1.7 billion, something to do with how we project interest rates. Some of you only look at swap curves, we also look at forward rates. The reality is higher very long-term rates and reduced interest rate, [ph] particularly in our German vocab [ph] increased available financial resources by EUR 900 million.

And if you deduct the accumulation for dividends from net income, you have another EUR 600 million lift. This capital is down EUR 200 million. We have market risk decreased by EUR 800 million, and we have an update on our P&C assumption that increased risk capital by EUR 600 million. We always do reserve reviews in the second quarter. Based on that, we update the assumptions and we have therefore increased the P&C market capital requirements -- actually, our risk to be precise. And we do that every year so there is no sudden movement here. It's totally normal. I'd also like to say the reserves reviews have shown that we have a higher net reserve margin than we had before. So our reserves are very strong and actually going up further.

Now quarterly revenues on Page 9. P&C internal growth number 90 basis points down relative to prior year, most of that in Life and Health -- minus 5.9%. Very, very strong growth in Asset Management, almost 22% and 3.7% in P&C. That's by the way, both price strength and volume growth in the portfolio. Very, very good results in the quarter.

Now operating profit development. You see on Page 10, Property and Casualty and Asset Management again significantly up. Asset Management, you don't see that really because of the movement in the U.S. dollar. I would show that to you later. The adjusted FX effect on U.S. dollar in the quarter was EUR 59 million, so the number would have been more like EUR 600 million. And that's already understated because we have significant one-off investments in the quarter so Asset Management continues to power ahead.

P&C is also doing well, as I will explain to you later. The Life and Health number is not just impacted by what we've taken on the Greek sovereign bonds. The EUR 76 million are the few technical adjustment that are one-offs in the quarter. On the year, we are on target to reach the upper end of our outlook for Life and Health with EUR 2.8 billion. So please bear that in mind.

Non-operating items on Page 11. As I said before, lower right-hand corner. First, the net position on gains has increased relative to the end of the first quarter. And this is despite taking out the impairments and unrealized gains and losses on the peripherals. Let me repeat that. The net unrealized gains position for Allianz went up despite taking out the unrealized losses on the peripherals and we therefore, keep our powder dry for the future.

You see the movement relative to the prior year in the table on the upper right-hand side. As expected, the realized gains from equities are down. Last year, we recorded EUR 115 million gain from the sale of ICBC shares. We still have some left for the rest of the year. I'm keeping that in [indiscernible] Debt [ph] security is moved. That is the second line on the impairment side from minus EUR 24 million to minus EUR 366 million, reflecting the Greece write-down.

By the way, we treat impairments as realized losses because we don't want to assume that there will be any improvement in values anytime soon. And that's different from what others do. Now a couple of comments that you probably have questions on later, the most important one is acquisition-related expenses are trending down. We have only 17,000 B-units left, down from 31,000 a year ago. And therefore as expected, our expenses on that are going down.

This is by the way also, and I would hit that later, driving net income from Asset Management up significantly as promised. Interest expense from external debt is going up. It has something to do with the debt bed [ph] we issued -- by the way, just in time, as one would now say; both the CoCo and the subordinated debt, perfect timing. Actually, it's a strength in our capital base.

Now Page 12 gives you the gross and net effects on the Greek impairment. We'll probably talk about why is the accounting effect -- or why does the accounting effect look so large in terms of the net versus the gross. There are 2 things to be borne in mind: The first one is the special situation in Greece where we have a Life and a P&C insurer. This is the life book that is being affected. It's a composite. And the French book, in the French book, we have a special accounting position called reserve to cap and it's translated into IFRS equity. And therefore, changes will happen through net income. That's different to other competitors that do not report their number in IFRS.

Now the Greek situation is very simple. There's very little policyholder participation because the difference between the gross earned yield and the net yield that is guaranteed is by now very small. And secondly, there's no capital gains tax. Therefore, the hits that we take don't get a tax shield. That's the first effect.

Second one is on the reserve. The cap net [ph] I will mention have been various ways to account for that. You'll probably ask me about that. The only thing I'm going to say at this point in time is we have written down all maturities. Written down all maturities, and maybe I'll give you a 2-minute rundown on how we have been booking the Greek losses. So I can not just preempt, but address some of the questions that you may have.

The first thing is as compared to others, we're holding all of our sovereign bonds on the Greek side in the available-for-sale category. Therefore, as considered impaired, we've written them down to the current value at the end of June for all maturities. A number of companies have elected to only write down until 2020, that's typically between 50% and 60% of the portfolio, but not total. And the value hits, given the NPV effect on the longer duration maturities can be particularly high. That's why numbers are different.

The second thing that is really important is what people write down to on how they do that. As I mentioned, we really written it down to market values at the end of June without any exception or assuming any participation of policyholders beyond what we can immediately push through them. Some people have elected to take different accounting option in the hope of being able to participate policyholders later.

And the last item that I would like to mention is again that we'd like to treat losses and impairments on bonds and funds exactly the same way. If we had used another form of interpretation, the net impact would have been already EUR 23 million less. We believe that transparency is extremely important for credibility and we've taken the most conservative approach. If we get positive surprises throughout the next month in terms of things settling as promised, we're happy to take the revaluations upward.

So that's the short description on France and we'll probably have more discussions on sovereign debt going forward.

Now Page #13 give you an overview of picks with one eye. [ph] Basically, I'd like to reiterate a few points. The first one is the government bonds portfolio on the 4 countries: Spain, Greece, Portugal and Ireland are 1.8% of the total fixed income portfolio, which is a subset of what we do. So on everything that we hold, it's a fairly small number.

The table then shows you the gross exposures and you see that the largest position of those is in Spain with EUR 5.1 billion. The unrealized loss on this position gross is EUR 280 million and the unrealized loss net as shown in the OCI, which means we do not assume a default, is EUR 72 million. Very important to understand these numbers. And even if we have to take this off, we still have, as I said before, unrealized gains on the bonds of EUR 2.4 billion -- only the gross number is actually EUR 3 billion. So that's already eliminated, so we can take a few of those hits.

Now the question will be what is your exposure? On Italy, you have it in the number. It's gross EUR 29 million; unrealized loss of EUR 718 million; and the OCI position is EUR 109 million. And I just have a general comment. Despite all the panic, even if we had to take a haircut of 10% on these things, it wouldn't cause us a big headache.

And I think it's very important that we bear this things in mind. We have significant unrealized gains. We have enormous policyholder reserves in the group to deal with at a double-digit billion. Hence, despite the panic out there, we'd like to get a little bit of perspective when we discuss these items.

Now net income is Page 14. That's lower than what many of you had expected because I don't think that people had expected us to take the Greek hit down to the market value. Therefore, the number net of non-controlling interest is EUR 1 billion.

Let me move on to P&C and directly hit Page 17, please. The revenue split. As I've said before, internal growth of 3.7%. 1% is higher prices for this quarter and 2.7% higher volumes. The right-hand side shows you a few effect. As somebody noted this morning on the journalist side, we have for the first time since 2006 actually net revenue growth in Germany. We are growing in France again. In Spain, we're growing despite that market turmoil. In AGC&S, the United Kingdom is strong in credit insurance because of actually customer demand. We've reduced prices here to build market, to market Australia and many other places.

We have been cautious in Switzerland and particularly in the United States, where the market is still in horrible shape, particularly in commercial lines, where we need to watch it. And the reinsurance result is basically affected by the end of the Munich recorded share that impacts revenues relative to prior year.

Operating profit all levers up on Page 18. Let me move on to 19, where you see development of the combined ratio for our most important units. And despite the fact that we have 1.8% NatCat this quarter, which is within the normal parameters of 2% to 2.4%, some of our businesses have significant NatCat effects. That's why I've listed them here.

The largest was actually in the U.S. All of the horrible things you've seen on TV, just 9 points there. We've also strengthened results in the U.S. given the environment in the market. Australia had some -- and in particular, AGC&S and reinsurance are getting hit again this quarter. That's what they are there for. They still have very good numbers to be shown here. AGC&S also is benefiting from a number of run-offs of large claims in the past, and that explains the lower combined ratio in this quarter. Germany also had 2.4% and there will be more, given the July hailstorms.

Now despite all these things, we had a 95% combined for the quarter. Again let me repeat, we had not 80 basis points but 1.8% NatCat. There were a few miscalculations out in the market, that's what I'd like to point out. In total, in the first 2 quarters, we had EUR 1 billion of NatCat losses that we have addressed and we are producing these results despite this very, very high loading on NatCat. The conservative reserving approach that we've been taking both against NatCat and crisis-related claims is really paying off here. That also explains the still somewhat higher run-off.

Let me hit to Page 20 because that's probably, for the P&C segment, the most important page. What you see here nicely that our profit improvement programs that we set out in 2009 are continuously paying off. The accident year loss ratio, that development for the 9 quarters you see including and excluding NatCat has constantly churned it down, now 69.2%. It's really working. You see the lower left-hand side, we have about 1 percentage point improvement on the loss ratio only in this quarter through a better frequency and severity, and better pricing in particular.

So our price action is coming through to the portfolio. And I think it's also important that you please recognize that whatever you hear about nominal price increases, that do not really matter. What happens is how you see the pricing making itself into the portfolio after discount and after losses. It doesn't help you to increase prices 5% if -- then half of the clients that got affected actually switched the portfolio. One-off, again, temporarily still at a higher level, reflecting conservative reserving in the crisis and against particularly large claims.

Now expenses, we can have a whole debate. I'll keep my comments short. They are stable at 28%. Underlying is actually improving on the cash flow side because we had fewer restructuring issues in the second quarter. Again, particularly cleaning up unprofitable agencies in France and Italy. But we can debate that forever.

So let's move on to investments. Asset base is up and operating investment income is stable, you can see that on Page 23. So the last slide I'd like to hit is actually the Page 24, please. That is addressing the pricing issue. This page I would call cautiously conservative. Because here, you'll see that nominal increases on price impacts that we had estimated for the first 6 months, it shows a 1% impact. And actually as you see from the combined ratio impact just this quarter, it's actually higher. So we are expecting price movements to be positive going forward. In a number of core markets in Continental Europe, we are planning significant price increases because the cycle is turning and the environment turns out to be more benign. But again, I don't want to look at nominal increases but the ones that we got in the portfolio. There's only one exception. We actually have been reducing prices on the credit insurance side in order to grow the market. And as you saw in the beginning, it's really, really working well. Now that was it for P/C. You probably have questions on it later so let me move on to Life/Health. More difficult, particularly as you compare that to a very strong second quarter of 2010.

We have EUR 30 billion in revenues. The operating asset base grows to EUR 423 billion. Operating profit is EUR 680 million with the impact of the Greek sovereign bonds at EUR 76 million [ph] and the new business value is at EUR 242 million. New business margin is a healthy 2.5%. There is movement up and down as you would see in a second.

Page 27 shows you the various growth dynamics. The key driver of -- if you want -- so a negative number here is particularly Italy. In Italy, we benefited quite a bit from last year's bonanza in bancassurance, which has reversed itself because the Italian banks need a lot of liquidity by selling less Life Insurance and more deposits. That is heavily affecting us. But with EUR 1.8 billion, we're still almost at the level of the second quarter of 2009, but significantly below the exceptional quarter last year.

Germany also had very, very high single premiums business, particularly large single premiums to fund pensions last year that didn't repeat itself this quarter, but we still have EUR 3.7 billion, very strong revenues. And you see Eastern Europe growing and the U.S. in particular very strongly, as is the Benelux.

Now we have some small deviations downwards in France. In France, banks are offering enormously high rate on deposits consistently with Italy. I wouldn't say they're scrambling for liquidity, but they are certainly going after it and we are not willing to write business at a loss. So we are very cautious there. And you have lower growth in Asia Pacific. And some of the markets on the bancassurance side, margins are not that attractive.

Net loss you see on Page 28. Very strong flows in Germany and in the U.S. Outflows in Asia Pacific. This is a special item, not to get nervous about. We had a number of old books -- some of them, by the way, with negative MCEV spreads, like in Taiwan where we have high guarantees that are fortunately lapsing.

So part of the portfolio that's actually very good news and some maturing. We're watching net flows very carefully and that again is a statistical outlier. Overall positive flows on the portfolio that we expect to continue.

Page 29 gives you the operating profit drivers. And in addition to the Greek sovereign impairments driving down the investment result, we have a lower expense result and technical result. Again here, there are a number of one-off effects here, particularly assumptions adjustments and some true-ups that I would call an outlier. We can debate them. What we are expecting is about EUR 800 million to EUR 900 million technical results for the year and a flat expense result, and that is within what the plan is.

Average assets have increased as well and let's move to 31 on the operating investment income. Here, you can nicely see the various areas where the Greek impairment have hit. In particular, when you see the table that we have provided, so to speak, below the line. Out of the EUR 384 million, EUR 279 million pertained to Greece. Realized gains and losses, you can also see here an income from financial assets and liabilities carried at fair value, which are at 110 minus. And again as I said, we have refrained from extraordinary harvesting in order to support those results. Again, we like to keep our powder dry.

Page 32 starts to go into the valuation metrics, both new business margin and present value of new business premiums. There were questions on interest rate and all kinds of technicalities. To be very honest, please direct them to Oli. I just would like to say, as always, we are computing new business margin with beginning of the quarter, numbers that should come to no surprise, as in some markets interest rates have declined. We'll adjust them as we go forward and you'll see that on the total new value.

Page 33 give you the numbers for the various areas. Germany is up because of the higher rates and the long end of the curve and lower interest rate volatility. Europe is fine. Growth markets are fine and the U.S. looks down.

We had a special sales campaign that directly went through net income, and we have lower rates that is affecting this number. We're still very happy with the new business margins that we're getting on the business directly. What it, by the way, technically does for those that are interested why is the new business margin down, it temporarily increases policyholder bonuses that go against new business margin, so it's a technical item.

So overall, the margin relative to the first quarter is up. MCEV, last item on the Life side I'd like to hit. Relative to the year-end EUR 2 billion up, it was the same question on how do you model all of this stuff. As I said before, the key driver in the economic variances is -- are 2 things that are particularly driving up and that is the long end of the curve where we have higher rates. And that is driving up the value of our business, and you see that in the details that we have been providing.

You see the EUR 1,896 million increase in the value of inflows that is the key driver here. For those that want the detail, we have provided all of the components for you to take a look at. And again, IR is well prepared to address that. I'd also like to point out that cash earnings that we had over 6 months amount to EUR 841 million. That is -- we are still contributing and upstreaming cash to the holding out of the Life and Health segment at a rate very comparable to the prior year.

Now with that, I'd like to move to Asset Management. Fantastic story. I literally -- normally, we don't do superlatives but we call this outperformance is outstanding, particularly if you look at it in local currency. I think the U.S. dollar volatility is understating the fact that total Assets Management have grown by 11.1%. In local currency, it's only 5.4% and on the euro base, EUR 21 billion inflows, also a very good number given the environment. Many of our competitors wish to have that. Operating profit up on an internal basis 14.5%. In euro terms that's EUR 528 million, which again is somewhat depressed by significant investments that we've had, and would have been higher with U.S. dollar and will be higher when the U.S. dollar comes back. And cost income ratio is still outstanding with 59.5%.

The various components you'll find in the following pages, you'll see the very strong growth on the Page 37. Inflows on Page 38 and the net fee and commission income on Page 39. Now let me pause one second again on Page 39 please. Because we're not just growing net fee and commission income, on an internal basis, again 21% up relative to prior year. But we also crossed the hurdle on reaching 40 basis points on the third-party AuM margin.

This is no small feat. It's a tough mark in the industry, and it shows that with diversification into other products that manage the risk of our clients better, we're also improving profitability and margins at the same time. So it's not just flow-dependent, we are also having a better product range and better underlying profitability.

You'll see that on Page 40, and there you'll see EUR 100 million additional operating expenses. That's why I said it's a little bit distorted, the quarter number. We've had significant investment to build out our Asset Management platforms, so for example, PIMCO has opened its New York offices and trading floor, a very significant investment that plays a part here and will drive future earnings and asset growth.

Pages 41 and 42 give you the numbers. Exceptional performance of fixed income again, astounding 94% outperformance. Third-party AuM quarterly flows up EUR 18 million and operating profit up 11%. That's just euros, but the cost income ratio is still below 50% despite the very high investments. But also equity is improving further. As promised and predicted last quarter, we're now at a cost income ratio of below 72% and are on track to get it below 70% by the end of the year. That's at least the plan. And also noteworthy, we are now having positive flows after many quarters of negative flows. Outperformance is 65% up, our target is 70%, and we remain on track.

So with that, I'd like to summarize. Yes, there are horrible things happening in the market. Yes, people are extremely worried about the Eurozone, the U.S. economy and everything out there. We are confident that we can perform and continue to perform well in this environment. And we would like to reiterate that we are expecting to reach our outlook with EUR 8 billion operating profit, plus or minus EUR 500 million. The net income will fluctuate as always, depending on what happens. But our capital ratio is really strong, so we're here to weather the storm together with our investors.
So now we are ready for your questions.

Question and Answer

Operator

[Operator Instructions] The first question comes from Michael Huttner from JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

I just had 2 really quick questions. One is, this is a little bit offbeat but maybe you can help. We've been looking at the mismatch of some risk. If I explain, what happens -- the idea is what would happen if the euro were to break up, which I know is extreme. [indiscernible] I mean, they would if they've done it. And here, I suppose what I'm asking is how much of your, in particular Spain and Italy, which is really the bigger bunch, how much of the sovereign assets are backed by local liabilities and how much by co-liabilities like France or Germany? And the other one is a bit of a tricky question. To the extent that a lot of Greece came through to the bottom line because it was lodged in France, it doesn't seem to have very effective buffers or maybe the buffers were already included in equity. How much of the other stuff is also lodged in France?

Oliver Bäte
Chairman of Management Board & CEO

I didn't really get the last question in detail. We don't sort of look at individual buffers. I think it's an accounting peculiarity because the reality, as you know, is the reserve to cap is funded out of bond gains and serve the purpose of buffering bond losses. So it's exactly serving its purpose there. And it happens through net income and it was sort of created through net income. But we don't sort of disclose that. And the other thing, Michael, is we applied that. Given in this temporary presentation, it detailed differentiation between what is domestic and what is called cross-borders. We had a deliberate strategy already over the last 3 years to reduce cross-border exposures and focus the holding on national portfolios wherever possible. You obviously need liquidity in markets and the appropriate prices so we've been doing that already. Please refer to this table, the updated numbers you can get from Oli Smith. In Page C19, in the regional financing investment section, please.

Operator

Our next question comes from Andy Broadfield of Barclays Capital.

Andrew Broadfield
Barclays PLC, Research Division

Two questions. One, quite related to P&C business. And I wonder whether you might be able to say, you mentioned something about the P&C assumptions on solvency. And I wasn't quite sure I picked up exactly what that was. I wasn't sure if you were saying you had better assumptions and therefore, your future profitability was better? Or you were just assuming other increasing requirements as well. I lost track of that. So if you could you just explain what's going on there? And the other question, I think you mentioned in detail with the reserving increase in the U.S. on workers comp. And obviously, I think a lot of people are looking to U.S. looking for some pressure to come through on the reserving side across the industry, a little bit more consistently see pressure on the rate to push them up. I just don't understand better what was driving that like sort of one-off. But if you're seeing more pressure on the reserving side, I'd be interested to know.

Oliver Bäte
Chairman of Management Board & CEO

Yes. Andy, let me hit the question for you. It was a technical explanation of why -- how risk capital have changed. Every year and during the second quarter, we do, for the larger units, do a reserve assessment. And based on the reserve assessment in our flagship companies, we then adapt the P&C risk capital charges in our internal model in order to more appropriately reflect current learnings in the portfolios.

For example, do we have higher exposures or lower exposures to NatCat? Do we have shorter or longer run-off periods than originally anticipated? We feed that into the system and as we're getting closer to Solvency II, we're doing it in more detail. And this time, this led to an increase of the risk capital charges of around EUR 600 million. In the overall scheme of things, it's a small number. The second question you had on the U.S., it's very true. The U.S. is in a dire strait. It's workers comp, it's general liability. As you know, Allianz has taken extremely careful stance on reserving so whenever we observe less favorable development and claims than originally planned, we immediately book and increase the reserves. And that's what we've done. And we have a new actuary there that we actually sent over from the group, Christian Kortebein. He's reviewing the results systematically line by line and accident year by accident year. [indiscernible] is the first outcome of those reviews. I'm not sure what the further result is, but we'll have to look at what the portfolio is. But you're absolutely right, the market overall has to strengthen its and its pricing. And it's high time that prices actually go up. We expect the market, based on these fundamentals, to turn but you never know how long people behave irrationally.

Operator

The next question comes from Spencer Horgan from Deutsche Bank.

Spencer Horgan
Deutsche Bank AG, Research Division

Just 3 things. Firstly, I'm not sure I completely understood your comments on Slide 13 and I guess it goes to the context of the question about proportionally, how much of the Greek loss has been taken in France. But I think you're implying that if you look at that net column, the unrealized loss, in the event of a default or haircut or a Greek type situation on any of these other countries, then the -- probably the actual loss coming through to shareholders will be higher. A, did I understand that correctly? And B, if I did, could you give us a feeling of how that might work? And then second thing was in Germany, we sort of see in the second quarter those 2.4 points of NatCat with a combined ratio of 101.8%. But even x NatCat, I guess it's still a relatively high number. So I wonder if you could talk about that maybe in the context of the ongoing sort of restructuring work, what's going on in Germany, and give us an update there.

Oliver Bäte
Chairman of Management Board & CEO

Happy to do so, Spencer. Let me start with Germany first. The 2 aspects that I was mentioning, one is a lot of NatCat activity and hailstorm that is very unusual. We have more of that to actually come in July. And just to pre-warn you because we had hailstorms everywhere. You saw the terrible pictures in Switzerland, and that's what we're here for. Actually some of these cost losses were totals, I've also never seen them in that way. Now what the work is happening now and is focusing on improving the claims side because this is where the operations suffered the most from the restructuring. We have a very strong program addressing the claim size, both in terms of training and upscaling the claims shop. And we expect very soon positive effects from that. Moreover, we are repricing the portfolio one by one. We're expecting positive price movements in the second half of the year. Now let me move to your sovereign debt question. I don't want to speculate on what happens whenever somebody assumes that there will be a haircut. We have been basically booking the losses on Greece because there was a restructuring that was announced and there are very clear rules that whenever restructuring happens that we take it down to the market values and we will do so if that happens in other markets, but we'll do it whenever and however it happens. If you look at these 4 countries, excluding Italy for a second, even if you take the usual 20% haircut that you have had on Greece and everything else, I can't [indiscernible] that would not be a problem for us. What you see in the unrealized net is what we booked through OCI already that again does not assume a default. And the question on Italy, I leave to Santa Claus, because there are other things happening when you have a default on Italy.

Spencer Horgan
Deutsche Bank AG, Research Division

But I guess it is more -- more philosophically how does that work in terms of the amount you booked through OCI. Is that based on the amount you would actually pass through to policyholders in the event of a haircut in whatever country? Or it doesn't matter? Or would that likely be a higher number?

Oliver Bäte
Chairman of Management Board & CEO

Yes, but that's what we do. It obviously depends on the size of the losses and how much policy award or participation do you have. How many reserves do you have. What is the spread between the gross yield on the portfolio and the minimum guarantees that's, by the way, different across various durations. And it really depends and then on the market value at the point at the time. And therefore, I think you need to do your scenarios and that's what you have to do. But we are not looking at that in that way. We wanted to provide you with what is actually being booked in our portfolios. But let me take it the other way around, even let me take Spain, yes, because that's why we have it on the page with EUR 5.1 billion. The unrealized loss position is EUR 280 million. Even if there was no tax participation -- by the way that's always lost. We make a lot of money still. Therefore, we get marked on tax protection. That's depending on what the market is, can be typically be 30% of the losses by itself. And then you don't even need to think about policyholder participation. So do me a favor, run your scenarios but I'd very, very careful to assume other issues. I think that's really important to understand. And the unrealized loss net position, in the past, people have said, "Well, I'm assuming 20% or 15% policyholder participation." I'm not quite sure that is really professional because it depends on the line item. Now the issue on France was a very particular one because we were holding, for historical reasons, the portfolio significantly in France. And the reserve to cap is just as I said, an accounting gimmick in IFRS because it has a policyholder participation in the sense that when it gets created out of gains through selling bonds, normally those gains would go to policyholders and shareholders 85% to 15%. But they don't, they go into this reserve fully. And therefore, you also deduct it when you realize the losses out of it. So it's a little bit of a distortion, I have to admit, as we have to book that through net income.

Operator

Our next question comes from William Hawkins of KBW.

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

My first question follows immediately from Spencer. How much of the EUR 326 million on Slide 12 had already been recognized on OCI. Just to get a feeling for how accurate your resharing had been.

Oliver Bäte
Chairman of Management Board & CEO

Good question.

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

And then secondly, can you tell us what the surplus value of Life business in-force is with reference to the MCEV?

Oliver Bäte
Chairman of Management Board & CEO

The number that, Will, you asked is what was in OCI is EUR 201 million, so that much we have. And your question on the MCEV, I just need to look at the slides. Sorry could you repeat that again? I'm not that quick today.

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

Your surplus value of business in-force, it was EUR 10 billion at the end of March. So the business with reference to...

Oliver Bäte
Chairman of Management Board & CEO

Actually we're comparing end of June to end of the year, right? So there shouldn't be an end of March number. So that's my first comment but I don't know...

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

It was EUR 8.5 billion at the end of December and you told us it was EUR 10 billion at the end of March.

Oliver Bäte
Chairman of Management Board & CEO

Okay, let me look out. Yes, this is very difficult to understand.

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

The Life surplus value of business in-force within the MCEV.

Oliver Bäte
Chairman of Management Board & CEO

You mean the EUR 1,374 million is what you're asking for? Well, we'll shoot you quickly an e-mail. But I just couldn't hear the questions since you don't want to repeat it the fourth time and think we're idiots, we're going to give you the answer in person.

Operator

Next question comes Jean-Francois Tremblay of RBC.

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

I have 2 questions, please. First of all, can you comment on the claims inflation, what you're seeing across markets especially in Europe? Are there any areas of concern in terms of claims inflation? Considering that you're pushing through 1% effective rate increases, it seems that it like constrained [indiscernible] that you have highlighted high levels of concerns regarding some claims inflation, especially regarding bodily injury. And my second question has to do with your comment on pricing. So I think I heard you say that we should expect rate increases in the second half. Can you be a bit more specific regarding the lines you're targeting, the quantum of those rate increases and where would you think we're headed into the 2012, whether that momentum will be sustained?

Oliver Bäte
Chairman of Management Board & CEO

I have to be very cautious on the pricing side because I don't want to signal to competitors. As you can imagine, this is very cautious. But in a number of the motor markets that we've been concerned about in the past where we did not have any movements, we do -- we are indeed expecting prices to go up. Let me give you a summary number. On motor, we're expecting for 2012 around 4.1% increases, commercial -- on average, 2.4%. The non-motor retail side, we have analyzed is around 2.5%. So the total should be coming at around 3%. But they're cautious numbers, they do not reflect all the recent pricing strength that we have seen. Now the other thing I'd like to mention on the claims inflation side, you have 2 sort of competing effects here. In some areas, particularly automotive companies are trying to increase prices for spare parts again, particularly in Continental Europe where they are making less strong margins than, for example, in China or parts of Asia. On the other hand, we see frequency decline, particularly in countries where you have more economic turmoil like Spain, people do drive less and we see lower frequency. So this is offsetting. We actually see a fairly benign claims environment at this point in time. And on the bodily injury, I cannot share the observation that you have from competitors. Maybe -- not yet. But it's not on our immediate radars yet. So the claims environment has been benign. Where we need to really work is, as I said before, is in Germany but that has nothing to do with the industry. It sort of was historically self-inflicted and we should actually get average claims down relative to from where we are today.

Operator

Our next question comes from Brian Shea of Bank of America.

Brian Shea
BofA Merrill Lynch, Research Division

I had 2 questions, please. First of all, on the dividend, you adhere pretty closely to this 40% target, payout target. Given that the actual net earnings in the second quarter were pretty low, I guess there's a possibility that 40% for the full year could lead to an earnings cut. Do you regard paying a flat dividend as a line in the sand, or is it really just 40% times earnings and it doesn't really matter whether that means the dividend is up or down? Just wondering, I know it's too early for you to commit to the dividend. But just sort of a philosophical question on how you guys look at the dividend. And then secondly, just a very basic question. You mentioned that Asset Management had sort of investment spend in the second quarter. Is that it, or is that going to continue? Should we expect that later this year or maybe even into next year?

Oliver Bäte
Chairman of Management Board & CEO

Brian, good afternoon. Let me address the Asset Management question first. And it was an unusual spike in expenses, particularly in terms of infrastructure investment. So we should not see that high level of technology investments going forward, based on the plan, at least, I have front of myself. And looking at my colleague from Asset Management, and he is confirming it with body language, so that appears to be the truth. And on the dividend, I really beg your pardon. We're not even through with the year, in the middle of the financial crisis. I don't know what's going to come. We'll adjust the party when we get there. At the end of the day, we're sticking not to philosophies but what the balance sheet can really do and what the capital requirements are. And we'll be revisiting them at the end of the year. So I have to disappoint you, I don't want to make any comment on dividend for this year. Now it can be various scenarios. You take the benign scenarios and we see the sovereign debt crisis disappear, and we actually see a recuperation on some of the write-downs on Greece, then we're back on track. And you'll see the continuation of volatility, and then we will be not back on track. And then again, we'll look at the situation at the end of the year. We have a couple of positive things also coming in the second half of the year. We believe that P&C will continue to perform very well. We are very pleased with the development of the portfolio. Asset Management is delivering very strong net income. Please do look at the backup. We have had a 60% increase in net income contribution if you compare the 6 months this year versus last year, net Asset Management with a decline of B-shares. So there's a lot more coming to the bottom line. But overall, there's just too much volatility out there that I would, as you said -- correctly said, put a line in the sand. That would provide relief, but I think it would be not professional.

Operator

Our next question comes from Marc Thiele from UBS.

Marc Thiele
UBS Investment Bank, Research Division

All my questions are related to life insurance. My first question is if you could summarize the level of reserves and the different places within the group that could absorb further losses. There is close to EUR 11 billion of [indiscernible] and terminal bonus reserves in Germany. And I think there used to be EUR 2 billion or EUR 3 billion in France and the PPE. And I was wondering if you could summarize that for us, to what level that amounts to? Secondly, I think when you went through Page 12, you mentioned that the Greek bond yield is close to the guarantees. Could you give us an indication which other areas of the group are in such a situation? And then thirdly and finally, just to follow up -- I think William Hawkins asked it earlier, could you provide us with the in-force uplift to the IFRS balance sheet that is in the market system [ph] but in value compares with the EUR 8.5 billion that you've reported for the full year?

Oliver Bäte
Chairman of Management Board & CEO

Yes, we are working on that number. Just to be clear, we have in Life and Health total around EUR 16.6 billion of, if you want to call it, free reserves. That's a very large number. Significant part of that in Germany and in the rest of the world, you can run the balance of around EUR 6 billion. We do not disclose these numbers on individual country basis because they also move by the day. We also adapt asset allocations. That's why your question on where we -- our current yield versus the guarantee yield, the guarantee yields are obviously fixed. Current yields move with asset allocations, up and down. Oliver can provide you with the numbers. On the total portfolio level, we are very comfortable. We have 4.9% that we are getting and the guarantee rate is 2.8%, so very, very comfortably on that. We have smaller portfolios where it's tighter. But again, I'm not looking at that before. We need to go through the details with the relative businesses. We're doing scenario planning and then the question is again, not just what the yield is in the spread but also what other reserves do you have. Greece was really a special case for 2 reasons. We have de-risked the portfolio there, and we have historically a higher level of in-force. And in top of that, we didn't get the tax protection that we have in other countries, which then leads you to the comparatively high level of net loss. The other thing I'd like to point out is obviously, our supporting the business there because not just in the restructuring to be successful in Greece, but also because we have a competent insurer that on the P&C side is very, very, very profitable. We actually see quite a quality there and we have a low combined ratio despite the crisis. We are grabbing market share left and right. So with the long-term perspective, we actually do believe that is -- let me put it this way, we're just taking the losses there given what we believe the final outcome will be. And we obviously, for historical and regulatory reasons, have to be overweight in Greek sovereign debt in Greece. Look at the investment guidelines you have in the country, and you will understand that fully. And on this MCEV thing, Oli is going to shoot a mail around these movements or we'll address them comprehensively at the end the session. The closure of the non-IFRS is in the backup, guys.

Operator

Our next question comes from Nick Holmes of Nomura.

Nick Holmes
Nomura Securities Co. Ltd., Research Division

Yet another question, I'm sorry about this, on sovereign debt. Firstly, can you be a bit more precise about your methodology for calculating policyholder share? I mean, is it as simple as you take the policyholder capital which are backing those assets and then you take the participation ratio like 85, 15 or whatever it is. That's my first question. I will just quickly rattle off the other 2 because they're quite short. Secondly, is the policyholder capital in Italy -- does it exist in your book? And then thirdly, the rules for impairment, you said that they're quite strict. But other companies have said that they're actually quite vague. And now I wondered why your rules are strict and other companies' are not?

Oliver Bäte
Chairman of Management Board & CEO

Yes. Nick has always good questions. We are not taking rough cuts but we are really looking at, on an internal basis, obviously, really at the yields that we're earning on the portfolio. You have cash requirements versus market returns relative to what the guarantees are on various maturities. And obviously taking into account most of the policyholder results, but let me point again out also the tax position. So in Italy, for example, we also have a very large and very profitable P&C book that's throwing off significant profits to create, in case of a loss, a very large tax asset. So that is often forgotten and has a huge impact in terms of the difference between the gross and the net. We will not disclose also for other and regulatory reasons the exact mechanics by country. I do apologize.

Nick Holmes

Nomura Securities Co. Ltd., Research Division

Could I just ask on Italy, though? Do you have policyholder capital in Italy or not? Not really?

Oliver Bäte
Chairman of Management Board & CEO

No, what you have is the spread between what you earn and what you have to credit.

Nick Holmes
Nomura Securities Co. Ltd., Research Division

Okay. So it's nothing within the EUR 16.6 billion of free reserves is in Italy?

Oliver Bäte
Chairman of Management Board & CEO

No, it's exactly right. The other point I'd like to mention is, as you know, in difference to what your job is, i.e, to compare companies -- and you like to use that very aggressively as I know, we don't do that. We stick to what we believe the rules are. And what is the difference? Why do we take impairments and treat them like realized losses? Because there's just, in our mind, the timing difference between recognizing the impairments and taking the losses. The other accounting would be to say the impairment is temporary and there will be a benign outcome. So the difference is am I in church or am I recognizing that the loss is very likely to happen? And I'm not in church and I have to make sure given the circumstances that the loss will not be temporary but permanent. That's the different view. I don't think one is better or worse, it has just a different outlook and I'd rather want to be surprised on the upside than the downside. And why other companies are taking different approaches, you please ask them.

Nick Holmes
Nomura Securities Co. Ltd., Research Division

Okay. So there are no specific IFRS rules about impairing debt, similar to those that apply to equities. It is judgmental.

Oliver Bäte
Chairman of Management Board & CEO

They basically say you need to write down to market values. Now on to what amount and what duration, there are various interpretations. So for example, some have said well, there are only exchanges until 2020 and then people do apply judgment. Now the interesting thing is our sector, and I think financial institutions overall, has suffered over the last few years in terms of credibility because they always use the judgment rules to their advantage to show higher earnings. And then you need to decide for yourself whether that is a good idea, given the environment. I'm not saying anybody is better or worse and people have, we have agreed to that so the muni [ph] agrees, booking like we do it. Others are doing it differently. I think the good news is that most companies have taken it down to market values, not the 21% because that is an artificial number that we don't know whether it's going to happen. And whether you then take the full duration or just the 2020 is again judgment. Again, we believe -- actually, if you look at it from a valuation standpoint, the bonds beyond 2020 should even suffer more if it gets to the real exchange, right? So I have sometimes problems to understand why those values should hold up while the others are suffering. But I'm just an economist. Now the other thing is since you have this note on NatCat, you are clear now that will be 1.8%, not 80 basis points on NatCat right?

Operator

Our next question comes from Fabrizio Croce of Kepler.

Fabrizio Croce
Kepler Capital Markets, Research Division

I have actually 2 questions -- 3 actually. But they are all small ones. The first one is if I look to the Indonesian and Taiwanese Life business, what occurred there, that the premium are collapsing so strongly? I mean, these are conventionally growing markets, so simply if you could give some highlights in that term. And then 2 questions, which leads me a little bit in more disease. Actually, the first one is the direct exposure to the peripheral country was never a problem, so it continues not to be a problem today. But what is about the indirect exposure? I mean, at the end of the day, you have plenty of bonds and equities of financials. And there could be an implication if these financials, of course, fall apart. And I mean, the entire banking sector is far from having the leverage like insurance companies seems to be doing. And so my question is, did you do some calculation here already? Could you give us some stress scenarios which you calculate and how big the overall impact could be, or is this still Santa Claus exercise as well? And the second one is in terms of capital -- I mean, you told us that you have free capital reserves, excess reserves. Your profit seems to be the right one. But at the end of the day, I have some doubts about this because if I look to the current market environment and look to companies being valued nowadays some 1/10 of what they used to be just a couple of years ago. And you're -- not seeing you on the M&A platform, so actually not acquiring anything despite you are in such a good shape. So here, the question is where is that or what is wrong?

Oliver Bäte
Chairman of Management Board & CEO

Well, that's a good one. Let me start with the last one. Now many of your colleagues remember times when Allianz was very active in M&A, paid very high prices. And not everybody was enthused about that. So we remain cautious until we really know -- and you might get really agitated about that, but we want to see how the sovereign crisis unfolds and stabilizes and getting Solvency II out of the picture so we know what to work with and see, for example, what country would offer what ROE and what product would offer what return on risk capital going forward. The volatility is particularly large for Life and Health. But even on the P&C side, there's insecurity -- uncertainty. Second, on the question of prices, the interesting thing is the assets that are available are still very pricey, particularly relative to where we are valued, so we have to be very cautious on M&A at this point in time. Comes the right opportunity, we look at it but it's not a priority at this point in time. Now in terms of Taiwan and Indonesia, Indonesia is so small I don't even want to spend time on it but Taiwan is a point that I'd like to hit. In Taiwan, you have Life products- and I think that's very important, that are shorter term in nature than you find in other markets and they're typically equity-linked, so there's a lot of volatility. And clients take out the money when they hit certain thresholds and they basically realize an option. The second point is we have old blocks of business that are 6- to 7-year duration that are basically just maturing, as I said earlier, some of them with a very significant level of guarantees where I'm actually very happy in an MCEV sense that they are moving out. So the market sees a lot more volatility in terms of inflows and outflows, and this was a quarter where we had more outflows than inflows. And we're basically looking at it from 2 perspectives: what is the channel stability -- and there's a lot of volatility in the bancassurance channel, a significant part of what we do. And we're looking at the margin that we can get on these products relative to competitors. And there are a lot of people that are grabbing top line but are not necessary paying a lot of attention to the bottom line. So as I committed in the past, when we want to have a new business margin and we're showing that to you, I actually like to see it realized. So if that is in doubt, we would rather not write it. Now on Indonesia, we actually had a premium decline because of decline in business. And you see that, you probably taken out of the table in Page 27, right? This is what you've been looking at -- the EUR 248 million from EUR 185 million.[ph]

Fabrizio Croce
Kepler Capital Markets, Research Division

It was actually on the appendix. That's okay, no matter...

Oliver Bäte
Chairman of Management Board & CEO

It's actually up. Maybe you have mixed the lines -- that's why I'm asking, increasing from EUR 185 million to EUR 248 million in Indonesia.

Fabrizio Croce
Kepler Capital Markets, Research Division

I look on the H1 figures. I don't care about quarterly. This is the point.

Oliver Bäte
Chairman of Management Board & CEO

Okay. But to be honest, on sales trends, we look over time at flows. They're actually meaningful more in a 6 months or 12 months basis. They can be, particularly given the size of the portfolio, could be very volatile given this environment on a quarter-by-quarter basis. But the Taiwanese question was a good one, and it has been related to the runoff of the old portfolio in line with earlier expectations. Now you wanted to ask -- you also asked -- and I think it's a good question, of course, about indirect exposure to peripherals. And in particular, you've asked what is the exposure that we really have. Let me summarize it as follows. The first thing that you obviously know that we've been holding shares in banks that have been extremely hard hit over the last few days. UniCredit and Commerzbank and Banco Popular are the most important ones, they were at the end of the second quarter EUR 2 billion. And then we have just EUR 1.8 billion in Tier 1 subordinated debt. That is actually what we think we need to watch extremely carefully. So if you want to say so, the exposure at risk is EUR 3.8 billion. We consider other sections, particularly senior debt, not to be immediately addressed, but you can again have a philosophical debate about that. We have been extremely cautious to not have an overexposure in Tier 1 subordinated debt. On individual names, without mentioning them -- we don't want to give the wrong signals, we're also taking credit enhancement in order to protect us. Maybe that is sufficient to soothe your banking exposure issue.

Operator

Our next question comes from Paul Goodhind of Redburn Partners.

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

Can I just ask on your non-Life pricing, it's clear that your pricing numbers are before the effect of discounting. Could you just give us a clue as to whether that effect is meaningful and if so, how large is it?

Oliver Bäte
Chairman of Management Board & CEO

Yes. As I said in the past -- it's not meant in a mean way, that's why I mentioned the point what is the difference between what the nominal price increases and what you effectively see in the book. We typically take 2 quarters to see the gross to the net effect. So the nominal numbers are obviously before when we do the price increases. But when we say what is the price impact on year-to-date renewals that you've had on 24, that is after the discounts. So it's fully sort of reflected. That's why in my mind, actually these numbers look a little low, because we've been very successful in the last quarters to reduce the discounts that have been given at the front end. So we're not where we need to be but we're getting much better.

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

And this is a follow-up. You mentioned retention is very important as well [indiscernible] in your business. What is the retention rate running at and has that changed materially over the last year?

Oliver Bäte
Chairman of Management Board & CEO

No. Over the last year, that hasn't changed. However, we do observe, that's a general statement, that retention in the motor industry and so the car insurance is going down overall. And therefore, churn is increasing and it varies by channel. Our good agency channel still have significant less churn than the overall market. And therefore, we're making sure we're keeping the margin in those portfolios. Now you also need to bear in mind that we have increased the churn in our portfolio consciously and the way we call it is called "portfolio cleaning," particularly with regards to motor fleets the last 2 years. So the question has to be answered 2 ways. The unwanted attrition has stayed flat, the wanted attrition has gone up.

Operator

The next question comes from Julia Rufle [ph] from Autonomous.

Unknown Analyst

Just a quick question. I was wondering if you can give us an update on what your economic solvency would look like in current times? So obviously, I'm not expecting a daily estimate but something that would reflect what happened in the last 4, 5 weeks in terms of interest rates have been -- gone down, volatility has gone up, et cetera, et cetera.

Oliver Bäte
Chairman of Management Board & CEO

I was about to say, Julia, you're absolutely right. The numbers have changed so, for example, unrealized gains on equities went down, rates in Germany went down so that increased [ph] capital requirements, that's not across the board. You can call it unfortunate or not, but I don't run our business based on daily numbers. So what I would expect over the quarter is that we have the new business margin in Germany, for example, declining still -- however, at good rates because we're using the repricing options and the guarantees are coming down consecutively. And we're repricing now our Life business actually every month, based on current rates. So the hits that we have in the past had to new business margins when rates go down are less and less so over time. What really moves and will move more, because competitors don't react with the same speed, is volumes will be more volatile. And we've discussed it, I'd rather have stable margins, volatile volumes than the other way around. On the overall economic solvency, I cannot give you the number but it's probably a few points down based on where we are at the end of the second quarter.

Unknown Analyst

Excuse me, just few points down relative to EUR 184 million, right?

Oliver Bäte
Chairman of Management Board & CEO

Yes. And please don't forget this is at 3 basis points.

Unknown Analyst

Yes. Of course, you have a tougher calibration than your peers.

Oliver Bäte
Chairman of Management Board & CEO

Yes. And that's very high and we -- by the way, that's one of the reasons why we have been extremely cautious also raising capital, because we saw this volatility coming. So the subordinated debt and the CoCo bond that we tested with our Japanese friends were exactly preparing us for the volatility we're currently seeing. So even if you take 10 points down or 20 points down relative to the calibration -- and by the way, the profit to come in the second half of the year is going to lift that number up again.

Unknown Analyst

Yes. I struggled to see, though, why you sounded so cautious on your payout if the number has only fallen a few points?.

Oliver Bäte
Chairman of Management Board & CEO

Now the issue with the payout -- and that we'll have to discuss anywhere fundamentally at the end of the year, is what is the net income and cash to the holding; what is really needed and invested; and what return and what business going forward; and what is it that we're going to pay out? And as I said before, the moment we have clarity around Solvency II and our position relative to that, we'd be fully transparent on both generation and usage of capital.

Operator

Our next question comes from Bob Yates of Macquarie.

Unknown Analyst

Oliver, I have 3 questions, if I may. The first one, your response above is somewhat guarded. But I recall that at the first quarter, you focused on the German motor market and the particular influence of one major competitor. And I think you were quite skeptical about the ability in light of that to raise rates. You seem now to be more positive about that ability, and I wondered what had changed around you, perhaps, to make you more positive. The second one was relating to capital gains. I realized that you have not compensated the Greek impairments by realizing gains from the shareholders' point of view. But Page 31, looking at Life operating profit does show substantial gains realization. And I wonder whether that is coincidental, whether it's to rebuild the RFB, which is abundantly stronger and you don't need to. So I just wondered why that was coming through. And the third thing, forgive me, I didn't quite follow in relation to your comment on AZ Life and the falling margin in the first quarter. How much of that was down to conditions and pricing, about which one of your competitors has been quite bearish? And how much is down to the technical influence, when you talked about prior year bonuses, say. Forgive me for not quite understanding that.

Oliver Bäte
Chairman of Management Board & CEO

Bob, we'll be happy to address the split between the 2. And it's again -- it's rates down and that is an important -- particularly on the fixed index annuity business, and the campaign that we've been doing on policy and the second policyholder bonuses. And the numbers will be coming up shortly. That's why I'm going to talk about the capital gains on Page 31 that you see. I find it important to actually see the lines, the 3 lines in connections, either realized gains or losses net, which have an increase of 123 and the income from financial assets and liabilities carried at fair value, which has a negative movement on 355, the different sort of investment categories where we are holding the assets. So you cannot use the second line in isolation but you need to move and see the net harvesting together. And I think that's very important because in different portfolios, we're holding various types of assets and different accounts. Yes. And again, if I look at a few of our peers, the numbers will more like EUR 1 billion in additional net realizations and that's -- we refrain from. I think the best indicator is not looking at these lines that are quarterly numbers, but look at the change in the balance of unrealized gains and losses that, for us, has actually improved -- i.e, our unrealized gains despite the impairments and the unrealized losses on the peripherals have gone up net by a few hundred million. And I personally believe the balance sheet number is the more useful number to take a look at. Now the German motor markets, before I open to get the number on AZ Life, the issue is very simple. You have the market leaders setting price and people typically following the market leaders in terms of pricing. And the second observation the first quarter was that the equalization reserves, which is a good indicator of the capitalization is actually going up and not down on the P&C, overall. So people have had ample opportunity to cross-subsidize their motor results out of other lines of business. However, we have seen that a number of competitors have been -- particularly the non-mutuals, have been raising prices and in a number of segments that we are also having a strong market position in, so I expect the environment to be a little more benign than we originally anticipated. The third reason why I was cautious in the past is the following: That the mutuals had raised prices in the first quarter and then came back in the third quarter and then said we're not raising prices, we're actually decreasing them. And we have seen that game 2 or 3 times. It's not yet happening this year, so that's the third reason why we are more optimistic than in the past based on dynamic pricing behavior. But we'll only know when the money is in the account. And again, the other thing is we are de-emphasizing motor in Germany. I think it's very, very important as a part of the overall portfolio. And so our dependence on motor has gone down over the last few years. We'd like to remain a leader in the business but we're not going to do it at the expense of profitability, okay? So can I get the number on the Life side on the AV Life? We're still digging it up. So Bob, I have to come back to you and get you sort of a somewhat reliable number on the split between what is underlying movements versus what was the campaign in a few minutes.

Operator

Our next question comes from Vinit Malhotra of Goldman Sachs.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Just 2 things maybe on the P&C growth perspective. I remember in the 1Q very distinctly that, Oliver, you were mentioning how, because of lack of profitability, you're flowing the growth engine down in P&C. And I think France had come up as well. But this time, France suddenly in one quarter, the whole ship has suddenly moved. And I appreciate -- I mean, it's a large business pool and how do you manage to move the ship in just one quarter? So that's one question. Second thing is that through the P&C commentary there's a lot of bearishness on commercial lines. But equally, I see, for example, AGCS even, excluding the ART premium, around a 12% increase. And so what exactly is your positioning on the commercial lines? Is it just commercial motor fleets which you don't like? Or maybe even U.S. workers comp? But what's your broad sense here of what's going on, because I do sense an underlying positive commentary and things moving up.

Oliver Bäte
Chairman of Management Board & CEO

Yes, let me just address that. Let's sort of first talk about France. We had very strong tariff increases in personal lines. And the issue was always how do you balance that relative to persistency? So would we actually get the tariff increases into the portfolio, adjusting for discounts and particularly for lapses? And what we are seeing, because the market is hardening overall, the lapses relative to price increases have been decreasing. So we're getting a lot more net benefits out of the price increases than originally anticipated and because we're also using now a more differentiated pricing. And I like to be on the conservative side. It's really true what you're saying, I was very cautious on the first quarter given what we have seen last year. Now the environment is more benign in that respect and the same as in Italy, we have the motor market hardening much more strongly than anticipated. At the same time, the non-motor market in Italy continues to be soft, particularly in commercial lines. That leads me then to the commercial lines discussion. This is a very, very heterogeneous picture across our portfolio landscape. You have horrible pricing situations like in the U.S. commercial lines industry, in workers compensation, in general liability and other lines. And in particularly on the mid-market side. In France, you have certain lines that have been repriced upwards particularly properties and others where prices are not moving. So I can unfortunately not give you the average temperature of the hospital. But we're looking at it sort of market by market. Now on AGC and various aspects, it's not just ART but other portfolio transfers in the Benelux, in Japan and others that add up to some of what's driving the numbers. We're also seeing price increases in lines that have NatCat exposure because following the Japanese earthquake, it's not just that exposures for Japan or tsunami-exposed and earthquake-exposed risks in Asia have moved up, but the market has sort of reevaluated NatCat exposure on the commercial side and business disruption. And pricing has been very good in these particular areas where we are strong. And I think that's what we're seeing. We're taking the price strengths wherever we see it and this is where we're growing the rest. We have to be very cautious and make sure that our reserves are the best. [ph] Now I have just received a note on the U.S. Life so I'd like to go back, if I may. And are you happy with the answer so far?

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Oh, yes, great. And just one small request. I remember in 1Q, there was this new slide on -- actually in the year loss ratio by country. Are you intending to reproduce that again or was it just a one-off?

Oliver Bäte
Chairman of Management Board & CEO

For large companies, Oliver Schmidt will be happy -- I have no problem with giving that to you. The accident year loss ratio excluding, including NatCat. We'll send it out and make it available on the website so everybody has it. We actually used that very actively just to give you the top-down numbers. You see very nicely how France and Italy are improving, credit insurance is really doing well. We look at the U.S. and see that actually the loss ratio without NatCat is at 65.8%, which was a good number. The issue is the very high NatCat that drives it up to 80% and Germany still hovering at 67%. We need to bring that down by at least 2 points. So even without giving you the slides, you have the numbers here and the rest you will get from Oli. Now let me be brief, otherwise I'd get something on my head, and focus back on Bob Yates' question on the U.S. Life impact. The new business margin was the question why -- when did it go down from 3 to 2.3? And the unfortunate answer that I'm getting out of the back office, it's on the fixed index annuity side. It's not on VA, yes. The VA margins remain stable and that is an FRA product promotion that we've done where we have expensed significantly. It's by the way a product that many companies thought to be dead 2 or 3 years ago and that now other companies are distributed. And if you want more book, I'm very sorry we need to hold on a little longer until we get our U.S. folks on the phone. Yes, I would propose that Oli Schmidt calls you after the call. Is that okay? Bob, are you still on? No? Then let's move on. Any other questions?

Operator

Our next question comes from Thomas Jacquet of Exane.

Thomas Jacquet
Exane BNP Paribas, Research Division

I have one question regarding Cyprus. I was quite surprised that you mentioned the exposure to the [indiscernible] station. So could you tell us where is it located in your portfolio? Is in reinsurance or global corporate? And if it's in the reinsurance, is it likely to change your view on your presence on the open market, especially flowing already [indiscernible] Germany experience in Q1?

Oliver Bäte
Chairman of Management Board & CEO

Good question. No, it's not reinsurance. I'm lucky, I guess. It's AGC&S, and it's a part of a larger treaty. And the second question that you have not asked, what is the exact exposure, I don't know. It's supposed to be a lower double-digit million number. But that is as precise as I have the information now, okay? And AGC&S, last year we exchanged or changed the reinsurance policy because that's also implied in your question. By sort of rule, only 30% of our property exposure goes into Allianz Re so we're limiting the exposure that the group has to property exposure from AGC&S. So we don't get a double hit. I'd propose we do another 5 minutes. I don't want to get complaints we are too long here. So the next question, please.

Operator

We have a follow-up question from Michael Huttner of JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Very quickly. Firstly, on what you call the CoCo. Is there any chance you can give us the terms? It's just that I always worry a little bit about potential dilution on that. And then on the positive side, you talked about German Life and margins and managing the pricing better. Can you get us a feel for where you think the crediting rates might move? So if -- I know it's looking very far ahead, but they were roughly 4.1% or something. I know you're earning more than that but it'd be nice to hear maybe a number below 4%. Maybe you have some color there.

Oliver Bäte
Chairman of Management Board & CEO

I'd like to hear that number also. It's coming up. We're making the call in the third quarter. We're looking at what the overall market environment is. We're obviously looking also at it with the competitive dynamics because we can do things others cannot do and that drives, by the way, long-term channel loyalty and customer loyalty. So unfortunately, I cannot tell you what the number is. The CoCo, we will not give you the numbers but it's very small in terms of dilution. But it's very good in terms of Solvency II protection.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Does it count 100%?

Oliver Bäte
Chairman of Management Board & CEO

We have had a meeting with our regulator and have discussed the future, the exact percentage that we can have. We can use it for equity when we decide going forward. Because we're not deciding that. The regulators have to write out a specific letter on it. Okay?

Operator

We have no further questions in the queue.

Oliver Bäte
Chairman of Management Board & CEO

Very good. Before we finish, because I don't like to not give an answer to a question, we had various questions on the value in-force movement on Page 55 and what is in there. The 362 that you asked, what are the variances, other operating variance and assumption changes impacting the risk. Let me give you the split by country because that might be most useful to you. 125 negative on France, various reasons. Also the Greek impairment but also assumption lapse changes. And EUR 88 million was on expense overrun startups in Asia, particularly around Japan and China. Japan obviously, given the tsunami, the very low rates, we've really stopped writing a lot of business because that will not be profitable. We have EUR 61 million negative on Korea because of higher lapses on the old book and the reregulation that is hampering growth at this point in time, particularly in the bancassurance channel. And minus EUR 32 million in the U.S., causing a downward expense assumption update. And this is all the transparency I can give you on these numbers. I hope this has been helpful for you and short enough. So thank you very much for your interest, and thank you very much for your support.

Oliver Schmidt
Head of Investor Relations

Goodbye to everybody. And have a nice day and a nice weekend.

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