S&P Capital IQ

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Allianz SE DB:ALV

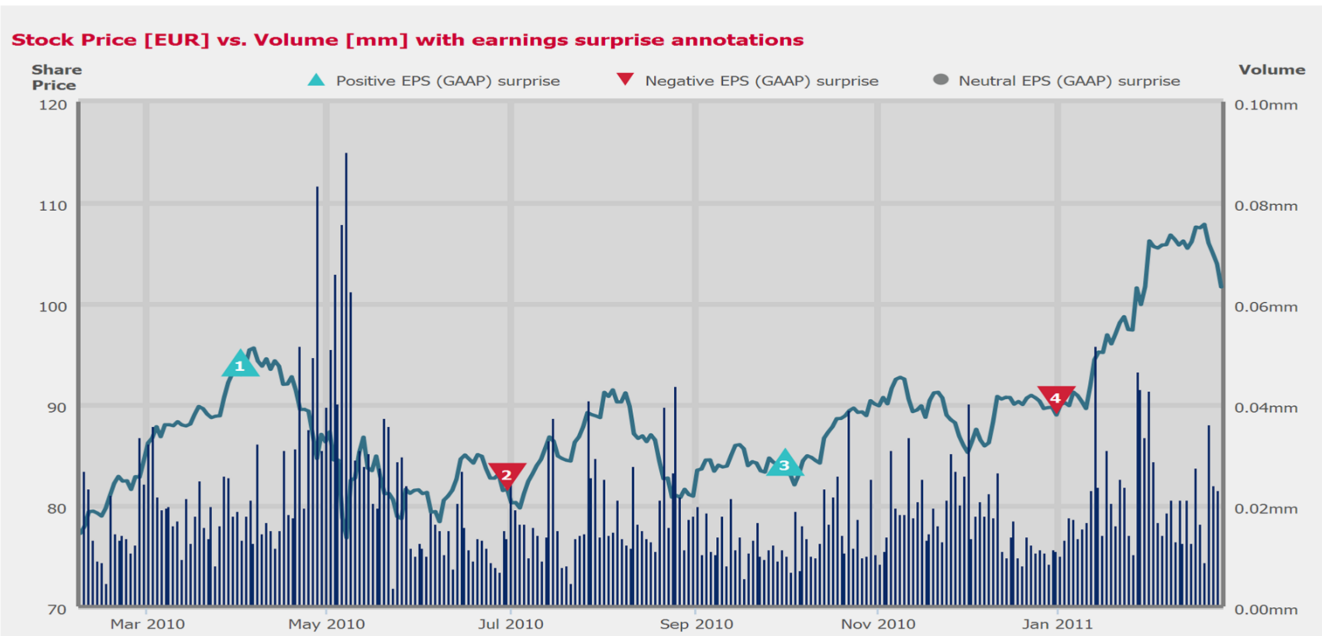
FQ1 2011 Earnings Call Transcripts

Thursday, May 12, 2011 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2011-			-FQ2 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	1.99	-	(5.53 %)	3.20	12.03	13.08
Revenue (mm)	28750.07	30000.00	4.35	21504.30	104168.42	108718.40

Currency: EUR
Consensus as of May-12-2011 7:45 AM GMT



- EPS (GAAP) -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2010	2.76	3.43	1 24.28 %
FQ2 2010	2.50	2.21	2 (11.60 %)
FQ3 2010	2.72	2.78	3 1.83 %
FQ4 2010	2.62	2.49	4 (4.96 %)

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Presentation

Oliver Schmidt
Head of Investor Relations

Good afternoon, ladies and gentlemen. Welcome to our conference call about the results for the first quarter 2011. Let me directly pass on to our CFO, Oliver Bate, who will present to you the key facts and figures.

Oliver Bäte
Chairman of Management Board & CEO

Good afternoon, everybody. Thanks for being with us today. We had a rocky start in the day, that's the sector, I feel compassion with the sell-side analysts today. If I try to make sense of what the markets are then, commodities are down and I assume that insurance now seem to be commodity that's why we're down, as well as the sector. Otherwise, I don't understand, but you'll probably tell me afterwards.

Now kidding aside, I'd like to report a little bit on how we did in the first quarter 2011. We'll have the usual procedure. I would probably need 35 to 40 minutes to go through the presentation, and then we should have sufficient time for questions and answers. I hope that we provide appropriate ones.

I'll try to focus a little bit in the segments on the most important issues to also free up some time for the specific issues and go along the way. A focal point will be NatCat activity in the first quarter and overall, and you'll get some facts on those, I hope.

Now what's the message from Allianz' management on the first quarter? With EUR 29.9 billion in revenues recorded, the second strongest quarter ever. The important thing for me as a CFO is that we always report relative to prior year quarter, which was the best we ever had in the history. So numbers looked down but in the longer-term perspective, this is a very good quarter in terms of revenues.

Operating profit at EUR 1.7 billion is almost at the same level of prior year, despite severe NatCat loss activity far beyond what we had last year. So we feel this proves our resilience and the business model and the very nice diversification across our various segments. Net income is at EUR 915 million, that surprised a few market observer. It's pretty clear due to lower nonoperating profits. We had said last year, ICBC, the big gains we had in the first quarter of EUR 522 million would not repeat themselves -- that should have not come as a surprise. A little bit more surprising is the temporarily higher tax rate, that will normalize itself over the year to where we are always giving the outlook at around 30%. Last year, the tax rate was significantly lower because one-off effects we had again due to the stickle ruling we had in Germany.

Fourth comment that I have, our capital position continues to be strong relative to requirements. We feel comfortable to what we see out there, but in light of Solvency II, I'm not going to bore you forever but I will do that again today, we need to be extremely cautious. Those that are closely watching the developments will not be surprised because the commission threw out completely what we've been working on the last 2 years with new proposals to eradicate the liquidity premium and substitute it with something else. So we're having fun trying to adjust to the new environment that reinforces our communication on guidelines to be very careful in terms of making sure our balance sheets don't have to be bolstered by [indiscernible] activity, we feel we're very well positioned in this light.

So these are the overall messages. Let me please go through the various individual items. Page #4 gives you the typical split across time on revenues, operating profit and net income. And you see the development that reiterate the point that we try to make. Very strong revenue quarter, operating profit, resilient net income, lower due to nonoperating and taxes.

Now shareholders' equity, we've got a few questions on what that is. You're all pros, so I can assume that's pretty clear what the changes were and why we are a little lower than at the year end, why we had the net income of EUR 857 million adding to equity. We have 2 positions that moved it into the negative zone, the reduction underlies gains due to higher interest rate on the bond portfolio, were around EUR 1.1

billion, and then foreign exchange hit us with another at EUR 776 million to reduce the equity position that is expected with these market movements.

Now on the right-hand side, you see the various stresses on the equity side, the markets are reacting to it even though it's not economics because we obviously don't see the alleviation we get from higher rates on the liability side. The most in this chart is interest rate up 100 basis points plus equity markets down with EUR 7.5 billion.

Let me move on to the conglomerate solvency. This is a known issue with 180 basis points. Here, the key point is that this is not sensitive to interest rate movements, so we have an increase here that is reflected because we get full credit through the issuance of subordinated debt of EUR 2 billion, and the net income, net of accrued dividends, that is going up. This is different, as you will see in the second, to our internal model where we don't get the full credit on the issues but only a net effect and there you'll see that in the second.

The stress scenarios show that the impact on solvency is also very limited, and here, the most severe sort of impact would have been equities down by itself, 30%. As you all know, and let me remind you, unrealized gains and losses on both the neutralized and FCD, the different, for example, to Switzerland and other markets, that's why our ratios are a little different from other companies.

Now the economic solvency is on Page 7. It has improved by 11 points from the year end. Please remember, it's calibrated at a 3 basis point level, i.e. AA, which is more conservative on certain issues, but we also have a few things like diversification effects which are not clear whether it will come through on the Solvency II. We feel that our internal model appropriately reflect our risk at this point in time.

I also like to remind you technically, before we get to the questions later, it includes the liquidity premium and the yield curve extension according to EIOPA [European Insurance and Occupational Pensions Authority] guidelines that have been in line with QIS 5 specifications. So that's also important. The key change here is available capital increased to EUR 54.6 billion. The positive impact of EUR 3.5 billion is, number one, due to an increase in the present value of future profit that is not accounted for in IFRS on the back of high interest rates by EUR 2 billion and an increased hybrid capital by EUR 1.5 billion. It includes the issuance of EUR 2 billion hybrid and a buyback of USD $500 million hybrid. Now it was counteracted by EUR 900 million decrease in the equity position on the back of foreign exchange effects and lower unrealized gains. So that also explains the differences between the economic solvency and the FCD, and I hope we don't need to spend a lot of time later on technicalities and computations.

The right-hand side shows you the relative estimated impact of stresses, that is page actually should say "estimated stress impact". And the most severe stress is the economic one that has interest rates down by 100 basis points and equity markets up, given the economic behavior of our guarantees, which is not reflected neither in IFRS nor in the conglomerate directive.

So that's the capital position. Again, we feel comfortable but we also don't feel we are building huge amount of excess capital because volatility from Solvency II rules in the last few weeks has increased unfortunately, not decreased, and we're hoping to get clarity over the course of the year. Good news is that by the end of June, people need to finally come to terms with all of those proposals in Brussels.

Now Page #9, let's move on to the group numbers, give you the split up of the revenues and the values gross numbers. Again, relative to Q1, our record quarter total gross stands at minus EUR 2.2 billion. P&C has been growing EUR 1.8 billion. Life is down, I will talk about that, that is special effects, particularly in France and in Italy. And then we have Asset Management powering ahead with a growth of 14.1%. The success story here continues.

Now operating profit picture is mixed on Page #10, that's no surprise, number one, because of NatCat on P&C, operating profit EUR 663 million, Life and Health at EUR 700 million. Now before people start complaining, if you really multiply that by 4, you reach the upper end of our target, communicated target range of EUR 2.8 billion, so we are happy with that number. It's in line with expectations for the first quarter, and we believe it's actually very good given the very tough environment, particularly still continuously low interest rates.

Asset Management is actually beating expectations because we would have expected with rising rates, things to become tougher. It shows quality actually prevails under difficult times, and we have more than EUR 0.5 billion in operating profit, and I may say at this point already, this is the quarter with the highest net income ever in Asset Management, EUR 306 million, and this is despite remaining expenditures on the B-units. So it's a very, very good story also on a net income level.

Corporate and other is in line and a few comments there. The banking letters included for, shows the first time, a positive result for many quarter. However, that is due to the fact that we have less losses. We really solved the situation in Eastern Europe and lower loss provisions. And it's also to be borne in mind, in nonoperating, you will see that later, we have huge shifts, so net income is actually significantly lower than in prior year. You will see that later.

Now the nonoperating items therefore on Page #11, you can easily see what made the difference. We have lower realized gains on the equity side, EUR 216 million, relative to EUR 653 million, driven in particular by lower realized gains as indicated over the last year from ICBC. Just to remind us, it was EUR 520 million in the first quarter of '10 and it was EUR 129 million this quarter. Just to preempt the question, as of March 31, the unrealized gains that we have on ICBC amounted to EUR 221 million.

Now on the other hand, impairments went slightly up on equities to EUR 66 million, but they were down on debt securities relative to prior year and that explains the total movement. Interest expense on external debt is stable. Fully consolidated private equity losses are down but we still have some restructuring charges unusually low this quarter and acquisition-related expenses in line with expectation at EUR 101 million and improved around EUR 100 million over prior year. As we bought now 88.4% of all B-units, around 17,000 are still outstanding, the smaller amount, and that those will likely disappear until 2016.

Now last comment in line with year end disclosure, I separated out amortization of intangibles and income from financial assets and liabilities carried at fair value within other nonoperating. Here, you see the biggest swing that is important to note relative to the prior year. It's a minus EUR 96 million and it was plus EUR 83 million. The key driver here is the volatility in the Hartford warrants. The swing EUR 237 million out of the total decline stemmed from a decrease in the change in the fair value of the Hartford warrants. We will talk probably around that a little more.

The underlying driver is the following: The Hartford increase, the dividends, the share price didn't move correspondingly and that reduces the value of the warrants. There's not much more to really be said in detail.

Last comment on this page, balance of unrealized gains and losses declined somewhat in equities but more importantly on fixed income in line with interest rates going up. Now the balance stands at EUR 1.5 billion.

Now net income, Page #12, you see the higher tax payment that I mentioned earlier. We had an effective tax rate of 38.4% in the first quarter. Now why is that higher? It has something to do with the fact that a significant part of the NatCat losses that we booked, we have booked in jurisdictions that have a very low marginal tax rates. Now that's very nice when we have low losses and high profitability, that obviously reverses itself when we have high losses and that happened in this quarter. This is no indication of the yearly tax number. We expect a normalization and reversal to the expected rate of around 30% over the year.

In the prior year, just to remind us all, the tax payments were significantly lower. We had 19.5% margin tax rate because of some very benign one-off effects. So the swing is obviously very significant and I think that's often being overlooked. Again, both numbers are not representative and will normalize over the year.

So much for the group. I'd like to now move to the P&C segment, Page 14 onwards. Now what's the story on P&C beyond NatCat. Revenues up 1.8% adjusted for foreign exchange of 20 basis points. We'll look at that in more detail, we had positive price effects on the portfolio, still some volume losses where we have end markets where we don't have a property profitability.

Operating profit down 6.9% particularly due to NatCat. Combined ratios, therefore, stands EUR 101.3 million. We actually believe this is a very good number in light of almost EUR 740 million in NatCat losses. In many prior years where we had these very high losses, we had different combined that had something to do with the fact that we are also taking care of it in terms of planning. I'll hit that in the second. And therefore, we believe we have a resilient portfolio overall given those losses.

Page #15, giving you the revenue development. It's consistent with what we've seen in the past. We still have markets where profitability is insufficient to grow. That's Germany, slight decrease. We have France, slighter decrease and we'll talk about that. Italy, still letting, that's cleaning, particularly in commercial lines, and we have reinsurance, which is a technical effect because of the Munich Re quota shares running out. In Eastern Europe, we still have some effects, lower car sales after the crisis that is going to rebound, we believe. And in the United States, to finish with the last item on the page, we are still having very low profitability in commercial lines and are cleaning the portfolio.

Now the growth that you see net of foreign exchange, 20 basis points, has 2 components. Again, lower volume, that's about 60 basis points on the revenue side and 80 basis points, higher prices. So the good news is the price increases that we have pulled through last year are actually manifesting themselves in revenues, and you will see in a second also manifesting themselves in improved combined ratios. So while this process is slow -- while this process is slow, it is consistent over time and we're seeing improvements, as you see.

Now Page 16 gives you the split up by underwriting investment income and others, including fees, no surprise. Investment income is somewhat counterbalancing the underwriting effects. We have on plan here the lower underwriting is obviously due to higher volume of NatCat, higher by exactly EUR 182 million. We have, on the other hand, further improvements in credit and improvements in the big 4, France, Italy, Germany and the United States, then some runoff in here as well, which I'm going to talk about.

The combined ratio, Page 17, has 2 components, and the expense ratio is down relative to year end to 28% and flat relative to the prior year so at least stable news on this front. On the right-hand side, you'll see the NatCat impact, which is the impact that we have singled out. Just a comment on Germany, we have a very little NatCat impact in the first quarter in Germany from a small flood in Eastern Germany. Some people have noted that we haven't heard about it. Now you shouldn't have heard about it because it's really small, it's only EUR 3 million. Unless you live in Eastern Germany, it's a no event. But most of that have been counting runoff from the fourth quarter of 2010. The rest is really what has been impacted in the first quarter, reinsurance in particular, through primary and third-party agency and as Australia was really hammered and the United States, where the story is continuing. We'll talk about subsequent event probably later.

That's the overview. On Page #18, you see the various impact, what we have booked relative to the pro rata NatCat budget of EUR 267 million, the biggest part coming from Japan, and then in New Zealand and Australia.

Now Page #19 is more for administration purposes. Page #19 is a new chart we put in just to remind us that NatCat activity, very often in recent years, has been strong in the first quarter and then tapers off throughout the year. That must not be this way always and need be this way, excuse me, always because sometimes we have in the third quarter additional activity. But because of these patterns, we should not extrapolate the losses that we have seen in the first quarter.

Second, we have deliberately increased our NatCat budget over recent years. When I came here, we had 2% of NatCat budget included but because we have been increasing our retentions, and we've seen increasing NatCat activity, we've moved the budget up to 2.8% of our target combined ratio. That's around EUR 1.1 billion. So even with the high losses, we have around EUR 400 million in NatCat budget for the year left. So that's the 2 pieces of information I wanted to leave you with. They're not a ruler but they give you an indication of why we're expecting normalization over the year. Now obviously, in order to make -- getting closer back to our original target of 96% combined, we need to obviously see very good quarters during the rest of the year.

Page #20 gives you the usual information on the big 5. I have included here the accident year loss ratios, so no runoff included here separating our NatCat and large claims. In 4 out of the 5, we have a good trend that we expect to continue. So it's in line with expectations. In Germany, we still have some work to do, and the new team is particularly working on claims in order to get that done. Also, message here, people have asked us continuously, what is the situation in the German market? Will it turn? I have very dim outlook because there's a lot of excess capital still in the market. It actually increased in the last year despite what's happening in motor and the noise. So improvements will have to come from management achievement and the work of our employees and not the help of the market. That's, by the way, true for most of what we do.

Now Page #21 gives you some interesting detail on the accident year loss ratio. And we've had the debate amongst many of us here of what would be the trend in the Allianz portfolio. I'm actually very happy with the picture, particularly when you look at the upper right-hand side. We are stabilizing clearly below the 70% mark here, and you see some of the price increases coming through. When you look to the lower left-hand side, while frequency and severity are increasing by around 30 basis points in the portfolio on the accident year loss ratio, the price increase is more than doubled relative to that. So it's very good news. We're getting actually profitability improvement through price increases on the loss ratio.

Let me make a comment on the runoff because people are asking, so what is normal, blah, blah, blah? And as I said in many times, that we, in times like this, need to expect larger runoffs than usual. Why is that? The first thing has been the financial crisis. In the financial crisis, we had a lot of large claims which we very carefully reserve. And over time, we ran them off, and it just shows the strength of our reserving process that these reserves come up.

The second is with increasing NatCat activity, we also reserve them very carefully so when you have more NatCat, you would have to expect, if you reserve conservatively, also more runoff over time. Now in this quarter, we had a third effect. Last year, and I've mentioned that, we have started the innovation of an external reinsurance contract that involves Allianz Global and specialties Allianz ART and New Re in Switzerland and we booked 2 effects already, one was last year and one was this year. So the real runoff out of the book, excluding that single contract, amounts to 3.1% which is in line with expectations.

So this is what I'd like to say on the technicalities, in my mind, the pretty reinsurance picture, how robust our portfolio is. Now if you ask then the final question just to get that out of the way, where did you have the runoff? We had some runoff in Allianz Re that comes out of actually runoff out of credit. At crisis events, some group that pools and others and then we have AGC&S. I just mentioned that and the credit insurance having directly another 21%. That is the majority of the runoffs. So it's not coming out of units, for example, where you would, if you will, negative suspect supportive of local results. We don't do that.

Now expenses, Page 22. Underlying development is flat here. Our work on the admin side is really paying off as you see that. Now, you will counter on saying, "Yes, that's all fine but the acquisition expenses are going up." Commissions are largely stable but the other acquisition expenses. That is true. We have very fierce competition, and to serve our clients in this environment and to retain the profitable clients, we have to invest and that is reflected here. My view is we are preparing for an upside in the right way because we should get leverage out of improving markets.

And I think when you look at the share of profitable clients, from our perspective, that's exactly the right thing to do. Doesn't mean we need to not look at continuous improvements. However, they have to be structural, i.e. we need to get stronger in direct distribution that is structurally lower costs and we need to look at factor costs and we need to look at complexity reductions, particularly on the product and distribution side.

Now let me move to the 2 last -- 3 last slides, sorry, on P&C. The first 2 pertain to the investment portfolio, it's growing to EUR 96.3 billion. What is driving that? The first thing is we're having -- we increased the reserves. The reserve base is growing and obviously, the equity part of it through retained earnings is also increasing our asset base in P&C. We need a growing asset base given the reduced yield environment.

Now the second thing is of the right-hand side, debt security time yields are in line with expectation. The yields on equity is better than last year and we had higher dividend income, particularly in P&C as Allianz in Germany and Italy from associated enterprises, this is aligned with economic recovery.

Now operating investment income is therefore at a high level. You'll see that at Page 24 with EUR 823 million, in line with what we would like to see.

So now we get really to the last page, what is the pricing outlook? What has been the price impact year-to-date on renewals and the nominal price increases? And we also need to bear in mind what is happening? What is the dynamic? Now one thing that's been very important that people think through the mix of what our price increases we have already put into the portfolio. So, for example, in Italy, we have achieved effective price increases in the portfolio of already 7%. And when you think about price increases going forward, now we have the decision where we've got good price increases and margin improvements, are we now targeting volume growth or further price increases? So as you interpret these numbers, don't take them single dimensionally, but we, for example, in credit insurance have seen sufficient price increases, we're now looking for volume growth. We rather actually, because we have such strong margins, want to grab market share and grow the overall market than push the margin point too much. And we'll have that decision coming up in various markets where we see good combined ratio improvements too. So the price outlook needs to be reflected upon in light of what we already have achieved.

So these are my comments on prices, more probably later from your side. Let's move on, please, to Life and Health starting on Page 27. Revenues stand at EUR 14.3 billion. Again, relative to record quarter one down 7.1%, but here's a very important message, we had EUR 1.7 billion net inflows despite the very tough environment. We'll look at them in more detail. We are always either flat or up except for Italy, where we have a specific issue relative to the event distribution that is going to be addressed throughout the year.

Operating profit again on track to the upper boundary of our target. Now the value of new business is good at EUR 240 million. It has grown now for 2 quarters from a low point in the third quarter of 2010 where we had record low interest rates, and the new business margin of 2.2% is actually pretty good in light of the environment. Here, we have a little bit of a technical effect that I will explain later that is holding that number down a bit.

28 gives you the split of growth. Now when you look at the German number, it looks like an error but it isn't. It's exactly the same number for this quarter than it was a year ago, and German number is actually better than we expected. We had so much single premiums last year from large contracts that we got from institutional clients that have not come and we didn't expect that high volume but the distribution through Commerzbank is kicking off, particularly with traditional products that are very attractive to us. So actually the business mix in Germany has further improved, so that's very good news. Switzerland, it's growing nicely. Now France, we had a very strong campaign that was crediting 4.1% to clients last year. We have discontinued that and that's good news in light of the reduced interest rate but we are comfortable that France will do well over the year in terms of top line. Italy, we last year had scudo fiscale. You know that all the money that ebbs and flows back and out of Italy. Now at this time we had an amnesty, so money flew back in and we profited from it. This didn't repeat itself this year. The Benelux strongly up, Spain up and Asia Pacific down. That is also our Japanese business affected, of course, given the NatCat event that we had, and Eastern Europe still having some outflow effect of the financial crisis, and U.S. is doing really, really well, and as you would see in the second also with excellent margins, we have finally a very good job there, I think, in terms of using the opportunity of rising rates to get more margin out of our business.

Page #29 gives you the net flow numbers that I look at more than top line. The EUR 1.7 billion I mentioned, Germany having net flows of EUR 300 million which is very good news given the environment. Italy, I have mentioned. Asia Pacific is growing EUR 300 million in terms of net flows, very important. And the rest of the portfolio, EUR 800 million, which is also a strong number leading to EUR 1.7 billion up, which is not small. If you look at prior years before, the numbers was rather around EUR 0.5 billion. Also, that's a very good number at least in terms of Allianz' history.

Now Page 30 gives you the movement of the operating profit and the various drivers. On the technical result, there's actually not much to be talked about. A few methodological changes, particularly around loss assumptions, the changing interest rate environment will change customer behavior, which we are reflecting here. And the second is investment results, and the key drivers here, we have changed crediting assumption according to also changing interest rates and the need to reinforce the balance sheets for interest rate up scenario. And we're very happy to do that because it will pay off in the long run. Expense ratio further improved by EUR 24 million.

Page #31 gives you the view of the asset base. I don't want to really spend a lot of time on it. It's up 8%, which is very, very good. On the yield side, just to mention, the equity component is not the same as it is for equities, obviously, because we have a different structure here and different types of equity exposures.

The operating investment income, Page 32, is with EUR 4.1 billion, at a very good level and we have refrained, let me iterate that, we have refrained from taking additional gains in order to support quarterly earnings numbers. We had a discussion amongst us in the first quarter of 2010 because there were various questions around what are the gains and others are taking gains. We don't want to do that. We have a long-term plan on how we think about sustainable level of realized gains and losses, depending on the capital market environment, and we stick to that policy.

Now new business profitability, Page 33. New business margin is up from the fourth quarter to 2.2%, and it would've been up more but particularly in the German-speaking countries, because of the long-duration cash flows and still very high volatility on the long-term rates, that affects new business margin negatively and that is a lag effect. Also because of the way we've computed all these numbers, I'm actually very positive around the trends in the new business margin going forward.

And as you can see on Page 34, which gives you a very good picture of the development between the fourth quarter and the first quarter of this year across all segments and particularly in the U.S., it has doubled. It's significantly up in gross market. It's significantly up in Europe. And it's even up again on the long-duration liabilities in the German-speaking companies, most notably in Germany. So I think that's very good news, particularly reflecting the fact that we are still at interest rate levels below where we were in the first quarter of 2010.

So I'd like to close on the Life segment here. As you know, we don't do a full disclosure on MCEV in the first quarter. We'll do an update at the middle of the year to just keep track of it. MCEV development was also positive in the first quarter as well, not surprisingly.

Now Asset Management is always a nice one to hit last in the segment in recent quarter because the contribution of our colleagues has been, again, distinctive. Total Assets under Management stands at EUR 1,492 billion. It would've been EUR 50 billion higher if it wasn't for FX, but always works both way, we'll see that in a second.

Inflows, EUR 14 billion, many of our competitor had outflows of significant level, we still record good inflows. Operating profit is up in line with asset growth. Cost income ratio is still extremely strong at 58.5%.

Page 37 gives you the details. Relative to year end, the number is reduced. Out of the EUR 54 billion, by the way, the third-party number that you might want to ask for is EUR 51 billion. So it's EUR 51 billion FX effect on the third-party Assets under Management.

Page 38 gives you the net flow numbers, also the details between fixed income and the various other items. Actually, fixed income is the wrong word. Let me talk about the business units. PIMCO was EUR 14.9 billion net up. AGI Germany is EUR 1.7 billion down and that is an effect of outflows of out of the equity side but inflows on fixed income, the FX income side, and then we have some smaller outflows in France and in Italy, that are in line with what the market would do.

Now 39 gives you the development of net fee and commission income. We've always said performance fees are very volatile. They've been amounting to EUR 56 million in the first quarter, which is not bad but below what the prior year, number one, of course, below what the first -- the fourth quarter number was, was EUR 225 million. But despite that, our profitability is significantly up and that's great news.

And on Page 40, you'll also see the gross, therefore, in operating profit because the net fee income significantly outgrew operating expense income. And as I've said before, it is noteworthy to look at net income EUR 306 million for the quarter, the highest ever recorded for Asset Management.

Now just a quick look at the individual segment fixed income and equity on Pages 41 and 42. I don't know what to say on fixed income. Our performance now 92%, and that's really great when we had prior, not just the flow numbers but the operating profit number and the gross margins, you see an uptick here. We have really isolated us from the gross' flagship fund, but PIMCO is moving into other products that have better margins and less volatility although it's also reflecting strategy here which is very good news.

What is also good news on Page 42 is that profitability in equity has further increased, not just in absolute numbers to 34%, but also in terms of cost income ratio, which is now below 74% at 73.5%, which is also really, really, really nice.

So in summary, despite the heavy hits that we had to take out of NatCat and guess what, we are here for that. That's our job in society, to be there for our clients when things get tough. We had near record levels of revenues. We have a resilient operating profit at EUR 1.7 billion. The net income reflecting special effects that will taper out over the year and a strong capital position. And that's why your top management Allianz feels confident to be on track to still make our full year numbers.
And thanks for listening. Now, we are ready for your questions.

Question and Answer

Operator

We will take our first question today from Paul Goodhind from Redburn Partners.

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

I have 2 questions please. First just on the detail of the cat [catastrophe] losses, Slide 17. Of the reinsurance hit of 67 points, how much of that relates to AGCS? I presume that some of the AGCS lost point is weighing to the insurance line. I'll be keen just to know much that is. And then just taking a step back and looking at pricing generally, you were indicating last year that you felt that pricing would be higher in 2011 versus 2010. And so far, albeit it's early in the year, that doesn't seem to have happened. You've had number of the markets that were doing well last year, so your deceleration, and that hasn't been matched by an acceleration of the markets that we're seeing slower growth. Are you disappointed by the pricing that you've seen so far this year? And do you think that will accelerate as we move through the year?

Oliver Bäte
Chairman of Management Board & CEO

While we're digging out the number that you can obviously have through AGC&S, let me talk about the pricing effect. It's very important, Paul, to get the dynamics right between sort of cleaning the portfolio, increasing prices and pushing growth. And we have a number of markets where we're at a point of thinking through in certain segments how we push customer growth, again, relative to further price increases. I'm not disappointed on the pricing trends because we are better able to monitor pricing in the individual markets than in the past. But you're right, I'm actually surprised by some of the behavior of competitors in the market. Just to tell you the example in Italy, we had near bankruptcies recently where you would've assumed that we would've seen the price increases more strongly and earlier. And I think that's very important that we do not operate in isolation here but we operate relative to price movements at our competitors. And they're not always rational and relative to local capital positions. Now the issue still is Germany, because here, while the profitability is insufficient particularly in motor, the excess capital of the market is very significant, as I said earlier, has increased further. And if we had this winter very, very few NatCat losses, I mentioned that, and that has not really helped to drive the pricing dynamics in the market. And the other comment I would have, pricing is an important component. My personal opinion is, it's much more important to be better now on selection and on the claim side to address the opportunities and on the profitability side. Now let me tell you something quickly on the Allianz AGC&S share in the Japan losses and the re-results, they're around EUR 90 million without the internal stuff.

Operator

Our next question comes from Fabrizio Croce from Kepler.

Fabrizio Croce
Kepler Capital Markets, Research Division

Looking at large claim that you have and at your booming loss ratio, would you agree actually on the fact that quitting the reinsurance quarter share with Munich Re was an error? And secondly, if you look to the reinsurance builds, which was actually a decrease of minus 12%, here we have, of course, the quota share playing an important role. But looking at volume and price, just now over the renewal, could you please tell us how much the change was?

Oliver Bäte
Chairman of Management Board & CEO

I do not disclose renewal pricing numbers for various, competitive reasons, because on many things we're not through yet. The other comment I'd like, Fabrizio, is it was actually a brilliant idea to get rid of the

Munich Re quota share because otherwise, we'll have -- we'd be hit by huge losses on top of what we'll have. Because Munich Re was in every of those ones that we've also had. So we would've piled up the losses in the first quarter. And by the way, if you want to get an indication for how much that is, just look at Q1 2010 where we had the quarter share. It gives you a little bit of an indication. So basically getting the retention -- now, the other thing I'd like to remind you, our gross combined ratio in various aspect is still better than the net. That means, we're exceeding excess profitability to the reinsurance markets still and we do not like that. That doesn't mean we will pile up risks in an unintelligent way, but we are proceeding on the way to retain whatever profitable business is out there. My concern at this point is to make really sure that we get paid for taking NatCat risks, and the indications from the market are very positive. We've seen significant price increases across the jurisdictions where we had NatCat exposure. And Australia, to give you a particular example, has seen significant price increases. We have significant price increases in Japan. But again, excuse me for not giving, handing out the details there. The other reason why I do that, we have business partners in Japan that are only reporting their numbers in May and June and would not be fair to disclose information on that before they're out with their numbers.

Fabrizio Croce
Kepler Capital Markets, Research Division

But, sorry, the reinsurance part becomes more important by the day. Will we, in the future, receive this figure?

Oliver Bäte
Chairman of Management Board & CEO

I cannot tell you, Fabrizio, what exactly the number of the future build because then I would have a different title. But the point is what we are doing, and that's the very important aspect, is we're obviously thinking through how do we stabilize the volatility of our portfolio. What I personally want, however, is not just a protection on NatCat but the real thing to manage is this volatility of the overall capital position of the group, i.e. find the right way to hedge us against movements in capital markets and the liability side at the same time because that's more effective and, by the way, over time, less expensive.

Operator

Our next question comes from Andy Broadfield from Barclays Capital.

Andrew Broadfield
Barclays PLC, Research Division

Two questions please. The first question is on the Life and Health. You've mentioned very briefly about the increase in reserving effectively for the increase in policyholders' share on the Life side. I think that was in relation to France. Wonder if you could give us a bit more information on -- I didn't quite understand or follow quite how that was converted. Can you give us a little bit more information on how that works and what it is? And give some quantification in terms of the crediting rates now? And the other question is just on the non-Life, the other acquisition expenses. Again, whether you could give us just a little bit more information? And it sounds to me that these are costs that you're incurring without any obvious clear benefits coming through, say, on loss ratio as it's not a consequence of business mix or anything like that. So could you just give me a little bit more information about what those costs are? And what the benefits, expected benefits, from them are?

Oliver Bäte
Chairman of Management Board & CEO

Yes, let me start, Andy, thank you for your question, on with the Life insurance issue and France. As I mentioned, the change was, in France, out of the EUR 112 million, EUR 67 million came from the French side. And the crediting rates have something to do with our estimation of what the required future policyholder participation in the product is. And we need to make sure that we reflect the competitive environment both from the banking products, and these are the Is [indicators] in particular and the situation in the balance sheet. In the past, we haven't really paid enough attention to real-time adjustment. Given the interest rate environment and that we leave it like and the dynamics between reserve of the company and so on, their PPE and the direct crediting, we are adjusting more conservatively to the way we are crediting benefits to our policyholders. And that question implies, will we repeat this going forward? I cannot tell you that. It's an issue that we have taken in light of specifics for this quarter. Maybe that is sufficient as an explanation. Now the other acquisition expenses are basically everything we spent on distribution that is not commissioned. Now we have, throughout the crisis found out a number of things. The first thing is our agents need additional support whether that the call centers, experts and others in order to service their clients and retain particularly the profitable high-value clients. The second thing is we've kicked off, actually 3 years ago, various programs to rejuvenate our agency base. We were seeing that our clients are aging on average with their agents and we need to rejuvenate that. Rejuvenation expenses are quite significant when they kick in, and it takes a few years to come in, in terms of higher productivity. That's one thing. And the third item is we also are focusing on higher value-added products that need additional sales support. So at the end of the day, while you might say, "I don't see the immediate benefit on the loss ratio yet," we expect these expenses to pay out over time in terms of higher productivity and better quality in our portfolio. Our businesses have very clear targets now in terms of growing the number of profitable clients. We have moved away from the short-term focus on both either top line or actual combined ratios but in terms of expected long-term profitability of clients and more details for competitive reasons I would not like to give.

Andrew Broadfield
Barclays PLC, Research Division

So just to make sure I've covered that right, we should expect to see some sort of improvement in retention levels going over the course of the next few years as part this program rolls out? And we should also start to see improved loss ratios on a like-for-like basis not because of market movement, just because of effectively positioning -- client positioning?

Oliver Bäte
Chairman of Management Board & CEO

That should happen over time. Just in terms of the overall retention as what we plan to do over time is, as I said, to increase the share of profitable clients. We will continuously prune, depending on market movements, of course, our portfolios if the marginal clients and their profitability deteriorates quickly. So for example, we still have movements in certain lines of business. Let me give you an example. General liability for public institutions that have had negative trends in the last 2 years, where we'll prune them. So overall, over the years, the retention with profitable clients has to go up.

Operator

Our next question comes from Michael Huttner, JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

I had 3, maybe 2. The Life profit, I'm puzzled. All the comments so far had been, we looked more in Life in France or we didn't realize any gains or -- and yet you have, virtually, the highest profit ever, and I can't quite square that particularly with the target you set out at the end of the year. Can you maybe explain where this super-strong profitability is coming from or whether once you get rid of the negative one-offs in France, we should even see more? The other 2 and if I restrict myself to 2, I don't know, but I'll you choose. One, is Solvency II, I was very intrigued by your comments because I hadn't followed it very closely. Maybe if you can show visual items. And the other is German motor, and whereas I'm interested in what you have to say on German motor because I always think there's light at the end of the tunnel, but I'm not sure if that's next quarter or if that's next year?

Oliver Bäte
Chairman of Management Board & CEO

Yes. Let me start with our favorite topic on German motor, that's everybody's guess. There's light at the end of the tunnel, the unfortunate thing is the tunnel is 100 kilometers long. What I do want to say here is, we have significant profitability pockets in other lines of business in Germany, they're quite considerable. And therefore, the motor profitability that is still seen to be the flagship product, which it actually isn't and shouldn't be from an overall market perspective, is always sort of overshadowing that fact. That means the market overall is profitable while the motor market is losing money. That has many reasons for that. But a clear reason is that few players have very efficient models like HUK-Coburg and they have just structurally lower cost base and have very good models for MTPL moving online. That's just the fact. And therefore, the rest of the market needs to either get more effective in terms of client service or at least as efficient, there are no other choices. And also I don't expect anything major to happen on pricing. We might see less price declines because we have significant price declines and HUK-Coburg has pretty clearly stated that they will keep their price leadership going forward but the other companies are still fighting tooth and nail to protect their motor portfolios. Now the pockets of the motor markets that are changing, commercial motor portfolios are differently behaving from private lines so I don't want to go into the details there. But I have no hope for sudden and sustained profitability improvements under the very short term -- over the very short term. Solvency II, to address your question, yes, I don't know whether people know, but 3 weeks ago, the commission announced that they would like to substitute the liquidity premium that we spent a lot of time developing and agreeing upon despite all of the conceptual flaws around it. But as a standard and tested through various quantitative parties by something totally new that tries to combine liquidity premium elements with issues to address around sovereign spreads, and it's called a countercyclical premium. It's something totally new, untested, that was thrown out for comments in the working group, and that we now are trying to figure out what it really means. Two comments to that. It's always okay if the people that develop regulation come out with something improved and better, and some elements of the countercyclical premium are actually better than the liquidity premium. On the other hand, we cannot work with tools that have not been tested. And that's just not true for Allianz as we operate globally in many different markets where these things work in many different ways depending on the local portfolios but I would assume that applies to almost every company out there. So that's one observation. And the reason why I mentioned it, we always had more problems with the Life side of things rather than P&C. You can actually debate about NatCat lowerings and so on and forth, but the real issues where beyond asset charges on the Life side, and that whole thing has been thrown up in the air. I hope people come to senses over the next few weeks and months. Otherwise, insecurity and volatility around what all of this means will remain really, really high. So that is really what I was referring to. And again this countercyclical premium has a few benefits but it's not tested. Now on top of that, we have, at the specific request of Spain, the proposal to add another new instrument, it's called the matching premium, and that is related, sorry for lecturing a little bit, but it's very important to affect that is very important. At part of Solvency II, there is a problem with modeling credit spread risk because credit spread risk is charged regardless of the liability structure behind it and regardless of the asset structure that you're really holding. It applies to a specific asset category. And in Spain, after some reforms on the pension side, there are products now out there that basically have the characteristics, whatever kind lapses, the credit spreads risk, i.e. the market value risk, is borne by the policyholder. So de facto, the companies do have a default risk but they don't have market price risk. And for the correct reasons the Spaniards went to the commission and said, "You're basically have a huge pension reform, destroying it, we are requiring excessive capital for this element and we cannot accept that." And the matching premium was invented to address that. Now 2 comments from our side on that. Number one, it's a true observation but it doesn't apply only to the Spanish products. We have many products in the world where the credit risk is either fully or at least to a substantial degree borne by the policyholders or where asset structure management allows you to actually, in effect, have very little credit spread risk in the event of a liquidity shock. Those things have not been appropriately modeled by Solvency II so we appreciate the fact that this is being addressed now but it applies the same comment as to the countercyclical premium, it's not tested. So we need to make sure that we don't give individual cookies to individual's jurisdiction or product but we have a fair level playing field across Europe when we apply the standards. And I don't think and I don't understand how we are supposed to address that in the very short period of time that we have until we have to come around with level 2 implementation measures, and I think it has to be addressed at level 2 and not level 3 because the commission and the parliament should be involved. We should not leave it only to the commission, if I may say so, and IOPA because that would really make the people that have to make decisions on it limit them too much. So the last item was around the profitability and why we are cautious. You're absolutely right, Michael. We are at the upper end of our range with the EUR 700 million if you multiply it by 4. And when you look at the profit sources, our investment income is fairly stable despite the one-off effect you see in France. And why is that? Because we have grown so much the assets, that's why I talk so much about the inflows and the growth of the assets, despite the effects we have from FX. FX is always something that can distort that in euro terms. But our asset base has been growing, and that's the key driver of the profitability. So to summarize the statement, indeed, we are proving resilient. Now again, volatility that we might observe and the capital markets and we haven't really addressed many issues like the sovereign debt crisis yet, in the face. We want to be very conservative here. I think these were your questions.

Operator

Our next question comes from John Hocking for Morgan Stanley.

Jonathan Michael Hocking
Morgan Stanley, Research Division

I've got 2 questions please, they're for P&C. You mentioned that when you're running through the P&C slides and in a couple of markets you've reached a point where you're happy to grow the top line rather than seek more rate. Could you give a little bit more color which those markets are and why you're actually reaching that tipping point or expect to reach that tipping point in 2011? And the second, on the NatCat issue, can you talk a little bit of what the net impact might be of the rate increases you can expect to see on the primary side and what you could expect to see in terms of high reinsurance costs?

Oliver Bäte
Chairman of Management Board & CEO

The second was excellent question because I don't know the answer to it. Because I don't know how that price increase of reinsurers are coming through. So I have an indication of the primary number, it's a great question. But to be honest, we haven't done the numbers yet. I will only know that if you ask me in the second quarter because then we know what the effective rate increases are. The other thing is not just a rate increase but as I said before, we're also changing the re-in structure further having less proportional and more NP [ph] and trying to move more to a balance sheet protection structure and expect lost cover as opposed to individual event that will also have a net effect of what the answer to your question is. So I'm not evading it. I'm literally not in the position to tell you that. My apologies. Now where are the markets and where are we moving on the numbers? Let me start with credit insurance. This is the first one where we've seen dramatic improvements in profitability over the last few years. We pushed the price increases very high. There was a lot of criticism from our clients, not just on the cover not being available. Now we've brought capacity back into the market, and we're actually seeing some declines in prices because the claims experience has developed more favorably than we actually anticipated in our models. So we're letting prices go to a certain degree in order to grow and it's really working. This is the most notable business where that is the case. I, by the way, also think that personally, that the market reacted not logically to the announcement of our colleagues at Oiler because that should have been very clear. It's actually a good signal because we're growing the market, not just growing our share but we're growing the market again, which was out from various criticism. Particularly on from the political side. The other, I think, market where we need to think about growing again is Italy, particularly on the motor side. It does not apply for general liabilities, so we need to make sure that in the attractive clients, we start to grow again. And it's very important that we grow in France. Now we haven't seen growth in France, particularly on the broker side, because to be very transparent, we have been very tough in cleaning our portfolio after the large claims that we have, and some brokers are still a little itchy and argue with us about the history but we believe the significant volume upside by getting that right over the course of the year. And maybe I can leave you with these 3 examples. They are selective but they give you an indication of what we're trying to do.

Operator

Our next question comes from William Hawkins from KBW.

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

Oliver, is there any chance you could tell us what the surface value of business in force was and I think some of the answer is, no. I think you said your PTSD was up EUR 2 billion and your shareholders funds are down EUR 1 billion, so that implies to me that your EUR 8.5 billion surface debt is up about EUR 3 billion. Is there anything wrong with my math? And then secondly, your acquisition-related expenses, the EUR 101 million, I appreciate that they're down year-to-year but they're quite a lot higher than I expected them to be. I thought this thing was sort of really running off quite quickly now. Could you give us any indication how we should annualize that for this year and maybe thinking about 2012 as well?

Oliver Bäte
Chairman of Management Board & CEO

I need to make sure that somebody caught the second part of the question while I was debating...

Unknown Executive

We didn't get the second one.

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

The acquisition-related expenses in PIMCO, the EUR 101 million, what will that be full year and next year?

Oliver Bäte
Chairman of Management Board & CEO

Yes. We have estimates. It's very important to think through the fact before I get the number from our experts here, that we always reserve a certain number and then we have the cash effect when we pay. We have around EUR 600 billion in the reserves. That's one aspect to look at it, and that might increase over the next few years. And then what can be the cost of the outstanding debt depends on many aspects. Well, that is foreign exchange, the very important one. The OpEx growth number is another one. The put-call relationship is another one. To give you a very broad range, it can be anywhere between EUR 120 million up to around EUR 300 million depending on what the growth rates are. And we have, by the way, been surprised both on the upside and the downside in the past. So let me answer -- give you that answer and I'm still waiting on the surplus number, but the EUR 3 billion is too high. In my mind is more between EUR 1.5 billion, but I'll get that number in a second. We've just went over it yesterday and I don't just have it on the back of my mind.

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

So just to clarify, you said the EUR 120 million to EUR 300 million, that's kind of range for the full year?

Oliver Bäte
Chairman of Management Board & CEO

No. That is the total cost on outstanding that we will repurchase over the remainder of the program that lasts until 2016. That's very important. And that can, again, fluctuate depending on how many we call relative to how many are being put.

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

And this is after the EUR 100 million you've just taken?

Oliver Bäte
Chairman of Management Board & CEO

Yes. Okay, so let me just repeat. Your question was what is our free surplus? And what was the free surplus movement in the first quarter? Is that correct? Because I just acoustically couldn't get your question. Or is your question, what was the movement and additional value not accounted for in IFRS equity? Because that figure, I gave. So let me repeat. Let me just give you the numbers so it makes it clear. So the value in force -- of the in force has increased from EUR 12.773 billion to EUR 13.740 billion and the additional value not accounted for in IFRS equity increased from EUR 8.5 billion to EUR 10 billion. Now so you have the numbers. And the MCEV improved over the quarter from EUR 26.1 billion to EUR 27.4 billion. So you have all the numbers. We can provide you with free IR alike. We did that at the year end, with a full detailed disclosure. I didn't want to do that because these numbers on a quarterly basis make a lot less sense than to look at over longer periods of time. The plan was to actually do it every 6 months. And by the way, the free surplus is fairly stable. Just that last number EUR 2.6 billion was at the end of the year and EUR 2.8 billion if computed till the end of the first quarter and I think you almost have it all.

Operator

Our next question comes from Michael Haid from Chevreux.

Michael Hermann Haid
CA Cheuvreux, Research Division

Two questions, one relating to the divested interest before. The remaining costs of acquiring the B-units, you said EUR 120 million to EUR 300 million, but my understanding is that this does not include all the costs that you usually book in the P&L because there are also some dividends and so on included in there. So can you tell us what total costs you could expect for the remaining B-units? And how many remaining B-units are still there? Second question, of course, on Germany. You gave a rather dark outlook for the P&C market, especially motor in Germany. And you said that improvements for yourself must come, for the time being, from management and management actions. Can you give us an update on what you have currently in mind, what your plans are regarding Germany?

Oliver Bäte
Chairman of Management Board & CEO

So our experts are still debating whether the dividends are included. I tell you top down judgment, they are included in the number, okay, so now everybody's nodding and I think that's very good.

Michael Hermann Haid
CA Cheuvreux, Research Division

And that means total cost until 2016 to buy back all remaining B-units...

Oliver Bäte
Chairman of Management Board & CEO

On the 17,429 B-units still outstanding, thank you, and we bought out 88.4%. Any more details from IR, please. Can we move to the second question, is that okay?

Michael Hermann Haid
CA Cheuvreux, Research Division

Yes.

Oliver Bäte
Chairman of Management Board & CEO

Now if I understand the question correctly, what is the overall P&C outlook for motor?

Michael Hermann Haid
CA Cheuvreux, Research Division

And what you specifically want to do in Germany?

Oliver Bäte
Chairman of Management Board & CEO

Yes. I'll tell you what we specifically have to do in Germany. The issue is very clear. As part of the reorganization, we had disruptions both in underwriting and in particularly on the claims side. And why that is and why it happened, it doesn't matter. Going forward, that means we're doing a number of things. The most important thing is adding experienced staff to the claims functions because we move below what was required particularly in light of increased NatCat activity and therefore rising number of claims. And we're doing it with a number of items. In order to improve the quality of staff, we're training our people but we're also hiring experienced staff, and I think that's very important. The second, we've changed the tariff structure in Germany in order to improve the risk selection and the attractiveness of the product to the market. It used to be fairly expensive and then offering different types of discounts to clients. Today, the purchasing behavior of clients has shifted. They want to see a base product that is fully competitive with the lowest-priced offers and then basically be able to pick modulars and modules of the product that fit their needs. That's exactly what we have done. Some people criticize us with less transparency. We think it's exactly the opposite. You can benchmark the modules that you're picking relative to what you can find and you can use price comparison slides for that. So we're getting better products with the clients out there, and we need to move away from discounting because that proves to be violating our objectives, i.e. we do not know really what the effective price we're getting for the risk. Third component is we are improving our claims management service. That is -- a key part of that it's not just getting the effectiveness right at the settlement but also getting support for our distribution partners, particularly our agents improved, and the support for our clients because settling claims with happy clients proves to be less expensive than with unhappy clients. That should have been obvious but sometimes, organizations do forget that. So these are what we would call basic cost scales that as part of the restructuring in Germany got neglected and we have a full program now. Last comment is we are creating an integrated claims organization in Germany that's from front to end deals with claims without any interfaces, handoffs and interruptions, and I think that's also extremely important and a good step to improve the performance. So the claims side plus the product changes are the most important drivers for the combined ratio improvements. And by the way, their motor combined ratio for the portfolio has improved by almost 2 points from the quarter in 2010. It's down from 101.2 to 99.3. So you see that across the portfolio either not yet in every market.

Michael Hermann Haid
CA Cheuvreux, Research Division

And the combined ratio that you just mentioned is for both commercial and private lines?

Oliver Bäte
Chairman of Management Board & CEO

Total motor. [indiscernible]

Operator

Our next question comes from Nick Holmes from Nomura.

Nick Holmes
Nomura Securities Co. Ltd., Research Division

I wondered if you could give us a bit more color on your U.S. Life strategy? In particular, you seem to have refocused on the equity index products and I wondered why you find it attractive given the interest rate risks and the capital intensity? It caused you problems in the past. And then also strategy on the variable annuity side, wondered are you serious about trying to get into the top 10?

Oliver Bäte
Chairman of Management Board & CEO

Nick, let me start with the second question. Being in the top 10 is not an objective. If top 10 means in top 10 in terms of profitability, I would say, yes, clearly, as we are already there. If it is in terms of volumes, the answer is clearly, no. And that's the first observation. The second observation is that in terms of whether it has not been the case for the U.S. market. The U.S. market has seen sort of focus on volume and then all the profit you make over 8 to 10 years gets lost in one year of crisis. So it's very important it addresses the second point on VA [variable annuities], we really carefully need to monitor the benefits that are being offered in the so-called innovation and the margin that we're getting for taking that risk net of hedging because you all know some of these hedges have significant basis risk. So my key concern will remain to look at the hedging and the net risk we are taking. And that's by the way the KPI that's missed in this industry, the KPI that's missing to be very blunt and we're working on it, what is the new business margin really adjusted for all of the tail risk in all products? That's exactly what we're going to come forth with. How quickly do we get our capital back and how securely do we get our capital back?

Nick Holmes
Nomura Securities Co. Ltd., Research Division

Sorry, just on that point. I mean, would you actually sort of venture to suggest that being in the top 10 is not very desirable at the moment given the competition?

Oliver Bäte
Chairman of Management Board & CEO

It depends on market behavior. Again, we have about 4 major competitors that, without their names, are actually in my mind, mispricing the risk. It's nice when the people users, observers is having aggressive features, i.e. the risk-adjusted returns are at least below cost of capital or maybe even negative. Now let me give you the facts. The VA new business margin in the first quarter was 2.5% computed on a very conservative basis. The fixed index annuity new business margin, by the way, stands at 3.4%, and the IRRs are very high. The real issue around the FIA, let me explain that the following way. The thing that is not very carefully understood and, by the way, inappropriately modeled on the Solvency II is that the credit spread risk in the product is, to a very large degree, borne by the policyholder funds. So we have management levers, particularly through capital crediting rates that do actually use the asset base. The second thing is we use asset structures and dynamically manage them in a way that ensure that even in case of liquidity shocks, we don't have to still spread product as a loss that directly affects shareholders. That is just mismodel. Would I call this product risk-free? Of course, I wouldn't. But the Solvency II framework and that's probably what you're referring to, that penalizes such type of product is inappropriately reflecting it. Particularly, the product that we are selling and particularly the ones that we're selling today, I would agree with you a few years back, a few of the product features were not in line with the risk appetite that we should have had but we used the experience in 2008 to clean it up. Again, this is my personal point of view. Now let me talk to you about the top 10 point again because this, I think, is very important. We will not go and buy businesses in order to get into the top 10, okay? So if that is an implied question and you can also figure it out for accounting reasons why that would be a bad idea, yes? [indiscernible]

Nick Holmes
Nomura Securities Co. Ltd., Research Division

Okay. That's a very valuable answer. So corollary of what you're saying seems to be the fixed index annuity is preferable to variable annuity. Would you conclude that?

Oliver Bäte
Chairman of Management Board & CEO

No.

Nick Holmes
Nomura Securities Co. Ltd., Research Division

I mean, from your perspective?

Oliver Bäte
Chairman of Management Board & CEO

It depends really on the pricing that you get. Sorry, Nick, and this is really important. The answer to your question depends on competitive behavior. On fixed index annuity, for various years, we had in the U.S. competitors, they were charging ridiculously low margins on the same product, and that has really ruined profitability in the market. Now the good news is a number of these competitors have either exited the product or changed the pricing behavior because they now better understand that. So that has improved the pricing environment. But that might deteriorate again if you get, excuse me, another idiot in the -- back in the market. As you know, the supply of capital ebbs and flows. The Allianz strategy should be to grow when the margins are appropriate and to stop growing. The biggest challenge that we are facing, and I'll explain to you in a second how we're doing it, is to make sure that we can adjust sales to the profitability in the marketplace on an economic basis. And I think this is where we have to get better. The nicest way to look at that is to say, "Oli, why are your new business margins fluctuating? You should be fluctuating with the volumes and not with the margins, right, because there would be the perfect steering." And that's-- this is the way I'd like to go. Now obviously, you have ebb and flows and you cannot cut off distributors one way to or the other. But more importantly, you have to file rate changes, and therefore, it always takes time between the filings and when they hit the P&L. But this is where we want to go. So I'm not proud to say we're done yet but you see that in our disclosure, you see that in our capital returns, we're really improving and working hard in improving the Life steering.

Nick Holmes
Nomura Securities Co. Ltd., Research Division

Okay. That's very, very interesting.

Operator

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

Brian Shea
BofA Merrill Lynch, Research Division

I have 2 questions, please. First of all, on capital. Oliver, I guess, I'm a little bit surprised by the strength of your criticism about the Solvency II, I guess, approach. My understanding was that we really were converging towards a solution that was favorable for the industry, and that includes the recent development that you mentioned, the change in discount rate. And I think that the easiest also convenient working part is to look at volatility. So I'm a little bit surprised about, as I said, the strength of your criticism and the importance you attach to how uncertain things still are. I'm sure that's more of a statement than a question. The question would be, if when the dust settles, if your economic solvency issue is, in fact, still at 177%, and so that would mean you have a Solvency II ratio well over 200%. Would that in fact be excess capital? And when do you think you will be in a position to feel more confident that you have excess capital to deal with? Or putting it another way, when will you be in a position to feel a bit more pressure to maintain that capital efficiency? The second question is a bit easier. Life technical margin, Oliver, in the past, you've mentioned a full year target of EUR 1 billion, that's looking more and more aspirational as time goes by. Even if you strip out the one-off that impacted Q1, it still seems you're just slipping away from that. Could you explain there why is that? And do we need to rethink that target of EUR 1 billion?

Oliver Bäte
Chairman of Management Board & CEO

Yes. Let me talk to Solvency II and then we'll talk about the Life technical numbers, which are very much affected just as a precursor to that by adaptations due to the very volatile interest rate development because the crediting rates change up and down and need to be adjusted, and that, unfortunately, has a huge impact on the way these numbers get computed but I'll give you a little more detail later. Let's talk about Solvency II. The first thing, the first component A of your question was, why are you criticizing it? Second, what does it mean for excess capital? When will you know whether you have any? Because I'd like to rephrase that. You are implying with your question that we have it, we just don't want to acknowledge it. Now let's talk about that for a second. Again, let's leave aside P&C. There's a lot of noise around P&C, particularly for non-diversified motor liners and that the reinsurers are exaggerating what their requirements for net cash, so we've ignored this. Life is the issue, life insurance is the issue. Now the new proposals on the countercyclical premiums are adding a few benefits. It has broader application than the liquidity premium but it has a problem. Now let me give you a specific example. In the old specification, there was a negative correlation to credit spread risk that reduced overall capital requirements. That has gone away. We've had bucketing of liquidity premium according to product that might have benefited U.K. companies too much. That's one of the reasons why the European Commission got criticized. But it was based broadly in line with product feature that has totally disappeared. So it gets applied in an undifferentiated way between the various products. And the third component is the wording of these components relative to specificity we had with liquidity premium, again how much you want to criticize concept is that the behavior under certain scenarios is unclear. So for example, the text says that EIOPA decides when and how this countercyclical premium will be enacted. Try to manage capital around when a regulator feels when he or she gets up in the morning or what type of food she or he has eaten, whether we are in or out. We need a formulaic approach that says, "This is when it's on, this is when it's off," so we can run our companies. We cannot leave that to regulators. Now I understand why the proposal is coming because then, you don't need to think too much about the formulas and whether they work but we need that. We need clear market-based and observable data to understand what rates to use under what circumstances. We cannot say now somebody declares a crisis and then now the crisis management is on. It doesn't work. And so there are so many things that have actually decreased the certainty on how the numbers would look like that I'm not happy with the way it is being -- it's supposed to be implemented. Now good news is people have received the feedback not just from the industry, that was very clear, but actually the various member countries, particularly the large ones have said, "Guys, this is now how it's going to work. We need more clarity around how this is supposed to apply and the specificity." By the way, I don't know what the strategy of the commission behind it. Maybe it's just a reaction to say, "You wanted me to change something. I did it and now you're complaining again." And therefore, we will be going back to a liquidity premium, I don't know what it is. Now what is the industry perspective and the industry position? We would like to keep the liquidity premium not because it's the best thing since sliced bread but because it has been now tested in the number of quantitative impact studies. And then we can, as we apply it going forward, adjust it where it's not representing risk and profit. We'd rather work with something every day to make it work than to continuously debate something in theory. Second observation, if there have to be fixes for both sovereign spreads and for credit spread risk, like in the Spanish case, the Spanish case has nothing to do, in deference to what has been written, with sovereign spreads, then they can be added but they should be added on top and in light of the liquidity premium to provide stability to the member companies and make sure we could execute what everybody has said. That would be our perspective, and I hope we come back to being around in terms. Now in terms of the solvency ratios. We are, Brian, as you know, in the process to get internal model approval. This is what we're aiming for. In that process, various aspects of the model get reviewed by our lead regulator and by the college supervisor. With no surprise a part of the -- as the outcome of the test of credit risk, market risk and others, the regulators come up with higher capital requirements. They have not yet come up with giving us lower capital requirements as part of the approval process. This might really surprise everybody. And therefore, the 177% and at the same circumstances might go down just because of higher requirements that we're getting. And also new companies come online internally for onto the model, on the platform. The regulators are saying, "We want you to hold more capital against this credit risk, or we believe pension risk will have a higher charge." And at the same time, we're getting information out of the process that certain benefits that we really believe need to be provided, for example, diversification in our portfolio, also across the group, get taken out, not because of economic reasons but because member countries just don't want it, yes, they don't care for logic. They say, "I just don't want it for large groups." That might actually decrease available capital or increase required capital. Therefore, we need to have significant buffers in light of potential intensified scrutiny on our economic solvency. And we will not know until that model has been approved and at least the largest component and until regulations are clear on level 2 implementation what the likely outcome is going to be. Now here's the good news. I'm confident that for Allianz, given our position relative to the industry, that we come out with a good result. We'll come out with the huge amount of excess capital, the amount asset will be known, and now we'll stick to that.

Brian Shea
BofA Merrill Lynch, Research Division

Okay, thank you. And then the Life question?

Oliver Bäte

Chairman of Management Board & CEO

You asked whether the technical result that was EUR 751 million in 2010 and EUR 836 million and the target of EUR 1 billion can ever be reached going forward. Now we've communicated in the past that around EUR 700 million sort of on the year expected and the change, and it's very important, has something to do with the increased portion of investment-oriented products with focus on the investment results. So in the current portfolio, we have had a shift from traditional product in the past to investment-oriented products with less technical profit. This is not the long-term objective. I stick to that. I personally believe that over a significant period of time, given our 3 to 5 years, we want to increase the portion of technical profitability. And that's the key objective. The last 2 years have had different trends. For example, the huge flow of business we have towards Allianz with very good margins on funding pension deficits did not have a huge component of technical risk transfer but more investment-driven. So that is temporarily, in my mind, changing the mix of the various sources of profit. But it remains our objective to strengthen the underwriting profitability of the business.

Operator

Our next question comes from Tony Silverman from Equity Research.

Anthony Silverman
CFRA Equity Research

Standard & Poor's Equity Research. I just have 2 questions. If I heard you correctly, the credit insurance activity was highlighted when you were talking about runoff in P&C. And I was just wondering if that was really is a feature of reserving in the times of financial crisis, as you mentioned, is that sustainable? And if not, would we have to look elsewhere for runoff profits? And the second question is just clarification again on the Life side. Is the change in crediting assumptions, is that basically a France phenomenon? And if not, what are the other countries involved? And does it involve higher guaranteed rates or not?

Oliver Bäte
Chairman of Management Board & CEO

Let me answer the last one. It's largely France now but not only, we also had some in Germany and they're a very important component, it is a mix of various aspects. Let me give you a very simple example without giving out too much detail for competitive reasons. If interest rates go up, the lapse behavior of clients in terms of how much they lapse and when they lapse changes, and we need to real-time adjust our assumptions to the changes in client behavior that wasn't done in the past. And the second thing also relative to the competition, we need to look at how much we need to credit to policyholders. We are, as I said, in the very low interest rate environment relative to where we were. It is not related to higher guarantees. It's nothing to do with higher guarantees but relative to what we believe we need to credit to our policyholders to attract the right mix of volume and margin. And I think that's very important. The other aspect that's France-specific is how do we deal with the environment in the local market and strengthening the balance sheet over time? And that's what we're doing here. Now you asked about the runoffs. Now the runoff has clearly been, as I said, affected by a number of aspects, the financial crisis, high activity of large claims as a consequence and NatCat activity with a large number of claims, and that is extremely important. That obviously will not persist. The financial crisis, hopefully, will taper off over time. And the NatCat activity is obviously various but it is with increasing risk. So it's a mix of them. But what I can obviously tell you from the credit side, we will have less and less runoff. The runoff is also very volatile and the credit insurance, to be honest, I personally don't like that because we have very clear accounting rules related to claims frequency actually that drives that, and the volatility of claims frequency had been enormous in the credit insurance side, much beyond our expectations. So it went up enormously quickly and then dissipated enormously quickly, far beyond what our historical statistics would've said. Now we've always said that the normal level of runoff is anywhere between 2% and 3% across the cycle and we would stick to that.

Anthony Silverman
CFRA Equity Research

Yes. It sort of come back to, if the runoff in credit insurance is going to subside, what does that mean for the runoff for Allianz as a group? The runoff, for the said runoff?

Oliver Bäte
Chairman of Management Board & CEO

As I said just a second ago, it's anywhere over the cycle between 2% and 3%. On average, it has been 3.5% last year. Broadly, if you take out this specific effect, I think this year, we will see, again, a little bit above normal runoff. Again on the long run, it's anywhere between 2% and 3% depending on the level of activity of intensive claims, for example, from floods or other kind of NatCat and the economic activities.

Operator

Our next question comes from Julia Russell [ph] from Autonomous Research.

Unknown Analyst

I have a few questions. The first one is on the slides where you showed your expecting pricing impact, I think, it's Slide 25. You showed a nominal tariff increase across the non-Life portfolio on new business of about EUR 2.3 billion. Is that before discount? And should we expect an effect both discount move close to the 1%? My second question is whether you can give us a sort of sense on what you are seeing on the claims inflation side? And then on the PIMCO B shares, sorry if I come back on that, but would you say it's fair to expect something like EUR 50 million per quarter in terms of charges for the rest of the year? And my final question is on your capital gains. I appreciate you are saying that you did EUR 400 million less than Q1 2010, but if I look at the EUR 300 million still for one single quarter, considering your level so called annualized gains, I would still consider that number to be fairly high. Is it fair or do you think that the EUR 300 million can be sustainable?

Oliver Bäte
Chairman of Management Board & CEO

I got the question, Julia. I got the question, it's a good crystal ball question. Let me try to answer it widely as I think it through. And let me first answer the other 3 questions that you asked me. Yes, the numbers are always before discounts, but the good news is where we're giving discount is actually going down in the portfolio. So we more closely gets to where we want in the book. But it is, just by definition, before the discounts. The second thing is we always compute with claims inflation, obviously, are based on forecast, and we just adapt that to local inflation. Now inflation is not the CPI inflation. We have specific indicators on spare parts, for example, on labor that has to go in and where we have bodily injured claims on medical inflation that has averaged between 2% to 3% over the last few years. It's pretty constant surprisingly and not more than that. Now the 3% don't really make it into our combined ratio as I've shown for -- as comparison with prior year, it was only 30 basis points. Why is that? Because we obviously take countermeasures in terms of trying to bring the notional claims inflation down, and that is before pricing impact because that's why we're separating out frequency severity from the inflation. And inflation is obviously only related to the average size of the claim. We had in a number of lines of business over longer periods of time, declining claims frequency that is before NatCat events. So it's very important to get the combination of the inflation on the average down to what we actually effectively see in the combined ratio in light of declining frequency and portfolio actions. That's my first observation. The second observation is on the B shares. We cannot give a quarterly number. I can only give you an expected number for the remaining quarters of this year, the rest is hugely volatile, not least because of the U.S. dollar rates, because we obviously do that in U.S. dollar and you've seen what happened to the dollar. That would be around EUR 80 million to EUR 100 million for the remainder of the year.

Unknown Analyst

That's a cumulative number, sorry, is therefore the Q2, Q3, Q4 combined.

Oliver Bäte
Chairman of Management Board & CEO

Three quarters.

Unknown Analyst

Yes, 3 quarters combined? Okay.

Oliver Bäte
Chairman of Management Board & CEO

Now I hope that's okay that I don't speculate on consecutive years, please.

Unknown Analyst

Yes, that's totally fine.

Oliver Bäte
Chairman of Management Board & CEO

Okay. And then you asked around the capital gains. And now that's a very important question. And you can say, "Okay, you have around EUR 3.2 billion on equities, you have EUR 1.5 billion on fixed income. Lots of fixed income might disappear because of rising rates so what can we assume to be sustainable?" There are many aspects that drive it. The first question is can we maintain our investments into equity? This will not the least depend on Solvency II outcome because of one obviously, of the significant levers that we have is allocation to assets with high capital charges, that's debt and private equity, so on. Second, obviously, the development of the equity markets themselves, are we building or rebuilding buffers again out of rising markets, be my guest to tell me what you think that's going to be. And then the normal level of harvesting against our portfolio. We have said what we do internally, we do scenarios and then average them out. I beg your pardon, but I'm not in the position to disclose what they are but they're not into the single numbers. But what is fair to say, the numbers that we had in the past, we cannot assume to prevail in the future. Numbers like EUR 522 million we have in the first quarter of 2010, we will not see every time, okay? Sorry, I am evading a little bit your question as you can tell. This is the nicest way I can do that for you today.

Unknown Analyst

No, that's fine. It's just that from the outside feel, that's my personal view but I still think EUR 300 million per quarter is a relatively high contribution. That's it's just my view for what it's worth.

Oliver Bäte
Chairman of Management Board & CEO

No. Julia, it historically has not been high. It's not been high and I would like to, for professional reason, like to reiterate my initial statement. You might find companies that in order, whenever they have a negative earnings development in other areas, might make that up by creating additional and artificial capital gains. Again, we have discussed this last year because a number of companies did that when NatCat was high. We don't believe that's the right way. We have a harvesting strategy that is in line with the capital gains that we create, and we do not like to oscillate around that too much. Is that okay?

Unknown Analyst

Yes.

Operator

Our next question comes from Spencer Horgan from Deutsche Bank.

Spencer Horgan
Deutsche Bank AG, Research Division

Just 2 things, please. The first one is coming back to Brian's question if I could ask it perhaps a slightly different way, which is if we were to look forward and pretend that you have brought internal model approval with the model in its current form and the sensitivities whereas you shared them on Slide 7. I mean, just sort of philosophically, where should the solvency ratio be? Because on the face of it, if you were to have EUR 24 billion capital over and above the risk-based level on a 3 basis point from the -- sorry, 7 basis point publicity default, that sort of seems quite high. And the second one is on the P&C side, I think I've kind of detected a slight shift in emphasis from you away from purely fixing on the margin and sort of maybe thinking about more about the volume side of things. But I guess you've still got this long-term target outstanding of a combined ratio of 96%. And if my math is right and I try to normalize the Q1 number for excess NatCat on this innovation gain, I think the underlying number is still around 97.3%. So do you see that 130 basis points gap being closed and so you sort of got a feeling of the timeframe whether that comes from the loss ratio or the expense ratio?

Oliver Bäte
Chairman of Management Board & CEO

Let me start with the P&C observation. I have a slightly different calibration of the numbers in terms of how much can you normalize. We are trending towards 96% and it will remain our target. So we're not letting loose on that. The point that I was trying to make is when you hit the relative target per market, there is a point that you need to start thinking about and particularly it's like in Italy, we have had, last year, let's get the number, more than 100% of the officially published underwriting profit number accounted for at Allianz, yes? At some point, the margin focus becomes so high that you only have that most profitable client in your portfolio left and you are by yourself. So you can put that to an extreme and the EVA gets optimized if you get the right balance. Now the last few years in the number of markets like Italy, the margins were so bad there was no sense to spend any time thinking about the top line, and that's why we let it go. As the market turns, the question is what is the right point in the time where you selectively start to look at growth? And I mentioned credit as one, and Italy motor TPL maybe as another where that point has been reached. So it's highly selective and it's not an argument across the board. And we also see strong price increases in Australia where we have been growing because the market is behaving fairly rationally. So we will be growing and want to grow where the margins have reached appropriate levels of returns. Now the other question is again on the capital position. The answer to yours and Brian's question is not just around the level. I think that's extremely important but I need to know what the volatility of that number is. The key challenge we see today here is not whether the number is EUR 170 million but EUR 170 million relative to what type of stress. This is one of the reasons why we've asked for the anchoring of the yield curve, not why we want to ignore interest rate risk at the long end. As an economist, I'd tell you also, it's pretty futile because I will be dead and my successor will be dead when most of those numbers will be coming in. But the key point here is we need to get to a capital regime where I don't move from being overcapitalized to being undercapitalized in a few weeks. And just look at what happened to MCEV, again, pretty please over the course of 2008 and then 2009. We went from EUR 22 billion to really EUR 7.5 billion, we went back to EUR 24 billion within a few months. You can not run a company based on numbers that fluctuate by 75% in a year. It is not possible. And when I talk to a regulators, they just don't get it and say, "Oh, that's just a reported number, don't worry about it. It will take a few years before we actually take drastic measures against it." In the meantime, every shareholder will have sold their share. So the point is not around the level, it's around the volatility of that number because on the level, I don't feel that bad, but on the volatility. So whatever the number will be, we will know by next year. Okay? And now, let me go back to the normalized numbers. My colleagues tell me I should be a little more specific, and they're right on the combined ratio. When you look at the combined ratio that we had, EUR 101.3 million, you take out the EUR 7.6 million, and you say that's the actual, what was the normalized? Well our budget was EUR 2.8 billion, yes, and we've increased that budget. And let me reiterate that message. It historically was EUR 2 billion. We bumped it up to EUR 2.4 billion, it's now EUR 2.8 billion, relative to what we were expecting, higher retention and high net activities. You get to somewhat of a normalized combined ratio after a runoff that we've had of 96.5%. And again...

Spencer Horgan
Deutsche Bank AG, Research Division

But I think that still includes the novation gain, does it not?

Oliver Bäte
Chairman of Management Board & CEO

Yes, [indiscernible] and I was about to get to that. And then you have around a normalization of the novation that you can get to your 97-point-something normalized combine that you had. By the way, on the budget and on the normalization over the year, please look at prior years and how we started the beginning of the year and how then the combined ratio develops over the rest of the year. It behaves, let me call it, proportionately with how typically NatCat loadings develop over the year. But there's no certainty around that but this is still what we're having in mind.

Operator

Our next question comes from Maarten Altena from ING.

Maarten Altena
ING Groep N.V., Research Division

2 questions. The first one is on target and as the reiteration of your full year '11 operating profit target is clearly a strong sign, based on the first quarter results for the last few years, that largely was below the quarterly average of the remainder of the year, is there any seasonality we should take into account? Or is it all a coincidence of the NatCat taking place in the first quarter? And the second question is regarding South America. The P&C revenues doubled as of 2009 in Latin America at nice margins. Maybe you can elaborate on the main opportunities for Allianz in Latin America? And whether you see sufficient organic growth potential to sustain those favorable developments?

Oliver Bäte
Chairman of Management Board & CEO

Yes, let me start with the second. Latin America is powered by 2 things, mostly by Brazil. We are growing very, very nicely. And now that we have fixed our operation in Colombia, we're also nicely growing there. We believe in organic growth in this region because often -- how do I say that carefully, the price is being paid for anachronic growth in South America excesses. The second one, we are focusing on P&C and Health because we believe that the margins adjusted for the risk are best from our perspective. We have been refraining from Life because a lot of that is through Bancassurance. And the Bancassurance agreements ensure that the top line numbers and some earnings numbers look great but the net value creation is not always so great. And therefore, we are very careful. Now seasonality, there are a few things to be borne in mind. NatCat activity typically happens, yes, as you say, in Q1, but also sometimes in Q2, and then you have the dividends in Q2 to be borne into mind so there is indeed seasonality to be. Now Page 19 actually provided as a hint to seasonality in terms of what happens typically on the NatCat side.

Maarten Altena
ING Groep N.V., Research Division

Yes. Okay. So expect for the dividends not in other divisions of Allianz?

Oliver Bäte
Chairman of Management Board & CEO

The seasonality in other businesses, you have some end-of-the-year sales in Life, that is effected to be borne in mind. The fourth quarter typically can be stronger, particularly if the tax regime changes but there's nothing that you see.

Maarten Altena
ING Groep N.V., Research Division

Okay, very clear.

Oliver Bäte
Chairman of Management Board & CEO

So the summary is if that's what you're implying, P&C improvements should come.

Operator

Our next question comes from Mitchell Todd from T. Rowe Price.

Mitchell Todd

Just a crude question. What are the 3 key messages that you want investors to take from the Q1 and looking at it through the remainder of the year?

Oliver Bäte
Chairman of Management Board & CEO

I only answer that if I'm allowed to close after that. No, I'm just kidding. I have the 3 shrewd messages. The first one, yes, indeed, Allianz usually exposure had recorded NatCat losses that are amongst the highest that we've had. But here's the good news, despite these, we have proven very resilient. So our clients and our shareholders can be clear that we have a strong portfolio that can weather these claims. And I think from what I know from competitors, we've been doing better than many. The second thing is despite these losses, in a comparison to a record quarter that we had in the first, is one of our best particularly in terms of growth. When you look at it, we have had almost EUR 30 billion in revenues, the second highest ever. And I personally do not worry about the volatility in the net income number as many people do. We always target operating profit sustainability and manage the rest as a boundary condition so therefore, we are confident we will revert to normal over the year. And we are behaving conservatively on capital, we don't think it pays to optimize short-term capital payout at the expense of damaging our franchise over the long run. These are the messages and we want enterprise that is stable and resilient by our shares.

Unknown Executive

All right. Oli, I think we have now spent 2 hours, and it's about time to indeed close the call. So thanks to everybody that joined us today. Thanks for joining us here tonight. Good afternoon and goodbye to everybody.

Oliver Bäte
Chairman of Management Board & CEO
Thank you very much from my side, very interesting session. Thanks for your interest in the Q numbers, and many of you, I'll see in the next few days. As you may know, we are on the road outside of the normal schedule so use the time that you have. I'd be happy to see you in London, Frankfurt or wherever it may be.