S&P Capital IQ

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Allianz SE DB:ALV

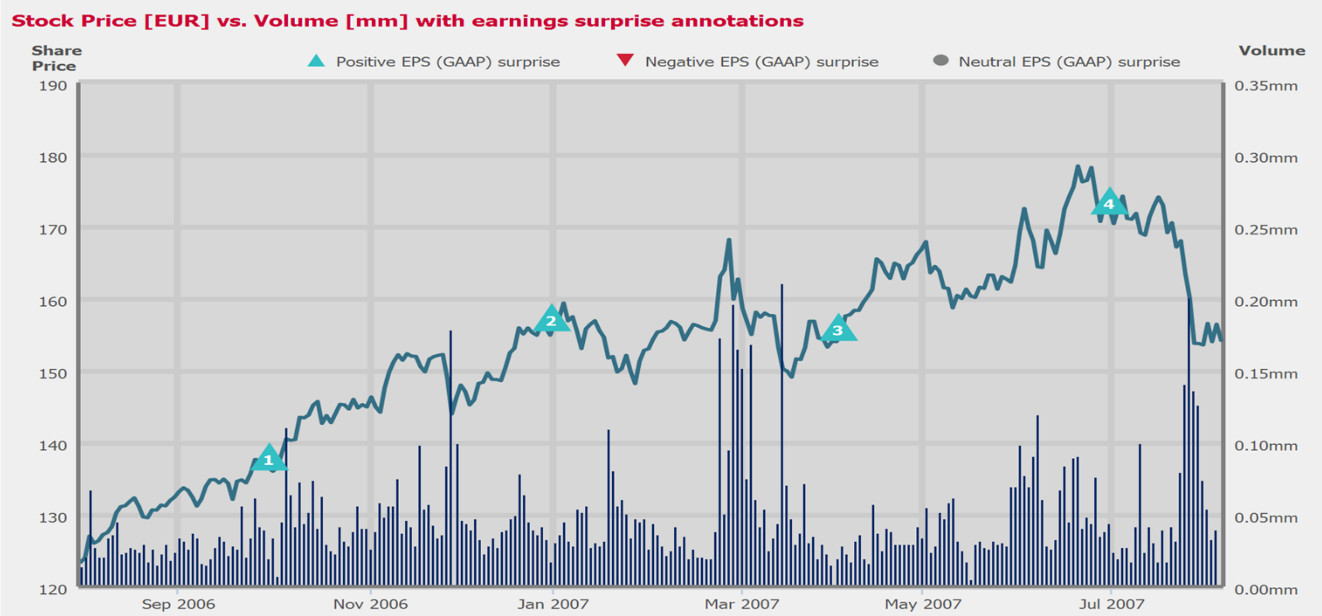
FQ3 2007 Earnings Call Transcripts

Friday, November 09, 2007 2:30 PM GMT

S&P Capital IQ Estimates

	-FQ3 2007-			-FQ4 2007-	-FY 2007-	-FY 2008-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	3.28	4.23	28.96	2.73	18.43	19.18
Revenue (mm)	23719.40	23004.00	(3.02 %)	-	99390.75	102476.44

Currency: EUR
Consensus as of Nov-09-2007 10:56 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2006	3.25	3.93	20.92 %
FQ4 2006	3.10	3.20	3.23 %
FQ1 2007	5.92	7.34	23.99 %
FQ2 2007	4.60	4.85	5.43 %

Call Participants

EXECUTIVES

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Presentation

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

Thanks, Oliver. Good afternoon, everybody. I'm pleased to report an overall operating profit for Q3 of 2.6 billion euros, which is almost at the same level of an already outstanding Q3 2006, which I'm sure you will remember, benefited from an exceptionally low level of NatCats. If you look from a high level on the profit development, then I'm sure I won't surprise anybody by saying that the exceptional turbulence in the financial markets made a significant impact on our investment banking business in Q3. And secondly, also on the P&C side, NatCat continued to be higher than expected. However, all other businesses performed well and outweighed the difficulties we had in the aforementioned 2 components.

Net income is up 21% to 1.9 billion euros, benefiting from a roughly 120 million euros nonrecurring tax benefit due to the tax reform in Germany and, of course, reflects also the fact that we have now much less minorities participating in our overall result. So against this background, I'm more than happy to conform that we are still confident to deliver on our financial targets, i.e. 11 billion euros of operating profit and 8 billion euros of net income.

To be clear, this confirmation does take into account that there's currently some wildfires in California. And that we also expect based on today's market environment some further write-offs on subprime-related securities.

Let me caveat the usual, I mean, it's obvious if there's any spectacular major NatCat event in the remainder of this year for a substantial deterioration of the financial markets that, of course, is part of the normal caveat to any kind of outlook.

Now if we turn over to Page 2. I think if you look at the year-to-date results because the quarterly results reflect what I have just said. If you look at year-to-date results via in terms of operating profit, we are at 8.8 billion euros, that is up roughly 8%. If you would do the same comparison on a like-for-like NatCat basis then the year-to-date gross is even about 14%. Net income at 7.3 billion euros is up 29.2%. And altogether, I think this demonstrates again that we have the discipline to be able to deliver on our promises in even very challenging market conditions.

Now turning to revenues on Page 4. Total revenues are up by 2.5% -- sorry by 1.8%. Internal growth is 2.5% and is mainly or reflects mainly the continuing weakening of the U.S. dollar. Now of course, banking revenues are down given the negative impact of market conditions on our net dealing income. And please keep in mind that unlike in the Insurance business mark-to-market, the adjustment goes straight to revenues, and therefore, has obviously -- have obviously some significant impact on this number.

But as well as with the impressive growth rate in Asset Management, I'm also pleased with the development on the insurance side where we have 6% gross on the Life side and 1.8% in P&C. I think this is incredible performance and in particular in Life with 6% gross. We are somewhat back in the range of our overall ambitions. Again, foreign exchange, of course, played a major role here.

Now turning to operating profit on Page 5. Then if you look at the development in the 4 segments in P&C, the higher levels of claims and expenses than in Q3, apart from the fact that in Q3 2007 was 94% combined. We are exactly on target level for the quarter.

The banking result, again, is somewhat impacted by valuation effects from the financial market turbulence, which I will explain in more detail later on. These shortfalls have been made up -- almost made up on a year-on-year basis by significant improvements in our Life/Health segment in the Asset Management operations and last but not least, by significant expense reductions and some higher revenues in the corporate segment.

Nonoperating profit, Page 6, is 90 million euros plus in the quarter. I think there is some line item movements worth mentioning. A, if we look at realized gains and losses then you can see what I have told you in the second quarter already that there is no exception on harvesting to be expected. To the contrary, we have used also the favorable net income position to restructure our fixed income securities portfolio and realize some-200 million euros gains in order to position that better going forward. And probably, we will continue to do so in the first quarter depending on interest rate movements and developments.

Equity gearing is now down to 0.68, which is mainly a consequence of the major harvesting program in the first quarter. And final comment on interest expense, still 80 million euros higher than in 2006. And as in August, the explanation is that this stems from the AGF bridge financing, which is supposed to be terminated in this first half of 2008.

With that, I think we can move on to Page 8. Net income, 21% increase. And let me just comment quickly on the tax number. We have a 120 million euros one-off tax benefit, which is through to the tax reform in Germany, where as you know, we will have lower rates starting in 2008 what we needed already in Q3 to reevaluate our deferred tax assets and liabilities. That has different impact on the 4 segments and there was already some questions this morning and maybe some confusion.

Just in the sake of full transparency to give you the breakdown, we had about 500 million euros positive impact on the P&C side. That was compensated by a minus 180 million euros on the banking side and 200 million euros on the corporate side. Now why is this number negative in Banking and Corporate? That is basically due to the fact that there are different tax assets, due to tax loss carry forwards. And obviously, with the lower tax rates going forward, those tax losses carry lower value and that is exactly what is reflected by this negative numbers.

And you see what I've already mentioned that minorities are going down significantly, that is due to our investment in AGF and RAS minorities. And again, reiterates at that point in time that the overall impact from those transaction is positive and EPS accretive.

Let's move on to equity. On shareholders' equity, that has decreased by 1.4 billion euros since the end of 2006 but it is up 600 million euros from the end of June. And what I've got from this morning's questions to Oliver and some of his colleagues, there is obviously some disappointment of that, that the number is only up 600 million euros. Frankly, that shouldn't have come as a surprise to you. Let me just try to explain.

We have a profit for the quarter of 1.9 million euros. The equity is up 600 million euros, so we are discussing a difference of 1.3 billion euros. That difference of 1.3 billion euros is explained by 700 million euros negative impact following the squeeze out of the remaining AGF minorities and 600 million euros of negative ForEx impact mainly the U.S. dollar. Now you would have expected that the unrealized gain position is probably increasing but there was 400 million euros of unrealized gains translated into realized gains. And therefore, retained earnings, and I think that should give you the full transparency on the development on the equity side.

If we look for a second on what is the implications in terms of solvency ratio, then at the end of September 2007, our solvency ratio is at 162%. It was 170% at the end of June. And there's basically 2 reasons for this decrease of 8 percentage points. A, 4 percentage points are due to the squeeze out of the remaining AGF minorities, what I have just mentioned. And then other 4% is due to the goodwill and intangible assets of a temporarily consolidated private equity investment, which we intend to deconsolidate, i.e. to syndicate and sell during the course of next year.

So in a more like-for-like perspective of midterm, the right number to look at is 166% rather 162%. Having said all this, I think with this kind of solvency ratios, you should not expect that there's any change in terms of capital management to what we have calculated in our previous discussions, to what we have communicated -- sorry, in our previous discussions and what Michael has communicated at the Merrill Lynch Conference.

Now with that, I would like to move on to P&C but first take a second of a pause. So sorry for that. P&C, starting out operating profit, 1.5 billion euros. The result is in line with our 94% combined ratio target. Nevertheless, it's 14% down compared on a year-on-year comparison, where in 2006, as you might remember, we had a combined ratio of 90.2%, which was really exceptional.

And you see the immediate impact, if you look at the development of the operating profit drivers, underwriting result is down by 328 million euros. That is a consequence, if you look at the underlying levels of the combined ratio, that is a consequence of much higher NatCat claims. We have 172 million euros higher NatCats in '07 than in '06. And secondly, our expense ratio is up by 1.6 percentage points on a quarterly basis. However, the raw numbers hides, as I will explain in a second, that we have already achieved some progress to manage that expenses down going forward.

You see also that investment income is up. That is in line with previous quarters. We simply have higher run rate than a higher yield on our assets under management.

Moving on to growth. We have a pretty consistent internal growth of around about 2% over the last quarter, which is very much in line in our risk appetite in order to maintain superior profitability and a superior combined ratio. The difference between total and external and internal growth is explained by the acquisition of the Russian insurance companies, that's about 200 million euros contribution to top line and the negative impact of the U.S. dollar.

With our selective underwriting, we were also able, as announced, to limit the impact of soft markets in some countries. The overall impact of pricing on our portfolio was minus 0.8%, again, in line with expectations.

If you look at the major markets on the left-hand side in Continental Europe, Germany, France and Italy, you see a slight reduction of the premium gross, which is largely driven by the development on the motor side. Yet having said this, motor in total group but the premium growth is at 1.2%.

Now let's move on Page 13, combined ratio. If we look at the numbers on the right-hand side, you see for the quarter, we've been at 94.1%. Year-to-date, we are at 94.6%. So we are 66.5% loss ratio and 28.1%, expense ratio.

For the full year, I'm still confident that we will get closer to our target of 94%, even though this will be a tough race considering, for example, the recent wildfires in California, and we don't know what's going to happen with floods and storms, which are obviously, approaching this morning the coast of Germany and the Netherlands, that remains to be seen.

If you look at the OEs and the various countries, then there is clearly 3 countries where we see an exceptional increase in the combined ratio. Allianz U.K., Allianz Switzerland and HSCS, the impact is explained on the NatCat side. In Australia, there is another increase of roughly 10 percentage points that has to do something that we have booked to serve runoffs in the third quarter in 2006 where the actuaries of this year are not yet fully through with the exercise. That piece of runoff, which was 7% last year is missing at that point in time. And we still have or what we see is some softening prices in the motor market in Australia.

Now with that, let's look a little bit closer to the loss ratio on Page 14. If we start out on the upper left-hand side, then you see that our accident year loss ratio is 69%, slightly below the average, the 9 months -- the 9-quarter rolling average. So that is pretty much in line with the longer-term expectation and does not indicate any kind of significant trend.

If you were to look more closely behind the numbers, then in fact, you see that the accident year loss ratio was out NatCat, has gone down over the course of the quarters from something like 67.8% to 67.1% in Q3.

And with 66.7% accident year loss ratio, we are even below that longer-term average. So that is a pretty solid development. We see on the other side that NatCat is slightly increasing over the 2% at that point in time, I would not see this yet as a stable indication, but something we are clearly, watching.

And to give you the number year-to-date, we have NatCat exposure of slightly in excess of 700 million euros. The Californian wildfires are not yet included in that obviously because that started at the end of October. And there's a number of events, it starts with Kyrill in January where have roughly 350 million euros net. And then we all have kinds of things like floods in Jakarta, tornadoes in Kansas. We have the storms here in Germany around May. We have thunderstorms, the U.K. floods in June and July. We have the cyclone Gonu and we have some other July storms around here all around the world. This is all events in the order of magnitude of 50 million euros. But obviously, it's up to a very significant amount over time.

Runoff, I think, is more or less within a normal range and what you should have expected though there is nothing specifically to comment on.

Then let's talk about expenses on Page 15. I've done this slide on a year-to-date basis because I think it gives the better indication for the underlying trends. So if we look on the left-hand side, then first you see that acquisition expenses have moved up by roughly 400 million euros to 340 millions euros or from 16.2% to 17%. There's a couple of issues for this. A, with the approaches or the acquisition of the Russian insurance companies, they are all running at a higher acquisition ratio, acquisition expense ratio than we have a shift in our business in the sense that high-commission business like credit and travel and assistance is growing more strongly than the mainstream P&C business. And the third one is that we have different accounting for our Schemes business in the U.K., where we do account the schemes business now differently that it's not accounted for on a netted basis but the commissions are reported separately and that was a major impact. So I think that explains basically the development of the acquisition expenses.

There is no increase in acquisition expenses in our major P&C businesses apart from what I have just explained. From my point of view, important of course, the development of admin expenses to look at them and we see in absolute numbers an increase of 100 million euros. Now I'm not trying to make a big case out of that, but just explain to you why that is and what is the impact for the underlying run rate.

We are following some structural changes, acquisitions, change in other businesses like on the credit side and the travel side, which have general higher administration expenses. We invested around 80 billion euros more in 2007 than in 2006.

In our group initiatives that the main part of this is integration process in Italy, which are not shown as restructuring expenses, but as part of normal administration expenses plus what has been on our group initiatives, like sustainability, customer focus and operational transformation process. So if you take that into consideration, then the numbers tell you that on a "normal basis," our run rate has decreased for the 9 months by 100 million euros and that shows some first-hand indication that all our efforts are going into the right direction.

Now I think I can skip Page 16. As I have told you the main drivers of the improvement of the investment income in PC. Anyhow, let's turn to Page 18 slide. There is a strong increase in operating profit of more than 40% to 873 million euros. Our operating margin has clearly increased. That has helped by a reserve release in Korea, which we have put up in the years 2003 and 2004 for potential adverse development and there are shortcomings in our actuarial systems, we're following the good performance our colleagues had in Korea over the last 3 or 4 years. This reserve turned out to be no longer necessary. And therefore, we released it into operating profit in the third quarter. Even adjusting for this 170 million euros, we would have seen an increase of still in the order of magnitude of 15% or 16% in our Life business.

If you look at the profit sources on the right-hand side, then you see a huge increase in the technical margin. That is obviously largely driven by the just mentioned reserve release in Korea.

Investments or investment result is still the main contributor to our operating profit in Life, more or less or almost flat over previous year. And you see a major improvement on the expense margin. And the main driver among many other reasons, the main driver behind that is that due to the fact that our asset base in unit-linked business is growing very strongly. We are obviously, collecting more fees year-over-year and those fees are included in the expense margin.

Now going to the revenue development. With 6% growth, 6.2% internal growth after 2 quarters was rather disappointing numbers. We have succeeded in reversing the trend and are back to a rather decent growth rate. If you look a little bit deeper behind this, then you will see that the recurring premiums grew by 26.2% while single premiums decreased by 6.7%.

Italy, is again, a very strong performer with nearly 18%, well above market 6%. And what is really, what I'm pleased to report is that all our 3 channels, banking, agents, as well as financial advisors are clearly, outperforming the market. What I'm very pleased about is that if you look at the numbers in Asia-Pacific, with 61% growth, this Asia-Pacific is becoming a real growth agent following what the details and all the background information we have given you in our Capital Markets Day. I think this is a nice confirmation to the details and the messages we have delivered at the Capital Market Day. And this increase is contribution -- main contributors to that are China, Korea and Taiwan. This number clearly, does not even include our nonconsolidated operations in India and Thailand, where India has already exceeded the 1 billion euros mark in the first 3 quarters, which I think is a stunning success.

Now let's look for a second, on gross from a different angle and what I think on a more meaningful angle perspective. Our present value in new business premiums is up by 12.6% and that clearly, reflects, that better reflect the fact that our recurring premiums have grown very, very strongly. But also, our assets under management are growing by 5%. And obviously, as we have just seen that investment result is the main contributor to operating profit, this should give you some confidence and reinforce that we have, we are well positioned to grow our operating profit in Life further down the road.

Now I'll spend a second on the development in the United States. I can just reiterate what I have said last quarter. We have done our homework. What is still holding back the development of our top line is really the ongoing litigation issues in connection with the sale of annuity products to elderly people. They are kind of, I shouldn't say, a roadblock, but it is difficult with the litigation pending to get additional shelf space in the warehouses and bankings. And also, we are in very good negotiations with them, and I would expect that as soon as litigation is behind us, that we will see a major momentum in that business. But having said this, don't get me wrong, if you look at variable annuity alone then Allianz Life has grown by 11% while the market is down by 4%. So it's not that we are doing a bad job in variable annuities, we just think we can do better once litigation is behind us.

When it comes to litigation, there is some positive development as the lawsuit filed by the Minnesota Attorney General was settled in October. Negotiations with the Californian DOI are in the final stage and we are optimistic to get this one resolved in a foreseeable timeframe as well. And one of the class actions, the so-called Castello case is close to settlement. The settlement terms are agreed by the parties and preliminary approved by court. The hearing for the final approval is scheduled for November 19. And if that goes as we think, that should give us already some better positioning for 2006.

Having said this, you know that we have revised down our top line growth from US $11 billion to US $10 billion. Year-to-date, we are at $6.9 billion, and it's going to be pretty tough to get to the $10 billion by year end. We are still striving for that but this is not going to be an easy exercise.

Operating profit has developed very nicely in Q3 and we think we will end up the year certainly above the estimated US $550 million, all things being equal. And you should also hear the conformed and if you look at the development of the operating asset base with a steady growth at a 2-year CAGR of 12.9% that this is providing a solid base for further developing and improvement in the operating profit.

Again, I think I'm not going to go into the details on Page 22. I think that is pretty much self explaining. And then let's move on to the bank.

I think it's trivial to say that the banking industry is experiencing a very significant financial markets turbulence. Nevertheless, we are still reporting operating positive operating result in the third quarter. For Dresdner, it is 86 million euros. Of course, we are impacted significantly by the market turbulences as well. But this is mainly limited to valuation effect in the credit-related product lines of the investment bank, whereas, all other product lines are performing in line or in better than expectations.

And if you look back for a second and look at the 9-months year-to-date profit, then this is right now at 1.2 billion euros compared to 1.16 billion euros for 2006, albeit a slight increase of roughly 2% or 2.5% over 2006.

If you look at the profit drivers, it is clearly shown that the main downward impact is from the development in the operating revenues. That is somewhat compensated by much lower operating expenses. Obviously, the main, the bulk light of this improvement is bonuses because they go down with lower trading revenues as well. Of this, 150 million euros, I think around 140 million euros is lower bonuses. We have higher loan loss provisions than in the previous year but still on a pretty low level.

Now if we look at the revenues, I think this just confirms of what I have just said. Net interest income and net fee and commission income is up. But there is a significant downturn in that dealing income, which has now earned a negative 196 million euros.

And now I think this is the right time to really look at the relevant exposures and their impact on our P&L, which I will try like to do on the next 2 slides.

Turning to Page 26. And what we have listed here is to show that the financial turbulences have fit us in 3 areas, whilst our ABS trading book shows the biggest valuation effect was minus 350 million euros in the quarter. Please bear in mind that we are talking here about trading activities, which means that the gross number, in terms of exposure of 18 billion euros doesn't tell you much about the riskiness of the business and potential P&L impact. Accordingly, we have given you the net numbers here as well our net exposure, ABS trading book is down to 7.9 billion euros at the end of the third quarter.

Second area is the area of LBO commitments. We made an in-depth analysis of our LBO commitments and came up with necessary provisions of around about 30 million euros. One worth to the increase in exposure and that is due to the new commitments in the third quarter. Obviously, we are not stopped doing business. We look very carefully. And if the terms and conditions are attractive, we are certainly also further committed to underwrite new business, in particular. And it is the case in all new commitments when we have the ability to really adopt the terms and conditions to whatever changes we observe in the market. Having said this, what I'm trying to say, all commitments here are without any covenant Life terms and conditions. So we are doing pretty well positioned here. Finally, we have to observe the effect that widening spreads spilled over to other market segments in a variety of ways too. The 195 million euros hit to P&L include net defects from revaluations of credit default swaps and from the valuation of partly and imperfectly hedged positions. There is also effects of correlation trading. We suffered a lot from the unexpected move to the credit side and obviously, all those correlation books and models are built for regularly or normally functioning markets. And they do show some strange results once you have really dislocations in the market and that is exactly what happened here. In addition to that, the effect of necessary reserve strengthening for counter-party risks is also shown here. That adds all up to the 195 million euros. And in total to 575 million euros.

Let me make one remark here regarding the valuation principle because that is obviously what people are discussing back and forth. Basically, our principle, we speak to our principles. We have daily valuation using actual market prices and parameters. We do follow a very strict process. The price is set by the front office. It's verified independently by finance and risk. And needless to say, it's being also reviewed by KPMG.

Now given the current situation as we all know, that is only a little observable marks out there as cash markets became illiquid. So what we've done instead is to use all supplementary information from other observable transactions, such as derivative markets, indices, also expert assessments.

Now what we did in addition to that was also to look at the underlying cash flows of those synthetic instruments. And if even so, this is probably not what you would view as mark-to-market adjustment, but if those based on those cash flows, we came out with lower values. We took the higher depreciation of those positions.

So having said this, I think, I believe I'm very comfortable about the numbers and the valuations and write downs we have taken. But let's be clear, there is of course, some degree of judgment involved in this whole valuation exercise as there is simply only a few securities you can really plain vanilla evaluate according to Level 1 SEC guidelines, most of that today and our valuation is Level 2. And therefore, judgment is involved.

What I would like to stress here is, we do apply all those principles very consistently. We stick to our intent. So that is to say, we have not moved trading positions to the banking book. Even so, this might be a question of anyhow. But to state the obvious, I think it's important in the context. And what I have just learned recently from the newspapers where people are talking about future terms, we have not set up any kind of transactions of cross transactions with other institutions, where we set favorable prices for each other.

So long story short, while there might be judgment involved, we do believe that this is a very fair and adequate valuation end of September that was also done in light of the developments of October where the indices further weakened.

And if I might translate this into insurance language, I would use the term that you already know, we applied a principle where we come out was values which are most of best estimate.

Now let's talk a little bit about the trading exposure and the ABS trading book on Page 27. You see the breakdown by structure and the breakdown by rating on these slides. 99% of this net exposure is investment grade, 87% is AAA rated. That AAA rated part includes 5.4 billion euros of super seniors and you see the allocation through the different pockets on the lower left-hand side of this slide. I do know that there is a lot of discussion out there about super seniors. What I do not know is, which kind of definitions are being used for super seniors by all our competitors in the market.

What I do know is that, if you want to understand the riskiness of super seniors, you should look at the underlying asset pools. And in our super senior exposure, we do not have mezzanine super senior tranches. When you look through the pools of underlying assets, then more than 93% belongs into the AAA and AA high-grade category that should have a rather low evolved probability.

Now our net exposure, including our subprime. Our subprime exposure, including super senior is 2 billion euros by the end of September. Now there was also obviously some question out there or concerns what's about rating downgrades and how many positions, et cetera. In this 7.9 billion euros, we have 488 positions, long and short. 51 positions of that have been downgraded. And the net effect of that might come as a surprise to you, the net effect was positive for 250 million euros notional exposure as this was really on short position, where we benefit in our overall setup.

Now with that, maybe I can conclude the rest of the banking with 2 or 3 quick comments on the cost income ratio on Page 28. Cost income ratio for the quarter is 91.1%, obviously, very, very high. But to be explained by this 575 million euros, which basically went straight to the revenue line.

But if you look at the year-to-date numbers, 74.7 million euros that still indicate some significant improvement and gives us a lot of comfort that we are still on the right track to achieve the 70% or below 70% cost income ratio target for the Banking segment.

Now on the loan loss provision, Page 29. I think there's not a lot should be discussed, still unreasonably low levels was still very consistent in high-coverage ratio.

To conclude the banking section, let me draw your attention on Page 30 to the issue of capitalization. What you can see in that kind of underlies, what I have said earlier, when I talked about the valuation, the development of risk weighted asset is very stable in our book. The fact that the Tier 1 capital ratio has come down to 9.5%. That is not based on actual result development, but is owed to the fact that Dresdner has made a share buyback of 1.1 billion euros, or to put it more simple repaid or repatriated 1.1 billion euros of capital to its parent company, which was highly welcome, obviously, what was 9.5%, we have still a level of capitalization, which is well above of competition, which also would give us a lot of flexibility going forward to pick up opportunities as they come along or to deal with unforeseen difficulties in the market.

The same goes, that's not indicated on the slide, the same goes for liquidity. We have put from a risk management point of view, we have taken a fairly conservative stance. We have increased our liquidity reserves and are very comfortably positioned. So that even if some liquidity lines advance, we are not going to end up with any kind of difficulties in that area.

So my key takeaways from the banking sector would be, yes, there is subprime exposure worth 2 billion euros, given the size of our portfolio of more than 1,000 billion euros of assets under management that is certainly low and the quality of the underlying asset pools is very good.

Year-to-date, our operating profit is 1.2 billion euros, 2.8%, up from last year and also the investment bank was 230 million euros is contributing positively, despite the hit from the credit crisis.

Regardless from this credit crisis, we stick to our operating profit target, as well as to the net income target. And I couldn't resist the temptation really to give you this final, this number in the final bullet point. Its 575 billion euros from the credit crisis, net of bonuses and net of taxes is less than 1 euro market price per share.

Now you made your own calculation how much our market price was down or has been down since end of June. To close that up, finally, Asset Management, profits grew on a FX adjusted basis by nearly 19% and total growth is still at a very satisfying 12.2%. Operating profit up to 330 million euros. Apart from the very difficult markets you can generally observe in the asset management arena anyhow the kind of guarantee for our stable development, our strong profit development is really that we have a very solid and growing asset base, which generates the necessary fees and ongoing discipline in expense management, which results in a further decrease of cost income ratio to 58.9%.

If you look at the fixed income performance, has come back in the third quarter, mainly driven by a superior performance of the PIMCO total return funds, where PIMCO has early on took a position in high-quality securities, which has nicely paid off in the third quarter. Nevertheless, what we observed is that, we had some strong outflows of 7 billion euros not at PIMCO. PIMCO is more or less flat. This goes to all our European, Continental European Asset Management operations where the sentiment in the markets was very risk diverse and people really was drawn and had drawn money from fixed income, as well as equity funds and put it into money market funds or even into cash accounts.

Net flows have come back in October. We started nicely in particular in Germany, where we have positive net flows of 1.5 billion euros and for the overall operations of roughly 2 billion euros.

Asset Management, you see that we have consistent improvement in performance. We are now in significantly above our target out-performance ratio of 70% asset under management. Again, third quarter that was also penalized by the overall market development we have discussed over and over in that presentation. Final slide, development of assets under management gives you on the left-hand side a breakdown of the development from end of '06 to '07, where we are year-to-date on an internal growth of 7.1%. And on the right-hand side and this is just because we have a target out there, where we say, we want to grow our assets on stable FX ratios or rates by 10%. And you see that over the past 24 months, our CAGR on FX are trusted was about 10.7%. Therefore, in line with our long-term and mid-term target. To sum it up, all I have to say is really, we have demonstrated that also challenging market, we can come forward with robust earnings and we are on track to achieve our targets. So with that, the floor is open for your questions.

Question and Answer

Operator

We will take our first question, and it comes from Marc Thiele from UBS.

Marc Thiele
UBS Investment Bank, Research Division

I have 2 quick questions and a longer one. Let's start with the quick questions. The U.S. combined ratio has deteriorated quarter-on-quarter and year-on-year. Has that to do with the pricing pressure? The second question is regarding Page 30, the Tier 1 ratio that you give us there. Can you remind us what's the tangible Tier 1 ratio? Was that 2 percentage points lower? And I thought there was still 1 billion euros sort of excess capital there. Do you want to keep it in the bank for the moment as a result of the market turmoil? Or can we expect that to be upstream to the parent company, say, next year? The third question is then regarding for the investments in the bank. Can you give a percentage of how much is mark-to-market versus how much is marked to model? I'm not quite certain I understood what you were trying to explain there. Some guides on the percentages would be helpful. And can you also give us a split, how much is fixed and how much is floating? And then finally, can you give us an update on the conduits, the volume that you have outstanding and what would be the impact on Tier 1 ratio if you would bring that on risk-weighted assets?

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

Okay. The U.S. combined ratio is up for the fourth quarter where we have an uptick of around 4 percentage points. That is mainly driven by the fact that the first quarter -- sorry, the third quarter is the crop seasons. We write a lot of crop insurance. Crop insurance is running at a higher combined ratio at significantly higher combined ratio than the rest of the business. That explains to a large extent the development in Q3. We do have a slight increase in our expense ratio that is the main explanation for the year-to-date increase of the combined ratio. That has something to do, that in the expenses where I have been consistently fighting with my own experts. But they told me that it needs to be in the expense ratio. There is some settlement expenses with the DOI in California and the expenses for some weather derivatives, where I have thought this is either revenues or losses. But the experts told me, its expenses. So Tier 1 ratio, do we want to keep the excess capital in the bank? No, we want to repatriate the excess capital to the parent company. But for the next couple of months, we simply want to view what is the development in the markets in order not to jump back and forth but in case it is necessary. Marc, frankly, what I have not understood is what do you mean by tangible Tier 1 ratio?

Marc Thiele
UBS Investment Bank, Research Division

I thought the bank has an element of intangible sort of in the Tier 1 ratio. I understood there was a 2 percentage points difference.

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

No, no. The Tier 1 ratio, that's a fixed Tier 1 ratio based on IFRS consolidated accounts.

Marc Thiele
UBS Investment Bank, Research Division

Yes, but there is probably sort of intangible element in there if you just look at the pure equity element.

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

I'm not aware of any of that. But if you want, let's follow that up off-line because that seems to be a more highly technical issue. Now coming back to your third question, the longer one. In terms of what percentage is mark-to-market and what percentage is mark-to-model. This was what I tried to explain was Level 1 and Level 2. Level 1 is mark-to-market. Level 2 is valuation based on observable market basis and Level 3 is mark-to-model. I can't give you very precise numbers yet because we haven't worked it through but we're going to prepare this for the next quarter. To cut the long story short, on the banking side, mark-to-market or the bulk part of the valuation is Level 2, where the valuation is based off observable market datas. We have basically no mark-to-model approach. And we have also, on the other side, we have only maybe in the 5 to 10 range mark-to-market valuation. On the insurance side, where we have and that is I forgot to mention this, but there is really nothing exciting to report. You'll find in your handouts in the back of, on Page 55, you'll find the ABS exposure for the insurance operations. In the insurance operations, there's around 95% is mark-to-market and 5% is Level 2, where we used observable market datas. Fixed versus floating, I have Klaus Rosenfeld next to me. I haven't a good number at of the top of my head. But Oliver, why don't you come back with that one.

Oliver Schmidt
Head of Investor Relations

Conduits, we have mainly 2 conduits out there that is Silver Tower and [indiscernible]. As you know, this is what we have receivables of our customers. We have for IFRS purposes, those conduits are consolidated so we have all the assets on our books. They are only deconsolidated for regulatory purposes. Now we have given a liquidity line to those conduits, we are talking in the order of magnitude of say, 13 billion euros. Of those 13 billion euros, only roughly 1 billion euros or 1.4 billion euros are drawn. So what would be the impact if more of those liquidity lines are being drawn? From on IFRS point of view, P&L impact exposure, 0. Because again, it's fully consolidated. The only difference is it would increase the level of risk-weighted assets. But as I have tried to tell you during the presentation, we have in terms of capitalization and liquidity, we have all the flexibility in the world.

Operator

We will now move to our next question from Spencer Horgan of Deutsche Bank.

Spencer Horgan
Deutsche Bank AG, Research Division

Just a couple of things -- I mean, firstly, on investment banking generally, I guess it's quite good news that everything's quite contained. But it does sort of re-raise the question of why investment banking business is something really that Allianz should be doing. So I wonder if you could remind us what the strategic rationale here is. And is it a high conviction strategic rationale or a low conviction strategic rationale? And then from a technical perspective, could you explain if there are any kind of legal or structural hurdles to you segregating the corporate investment bank from the rest of Dresdner, for example, if you ever did want to dispose of it? And then the third thing is with ICBC, and I suppose this is kind of a more positive turn, obviously. The value of the stake in ICBC has gone up quite substantially, especially since the end of the third quarter. At what point do you worry that, that could become a sort of concentration risk? And is there anything you could do about it at that point if it did become a concentration risk?

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

Thanks for your question, Spencer. Your first question, why should Allianz really be doing investment banking? We have this discussion over and over again. We said -- we think it's not an unnatural thing for a financial services provider to have an investment banking operation part of the overall setup as long as it is profitable. Obviously, I think what we are doing right now is we really -- as that is ongoing test of the management, we are clearly checking and looking at what are the operational consequences following that whole credit crisis because surely going forward, the markets for investment banking will be different than they are today. And we need to ask ourselves what kind of adjustment to the business model of investment banking are necessary in order to have a sustainable, profitable setup. But let me make one thing also clear. And maybe I can take an analogy. If tomorrow there's a windstorm howling over Europe and we are losing 600 million euros or 700 million euros, we are not asking or questioning our strategy. We are questioning have we had the right risk appetite and have our models worked. And in terms of risk management, I think that everything worked along the lines. We have pre-determined what this kind of crisis, which sometimes coming up. I mean, they are part of being in the business. Please don't get me wrong. I'm not trying to argue the 575 million euros now. I'm all but happy about these numbers and the development. But that is where we are. And as soon as we have made our decision here what is the setup in investment banking going forward, what operational changes are necessary, we will come back and communicate to you. But are there legal or structural hurdles of segregating the investment bank? I think structural hurdles in a sense that there is, at that point in time, is no separate legal entity. That is something which you -- if you want to, you needed to work on. Legal ramifications at that point in time out of the top of my head at the best of my knowledge, no, are not. You always might look at some tax implications in those kinds of restructuring, which could cost you some money. But basically, there's no, or would be in theory, no major obstacle. Coming to ICBC, yes, we are very pleased with the development. You know that there is -- and it could become a concentration risk, of course, given the size of the investment. I cannot give you the details. But what I can do, what I can tell you is that we have placed some hedges here in order to lock in the nice profits we have already made.

Spencer Horgan
Deutsche Bank AG, Research Division

Okay. I mean, I take the point about the windstorm. But I guess investment banking is kind of a little bit on the periphery of everything else you do, isn't it? I mean...

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

That's true.

Spencer Horgan
Deutsche Bank AG, Research Division

Okay.

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

I'm not arguing with that.

Operator

Our next question comes from Michael Huttner from JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

I had 3 questions, dividend, cost and a little bit on subprime. On the dividend, you said there are no capital announcements, which is what I kind of assumed and heard. But given that the earnings are developing and you look to be on track and you have made this commitment for financial year 2008 of a kind of in-line payout, would you maintain the payout at the level of '06? Or would you start looking to move to '08? The reason I ask is that the market's assuming in the derivatives at the moment that you're going to give up the dividend because you're worried about the capital. What I heard from what you were saying about the 162% and the 166% is it's not a pressing issue, so maybe some comfort here. On the cost cuts, 100 million euros improvement in run rate to me sounds low. I mean, I remember in -- when the presentation, the full year presentation in March when you very kindly listed all the various initiatives. And I got dizzy. The number's not quite big. I'm not sure whether we're getting to 2 billion euros or 3 billion euros. But there's a lot of cost cut initiatives running in the group through 2009. And to be -- in third quarter of '08, sorry, 9 months of '08, which sort of made an improvement. Could you possibly give a timeline to when we would see a bigger chunk of these developing? Or does it all happen at the last minute on December 31, 2009? And then on the subprime, I was listening intently. But I guess I didn't quite catch it where you said north of conservative. Was that north of conservative relative to the various indices, like ABX or stuff at the end of September, where the ABX, certainly for AAA, looked with hindsight benign? Or is it relative to what the ABX has been now? The ABX is on some levels at 70%. It was at 95% at the end of September. Those are my 3 questions.

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

Okay, the first one is a pretty easy one. The answer to that is yes. We are moving to the 2008 level. And I hope that answers your question, right? So to put this in more general terms, we think that with our current level of capitalization we are very much in line how we are managing the business. And that gives us going forward then also the flexibility to continue with the increase of our payout as has been communicated by, Michael, all the time now. Then the terms of cost cut, yes, I'm with you. The 100 million euros is not very impressive. I'm not in every instances satisfied with the progress we've made. Let me just make 2 remarks on that one. There's always -- you mentioned 2 billion euros to 3 billion euros. We've never said 2 billion euros to 3 billion euros in any kind of communication. And there's very often confusion between the implications or the impact from sustainability and cost cutting. Sustainability is not all about cost cutting. Very much of that is more than 50% of sustainability is really to keep our loss ratio under control. And I think we have managed that very well. And we still have, if you compare this around the world, a very competitive and favorable loss ratio. Now nevertheless, there is expense savings to come through from sustainability as well, and in addition to that from the operational transformation program that -- but that has only started in 2007 and will have a ramp-up phase. We are on track with our headcount reduction in the German P&C operation. That should show first impacts in 2008. For Dresdner, our main point of the headcount reduction will also show impact in 2008. So having said this, while we have a ramp-up phase, where you see further improvements every other year, it's not everything going to be at the -- at December 31, 2009, but hopefully a reasonable development up to then. Now on the subprime stuff, when I said north of best estimate, what I would like -- the comment I would like to make that we have tried to apply a policy here as well as we do on the reserving side and the insurance side to give the benefit for the doubt. And if things are questionable and there's no clearly observable mark to rather take a more conservative pick than more a best estimate pack -- pick. When you specifically ask for the ABX, and now we can enter into a long discussion. Allow me 2 remarks and one indication to -- that you can justify our year and our September valuations. I mean, the ABX is one of the indices, obviously, we are taking into consideration. The ABX, what one has to understand is, A, that today this is purely synthetic index on futures because there is no cash market, number one. Number 2, it's almost entirely subprime related. And obviously, we have not only subprime exposure in our books, but in more simple terms, if you compare our -- if we had used the ABX at the end of September, we would have come up with a lower number of mark-to-market adjustments as we've just reported. Is that okay, Michael?

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

I was hoping that you'd give us a number for October as well.

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

Yes, the answer is no. So Mike, I mean, just coming back -- and I think you can make your homework pretty easy. What I've said at the very beginning is that our forecast and the affirmation of our forecast, let's take into consideration some further write-offs or mark-to-market adjustments on that ABS portfolio as well. Now if you take a normal course of first quarter into consideration and you take into consideration that the level of profitability in 2007 is higher across all segments than it was in 2006, I think you can easily make up your own estimate or assessment what range for further adjustments or what is left for further adjustments here in this number. If I -- and I really -- I already hated to make this comment in 2000 -- in August. And I'm really sorry about this because whenever I put a number on the table here that has some indication or seems to be a very precise number and we all know that the markets are jumping back and forth here are very volatile, and a number isn't really worth the paper.

Operator

Our next question today comes from Michael Rohr from MainFirst Bank.

Michael Rohr
MainFirst Bank AG, Research Division

I'm sorry, I have to come back on the Dresdner Bank ABS exposure once again, maybe try and expect some more details there. You were talking about these 488 positions that you hold. And I understand that the net exposure you gave us includes both long and short positions. Just a question on that, the 250 million euros net effect that you were citing before, is that included as a positive number in your write-downs because you were a bit lucky and rightly positioned with the positions on the short side there? And if you can possibly give us the long and the short exposure of the ABS trading book and size. A second question would relate to the country split if you can at least give us the U.S. proportion in this ABS trading book and potentially, what is from the '06, '07 vintages of that. And the final question I'd have on the conduits -- and please tell me if I'm wrong here because I remember some press articles in the past talking about a conduit named K2 -- if there is any relation to Dresdner Bank, Allianz and potential liquidity lines, and if you can possibly give us the size of the conduits that you mentioned before.

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

Okay. Your first question, thank you for that because probably I made -- I didn't make myself sufficiently clear. I was not talking about 250 million euros net effect on P&L or on rating downgrades. I was talking about that 51 positions with a notional amount, nominal amount of 250 million euros has been downgraded. So the potential P&L effect of that is certainly only a very minor fraction of that. And so that is point number one. Point number 2, a country split, I do not have that available. And I really -- I mean, if you look at all the synthetic instruments, it's hard exercise to go into the details. And when we look at the stock, our primary focus is on the risk positions. This is how we are running the business. So I'm really not prepared to give you that split. I simply don't have it at that point in time. In terms of vintages, if you go to Page 27, obviously, on the right-hand side you see a breakdown. The warehouses of 3 billion euros, that is, of course, given the nature of warehousing, that is, more or less, is a vintage year 2007. The rest of that is more or less 2006 and earlier. K2 is not really a conduit. K2 is a special investment fund which Dresdner is managing for institutional investors. So...

Michael Rohr
MainFirst Bank AG, Research Division

So it's a kind of custody. Or how should I understand that?

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

No, we are manager. This is like Asset Management business, like fund management business. It's just a closed end fund. And Dresdner's managing that on behalf of institutional investors or more sloppy, for the big boys. So there is really no commitment or risk on our side. But while you mention the thing, and I know there's always some discussions out there. In terms of those shifts, there's always 2 things. One is the liquidity and one is the development of net asset value. In terms of liquidity, so far there is no issue at K2. They have managed to sell down over the last 4 or 5 weeks more than or close to USD $10 billion. So that is working well. And those sell downs have been also down with only a very small haircut because what you should know is that K2 has only AAA assets and no subprime at all.

Michael Rohr
MainFirst Bank AG, Research Division

Okay. So how big is the size then as you've sold a lot of the exposure?

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

The remaining size of K2 is USD $25 billion, which is roundabout 15 billion euros.

Michael Rohr
MainFirst Bank AG, Research Division

All right. Okay. Fantastic. I think I'm done.

Operator

And I'll take our next question from William Hawkins from KBW.

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

Just again, sorry, picking up on the conduits, first of all, you mentioned 13 billion euros for those conduits. When I get back to the Dresdner accounts, there is mention of additional participations in asset-backed commercial paper transactions arranged by third parties. And I really just wanted to be very clear. The 13 billion euros that you've given us is for all forms of conduit rather than just those 3-part primary conduits that Dresdner's got. And within that also, I'm not much of an expert on this. But if I add the 13 billion euros to your risk-weighted assets that would take down your Tier 1 ratio by about one percentage point. I'm sure there's a number of reasons why you'd argue I shouldn't be doing that. But is that a reasonable order of magnitude as sort of the worst-case capital impact with regards to conduits exposure? Secondly, in your 7 billion euros of risk capital that is within -- that is allocated to Dresdner Bank, how much of that risk capital is allocated to the ABS trading that you've been discussing on Slide 27? And then finally, just to show that I don't think I'm a banks analyst completely, in Slide 19, I think it was -- yes, your deposits of 5.1 billion euros and 5.6 billion euros in the past 2 or 3 quarters. Can you just tell me what the outflows are from that so I can work out what the net deposits are for your...

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

Sorry, what was your question again? That referred to the interim reports?

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

Yes, Slide 19 of this presentation. You've given us your deposits of 5.1 billion euros and 5.6 billion euros. Can you tell me what the outflows are so that I know what the net deposits are for that business?

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

I'm trying to pick up the last 2 questions, and Klaus Rosenfeld, who is sitting next to me, the first one. In terms of -- starting with your last question, William, I cannot give you right away the outflows for those deposits. What I can give you is if you look at on Slide 20 at the assets under management, on a year-to-date basis, the net inflows were 15.4 billion euros. And Oliver will come back to you and give you a detail in gross net -- gross inflows and gross outflows. But I don't have this number right with me. But again, net flows positive, net inflows 15 billion euros. On the risk-based capital, 7 billion euros, actually, it's only 6.5 billion euros on a fully diversified basis. How much is allocated to the 5 billion euros -- 7.9 billion euros of ABS trading book, I can't give you the right number. But out of the top, I would say very little because trading positions, that is covered by value-add risk and the necessary capital you need for this. And this, as you know, is very low, which is by the way, William, some -- an issue we have picked up. When I say, we, obviously, against all these developments, Klaus, Otto Steinmetz, myself and Thomas Nowman [ph] and Rod Singh [ph], the guys on my side, we had very intensive discussions, what do we learn out of this? Because it is certainly 2 things in general terms you have to look at in today's world. And I'm not talking about Dresdner here. But in today's world, it's pretty easy to get exposure off the books. And then you have no capital requirement for that. This is point number one. And the other point is, you can obviously manage your capital requirement while you're not putting assets on the banking book, but putting it on the trading book. And these are issues which we are currently to discuss very detailed in order to see what needs to be changed going forward. But with that, I'd like to hand it over to Klaus and answer your first question.

Klaus Rosenfeld
Dresdner Bank AG

The answer to the first question is that the total amount of backup line for conduits, both Dresdner conduits and other conduits is 14.5 billion euros.

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

Sorry, was that 14 billion euros?

Klaus Rosenfeld
Dresdner Bank AG

14.5 billion euros as of end of September and talked about -- mentioned the draw downs stood at 1.4 billion euros as of end of September.

Operator

Our next question will come from James Quin from Citigroup.

James B. Quin
Citigroup Inc, Research Division

First question, please, is on the difference between the gross ABS exposure of 18 billion euros and the net of 7.9 billion euros on Slide 26, I just wonder if you could give us some sense of what the difference is between the 2. Presumably, it's mainly hedging. But to what extent, I guess, is that hedging a sort of perfect hedge there being to one notable case of a bank having fully hedged its exposures and the hedging not being quite as effective as they thought it would be? And I guess just taking that further, is the 2 billion euros of subprime exposure, is that a number which is net of the hedging protection? And perhaps if you could give us the gross number there. The second question is just on Dresdner's operating performance. And I guess the -- I wonder if you could give us some sense of how much of the first half revenues and profits came from fixed income trading or ABS-type activities just to give us some sense of, I guess, what the damage to the business might be if those areas were to continue to be more troublesome through 2008. And I guess also, if there's a sort of a number you have in mind as how much of the profit if you to include things like SIV revenues and what have you, which might be looking less robust. Then the third question is really just on the numbers of super senior CDOs. On the 27th of July, that number was quantified at -- as 5.8 billion euros. And it's now 2.8 billion euros. Obviously, these things are never done perfectly. But is that just a case of essentially you getting better information because, I guess, it doesn't look particularly good from a risk management perspective to be having numbers moving around at that magnitude.

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

Okay. To your first question, the main difference between gross and net, obviously, is hedging. There's also some credit default swaps and credit enhancement by monolines to a minor extent. Do these things always work perfectly? Probably not always because that is the reason why we have also 195 million euros in spillover effect. And I mentioned specifically that we added to the reserves for counter-party defaults, and we had also increased the reserves for our correlation book. But in broad terms, the effect -- we are still very satisfied with the effectiveness of the hedges we have in place. The 2 billion euros subprime is a net number. What is the damage to the business of foreign exchange -- of fixed income trading and other things in the first half? I'm looking at Klaus but I think to give you an indication, what we are talking here is probably, including everything on a full year basis is a revenue pool of something like 300 million euros. And revenues from SIVs, conduits and all these things is maybe of that 300 million euros is maybe in the order of magnitude of 50 million euros. Super senior CDOs, the 5.8 billion euros to 2.8 billion euros at the end of September, basically 3 reasons why this exposure or this number has come down. A, there were some transactions. B, we finalized or placed some warehouses where we have still CDOs on our books, which are now off our books. And thirdly, yes, you're right. Obviously, the more analysis you do, you get a better quality number and that had also some impact.

James B. Quin
Citigroup Inc, Research Division

Okay. I mean, I guess, is there any chance you'd give us the gross exposure to subprime? I know you probably don't want to, but...

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

I mean, even if I prepared out of the top of my head, I don't have a number. And again, we are really looking at the net numbers here because that is what drives our risk and our P&L.

James B. Quin
Citigroup Inc, Research Division

Okay. All right.

Operator

Our next question will come from Nick Holmes from Lehman Brothers.

Nick Holmes
Lehman Brothers Holdings Inc., Research Division

Helmut, it's Nick.

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

I'm waiting desperately for an insurance question, Nick.

Nick Holmes
Lehman Brothers Holdings Inc., Research Division

Well, I will try to supply that, but I'm afraid after some ABS questions. I do apologize for that. Just very quickly, the 2 billion euros subprime, can you tell us where that is within the CDOs, CMBS and other ABS?

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

Yes, I can. Well, that is if we go to Page 27. When you have in the CDO and CLOs, there is about 1.3 billion euros subprime super senior exposure and 0.6 billion euros from other CDO subprime exposure. And then you have 0.1 billion euros in CMBS and RMBS.

Nick Holmes
Lehman Brothers Holdings Inc., Research Division

Great. And can you tell us the vintages?

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

Again, the vintages are -- of this, a good part is 2007 because that is related to the warehouses that is around -- they are close to 60%. That is 2007. And the rest is pretty much evenly spread over 2004 to 2006.

Nick Holmes
Lehman Brothers Holdings Inc., Research Division

Sorry, can you say that again? 60% is '07.

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

Right.

Nick Holmes
Lehman Brothers Holdings Inc., Research Division

And the rest is...

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

Evenly spread over 2004 to 2006.

Nick Holmes
Lehman Brothers Holdings Inc., Research Division

Right. Great. Then moving on to the super senior CDOs, you said there was no mezzanine. Can you tell us whether it's all therefore high grade, whether you have any CDO squared or funny stuff like that?

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

Well, that is, again, it's no mezzanine. It's all high grade. 93% is AAA and AA. And yes, there are some CDO squared. I can't give you even a good percentage out of that because that is not the main focus of our analysis. The main focus of our analysis is the underlying asset pools because that I think is ultimately gives you the right understanding of what is your risk exposure. And again, what I would like to repeat over and over again, we are not exposed to any kind of mezzanine asset pool.

Nick Holmes
Lehman Brothers Holdings Inc., Research Division

Right. But the CDO squared, you said you could quantify that?

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

I said I can't give you the number.

Nick Holmes
Lehman Brothers Holdings Inc., Research Division

You can't, sorry. Okay.

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

Because we are really looking and concentrating on the underlying asset pools.

Nick Holmes
Lehman Brothers Holdings Inc., Research Division

Okay. And then final question on ABS. How would you really say we should attempt to estimate ABS losses post Q3? I mean, you've sort of given us some indication. You'd said that you're more conservative than the ABX index, basically is what you said.

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

That was the result end of September, right?

Nick Holmes
Lehman Brothers Holdings Inc., Research Division

Yes. Are there any other indices we should be looking at other than ABX for the non-subprime elements of the ABS?

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

I mean, ABX obviously is the index we have in our focus. But there a few other index, like Price Quotes from Bloomberg and other things, which obviously go into our valuation.

Nick Holmes
Lehman Brothers Holdings Inc., Research Division

But you can't really -- I mean, I wouldn't expect you to be more specific? You can't be...

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

I'm almost pretty naked here. And we've disclosed more than everybody else, I think.

Nick Holmes
Lehman Brothers Holdings Inc., Research Division

Okay. That's great. And then, Helmut, to please you, I'll give you an insurance question.

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

An easy one, please.

Nick Holmes
Lehman Brothers Holdings Inc., Research Division

Very well. On -- I'm afraid U.S. Life -- but first one -- this is, I hope, easy, which is, can you explain why the operating profit in U.S. Life nearly doubled in Q3?

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

Yes, I guess the main reason is that we had -- in previous quarters, we had pretty strong impact from accounting volatility, which didn't show up, almost didn't show up in Q3. So that gives you kind of a picture of an undistorted profit contribution.

Nick Holmes
Lehman Brothers Holdings Inc., Research Division

But even with that, was it significantly higher? I mean, it nearly doubled, didn't it, versus previous quarter in any rate? And...

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

Yes, it did. But there's -- I should have -- maybe somebody has that available. There's also -- there is still some number included from the -- we sold our health operation in -- when was it? 2006. And that gain is deferred over a couple of quarters and is coming through.

Nick Holmes
Lehman Brothers Holdings Inc., Research Division

Okay. Okay. So do we know other particular aspects now that you would mention?

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

No, nonrecurring benefits or one-offs or what have you.

Nick Holmes
Lehman Brothers Holdings Inc., Research Division

Okay. Then final question is, again, on U.S. Life. Are you expecting to make any sort of provisions for the settlement of the Castello case? I think you mentioned a date when it was likely to be settled. And I forgotten what that was actually. I didn't quite catch what that was.

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

19th of November.

Nick Holmes
Lehman Brothers Holdings Inc., Research Division

And are you at liberty to say whether there's going to be any provision?

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

Let me put it this way. I do not think that out of the settlement we will have any material impact on our P&L in Q4.

Nick Holmes
Lehman Brothers Holdings Inc., Research Division

Fine. And then very lastly, the Mooney case, is there any update you can give us there, whether that's going to be settled? It sounds as though it's going to be settled next year rather than Q4.

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

I mean, we do not expect that it's going to be settled this year. It's rather going to be hopefully, if all things going well, in the first half of next year.

Nick Holmes
Lehman Brothers Holdings Inc., Research Division

Okay. That's great.

Operator

Our next question will come from Brian Shea from Merrill Lynch.

Brian Shea
BofA Merrill Lynch, Research Division

I have 2 questions please. I believe you -- I'm probably not using the right term for this. I believe you provide catastrophe protection for conduits in the case of a sudden downgrade. I just wondered if you could elaborate on that and say if the kind of protection you provide is the sort of stuff that would get triggered by the action that's been taken on a State Street conduit today. And secondly, you've reaffirmed your target for the '07 operating profit. Is there -- can you also reaffirm the 10% CAGR target going out to 2008 and 2009? It seems that some headwinds have built in the second half of the year in the bank that may -- will recur next year, and Life & Health in the third quarter benefited from a one-off. It seems that your target will be difficult to achieve in 2008. Can you comment on that, please?

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council

Okay. To your first question, conduits, the kind of case you mentioned from State Street and the downgrade today, this is exactly the kind of risk we are covering here with -- in this so-called cafe structures. Now what is the case? We do have a notional exposure here in the order of magnitude of 8 billion euros. But the underlying assets are all 97% of the underlying assets are still AAA or AA with the bulk part being AAA. Now the credit enhancement or the loss Dresdner is in the place and has some obligation here if overnight there's a rating downgrade from this AAA or AA assets to CCC. Today, again, all those underlying positions are AA or better. And the specific case being mentioned today in the context of State Street, we have no position in that or we do not insure, "disposition." So there's no implication from that one. I'm more than happy -- and thank you for the question because, obviously, I forgot this at the very beginning. We are not only reaffirming 2007 outlook. We are also reaffirming 2008 and 2009. Is it getting more difficult to achieve that? I mean, there is 2 comments from my point of view. One is when you judge the 2007 results and year-to-date operating profit, then I think there is 2 or 3 things to be taken into consideration. There is obviously the hit from this whole subprime crisis. There is year-to-date some-150 million euros more NatCat exposure than we normally expect, plus year-to-date based on FX rates, we have a hit in the order of magnitude of 200 million euros plus. So that is a pretty large number of extraordinaries we have covered mainly by regular performance of the overall operations. Now that makes us pretty comfortable. And that whole subprime-related or credit-related segments in the investment bank, as I've just said, that is probably a revenue pool of 300 million euros, 350 million euros mix. So that shouldn't have -- while this is a significant -- this is an issue that shouldn't have significant impact of the underlying profitability of all our other businesses going forward. Now the second remark you made with respect to the outlook for '08 and '09 is if there is something coming back from this mark-to-market adjustments. In the normal course of the business and in particular if we have a soft landing in the United States, I would say, yes. Because today or as of today, we are talking only about valuation adjustments and we have no single position where we really had a default. So if the market is coming back to normal and there is soft landing of the U.S. economy, there's a chance that a part of that is coming back. But it can't be also the case that, that credit crisis kind of eases its way into the real growth economy and that we get different growth rates and a different picture out there, which obviously will make life somewhat more difficult. But whenever you have a crisis out there in the financial services market, I think those institutes or corporations are likely to benefit, which have a solid financial strengths. And Allianz has very solid financial strengths. And therefore, we think we are well prepared and have a good chance to make our outlook and the promise for the next 2 years.

Brian Shea
BofA Merrill Lynch, Research Division

Okay. Very good.

Oliver Schmidt
Head of Investor Relations

All right. I guess this was a perfect final remark for this conference call. And I'm afraid we're running out of time. So we can't take further questions from now on, hopefully, understanding if there are any open issues, we are happy, of course, to deal with them after the call on the IR level. We'd like to say goodbye now and, yes, wish you a very pleasant weekend.

Helmut Perlet
Former Chairman of Supervisory Board and Member of Joint Advisory Council
Thank you very much.