S&P Global
Market Intelligence

Allianz SE XTRA:ALV

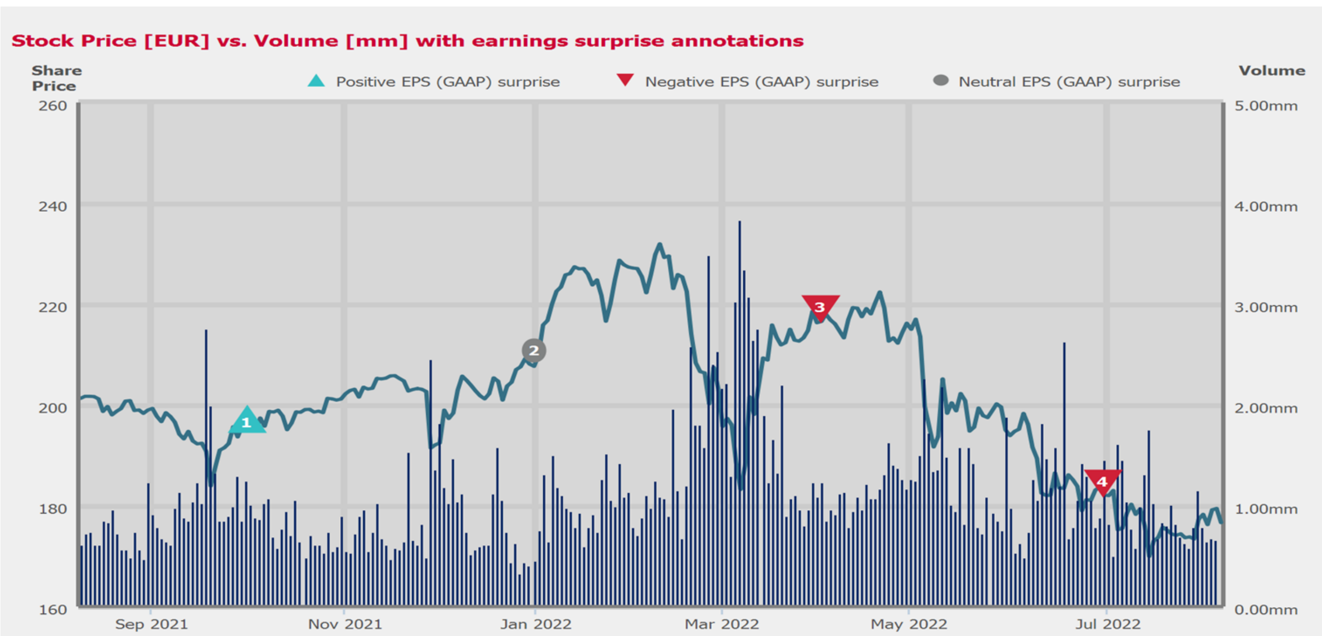
FQ2 2022 Earnings Call Transcripts

Friday, August 05, 2022 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	4.42	3.85	(12.90 %)	4.82	16.45	NA
Revenue (mm)	37185.24	37100.00	(0.23 %)	36979.41	151742.96	NA

Currency: EUR
Consensus as of Aug-05-2022 6:16 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	4.26	5.01	17.61 %
FQ4 2021	5.53	(0.72)	NM
FQ1 2022	5.82	1.36	(76.63 %)
FQ2 2022	4.42	3.85	(12.90 %)

Table of Contents

Call Participants

EXECUTIVES

Giulio Terzariol
CFO & Member of the Management Board

Oliver Bate
Chairman of the Management Board & CEO

ANALYSTS

Andrew Sinclair
BofA Securities, Research Division

Andrew James Ritchie
Autonomous Research LLP

Dominic Alexander O'Mahony
BNP Paribas Exane, Research Division

Fulin Liang
Morgan Stanley, Research Division

Michael Igor Huttner
Joh. Berenberg, Gossler & Co. KG, Research Division

Peter Eliot
Kepler Cheuvreux, Research Division

Thomas Fossard
HSBC, Research Division

Vinit Malhotra
Mediobanca - Banca di credito finanziario S.p.A., Research Division

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

William Fraser Hardcastle
UBS Investment Bank, Research Division

Presentation

Oliver Bate
Chairman of the Management Board & CEO

Good afternoon, everybody, and welcome to the Allianz conference call on the financial results of the second quarter 2022. Before we start the call, let me do the usual housekeeping and remind you that this conference call is being streamed live on allianz.com and YouTube and that a recording will be made available shortly after the call. [Operator Instructions] That was all from my side for now. And with that, I turn the call over to our CFO, Giulio Terzariol.

Giulio Terzariol
CFO & Member of the Management Board

Thank you, Oliver. Good afternoon to everybody. I'm going to try to go as fast as possible through the presentation so that we have time your questions. Starting Page 3, where we show the numbers for the 6 months. We had a good underlying performance. When you look at the revenue, they grew by 4%, and this is mainly driven by Property-Casualty. Indeed, the growth in Property-Casualty as we're going to see in a moment was really very strong in the second quarter.

When we look at the operating profit, we have an operating profit of EUR 6.7 billion, which is basically 50% of the outlook of EUR 13.4 billion for the year. And I will say that's also considering the market conditions, all segments are contributing their fair share to this delivery of operating profit of EUR 6.7 billion.

When we look at the operational KPIs, we see that the combined ratio for the 6 months of 2022 is 94.1% which is a little bit higher compared to what we had last year. This is coming actually from the development in Q1 because in Q2, as we're going to see in a second, the combined ratio was slightly better compared to last year. On the Life side, you see a very nice development of the new business margin and also the value of new business. And then when we look at Asset Management, we see outflows of EUR 43 billion, mostly coming from PIMCO, which we think is totally normal in environment where rates have gone up by basically 200 basis points. So from that view, there is definitely some caution from the investors.

Otherwise, when we look at the net income, it's EUR 2.3 billion. Clearly, this is low, but this is also driven mainly by the charge due to Structured Alpha in Q1. So if you adjust for that, the net income will be closer to EUR 4 billion. Clearly, in an environment like that, there are some more pressure coming from below the line items, but overall, adjusted for Structured Alpha it would be the EUR 4 billion level is something which is getting closer to the kind of number that we are used to see.

So overall good underlying performance for the 6 months.

And this is even more true when we look at what happened in Q2. Here, you see the revenue growth in P/C was double digit. Also, we had an operating profit of EUR 3.5 billion, which is one of the best operating profit we had for second quarter. In Property-Casualty, we achieved EUR 1.6 billion plus of operating profit. This is ahead of our outlook. I'm going to speak later more in detail about the driver. On the Life side, EUR 1.1 billion of operating profit on the backdrop of a very difficult market environment. That's a very good number. And then in Asset Management, with about EUR 800 million of operating profit. This is in line with our expectation.

And then on the net income, you see EUR 1.7 billion of profit. There are some below-the-line items that have slightly impacted this number. But clearly, it's at a different level compared to what we saw in Q1. So all in all, a very strong underlying performance, both from a growth point of view in P/C, from a total delivery of operating profit and also when you look at the operational KPIs in -- on the Life side, also the combined ratio on the P/C side are actually very good numbers.

Now moving to Page 7. As we talk about the capitalization level, we have a solvency ratio of 200%. Here, you see that we are basically immunized for changes in the interest rates. That's basically our philosophy depending on the situation, we might have a little bit of an upside or downside on the rates in this current environment. The situation is such that we are basically immunized for changes in the interest rates. The equity sensitivity is a bit more elevated compared to what we have seen in the past. This is not driven by an active positioning. This is more driven by how the model works and also the fact that after the substantial rate increases we have in the Solvency II model a little bit of a lower buffer. When you combine all sensitivity, equity market rates down, spread up and also the cost effect. In reality, the position of the company is pretty stable compared to what we had last quarter, even slightly better, but I would say almost of the same level of total sensitivity.

Moving to Page 9. On the development of the solvency ratio. I will say that, as always, we see a positive organic generation, which on a pretax basis and pre-dividend basis is about 7 percentage points. And this has offset for the market impact of minus 6 percentage points pretax and this market impact was predominantly driven by clearly the change in the -- or the drop in the equity market. But as always, we can rely on this steady organic generation. And the markets, sometimes they go down, but sometimes they will go up too, so fundamentally. I would say that's a robust picture for the development of our solvency ratio in Q2.

And now we can come to the section by segment, starting from P/C where on the growth side, we had a very nice development. It's double-digit growth. And as you see, this double-digit growth is also widespread across several business units. That's also a reflection on the efforts that we are making clearly make sure that we can reflect into pricing, the inflation that we are seeing or we might see also moving forward. Where you also see the change in renewal, you can see that the trend is upward, and I expect this trend to continue as we go into the second part of 2022.

Now coming to Page 13 on the development of the operating profit in Property-Casualty. You can see this is up 20% (sic) [21%]. This is driven both by the underwriting results and also by the investment income. In the case of the underwriting results, you see an improvement of 30 basis points on the combined ratio. And on top, you need to consider we had also clearly growth in our business. This is what is driving basically the improvement on the underwriting results. What we saw in the quarter compared to what I would say is more a normalized expectation is higher NatCats. On the other side, the runoff is also a little bit higher when we normalize the numbers and also we take into account that we put some conservatives because of inflation, I would say that we are definitely in line with our 93 combined ratio, but I'm sure we're going to have -- I'm going to get questions later on, on this KPI. So overall, 93.6% of combined ratio for Q2, and this is broadly in line with our expectation.

And as we look into the second part of the year, we would expect that if the NatCats are normalizing, we're going also able to show a combined ratio closer to 93.

As we go into Page 15 on the operating profit. You can see that a lot of entities are providing actually a very strong operating profit combined ratio. I would say, Germany, Australia, Italy, Switzerland, AGCS, Allianz Partners and Trade, they have a very good combined ratio. There are a couple of exceptions. One was France. That's driven by the NatCats development. And then in Latin America, still handling the situation in Brazil. We see some first signs of stabilization, but still too early to say whether this is really the beginning of a stabilization and of a reversal trend or this could still be a challenge as we move forward. But overall, I will say, a lot of good numbers with a lot of subsidiaries delivering strong results.

And then Page 17, on the investment income in Property-Casualty, you can see EUR 100 million higher investment income, and this is driven mostly by the impact coming from inflation in bonds. We expect -- we have also some improvement coming from higher yields. This is going to clearly materialize in a more pronounced way as we go into the next quarter. So in Q2, the main impact was coming from inflation-linked bonds. But overall, a good performance of the investment results. That's also much ahead of our expectation in our outlook of EUR 6 billion. We were reflecting basically EUR 2.4 billion of investment income. So this means EUR 600 million per quarter. And as you see in Q2, we had EUR 150 million high investment income what we assume in our outlook. So all in all, good results on the P/C side with a solid combined ratio and very good growth, an increase in investment income. This has all led to an operating profit, which is about EUR 150 million better than our outlook for the quarter.

Now we come to the Life side. That's also a very good story. When you look at the new business margin, it's over 4%. This is clearly a reflection also of higher interest rates, but that's also a reflection of the actions that we put in place in the course of 2021. And if you look at the mix, you can see how the mix has further changed towards capital-light products. When you look at the production level, that's about EUR 3 billion lower compared to what we had in 2021. But if you remember, in 2021, we had a couple of one-offs, especially a big one in Italy. And also, as you know, we are doing transfer of a business from legacy product to new products in France, and those transfers were more pronounced last year compared to this year. So if you adjust for that, the production level has been actually relatively flat compared to the level of last year. So a good picture on new business margin and also business mix development.

And now going to Page 21 on the operating profit evolution for the Life segment. You can see clearly that the operating profit is lighter compared to what we had last year. And it's also slightly lower than the outlook for the quarter, EUR 1.2

billion. But when you think about the level of volatility in the market, that's a strong sign of resilience of our Life operations. So I would say, considering the market condition, that's a very good level of operating profit.

And now on Page 23. You can see, as always, the picture by company. The first comment is anyway on the value of new business, which is up 6%. We should always keep in mind that this value of new business is also flowing into our solvency calculation, at least for the companies except for Allianz Life USA, which is treated differently. But this is adding to our solvency. So that's definitely a good evolution. When you see the new business margin in general, very strong and also improving. And then on the operating profit by entity. As you know, there is -- in this kind of market environment, Allianz Life USA is going to be weaker, especially because of the hedging volatility or the volatility coming from the VA side. And then in this case, considering the -- a significant amount of increase of interest rates and also the challenges on the equity markets, we have also some impact in Allianz [Leben] which is actually mostly accounting volatility driven by the derivative position that we have to hedge Solvency II. But in total, EUR 1.1 billion of operating profit, so a nice delivery for the segment.

And then Page 25. That's also something which is a positive trend. When you look at the current yield, you can see that it's up about 6 basis points. And when you look at the minimum guarantee, these minimum guaranty is actually going down a bit. So overall, on the spread, you see that we are making further progress. So this number has been developing not only now but also in the course of the last year in a resilient way. And now that we see that rates are going up a bit, you can even see that there is a widening of these spreads. So overall, on the Life side, I would say a good delivery in an environment which has not been super easy from a capital market volatility.

And now we come to Asset Management at Page 27. It's not a surprise that in this environment where basically all asset classes have had negative returns that our assets under management are down. The exception is, by the way, in the alternative area where we were able to increase the amount of assets under management. As you know, this is also part of our strategy to focus on this asset class.

Now when we go to Page 29, on the evolution of the third-party assets under management, you can see clearly that there is an impact coming from floors. I will say this impact of EUR 34 billion considering the market situation, also considering the size of our book is from my standpoint modest. So I wouldn't say this is causing any concern here. The major impact actually is coming from the market development where you see EUR 160 billion of reduction in assets under management. In our case, this has been compensated by the appreciation of the U.S. dollar, so net lost about EUR 80 billion of assets under management because of market movement and FX rate. So I think this is not unexpected, again based on what was happening in the second quarter in the capital market.

On the revenue side, you can see that we have benefited from the FX effect. So from that point of view, our revenue are flat. And when you look at the fee margin is stable. In the case of PIMCO, there is a reduction in the case of AGI, which is driven partially by mix and partially also by higher distribution fees. But overall, we are holding the fee margin above the level of 39 basis point, which is, as you know, a good level for an asset manager.

And now at Page 33. The operating profit is 6% down, 7% down compared to the level of last year, or said in another way, EUR 50 million below prior period. I would say, almost 0.5% of the drop is driven also by lower performance fees and the rest is coming mostly driven by PIMCO, where we can see also some seasonality in the cost-to-income ratio. I would say, in Q2 2021, the 55.5% was definitely a low. Cost-to-income ratio, usually PIMCO is running more toward -- between a 58 -- at a 58% level. The 60.5% for the second quarter is also this case, elaborated the other way around. If you look at the 6 months picture, we have a cost-income ratio of 59% for PIMCO. You should consider this is basically without performance fees. So fundamentally, you need to normalize that it will be the cost-to-income ratio that you see in this slide for the seasonality that you can add volatility, I would say, that you have in the different quarters.

In the case of AGI, you see stable or even increasing operating profit. And also, you see a decrease in cost-to-income ratio. So overall, I would say, with the EUR 800 million of operating profit, we are tracking our outlook. If you remember, our outlook for Asset Management is EUR 3.4 billion. That would indicate basically a little bit more than EUR 800 million that we see here, but fundamentally you need to think also that the performance fees are coming later in the year.

On Page 35, we have the corporate segment. And as you see, the corporate segment has in this quarter, a very minor loss less compared to what we usually see or expect. And this is driven by inflation in bonds that we have purchased and also we had some higher investment income, so overall, a good outcome for the corporate segment.

And now coming to the last, Page 37, or the second last page, on the net income. You can see that the impact from nonoperating items is about EUR 1 billion worse compared to last year. Here we see a couple of effects. First of all, clearly, when you add up realized gains, impairment and income from financial assets, liability in last year, we had a positive contribution. This year, we have a negative contribution. Part of this is due also to the booking for hyperinflation accounting in Turkey. That's about EUR 100 million. And I would also say that on the impairment side, half of those impairments are impairments coming from bonds which are part of mutual fund and you need to apply the equity -- the same accounting that you use for equity. So in reality it's not really that we are speaking of a real impairment, it's more the consequence of rates going up as opposed to have a credit quality issue. So we need to put this number in a relative context.

Then what we had is some higher restructuring expenses. This is driven by the Voya integration, and then finally, the tax rate was better because of country mix. So overall, when you add up all together, we ended up with a net income of EUR 1.7 billion for the quarter.

So summarizing, I would say good underlying performance and also strong in second quarter with EUR 3.5 billion of operating profit. Market conditions have been definitely different compared to what we were expecting. But as you saw, we had already achieved 50% of our outlook for the year. So from that standpoint, we are confident that we can achieve a midpoint of the outlook. We have completed a buyback of EUR 1 billion just a few weeks ago. And as you know, clearly, we're going to continue to deploy capital in a way that we can create value for our shareholders.
And with that, I would like to open up to questions you might have.

Question and Answer

Oliver Bate
Chairman of the Management Board & CEO

Thanks, Giulio, for your presentation. And yes, we will now take your questions. And we will take the first question from Andrew Sinclair, Bank of America.

Andrew Sinclair
BofA Securities, Research Division

Three for me, please. Firstly was just on AGI. After the U.S. assets are gone, I was just wondering if you could give us a pro forma cost-to-income ratio and some idea of where you think that needs to get to over the medium term for AGI? Secondly was just on P/C business, just as investment in rises, what sort of pressure are you seeing on underwriting income from pricing as competitors are perhaps leaning a bit more on investment income, I guess, particularly in retail markets, just how is that looking across your businesses? And thirdly was just on reserve releases. Actually, I just really wondered if you can give us an idea of your expectations for reserve leases amidst a higher inflation outlook?

Giulio Terzariol
CFO & Member of the Management Board

Very good. So starting maybe from AGI. I will say the cost-to-income ratio that we expect to see moving forward is going to be more towards the 67%. So right now, we were running 63%, as you see in the -- the idea was even to be able to go down to 62%, but after the Voya transaction, I would say, 67% could be the level we start with. You need to consider also that the market has been not necessarily the most favorable market. So this is the level we will start with. And then clearly, we will try to do our best to get to an even better level of efficiency. But there will be a starting point of how we see basically AGI cost-to-income ratio in this kind of environment after the transaction with Voya is completed.

On the Property-Casualty rates, whether they are affected by increased investment income, I wouldn't say so also because right now, I believe everybody is more focused on clearly what the impact from inflation could be. So from that point of view, and I would also add, yes, rates are going up. But as you see, they are also coming down a bit. So I wouldn't say that there is already this massive change in investment income coming through. So fundamentally, for the time being, I will say the impact of higher investment income on the combined -- on the pricing might be limited.

This can change if we really see over time that there is a higher investment income to a certain degree next year. The company reporting under IFRS 17, you are going to have discounting, included in the numbers. So potentially, this might change if there is really a substantial change in the investment income that we and our competitors are going to get. But at this time, I wouldn't say it plays a major role or at least it's not playing a major role in our thinking. So we are not changing our pricing philosophy because of the increase in rates that we saw.

Now the last point was about reserve releases. As you have seen, the runoff for the quarter was a little bit more elevated than usual with 4.3%. Here, we need to consider that we had some also positive runoff coming, especially from the conservatives that we heads in Euler Hermes or Allianz Trade, that's the name now, in the COVID situation. So from that point of view, that's part of the explanation for the higher runoff. Otherwise, I would say that usually we would expect moving forward [our note] to be about 2.5%. But again, we have definitely the situation where our -- I would say we have definitely sometimes pockets that might lead [around] to be a little bit higher than the 2.5%. So from that point of view, there could be a normalized expectation, but don't be surprised if in a quarter it can be higher because of this pocket of conservatives that we have here and there.

Andrew Sinclair
BofA Securities, Research Division

And just on those COVID provisions, can you give us an idea of how much is left at the moment?

Giulio Terzariol
CFO & Member of the Management Board

Okay. I would say specific to Allianz Trade, I think will come in more or less to an end of this COVID provision. I'm just -- and I'm referring really to what is even specific COVID provision because we have a very healthy margin. Then still remaining, Euler Hermes is more specific to this COVID provision that might come to, but we are not coming as a [CV] into an end of a COVID provision that we have set for -- in other lines of business.

Oliver Bate
Chairman of the Management Board & CEO

We will take the next question from Michael Huttner from Berenberg.

Michael Igor Huttner
Joh. Berenberg, Gossler & Co. KG, Research Division

I'm getting very confused here, sorry. So you were saying you would like to talk about the underwriting in the 93%. So maybe you could talk about that. It's not immediately obvious from the numbers, so anything you can -- would be very, very helpful. The other 2 mini questions to make it really easy is what are the net inflows you'll see -- net outflows you're seeing now at AGI and at PIMCO? And also what is the solvency today? And should we expect maybe a change in the way solvency moves if you reduce equities, for example?

Giulio Terzariol
CFO & Member of the Management Board

Okay. So starting from the combined ratio, maybe the -- usually, I like to take more than 6 months number as opposed to just a quarterly number, but the calculation will be the same. If you normalize our -- so the outcome will be basically the same. If you take our 6 months, combined ratio is 94.1%. If you do basically a normalization, you're going to first end up almost to the same level. But here, you need to consider also the impact coming from Brazil and Turkey. So we somehow adjust for that because especially Turkey may be slightly different, but in Brazil eventually this combined ratio has to normalize to a different level. So that would already bring basically this 94.1% below the 94% level to about 93.6%.

And then I tell you, for the year, we had about a good 1 percentage point of reserves that we set aside for inflation. So in that case, you even go below the 93% and then clearly we can have a conversation about how much of those reserves are going to be needed or not. But fundamentally, you need to consider that both for the quarter and also for the 6 months, we have about 1 percentage point, and for the 6 months, a good 1 percentage point of reserve, which are set aside specifically for potential future inflation that we're going to see. So that's on the combined ratio.

On AGI, yes. So I'll just tell you for PIMCO, the outflows were about a couple of billion of outflows for July. For AGI, we are also speaking of minor amounts. What you should consider, equity market and also rates went in the right direction. So for example, in the case of PIMCO, we have more than EUR 30 billion of increase in assets under management in the month of July. So Michael, if you ask me in reality, the outflows that we are seeing are totally moderate in my opinion, especially think back if somebody had told us rates are going to go up 150, 200 basis points, what is going to happen to the outflows of an asset manager? I would have expected even larger number.

We also see that what is happening to PIMCO is basically something that is happening everywhere. And when we check the -- what is happening to the majority of the competitors in the U.S. and also put these outflows in relationship to the size of PIMCO with EUR 1.4 trillion of assets under management. So the real issue and reality is more the market development in general. That's where the asset base is fluctuating. The inflows or outflows per se is a little bit of noise at the end of the day. And I would also say when the situation is stabilizing, I'm pretty confident that the floors are going to turn into positive. And potentially, we're going to have a catch-up effect because then investors are going to be more willing to invest in fixed income moving forward.

And then the last point was on the Solvency II and how we look at that. I would say 2 things on the rates, interest rates, our philosophy is to be matched, right? That's fundamentally what we try to do. And then clearly, when you run the model, you might get some exposure one way or the other, but fundamentally, that's the philosophy. And so we're going to continue with this philosophy, and yes, rates went up. But as you see, in July, they are going down. So we believe being the interest rate neutral is a good position to be in.

On the equity market, the 20% sensitivity downwards, this is not coming actually from active, adding to the exposure. In reality, we had reduced to a certain degree our exposure to public equity, for example. This is more driven by the -- how the Solvency II model works when -- especially when you have a little bit less unrealized gains, it's really unstable. And what we are going to do is, clearly, we've tried to reduce this sensitivity a bit towards the level that we usually have, which is about the 15% level. So this is something that we're going to work on in order to get back to what we usually show there's the sensitivity. A solvency ratio today, I will say it's -- but you saw the comments that there is some impact coming from a regulatory change.

On the other side, we have the business evolution. Clearly, that is going to come in and also the equity market has been relatively favorable. So I would say, as of now, we should be basically stable, maybe slightly better.

Oliver Bate
Chairman of the Management Board & CEO

We will take the next question from Peter Eliot from Kepler Cheuvreux.

Peter Eliot
Kepler Cheuvreux, Research Division

Maybe I can start with a couple of quick follow-ups actually on those previous questions. Giulio, you mentioned 1% set aside for inflation. Would you now talk us through the process of arriving at that? And how you'll repeat that process in future periods? Just wondering what we should sort of expect going forward? And then on Allianz Trade, I was interested what you said about sort of releasing most of the COVID reserves. We did hear at your Inside Allianz event recently, that the idea is to be better reserved there post-COVID than you were pre-COVID. So I presume there's probably going to be something left, but it's just you've released most of what you intend to do, if you could confirm that, that would be great. .

And then maybe just wondering if you could give us any thoughts on capital management at [indiscernible] And I mean you mentioned you were keen to deploy it. Just wondering what opportunities you're seeing? And I mean, you're obviously not buying back any shares currently, but I'm guessing you've got to be thinking that's a pretty good option at the current share price. So I'm just interested in your thoughts. And then sorry, if I can ask on maybe Germany, in particular, from the sort of trends you're seeing. We've heard comments from others saying it's sort of quite a competitive market at the moment. Interested in your thoughts. And in particular, I was quite -- I mean when we came to your Inside Allianz, I was very pleased with the EUR 9 monthly ticket available. I'm just wondering what impact that those or any other schemes are having on public behavior? Sorry, I went on a bit.

Giulio Terzariol
CFO & Member of the Management Board

The EUR 9 was your rate increase. That was -- okay. Okay. Maybe I start from Trade. Look, Allianz Trade has a significant amount of buffer. So I was not specifically referring to the COVID buffer, but clearly, they are not the only buffer. So from that point of view, the reserve margin of Allianz Trade is definitely still very, very healthy, and it's definitely higher compared to what we had -- still higher compared to what we had pre-COVID. Also because when I speak about COVID, I'm referring actually to 2020, the exact year of COVID. Even in 2021, there was definitely a very good development for Allianz Trade, but I'm not counting that as part of COVID because it's not coming from the 2020 accident year. So that's on Trade so that there is no misunderstanding on that.

On the process for inflation. Basically, okay, when you run a claim triangle today, you might not necessarily reflect the inflation that we might see because the claims triangle is basically having the experience of the last 5 or 6 years. So that's where they actually they need to put something on top. This is also then a process that you need to do based on the conversation you're going to have with the claims people, right? Because depending on how you -- the confidence level that you are going already to reflect this, the inflation in the case reserve is going to make the need for an additional reserve lower or higher.

Moving forward, we are going to definitely be in a situation where they need to put additional -- any reserve reason on top is going to diminish. So we're going to start having a sort of blending because most likely the claims triangles are going to reflect the high inflation. If you have claims people, they might not be so forthcoming, they will definitely start changing also their view on case reserve. But right now, the process is basically in every company. We don't necessarily just rely on what is coming out of the claims triangles.

We tend to say, let's put something on top because what we're going -- potentially what we're going to see down the road is going to be a little bit more compared towards the case triangle based on the latest estimate of the case reserve might indicate. So it's a level of conservatives that we're putting on top. I believe some of that is going to be needed by the way. So maybe some of that is not going to be needed. But in an environment like this, it is definitely better to be on the conservative side. On the capital -- and keep in mind that the operating profit for Property-Casualty was EUR 150 million higher than the outlook. So you always need to keep these things in mind. And so there is a point where you think also how you protect the future. That's an important element of consideration.

Now on capital management and speaking about deployment of capital, I wouldn't say that we see big opportunities out there, but there is clearly always something, also minor things that can be interesting. So for example, you saw that we did the acquisition in Greece. You saw that we did also a small investment in [Quaniche] and we did a couple of investments at the beginning of the year in Asia. So we are -- that's the kind of things that might come across this side. I also agree with your statement that especially the current share price, investing our stock seems to be an excellent idea. So from that point of view, I believe this is going to be also the direction that we're going to take down the road.

Oliver Bate
Chairman of the Management Board & CEO

Germany?

Giulio Terzariol
CFO & Member of the Management Board

Germany. So first of all, let me say because this comment about a 9% rate increase.

Oliver Bate
Chairman of the Management Board & CEO

[I said buy] your own ticket -- and your own ticket, but it's a free ticket for public transportation.

Giulio Terzariol
CFO & Member of the Management Board

Yes, I know about that.

Oliver Bate
Chairman of the Management Board & CEO

It reduces the frequency of car traffic.

Giulio Terzariol
CFO & Member of the Management Board

Okay. So I would say, look, at the end of the day -- sorry, I didn't understand the question. So I will say that overall, in most countries, we see a normalization of frequency towards the pre-COVID level, maybe still slightly below. But definitely, we didn't see any material impact, let's say, from the EUR 9 ticket on the frequency. So if you tell me, yes, frequency might be slightly lower compared to the pre-COVID level but it's pretty much normalized at this point in time.

Sorry, you had a question that compared to the situation in Germany. Look, I will say that in Germany, when you look at the combined ratio, it's 91.3%, and that's not an unusual combined ratio. So what is competitive and not competitive is always -- I would say every market has a level of competition. I wouldn't say that the German market has a super fierce level of competition. But yes, that's what I would say. So it seems to me a relatively competitive market, but nothing abnormal compared to what we see in other markets.

Oliver Bate
Chairman of the Management Board & CEO

Then we will take our next question from Andrew Ritchie from Autonomous.

Andrew James Ritchie
Autonomous Research LLP

Giulio, I guess I just need a bit more detail on the P/C inflation impact. I guess I'm concerned that the 1 point load will repeat or even grow unless you're able to reprice the front book. So could you give us some detail on what you're doing vis-a-vis -- within respect to pricing at the front book to try and match the inflation or any other initiatives? I guess this is focused on personal lines, mostly personal motor in Continental Europe. Other than that, I could just see -- I think your normalization of the combined was probably overly generous if there isn't a lot of action taking place?

And second question on investment income. You said it's running higher, I think it's running higher both in life and non-life. Some of that is the investment -- the link -- inflation-linked securities. They lag typically. So I'm assuming there's another gain from those still to occur in the rest of the year. And then is your hope that we don't lose that inflation link income next year or we do lose it, but we'll get the underlying non-linked portfolio picking up at the same pace, if you understand what I'm asking. And my final question was just you suggested when you entered the Voya deal with AGI, particularly from your IR team that we were -- that there was possibly some upside from the joint venture and distribution -- ongoing distribution agreements with Voya. Can you give us any color as to the materiality of that?

Giulio Terzariol
CFO & Member of the Management Board

Yes. So starting from Property-Casualty. The idea is definitely not that we booked some -- any for inflation, we do nothing. And if you look at Page 11, so if you have a growth of 11% in P/C, this is not necessarily coming from volume. There is also a volume component. A lot of this growth is driven by pricing. So from that point of view, just the fact that we have an 11% growth rate, this should give you an idea of the effort that we are putting in reality from an action point of view. As we go into the second part of the year, rate increases are going to be even more pronounced. But just what you see now in our presentation today tells you that there was a big push already. And clearly, in the second half in general, we are going to see higher rate increases on renewal, also on new business.

You saw also the situation in the U.K. where at the beginning of the year, there was also the situation with the dual pricing. But now it's pretty clear that there will be rate increases in the market. In some products, we have indexation. So fundamentally, we have already taken action, and so we are consistently taking action also in the second part of the year to make sure that we can protect our combination. From my standpoint, we have been doing definitely also already now a very good job of keeping things in check. So that's on what we do on the P/C side.

On the inflation-linked bonds, yes, there is a delay of a couple of months. So fundamentally, we are going to see also a higher investment income in Q3. And fundamentally, you're going to see high investment income as long as inflation stays elevated. At the moment that inflation is going to come down. Clearly, at that point and inflation in bonds might perform from an investment income point of view at a lower level compared to a nominal -- in normal bonds. But I would say, inflation-linked bonds are a very good instrument in order to protect you, especially when inflation is picking up and you -- maybe you need also the time to put the action in place, right?

So I would say being as proactive as possible in taking action on the rates and also combining this with the inflation-linked bonds is the best way really to manage the situation. So if you ask me what is going to happen, you're going to see high investment income also in Q3. I would also say in Q4 and next year we'll see what the inflation is. It can go 2 ways, either the inflation is coming down, then you're not going to see a lot of investment income coming from the bonds, but also we have priced at a point in time a book for a much higher inflation level. So then you're going to see the benefit basically on the underwriting side. Or if inflation continues to be high, you're still going to have this sustaining element coming from the inflation in bonds. So I think it's a very healthy instrument to have to manage inflation.

On the Voya transaction, the comments we made on that is, basically, we are entering this also distribution agreement with Voya. We think that down the road, this might bring other opportunity, but that's more of a strategic thinking of what could potentially be possible down the road as opposed to be now a specific action plan. For the time being, we are focused on making sure that the transition to Voya is successful. We have been completed this now to making sure that the cooperation, the distribution agreements that we have in place is working properly and working fine, and then based on what we are going to see, this could open up clearly other opportunities.

Oliver Bate
Chairman of the Management Board & CEO

We will take the next question from William Hawkins, KBW.

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

Giulio, as I've asked the other big companies this week, it's interesting to see the change in the operating profits in the first 6 months. What do you think you might be saying to us that would be different if you were accounting under IFRS 17 and IFRS 9? Are there any particular drivers that could be having a different impact relative to what we're seeing in the profits? Any kind of qualitative or directional comment would be helpful.

Secondly, can you just remind us what's been booked and whether there's anything else that you guys are reviewing with regards to the war in Ukraine? I think we have the EUR 100 million credits charge in the first quarter. And there's kind of no update on that. And I know your exposure may not be big, but just would like to get an update on that, please? And then lastly, given the volatility in the bond market, are there any specific credit trends of notes that you're seeing in your investment portfolio? I'm thinking about rating migration or any surveys that you've been doing of risk in the high yield or private investment portfolios?

Giulio Terzariol
CFO & Member of the Management Board

Okay. Thank you, William. So maybe starting from IFRS 9 and 17. What we will see now in IFRS 9 and 17 on the P/C side, since rates are going up, the element of discounting will be higher compared to the unwinding, the discounting coming from the peso, there will be a positive. So we did some numbers for Q1, and we saw already this to be a positive, which was a little bit more than EUR 100 million of positive impact coming from the discounting effect. In Q2, they will be even higher because rates went up. So on the P/C side, definitely is a positive. On the Life side, in reality, it's pretty much of a wash.

One complexity that we have on the life side is the following. When we do hedges, let's take also, for example, and Allianz Life. They do hedges placed on economy, but they do also hedges thinking about what the volatility of IFRS 4 could be. That kind -- the liability movement under IFRS 17 is going to be different from the volatility moment that -- liability movement that you have under IFRS 4. So right now, we have hedges in place that are not necessarily geared to IFRS 17. So when we run a calculation of IFRS 17, we have the liability moving in a direction which is not necessarily synchronized as we would do with the hedges. So we pick up a little bit of volatility. If we do a comparative right now, but if you tell me in an environment where we are under IFRS 17, where we're also hedging accordingly the operating profit should -- or the net income shouldn't be much different.

So from that point of view, I would say, more or less the same level of net income on the Life side. On the P/C side because of the discounting impacts, high operating profit. One thing that we saw was that because of the IFRS 9 where you have some position in fair value, the volatility below the line would have been in Q1 higher compared to what we saw, and that's clearly normal considering the market development, which means when you have a upward movement you're going to see also more of a swings up. But does it help? Or did I confuse you?

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

No, that's perfect. And you did just clarify at the end, but any volatility from IFRS 9, do you think you'd be taking below the operating line?

Giulio Terzariol
CFO & Member of the Management Board

Yes, absolutely. We are going to even absolutely. And we're going -- it's not a massive volatility by a way, but still, especially if you have a swing from positive to negative, this can make a little bit of a difference. So we are going to add that not only below the line, we also think about having an adjusted net income. If you remember also when we did the Capital Market Day presentation, we said that also for the dividend calculation moving forward, we are going to use an adjusted net income because we were thinking about the impact of IFRS 9, especially on the net income. So absolutely, not only below the line, but it might be below, below the line. So that's definitely just pure market volatility that doesn't make any sense to consider.

On the Ukraine-Russia situation, yes, overall, we have about EUR 150 million now of impact in our underwriting results. As you said, EUR 100 million plus was coming from Q1, and then we added a little bit in Euler Hermes in Q2, but the number has not changed significantly. We also believe we're on the conservative side. But in total, we have right now EUR 150 million for the situation in Ukraine. And then on the -- whether we see any particular movement in credits? No, I will say no. We also took a look at the portfolio in the United States where we had some commercial mortgages and so on, that we don't see -- we see basically, I would say, no movement.

So from that point of view, we -- as you know, so when we run our Solvency II calculation, we are basically attaching a credit rating to our investments, and we take clearly what is the credit rating coming from credit agencies. In the case the assets have a credit -- we also look at a credit info swap and then also we do our own evaluation. Based on all this, we determine whether there is a rating downgrade or not. And we didn't see any particular movement except for Turkey in the first quarter, there was a downgrade on Turkey. But otherwise, when we look at the rest of the portfolio, nothing meaningful has happened.

Oliver Bate
Chairman of the Management Board & CEO

We will take the next question from Vinit Malhotra from Mediobanca.

Vinit Malhotra
Mediobanca - Banca di credito finanziario S.p.A., Research Division

So just moving on to the Asset Management. And I appreciate that one day higher interest rates within your investors bank. But at the moment, I mean, we are seeing one thing different in Q2 versus Q1, which is that the mutual funds are seeing bigger outflows in your portfolio. I mean, does that give you -- I mean, are you still comfortable with the margin impact that could have? Because I remember in the past, you have been saying to us, don't just look at the flows, look at the revenues. But with this mix difference? I'm just curious about that. So that's the first question, please.

Second question was just more a clarification. You talked about the inflation-linked bonds earlier also in 1Q, but I seem to recollect it was a small -- very small 20-odd million. I think it was even in corporate centered, not really P/C. Did you add more in Q2? Or is it just the natural effect of high inflation in Q2 and the lag effect that we are seeing more and more of this? Then one question, please, on the Solvency II equity sensitivity. In the past, I've noted that basically a different number for listed equities only. And I've seen that you said that you want to bring it back to 15% or so from 20% now, in the minus 30%. But what is the listed impact? And why is that different? And last thing is very much quick clarification. The combined ratio of 93%, is that your reaffirmation of target for the full year? Or was it for the second half, just more in particular?

Giulio Terzariol
CFO & Member of the Management Board

What was the last question? Sorry, can you repeat the last one?

Vinit Malhotra
Mediobanca - Banca di credito finanziario S.p.A., Research Division

The 93 combined ratio that you confirmed. Is that full year or 2H now?

Giulio Terzariol
CFO & Member of the Management Board

Okay. So starting from the first question, which was related basically to the flows, outflows and fee margin impact. For example, when you look at PIMCO, basically, the fee margin didn't move much. So from that point of view, then clearly, now you have a quarter where the flows can be lower in a mutual fund, where clearly, fee margins are a little bit higher. But -- this is not necessarily now the beginning of a trend, and we speak only of the small fraction on the other side. As we were seeing before, alternative went up. Alternative can have very strong fee margin. So just look at the total number for PIMCO, and you see that in reality, the movement is pretty moderate. So I wouldn't be overly concerned about a tectonic change in fee margin just because in a quarter, the mutual funds development might have been a little bit poorer compared to what we saw on the institutional side. So that wouldn't be a concern from my standpoint.

Then there was a question about the inflation in bonds. I will say that, yes, there was -- we added a little bit of inflation-linked bonds. Also there was a purchase of inflation-linked bonds that we did in -- this was more at the corporate level that we did in the course of Q1. So for the full -- now for Q2, we had basically this position for the entire quarter, where in Q1 was just for part of the quarter. And also some of our companies have also increased a bit inflation-linked bond that was part of the conversation that we had with the companies. And as part of our strategy clearly to -- also to mitigate what the impact from inflation could be. So that's not a coincidence. That's really part of a list of actions that we put in place to manage the situation.

Then on the listed equity, I will say the sensitivity is not really changing on the listed equity because in reality, on the listed equity as I was saying before, we -- in reality, we didn't really increase our exposure. I would even say that on the listed equity, when you take a position after hedging, the exposure went down, but then it goes -- the sensitivity goes back to the previous level because of basically the entire calculation of the Solvency II where we have less buffer. But think about that on public equity in reality by reducing this pause and also by -- especially via hedges, we have mitigating basically the increase in sensitivity. And then on the private equity, in that case, we don't have a specific hedging on private equity, and this explains why the sensitivity is coming from the nonpublic equity side. Was I clear?

Vinit Malhotra
Mediobanca - Banca di credito finanziario S.p.A., Research Division

Yes, I'll take it up offline.

Giulio Terzariol
CFO & Member of the Management Board

Yes. And then on the combined ratio, I would say, look, at the end of the day, our idea is to target -- to keep targeting this 94 -- 93 combined ratio. So this is more like targets that we have in front of us. This doesn't necessarily -- now we were running for the first 6 months. We were running the 94% level. So sure, we might end up in the year a little bit higher than the 93%. So I'm not necessarily saying that we are obsessed with targeting a 93% combined ratio for 2022. We want to be anywhere at a level 93 combined ratio. And as you know, in the sales of a normalized level. Then as you know, for the time being, we have not changed our plan that we want to be a 92 combined ratio by 2024. And on that one, clearly, we're going to see how the development of inflation is going to be in the -- also in the course of 2023, but the targets are not changing. So normalized 93% combined ratio and also for the time being, we are definitely giving the target to our subsidiaries that we want to achieve a 92 combined ratio by 2024.

Oliver Bate
Chairman of the Management Board & CEO

Perhaps for the sake of everybody because this is a little bit hidden in our presentation, in case you're interested in the Solvency II sensitivity with regards to listed equities only as well on Page #7, in footnote #4, we give those numbers specifically, and there you can look them up and find them. All right.

And we will take our next question now from Will Hardcastle.

William Fraser Hardcastle
UBS Investment Bank, Research Division

Firstly, it sounds like you've put in around EUR 300 million or so for inflation load. I guess, just to be clear, that's coming through on the current year loss ratio. Is that right? And in which line is it being allocated in geographies? And a little bit lopsided at the moment in terms of what's come through from inflation-linked bond moves versus what's going on to the reserving? And do you feel pretty well matched at this point? I guess the second one is, can you give us an update? Sorry if I missed this, I got cut off at one point in the call, but any update on the deductible on the catastrophe aggregate that's being consumed at this point?

Giulio Terzariol
CFO & Member of the Management Board

Yes, absolutely. So starting from the reserve for inflation, I would say it's basically across the different entities and also across different lines of business. So it's a pretty widespread. So -- and to your second question, which I understood there is a sort of correlation between what is happening on the inflation-linked bonds and the reserve, if I understood the question properly. That was your question? What is the...

William Fraser Hardcastle
UBS Investment Bank, Research Division

Yes to that.

Giulio Terzariol
CFO & Member of the Management Board

Yes, there is a little bit in some cases, like in Benelux, where there is also a work accident book. Definitely in that case, there is a correlation, I would say, between the inflation-linked bonds income. And I would say that any -- or just also they just bring in the case reserve going up. So there is definitely also a correlation between the 2 things. It might be more pronounced in some countries and less pronounced in others. But again, as you can imagine, a local CFO that sees a nice chunk of investment income coming from inflation-linked bonds is going definitely to use it, to put in the reserve also because that's the idea of an inflation-linked bond. We are not speculating with inflation in bonds, it's an instrument to manage basically claims inflation as a sort of hedging, if you want.

And on the aggregates, I tell you that as of now, we have basically utilized half of the aggregates. What we saw, which is interesting, we saw a reality this year a big natural catastrophe which was the one in Australia. Which, by the way, from a consideration of the aggregate, it's not necessarily just one, but we can see there was a significant natural catastrophe. And then we had a bunch of smaller natural catastrophes. Since the aggregate is working with a deductible from that point of view is still effective but maybe slightly less effective for the -- compared to a situation where you have fewer natural catastrophes, but high -- with a higher amount.

This said, we will say that if we see a repeat one-to-one on what happened in Q1, our nat cat loads will be basically at the 4% level that you saw in Q1, that would be in the first half of the year. So that will be basically the maximum amount that you could expect in the case, you have a repeat of the situation of the first half of the year, which was a little bit unusual from the way this natural catastrophe came through.

Oliver Bate
Chairman of the Management Board & CEO

Then we will take the next question from Dominic O'Mahony from BNP Paribas.

Dominic Alexander O'Mahony
BNP Paribas Exane, Research Division

I've only got 2 left. One is, Giulio, you were talking earlier about the extent to which higher bond yield might impact underwriting margins in your view that at the moment, you're not seeing that in the market. You also raised this question about IFRS 17 and the fact that liabilities are discounted and whether that might have some impact. I was really just curious to understand how -- for you folks internally when you're saying your business units, "I want a 92% combined ratio by 2024." Is that on a -- is that using discounted or undiscounted liabilities? And when you set your hurdle rates for capital allocation and choosing which lines to emphasize, do you look at just the underwriting margin? Or do you take into account the investment return that you're expecting from that?

Second question is on leverage. I think the way that you folks -- the leverage ratio we published is just debt over debt plus shareholders' equity. Now purely mechanically given what's happened with the unrealized gains, shareholders equity is down. That's noneconomic, we all understand that, but the leverage ratio, I assume, has gone up correspondingly. When you folks think about the structure of your capital stack and where you want that ratio to be, do you use that leverage ratio that could [somewhat solid] for us? Or actually, do you take a sort of a different view, maybe of view based on more insolvency or cash or something else? I just want to understand how you folks think about what the appropriate amount of debt in your capital stack is?

Giulio Terzariol
CFO & Member of the Management Board

Thank you for your question. On the first question, whether we are looking at combined ratio after discounting or before discounting? No, we are still looking, let's say, a combined ratio before discounting. Now in reality, when the pricing actuary is going to do pricing, they always think about investment income. So the investment income is a component that's -- pricing actuary have in their mind. Now I wouldn't say that -- they didn't go from 0% to 5%. So we had a movement up, they're coming down as we speak.

So at this point in time, regardless of the discounting in IFRS or not, a pricing actuary is not going necessary to change the pricing because of the increasing rates and especially then in reality, the main concern over pricing actuary and now will be to take on the inflation element. But to your question, as we look at our combined ratio today, are we thinking pre or after discounting? We are thinking pre discounting. Now once IFRS 9 and 17 is going to be implemented, you need to keep in mind that we, as a public company and our competitors that you know, we are going to be on a discounting calculation. But a lot of local players, they -- for example, in Germany, you don't need necessarily to use IFRS, you can use [GAAP]. So we're not going to necessarily all players looking at combined ratio after discount and that's also something to keep in mind.

But again, price is important. Price is going to reflect the investment income that you need to expect. Then I will say, what might be different in the future to a certain degree is how you're going to also manage results. And clearly, if you have a discounting impact coming through your numbers, you might make a little bit of a different decision on the loss ratio that you're going to pick because that's also clearly always a consideration.

On the leverage, okay, clearly, rates went up. And so from that point of view, this is causing the leverage to go up. We have always considered that you want to look at the leverage ratio also from a normalized point of view because you know that unrealized gains also eventually are going to go away. They can go away when you have a swing of the rates or they can go away just over time as the book is maturing. The same applies to unrealized losses. So from that point of view, we're clearer not just looking at the leverage ratio based on the reported equity under IFRS. We are looking at a sort of a normalized level for annualized gains. We are looking also at a calculation that we do for the Solvency II.

I personally look also at the leverage ratio in relation to the amount of profit that you generate or cash that you generate. So there are a lot of elements that come into this consideration. And the bottom line is we feel that we have the right amount of leverage, so we don't have any intention to increase our leverage. On the other side, also, we don't have any program where we say we had too much leverage, and we need to bring it down. So we think that the position is actually the one we want to have, and that's also the outcome of the fact that there are many elements that come into the determination of the amount of debt we like to have.

Oliver Bate
Chairman of the Management Board & CEO

We will take our next question from Thomas Fossard from HSBC.

Thomas Fossard
HSBC, Research Division

Yes. Two questions on my side. The first one will be back on inflation. And really your comment earlier today on your assessment that the inflation -- year-to-date inflation on the European motor claims were around 6%. I was just wondering how much this was comparing to your initial or start of the year expectations? And potentially, what was your outlook for this claims inflation by the end of the year.? Are you still seeing this 6% going up? Or you believe that we have now reached something which is relatively stable, and you need to match the 6% with higher prices? And the second question would be related to your picks -- PIMCO cost-to-income. Clearly, we've seen in Q2 and H1 revenues falling slightly faster than expenses. I was wondering if you were considering doing things on expenses or cost in order to brings the cost-to-income lower by the end of the year? Or you're okay with the current situation waiting for the flows to come back?

Giulio Terzariol
CFO & Member of the Management Board

Thank you for your questions. So starting from the inflation, yes, 6% is what is on average what we see in the book. I would say this number is maybe a couple of percentage points higher compared to what we were expecting, that clearly the situation can be slightly different country by country. And you need to consider that anyway on the frequency side, we were slightly more conservative compared to what we see. So -- but just focusing on the severity, I would say, a couple of percentage points of higher inflation compared to the initial expectation. For the future, we don't necessarily expect inflation to be substantially higher, but we are definitely putting rate increases that -- they need to match.

The inflation also considering anyway for frequency development. And I tell you, in certain cases, also we are putting in rate increases. If there was more of a larger gap between the inflation, assuming the pricing what happened, the rate increases, they need not only to adjust to the level of inflation, but also catching up a little bit on the gap. This is what is happening in some countries. So I would say, overall, a little bit of higher inflation compared to the expectation. In most cases, compensated also by frequency element and rate increases are anyway going to be high in order to make sure that we can match the inflation or rely on lower frequency moving forward. So that's on the pricing element.

Of the cost-to-income ratio PIMCO. First of all, there is some volatility on the cost-to-income ratio. Keep in mind that for the 6 months is 59.1%, and this is without any performance fees. Because when we say that we are basically targeting a combined ratio of about below 60, let's say, 58, this is percent. This is also considering the annual view where the performance fees are kicking in. So from that point of view, I would say the position in which we are right now is not drifting away from where we want to be. Also clearly, if markets are stronger or weaker the number can fluctuate a bit.

Final comments, in reality, if there is a company where I'm not overly concerned about the cost-to-income ratio, it's PIMCO because they -- they have also a profit sharing mechanism. So anytime the cost-to-income ratio goes up, they also are directly affected by the increase of the cost-to-income ratio and the other way around. So from that point of view, there is a natural incentive at PIMCO to manage the company in the most efficient way, but also clearly having a focus at investing when there is the need for investing. But that's, in my opinion, a very effective sector because there is a line of interest in this case. And I think that's the reason why, generally, when we talk to PIMCO, we are very much aligned on the way to manage the cost-to-income ratio.

Oliver Bate
Chairman of the Management Board & CEO

We will take the next question from Fulin Liang from Morgan Stanley.

Fulin Liang
Morgan Stanley, Research Division

I've got three questions, please. The first is you clearly mentioned that the further capital kind of deployment is under agenda and your current buyback has kind of like finished last month. And just wondering what prevents you from just announcing another buyback today? That's the first question. And second one is just to clarify actually one thing. You mentioned that the Allianz Trade, the large runoff is mainly due to the COVID provision release from Allianz Trade, which is pretty much approaching the end. Should we expect the prior release to normalize from next quarter onwards? That's the second question.

The last one is -- just so to carve out one thing. The 1%, let's say, inflation margin, you mentioned in the claim ratio. If I understand correctly, that, as you said, will fluctuate based on your -- the gap between the inflation and your pricing. And when would you consider if I understand that -- if the gap remains as it is, that the 1% will eventually release into the combined ratio. Is my understanding correct? And then what would happen -- need to happen to convince you to start releasing that 1%?

Giulio Terzariol
CFO & Member of the Management Board

Yes. So starting from capital deployment on what is preventing us from announcing a buyback today. The idea is not that we are going to do back-to-back buyback. That's what I'd like to say. So from that point of view, we just completed a buyback. We are normally then clearly before we announce a new buyback, usually we take a few months, it could be a few quarters and then based on what opportunity we had and based on development in the market, then we take a decision about what to do. As I was saying before, in a situation like this, buying back our stock seems to be a very good alternative compared to other opportunity. But definitely, we never did really buyback following straight another buyback. We also want to be considerate and you need to consider that we have also different stakeholders that -- we don't want to overwhelm our stakeholders with buyback and another buyback and then other buyback. So that's one -- the point on capital deployment.

On Allianz Trade, again, so if you look at the runoff in Allianz Trade that was substantial. So clearly, you cannot expect to have basically almost EUR 200 million per quarter. So -- but -- so from that point of view, that's definitely something which is not going to happen every quarter in the future. So that's definitely not going to be the case. But again, definitely, there is a lot of positive margin Allianz Trade. That's the main message. Having a positive runoff of almost EUR 200 million per quarter on a consistent basis, there will be something very unusual. And on the pricing. First of all, there is not really a gap between pricing and the loss trend that we see because in the loss trend, there is the inflation component, but there is also the frequency component.

So that's, first of all, important that we understand when we put the 2 things together, we don't see necessarily -- and I'm speaking here across the book, we don't see a gap in pricing between the price that we put in the market and the loss trend. Specifically, then to your question about the inflation for reserve. In reality, this inflation for reserve is going to be released, not based on pricing consideration, but it's going to be released based on how the claims are going to develop, right? So fundamentally, it's going to released over the next, I would say, 2 years. And depending on the inflation level that we're going to see, there might be just matching claims or might come in the form of a positive runoff down the road.

Oliver Bate
Chairman of the Management Board & CEO

All right. The time for the call is almost up that we will take Therefore, one last question, and that question we will take from Michael Huttner from Berenberg.

Michael Igor Huttner
Joh. Berenberg, Gossler & Co. KG, Research Division

Fantastic. Then just 2 numbers. The first 1 is what is PIMCO performance fees, which we could think about for the second half? And the second, you didn't revise your capital generation number, the one net of dividend, 10% for the year, we had 4% at the half year. Where does the extra come from the -- not the jump, but is it still fair to assume the figure?

Giulio Terzariol
CFO & Member of the Management Board

Okay. So on the performance fees for PIMCO, that's always very hard to estimate. So -- but you shouldn't be completely surprised if you're going to see a level consistent also with what we had last year. But again, this is a number that can really change. So it can also go higher, it can go over. But you might see a level of performance fees which is not that different from the level of last year. But this, I think, can be very volatile. So just take this as a sort of comment, it's not a sort of forecasting because it's very hard to forecast performance fees. And in the -- for the capital generation, I would say you saw that in Q1, Q2 was about 2 percentage points. It's a little bit lower compared to the 2.5% per quarter.

But the reason for it is that we are growing more in Property-Casualty. You see the growth that we have there is definitely more pronounced compared to what you usually assume. So from that point of view, as long as you're going to add this kind of growth in P/C, you're going to see capital generation, which is more at the level of 2%, but we are actually pretty pleased with this development because clearly, we like to see the growth in P/C with a correlated price strength coming through.

Oliver Bate
Chairman of the Management Board & CEO

All right. That concludes today's call. Thanks to everybody for joining us and now we say goodbye to you all and wish you a very remaining pleasant afternoon.

Giulio Terzariol
CFO & Member of the Management Board
Thank you, guys. Have a good rest of the day and also a nice summer break. Bye.