S&P Global
Market Intelligence

Allianz SE DB:ALV

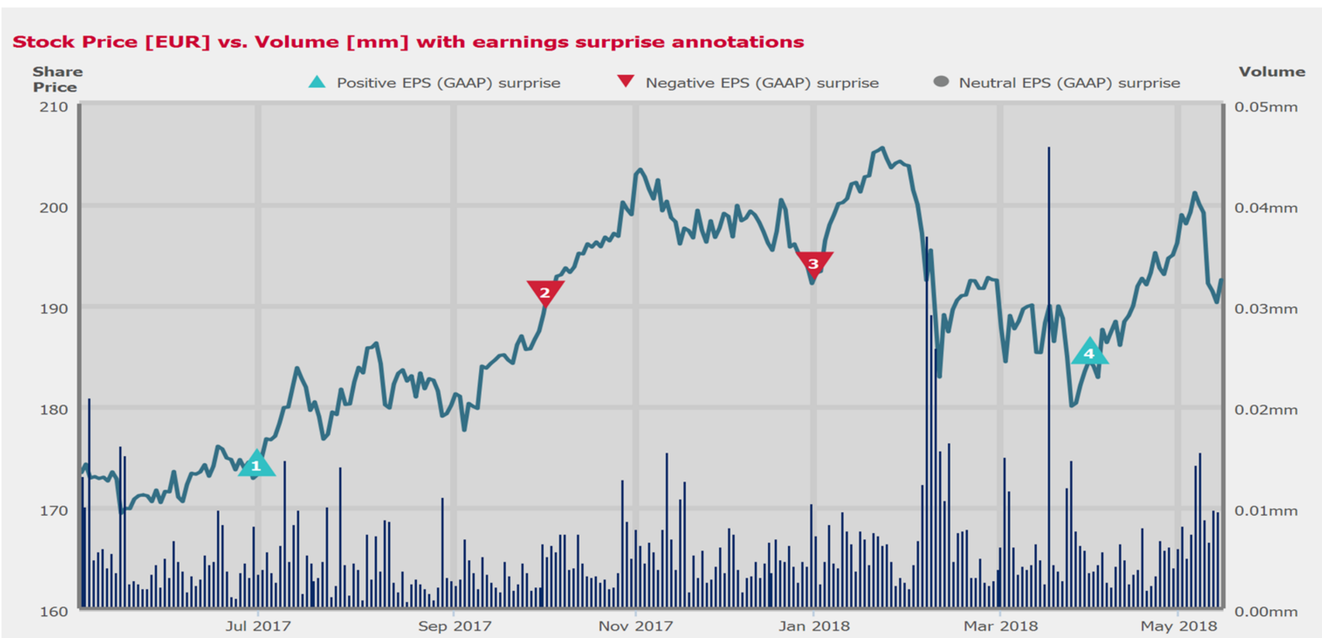
FQ2 2018 Earnings Call Transcripts

Friday, August 03, 2018 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2018-			-FQ3 2018-	-FY 2018-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	GUIDANCE
EPS (GAAP)	4.15	4.38	▲5.54	4.42	17.74	16.90
Revenue (mm)	30677.84	30900.00	▲0.72	30324.52	128856.64	-

Currency: EUR
Consensus as of Aug-03-2018 8:30 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2017	3.56	4.45	▲1 25.00 %
FQ3 2017	3.67	3.52	▼2 (4.09 %)
FQ4 2017	3.65	3.24	▼3 (11.23 %)
FQ1 2018	4.32	4.40	▲4 1.85 %

Table of Contents

Call Participants

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Presentation

Operator

Ladies and gentlemen, welcome to the Allianz conference call on the financial results of the second quarter 2018.

For your information, this conference call is being streamed live on Allianz.com and a recording will be made available shortly after the call.

At this time, I would like to turn the call over your host today, Mr. Oliver Schmidt, Head of Investor Relations. Please go ahead, sir.

Oliver Schmidt
Head of Investor Relations

Thank you, Cecilia. Yes. Good afternoon from my side as well, and welcome to our conference call.

I'm aware that this call may be the last obstacle between you and a well-deserved vacation, so I keep it brief and hand over directly to Giulio.

Giulio Terzariol
CFO & Member of the Board of Management

Okay. Good afternoon and good morning to everybody. I'm happy to know I'm an obstacle, okay. And I suggest that we go straight to the presentation.

First, we have a short exhibit about the 6 months results, and then we will go more in details through the second quarter performance.

If we move to Page 3, the first message here is that over the 6 months, we had a good performance, and we are on track to achieve our targets. When we look at the revenue side, we had an internal growth of about 6%. We clearly see nice growth, double-digit in Asset Management. We also see solid growth on the Life/Health side. But I think the really good news is to see a 6% growth for the 6 months on the Property-Casualty line of business.

With respect to the operating profit, we are now, per June, at about EUR 5.8 billion of operating profit. You remember that for the year, we have an outlook -- midpoint of the outlook of 11.1%. So if you divide 11.1% by 2, it's slightly north of 5.5%. So from that point of view, you can see that we are definitely on track to at least achieve 11.1%.

On the operational KPIs, you can see an improvement in the cost-income ratio in Asset Management; also a slight improvement in the new business margin in Life; and also the combined ratio has improved, despite having larger -- large loss -- cat losses compared to the prior period.

And then when we look at the shareholder net income is relatively flat. Here, we need to consider that we had a impact of the Taiwan transaction. And then when you look at the development of the earnings per share, you can see a good growth rate of 5% compared to the level of last year. So all in all, when you look at our picture for the 6 months, and then if you look at the revenue development, if you look at how we are performing operationally compared to our target, so if you look at the earnings per share development, you can see a good strong picture, which is positioning us well for the remainder of the year.

And now I suggest that we move to Page 5, where we show the main indicators for the second quarter stand-alone. On the revenue side, you see also in the second quarter a nice growth rate of 6.5%. That's adjusted for consolidation and FX effect. Also for the second quarter, the growth is coming from all segments.

On the operating profit, you can see an increase in operating profit of 2%. If you adjust the operating profit development for the impact of FX, then you get a growth rate of 6%. And if you consider that we are at a level of EUR 3 billion of operating profit, I think we are really moving on a high level of performance.

The net income for the quarter is down compared to the prior period by about EUR 100 million. This is driven, as I was saying before, by the impact of Taiwan, which was about EUR 220 million. So again, for the second quarter, indeed even better performance operationally compared to what we had in the first quarter of 2018.

Moving to Page 7. We can get into our capitalization measure. On the IFRS equity, you can see a decrease of about EUR 3 billion. On the one side, we have clearly the recognition of the net income of 1.9%, which is flowing to the numbers. But then on the other side, we have about EUR 4 billion of distribution to our shareholder, either as dividend or as buyback.

And then, as usual, you had the movement from the unrealized gains on bonds, which has been negative -4% for the quarter because of the increase in interest rates in the U.S. On the other side, we had some positive development out of the development of the U.S. dollar versus the euro.

When we look at the Solvency II development, the Solvency II ratio has improved by 5 percentage points. And if you deduct for the buyback that we announced in the beginning of July, the improvement will be still 2 percentage points. So from that point of view, the solvency ratio remains high and is improving.

On this page, I'd like to draw your attention to the sensitivities, which are in general very stable. The only sensitivity that has changed compared to what we showed you in the first quarter, the sensitivity to the interest rates.

In the first quarter, the sensitivity to the minus 50-basis-point movement was minus 7%, and now we are at minus 10%. The reason for the increased sensitivity is not due to any change in the way we are running the business.

From a duration management point of view, it's all driven by the complexity of the capital requirement and that's a function also, if you want, of the model complexity but there is no change in the way we run our asset liability management.

Moving to Page 9. You can see the development of the Solvency II but a different driver. I will say that the quarter's been boring. If you can say that Solvency II can be boring but, in reality, there was not much happening. There were no model changes for the quarter.

On the operating development, the contribution pretax and predividend to our solvency ratio was about 8%, which is more or less in line with what we saw in the previous quarters, slightly below what we saw in the previous quarter but not much different.

On the market movements, we had small movement negative and positive. And all drivers have moved in one way or the other, but the net impact was slightly positive at 1% in our case, mostly driven by the equity development and also a little bit from the corporate spreads and something coming from FX.

On the capital management, actually, you can see a change of minus 2 percentage points. Here, we have the impact of the dividend that we need to accrue. If you adjust for the dividend accrual, you would have a slight improvement of 1%, which is mostly driven by the transaction of Taiwan which was accretive on their own fund and also reducing our capital requirements.

Now we can move to Page 11, where we show the development of revenue for the segments, Property and Casualty and also for the major entities. First of all, when you look at the internal growth for the quarter, we had a very good internal growth of 7%. Now I'd like to draw your attention to a couple of numbers below, like AGCS, where we have an internal growth of 20%; or also like Credit Insurance, where we have a growth of 9%.

Here, we have some seasonality or some special effect. But even if we adjust the internal growth of the segment by this special effect, the growth rate for the segment would be over 5%. So from this point of view, we see in general good growth.

I believe I'd like to highlight Germany, with a growth rate of 4%. And also for the 6 month, Germany is growing to more than 4%. In Italy, we have a positive sign, which has not been the case for a while, at least for a few quarters. And then we have, as usual, growth in Australia, also growth in Spain.

In the case of United Kingdom, this is a little bit a consequence the negative of the transfer of business that we want to do to LV because we are transferring the personal lines business to LV. So from that point of view, there is a little bit less momentum on that business. But on the commercial business, we record nice growth rates.

And finally, at AGCS, I was -- as I was saying before, and we have also highlighted in the comments, the growth rate adjusted for the seasonality is about 9%. And Allianz Partners is growing, as usual, close to double digits. So overall, a nice picture in the growth side.

Also important is to look at the momentum on renewals. And as you see, the momentum on renewals is a stable positive, so this should be a good factor as we move into the second half of 2018 and also into 2019.

Now if you go to Page 13, you can see the development of the operating profit. We had a slight reduction of the underwriting results, which was more than compensated by the improvement in the investment results. The reduction in the underwriting results is explained by the combined ratio development, where we see an uptick of 30 basis points. This uptick of 30 basis point is explained by the higher amount of natural catastrophe compared to the prior period.

Then you can also see that our expense ratio is significantly below the prior year level. So usually, you would expect to see also a better combined ratio compared to what we're showing here. But in the second quarter, we had also a high amount of weather-related claims and large losses compared to what we would usually -- what we had last year.

Now the question here is going to be, are we still confident to make our combined ratio 94% by the end of 2018? Keep in mind that we are 94.4% for the 6 months. My answer to the question would be yes. And the reason for that is, we see the improvement in the attritional basis, in attritional loss ratio. This improvement is going to carry over. And assuming we're going to have a normal level of natural catastrophe and large losses in the second part of the year, we should be able to get to the 90%, 94% even, considering for an increase, a pickup of the expense ratio back to our target level of -- for 2018, which would be 28.4%.

So as of now, we are slightly behind of the combined ratio but the attritional development is positive. So if everything continues the way we see, we should be able to get to 94% by year-end of the year.

Now moving to Page 18. Here, you can see the operating profit and combined ratio for the different entities. I'm going to focus on the highlights, if you want, positive or negative highlights.

In the case of France, we had a deterioration of the operating profit by about 45%, which is driven by higher cat losses, higher large losses and also higher weather-related claims. If you look at the normal underlying development is indeed according to plan and satisfactory. But again, this is a country where we had some volatility in the quarter.

In the case of Australia, you see a nice improvement in the operating profit, which is driven by positive runoff. We have changed our assumption for the inflation because they were very conservative, so now we brought it down to a level which is more reflective of what we might experience in the future.

And then in the case of Spain, you see nice growth rates, driven by the improvement in the combined ratio. And then if you go all the way down, Turkey is negative in the operating profit development. As you see, the combined ratio is going up.

In reality, the deterioration to combined ratio is more than offset by high investment income. And in the local currency, you're going to see an increase in profit. But when we do the translation back in euro, you see a negative number as we measure here a group.

And finally, AGCS had a reduction of the operating profit due to higher large loss activity. Bottom line, anyway, there are plus and minuses. At the end of the day, we've been able to report a strong operating profit of about EUR 1.5 billion for the quarter.

At Page 17, we show the investment income. As you see, the investment income went up by about EUR 50 million. And improvement in the investment income is driven by income on equity. Also, you can see that the current yield has gone up by about 2 basis points. Now, both on the equity investment income and also in this current yield, we have some noise.

I will quantify this noise. If you put the 2 numbers together, in about EUR 30 million. But even if you adjust for this noise, you can see there is an increase in the operating investment results. And our current yield will be at least at the level of last year.

So from this point of view, we see some resilience in our investment income, and we're going to monitor this development also in the future. We had a conversation this last month about how we view the development of the investment income over time.

We expect that by 2020, we should be flattening out. We also said, maybe it's going to happen a little bit beforehand. This number might indicate that we're going to see a stabilization a little bit earlier. But for the time being, we still stick to our theory that by 2020, we should see the stability kicking in.

And now at Page 19, I would like to talk about the Life segment. Looking at the production of the Life segment, we have given ourselves 3 targets, one is the mix of preferred products. We want 80% of our production to be in preferred products. In Q2, we are at 81%. And so, also in Q2, we had been able to achieve this target.

On the new business margin, we like to have a new business margin about 3%. We are now at 3.5%, so we were able to achieve also this target. And on the -- the fair target will be -- we like to see growth in production P&C. When you look at the numbers, we have been able to grow the present value of new business premium by 3% or adjusted for FX by 4.5%.

Now there is a comment here. If you look at the contribution by country, you can see that Germany Life has been doing the heavy lifting. Otherwise, we have some negative signs, in some case also explained by fixed FX, like in the U.S.A.

Definitely, for a few companies in the group, the second quarter has been a little bit tough because of a decrease in unit-linked production. Bottom line, for the segment, we had been able to grow at 4.5% adjusted for FX.

Now if we move to Page 21. Here, we are showing the development of the operating profit. The operating profit went down by about EUR 50 million.

Here, on the one side, we had the impact of the FX that was about EUR 30 million. And the rest is the normalization of results we had been talking about. Last year was particularly strong also because the volatility, for example, in the U.S. was very low.

Now we have a more normal level of volatility.

So from this side, this number is very much consistent with our expectation. As you all know, our outlook for the year is EUR 4.2 billion, so a EUR 1.1 billion -- almost EUR 1.1 billion. That definitely achieved our rates for getting to the EUR 4.2 billion outlook.

And maybe, just a final comment. As you see in the guaranteed savings and annuity line, we have a reduction of the operating profit of EUR 50 million. And most of this reduction is coming from the VA business in the United States, which is more of a normalization as opposed to a bad performance out of the VA business, which is, by the way, not per se a profitable business but that's a different story.

So now if we go to Page 23, you can see that our value of new business has increased by 5%, a improvement in the value of new business. So the increase in the value of new business is driven by the higher production. Otherwise, the new business margin has been very healthy but relatively stable over the prior period.

And then, as I was saying before, on the operating profit, you can see that the U.S.A. is down. That's a combination of the VA results and also the FX.

Now in the case of Germany Life, you also see a reduction of 10%. But that's just, if you want, volatility between the quarters. When you look at the 6 months for Germany Life, we are up 3% over the prior period. So again, on the operating profit on the Life side, we are on track to get to our outlook.

And then at Page 25, I would like to make a comment about the investment margin. As you see for the quarter, the investment margin is at 22 basis points. This is slightly below the level that we had in the second quarter of '17. And also, if you annualize the 22 basis points, you get 88 basis point, which is somehow below the range or the expectation between 90, 95 basis point that we are usually discussing.

Here, there are two things specifically to the quarter. You can see that the profit sharing has been a little bit more elevated compared to also what we had last year. But the other point is also the net harvesting is very, very low.

Usually, we would expect to see about 10 basis point on net harvesting. If you take out the policyholder participation, then you will get into the 98 basis points kind of a range. So a little bit lower for the quarter, but keep in mind that net harvesting is at a very, very low level for the quarter.

Now we can go into the Asset Management segment at Page 27. First of all, when you look at the total assets under management for the group, we are close to the $2 trillion level, and this is the highest level in the history of Allianz. So that's a statistical information but still a nice statistical information.

When we looked in the development of the third-party assets under management, you can see that we've had an increase in the quarter. The increase was, however, driven by FX -- positive FX impact because of the appreciation of the U.S. dollar versus the euro.

When we focus on the net flows, we can see that for the quarter, they were negative both at AGI and PIMCO. Now especially focusing on PIMCO, we have a few comment.

First of all, we lost a big institutional mandate with very low fee. So if you adjust for this mandate, the influence at PIMCO would have been rather flat. On the 6 months view, the inflows for PIMCO positive. Now when you look at the run rate revenue that we are achieving on the next position of the inflows or outflows, in this case, they are still positive. So it means the assets we have put in the books -- the new assets are generating higher fees compared to the fees that we are losing on the assets going out.

And then the last comment is both in June and July, PIMCO has posted positive inflows. And also, I would say, very healthy positive inflows. So from this point of view, we feel very good about where we are right now from a inflow situation. Also, I would say, the market has been challenging, I believe, in general. So I believe our performance also compared to the competition is pretty good.

Now if we move to Page 29, you can see somehow the translation, what I try to convey. And you see that revenue up, but especially when you look at the -- fee margin is up, both at AGI and PIMCO.

Indeed, we saw a lot of stability on this KPI over the last 6, 7 quarters. And the number that we are posting now, indeed the highest since the beginning of -- at least since the end of 2016. These are the numbers I'm looking at. So from this point of view, we see stability and even an increase. And we think that this kind of level can be also sustainable for the near future.

And with that, we come to Page 31. And clearly, when you have increase in assets under management, when you have better fee margin and when your cost-income ratio is going down, the operating profit development is going to be very positive. We see double-digit growth. That's also very important. The operating profit development has not been supported by FX.

The FX has been supporting the assets under management at the end of the quarter. But when you look at the development quarter-over-quarter, then you even see that we have been able to grow double-digit our operating profit despite negative FX development.

A final comment on the cost-income ratio. It has improved by about 1 percentage point. Here, we have also the effect of having incorporated ACP into AGI.

If you -- which is -- ACP is a fund manager, which is managing funds for our company. We run this company at a cost coverage kind of system. So if you remove ACP from the calculation, the improvement in the cost-income ratio, apple-to-apple will be about 2 percentage point.

Now Page 33, I would -- there is nothing, in my opinion, really significant to say about Page 33. So I would like to go straight to Page 35, where we show the line items below the operating profit line. There are not many movements here. We see, on the restructuring expenses, they are more or less the level of the prior period.

And then in the amortization of intangible assets, here we are recognizing the loss on the disposal of the Taiwanese transaction. And as you see that, that is pretty much equal to the number that we quoted before in terms of pretax loss.

And then a final comment on the tax rates. It has improved by 2 percentage points over the level of last year. Clearly, the reason for that is the tax reform in United States. So right now, we are running at 26%. The number in Q1 was even slightly below 26%. So we gave you an expectation for the tax rates of 26% to 28%. And right now, we are definitely running at the low end of this expectation.

And now I come to Page 37, where we adjust the scorecard of how we are doing as of now compared to the targets that we gave ourselves for 2018, a few years ago.

As you see on the EPS, we are definitely good on the way, I -- positive also on achieving the 13% RoE target. On the combined ratio, we are 94.4%. But by looking at the underlying development, we should be able, if we don't have headwinds, to get to the 94%.

Then we had a capital on Life, which is performing at more than 10%. We are right now 93%. By the end of the year, we should be able to lift this number about 95%. And then new business margin is given at this point in time. So when you look at the left-hand side, I believe we're going to meet all objective or very close -- to be very close to all targets.

And then on the left hand -- sorry, on the left-hand side, when we look at the right-hand side, I'd like to draw your attention just to the Net Promoter Score, which is a very important indicator for us. We really believe that getting this indicator up might make a difference in -- for the future. We are now at 60%. Our expectation for the end of the year is to be about 70%, which is not going to be exactly 75% but close.

But on this KPI, we should remember that 3 years ago, we were below 50%. And this is a KPI which is, really, you need to do a lot of work to move it up over time. So even if we don't get to the 75%, if we get to 70% or more, I think this is a very good development.

And with that, I can just say we had a strong quarter. We had a strong 6 months. So from this point of view, if everything goes according to plan in the second part of the year, we should be definitely able to achieve the midpoint of the outlook and even be on the upper half of the range.

But remember, last year, we had significant cat losses in the second half. So we have a good memory, so we always keep this in mind. But as of now, we feel we are well-positioned for a good 2018.
And with that, I would like to receive your questions.

Question and Answer

Operator

[Operator Instructions] And we'll go first to Peter Eliot of Kepler Cheuvreux.

Peter Eliot
Kepler Cheuvreux, Research Division

I had 3 questions, please. The first one was, obviously, very impressive settlement on the Non-Life expense ratio. Just wondering if you can sort of highlight whether there's any one-offs in there. Or if you know exactly how sustainable that level is that you reported? And second question was, in Life, usually the solvency capital generation is quite a long way ahead of the IFRS earnings. And this quarter is basically in line. I'm just wondering what it was that caused that because, I mean, the value of your business, as you showed, is still very strong. So yes, just wondering if you could explain that. And the third thing, just on the combined ratio in France. Apologies if you commented more than I heard, and if I missed anything. But I guess one of your peers reported yesterday a much lower impact from just the weather events. And I'm just wondering if there's anything specific to Allianz there. Was there any specific events, anything that was supposed to -- that caused that large delta?

Giulio Terzariol
CFO & Member of the Board of Management

Yes. So maybe starting from the Non-Life expense ratio. On the 27.8%, there are not much of a one-off, maybe actually there are no one-offs. I tell you, anyway -- I don't expect any way our expense ratio to be 27.8% by the end of the year. I'll tell you what is happening now. There is always some, if you want, call it seasonality. But especially, I believe that our RoEs are -- they are very focused on achieving their targets by the end of the year. And so most likely are very shy now. And they want to make sure they achieve their targets, so we might see some uplift in the second part of the year as they get more confident that they are going to achieve the targets. So no one-off, but I believe there is a little bit of psychology at play right now. So at this point in time, what it means for us, first of all, that we feel very good about getting the 28.4%. Maybe we can get even slightly below that. But for me, and this is about your questions about sustainability, we said this already before, 28.4%, 28.3%, whatever the number is going to be at the end of the year is not the end of the journey. I want to get to a continuous improvement to the expense ratio over time. So my answer is, we're going to bring the expense ratio down compared to the level that you saw in the prior years. That's on the expense ratio. On the Life side, yes, indeed, if you look at the contribution of the Life segment to the operating earnings on the Solvency II regime, the quarter has been lighter. And it is a function of some negative operating variances. But here, we are talking of volatility between the quarters. If you look at the first quarter, we had about a 1.7% contribution. Usually, we would expect 1.3% -- about 1.3%, including the value of new business. So you can see, there was a swing, positive in Q1. There is a little bit on -- an offset in Q2. When you look at the 6 months, we are at 2.7%. And we think these numbers is representative of what you would expect on a normalized level. And then on France. In reality, the issue on France is that -- on the cat losses, we have disclosed about 3.3%. You can see there. I'm not so sure about what the peers are doing. But in our case, the main issue has been also the increase in large losses. So we had a substantial increase in large losses, so these are not a natural catastrophe. Just to give you an idea, we had 3 fire claims in commercial property in the second quarter. The sum of these 3 fire claims was about EUR 40 million. So we have natural catastrophe. We have some weather-related events, but we had also an accumulation, if you want, of large losses. So this might be the reason why our numbers might look weaker in the case of France compared to some competitor.

Operator

Our next questions come from Andrew Ritchie of Autonomous.

Andrew James Ritchie
Autonomous Research LLP

Think some companies in the past who have been a bit too confident about their attritional experience because they've attributed large loss to large loss noise. Can you reassure us on -- I mean, you've looked at large loss experience, which has been quite lumpy in the last 2 years. And there's no trend there, there's no underwriting messages. Obviously, you can excuse that away quite a lot, just want some reassurance on that. Secondly, the net flows into PIMCO in the last 3 months, what product areas are they going into? And why those product areas so much higher margin in terms of revenue margin? And the final question, you're running at a 13.8% RoE. The target was 13%. You kind of are running where you want to be on Life. The tax rate is apparently sustainable. So is 13% the new floor for RoE going forward rather than the kind of -- what got you aspiring to get there before?

Giulio Terzariol
CFO & Member of the Board of Management

Yes. So starting with attritional. Yes. We are very careful about the issue of large losses and also the classification of large losses versus the attritional. And so we are always looking into, is this really noise? Volatility, there is something fundamentally flow with the underwritings in some countries. So the response to now is, as we look into that, we believe that we are dealing with volatility. But that's clearly an ongoing review that we do. And every time we get additional large losses, we take a look and we try to get to the bottom of it. But our answer to your question is based on our review, we believe that the way we look at the attritional loss ratio is the right way. And we feel confident about the quality of what we define attritional loss ratio. But again, I don't want to underplay this. This is definitely always something that we need to keep front and center as we evaluate our numbers. On the net inflows, the question -- I just tell you, at the end of the day, when you have a change in mix towards retail versus institutional, then you're going to get higher fee margin. So that's the main driver why you see a better performance. And don't forget that last year, we have increased the fees on the income fund. But fundamentally the driver is the mix between institutional and retail. On the RoE, I -- yes, I would say, 13% is the target. And I will say that 13% would be most likely also the target moving forward. So I don't see us, at this point in time, to move away from this target in one direction or the other.

Andrew James Ritchie
Autonomous Research LLP

Sorry. Just to clarify, are the inflows still into the income fund strategy? Appreciate if retail or institutional or is it -- are there other strategies that's going into it as well?

Giulio Terzariol
CFO & Member of the Board of Management

I can tell you, in general, because I don't want to go to specific. In general, we see -- especially, if you remove the big mandate that we lost, you see inflows into America. You see some weakness in Europe. And Asia is more or less slightly down. But fundamentally, we see strength in the U.S. business compared to other regions.

Operator

And we'll go next to Nick Holmes with Societe Generale.

Nick Holmes
Societe Generale Cross Asset Research

I had just a couple of quick questions. Firstly, German life new business grew by a very, very strong 23%. I wondered if you could give us a bit more color about what's driving that. And then secondly, sort of on the same theme, I wondered how much further is there to go with your capital-light strategy. I mean, you have 19% of sales in the traditional product. And I just wondered, is that at the target level? Or is there further to reduce?

Giulio Terzariol
CFO & Member of the Board of Management

I didn't understand your first question.

Oliver Schmidt
Head of Investor Relations

The German life new business driver.

Giulio Terzariol
CFO & Member of the Board of Management

Okay. That's driven by the production level. So if you see the new business margin is flat. But we have -- if you go to Page 20 -- 19, you can see growth in production was 22%, so it's pretty much driven by the level of increasing production. So that's the driver for the increase on the new business. So...

Nick Holmes
Societe Generale Cross Asset Research

Yes. I was thinking in terms of products. I mean, you're pushing the capital-efficient products if you could. Have there been new product launches or things like that?

Giulio Terzariol
CFO & Member of the Board of Management

Yes. Yes. So I suppose that from a profitability point of view, we are targeting a profitability, which is a function of the assets under management. And so from that point of view, we are recording in this capital-light product a healthy, healthy profitability. At the end of the day, think about that we are speaking of a product also which has a long duration. So from that point of view, the 4% of business margin is a sort of margin that you would expect in this kind of environment. And in -- so from that angle, I think there is nothing really new on this profitability. We are constantly also looking at new products. But fundamentally, the profitability of Allianz Leben is driven by the targeted fees, if you want to call it this way, that we are achieving on the assets under management that we put on the books. Now if you ask me about the mix that we have in Germany, I think we are very satisfied with the level of the mix. We are satisfied with the level of production. So we don't see any reason why we should change the course, what we are doing right now.

Nick Holmes
Societe Generale Cross Asset Research

And most these products are the sort of Perspektive products. Are they -- they carry a simple guarantee, no interest rate guarantee?

Giulio Terzariol
CFO & Member of the Board of Management

Yes. Usually, there is a guarantee, if you want, that you are going to get your principal after 10 years. In the case you go into an annuity, we are somehow setting the assumption for the annuity base on the interest rate level. At the time, you can get the annuitization and also the mortality table that we're going to use are based on the mortality expectation at that point in time. So from that point of view, the guarantee level is, in the case you want to get a lump sum, is you're going to get your -- the paid-in premium back.

Nick Holmes
Societe Generale Cross Asset Research

Great. And sorry, with your targeted level of capital-light, are you there basically already, or is there further to go?

Giulio Terzariol
CFO & Member of the Board of Management

Sorry. Say again?

Nick Holmes

Societe Generale Cross Asset Research

With the 19% of life sales that are still guaranteed that you classify as traditional and not the new [business], do you want to take that down further? Or is that perhaps [optimum] level?

Giulio Terzariol
CFO & Member of the Board of Management

No. No. No. So we -- 80-20, we think we are comfortable with the level of 80-20. Also, it might be the natural is going to get even slightly lower. But we are comfortable at this level. And also if you look at the new business margin on the guaranteed savings and annuity, 2.4%, relatively satisfactory. So I think when you look at the portfolio of Allianz, it's fine. There might be maybe 1 or 2 countries where we would like to see some change. But not this -- definitely in Allianz Germany, we are very comfortable with the current mix.

Operator

And we'll go next to Thomas Seidl of Bernstein.

Thomas Seidl
Sanford C. Bernstein & Co., LLC., Research Division

First question is, I mean, you just shown and demonstrated today that you're well on track to achieve the ROE and EPS growth targets. So I wonder what the rationale was for the recent EUR 1 billion new buyback you announced in July 2. What is the rationale? What do you want to tell the market with this rather small additional buyback? Second question is on growth. You said underlying growth in P&C is 5%, which is well ahead, I think, of what the market is growing at. So I just wonder, what allowed you to take this market share right now? And basically, for the first time in a long time, this is coming through now? And thirdly, on PIMCO, you used to disclose it, but maybe you can tell us what the outperformance level is at PIMCO and also at AllianzGI.

Giulio Terzariol
CFO & Member of the Board of Management

Yes. So starting from the question about the buyback, why we did a buyback. At the end of the day, we send -- we already told you, right? We're going to look at our option whether there are organic growth opportunity or external growth opportunity, and we also going to look at fundamentally whether the best option is to invest in our own stocks. And based on what the different teams are going to tell us, then we're going to decide whether we want to do a buyback or not. And in July, based on the consideration about our expectation for growth versus invest in our own stock, we came to the conclusion that investing in our own stock was a good move to do. And so moving forward, we are always going to evaluate what is in front of us and we are going to make our decision as we see appropriate. On the PIMCO, let's start on the PIMCO. With respect to performance, I will say that you look at the 1, 3 or 5 years, we are, let's say, at 90% or about 90%. So the outperformance is 89% for the one year, and then 93%, 95% for the 3 and 5 years. In the case of AGI, we are more between 70%, 75%. So that's the outperformance level that we have. And then -- so we feel very good, both for AGI and especially for PIMCO. So that's also one of the reason why I'm relatively bullish on the PIMCO franchise. And then on the growth, what is allowing us to grow, let's say, at 5%. I think that a lot of things are going well at the same time in different entities. Let's take Germany, where we are growing at 4%. That wasn't the case a few quarters ago, a few years ago. We talked about the fact that we wanted to grow in Germany. And we have also changed our risk model without sacrificing performance. And that's what we are seeing, that our initiatives are working. In Italy also, we say we want to get back to growth, and the initiative that we put in place are working. Then in AGCS, we are getting good momentum also in the U.S. And also in lines of business like [mid-core], where we are looking for business that we like. For so from this point of view, I think we are getting to a situation where different OEs are performing better compared to what they did in the past, and the usual suspects, like Spain and Australia, keeping their -- also, if you want, Eastern Europe are keeping their level of performance. So I'm not -- I might be slightly surprised, if you ask me, so -- but I'm not completely surprised by the fact that we are seeing good growth coming through.

Thomas Seidl
Sanford C. Bernstein & Co., LLC., Research Division

On the buyback, I mean, I was surprised about the timing. Why not holding back, let's say, until next year because there was really no urgency around doing it now?

Giulio Terzariol
CFO & Member of the Board of Management

No. There was no urgency. But I -- we want to avoid this kind of -- almost give you a phone call before we do a buyback. So I think we -- again, we like to keep our option open. And we said that in July, look at the market condition, also to be honest, look at all the noise around what we are going to do, what we are not going to do. So if people are deciding for us what we are going to do, then we make a statement about what we want to do. So there's a little bit of that, too.

Operator

We'll go next to Farooq Hanif of Crédit Suisse.

Farooq Hanif
Crédit Suisse AG, Research Division

On P&C pricing, it looks like there's been a bit of an acceleration in 2Q versus 1Q. Do you feel quite confident that, that sort of -- I think more than 2% pricing in 2Q is kind of sustainable for the rest of the year? Secondly, on the reinvestment yield, you pointed out some of the one-offs in the current yield. Is there any one-off in the P&C reinvestment yield? So is 2.2% what we should be modeling? And lastly, can you just comment on what your holding cash is now, particularly after the buyback?

Giulio Terzariol
CFO & Member of the Board of Management

So starting from the P&C side and the pricing momentum. Yes, I feel pretty confident that we are going to keep this momentum. And that's also one of the reason why I'm also confident that we should get to the 94%. So from this point of view, we are seeing also the improvement or the attritional loss ratio, and not only when we compare the second quarter '18 to the second quarter '17, we are seeing the improvement also when we compare second quarter '18 to the first quarter of '18. So there is a momentum there that's, according to our analysis, is clearly visible. On the reinvestment yield in P&C, yes, we had a strong number for the quarter. As usual, I invite always to take this number for a quarter with some caution because, clearly, our investment guys have a target allocation for the portfolio and a target allocation for the year, and then in every single quarter, they can move more or less in an asset class. But I can tell you that increased also compared to Q1, which was more than 1.8%, is driven by a slightly higher allocation to emerging markets. But the main driver is just the yield went up. The yield went up significantly, both for emerging markets and also even for traditional for -- how you call it, mature markets. So in reality, we saw a lift in the yield compared to what we had in the other quarters. So it's a little of mix, but on the mix, always keep in mind every quarter can have a different allocation as the investment guys are moving to meet their year target; and then also an increase in yield. On the cash, I will not comment on how much cash we have at the holding, but you can imagine we have done our calculation, and clearly, we want also to keep our option open for the future.

Farooq Hanif
Crédit Suisse AG, Research Division

Could you comment on debt capacity? [indiscernible]

Giulio Terzariol
CFO & Member of the Board of Management

Debt capacity, yes. So it depends how you define debt capacity. So in the case, we do an acquisition versus just increasing debt. But I can tell you something, we go back to -- maybe I translate this into the question of what kind of acquisition we could do without raising equity. And I will say that potentially, a

EUR 10 billion acquisition would be possible without raising equity. Then we would most likely use some equity in this case. But technically speaking, we like to stretch our leverage ratios, we might be able to do EUR 10 billion without raising any equity. Then it depends also on the quality of the target and then it also depends on the leverage of the target. But fundamentally, to give you an idea, EUR 10 billion is more or less the number. Otherwise, in terms of leverage ratio, I think you had the numbers for the end of the year. They didn't move significantly compared to the end of the year. More or less, we are at a -- on the Moody's, yes, we're about 26%, the way we present. And then Moody's ratio is a little bit high, and the S&P ratio, it's a little below 26%.

Operator

We'll go next to William Hawkins of KBW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Sorry. I'm going to slightly follow up on a couple of the other questions. First, just a point of detail. On Slide 21, you showed EUR 204 million of operating profit from capital-efficient products. I'm assuming that's still fixed index annuities and German hybrid stuff. Could you give me an indication of what was the German hybrid contribution to that? That's number one. Number two, for the first time in a while, Slide 9 is showing no reduction in SCR this quarter. I appreciate it's all quite small, but is there anything in particular that stopped the trend of reducing the SCR from what we've seen in the past? And then lastly, on the capital management point, sorry again to come back to it. But given that you were able to launch a buyback in July, just based on your preliminary views of how strong you were in the rest of it, was there not a temptation to up the program once you confirmed the very strong numbers this quarter? And if you did decide, I know you're not going to, but if you did decide to distribute as much as you possibly can, which would be the first binding constraint that will bite?

Giulio Terzariol
CFO & Member of the Board of Management

Okay. So starting from the operating profit on the capital-efficient product. This is enclosed in the FIA business and also the German life capital-light product. The contribution of Germany in this quarter has been minor. Again, there is always a noise. So it's been slightly below compared to what we would usually expect. We need also to consider, anyway, one factor. The way we do the translation from local accounting into IFRS is penalizing the IFRS performance of this line of business because of the way we account for policyholder participation. In reality, we are accounting for 90% policyholder participation also on the acquisition expense adjustment, where in reality, we should just use 50%. But -- so that's a little bit of a factor that, especially when you have a strong growth like the one we are recording now, it's going to bring to a sort of dilution of the profit. Fundamentally, just to be very clear, economically, on this business, we make a fee which is equal to what we do on the traditional business on the assets under management. And then we have a translation in IFRS that might lead to some distortion, especially on a quarterly basis. So that's on the capital-light product. The other question was on the SCR development. Yes. Indeed, usually, we have a -- we showed in the past about EUR 100 million of positive development. In this case, you see 0. In reality, it's a slight positive -- or negative -- so a slight positive contribution. The difference between this quarter and what you saw in the last quarter is the growth in property and casualty. And people might believe these are not, but even property, casualty has a capital intensity. And in reality, the ratio of SCR, the way at least we compute for this calculation to premium, is about 35%. So you just need EUR 200 million more of basis to get to a number, which is about EUR 70 million of SCR increase. On the other side, we have our recurring EUR 100 million of release from Life. But now when you look at the number, you get to see pretty much 0, though we still have a small positive contribution. But bottom line is it's driven by the fact that we are increasing our P&C production. And then the last question was on the capital generation. I'm going just straight to what could be the constraint on -- if I understood the question, on doing buybacks. So these kind of things, the main constraint, the primary constraint. If you look at the numbers, it's clearly not the solvency ratio. If you look at the conversation that we had just right now about the leverage ratio, it's not the leverage ratio. So at the end of the day, the constraint would always be the amount of liquidity that we are capable to generate at the holding level, also considering that we like to do a little bit of both. So think about that, we did a EUR 1 billion buyback right now. And we also did the announcement just a few weeks ago that we are buying Multiasistencia, which is a EUR 300 million transaction. But somehow, as you want to do both bolt-on acquisition and buybacks, eventually, I would tell you the constraint could be the amount of cash that we are capable to bring to the holding level.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Just to kind of -- sorry to come back, but should I be surprised by that? Because I thought you guys are not a pure holding company. You've been an operational holding company. So your financial flexibility at the top should be really quite big.

Giulio Terzariol
CFO & Member of the Board of Management

Yes. But I tell you, we have a very strong functioning risk management function, so we cannot -- actually, we have ample liquidity, but we are not using the assets matching the reinsurance liability for acquisition. We are not using the assets matching the pension portfolio for acquisition. You might argue that this could be an option, but that's not what we are doing. So we are kind of separating the 3 buckets, and we are very diligent about keeping the financial discipline because that might be very, very healthy. One day if you go into crisis situation, you never know in life, you might see things differently. But yes, fundamentally, yes, with a different management style, we would have ample opportunity to do a lot of things.

Operator

And we'll go next to Vinit Malhotra of Mediobanca.

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

So two questions, please. One is, Giulio, thanks for the PIMCO comments on very healthy inflows last 2 months. I was just more curious at the fact that you've lost a large mandate in April, May, whenever it was. Is it because of the attraction of passive funds in the market? Is it because investor clients are going, "We can get 3% Treasury return, why do we have to stay with PIMCO?" I mean, I'm just trying to see what are the risks for -- or what are the large clients thinking, in your view, around investing in PIMCO product? That's the first question. Second question is, just wanted to see how happy you feel with the Euler buyout transaction. I mean, I can see a slight, maybe minus 1% pricing cut. I've also seen that one of the competitors of Euler said that 1Q was sort of the peak of profitability. And I'm generally happy with the timing of it, of the Euler transaction. And how that business is going?

Giulio Terzariol
CFO & Member of the Board of Management

Perfect. So starting from PIMCO. No, I will not see that withdrawal as an indication of some underlying change in behavior. Indeed, that's a withdrawal from a client that put some money last year. And then there was also very low fee mandate, so it was almost like a, how you say, depot, and now they took it away. So -- and also last year, we've been very clear about the fact that we had a large inflow which was not that sustainable. So from that point of view, I wouldn't say that there is a change in the way, at least, we don't see in our case, how institutional investors are looking at putting funds into PIMCO. And indeed, also the performance in the last 2 months kind of indicating that, in general, we are back to a stable situation. So from -- the answer is no indication because of this withdrawal. On the Euler Hermes buyout, I feel, first of all, very good. And when you do a transaction of this kind, you need always to look anyway at the franchise of the business, at the potential of the business long term. So from that point of view, I think we did a good choice at buying the rest of the minorities at Euler Hermes. But important point is I saw the communication coming from some of our competitors. I think you know their track record is somehow different compared to our track record, so I would start from there. So every company is not similar to another company. And then I -- we -- the company is doing very good. And now it's always interesting how you look at numbers. So we see that the days of outstanding sales is going up. This is not -- somebody might interpret this as a negative indicator. And I will say, usually, this is more of a positive indicator that there is confidence in the economy, so suppliers are willing to extend more credit from a time point of view. So I think clearly, we are in a strong economy, but I don't see this economy deteriorating very quickly. So from this point of view, I feel that we have still a good environment in front of us. But it's clear that one day, we are going also to go through a downside. But I don't see this as being something imminent.

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

Can I just follow up quickly on one of the earlier questions, please? You talked about the P&C volume being so high, the 5%. Can I just say you're just not -- another question said that you were pushing the P&C product. So is it the correct understanding that you're pushing more, and that is leading to the volume growth, and not just that the economy is growing or the -- or somewhere, or there is a bit more demand? It's that you are pushing the product. Is that a correct interpretation?

Giulio Terzariol
CFO & Member of the Board of Management

Yes. I'm not sure. In my opinion, there are 2 effects. First of all, I believe there is some underlying good development. When I was looking at some numbers also from the competition, I think you see some growth there. So there is this development, but also, we have been very clear that, in Germany, we want go back to growth. And clearly, it's understood it has to be profitable growth. But I think we didn't make any secret that we want to go back to growth in our home market, for example.

Operator

We'll go next to Rahul Parekh of JPMorgan.

Rahul A. Parekh
JP Morgan Chase & Co, Research Division

I have two questions, please. The first is on motor insurance. Can you tell me what is the trend in motor insurance and in the combined ratio in that business? And in terms of modeling, the cost of modeling the recent claims recently, some of the trends there? And my second question is again going back to the capital management thing. You said that in July, you evaluated the buy of EUR 1 billion buyback. So I just want to know, when do you generally have these evaluations take place?

Giulio Terzariol
CFO & Member of the Board of Management

On the motor development, we are not seeing anything -- our development in motor is stable. So from that point of view, and clearly indeed, even slightly improving. And then clearly, we always look at frequency severity. At this point in time, depends on the markets, right? But in Germany, we don't see anything unusual on frequency severity. The recent conversation the U.K. about what is happening to the rates, but on the other side, there is an expectation that the claims activity might be going down in the future. So as we look at the different portfolio, I would say that we don't see any major change compared to the experience that we have seen as of recent. So nothing really changing, either on frequency or not on severity. But then, clearly, it's a different conversation market-by-market. So sometimes, in reality, what is happening, you might see an increasing severity, but this is offset by decreasing frequency or the other way around. But when you put the 2 factors together, we don't see a trend of increasing claims, or at least not exceeding rate increases. That's on the motor development. With respect to the buybacks, I will say I always think about deployment of capital, and we always think about deployment of capital. So from this point of view, that's an ongoing conversation that we have. And then when we decide to take actions, that's a different story. But clearly, we are constantly looking at our numbers, we are constantly looking at different option. So this is part of our job, not different from the way we look at solvency ratio constantly. We look at our IFRS profit on a monthly basis. So we are constantly analyzing what our options are.

Operator

We'll go next to Michael Haid of Commerzbank.

Michael Hermann Haid
Commerzbank AG, Research Division

Both on P&C insurance. Again, on the expense ratio, the improvement of 1 percentage point quarter-over-quarter -- or year-over-year, actually. I assume growth helps to improve this expense ratio. Is it possible to say how much growth contributed to this expense ratio? And the internal growth at this stage is probably higher than what you expected before when you set the targets for 2018, the 28.4%. So should we not become much more positive on the expense ratio? Second question on claims inflation in general. You report price increases of more than 2% in the second quarter. What are your observations or expectations regarding future claims inflation? You mentioned Australia, where you reduced your expectations. Turkey, probably you had to increase. So what was now your general expectations regarding claims inflation?

Giulio Terzariol
CFO & Member of the Board of Management

So on the improvement in expense ratio. But clearly, when you have a growth rate, if you look at the NPE of 4%, this is going to help the expense ratio. I didn't do the math, but I could expect that if you grow the NPE by 4%, this could contribute 40, 50 basis point, assuming flat expenses to the [improvement in the] expense ratio. So definitely, I just tell you right now, we continue to grow at 4% in NPE. Considering the efforts that we are putting in the expense ratio, then yes, you might see very, very nice trends in the expense ratio in the future because top line growth helps that KPI a lot. Another that's very important, we have given us a target to improve this expense ratio in the future even if we don't get this kind of growth. So that's very important. Now getting consistently this kind of growth in the future, that would definitely then put an additional boost, if you want, or improvement to the target that we have given ourselves. So that's on the expense ratio. On the -- yes?

Michael Hermann Haid
Commerzbank AG, Research Division

Can you say what growth you assumed when you set the expense ratio...

Giulio Terzariol
CFO & Member of the Board of Management

Yes. We -- in our plan, we have -- in our old plan, now we're going to see how the new plan goes. Usually, we assume a 2 percentage point -- something between 2 and 3 percentage point of growth, which is more or less the kind of growth that we had also over the last 3, 4 years. That's when I look at the old plan, that's the kind of growth that you are going to see in our plan. And now we're going to see whether we need to revisit this growth or not. I don't know at this point in time. But that's our assumption.

Michael Hermann Haid
Commerzbank AG, Research Division

[indiscernible] growth...

Giulio Terzariol
CFO & Member of the Board of Management

Internal growth. Yes. Absolutely. Yes. Absolutely. Internal growth. Now it's planning for M&A. So that's internal growth. If you look at our growth rate in the past in property-casualty, it has been about 3% over the last 3, 4 years. Last year was a little bit lower, but if you go back to '16, '15, '14, it was 3%. And this is also the expectation for the future. So usually, it's maybe a little bit slower in the first year and then people get more confident as you go into the last year of the planning. It's easier to plan for high growth 3 years down the road as opposed to first year. But fundamentally, we are speaking of about 3% growth in organic growth in our plan. And the other question, the claims inflation. Again, it clearly is a conversation which is different country-by-country, right? That's the fundamental point. So as you reference, Turkey can be different from Italy and so on. The point is, we see, for example, in Italy, we see, just to give you an idea, some higher frequency in property, but then you have lower severity in other lines of business. In Benelux, we see an improvement in frequency. In general in France right now, we see also better frequency and severity. And then you have a situation in other country where the severity might go up. So when you put all together and you have a big portfolio like our portfolio, you are going to have plus and minuses. But then, that's also very important, it's more about are your premium increases going to be able to match any potential increase in frequency severity? And our -- my response to it is, for the time being, based on the momentum we see, yes, it looks like we are now getting pressure on our larger portfolio because of claims inflation exceeding our ability to force rate increases. And clearly, Turkey is a totally different story. But that's a different story. But also in Turkey, never forget that investment income is going up also accordingly. So you need to put, also, in the case of Turkey, debt into the equation. And then you go back to -- then you could argue the cost of capital is going up, too. Then we can get into a long philosophical conversation. But if you look at the major countries where we are active, for the time being, we don't see any problem in matching claims inflation with tariff increases if needed.

Operator

We'll go next to Johnny Vo of Goldman Sachs.

Johnny Vo
Goldman Sachs Group Inc., Research Division

Just a couple of questions. Just the margin in your asset management, in particular, PIMCO, was obviously high. And you said you'd lost a relatively large contract that was very low margin. The new inflows, are they more institution-related? So should we expect the margin to come back again on that front? That's the first question. The second question just relates to your EUR 10 billion capacity for M&A. Clearly, this is predicated on how much goodwill you're buying. So I saw on Bloomberg that you said that you're potentially interested in asset management businesses. Clearly, your capacity to do asset management businesses may be different to your capacity to do a closed life book or a P&C business. So could you just discuss that EUR 10 billion capacity on M&A?

Giulio Terzariol
CFO & Member of the Board of Management

I guess, you have to repeat the second question. Was it about asset management and...

Johnny Vo
Goldman Sachs Group Inc., Research Division

Yes.

Giulio Terzariol
CFO & Member of the Board of Management

In general, okay. So coming to the PIMCO, yes. At the end of the day, we have fundamentally more mutual fund or retail business that's institutional. And this contribute to the increase in margin compared to what you saw in the prior quarters. So that's definitely the driver, is business mix. And clearly, institutional has higher margin compared to -- sorry, retail has higher margin compared to institutional. So it's driven by mutual funds. On the asset management side, clearly, our -- priority #1 is property and casualty. When then I explained to Bloomberg what the priority, I want more to give the message, life is the #3. And then I put asset management in between. In asset management, I think that it might make sense for us to do acquisition, especially if we can do acquisition that are adding to the diversification of our business. That can be a nice fit. And we don't need to talk about huge acquisition. Again, also small acquisition, but they can contribute definitely to the franchise, either of PIMCO or AGI. So that's the reason why I put always asset management as second. But I would also say that property-casualty is definitely the #1, and I would mostly focus on that comment. But...

Johnny Vo

Goldman Sachs Group Inc., Research Division

Yes. But Giulio, just a quick question, just a follow-up. I mean, your capacity is dependent on how much goodwill you're buying. So if you're buying a lot of goodwill, then clearly, your capacity is less. Is that fair?

Giulio Terzariol
CFO & Member of the Board of Management

Yes. We'll let's say that -- I understand what you say. The point is true, that when you buy an asset manager, you have a lot of goodwill. On the other side, you don't have a lot of ACR. So at the end of the day, you need to look at both, all right? Because when you buy a P&C company or a Life company, you might have less goodwill, but then you have a lot of ACR coming in. So it depends. I will say it depends, but I will say look at both side of the equation, not just one side of the equation. And ACR can be very punitive because it gets into the denominator, and -- yes.

Operator

We'll go next to Neel Shah with Credit Agricole.

Neel Shah
Credit Agricole Corporate and Investment Bank, Research Division

Just for a quick question, you discuss about -- a lot about return on capital. Could you discuss what's your plans are for bond issuance for 2018 and '19? And also in terms of your [calls] -- upcoming [calls] as well. You have solvency ratio of 230%. So what kind of range are you -- in your management plans, do you have, for a comfortable buffer above your current range that you want to use to return to shareholders capital, and also to improve your kind of debt-equity mix?

Giulio Terzariol
CFO & Member of the Board of Management

Yes. From a debt issuance point of view, we are not going to make any substantial move in the course of the year, also going to 2019. So from a -- we feel comfortable with the level of leverage ratio. So we actually have a bond which is potentially coming to maturity. So we are going to see what we are going to do with that. It can be replaced. But fundamentally, we are not going to change our leverage ratio. So in general, the message is status quo. Now the only thing we are looking into, but this is a long process, is looking to RT1. There will be an instrument, but for that, we need to talk both to our regulators and also to clarify a few tax issue. That will be the only thing that, potentially, if we get all the necessary approvals, we must thinking to dip into that instrument. But we are not there yet. So for the time being, the message is you're going to see a lot of stability on this front.

Neel Shah
Credit Agricole Corporate and Investment Bank, Research Division

And regarding the -- what is your range of Solvency II that you put on internally, as a management, that you feel comfortable with? And what do you believe is above the minimum requirement that you feel comfortable with?

Giulio Terzariol
CFO & Member of the Board of Management

Yes. For the solvency ratio -- you mean solvency ratio, Solvency II ratio, right?

Neel Shah
Credit Agricole Corporate and Investment Bank, Research Division

Yes.

Giulio Terzariol
CFO & Member of the Board of Management

So we are being clear that our range is 180% to 220%. That's also something we want to address in the Capital Market Day because we believe it makes sense to have a low end of the range. So I would say the 180% makes absolutely a lot of sense. To discuss about an upper end of the range, it's a little bit different because, sometimes, you can get a very high end of the range that's driven by market movement, and reduces the solvency ratio just because the markets are doing very nicely, might be very countercyclical. And our point is clearly, as investors, they want to see us to manage capital efficiently. But then for that, we would point out to the IFRS ROE. So we will say, as long as we can produce an IFRS ROE which is good and strong, then the level of Solvency II capital shouldn't be a big issue, especially on the high side. And also we'll say, we have been proven over the last 18 months that we are not shy at utilizing capital also for buybacks when we have the opportunity. So the message is, right now, we have a ratio of 180% to 220%. But as we come to the Capital Market Day in November, we're going to discuss with you the sense or relevance to have an upper end of the range. But clearly, in this case, it's going to be even more important to be very focused on the ROE IFRS as a proof that we are managing the company in an efficient way from a capital point of view.

Operator

[Operator Instructions] At this time, we have no further questions in queue.

Oliver Schmidt
Head of Investor Relations

Okay. I guess, if we -- perfect. Thanks. So yes, if we have no further questions, then thanks to everybody for joining the call. We say goodbye for now and we wish you a very pleasant weekend, and perhaps even a longer pleasant vacation afterwards. Thank you.

Giulio Terzariol
CFO & Member of the Board of Management

Bye. [Foreign Language]

Operator
Again, this does conclude today's call. We appreciate everyone's participation today. You may now disconnect.