S&P Capital IQ

CONTENTS

Allianz SE DB:ALV

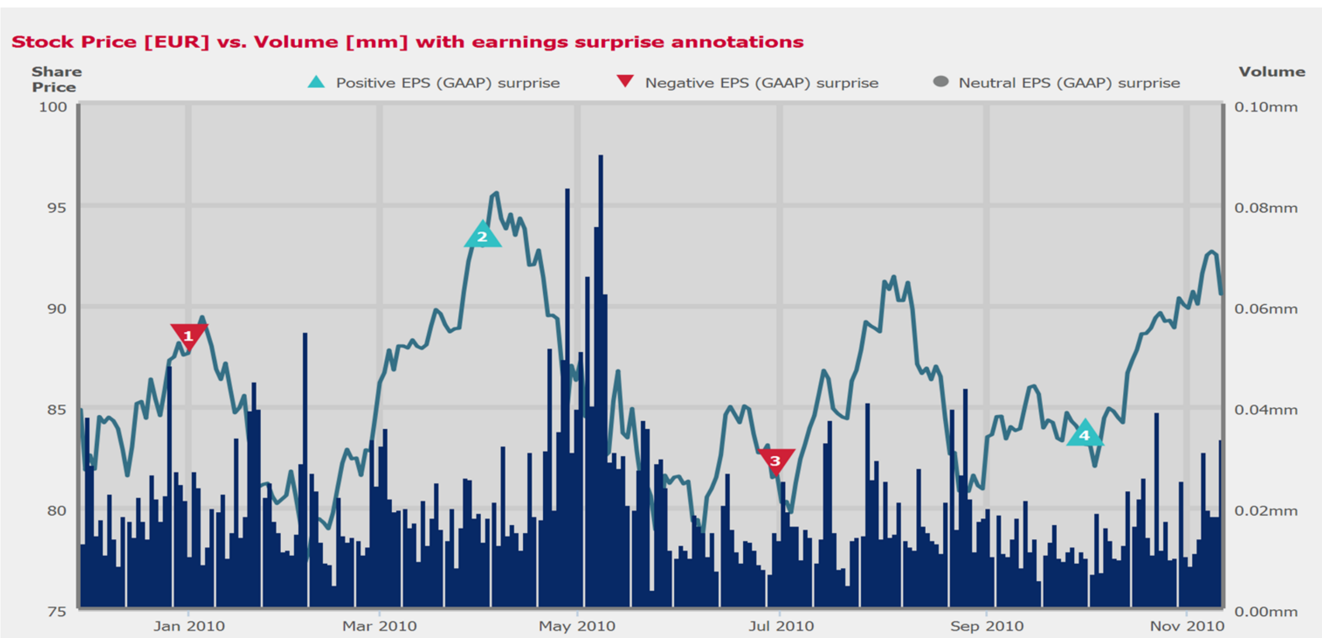
FY 2010 Earnings Call Transcripts

Friday, February 25, 2011 10:15 AM GMT

S&P Capital IQ Estimates

	-FQ4 2010-			-FQ1 2011-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	SURPRISE	CONSENSUS
EPS (GAAP)	2.62	2.49	(4.96 %)	3.07	(5.53 %)	11.21
Revenue (mm)	27075.00	26000.00	(3.97 %)	-	-	101363.26

Currency: EUR
Consensus as of Feb-25-2011 8:44 AM GMT



Call Participants

EXECUTIVES

Michael Diekmann
Chairman of Supervisory Board

Oliver Bäte
Chairman of Management Board & CEO

Paul M. L. Achleitner
Member of International Advisory Board

Unknown Executive

ANALYSTS

Andrew Broadfield
Morgan Stanley, Research Division

Birgit Roper-Gruner
Societe Generale Cross Asset Research

Brian Shea
BofA Merrill Lynch, Research Division

Fabrizio Croce
Kepler Capital Markets, Research Division

James B. Quin
Citigroup Inc, Research Division

Jonathan Michael Hocking
Morgan Stanley, Research Division

Marc Thiele
UBS Investment Bank, Research Division

Michael Hermann Haid
CA Cheuvreux, Research Division

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Nick Holmes
Nomura Securities Co. Ltd., Research Division

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

Roland Pfänder
Commerzbank AG, Research Division

Presentation

Paul M. L. Achleitner
Member of International Advisory Board

Welcome to Munich to our annual event. Thank you all for coming in great numbers. Thank you for braving the German strike on the trains. For those of you who come from abroad, that may come as a surprise, but yes, there are strikes in Germany.

We will all follow the usual process here. I would also like to greet all those people who are watching the proceedings on the Internet. And I would ask all of you that you kindly actually turn off your handies, that is your mobile phones, that is, at least, those people present here rather than those sitting on the Internet.

Without further ado, we will follow the usual process. Michael will give you the focus on where we are and where we intend to go this year under the theme of building momentum. Then Oliver will take you through our group financial results of 2010, and I will finish this off talking about the finance investment and transactions. We will then break for lunch and subsequently have the Q&A session that you're all looking forward to.

Thank you very much. Michael?

Michael Diekmann
Chairman of Supervisory Board

Well, good morning from my side. I appreciate that you are spending your Friday with us and hope that everybody gets home in time. I'm making this reasonably short, and if I may go to the first slide please.

Looking at the KPIs for 2010, I just would like to line out that every KPI here is up by at least 9%. I think an interesting number is when I compare this with the competition, the revenue number, and we have some interesting disclosure for you going forward about how profitable is this revenue increase.

Now the next one, just a sort of CEO judgment, how do I see our performance, vis-à-vis our outlook. I was positively surprised, really, on the Q4 P&C result, and that's despite a very harsh winter. So I think that is a good one. Very positive the revenue flows in Life and really compared to the planning session 15 months ago. A big surprise were the net inflows, very much driven by PIMCO. So I think in short, these are the 3 good components of the result in 2010.

Now I'm trying to give you my view on 5, what I call success factors that are contributing to these good numbers. As you know, we've sort of concentrated and consolidated a lot of our global business lines. You'll see a couple of them here. I would like to add Automotive, which really becomes an interesting driver and another one that is smaller in size, but very important in our global appearance, and that's a company that is based in Ireland, it's called AWC, it's the Allianz Worldwide Care that takes care of group lines in international hedge covers for ex-pats.

Now interestingly after the consolidation phase over the last 3, 4 years, we see more and more of a global vertical integration of this global alliance, meaning that they are producing business solutions that are really based on the cross-selling effort, and maybe not to your surprise, Mondial, our assistance company is very much involved in this corporation and cross-selling. So the skills, the scale and brand provide us with increasing access to very, very interesting business opportunities, where I think we have a value added compared to peers. That goes, for instance, for large-pension contracts that we've been writing. The combination of balance sheet on the Life side, a very good performance on that Asset Management side plus the hedge cover from AWC plus the service component coming out of Assistance business is a real, real strong cross-selling argument.

Now the second success factor sometimes neglected is rating. I mean all our ratings are really helping us in terms of reputation and trust, and this is why we pay a lot of attention to maintaining a very competitive rating, especially for our global lines and some sensitive businesses.

The third success factor I see in the growth and continuous growth of our operating asset base, which really reflect a high retention and high net inflows, and that allows us in a decreasing yield environment to be pretty stable with our interests and similar income, and we've added asset management fees and commission income without the performance fees. And I think this is a very important picture that I've been showing since our road show in spring.

Now success factor #4 has been stressed before is the diversified business. I think when you look at segments and regions, they are very well-balanced and very much taking care of weaknesses in some regions and segments. So there's a very nice diversification benefit that we're getting out of this. When I look at distribution, just to commence the Commerzbank distribution is really picking up very nicely compared to last year, when we just look at the 4 months since the full core Commerzbank distribution agreement that's in place. You know that Generali was in parts of the Commerzbank, on the old Commerzbank setup. We've increased the last production by a 100% and the P&C production by 50%.

Now I would like to address another point that I've been reading in some of your analyst comments, and that's propriety distribution. All proprietaries, proprietary distribution makes out around 45%, and I've read a couple of comments that say that our high part of tied agent distribution is proving to be more difficult than being beneficial, and I don't see that at all. I think that when we compare all the profit indicators, the tied agent system is really an absolute plus for us. Yes, it will requires a couple of negotiations when it comes to conflicts in the distribution setup, but that is handled better and better. And I think one characteristic of our tied agency network is that they are really selling all product lines. So the pressure that is mostly mentioned when it comes to connection with direct, it's really a very, very minor part of this distribution-steering effort from our side.

Now success factor #5, I think, is clearly the investment portfolio. And I mean you will not be surprised when I say that I'd rather have a little higher allocation to equities. Nevertheless, I think the performance of this investment portfolio allows us to really manage risk and volatility much better than 10 years ago.

Now what that gets us to, and I'm lining out the operating profits over the last 8 years, is a pretty stable operating profit base with an interest in composition of the segments' contribution, which I think is also, from a cash point of view, very, very interesting combination. We may come back to that a little later.

Now what I'm driving at is something that I've tried to line out since the Merrill Lynch Conference, and that is pointing out that the potential, and this is really what led us to the title of Building Momentum. Now if I look at the static position today compared to 2004, I would like to point out again the operating asset base, the importance and performance of our global lines, the improved risk profile comes from a much lower equity gearing, much lower banking exposure, much better and aligned reinsurance, since we've concentrated that all as a central function and a much higher profit potential coming out of low arbitrary costs, much lower non-controlling interest and the combined ratio that stands at 97.2%, while I mean as sort of a great combined ratio with 2004 that was around 95%.

Now potentially, the largest driver of upside then is the low-interest environment. If you at all this, I think the positioning for the next year is very, very promising, and not at all something that justifies some of the comments that we read in the newspapers yesterday.

Strategic priorities going forward, I would just like to line out, Solvency II is a very, very important one for 2011, also capital allocation, that's our internal capital market process. Efficiency improvements, especially in our larger fees on the P&C side, that's Germany, that's France and the U.S., and multi-channel distribution. I've justified our approach of not going into aggressive attack on matters on the direct side, but really follow an integrated approach within our multi-channel project. I think these are the important topics for 2011.

Now the next one may come as a disappointment to you, and that's our dividend outlook. We will stick to the 40% payout ratio, because we think that there are still a lot of uncertainty on Solvency II. We certainly will need capital for higher market volatility. Going forward, we do have interesting growth opportunities and Oliver, as I said, will come up with some very interesting disclosure on Life, on the Life side.

And last but not least, higher capital requirements for the rating. Obviously, I mean that will be one of the topics to be discussed, but I wanted to be upfront with that one.

Now I would like to give you a little view into what I call the machine room. You know that we do a lot of that practice exchange, and we've talked about that under that title of sustainability. Beyond that, we are creating regional synergies in our Eastern European network and our Asian network, but here's one that I find very interesting because it's much more excessive, because it's really a business model replication, including a platform integration.

Now Latin America has gained a little bit of attention over the last couple of days, so I think it fits very nicely with that story. You know that in 2007, we've mandated our operation in Spain to sort of integrate the businesses in Portugal and Latin America.

You'll see these bubbles here. We have a full integration achieved in Portugal. We are 3/4 full in Colombia. We are half full in Brazil, and it started in Argentina in May. It's not decided yet in Mexico at a later point in time. That represents around 9% to 10% of all P&C premiums. It was not insignificant, and we've given you a couple of KPIs here, how Spain is doing against the market. And I think that's one really of the best operations. We have as an expense ratio of 20.5%, combined ratio of 90.3%, and that's really all based on a very, very efficient business model that is focused, digitalized and has a superior customer service.

Now if you look at that KPIs now that we've achieved in Portugal, Colombia and Brazil, I think you'll see the influence. And probably, the biggest improvement in when we look at customers through our FTE and qualities per FTE, which really shows the efficiency of the underlying program.

So coming back to our sustainability approach, I think this is, I mean, one of the ways how once you've sort of integrated the model, it was in the organization that makes it much easier, not only to get in some best practice exchange, but do some real hot-wired stuff.

Coming to our core markets on the P&C side, what is our current view? We see very, very significant improvement coming from pricing actions and the end of the reorganization in Italy. We think we still need a little bit more time until we see the full effects of pricing in Germany and France. So we'll expect that basically for 2010 and '12. And in the U.S., we are less optimistic that the market will turn within the next 2 years, but at some point, it has to turn, and 2013 would be our best guess here. So we do expect improvements in all 4 operations, but the most significant in Italy.

Now as mentioned, the pension opportunity and the increasing cooperation between Asset Management and Life, now if we see the expected increase in pension assets under management on the Life side between 2009 and 2020 and compare that with the CAGR of our assets under management between 2003 and 2010, I think it's very evident that here is a really big business opportunity, where we will watch profitability of our pension contracts very, very closely.

On the Asset Management side, I think we have a great starting point that's obviously the higher assets under management as a starting point. The performance track record, especially of PIMCO, we may or not see a revival for equities. That's the only part that I'm mentioning here that is not effect but some judgment. I think the broader PIMCO product range will help a lot to mitigate whatever we see on the interest rate movements, then we focus our distribution setup in the U.S. So PIMCO now has its own distribution, which already pays off big time. And I think it's good that you have [indiscernible] has sort of stopped to create synergies that in the end did not really pay out. It's much better to have a more focused distribution in the U.S.

Then, as you know, we've sort of gotten the back offices in our U.S. equity production together. So we will see some synergies here plus some platform integration of our AGI outlet in Europe. And then, last but not least, the significantly lower B shares that are outstanding.

Now with that, I would like to come to the outlook that was commented as a sort of weak outlook in the press yesterday. Frankly, I don't think so. We are seeing the range of EUR 8 billion plus/minus EUR 500 million. I mean the lower-end range really reflects a stress scenario, and the probably biggest disappointment out there was on the Life outlook. Now I would like to reiterate that the Life result in 2010 contains a one-off of our accounting change in the U.S. That is around EUR 200 million. And looking at the volatility of capital markets, I think it's a pretty solid outlook.

So with that, I would like to hand it over to Oliver.

Oliver Bäte
Chairman of Management Board & CEO

Good morning, everybody. This year, most of you still sit in the back rows. We freed up the front this time, so I can see you a little more closely. It's like in a university, you still like to be in the back, and I get all the light. I'm actually trying to observe how you're following me. What I'd like to do is, in difference to than last year, we'll not hit every slide in detail, so we have more time for Q&A at the end. At the same time, I'll try to address the few questions that you are very likely to have based on the numbers I present. So we can at least get the technical questions, how did you compute A and B out of the way, so we can focus on the real content questions.

Overall, we were very happy with last year. On Page #3, we had an excellent year. We had record revenues with EUR 106.5 billion, up 9.3%, obviously helped by foreign exchange effects. We'll talk about that.

Operating profit is 17%, up at EUR 8.2 billion, and net income 12%. Net income relative to continued operations, if you look at the real net that typically people look at, actually up EUR 954 million, now that is 20%, taking into account the Dresdner effect we still have in 2009.

Shareholder equity is up 10.9% to EUR 44.5 billion, and solvency exceeded our target range with 173%, the good news, as you'll see later. The bad news is Solvency I doesn't really tell you much about economics at this point in time, because it's insensitive to interest rate risk, and that's the biggest thing we have to wrestle with at this point in time. While at the end of February now, interest rates are back up where they were at the end of 2009. During 2010, they almost fell 100 basis points, creating severe strain from an economic capital point of view. And that is currently driving our stance towards capitalization. We're still not out of the woods in terms of interest rate risk, and we'll talk a little bit about that today.

The proposed dividend is in line with our long-term payout strategy that is 40% of net income. We've been very clear about that. I think for a few years now and every quarter, we've reiterated to you as our investors that this is our stance. We have no intention to accumulate excess capital, and we'll show you later how we're using that capital, particularly to fund very profitable growth.

Now if you look at the numbers over the last 3 years on Slide #4, you'll see the development, as I just described, the very strong story on revenues, a very good on operating profit development and on net income.

Our capitalization is very strong, and shareholder equity grew, particularly because of retained earnings. Unrealized gains and losses are slightly down relative to 2009, with some gains on the equity side that were planned that affects that. The drive in the shareholders' equity movement, the 10.9%, our net income of EUR 5.1 billion dividend paid minus EUR 185 million, unrealized gains down EUR 400 million and a foreign exchange effect of roughly EUR 1.3 billion. So these were the key drivers on the equity changes relative to year-end 2009.

Page 6 shows you our resistance to shocks on the conglomerate solvency ratio, and we are fairly stable now, relative to shocks even to equity markets, down 30%, and the impact of the IFRS equity. We do use a capital cockpit that has 4 numbers. It has the conglomerate solvency, it has the IFRS capital, it has our internal solvency that I'm going to get to, and it has our ratings. So we use all 4 of them as our capital cockpit. And at different points in time, the different number can be the constraint. So conglomerate solvency is not a constraint at this point in time, but as you will see in a second, from an economic standpoint, they are constricted. The next page.

And you've always asked me -- also given the economic solvency numbers, before you start interpreting what these numbers mean, let me allude to the fact that in line and you will see that later with MCEV, a new business margin, in line with the Solvency II requirement emerging through QIS 5 and in line with the

CFO for a working group recommendation, how to compute MCEV now more consistent between the top companies that is Zurich, AXA, Generali and Allianz, in particular. We have changed our methodology, both the internal model and the way to compute that. I will show you the sensitivities a little later.

Based on the adjusted framework, our solvency stands internally now at 166%, and it's down relative to the year-end number 2009 by 7 percentage points. So it nicely reflects the decline in interest rates during the year, and it also shows you why conglomerate solvency has been going up, in economic terms, actually down.

The other comment I'd like to make is fully consistent with how, for example, S&P runs its computations, i.e. without disclosing how we think about these numbers, they compute them once a year. We know that the sensitivity is exactly the same on the interest-rate side as it should be from an economic standpoint. As of today, by the way, the internal solvency number ranges between 170% and 175%, as interest rates have gone up further in the first weeks of this year.

Now on the right-hand side, we will show you a few shocks. Now let me remind you our internal model is calibrated to a AA rating, i.e. a 3 basis points approach. In Solvency II, there is a BBB requirement to calibrate it, i.e. 99.5%. And so, relative to Solvency II, we are still more conservative in the many aspects as we stand today. And we want to be consistent, obviously, with the rating that we are targeting on the outside, at least, at this point in time.

Now it's very important to understand that these numbers can be very volatile. We are far from being out of the woods in the government bond markets in Europe, the debt issue has not been resolved, and we want to be careful in this environment. And you see the sensitivities in the numbers, including a severe shock of interest rates down and equity markets down in the year at the same time. Some people call this very remote. If China has a major hiccup, this is exactly what might happen, and the probabilities in yesterday's capital markets of such a scenario is actually around 7%. So it's not that remote. So we've really learned through the crisis now to be cautious, and we'd like to be able to withstand even severe shocks, without having to go out and ask for money.

Now that is around the highlights and the capital position. I'd like to very briefly touch now on the fourth quarter. A lot has been reported yesterday. It starts on Page #9, you see the revenue, operating profit and net income from continuing operations. Development, all numbers are up, particularly around operating profit and net income. And the following pages show you the development of the segment, very nice development, as Michael said on P&C, combined ratio for the fourth quarter below 95% with 94.9%. By the way, the run-off in this, as you will see later in this quarter, was below long-term year average. So it's not the usual fourth quarter run-off effect here, it's not the opposite, but it's below what we usually see in the last quarters. The higher run-off we've had during the year was a consequence of higher reserves during the economic crisis and that have tapered off actually in the second and third quarter for the most part. All components are also improved, underwriting investments and others.

On Life, Page 11, EUR 554 million, you might say from the trend line, is that does not mean that operating profitability is down. And again, a comment as last year, in the fourth quarter, we determined for legal reason, policy holder participation on the fourth quarter of every year is expected to be low the prior quarters in terms of operating profitability. It is exactly in line with our expectations. And the volatility on the operating profit driver should not give you any cause for concern, because we've taken the opportunity of a good trading environment to take some precautionary measures, particularly around net assumptions and make them even more conservative. In a lower interest rate environment, are plans do less frequently and we've taken a conservative stance that has negatively affected our technical results.

Now Asset Management had another fantastic quarter and has driven up our operating profitability to above EUR 2 billion. Net fee and commission income was EUR 124 million up and operating expenses that outweigh the upside reflect profit participation and investment in technology. So that's the fourth quarter, and now I would like to move to the group results.

Page #14 give you the usual split of revenues. As you can see here nicely, our revenue growth was driven by the performance in Asset Management and Life & Health, both double digits on a gross basis In Life, 12.5%, internal perspective on a local market view, 9.6%. So almost double-digit here as well.

Asset Management with staggering growth numbers and high profitability. Normally I get very nervous in financial services. If something grows too quickly, it's typically a sign of weak margins. Here, it is the opposite. So we're really proud to have seen that.

On P&C, we are basically flat. There are few special effects that I will show you later. Overall, we had a very strong growth in some parts of our portfolio, where profitability is very strong. We suffered from around 0.5 percentage point, depending how you calculate to a 90 basis point reduction portfolios in some of the large core markets. So balancing, unfortunately, that growth, overall.

Page 15 is a very nice one, I really like this. Since I've joined the Board, we haven't had that picture, because this picture shows that all our segments have improved. It's not the usual, some do well and others don't. All segments, Property/Casualty, Life/Health, and Asset Management, and Corporate and Others have shown improvements. And on the right-hand side, you see the nominal contributions that even on the Corporate segment, we've reduced the loss by EUR 86 million, and that's the way we'd like it to develop.

On Page 16, a quick view on Corporate and Other. What has been the driver of the improvement. The Holding & Treasury results has been stable despite a lot of volatility in various aspects. On the other hand, we have improved the banking result by more than EUR 100 million, and it's expected to improve further because it still reflects some negative profitability in our Eastern European banking operations, which we have been selling. So over time, that segment is going to improve significantly further.

Now non-operating items, Page #17. This year, I added 2 additional lines, because in other non-operating, we had some significant movement that I'd like to explain to you upfront, but let's start at the top. The key movement is in realized gains and losses, and on the right-hand side you'll see the impairment line and their equities. So the biggest driver is not that we've monetized the investment portfolio, it's not that we've monetized against on investments side, it's just reduced impairments, as the equity markets have improved. And that is, I think, very good news.

Interest expense from external debt is slowly going down. It stands now at EUR 890 million, and losses from consolidated private equity investments have reduced by EUR 130 million to now EUR 100 million.

Now restructuring charges are up, and let me pause here for a second. We are still taking the opportunity in the economic turmoil that we've seen to understand that we need to improve productivity. So we are continuously investing in further productivity improvements. Last year, the focus was on a number of items, both in the back office and in distribution. Let me give you a few details around EUR 83 million came through a restructuring program. We're doing at EIOPA, in order to really, really simplify the operations and make it more productive. Additional investments to get the cost down in France of EUR 36 million. In Germany, we are continuously restructuring our distribution, of course, EUR 33 million last year, EUR 55 million already in 2 years with Aldi Süd. Netherlands, EUR 27 million, and with the creation of our central service unit, AMOS, we have invested around EUR 22 million to further increase the productivity in our IT data center, which we've been doing a few years, and we've brought down the number of data centers, as you know, from the very large number to just a few left.

Now that these were restructuring charges. Let me move to acquisition-related expenses that's not new to you. It's what we are paying for. B shares that has proven to be very good investments in buying profitable growth. That was a large chunk last year. We have another chunk out this year. We'll talk about it. Probably, you'll ask how many they are and how it works, so I will not spend too much time on it now. And it increased by EUR 34 million relative to 2009. The 3 effects here, we had a higher multiplier effect. It is based on the call of the B units that explains around EUR 90 million negative, and we have some fair value adjustments. In distribution, we expect in total around EUR 15 million that was a positive offset, to lead us with an additional EUR 30 million expenses.

Now other non-operating items, EUR 384 million, what is in there? There are 2 major components. One is income from financial assets and liabilities carried at fair value. The biggest part of that is the fair value adjustment on the Hartford. There was a little bit of a confusion with the number over the year versus in the fourth quarter. It is the number over the year, the fair value adjustment was a minus EUR 160 million. However, the number for the S warrant development in the fourth quarter is a plus EUR 69 million to be precise. So people, please don't confuse the fourth quarter with the total year development, highly volatile given the nature of the instrument.

Now the amortization of intangible assets basically is write-offs that we have been taking after the crisis on a number of participations that we feel in the new normal, as our colleagues in PIMCO would call it, cannot justify high valuations. The biggest one is our Russian investment, ROSNO, EUR 140 million, MAN Roland, our private equity investment was EUR 115 million and then on banking in Italy, it's an acquisition we did in 2004, an IT network that was still owned by RAS at the time, we've taken a write-down of around EUR 51 million. That's basically explaining the amortization of the intangibles.

Reclassification of tax benefits. Last year, we had a discussion that's basically was pertaining to a big win we had under German tax courts on losses we had been taking in 2001 and before in the crisis. Obviously, we couldn't repeat that every year. So our tax expenses are back to normal. By the way, you'll see that in a second half. Our tax rate is now 27%, still better than the long-term expected of 30%.

With that, let me move to Page #18, please. And there you'll see the development of net income attributable to shareholders and the EUR 1,964,000,000 is actually what I just said, the tax rate at 27.4%.

POS, that was the group, so now we go into the P&C segment please. P&C, and we mean it as we say it. Robust performance in a difficult environment. We are very fortunate at Allianz, because we have what we believe is a very well-performing P&C portfolio globally, but that should not kill us, in the sense that in a number of core European markets, the profitability on the market level is still not what we'd like it to be, and claims inflation's still outpacing price increases. Now therefore, a number of the core market in Europe are suffering. In many of them, we are doing much better than the market average. And I'd like to remind you that, on average, Allianz might significantly more in terms of operating profit market share than our revenue market share. And even in fruitful markets like Germany and Italy, where the numbers in the past which were stressed and I'll allude to that in a second.

Overall, on the portfolio, the revenues are up 3.2%. Operating profit is up almost 6% to EUR 4.3 billion, and the combined ratio stands at 97.2%. NatCat is still above normal with 3.2%. I think we have to get used to, in this industry, to have -- see more NatCat. And the run-off sense at 3.9%, again not driven by the last quarter, and I'll show you the details in a second.

Now Page #21 shows you the growth of the portfolio and the various countries. Now I'll spend a few more moments, because you'll be asking about that, I guess. One aspect I'd like to mention is crop insurance in the United States. You see typically huge swings in the crop revenues depending on what crop prices are. The swing this year alone was down EUR 124 million or 0.3% of our total revenues, just the crop effects. So without crop, the portfolio would have grown 30 basis points, and we have a number of effects that were counter-intuitive, so to speak, because looking at some of the profitability numbers, they don't tell you the whole story. So for example, we had accelerating pricing increases that we were getting through, particularly in Italy. So our tragedy is really paying off there. We saw price increases in Australia, we saw them in the U.K., and we saw them in credit, as anticipated. So if you go back to our forecast from the end of last year, it is exactly as predicted this time. So that's good.

Now on the other hand, we had volume declines in some core markets. Many of them were wanted, because we are still seeing insignificant -- excuse me, insufficient profitability. It varies by market in terms of what their respective lines are, motor lines are still very weak in a number of markets, for example, in Germany and in France. In Germany also, we have issues in commercial lines. Overall, there's too much excess capital still in the industry, and that is depressing prices.

Now in the U.S., we've also seen very, very difficult trading environment. While some personal lines in the U.S., particularly those we are not in unfortunately, see very strong price increases. In commercial lines, the trading environment is horrible, to say the least. There's a very good study, without sort of mentioning too many competitors individually, but Deutsche has done a great study on what is happening in commercial lines in the U.S. I can only support that. It's one of the lowest levels of pricing commercial lines that we've seen in the last 10 years. So we have a been extremely cautious, let volume go. And therefore, we're taking some hits on the productivity side, and I think it's good to re-protect underwriting margin, even if it's at the expense of productivity in the short term.

Now Italy, I'd like to mention, we still saw declines here, EUR 192 million. Out of that, we wanted to lose around EUR 130 million to EUR 140 million, particularly in commercial lines, because the prices are, and particularly the claims experience, is not very good. The Milan tables and some legal cases are making it very difficult to make money here.

On the other hand, Motor is very positive, particularly in the fourth quarter. We saw improvements of 2.2%, due to strong price increases. We expect the motor market to really have turned the corner for now.

So that's what I'd like to say. In New York, we have some special effects, particularly around Motor, recession is still having an effect there. And in the other lines that I'd like to mention, we also see a very nice growth.

South America is doing really well at very good profitability. In the U.K., we're taking share, and we're doing really well. Credit insurance is up, and not just prices. Australia is up double-digit. I think that's very good. And our Asian operations are growing 7.3%, also very good news.

So that's the view on our top line in P&C. Now operating profit on Page 22. Here, the element that really please us are that all of the 3 components do show positive signs, underwriting, investment and other. Other, as a reminder, being seen in commission income, particularly in credit insurance. We have counter, being effect in underwriting. One is NatCat is significantly negative in 2009. We had EUR 447 million NatCat losses that are below long-term average in the 12 months of 2010. We had almost EUR 1.3 billion. So a swing of more than EUR 800 million just in that one year we had to weather.

On the other hand, we had significant improvements in credit, Italy and France without run-off, and then more run-off around EUR 470-plus million. Most of that, again, out of unwinding recession-related claims.

Page 23, please, now shows you the usual split of combines across markets. Now the good news is the overall portfolio performance. It improved to prior years, the first time in, I think, 3 years that, that is the case. So it's very good news, and we have a number of improvements that are noteworthy. France, Italy, in particular, is now below 100%, and I think we are the only one really in the country with those numbers. And credit is significantly improved, of course, after some losses in the crisis. It's highly sort of cyclical, and we're taking now the upside of very good management in the down cycle.

Now on the other hand, we still have 4 markets where the combined ratio is above 100%. And as you know, we don't like technical losses. It's Germany, and still France. It is Eastern Europe, which was hit by a number of special effects, in particular, financial tax and Hungary NatCat in a single large claim in Russia and the United States. The United States, to start with that, as I said before, we let significant amounts of volume go to protect underwriting margin. We now have to make sure that the cost base reflects the reduced revenue basis.

Eastern Europe, I just mentioned, we expect significant improvement this year, and the same is true for France. They're coming from a very high level of NatCat loadings, and we expect a further improvement this year. And the same is true for Germany, the 100.8% cannot really make us happy. On the other hand, let's understand, we also had in 2010 significant additional NatCat loadings, relative to 2009. It's up 1.9 percentage points. So it's very, very significant.

This is a combined ratio explanation. Now let's move to 24, accident year loss ratio development. We've talked in the prior quarters, for those that have been in the calls, a lot around what happens on an accident-year basis and excluding and including NatCat. And we've shown you that, excluding NatCat, and I think its loss that's very important, the accident year loss ratio is trending downward. So that we like, particularly on a quarter-by-quarter basis, which is the upper right-hand quadrant. You'll see we are stabilizing at this point in time at below 69.9%, and the NatCat loading has trended downward over the year, as you can nicely see from the red line.

In the development relative to prior year, despite the increase in NatCat, you'll see a couple of items. Now credit insurance as predicted is improving, and this varying frequency, we've been able through our sustainability programs to offset claims inflation. I think it's very, very positive, even though claims inflation has been lower due to low inflation generally. It's still running at around 3%. So get that done is not very easy. But what we also see is for the first time, we've had 60 basis points of price increases that made it into our accident year loss ratio. That's no small feat, and a very good sign for the portfolio. So if we can drive prices and claims improvement in the 4 core markets that I just mentioned, we should see significant improvement in the following year.

Last comment, run-off as I said before, 3.9% is above our long-term average. That's absolutely clear. It's not driven by the fourth quarter. That was at 4.6%, actually significantly below prior-year fourth quarter development. The higher run-off stems from the first quarters and come, as I said, in earlier quarters out of the unlocking, so to speak, of earlier recession-related claims.

With that, I'd like to hit expense development, Page 25. Expense ratio is unfortunately up, 20 basis points and the drivers are as follows: we had 20 basis points that's exactly the net amount of one-offs in the overhead. The first one was Russia, there's a write-down on a reinsurance receivable that we are obviously trying to get back. And in Switzerland, we had a significant move because of centralization of back offices that we had not in the plans of the expense ratio going up. We had recurring items, the German BilMoG, by the way, those EUR 46 million are in the segment and will stay. However, on a corporate level, that's a wash because what we are paying here in the segment was the [indiscernible] at a holding level. And unfortunately, we have EUR 26 million additional expenses, just in Hungary, out of the introduction of the financial tax that, for the time being, here to stay. Very unfortunate for our Hungarian colleagues.

Then we have internal cost reductions. Our cost reduction programs do work. I think they should work this way, about 10 to 20 basis points of productivity improvement we need to target every single year. Unfortunately, the negative volume effects we had in our core markets in Germany, France, Italy and the U.S. have outbalanced those productivity gains. In the future, we'll obviously have to make sure we get net productivity gains despite volume effects. And then we had some one-off commissions improvement that we have booked. So overall, that whole waterfall leads to 28.1%.

On the investment and total portfolios, since Paul is going to talk about investment, I'd like to be very quick. The asset base is up. As Michael said, it's very important for us to outbalance declines on the yield tide, with higher assets under management. The equity yield is back because companies are paying dividends. Last year, we had 2 or 3 larger participations not paying dividends. And that is back, and operating investment income is up 3.2% at EUR 3,218,000.

Now last discussion item on P&C is pricing. There's a lot of debate in the industry where pricing is going. It's a very, very particular story around what happens in what market. You see the overview of what happened in 2010 and what the trends for 2011 that we expect. In Germany, we had a positive price effect of renewals of 80 basis points, and we have not taken nominal price increases because the market didn't allow us to take prices up. Now you can have a big debate around whether that's prudent or not. We feel it doesn't help us to continuously drive prices up and lose clients, particularly profitable ones, and the price elasticity has gone up significantly. And we believe that, in particular, in commercial lines, prices will not go up. So Germany will remain a tough, tough place. However, in some personal lines, we do believe there would be price increases, particularly those lines that are exposed to NatCat, given the experience of floods and others, we need to take prices up and we will do that.

Austria, less significant, similar flat pricing. France, we do actually expect price increases in those logs, especially in Non-Motor. Here, we have had also storm experience in the last year and other kinds of natural catastrophes, but we have to bear in mind the competition from banks, mutuals aggregated in pure retail lines, and Motor is still really tough. In Italy, prices are expected to go up further. We've taken very strong price increases, nominal price increases have been 12.8% last year, very strong. And we've seen up to 8% depending on the portfolio effect of price increases in the portfolio. So that will drive further increases in profitability in Italy. At least, that is what we are expecting.

In Spain, the market is really, really tough, and we have been taken both profitability, market share gains, as well as client gains, I think it's one of our strongest markets, even though the market doesn't support it. In the United States, we see some price increases again. In the personal lines are -- our small homeowners portfolio will benefit from that again. As I said before, unfortunately, commercial lines still remain significantly depressed.

U.K., the Motor market hardened further, and Non-Motor, on the other hand, which is the bulk of our portfolio remains underpriced. We believe, however, we can get some price increases through and maintain profitability at very good levels. In Australia, we see price increases further, despite the strong growth we had because NatCat is requiring further capital strengthening in the market.

So overall, commercial lines tough, Germany tough, the number of markets expected to show significant improvements.

With that, I would like to close the P&C section for now until we hear your questions and move to Life & Health.

Life & Health has been a very good story last year. And I'd like to make a few comments head on before I get into the details of the numbers. As I said earlier, we have changed the methodology in terms of how we compute new business, value in the business margin, MCEV and our economic capital model. And the drivers were twofold. The first one, we've continuously been asked by our audience to bring through more consistency across the large companies, in the CFO forum, MCEV Group, we have agreed to a number of standardizations around liquidity premium, in particular, the cost of non-hedgable risk, for example, in the way we extrapolate interest rates. And I'm very happy to report that the working team has agreed on the number of standards that all the companies are implementing.

Now for year-end closing, not every detail is yet the same because we agreed only to the changes at the beginning of December. And some of us just have mechanical issues to implement everything for fourth quarter closing. So not every detail is yet the same, but going forward, most of that will be more comparable around the large groups that matter on the continent.

The second item is, as we are moving into the Solvency II new world, we've taken the insides from the QIS 5. That's in order to see where EIOPA is coming out, for example, on yield curve anchoring. So for now, even though Allianz targets are anchoring at Year 20, we believe that most appropriately reflects our risk position and the reality of how market functions. We have not taken it that far. We have anchored rates at 30 years, fully consistent with QIS 5 guidance. So we are staying conservative on this guidance as long as we have not final agreement with the regulators how the Solvency II environment will look like. The same is true for liquidity premium. We've taken the same guidance for QIS 5 on liquidity premium, and agreed with that. So it's very important to see the consistency here is really what we are aiming for.

Now based on that, the numbers are as follows: Revenues are up 12.5% to EUR 57.1 billion. Operating base is what we're looking at the base of revenues, and profit is up 9.6%. And let me say it already here, we had EUR 9 billion in net flows. So it's not driven by market. All our portfolios across the world are growing in terms of net flows, and there's some studies out there that show in Europe, the industry is shrinking in terms of net flows. Operating profit is up to EUR 2.9 billion, and the value of new business increased to EUR 993 million and new business margin is 2.2%.

And we'll repeat it in a second. Our new business margin would have improved even without the methodology increases and our new business value as well.

Revenue development by segment is also a very nice picture that we'd like to see, because we are growing across the portfolio where margins are really nice, and the number of markets you can really see that our capital preservation strategy in building on solidity is helping. Some may say its lighter quality, but you can really see that in number, for example, of pension refinancing deals. The fact that we have a strong rating does suddenly matter when people say they never met us, as long as you're okay in investment grade, it doesn't matter. It does matter, and we see it in the assets that are coming our way. Asia is growing very, very nicely, with a boom there. United States is booming again, with plus 20%. And let me say here, it's a base effect. As we cleaned up our VA products in 2009, we had lower than expected growth in 2009.So the rebound in 2010 is really shown in our numbers, but we have the growth also in more mature markets like France and particularly in Germany where we are the market leader already. We grew almost EUR 1 billion on top of the EUR 15 billion that we had recorded for 2009, very strong results at very good margins.

Now the net flows are on the next page, you'll see that also very nicely, all our regions are growing. The net inflow base, except for Eastern Europe where we are flat due to the environment there, and we've had additional positive effects on the operating asset base as depicted in the waterfall, mostly out of interest and similar income and significant part of foreign exchange. They're of the U.S., by the way, EUR 3.5 billion, and out of Switzerland, EUR 1.9 million due to the strong Swiss franc.

Now Page #33 shows you development of the components. The technical result is negatively impacted. We'd like to have them normally improve. Our target should be around EUR 1 billion out of the technical result over time. There are 2 aspects that have impacted the results here. We had a pension reform done, a law that actually makes increases the retirement age and that requires some additional reserves that have been one-offs here, affecting our results of around EUR 45 million, one-off in the sense of, if it has this year, we are not clear on how it's going to work in the coming years.

And in the U.S., we have done some update around the assumptions with -- in line with experience there was a negative unlocking in terms of certain technical expectations. I mentioned them earlier particularly around losses. Our expense result is up. In the expense result, you'll find 2 items, as always, one is the productivity of our operations, but you'll also see here the fee and commission income from our unit-linked product, as that has been strongly growing. That result has improved by EUR 124 million. So very nice, not just the overall number, but also the development of the components.

Page #34, the asset base development that the assets without the unit-linked base, up 11.3% and yields on the debt securities size coming down still in line with lower interest rates, and equities slightly back up because of dividends going back to the right level. The next page is the development of the investment income. It's up 14.6%. And here, the reminder again, how do we have to think about that while realized gains are up to EUR 2.1 billion? The real driver, the real driver have been lower impairments down from EUR 1,633,000,000 to EUR 434 million, and I think that's really important. The income from financial assets and liabilities carries at fair value is down. It has something to do with the fact that we have here French equities. A lot of the equities in France are at fair value, well, all equities -- excuse me at fair value. And the number relative to prior year is minus is EUR 517 million and France alone contributes EUR 426 million to that.

That is the traditional numbers. Now let's move to our disclosure on MCEV and new business methodology. What you will find on Page 36 and this work based on your feedback. Literally, there were few in the room here that have worked with us as a team and said you need to improve Life disclosure. We've taken it into heart, and here is the first chapter of that. We've really done the implementation in order to achieve greater consistency across European insurers and to build more alignment over time with the Solvency II framework.

The 3 components on the methodology side that I'd like to mention here, and then we should have -- if you have detailed questions in our numbers, we are pleased to do this directly with us, not in the conference here, but with our experts in-house where sensitivities were. The first one is how do we include the liquidity premium. It's in line with the approach recommended by the CFO and CRO forum working groups. It's applied under durations in line with EIOPA guidance, and its 44 basis points on euro swaps and 48 basis points on U.S. dollar swaps. And you have some footnotes on how do you think about the sensitivity is probably for those that model it. It's very important to understand how it works, and our Investor Relations department has it to supply additional information.

The second one is the yield curve extrapolation is also line with our EIOPA guidance. It start at 30 years for major currencies. And the third component is often forgotten, but significant, it's the cost of capital charge for non-hedgable risks. It's also aligned now with major European peers, 3.25% charge at our to -- certain basis points -- percentile, consistent with A rating. The effects on the numbers you see on the right-hand side, I will not hit them here and show them when I get to the details.

Page 37 shows you development under the old methodology. So you can really compare and the new numbers. Again, let me reiterate our new business margin would have improved to 1.8% without the methodological change, and now all our regions are in positive territory in 2010. In 2009, the U.S. was negative. We didn't like that, and we started very early to reprice them, but given the market dynamics, it takes a while.

Now the present value of new business premium is considerably up, EUR 44 billion relative to EUR 36.4 billion, that means 21% more. Now to give you the detail, the significant part of single premium, 31% and regular premium, recurring premium is 9% thereof. So the value of new business before methodological changes is 28% up on a like-for-like basis. We think it's a great result.

Now let's move on to the detailed numbers on MCEV. I've never used MCEV in any of the quarterly or annual calls in the past, because we had severe issues with the methodology. We found in 2008, when we went through the crisis that the MCEV was overly sensitive to some of the shocks, at least, what I believe. On the other hand, even Helmut had said before, you should not use that for valuation purposes. It's a great risk management tool because it shows you the sensitivities of some of the elements to certain shocks and to certain assumptions. What I'd like to do today, to give you a couple of very good news that even you take a shock-scenario approach, our strong, intrinsic earnings power in our Life businesses. So this really the purpose.

Now on the new business margin for the regions, we're going to get some questions later. I think with the messages that I've given, I'd like to hit MCEV's first and then go back on the capital return numbers and the new business.

The MCEV that we have shown you on this page really has, first, the development between the old and the new numbers. Now from EUR 24 million to the EUR 27.55 million. As always, MCEV, in line with the guideline had 3 components: free surplus, they require capital and the VIF. The free surplus and the required capital, together, form our net asset value. That's the value of the book that we have and the value of the in-forces we expect at future profitability. Now when you look at the development on to what the end result at end of the year, you'll see it's down by around EUR 1 billion to EUR 26,422,000,000. Now why is that? It's very simple. Interest rates are down, so both the expected profitability on the future value is down and risk capital is up relative to free surplus. That's why free surplus is down. That should not surprise anybody that understands economics even slightly.

The VIF is down EUR 2 billion, and the required capital is up EUR 1.8 billion, and the net effect that leads to the EUR 26,422,000,000. Now in order to understand what this means, we need to look at the various components that happened in between and [indiscernible] The first one is the in-force business contribution, i.e. the profitability of the book and the operating and non-operating variances that go relative to that, i.e. effect the cash earnings, and I will talk about that in a second.

The value of the new business around EUR 993 billion to be added and then the most important component is economic variances. Here, you particularly find the impact of interest rate changes and the interest rate down, basically, the effect is seen here. All of these movements get reflected in the free surplus of the required capital and the value in-force. And I will walk you through the various components now.

The last one is the net capital movement, its EUR 886 million that's basically the dividend we paid out of the MCEV in to the holding company. So we've had around EUR 900 million in dividend that we paid, despite the fact that we had a very, very strong impact of the interest rate down on the free surplus of EUR 1.16 billion down and the change in required capital.

Now how do I interpret the free surplus number and the required capital numbers and what does all of these mean? We have supplied you, for the first time, with the detailed backup that you see in the back that show you the individual movements of free surplus, required capital, the value of in-force and explain to you in detail around 7 major items, what the drivers are. So you can, for yourself, really capture what the drivers are, both in terms of where the returns are coming from. Let me give an example, on the In-force business contribution, it's basically comprised -- the EUR 3 billion growth that you see in free surplus improvements, and you have release of the annual risk-free profit from our the VIF, the in-force capital risk we returned on the net and the over returns we are earning out of the in-force, and particularly on the credit spreads in the U.S. that give you an impact on the MCEV of EUR 2.538 billion, we believe a very, very strong number. And all of those components you see, the operating and non-operating variances are also separately explained. Here, we have additional capital requirements in the various components. They're also separately shown, what is our internal economic model and what has been U.S. capital strain.

I would not like to hit them now, but what I would like to do is to show you the next page that, in detail, gives you how we think about the free surplus movement and how we manage it.

Quite a few companies need debit to support the required capital. We don't plan for that. We believe having free surplus to buffer volatility in the required capital is very important, because the value of the VIF can dramatically move from year-to-year. That's very important. And therefore, you see on Page 40 for the first time, clearly, the development of the free surplus and how we think about it. The first one is development, what we call, cash earnings. This is literally what comes in terms of cash earnings out of our book. It's EUR 1.894 billion, a very strong number. Actually, the in-force cash number with EUR 2.567 billion on the upper right-hand side is a very, very strong number indeed. It shows you that our business can support, not only new business strain which you see here to give you the cash earnings, which are equivalent by the way to our local gap net income. This is how we determine dividend capacity, it's not determined on IFRS net income. It's in local GAAP to net income based on regulatory requirements that determines the cash earnings that we have, and dividend up we can fund the capital requirements of EUR 615 million out of in-force capital release and, in particular, new business strain, that's EUR 920 million, it's very significant. And we can pay dividends out of this segment and still come out with higher free surplus at EUR 3.9 billion. So very strong message. The in-force earnings at after business strains stand at EUR 1.9 billion. We funded additional capital requirements and dividend, all out of our intrinsic cash flow generation power and would've ended up with higher free cash flows before capital market movements. Very strong.

Now the second component, however, is we did have capital movements, and that's what you normally don't find in disclosure. We've had interest rates down. You saw that in our internal solvency numbers, and you do see that in the MCEV. The reality is lower interest rate means, while the cost of guarantees go up, the value of the options and guarantees go up. We have lower income projected going forward out of our book, and we need to take care of that in terms of the change in capital due to market movement. That's the EUR 1.176 billion that you see here, and we'll also have to have the mark-to-market profits on NAV, that is unrealized. That's the unrealized mark-to-market movement, the EUR 129 million that you see there. So the free surplus ends up lower up at EUR 2.6 million Now what does that mean? We believe we need to have significant free surplus buffer to basically move with the market and be able to not having to go to the VIF to support the volatility. So the first message. And we do have enough free surplus, and we believe we need to have it in order, in this environment, to be able to balance this volatility.

Second message, again, we have extremely strong inforce earnings. If you relate the EUR 2.567 billion to our NAV, you'll get to almost an 18% return on the NAV. So very strong number to be borne in mind. And we can use those to fund the new business strain both in terms of cash outlays that are the EUR 673 million and the new business capital strain, which, in this environment, by the way, ladies and gentlemen, is also very significant. But we believe it's worth it because we believe we are writing very attractive business at a time when other companies do not have the capital, do not have the capital power and the free surplus to support the business. That's what we've been saying. Here are the numbers to prove it.

Now I would like to go back, Oliver, to the page on new business margins across the regions and show you 2 additional KPIs that we've been taking up, also based on your advice because you said -- Oliver, it's really great that you show us all of these super numbers, but how about other KPIs relative to your peers? So what you see on this page is not just the value of new business and the new business margins across the portfolio that are all positive now across the board, 2.2% in the German-speaking countries in 2010, 1.9% across Europe, 2.3% in the growth markets. So very good even in the growth markets that are strongly growing. The margins are very, very solid. And the U.S., we are back up to 1.2% from a minus 1.8%, and we are working on improving these margins further.

The right-hand side shows you the adjusted numbers with liquidity premium. They are particularly sensitive in Europe, where we have long duration, and in the U.S., where we have scrap products. On an adjusted basis, they're 2.8%, 2.2%, 2.4% and 2.0%, for an average of 2.2%.

Now the right-hand side shows you something around capital returns, and there were some studies out there around what the IRRs are. Here's the IRRs for the relative markets: 7.8% for the German-speaking markets, 12.3% for Europe growth markets and you see 16.5% for the United States. These are fully comparable with the methodologies that we are using in the other segments.

Now what is also very important is to look at the payback periods, and this might come as a surprise to you, particularly around Germany. I've seen a few studies that said you have a lot of time to take before you get the money back in Germany. It's not true because we can use free capital surplus in Germany to fund distribution costs and to fund risk capital. And that's also not understood that in difference throughout the market, you can use the free surplus to fund the distribution cost. So we're getting the money back in less than 5.5 years that we invest in the new business. A very, very important message to the market, and we are watching these KPIs very carefully now. We are further working on improving Life disclosure, but I think with that, you can at least compare us across the board now, and we believe we have very good steering numbers that we're using on Life.

So with that, I would like to leave the Life segment for now and move on to Asset Management, a fantastic story for 2010. We simply have the headline. It's another record year. Let's look at what the record is. We have more than EUR 1,500 billion of assets under management now. Third-party net inflows stand at EUR 113 billion. Operating profit exceeded EUR 2 billion at EUR 2.1 billion, and that's very important. Contribution to net income increase to 18.2%. Expect it to go further up as the B shares disappear.

The development of the assets under management you see on Page 43, the third-party assets under management stood at EUR 1.164 trillion at the 31st of December, very nice development relative to an even strong result for 2009.

Page 44 gives you the net flows, absolute record with EUR 112.7 billion, particularly in light of what happened to the industry overall. Now we all know that can be very volatile. Look at 2008, we had slight outflows, so we need to be aware that that can also go a different way.

Now Page 45, you see the development of the net fee and commission income, 37.2% up, even U.S. dollar adjusted a strong 32%, staggering numbers. And the margin, and I find that very important, we are not just growing top line, the margin is also at a historical high. So we're diversifying the portfolio base. We're trying to make sure that we do not depend on individual contracts. And the absolute return fund is also going down in terms of relative importance. It's also not understood well, so the overall portfolio is also more diversified in terms of margins and dependent on individual products.

Page 46 gives you the development. What I find most impressive is that the net fee and commission income increase is almost as high as the total operating profit for 2009, with EUR 1.337 billion, offset with increases in operating expenses for all those hands and legs that need to service the additional assets.

Now Page 47 shows you that a lot of what we see here is coming out of fixed income via third-party assets under management, increased 27.6%. Here are the majority of the net flows, and the operating profit is 46% up, and the cost-income ratio has reached a staggering 48.7%. Equity has also improved. Equity has also improved, particularly in terms of operating profit. It's now at EUR 126 million, and the cost-income ratio is down to 74.1%. And I think it's very good to see that the restructuring efforts are taking hold, and the profitability is significantly up, and we'd really like that. And the out-performance is not yet where we'd like it to be, but it is at a competitive level.

Now in terms of flows, we often get criticized in saying, well, you still have slight outflows here, with EUR 400 million. Many of you work in this industry. You know how equities have performed last year. This is a very good development relative to what most of the industry has had.

Last slide before the summary is the development of the net income contribution. I often see valuations that do not reflect the fact that the net income contribution from Asset Management has gone considerably up over the last few years. It has come from 9% of net income at the group level in 2008 and doubles to 18% -- doubled to 18% not because the other segments are weak. Because this segment is performing very well, we should soon see EUR 1 billion in net income contribution from Asset Management at least, and we are very happy with that. So overall, I think we had a good year. And with that, I'd like to close.

Paul M. L. Achleitner
Member of International Advisory Board

That brings us to the traditional fitness session, fit in terms of not only checking if you guys can still stomach this before lunch, but in terms of talking about financing investments and transactions.

If I may draw your attention to the highlights of the past year, you will quickly realize that we've been extremely disciplined on the transaction side, i.e. M&A. We've largely been busy selling a bunch of activities smaller for a total value of about EUR 300 million, and we have only made some very small acquisitions in Australia.

On the financing side, we have issued one cat bond that we think was a reasonably innovative transaction in May, and we have redeemed some subordinated bonds that we had outstanding, which had been issued by IBF [ph] in the past. This is also what accounts for our capital structure and a slight decrease in our debt-to-equity ratio, down to 13.3%, and the senior debt here, the EUR 7.4 billion, is slightly up, but that is just a change in the commercial paper program. So all in all, it's really an exciting picture.

At the same point in time, I think its worthwhile highlighting that the quality of our capital has been going up. I'd like to draw your attention also to the fact that if you do all the calculations, our NAV has been rising by 14%, and if you actually look at tangible NAV deducting also DAC, we were actually up by some 23% in 2010 versus 2009.

In addition, our financing, our external financing is pretty long term. We have no immediate maturities that are occurring this year, and I think we are well financed also in a maybe more volatile environment but also in a long-term maturity type of structure.

We have -- Michael has already touched on the dividend policy and our dividend. I'd just maybe like to highlight and remind you that this not only reflects a 5.2% in terms of -- a 5.2% dividend yield, but that this dividend is the second highest in history. And if I may come up with a little surprising statistic here, it's not your birthday, Michael, but this actually reflects EUR 11.6 billion in actual dividend payments under the Michael Diekmann administration at Allianz, which, by the way, is 2x as much as we had paid out in the previous 33 years, just to put this in the right kind of context.

The bonus has already been set, unfortunately, but you might still want to do something. After that commercial, I got to keep on doing a few commercials of my own. There is maybe a brief mentioning of -- and just a report on the Hartford investment. No, I won't take all hands up victory laps here. You guys just look at the number and make your own judgment in terms of where this financial investment stands at this point in time. We're obviously quite pleased about the performance, as well as on the performance of ICBC, which, again, you are all familiar with. But maybe let me add one little thing that is not visible through these numbers, and that is in addition to the 2.5x realization of the original investment. We actually also have some EUR 380 million in hedging gains in addition that are not counted when we look at the internal rate of return or the rate of the return on investment on this one.

We have also, and this is of more recent vintage, also invested last year already in CPIC when they did their IPO in the Hong Kong Stock Exchange, and we have further bought additional stake at the beginning of this year in CPIC, who, as you may know, is the third-largest insurance company in China. We believe that it is an extremely well-managed company in terms of its management team, and it has quite some potential not only individually as a company but also in terms of the overall market dynamics and the possibilities in this market. And we hope that we can take advantage of those opportunities going forward.

Let me -- after, therefore, talking about finance and transactions in a mercifully brief and short fashion, now I maybe take a little bit more time to talk about the investment side of things. The investment result and the contribution of investments to the operating profit this year was EUR 5.4 billion, i.e. 66% of the total operating profit. How did that come about precisely? If you look at the total current income that we actually generate out of our investment portfolio, it is a current yield of 4.2% that comes out of the interest payments as well as equity payments -- sorry, as well as dividend received, of course, and real estate rent received. That is EUR 1.3 billion more than it was in 2009. Then on top of that, of course, you need to look at the realized gains and losses, which is a net result of EUR 3.7 billion. You subtract from that impairments, as well as FX and investment expenses, and come to the total IFRS yield of 4.7%, which comes out of the total investment result of EUR 20.9 billion for 2010.

Here, you see a more detailed breakdown, for your own perusal, in terms of what the actual yield and performance is in the individual categories. That's important because I want to also convey very strongly that improved investment returns were not done based on taking bigger risk positions. If you look at it, you will find out that it's an overall pretty conservative portfolio. We'll come back to it in a second when we also talk about counterparty risk management and our credit performance. But this gives you not only the performance broken down by asset classes in 2010, but what it also does is show you what kind of new investment yields we have actually achieved by the reinvestments in 2010, where that we expect again in terms of running results so that you can make your own judgment that is often being posed by people in terms of, well, that's nice to see results now, but if the interest rate environment or the return environment becomes more demanding or continues to be rather dire, how are you going to be performing, and what does it mean for the new investment results? Here, I think you can see and judge for yourself where we are in terms of also our investment possibilities going forward.

An essential part, of course, of our investment task is duration management. Let me -- allow me to remind you at this moment that we are a liability-based investor, which sometimes gets lost when people look at this. The object of the Allianz investment management is not to beat some kind of market benchmark. It is to beat the liabilities which are our benchmark. So liability structure drives very strongly our investment policy and our investment performance. So what we've done here is we have shown to you the duration as well as the maturity so that the 2 don't get confused, which sometimes happens when people look at it. And what you see there, I think that on the P&C duration side, we have slightly decreased the duration, which, of course, has to do with interest rate expectations. But on the Life & Health side, we have slightly higher duration levels because that's on the asset as well as on the liability side so that the duration gap has been maintained constant. The problem, of course, in this whole thing is to balance the risk yield, which would generally argue for larger duration or longer durations, with market expectations, which, of course, argue for shorter duration. So we constantly have to balance the 2 in the hope that you come to the conclusion that we'll find the right kind of compromise to deal with the 2 and are investing in a market-sensitive and performance-driven while, at the same time, conservative from a risk point of view, approach.

That also is equated and demonstrated by the asset allocation that we actually have. So if you look at the EUR 445 billion that we are managing here, we have almost 90% of that in debt instruments, 7% in equities and a smaller real estate and other allocation.

Now on the rating profile or the fixed income portfolio, and we'll get to that in a second, but I think the important element here to point out is this isn't just about having a high-grade portfolio, and yes, 94% of them are in investment grade, but it is actually -- and we all know that ratings can be very volatile and so on, so forth. It is actually a process which is very important in terms of managing counterparty risk and the credit management that we take very, very seriously and which is actually based on a bottom-up, single-issuer portfolio decisions, which obviously are very strongly influenced by the capabilities of PIMCO, but that we actually take into account when we manage the overall insurance portfolio, including a pretty broad diversification against multiple sectors. That fact is borne out by our 3-year average of 9 basis points, okay, of impairments on the fixed income side. And so for example, on those total portfolio, we had an impairment to last year of EUR 160 million, to just put it in the right context. All these 9 bps include also all the impairments against the credit crisis and all the big calamities that have happened because this is a 3-year average including 2008. So the high-quality fixed income portfolio that we have is probably also demonstrated by the increase in the unrealized gains and losses position that we have on that, that you see on the bottom of this chart.

Now a lot of attention, of course, to the old question of sovereign debt, and I hope that you will feel comfortable with the disclosure. I'll guide you through that, but you will find out in a second that you have the full detailed disclosure on our individual positions on sovereign debt so that you can actually make your own judgment. Let me just start out with the fact that say we are primarily concentrated in "core countries" plus even on the sovereign debt side, our net realized gains/loss position is positive as you can see on the bottom of this page.

This year gives you all the material to work with in terms of where we are in terms of exposures, depending on whatever individual judgments people want to make about potential restructurings in European debt. I have actually included in the backup also details on our muni position because when people talk about sovereign debt, I find it surprising how much focus that is borne on European debt. Every once in a while, somebody should also look across the ocean. You will find that we can do that without breaking out in sweat, and you will have the details in terms of our muni positions included in the presentation so that you can make your own judgments.

One other thing that may also be worthwhile mentioning in this context just to live up to actual developments, Life, as we speak, our total exposure in terms of outstanding debt in the totality of North Africa amongst the EUR 360 million. But that includes countries like Morocco and others, so again, but in the totality, just to point forward that this is not material even if the developments turn more dramatic, which we all hope they will not.

You may ask what is this thing about this whole column that we have here that says thereof domestic. We have actually actively managed our portfolios so that what we hold in sovereign debt is actually shifted disproportionately into "domestic books." Again, to remind you, we're liability-based investors, which means that we match the liabilities. As we have local liabilities, it is probably a smart way to match them with local sovereigns, plus it is also reasonable to assume that should there be a restructuring, somehow, domestic institutions will, or at least the temptation will be high, to treat domestic institutions more favorably because of the necessary requirements to otherwise bail them out, which should be something that we're adjusting our own portfolio to in order to be well positioned in that kind of situation.

Now I won't bore you with covered bonds because, again, all the details are there, and it is not an exciting asset category, maybe fortunately. We believe still that fund [indiscernible], which is the last majority here, is a very interesting asset category and one where we unfortunately think that the supply is becoming less than what we would like it to be. But otherwise, we continue to invest in that if we can.

We have shifted, of course, in our strategy, in our fixed income strategy away from some of the sovereigns, also more into the corporate side, which seemed like a good move, and I think it continues to be a good move. That obviously led to a strong increase on corporates. But as it is reflected in our position down there, we have a comfortable net gain position on the corporate side at this point in time. And we also see some opportunities on that coming up because, as I'll highlight later, I believe that there's going to be a financing challenge in the future coming from the banking side that should actually be beneficial for the corporate bond side, particularly for investors in the corporate bond side.

Now more interesting maybe for you and from a risk point of view is how big is our exposure on the fixed income side to banks, and you see here the totality of our bank debt that we actually have. There is details in the backup, so again, this is just an overview. And it's also clear that as I looked at this morning, to be blunt, rest of Eurozone, of course, suddenly didn't look so good as captioned here. So let me make you relaxed because rest of Eurozone actually means that half of that is Netherlands, then it's Austria, Luxembourg. Let me change this and change the perspective a little bit, and let me tell you that as far as Portugal, Ireland and Greek banks are concerned, our holding of sub debt in those banks is less than EUR 100 million.

Michael likes that bit. We should have had this a week earlier before. It's almost [indiscernible], so too late. Okay, next year. You heard this. You're my witnesses.

Again, ABS portfolio, also not terribly exciting other than the obvious change. This is also one that holds net gains, and again, I have that munis backup that I already referred to.

The equity portfolio overall is also, I think, not terribly interesting. We talked about the very large equity positions already and what you see in terms of the decline and the unrealized gains that, of course, reflects the realization of ICBC gains that we have actually taken over the course of the year. Other sizable positions that we have are BASF, Linde, Siemens, yes, of course, our stake in Commerzbank, which stands about EUR 700 million for the stakes, but nothing that moves the needle, if I may say so.

That is also reflected in the traditional slide, and I'll spare you my usual discussions on this, but simply to report that our equity gearing has stayed consistent at 0.4% even against a rising equity market in the last year, which shows you that we have tried to be -- continued to be disciplined and maintaining this. It also highlights that our actual net equity exposure past -- show a past policyholder and tax effects, and hedge effects is actually at EUR 12.7 billion in the context of an NAV of EUR 35 billion.

Just a brief commercial. We continue to believe very strongly that alternative investments will actually be an asset class that will continue to be a very large provider of -- or a significant provider of investment returns to the group such as ours. In terms of the renewable energy investments, I'd like to point out that we actually passed the EUR 1 billion investment this year, i.e. we now have over 600 megawatts of renewable, more largely onshore, wind investments that's sufficient to supply a European city of 250,000 people, just to put this into context, and we continue to invest in that space. We are very interested in continuing to push forward on the infrastructure side where we believe that there will continue to be very interesting opportunities and are pursuing those aggressively. You see our expected IRRs in this -- on the bottom right, which I think, should show you why we continue to push and pursue this even though -- just to put clear that it's against the background on the total portfolio that of private equity investments that we have already locked in and exited, we actually have an IRR of 27%. But that is not what we expect to be generating going forward because we believe that the capital environment is going to become more damaging or demanding, I should say, and of course, if we take de-leveraging seriously, we should accept that there is going to be lower returns here.

An asset class that we view very positively is our real estate portfolio, and not only our portfolio but also new investments in this asset class going forward. We actually have, as you may recall, significantly reduced our portfolio in 2007 and early 2008, which has turned out to be rather fortuitous. At those point in time, we were actually getting very aggressive bids, and we thought that we should take advantage of those and have sold, particularly also in the German environment, significant parts of our portfolio. We now believe that there are opportunities to " come back" and reinvest in the asset class as the opportunities come up. We have the target to move from the currently almost EUR 20 billion to significantly more over the next few years. But to also be clear, the way that we do this is not to tell our real estate investors that here's the target of how much you actually have to hit because that is what leads to suboptimal investments. As you know, on the whole alternative space, we're not following a strategy of saying, here is a pot of money, go back, invest it, but they come with the individual value propositions, and then we decide on an investment-per-investment basis. In the last year, as you can see on the right-hand side, there are a whole range of investments that have found us rather interested, and we have invested some EUR 1.8 billion in large-scale real estate transactions throughout Europe. We particularly are interested in improving our retail assets in terms of retail space in first-rate locations because we think that, that continues to be a particularly interesting element of that asset class.

Now I think this is just a brief reminder here that what I just referred to are the results of an Allianz setup that we chose some 2 or 3 years ago, where we managed our investments centrally through an organization called AIM, Allianz Investment Management, and Allianz Investment Management actually ends up being one of the largest investors, frankly, in the world, definitely largest investor in Europe, with assets under management that cover up to EUR 445 billion of insurance on balance sheet insurance assets that we just referred to, plus another EUR 50 billion of unit-linked products that needs to be taken into account.

The function, without boring you too much, basically tries to balance the 2 sides of the equation, i.e. on the one hand, the liability side and the structure that comes out of the investment, the insurance units on the one hand side; and then actually choosing the appropriate asset managers to handle this portfolio and manage the interaction between the 2 based on asset liability management, strategic asset allocation and a tactical overlay depending on short-term calls or perceptions that we see.

What does that mean in 2010, and what does this mean for 2011? In 2010, the debt securities, we have actually reduced, as you could see, our peripheral government bond part but increased our corporate positions and extended the duration that was certainly being on the right side of the market, if I may say so. Going forward, we will continue to have a very cautious hands on peripheral. We will keep our exposure in corporate, and we will rebalance our emerging market exposure. We think that some of the emerging market sites are a little over-brought, to put this bluntly, and we want to be cautious and careful of how to handle that side.

On the equity side, we will speak to you what we have, not that we wouldn't be prepared to take slightly larger positions. Slightly means a couple of percentage points in terms of asset allocation, all things being equal and, of course, given the big commodity that's easing -- that is going on in U.S. Having said that, that needs to be, of course, always viewed against the capital requirements and the rather stringent capital charges that come down from a solvency point of view, which makes it less attractive to look into that direction. Real estate alternatives, I've already referred to.

Let me just say this, that the just mentioned Solvency II implications and the boundaries that they put on an optimal asset allocation will continue to be something that we will watch very closely, that we will try to manage appropriately, but where we also that there will still be some realization in terms of setting the final guidelines that we run a certain risk, do not take into account the fundamental business model of an insurer, which is to actually have long-term liabilities and long-term assets based against those liabilities. And we need to make sure that that business model doesn't get killed by regulatory constraints.

Duration management and rebalancing of sovereigns, I had already referred to, and that will be continuing to be something that we work on, particularly also in addition to a tight management of currency exposure because currency exposure, I think, is something that needs to be viewed and monitored very carefully in the next few years going forward.

That leaves me 4 minutes short of the speaking time that has been allocated to me, so allow me to actually bore you with a little bit of a point that I would like to make in general, which, I think, is reasonably important. Let me take a step back. I think that we run a certain risk that we all, collectively, in the capital markets tend to forget of what actually happened in 2008. 2008 was a liquidity crisis. But that liquidity crisis was just the triggering event, and it uncovered something fundamental underneath it, and that is a solvency issue. And that is the fact that we have loaded up on excess leverage. We were too highly leveraged, and that doesn't go for individual actors. It goes for the total system. But in trying to fight and rightfully fighting the liquidity issue, we have done nothing to deal with the solvency issue. As a matter of fact, what we have done is we have simply moved the leverage from the consumer to the banks, from the banks to the governments, from the weaker governments to the stronger governments. We have not yet tackled the de-leveraging, which is the big challenge that we actually have. And at some point in time, we will have to start with de-leveraging. Now what does de-leveraging mean? It means less capital per definition. It means less capital, and that capital will be more expensive. It, therefore, also means less growth that can be financed because -- for obvious reasons. And if you have less growth that can't be financed with more expensive capital, it means declining margins. So that fact needs to be seen, and then let's add the following issues. Let's add the fact, and this is what this slide stands for, the regulatory measures that are being put in place, understandably being put in place, in order to avoid the liquidity crisis that the governments very effectively dealt with, but that brought them into the government solvency issues that we are now facing, that these measures are actually additionally definitely increasing the demand, on the one hand, on capital, i.e. more capital requirements for financial institutions, particularly banks, but at the same point in time, decreasing the supply of capital. Example, Solvency II will actually make it virtually unattractive for insurance companies to invest, for example, in bank sub debt.

Now if you look at the existing financing of banks, 60% of the sub debt that they actually hold has been supplied by the insurance sector in Europe. So if you actually look at that, you have the situation where the demand in capital is going to go up, but the supply of capital in a de-leveraging environment added by and rightfully pushed by regulatory concerns will actually -- the supply will go down. Now add to that, that the demand for capital in the emerging markets is increasing as we speak, because people actually will want to build out that infrastructure and invest in a significant fashion. I'm not even capable of continents and thinking through what the North African crisis actually means in terms of capital demand and supply also going forward, but let's just assume that, that is going to be an additional capital demand. Let us remind ourselves that many of our governments, if not to say most of them, rely on a pay-as-you-go pension system against the issue of a very significant demographic problem that we have out there and that this pay-as-we-go pension system has just become also much more problematic because the guys who are supposed to pay are highly in debt and should use the same taxpayer's revenues to actually pay down debt. And at the same point in time, those assets that were set aside in order to deal privately with their pension problem and compensate maybe some of the pension gap that comes from the state's pay-as-you-go system have actually been diminished and hurt by the financial crisis that we have. We are viewing an environment that actually will put increasing strain on capital.

And I think we should all keep that in mind. We definitely, at Allianz Investment Management, are trying to balance out our own investment strategies when we look at that because it -- of course, everything that I described today or now may actually have "deflationary pressures" that it brings with it. On the other hand, we are all very cognizant that the inflationary, short-term inflationary pressures have actually been increasing significantly over the last few months, and you can see it from the raw material to the other side.

So I don't have the catchall solution. I just like to point out to those of you who are actually looking at us saying, "Excuse me, guys, why isn't your outlook much more bullish, and why aren't you generating bigger operating performance?" I think that those of us who actually are more cautious about what kind of capital returns can actually be generated and how you manage your capital in a world that will have to be de-levering quite a lot are probably the ones who have got the head screwed on right in terms of thinking about the future and hopefully will be able to deliver in a world that may become much more complicated than the current environment they suggest.

With that teary note, I would like to invite you to have lunch. Thank you very much.

[Break]

Paul M. L. Achleitner
Member of International Advisory Board

Ladies and gentlemen, I hope you enjoyed the lunch. You thought that it is time for question and answers, but no, because Ollie still has a few technical remarks that he would like to make.

Oliver Bäte
Chairman of Management Board & CEO

I hope you enjoyed the lunch, and very quickly, I got a comment from my team. When you compare 2 notes, 2 pages, B17 and C13, they both deal with the [indiscernible], and they show 2 different gain numbers. The real reason that in my presentation is non-operating that I've looked into, and Paul has on his slide non-operating plus operating. So in case you wonder what the difference between the 2 numbers is, it's the way we account for the operating profit because I've already seen a few question marks on some people's eyes.

The other thing I wanted to mention in terms of disclosure on Life as agreed with Oliver and the IR team we've trained up that a lot of the stuff and what happened exactly in the VIF and how did it move between -- in the MCEV, the team will address in the technical details, so we can stay on the top issues. Now I also would like to point out that we have a lot of details given on value and MCEV movements in the backup presentation that is with you that you probably might not have all seen, between pages 62 and 72 in our backup. Its value -- embedded value overview, Life new business margin, adjusted and non-adjusted quarterly values of new business, sensitivity analysis, in particular, we are providing embedded value sensitivity analysis to major shocks, also for value of new business. And something -- I haven't seen Julia [ph] today, but I always get the question, "What is the shareholder value not accounted for in IFRS?" Equity is on Page 68 and details lined out, so you can follow that number that a lot of questions we have gotten. And Page 69 does exactly what I said before, what are the economic assumptions for EV consistent across the Allianz Group, so that you can test with our peers because this is what we've used for alignment between the large European insurance groups, and then we'll allow you to do the comparisons. In Page 70 and the last final comment is the MCEV movement analysis that I presented to you earlier plus the relative changes in the individual components for free surplus, required capital out of inforce contribution and the other movement, plus Page 71 giving you the exact drivers.

So from my mind, all of the technical questions that I can fathom coming around the MCEV should be able -- we should be able to answer by looking at this documentation, so we can focus our debate in Q&A here on the strategic issues, not on the computational, if possible, please. Thank you.

Paul M. L. Achleitner
Member of International Advisory Board
So for those of us whose mind is not that capable, we'll ask questions now. That will confuse everybody. Paul?

Question and Answer

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

Could I address the dividend issue upfront? Obviously, surprises you greatly. Maybe I'm only thinking that there's a disconnect between the 40% payout ratio and other things that you're saying. I think there was a tactical issue because of Solvency II. I can see why you would be playing out the Solvency II concerns. They are real concerns and why publicly, you're going to make a statement and not pay a big dividend because that would give the wrong message. So maybe we can separate the tactical issue of Solvency II from the strategic issue of what your payout ratio should be in the medium to longer term. I mean top down and bottom up, top down, I guess it makes sense comparing you with peers that have similar cash generation protocols, not just, say, peer-like companies that have very different cash generation characteristics. I guess Zurich can be real most similar to you in terms of the cash generation. And to be at par with them, you have to be paying out at least 30% more than you are now on a like-for-like basis. Taking a prognostic approach on looking at your new Life disclosure, which only confirms to me that you're truly very cash-generative, indeed. That's exceptional cash generation that you're showing on the Life side. It looks to me that your net cash or let's say capital generation, well, then cash generation is more accurate description of it, it's probably EUR 3.5 billion to EUR 4 billion, and you're giving the capital EUR 2 billion. Even if you were to accelerate the growth of the Life business by 10% per annum, that would not really move the dial in terms of using up your free cash flow after dividend payments. So you could easily freeze the dividend and still grow Life insurance at even 30% per annum. So I just can't square the circle between what you're presenting as your organic growth opportunities, which are decent and not exceptional -- that's not a criticism because I think it's driving the issue rather cautiously, just a comment of the fact and your 40% pay ratio. It may be a little bit tactical versus strategic, but I think if you could clarify that issue, it helps your shareholders understand where you're coming from on that point.

Michael Diekmann
Chairman of Supervisory Board

I think your comments are right, and I would like to make clear that this is not a tactical discussion. It might have been earlier because one thing that we haven't talked about is increasing volatility. Yes, so the swings that we see in capital requirements from market movements, I think I consider very different from what we've seen in the past. And maybe Oliver can give us a little bit of where that comes from, and then we'll go back into how much of this is tactical and strategic.

Oliver Bäte
Chairman of Management Board & CEO

Paul, first of all, I have a problem with comparing ourselves in public with peers, yes? You have to do that, but I cannot sort of comment on our peers. I have a high respect for the Zurich as for others, and everybody has to mind their own business. I can only tell you that payout ratios that others have, I don't think I can only view sustainable in light of what we were discussing earlier because the issue is not the level of capital generation but the relative volatility of capital requirements in an environment that is highly volatile on the interest rate side, where we heavily depend on government markets to perform, and they are still in the Zurich. You tell me today what the risk-free rate in Europe is, people say it's the bund. I'm not so sure if we have to bail out the rest of Europe. So we have to act very cautiously. It would be fantastic for us to rocket up the share price by selling -- paying our dividends today than we have to now -- than later come back to. On the other hand, people do determine their payout ratios also based on what their tactical view and strategic views are. If you want to increase dividends to bring up the share price and then to do an acquisition, it's understandable. But it's not our path. And so we feel very comfortable with the way we are generating capital and not using it. And I would like to use the Life example on Page 40 again. While we've been able to fund out of cash earnings the Life growth and the dividends, in reality, we needed to tap into surplus in order to support additional capital charges out of the interest rate down environment up to 1/3. So 1/3 of the free surplus went away, and I'm not ready to support that out of this. That is heavily volatile in an environment. So it depends on what you believe an appropriate level of security is, and people might want to drive on the noble crane without additional tires and safety net. And we are not ready because we've gone through 2 crises the last 10 years, and we have too much volatility in the capital position. Again, you might find that boring. We find that safe.

Paul M. L. Achleitner
Member of International Advisory Board

Can I add one other thing? You described growth as simply limited to Life. Even though right now the cycle in the P&C side, okay, does not allow us to grow profitably, and therefore, we have shown a lot of self-discipline, at some point in time, we expect that cycle to turn. And we will want to take very aggressive advantage of that by having the strength to actually seize that market opportunity to write some very profitable business. So that's another element where maybe others, when that opportunity arises, may find themself wrong-footed. We intend to be there when that moment comes. Normally, I don't take questions out of the Allianz support area, but Mr. Huttner, we'll make a little exception here.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

That kind of numbers, so your guidance for Asset Management's about EUR 2 billion, and you earned about EUR 2.1 billion. And I was speaking to one of your, say, able IR colleagues and he was saying, well, the end-of-year assets under management is 10% higher than the average, so if I add 10%, it should pull up to EUR 2.3 billion. And the question is does that mean in your forecast that you have 0 for performance fees in Asset Management? And in the IFRS 166%, how much do you have for diversification benefit? Just to have an idea, maybe to compare with others. And then Mr. Diekmann, as you're getting through your, what do you call it, the CEO elevator speech, you explained that non-Life in Q4 was very strong. If I can play devil's advocate, and then you can say, well, actually, no, that's not right. And you have reported around 70% combined ratio last year, and they guided to 80% to 85% this year. That's about 4% of your business. So if I set that, that's about 0.4%, 0.5% in combined ratio to miss this year. What's going to beat to offset it? Where are the beats coming from which you saw in Q4?

Oliver Bäte
Chairman of Management Board & CEO

Can I just quickly -- Michael, I'm sorry. I don't disclose diversification benefit numbers.

Michael Diekmann
Chairman of Supervisory Board

On the Asset Management side, again, your comment on higher assets under management is right, but performance fees were extremely high. I think the number was something like EUR 565 million. I think it's prudent to say you can't plan these high performance fees every year. Now on Q4, I'm not 100% sure that I got your point. Are you just referring to the quarter, or are you...

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

They said next year, it will get worse, whatever, whether it's true or not. But that's what they said, and I'm assuming that, that's in your numbers. So if you're saying based on Q4, you think non-Life is good for 2011, there must be much more positive things elsewhere...

Michael Diekmann
Chairman of Supervisory Board

Okay, got it. Yes, well, you can discuss when you -- and I'm just taking this as a theoretical point because talking about listed company may not be appropriate. When the lead comes to us for the planning dialogue, and they tell us the combined ratio's going to go up from 70% to 85%, we question does that happen on day one or during the course of the year, and then you get a different number whole year. Now the improvements that we are seeing on the P&C side, and I've used the lunchtime to make this a little bit more comprehensive, I mean, probably, you all want to know a little bit more about P&C, and I'll take you through the calculations, okay? Now we're starting off in '10 was a 97.2%, and what we are targeting in '11 is 96%. Now let's look at some components here. We do have a runoff of 3.9, and we think the normal runoff is more in the region of 3, really. We do have a net cat of 3.2, and we think something like 2.7 may be the right number for 2011. Now that gets us to a sort of 1.6 percentage points improvement, which equals something like EUR 600 million. And then, I think the outlook makes more sense. Now where does this EUR 600 million come from? It's 200 million net cat. As I said, it's the EUR 200 million on price and at least EUR 200 million on claims/expenses. Now that's assuming stable investment income where a higher asset base is compensating for lower yields. Now if I would look at it from the Suisse point of view, we certainly will see an improvement on the Allianz Suisse side because that's the one that is absorbing all the net cats. So far, we certainly would see an improvement in Germany. We think that based on the historical evidence, the performance in CE, Central Europe, will get us a major improvement, and we look at moderate improvement in France and a higher improvement in Italy, and I have my question marks on the U.S. So that's about the composition of our P&C. Does it make sense?

Oliver Bäte
Chairman of Management Board & CEO

I'm sorry, if I can make a comment on Mike. Mike, we do have some disclosure on diversification in our Annual Report, without giving you specific numbers, but you can look up high percentages, just don't think giving you now the ratio makes a lot of sense.

James B. Quin
Citigroup Inc, Research Division

James Quin, Citigroup. Two questions please. The first one is just going back to the dividend. I think the -- I guess the talk of volatility and the need to be able to deal with volatility seems to me to be more a question of the absolute level of capital that you hold rather than the payout ratio in any one year in a sense that if you've got the level of capital to deal with volatility, then the payout ratio should be something that is linked more to, I guess, investments in the business and, I guess, the other strains that you may have, the differences between IFRS earnings and what is distributable, for example. So I'm just wondering if you could help us understand a little bit more on the 60% that is being paid out -- I'm sorry, it's not being paid out, how do you see that splitting between investments and essentially strengthening the balance sheet to deal with volatility? And also, I suppose how much -- how long would it take do you think to build the balance sheet to the point when you feel you could potentially deal with all volatility? The second question is just on the Life business. Assets under management are up 10% year-on-year. They're up even further over previous years, but IFRS earnings don't seem to be moving certainly based on the guidance. That may be because yields are coming down. I wonder if you could help us understand some of the moving parts but also understand what level of bond yields you would need to see before you might see some earnings and then some coming back into the Life business to reflect the growth in AuM.

Michael Diekmann
Chairman of Supervisory Board

Good question for our CFO.

Oliver Bäte
Chairman of Management Board & CEO

Assets Management first because that's the easier question. There are 2 types of effects that we bear in mind when we planned that. The first one is what is going to happen for the U.S. dollar-euro exchange rate, and we have an internal ratio, a band that is more conservative in terms of the development, what the U.S. dollar earnings are worth in Euros. The second one, we had very high level of performance fees, in excess of EUR 500 million, last year that we cannot expect every year, and that explains the conservatism in that number. And the interest rate upping scenario is also one that we significant -- that we use. That is more defining the lower boundaries, and also that we have interest rates up and both flows -- flow off the income that would define the lower boundaries. Now in terms of when do we not have enough capital? James, I can tell you that once we are through with Solvency II, fine. It's not going to be long. I know it has been dragging on for a while. But we expect this year, with the implementation measures in Solvency II that we are currently debating with the European commission, last guidelines to get clarity on 3 very important items. One is what is going to be the level of interest rate anchoring that we are going to finally see. The second one, how should we model credit spreads going forward and reflecting appropriately our business model, i.e. an integrated view of liability, stability and asset, the asset side. And the third one is how do we deal with group calculations. There's a lot of insecurity around how group solvency would be computed. For those of you that are not in the details, and what we currently have is there are certain fungibility rules for local solvency that we have to bear in mind. Allianz does capitalize its businesses at the single A level, and through diversification of corporate funding we'll get to a AA level at the holding. Now under Solvency II, that framework might be under-stressed because some regulators are interpreting the fungibility rules in a way that we cannot use local capital to support group debt funding, which is totally noneconomic now because that would imply that we, in the future, would have to do debt funding at every business level because we cannot fund ourselves appropriately, neither in the interest of the supervisors nor of regulators. And if we have clarity on these 3 items, we will be clear on how much capital we finally need and how much volatility we will have. Let me remind you on the volatility. I have disclosed internal model numbers throughout the year. We basically had in a 6 months' horizon a volatile internal solvency that is reflecting Solvency II current rules of 50%. You cannot run a company based on a volatility that has 50% in less than 6 months, so we need more stability not on the level but also on the way how volatile it can be. And that actually -- it does impact annual earnings because relative to the volatility, if you just look at what we have in terms of risk-bearing funds and risk capital at EUR 50 billion, if you have a 50% solvency move between the 2, between the EUR 30 billion and the EUR 50 billion, and EUR 20 billion, EUR 10 billion can move in a year -- and EUR 2 billion more or less make a hell lot of difference of dividend paying out or not. So while that number doesn't look natural to you, just think about the EUR 10 billion move in 6 months. And again, no, I don't think anybody can run a business based on these volatilities.

Michael Diekmann
Chairman of Supervisory Board

Maybe we can add one more point that gets very often forgotten, and that is equivalent, how are we going treat the non-European operations, of course, especially for the U.S. business.

James B. Quin
Citigroup Inc, Research Division

If I could just come back on my second question. There are actually many questions about the Life business and just understanding you had very strong growth in the Life assets, it's not translating into higher IFRS earnings, there may be good reasons for that. I'm just wondering if you could elaborate a little bit more on those reasons. And also, if it's a bond yield question, how you need higher bond yields, what's the level of bond yields you need for earnings momentum to start coming back?

Oliver Bäte
Chairman of Management Board & CEO

James, very quickly on that, we can have a more detailed conversation later. The issue is very simple. The products that we sell have buy-in capital for about 6 years, right, so as we show in the disclosure between 5.5 and 6 years, and some are older. So if we have a significant new business strain based on distribution cost and capital, the faster we grow, the more is the drain on the cash. On average, you can expect for every asset that we get on board, 40 basis points is the return that we expect in operating profit to emerge over time.

Paul M. L. Achleitner
Member of International Advisory Board

Nick?

Nick Holmes
Nomura Securities Co. Ltd., Research Division

Nick Holmes, Nomura. A couple of questions. First one is again on the Life side. I just wondered how concerned are you that your Life business is just too focused on traditional Life rather than unit-linked and, in particular, how concerned are you that a rise in interest rates might make the business that you've written more vulnerable to lapsation. That's the first question. Second question is sort of a general strategic question which is, can you share with us the sort of business mix for the group that you would envisage moving toward the next 5 years? I mean, at the moment, over half the group is Life and Asset Management. Do you want that to grow, or do you want that to shrink?

Michael Diekmann
Chairman of Supervisory Board

Well, my initial thinking on the business mix would be a 50-50 mix. It was certainly a range, and this is why we always look at P&C when we talk about acquisition. The second -- or the first question, how sensitive our lapse ratios to a rise in interest rates, it's not a specific feature in the continental European business, and that's, I think, very much dependent on what kind of distribution is behind these Life contracts. So I'm not saying that the continental European trend is, let's say, less financially capable, but certainly , you don't have this lag in the U.S, sort of constant view on are you in the money, are you out of the money. And we have a much longer-term interest of our clients in their old-age protection. There's a lot of tax -- these incentives if you move out of contracts early, and in the other jurisdictions has these certain charges, and again, that's a complicated situation where we've only seen in the U.S. that from the distributors there's a very clear indication to clients every time, are you in the money, are you out of the money. So I'm less concerned here.

Nick Holmes
Nomura Securities Co. Ltd., Research Division

With the business mix, Asset Management is now 18% net income. I mean, do you want to develop -- that is quite a big change in the business, isn't it? Is that something you want to expand further now that Asset Management has done so well and really develop that? And then, sorry, just also on the lapsation, are you saying that in continental Europe, you're basically not concerned about a rise in interest rates affecting traditional Life because customers are more conservative?

Michael Diekmann
Chairman of Supervisory Board

Yes, that's what I'm saying. Yes, Asset Management, we would certainly like to increase, and I think it's going to increase because we're going to see more movements between the Life business and the Asset Management business. And so in some way, it's a very nice hedge in our business development, and we see this increasing. And this is why I make the example that -- and with the ongoing cooperation between the 2 segments, it's really very much about which sort of product design the clients want. For us, the most important thing is that it ends up with Allianz.

Oliver Bäte
Chairman of Management Board & CEO

Can I have a few comments on, Nick, on the lapsations. I'd like to differentiate, you said unit-linked versus traditional. Traditional, I'd like to differentiate between the accumulation side, where you have high risks and real decrementation of annuity products. They're often locked in. Second, to differentiate between where you have lapsed penalties in a number of our important markets. We have significant disincentives for clients to lapse their policies. And with the exception of France, where it's a legal condition, and we are carefully monitoring that. And there are 2 things to bear in mind that lapse a string to you, there's an accounting effect, of course, that you need to bear in mind, but the most important thing is risk management. Why? Because in a lapse -- increase environment, you need to make sure that you don't suffer spread losses on the asset side and then we are spending more time on to make sure that, that does not hit the business. So it's important. By the way, that is -- we discussed that over lunch, not modeled in Solvency II, which is one of the most fundamental risks in this industry.

Paul M. L. Achleitner
Member of International Advisory Board

Andy?

Andrew Broadfield
Morgan Stanley, Research Division

Andy Broadfield from Barclays Capital. Two questions. One, just returning to the volatility issue on capital and the new world of measuring risks Solvency II, typifying it, somewhat diminishes a lot of the products and the purpose of the product for the long term for the policyholder and for the company. And by looking at them as a -- through other stakeholders' eyes, through traders' eyes, effectively for the short-term eyes. I'm just wondering whether you -- when you write these products particularly sensitive to interest rates, for example, of other such asset movements, whether you're penalizing them twice with the capital charges you have to hold against them, which take into account the risk sensitivities attached to them and then by a much higher capital buffer above that capital requirement. And if you do think that's a double accounting effectively, do you take that into account when you're pricing the product in the first instance? That's the first question. Then the second question, I'm interested to hear a little bit more about this replacement or acceptance of this sort of product replacement between Asset Management and Life & Health which we see particularly in the mature markets, they're creeping into the early mature markets, if you like. I was just wondering if you can give us a little bit more granularity about the particular actions you're taking and where you're taking them i.e. geographically and just get a bit more feel about how you're managing to capitalize on that?

Michael Diekmann
Chairman of Supervisory Board

Well, you see a very clear cooperation in Asia. So one example is Taiwan, where we started a very, very early VA cooperation between Asset Management and the Life business. We see this in Korea, and we see it increasingly in the U.S. and setting my example for the large pension business in Europe. So it's not so much a question of the traditional retail product type in Europe, it's very much linked to unit-linked and VA business in these markets that I was talking about.

Paul M. L. Achleitner
Member of International Advisory Board

Can I just point out the fact that Jay Ralph was moving into the COO role in terms of the Asset Management and is designed to take over from Joachim Faber next year. He continues to maintain his responsibility among, most importantly, the Life business that we have in the U.S. So you can see that there are tangible evidences in terms of combining the 2 and more or less having them cooperate more closely.

Marc Thiele? Sorry, he's not quite satisfied yet. On double accounting? That's you.

Oliver Bäte
Chairman of Management Board & CEO

Yes, that is exactly the case. We do, in fact, have another current regime. The fact that out of this that is supporting the capitalization available, financial resources that get depressed, and the same time, you have the capital charges increase here so you have a double leverage there. And we are introducing, obviously, the risk regime into the product pricing but -- particularly for the long-term guarantees. We do work with new reversion assumptions. I find some of the shocks that are being currently used at the Solvency II level and the lobbying aggressively against that to be too excessive on both. Now the point that we always get -- and let me stay a little bit on the subject is, therefore, shouldn't you stop using the value in force to support available financial resources? Now the interesting thing is you can envision that if you stop not tiering the capital requirements because the point is the industry wants the support for available capital because on the one hand, we're getting huge capital charges for business that has cash flows, 50, 60, 70 out and then we're shocking them through interest rate rotations and all kinds of medical fund that people have that have nothing left to do. And at the same time, we're saying, "But you're not allowed to use the cash flows that you're generating out of this business to support the risk." That doesn't make any sense. So you either get more reasonable tiering of capital requirements according to how close you are to missing your ability to serve your guarantees, and then you can obviously tier the capital available but you have to move in parallel. So I'm not against the modeling and the shocks but they have to be sort of consumer-ready with what the true risks in the short term are. Let me give you a practical example. In Germany, Allianz has proposed together with the interest industry to introduce a new result for a low interest rate environment because one of the most important things to protect ourselves against at industry level is a Japanese scenario. So what we'd like to see is that the industry has to put buffers aside whenever average earned interest rates get to a level that is -- indicates that there will be risk of not supporting the guarantees. Today's rules only force you to do something once you already in the doodle and cannot support additional reserving. So we said, "Let's make sure we get provision." So this is the best way to manage risk at the industry level. You force enough capital accumulation ahead of time to support the guarantees for low interest rate environment. By the way, based on these low reserves, Allianz will be able in Germany to support our guarantees for the duration of our contracts. Let me repeat that. Even if interest rates drop to below 1.5%, we will be able to support on their guarantees under all circumstances. And that is because we're driving the resource up to a point where we can support these guarantees. That's what you do to manage risk. You don't do that by asking for higher capital charges based on models.

Andrew Broadfield
Morgan Stanley, Research Division

Just very quickly coming back. When you say you've seen some sort of mean version on the pricing side, and effectively, we don't mean that it would effectively be underpriced. And the second thing is does your mean version come back to the new normal and all of your, particularly Paul's, certain part of it which is perhaps not quite the mean version that we would expect on this side of things?

Oliver Bäte
Chairman of Management Board & CEO

Now we have 2 views. One is the risk-free world, whatever that is, where new business margins and MCEV get calculated. So we don't take credits for earned, for example, credit spreads until it's really earned. So that's the concerns on that and that's why we do the computation. Then we have what we call and that you see in the IRR computations, where we have reasonable assumptions that we consistently test. But again, if the mean reversion doesn't happen, we do create the additional reserves. The balance sheet mechanism is if interest rates trend down, you must -- this is a law now, you must fund the additional low interest rate reserve in order to support and fund that guarantee. So there is not the problem that you will not be able to support it, what will happen, obviously, over time, the shareholder profits will go down and dividends disappear. But the first step is that we are able to support these guarantees. And again, the appropriate mechanism is to fund the capital and not avoid the funding.

Paul M. L. Achleitner
Member of International Advisory Board

Marc?

Marc Thiele
UBS Investment Bank, Research Division

Marc Thiele, UBS. 3 questions, if I may. First one is on M&A. And last year, you came across pretty cautious on M&A, in general, and I think you mentioned there would be more for the preference for P&C rather than Life insurance. I don't know how you look at this deal that Zurich has done in Latin America and there is another Latin American opportunity coming soon. But maybe you can talk us through a geographical focus and what divisions you would be looking for if you were to expand inorganically? Then the second question is on asset management. In the fourth quarter, we've already seen a slowdown in fixed income net inflows. And from the outside, it looks like there are a number of asset managers within AIG scattered around the globe. But I think over the past 10 years, there have hardly been any net inflows. Do you have any initiatives in place that will generate net inflows in the future? And then thirdly, can you give us an update on the German P&C market in more detail? You mentioned a few times that you will be looking for a turnaround but equally more to a price that seem to be flat year-on-year even in January, and I'm just wondering where's the turnaround coming from?

Michael Diekmann

Chairman of Supervisory Board

Let's start with M&A. And I'll talk about the Zurich deal first. We have made the deliberate decision a couple of years ago to concentrate on 3 markets in Latin America, and I'm taking Mexico out for the time being. That's Argentina, Columbia and Brazil. Our focus there is P&C and hedge business, and the bancassurance deal that you're referring to is basically a Life deal. So from that point of view, it's probably a good deal but didn't really fit with our strategic outlook there. Now we said very, very clearly that on the M&A side, before Solvency II, Life acquisitions are not justifiable. That has something to do with the question of what additional capital you need to hold there from the Solvency II point of view. But there's also another point that I've probably discussed 12 months ago here as well, and that's purchase group accounting and the question of how much of the intangibles on the balance sheet you need to write down and then replace with new capital. Now that's -- if you look at the balance sheets today, deferred tax assets and other hedge tax and so on, if you analyze and adhere on that basis, it becomes increasingly difficult to make a nodality on that side. P&C, we said very clearly, it's not so much a question of regional preference but it's a question of do you have the operations in place to capture the expense synergies. Because frankly, with all deals that I've seen, I don't really believe in growth synergies. The ones that I see and can drive are expense synergies. And what reduced to those markets there from a managerial point of view and from operational point of view, we are able to integrate fast. That's the rationale. Now I've made a couple of very cautious comments on Asia. This is not a market where it's easy to make money on the P&C side because they're basically, it's a motor business and industrial business. I think you can grab the industrial business without heavy infrastructure investment, and we do this through our Allianz Global Corporate & Specialty insurer. And on the motors sites, I mean it very much depends on -- we have very good motor markets like Malaysia, where they have a good regulator. And we have motor markets that are extremely unattractive. So I think it's no wonder that most of the spectacular views we've seen in the past in Asia were more linked to the Life side. Now also on the Life side, I'll make a cautious remark here because you only have 2 distribution models. Are they bancassurance with very, very same slim margins, depending on how strong your distribution partner is, or you're agency distribution. Now agency distribution and AGR is a walking asset. I've seen large distribution forces change from one day to the other because of slight changes in the commission profile. I'm not saying it's an unattractive market. Surely, it was the gross we're seeing in -- on the Asian side that's an attractive one but to make it work financially is not a no-brainer.

Paul M. L. Achleitner
Member of International Advisory Board

Next?

Michael Diekmann
Chairman of Supervisory Board

That was about the flows?

Marc Thiele
UBS Investment Bank, Research Division

The flows from the equity side.

Michael Diekmann
Chairman of Supervisory Board

Yes, I mean if we look at the negative flows over the last 3 years on our equity business and compare them to market, I think they're pretty good. Now when we look at last year, I would even be more positive because that's in effect a consequence of the cominvest integration, where we knew from the beginning that some assets that cominvest was managing for competitors would move away. So that's the plans, it's synergy. If you take at that away, we have positive inflows, and I think the sentiment in the market may change this year. And with all the back office consolidations that we've done on the platforms in Europe and in the U.S., I think we are very well positioned to be a beneficiary of that. Let's have a look, let's discuss that in 12 months, but I think it's good to have both capabilities in-house.

Paul M. L. Achleitner
Member of International Advisory Board

You also shouldn't underestimate the RCM brand, which has done a lot to improve their own track record and performance track record and is increasingly being recommended by consultants because they have now reached necessary 3- and 5-year averages. So we actually have high expectations that, that is going to be an investment style that will come back in fashion and provide some growth. Other questions? Oh, German P&C. How could we forget about German P&C?

Michael Diekmann
Chairman of Supervisory Board

Paul, you want to take that up? [indiscernible] Look, the German P&C result, I think, reflects 2 different things: First, the market is much more competitive than it was seen over the last couple of years. And second, we've gone through a very, very massive restructuring, and we still see some of the effects of that. So for the first time, we'll increase manpower on the claim side because we've been thin on the claim side, especially with all these NatCat events that provide quite a frequency and a number of claims at some peak times. Now, the few season numbers of -- if you settle your claim yourself, if you use a party or you let the other party settle the claim by a third party, it makes a huge difference on the claims -- on the average claims sum. We need to tackle that, and we are willing to tackle that. A lot of the improvement will come from the claims side. Will it come in 2011? Yes, we would see parts of it in '11 and the full benefit of that in 2012 as outlined in my chart as well. On the motor side, I'm not so negative really because when we look at the results of the year-end really where, I mean, all this changing business, switching business is concentrated in the market. We see for the first time that our results are improving dramatically. And I think the numbers in the past years, we lost net about 300,000 to 400,000 risks to renewal. Now I haven't gotten the latest number but we may be neutral this year. And that was out of the price discounting. So we see that the market is hardening, and that's the little bit of difficulty in watching the market from outside in order to take price increases. But I think the most important factor in the motor business is not price increase but it's less discounts. That's the real sensitivity to results. So I'm less negative on the motor market than I was 12 months ago.

Paul M. L. Achleitner
Member of International Advisory Board

I couldn't have said this better myself. Brian?

Brian Shea
BofA Merrill Lynch, Research Division

If you'll permit me, I'd like to ask 3 questions. First of all, to follow on from the question Marc just asked about -- if I could just widen out to inflows generally for the entire Asset Management segment, I guess there's a lot of fear in the market that with the fixed income market being difficult now, that the good inflows you've been having will be drying up. In Q4, your performance was good. Could you just comment on what you're seeing so far in Q1? I know you normally don't like to comment about the current quarter but if you could give us just a few comments in this case, I'd be grateful. I think we'd all be grateful. Secondly, it was mentioned that your 2010 operating profit was fractured [ph] by EUR 500 million of exceptionals. Could you just elaborate on that? I don't quite understand that. I think that part of that is at life restatement. I think that was a restatement rather than an exceptional. I thought the restatement was to get exceptionals out of the earnings. So I don't quite understand that remark. If you just sort of explain where this EUR 500 million come from? And then thirdly, I hope I'm not opening up a can of worms by asking this but if you're kind enough to give us your views on Solvency II. Could you just give us a brief summary view on what you think about the IASB's accounting proposals?

Michael Diekmann
Chairman of Supervisory Board

For IASB, we have our specialist sitting here, very interesting one. Now Brian, I will not give you inflow numbers for Q1 but I've just came back from Newport Beach, and we see a very, very interesting development there, where we see a much higher part of the business than the past going to retail merchant price with higher fees. So while the inflows that we've seen are not reflecting what we've seen in last year's first quarter, the quality of the flows is quite interesting. On the EUR 500 million, yes, you're right. So the way how we should have phrased this is nonrecurring, yes, with EUR 200 million in the U.S. It will not come back. Then the other one was a little bit more for the press than for this elaborated people here. We were talking about a difference in foreign exchange to our plan. Yes, so what we had planned was different exchange rates than we have seen, so that has developed very favorable in our respect. That's the EUR 500 million that we were referring to in front of the journalists.

Oliver Bäte
Chairman of Management Board & CEO

IASB proposal, we can cut them very short. That was the exposure draft out that we have heavily criticized because it's using, again, a fair value mark-to-market idea. It was even some fantasy in some people's mind. I think it's on the other side of the channel though, that you can have the same accounting as full market value balance sheet on the Solvency II. That doesn't make any sense because Solvency II is a solvency regime as the word says. It looks like a run-off scenario and not the growing concern scenario. We've worked very hard in the CFO Forum to come up with alternative proposals. In fact, we have been leading the work here and book our keys [ph] and was intending to hand out a proposal that we've developed in the industry together with our American colleagues and the Japanese industry on how to actually come to a standard that makes sense from an industry's standpoint. We're very happy to hand this out. The most important component here is that if you introduce discounting and fair value orientation for the liabilities, we must have the same thing and the same solution on the asset side so IFRS 9 needs to be reopened and for an OCI solution that we envisioned for our press 4 phase 2, we need the same thing also, again, on the asset side plus recycling, of course, and that has been our position and our proposal for a while. I think the IASB is, by this time, more and more interested in listening to the industry and hearing our proposals. It's very good news and the latest statements of the IASB Chairman who is coming in July have really confirmed our view that the mark-to-market view on everything and things being inconsistent with the business model is not what he appreciates. So we do expect a positive development under IFRS 4. That is despite what we've seen in the last few months. So as you can tell, we are optimists.

Paul M. L. Achleitner
Member of International Advisory Board

Please, go ahead, Fabrizio.

Fabrizio Croce
Kepler Capital Markets, Research Division

Two broader questions and a curiosity, please. So starting by the broader question. It's a couple of year now in a row that you reduced your ceded premium for reinsurance proposals. These, of course, include the year enhances your combined ratio and your outlook far better than you potentially could be on the line side, on a risk adjusted side. And so the question is in which geographic scope did you particularly reduce this year the coverage and why? Second question is about real estate. Here, if I think about direct reference you have -- or the performance, sorry, of 6.5% versus the 4.2% you have on fixed income, the question is why actually this asset category is not 30% or 40% of your entire asset allocation? And of course, we enter then into discussion about the 25% capital charge. And here, my question is when will Allianz finally fight against these risk capital charge, which is irrational and actually affect the entire sector? I mean, Allianz is the leading company and should take a key role in this fight. And so the question is why is this not occurring in a more aggressive way? And then for the real estate exposures, to close this second broader question, is will you have access to the right location now? I mean, you have to sell the silver in bad times time but now will you be able to reenter same asset quality? And then, about the curiosity, the photovoltaic park in Italy, in which city exactly did you build out this park?

Paul M. L. Achleitner
Member of International Advisory Board

Okay, I'll start with the real estate and give my learned colleague over there the opportunity to tell me where the photovoltaic park is, which hopefully is neither photovoltaic nor in a city, because we are not buyers of photovoltaic, we are buyers of solar thermal industry or energy, in which we believe in as an opportunity, and those things get built not inside cities, but we will find out the location. And they're feverously working now that I told them to do so. And the second point as far as real estate. Let me put it this way. If we had 30% or 40% of our assets allocated in real estate, we would probably not be earning the type of returns that you have just highlighted because the returns that we are actually generating is based on a very careful selection of what kind of properties we actually want to own. So if you massively move into that direction and you just, again, have to put this in the context of a portfolio of some EUR 450 billion, you want to be very careful that you're not just diluting, okay, the individual return capacity of individual projects because you're just out there doing massive deals. So you want to be -- continue to be very selective. I would also take issue in terms of the question of selling "the silver". Unless you actually view real estate just like any other asset class, you shouldn't really be in that business. To put this bluntly, when I came on this board 12 years ago, the holding board individually met, okay, to actually make the glorious decisions of where to invest in real estate because everybody on the holding board was an expert in real estate because everybody had once before built a house or dealt with real estate issues or what-have-you. I think one thing that I lay claim to that is that in the meantime, this process is in the hand of experts who really truly understand something about real estate and pursue this asset class without the sentiments that go along with the question of, "But it's actually a nice and lovely building, how can we sell it?" If we actually find people who are willing to pay a price which we find exceedingly attractive, and that was definitely the case in 2006 and 2007. And let me just carefully say that most of those who bought are no longer equity owners of those funds and buildings at this point in time. We actually used that opportunity and we thought it was a good one, and we will continue to do so. Now we are selectively building the portfolio up again, but that is investment by investment. This isn't about going out there making grandiose package deals, this is driving us up. Now I agree with you on the regulatory front in terms of the capital charges, 25% for an unlevered real estate investment is ridiculous. It definitely drives insurance industry out of the asset class at a time where this type of investment in real assets with low volatility is exactly what you should be doing. So yes, we are lobbying all kinds of fronts against the issues. Of course, some of you who have been here for a long time remember, to Brian's question also, that I've been kind of like using these occasions to have the discussion on fair value accounting and all those other issues. Maybe slowly but surely, we are getting into the right directions, and we hope that the capital charges on real estate will also be part of that. Now in terms of location, I now have something here that says that our renewable energy is actually in Udine, in Brindisi, and in, there is a label, Solare Roma. I can only assume that, that is hopefully close to Rome rather than in the middle of Rome.

Michael Diekmann
Chairman of Supervisory Board

Maybe when Oliver's answering the question on the reinsurance side, we can give you a little flavor of our lobbying activities in Solvency, in S&P, capital charges and some because we've been working in the background for around 18 months. But I think for the last 10 months, we've become very, very prominent in addressing this at every occasion with our people in Brussels, in Berlin, in Paris. So maybe Oliver, you can just give us sort of taste how we're taking over that lobbying activity.

Oliver Bäte
Chairman of Management Board & CEO

Yes, let me hit first the reinsurance component. The answer's very simple. We are reducing reinsurance on traditional business across-the-board. Why? Because the historical experiences that the combined ratio that we now retain is very, very attractive. That just tells you that reinsurance are very smart and we are getting smarter. So that's the first observation. The second reinsurance will remain an important component of how we manage the balance sheet but more and more in terms of balance sheet protection as opposed to local book protection and loss protection. You need to understand that's a very important capital management tool and will -- reinsurance will remain important to us. Again, I would like to get more of a balance sheet protection than individual risks. Now on the Solvency side, without spending too much time on it, the good news is that 2010 with its low interest rate environment, has really impacted the view of many people to understand that this is not about, again, modeling a few numbers but it can have real economic implications, not just for the insurers but for the total economic system, because you need to think through that in addition to having Solvency II, there will be Basel III and all kinds of other regulations that will fundamentally change the landscape. And now in particular, the industry is waking up and thinking through how will all of this work? The regulators, at least at the level of the central banks, are waking up and saying, "How is this going to impact the various items? Who's going to provide the funding?" And if -- by the way, it's not just about capital but also liquidity. We are significant. Paul mentioned it earlier, We are an important source for subordinated debt. But more important, we also help to fund the banks in terms of liquidity. And that had never been looked at. There is not an institution at the European and international level that says, "By the way, how does the whole total system work?" Even the central banks have mostly been focused on the banking system in itself with a little bit of a sidekick as the insurers. And then you find out the insurers are actually fundamental in terms of their investment behavior to funding the total economy. So the good news is over the last 6 months or so, that has really reached the top grass in the governments to think this through. And there are a lot of questions being asked, "What does this system view?" Now the Systemic Risk Board in Europe is picking this up. This just came into existence and it's focusing on not just what the CPs are because that is what makes the press headline but how are the regulatory rules impacting the system? To just give you a practical example, 10 days ago, I attended the Eurofi conference in Paris, and the bank has talked about Solvency II as a threat to their funding. And this is what we really need to have. Second point is on the technical level, a number of the requirements for the individual asset classes were a wretched mob during the crisis. There was a rallying cry from the public, "We want more and safer capital." It was directed at the banks but the insurers, as a consequence, were also phased, and nobody tested whether this makes any sense. Nobody has really asked whether this makes any sense and in the details nonetheless. So for example, real estate has the same charges whether it's leveraged or not leveraged, whether you have a, for example, as a traditional country where you actually have legal rights on the property below that or you have a Spanish cedula or not. And it doesn't make any sense. If you basically said that is a commerce bank or whatever risk, regardless of what the underlying collateral is, we need to rectify that. And I am very hopeful that intelligence at the end of the day will prevail.

Paul M. L. Achleitner
Member of International Advisory Board

Common sense will suffice. You don't even need intelligence.

Oliver Bäte
Chairman of Management Board & CEO

The other question, Michael's questions, sorry I missed that. How we are represented in there? We have industry in all forum, obviously, the voice. We're working on the MCEV working group, which is led by our new chief actuarial, Oskar Buchauer. Buchauer is running the CFO forum team on IFRS 4. I'm on the EIOPA new advisory board, or stakeholder group, so we are making sure that Allianz is also represented in the various institutions.

Paul M. L. Achleitner
Member of International Advisory Board

Go right ahead. Right here.

Jonathan Michael Hocking
Morgan Stanley, Research Division

Jon Hocking, Morgan Stanley. Two questions on the Life business, please. Can you comment a little bit on the visibility you've got on the in-force cash flow you're getting on the Life business? You mentioned there's sort of a return on the backing capital. What are the visibility you've got? Can you give us some idea about the profile of that? Any chance of a runoff. And second question, Oliver mentioned that you expect over the course of the contract that a Life contract to generate about 40 basis points of IFRS profit. What is the trend in margins in terms of new business going on the book versus the average in-force portfolio?

Oliver Bäte

Chairman of Management Board & CEO

Yes, I'm just writing the question now. I cannot give you much view on the runoff profile here at this point in time. Why don't we pick that up after the conference together with Oliver Schmidt? What I can tell you that the margins that we're seeing between the in-force and the new business vary significantly by market depending on what the product profile is. What is very important to see that the long duration guarantees, of course, that have been prized with significant guarantees have a lower profitability, of course, given the low interest rate environment than the new business that we are pricing in this environment. It's just the laws of physics hold. What we are trying to do is to increase the profitability going forward by adding riders as an integral part of the Life product in order to support the guarantees. So we're getting technically a lot more detail in terms of looking at what capital return periods are, but also in terms of how volatile margins are relative to some return assumption. Let me be more specific. Particularly on some capital market-oriented product like VA, the new business margin calculations that you traditionally find and are consistent with MCEV principles are a little bit optimistic because they still have normal distribution assumptions, traditional and then shock them, relative to the tail risk that some of them entail, right? So we're getting more and more, looking not just at what the expected returns are but what the shock returns are. A little bit like a good reinsurer would look at what is the PML relative to the expected return?

Paul M. L. Achleitner
Member of International Advisory Board

Roland?

Roland Pfänder
Commerzbank AG, Research Division

Roland Pfaender, Commerzbank. Two questions, if I may. I would be interested in the development of your global motor platform. Could you give us here the combined ratio, maybe compare it to combined ratio of the German business and the total book? Then second question, regarding your German health business, you had some problems there. Do you have a way to fix it or how do you proceed here?

Michael Diekmann
Chairman of Supervisory Board

Well, the German health business were a couple of problems. One problem was that we didn't want to allow people to get out of tariffs into new tariffs without a surcharge because otherwise you have an adverse risk selection in your old tariff groups. We thought that was totally fine. That was confirmed by COT [ph] in the first case and then was challenged again. And we were very surprised that COT [ph] saw that differently. So we priced all our products. We went out. We pulled product immediately, came back then 4 months later with some new risk price tariffs and that's working okay now, yes. On the global book, you're giving me these numbers so just correct me, okay. Our old book on global automotive was basically a very, very large book of Volkswagen in Germany and some split-up books all around the world. Now the performance was around the same as in the traditional motor book but there's a difference in the German book that there was some fleet business and what we call handler. So that's the car dealer insurance policies. We have gone through a very, very detailed price restructuring or profit restructuring discussion with Volkswagen that we will sign very soon. It addresses each and every point of underperformance, and our target for the whole segment for 2011 is 98% combined ratio.

Paul M. L. Achleitner
Member of International Advisory Board

Michael?

Michael Hermann Haid
CA Cheuvreux, Research Division

Michael Haid, Cheuvruex. Also on motor insurance Germany. Prices have come down over the past 5 years significantly. And when an OS contract renews, it's probably renewed at a much lower price and it was bought 5 years ago maybe. And even if prices increase year-over-year, which I think they haven't done as much 2010, then the quality of the whole portfolio may still deteriorate and the combined ratio may still deteriorate. Can you say something about this effect whether you see it and how much it is? And do you have other books of business in P&C insurance that you see a similar effect on the combined ratio? Second question, on bancassurance, can you tell us a little bit more how it performs, in particular, Allianz Bank and also, distribution via Commerzbank? What types of products? How happy are you with the sale? And is there a significant or material difference in the product mix of the agency distribution?

Michael Diekmann
Chairman of Supervisory Board

Commerzbank, as I said, we have 4 months experience now on the full setup. It has developed very, very nicely. I said it's about 100% increase vis-a-vis the period 12 months ago on the Life side and about 50% on the P&C side. Now on the P&C side, a typical product would be the accident cover with premium refunded. That's a very profitable product from all product view. It's very attractive for the bank as well. Then the -- I mean, it's less in motor and a lot of homeowners related to crediting for all mortgages. On the Life side, it's very much recurring premium at this point in time because single premium business from a cannibalization point doesn't make lot of sense for banks at this point in time. That's something we see in every bancassurance agreement. And obviously, I mean, Commerzbank has very, very high exposure to mid-caps, offers us a lot of opportunity for additional pension contracts in the distance right now, which is a very interesting business for us as well. Again on the motor side, yes, if you see average premiums in Germany, they're very, very low compared to Europeans and that's nothing. We've been referring to that now for quite some while. But I mean, let's not forget over the last 10 years, we made a lot of money in motor because it's not only the combined ratio, but it's the results especially for the liability covers. The actions that we've been taking in order to drive the combined ratio down, unprofitable fleet business, and that's not only in Germany, that's nearly in every market. And it's unfortunately a plan to that we would like to get into Allianz but on the motor side, it's very unprofitable, and that's young drivers. They're really the major drivers of underperformance in the portfolio. So I'm not so pessimistic that with some price discipline in the market, we can get motor back. And we will not get it below hundreds. That's my opinion, Oliver, in 2011, but 2012, certainly.

Oliver Bäte
Chairman of Management Board & CEO

I would like to make some additional comments. Michael, just in terms of facts, the price trend on renewal business was plus 80 basis points. It was shy of 1% last year. It's the first positive in a number of years. It was, by the way, positive in motor for the market. Now we have no breakdown yet for the individual lines of business and the German price trends on the new business assumes another percent increase this year. So the performance improvement has to come on return measures. Michael, you mentioned earlier the claims performance. We've had the negative trend on the loss ratio relative to the market that we are returning back to where it belongs. We've been sort of better than the market before, and I think we need to be able to do that again. On top of that, we've taken significant action on loss-making segments that have been, in particular, fleets that turns out quickest. And management has been very aggressive last year so the benefits of that, we should already see this year. Now with the market, again, that has been almost at 110 moving to positive territory quickly, and with Michael, that will take a while. But let's not forget, again, the share of the motor portfolio in Germany is going down, and we need to grow and that's my second observation. We just need to grow again in the profitable lines. That's very important. So in addition to just worrying about the stuff that is difficult, we need to grow in very attractive segments. Overall, the P&C market in Germany is very attractive. You should think of that.

Michael Diekmann
Chairman of Supervisory Board

When you ask another critical product lines, I would add on the German side the homeowners. And that's been harsh this year, these water pipelines, breaks. So it's really a question of what kind of portfolio do we have, old buildings, new buildings, what's the mix of that? And we've been particularly hit here because when we put the acquisition of the Eastern Germany portfolio, we had elementary cover for flat as a mandatory part in this policy, and we have not changed that. So with the floodings that we've seen in Eastern Germany, we've been particularly hard hit. But on the other side, that provides us a loyalty or retention on that book that is pretty exceptional. So we're just analyzing now what are the benefits of this loyalty scheme vis-a-vis this quarter, we have 2 further floodings. And that in lessons will be on the table within the next months, and then we may have to draw some conclusions out of that but I'm open until I see these numbers.

Paul M. L. Achleitner
Member of International Advisory Board

Michael Huttner?

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

One -- yesterday, you answered, maybe you could can answer today, the 10 billion question. That would be really nice. And I guess I sensed between the 3 or 4 of you up there, there's one guys says, "Oh yeah, we could talk about that," then the other guy, "No, no, no." So maybe you could -- that would be quite funny but generally, better startup valuation this year. And then, just on numbers, you were kind enough to say the whole 2 slides and I quite agree with them. Number one, I still agree but maybe -- it's on the debt, Slides C4 and C6. On one, if you add EUR 9 billion and EUR 7.4 billion, that's Slide C4, you get to EUR 16.4 billion. On the other Slide, C6, you get to EUR 14.4 billion. I'm sure it's very simple but I missed something, but maybe you could explain it. And then going back to the diversification question, I just thought of a way to ask this in a different way. What's the inter-group debt? I think that's the diversification benefit and maybe you've got a figure for that.

Michael Diekmann
Chairman of Supervisory Board

You can enlighten us again, "What is the 10 billion question?" I can't simply answer the question.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

[indiscernible] and that was 10 billion -- no, no, 10 or -- it was a bit confusing. And the journalist asked yesterday, 10 billion, when are you going to make 10 billion in '07 or whatever?

Michael Diekmann
Chairman of Supervisory Board

Sure, I'll answer that one and I'll leave the technical questions to you. Our colleague here from Taber was standing at the back in their booth. And the journalists asked him, "As you've done 10 billion operating profit a couple of years ago, can you confirm that at some point in time, you will make 10 billion again?" And he said yes. So the next day, headline was, "We are from Tabers. We gave him the target that might take 1 or 2 review in your press conference" And that was for 10 billion issue. Is it that one?

Paul M. L. Achleitner
Member of International Advisory Board

I think the difference is the commercial paper because these are external secured debts versus the commercial paper. And we think that the question of internal debt frankly is simply a corporate finance measure of optimizing streamlining capital within a regulatory -- fragmented regulatory requirement, so it's totally meaningless.

Oliver Bäte
Chairman of Management Board & CEO

Mr. Schmidt, we are getting funny questions now. So where are we?

Paul M. L. Achleitner
Member of International Advisory Board

If that is the big signal, yes, yes, you will still have the opportunity to ask questions. But I think I'll give the signal to highlight that he may start looking into getting that beer flow, okay, started so that we have a little incentive to speed up the final questioning round, but please, Paul? Now the pressure, of course, is on you. The rest of the crowd is opting for the beer.

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

All right. It's on strategy, yes, again, if I can, in 2 areas. One, I haven't heard the word disposal today, and Allianz has not been inclined to make disposals historically. They're much more on the acquisition trail but you're being formal, call this imprudent, on the acquisition side, which I think is interesting and positive but what goes with that? Is Allianz next to dispose the things that don't quite fit because the return market can't offer the terms that you're targeting or are worth more to somebody else? And would you like just to talk about that a little bit? And then secondly, I'm just keen to pressure you a little bit on discipline of capital management and capital allocation and specifically, your share price is still -- despite having performed very well recently, still relatively defensive, arguably. And when you get faced with the choice of buying something, you can always buy your own shares. And I'm wondering whether there's a discipline internally that actually looks at the return that you will get on that, and whether that's a test before you actually pull the trigger on a transaction?

Paul M. L. Achleitner
Member of International Advisory Board

Well, we would actually see that as a trade-off with your first question on dividends, to be blunt, okay. So I think that is the most relevant comparison. And yes, of course, we'll look at that as it is a legitimate part of the corporate finance arsenal at our disposal. I'd like to refer to Page C3, which actually showed the highlights of what we have done to address your other point, and you will see it's all about disposals. Now you will say they are minor disposals, fair, but they're disposals, and let me just be clear. Two of them, for example, impact insurance companies in Switzerland. And you could argue, we have a very sizable operation in Switzerland. Why not simply integrate that, okay, and make that larger? We looked at the complexities of integrating them and decided to actually dispose because we thought that, that was the smarter way of dealing with it. So yes, I do believe that there is a discipline in terms of looking at that. We haven't mentioned that we have actually eliminated some 55 legal entities in the past year. We've got another 70 on our hit list. So the question of complexity reduction and streamlining is definitely something that we were focused on.

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

What kind of made you dispose of that one?

Paul M. L. Achleitner
Member of International Advisory Board

I have 3 candidates on the list that I would like to make a public announcement for right now. Those are -- I'm sorry, there's some static here in the system. Do not really expect us to answer that question. Just be assured that we are trying to be very disciplined in looking into the ability to win, okay, for our subsidiaries and deal with it accordingly. Paul, sorry.

Michael Diekmann
Chairman of Supervisory Board

I would like to come back to that because I'm always stepping up when it comes to your perhaps somewhat track record on the disposal stuff. And we have Jagger Young [ph] here who's walking on thin ice to make these things happen. I mean, since I've become CEO, I'm just trying to write down the list and maybe I have forgotten a couple of issues. We've gotten out of South Africa. We've gotten out of Chile, where we have quite substantial operations because of the earthquake exposure. We've gotten out of Canada with quite substantial operations. We've gone out of P&C Taiwan for earthquake exposure. We've done the 2 disposals in Switzerland. We've gotten rid of 2 banks this year in Poland and Hungary.

We've exited Venezuela the minute we found out, and that was about 3 or 4 years ago, that dividend payment out of the country was being made difficult. We've exited Vietnam because of the political difficulties there. We've exited the U.S. Life Reinsurance business. We've exited the U.K. Life business. Jagger [ph], anything else that I forgot?

Unknown Executive

[indiscernible]

Michael Diekmann
Chairman of Supervisory Board

The Israel Bank [ph].

Paul M. L. Achleitner
Member of International Advisory Board

Please, we don't talk about entities that do not exist anymore. I don't know what you mean.

Michael Diekmann
Chairman of Supervisory Board

And I think we've exited equity businesses in the U.S. for Asset Management business or what?

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

Right. [indiscernible]

Paul M. L. Achleitner
Member of International Advisory Board

Sure it is. But overall, we like to think of ourselves as a growing entity, okay, rather than a shrinking portfolio. But then, if we add the number...

Michael Diekmann
Chairman of Supervisory Board

The acquisitions that we've done, whether minority buyouts in RAS and Assurances. These are all done with. Once, I minimize our minority buyouts, then they are slim. If we take that aside because they are major chunks and we look at the disposals, these are the M&A transactions we've done in Turkey and so on, I think they pretty much match each other from a profile view.

Paul M. L. Achleitner
Member of International Advisory Board

Brian?

Brian Shea
BofA Merrill Lynch, Research Division

This won't take long. Could you either tell us the number or give us a rule of thumb we could use to work it out, what would your 166 solvency ratio look like if your model was calibrated to BBB, please?

Oliver Bäte
Chairman of Management Board & CEO

The 50 basis points approach? I wouldn't find that appropriate because we have some inconsistency still, but it's in excess of 200%.

Brian Shea
BofA Merrill Lynch, Research Division

And is that the main difference between the 166 and Solvency II, is the calibration?

Oliver Bäte
Chairman of Management Board & CEO

It's that -- because we don't know exactly what Solvency II is. I mentioned before that we have some diversifications that we use between local or even the group because we find them appropriate that are not yet fully consistent with the funder ability rules as we see them today. Therefore, I would not like to say it is that exact calibration. Before, I don't know that. I don't know how the calibration work. But if you just were to take our number and say, "This is double A. What is the BBB equivalent?" That's in excess of 200%.

Paul M. L. Achleitner
Member of International Advisory Board

Jon, you also had a question, right?

Jonathan Michael Hocking
Morgan Stanley, Research Division

Just very quickly, do you have any thoughts on what the European Commission are proposing in terms of retail distribution legislation that I know they're going to come up with a revised insurance mediation directive for looking at PRIPS? It's in the early stages, but do you have any thoughts about that?

Michael Diekmann
Chairman of Supervisory Board

Well, I think we have 2 activities. The one that has been asked last year already have brought the product, bundled product, and the other one is on the distribution side. I think it's too early to really comment on that. The initial results are pretty radical here.

Paul M. L. Achleitner
Member of International Advisory Board

As I made the big mistake of ordering them to start pouring the beer, unless you want to have it English style, we should -- for those of you who have a preference for Bavarian style beer, we should probably move unless there is a very important question. Nick always count on those who have Japanese experience to be in between in those beers. Yes, sir?

Nick Holmes
Nomura Securities Co. Ltd., Research Division

Since we've traveled all this way and it's an opportunity, I wanted to ask about expenses. I think, Michael, you mentioned expense reduction as one of the main profit drivers. And I recall that a few years ago, you said that you could get the P&C expense ratio down by 3 percentage points. And that was a sort of a structural improvement, which you were looking to make and, of course, it hasn't happened. But I'm not looking backwards, I'm looking forwards. Do you think -- and my question is, do you think that is a structural improvement that you can make in your expense ratio at some point and roughly sort of when might that be?

Michael Diekmann
Chairman of Supervisory Board

Nick, I want to be totally transparent here. I think we've seen a lot of structural improvement when you look at the expense ratio and the allocation between the acquisition expenses and admin expenses. Now I think we have a pretty good grip on the admin expenses. Also, when you compare that to -- I mean, every competitor that you can see. I don't know whether we've reached the 3 percentage points but at least more than 2 since the announcement. Where we've lost a little bit of control is on the acquisition expenses. Now that is not totally under our control if we want to participate in profitable business. It's not so much on distribution networks but it's the broker and it's the bancassurance distribution channels that require higher commissions. Now as long as the market is willing to pay them, it's very, very hard to say, "Sorry, we don't." And so I find it a little bit unfair really to always look at the total expense which we say if you don't get to your expense ratio under control, I think that's the composition of the expense ratio. Now there's a second point that I would like to make. I think if you look at the expense ratios that we have on the last slide, they're very, very, very competitive. It's really more on the P&C side and then more in our large market, and I would exclude Italy here because the expense ratios in Italy even after some decline in the book are very competitive. So it boils down to France, Germany and the U.S. Now the problem here is that we've not been able to drive down expenses as fast as the premium has gone down. Now another very interesting discussion and that was Brian and a couple of investors. When we say we're expecting the markets to turn, is that the right time to go into structural expense cuts? I think it was the benefit of hindsight when we slashed 5,000 jobs in the German P&C business. If we had done that less radical, the outcome for shareholders would have been better. So it's really getting the productivity gains into the game and be ready when the markets are picking up rather than demonstrating year-on-year you're slashing thousands of jobs. That's my honest answer to that one.

Oliver Bäte
Chairman of Management Board & CEO

If you want some facts on the Life and the Asset Management because we always focus on P&C, and as you saw today, a number of, for example, the buildup charges do apply to the segment. They don't apply to the group. Just some facts in Life & Health, between 2008 and 2010, our absolute internal expenses, including commission, are flat at EUR 3 billion, while at the same time, our premium are 25% up and the asset base is up 23%. So our costs went down from 90 basis points to 75 basis points, and there's still significant room for improvement. But we had significant productivity gains and we are not targeting just P&C because in Life, in a low interest rate environment, productivity is as important in order to get the profits up, and we have not focused on that in Life enough before we started to do that 2.5 years ago. In Asset Management, at the same time, the cost income ratio was down from 68 to 58 points, almost 10 points, so please bear that in mind. And it would look even more favorable, excluding bonuses and the whole stock compensation profit sharing. And then despite the fact that we have some agreements with some outside providers where we pay them based on AuM, so we're not getting the scale advantages that we would like to see. And as Michael said, and a few extraordinary. Now on the other hand, from the CFO point of view, P&C will be a mature industry. We need to get the productivity up, and we need to make sure that we do that slowly but surely. A lot of -- and what we had to learn in a hard way, large restructuring in short period of time create very much disruption, particularly in sales and in the claims arena in which we should not look to do again so much but really focus on getting 10 to 20 basis points like-for-like expense ratio improvement over time. And we had to learn that the hard way, and I think we've learned it and we will not give up.

Paul M. L. Achleitner
Member of International Advisory Board

Now this was definitely a very relevant question from Nick. I didn't want to shortchange anybody in terms of things, so Birgit, if you want to ask a question, please go ahead.

Birgit Roper-Gruner
Societe Generale Cross Asset Research

I don't have a microphone.

Paul M. L. Achleitner
Member of International Advisory Board

No, no, there's a microphone here for Birgit.

Birgit Roper-Gruner
Societe Generale Cross Asset Research

Very briefly, on Asia Asset Management, it has become a quite decent platform. It's almost EUR 100 billion. I'm wondering how you want to position yourself in the area going forward. And secondly, I was hearing yesterday in the press conference that you're thinking about building a pan-European platform, maybe a risk carrier. Can you elaborate a bit on that?

Michael Diekmann
Chairman of Supervisory Board

Asia has been the focus of Asset Management and will continue to do so. I knew we stopped one exercise where we're ready to enter the market in India because the circumstances have changed there. And personally, I expect a lot of this cooperation with CPIC because we've been already very well positioned in China. But I think with CPIC, we have a new opportunity. And I see huge opportunities, especially for the PIMCO site in Japan because they are -- now they have the established brand, the infrastructure is in place and that's from the size of the pool of assets under management, a very, very interesting market. Now the restructuring on the organization side that we've talked about was -- it's an opportunity for us on the Solvency II side to reduce capital by pooling our business like Zurich has done and Zurich in Ireland. I have to say that the initial benefits that we would get out of this not as huge as they would be for Zurich for very easy reason. But most of our business, P&C businesses in Europe are at scale, which was not the case from the Zurich side. And the second one is that we have composite companies with Life and P&C in all these major markets that already get us a lot of diversification benefit market by market. So the additional benefits we could get out of pooling that in Ireland are less dramatic and appealing. I mean, looking at your slow or revised, these composite companies that we've just put together, they all have combined-type agent networks so that would be very, very, let's say, cumbersome exercise. But we still have that on the project level and on paper. If we need to pool it, then we will do it. But frankly, if I could avoid that, we'll take a lot of internal focus, and I don't think it would be the right time.

Paul M. L. Achleitner
Member of International Advisory Board
Thank you all for coming. Thank you for your questions. Thank you for your continuing support. I am told by Oliver that I should not make my usual joke about what kind of virus is in the stick that you have, the computer stick that you have in front of you. You should take it with you anyway and hopefully enjoy the beer. Thank you very much.