Capital Markets Day - Munich

Company Participants

- Axel Theis
- Dieter Wemmer
- Douglas Michael Hodge
- Maximilian Zimmerer
- Oliver Bäte
- Oliver Schmidt
- Sergio Balbinot
- Unverified Participant

Other Participants

- Andrew J. Ritchie
- Farooq Hanif
- James A. Shuck
- Jon M. Hocking
- Michael I. Huttner
- Paul De'Ath
- Sandeep Bordia
- Thomas Seidl
- Vinit Malhotra
- William H. Elderkin

MANAGEMENT DISCUSSION SECTION

Oliver Schmidt {BIO 15891487 <GO>}

Yeah. Good morning to everybody here in the room and good morning to those who follow us online today. Welcome to cold but sunny Munich and welcome to our Capital Markets Day.

We have a full program today. So I'll keep it brief, just one short housekeeping remark. You have the agenda in front of you. Please note that we have two Q&A sessions today – one in the morning and one in the afternoon. My colleague, Doug Hodge, the CEO of PIMCO. He has to leave after the lunch break. So please focus your questions in the first Q&A session on the presentations we have in the morning and especially on PIMCO. All other presenters will be still available around during the second Q&A session. So then you can, of course, refer to all the other presentations in the second round.

That's already all from my side for now and without further ado, I hand over to our CEO, Oliver Bäte.

Oliver Bäte

Good morning. Good morning in the Allianz Auditorium. And I hope you had a good evening yesterday with us in the Blue Spa. It was really great to see you all and for you to meet all our colleagues.

It's also the first time we are holding an investor day here in our new facilities. So I hope you like them too. If you don't, let Oliver know, so we can further improve – life is about improvement, I will talk about.

In many ways, today is very different for Allianz and for our investors. Not just the format that we're doing it. You had a lot of exposure to senior management – in the past, we've typically had CEO, CFO, very few experts. You have full access today and yesterday to the vast majority of our management team. We also for the first time have the CEO of PIMCO with us. So you get the direct view on what is happening at PIMCO. That's the first. And it's also first in terms of how we are going to communicate to you. I know that many are concerned around returns on capital and how you think about valuation but our investors would like to give you a broader view on who we are because we are not a spreadsheet. We are also not just a capital producer and a return producer. We actually do society. A lot of people tend to figure that. And therefore we will today introduce what we are going to do over the next few years, starting with our three year plan and how are we going to balance adding value for our shareholders and adding value for society.

We have an agenda that basically starts with an overview that I am going to give you over the next 57, 47 seconds this machine tells me there. And then Sergio Balbinot is going to introduce the most important subject of the day in terms of long-term view, what are we going to do around customer centricity. Then Doug is going to talk about PIMCO. And then we'll have a break and Q&A. And we'll have an – sorry, we'll have Axel – I almost forgot that – on technical excellence in P&C.

Well, wonder why are we talking about it? We are already one of the strongest P&C players – places in the world. There's more to do. And then later we'll talk about life insurance, very important for Allianz given our balance sheet structure, very important for our society, too. And Max Zimmerer is going to give you all of the details how we are going to manage that business going forward. And Dieter Wemmer will sum it up at the end the day in terms of what this will do in terms of value creation for our shareholders.

Let me start. Allianz starts from a position of strength. And when we talk about strength, we talk about three pillars of strength. The first one is performance of course, but there are two other ones, that are very important for us and I think, that you should be also concerned about. The second is the health of the organization. Financials only give you a view about what we've achieved in the past, not about what is going to happen in the future and we need to have a careful balance, in terms of looking at the past financials and the strength for the future. And there is one thing, that is very important for us, as a financial institution, that's distress from our stakeholders, everybody talks about that in financial services – very few institutions like ours, do actually do have the trust from their clients, their regulators and hopefully also from our shareholders.

Let me quickly go through them. We had a sequence of record profits in the last two years. I'll show that to you. We're the world number one insurer; top asset manager. We've had solid TRS performance despite some severe shocks, and we are very happy with that, but there is upside and we'll talk about it. In terms of health, we're one of the strongest brands in the world. We have leading insurance and asset management skills. Wherever I go, we are invited to participate, when regulations is being set or people talk about the future of markets.

We have very loyal and motivated staff – I'll show you that – and that has been on the rise over the last decade. We've made recently some very strong progress on getting motivation of our people and we've worked very hard in the last few years to strengthen our business models. Michael spent a lot of time, making sure we get benefits out of global scale. It's now is time to harvest that.

Now internally you might find it more relevant than externally but we really pride ourselves for the values that we live by, and that is first and foremost around integrity. I think Allianz would really, really suffer not just externally but internally if something was to happen like you've been seeing recently in other institutions. We pride ourselves of our competence in the sense of we know what we are talking about and what we do. We should stop doing what we don't know. And for us it's very important to be resilient. There was a very fine line between being capital efficient on the one hand and being able to absorb last shocks, and we're going to talk about that because we'll open a new chapter in terms of trying to balance risk resilience with capital efficiency.

Now I have four agenda points to talk to you about this morning. The first one is around what is the context, what is the mindset, how we are thinking about our environment that is going to shape our industry over the next few years and what you should know about our thought process and what are the requirements for tomorrow's winners. Then it starts with a very honest look into the mirror, where do we lead, where do we lag, what do we need to reinforce, what do we need to change.

Third chapter is about our renewal agenda. What are going to be the pillars of continued industry leadership and how do we ensure successful execution because you can have the best plans in the world. If we haven't really geared for execution, it's not going to work. And the fourth one is the result of that thought process, what are we expecting in terms of impact out of our Renewal Agenda, and how do we balance the achievements of stronger performance and stronger organizational health.

Let me start by talking about the competitive context. We believe we are operating, and that despite equity prices by the way getting ever higher, that our environment is very difficult, our society, and you can read it every day, you don't need to think about Paris and Brussels and the Middle East, you can think about South China Sea and many other areas of the world, the societies of this world are distressed and our world is getting more and more fragile. You will also see that in the economy soon, again that is despite quantitative easing really pushing up share prices. So we remain very cautious.

The other point is that world has been interconnected. It's now becoming interdependent, what does this mean? A small problem in Greece cannot just create a problem for the Eurozone, but can actually lead for Europe to have a problem. Discussions around Brexit might sound like a funny thing, but they can become very fundamental for what is going to happen to economics and to whole industry, not the least to financial services. And we believe financial markets today are largely ignoring these risks. We don't. The second most important one, and we've talked about it quite a bit, and the next Capital Markets Day in the middle of next year we'll do another deep dive is around digitalization.

It's transforming economies and it's transforming economics, and a very few people have really understood what it means to go into the second half of the chessboard and what it will mean in terms of who is going to reap the benefits. The most important thing for us to think about is, economics are changing. Why? In the past, you could not ever argue that you can enjoy scale benefits in most parts of insurance because there would not be even be a correlation between size and performance. That will fundamentally change.

In a world that moves digital, there are not just scale advantages from technology investments, but will move into a pull world from a push world, and that is going to be a brand and credibility and knowing clients, knowing them around (09:33) do you have a sales force that can push the product harder. Therefore, economics will change in our industry fundamentally, and I'll talk about it with regards to automotive insurance in a few minutes.

Now financial services are both challenged on margins and growth. And you see therefore, a lot of push in profitable companies to disburse as much capital as possible because investors only believe if you invest in growth then margins will be destroyed so better repatriate it.

We believe you need to have a different look. We need to think about the long term, actually do repatriate and keep the company highly efficient in terms of capital usage, but we really believe growth is out there for the real leaders and we want to be one of them. So what are the requirements. You need to be really shock resilient – it's of utmost importance and carefully balance with capital efficiency. And a lot of what we're going to talk about today is how do we get that balance right.

We need to demonstrate benefits from scale on key value drivers. That is margins. That is cost of capital. And that's growth. And as an industry, we have failed to produce this evidence in the past. We hear it (10:45) and we have to do that. Now what we are going to do is we need to build more commanding market positions and leverage digital (10:52) to become more customer-centric and agile. We are many things but we are not customer-centric today and that has to change.

We will relentlessly lift productivity results in capital to start with then on cost and in the revenue base. It will be getting a lot tougher the next few years than it's been, because of where interest rates are going, because where the P&C cycle is going and because we have to rebuild our product portfolio in life insurance, all at the same time, but it's going to be a great place for those that get it done and we'll show you that we will be able to do so. I don't want to talk about the details about the fragility of the global system but I just want to show you a couple of facts that you might find interesting, particularly the finance pros.

The right hand side shows you the development of correlations between asset classes between the nice area of 2006 and 2008, and where we are today. The markets have become highly correlated, in the way they function. And this by the way means that a lot of risk models that assume diversification between asset classes and this is most risk models and financial institutions are build on, I wouldn't say they are useless but they have to be looked at with caution. Therefore, the fact that we were able to convince our regulator that our internal model is really ready for approval and taking it to a very conservative level is a great achievement of Dieter Wemmer and his team, and we are very happy to share that with you today. So we have the strength to build, to deal with this environment.

The second one is digitalization. Here, the issue is not just that the world is changing but it's changing so rapidly that the usual change processes that you undergo are too slow, particular in large and complex organizations. We've just listed here how many years it took to reach 1 billion users, and this took the telephone 110 years, now the smartphone took about eight years, and it's going ever faster. It took Hilton about 100 years to build 700,000 hotel rooms, and it took Airbnb about six years to build 1 million rooms, and that is very, very important. So, the change is not just fundamental, it's very fast and therefore, we'll have to move.

Now I've just put in this complex chart, in terms of book value and price to book as a very simple plan that we have a lot of people in the middle of the field at the moment in our industry that are competing around a market to book of one to two, one to three, to one. A few people that are below the line, but they are people that are adding a lot of value and we're looking at them. The interesting thing is many of them are not traditional competitors. So why you might compare us to whoever you think in Europe is relevant, we are not looking to those. We are increasingly looking to the outside of the insurance world, and to those that are creating value for client at an ever faster pace and not at our traditional peers. They are not the benchmarks anymore. That's all we wanted to say here.

Now how do we demonstrate value, and I'd like to give you a little bit of concept and the rest will be around facts today. The first one is when we think about ourselves as a global institution, there are four ways to add value to our clients. The first one is going from global to local. We have built a lot of global assets. Our investment expertise, technology, insight in how to price risk, and that we need to prove to our clients and to U.S. investors that we are able to bring value to local markets, out of global capabilities and we'll show that to you. The second one and that is more and more important is to secure impact in local markets through building commanding positions. Allianz is too small in many markets. Despite the fact that we are able to bring global skills to local markets, we need to scale up because in a digital world, you need to be able to command superior positions in every markets to be relevant.

The third one is local to global. In fact, most of our leading innovations have not been invented at the center. They get always invented by our businesses. And the key factor of success for the future will be to not just identify them and create a club of the willing that are ready to implement, but to scale innovations systematically across the globe very fast. And the last one is global-to-global. It's very interesting to see that financial services are refragmenting. If you think about 20 years, 30 years back, you talked about the global financial institutions that were ready and present in every market we are building, global empires, they are refragmenting. Many global financial institutions have to retreat because the cost of being global is becoming very high, not just for operational cost reasons but also for regulatory reasons. Now on the other hand, the few institutions that can manage global networks and have strong positions like us, in our global lines, whether that be the asset management or global insurance will enjoy true benefits of scale, and I'll show that to you in a second.

Let me give you an example of motor insurance. It's quite interesting when you read a lot of reports that say automotive insurance is going to disappear basically because of self-driving cars. There will be more no accidents, no more requirements to insure your car. It couldn't be further from the truth. However, that business is actually going to change fundamentally. Today, it's a personally owned car. You need strong local and regional expertise. You need to focus on retail, It's a standalone business model. You look at isolated damage risk in a local city. You have very little innovation – basically motor policies today are the same that they were in 2001 and then 1991 and 1981, probably 1951. You have restricted data availability and very strong product orientation. The future will be very difficult. We are moving more and more to using shared cars. My kids do not want to own a car, because on the summer, they want to have a convertible, in the winter, the four-wheeler. If they can afford it, they will rent it. And whether it's part of a deal that have with an OEM or they use DriveNow or BlaBlaCar, doesn't matter.

It is very important that distribution is changing. It's not just OEMs but others are distributing cars and car insurance with it as packaged goods, not anymore through the traditional setups. And what is very important, as cars become self-driving, you need systems, you need technology to run the systems very much like air-traffic control. Who's going to ensure these system, who's going to make them safe, as over the next 20 years, we are migrating first into a hybrid model, and then interact between them is going to be a lot more cumulative liability risk, will be a lot around how you can reconcile individual drivers driving on these roads and by the way still having the ultimate liability for what happens in the vehicle regardless of who owns it and insuring the system.

Now Allianz will be there because we're already a leading insurer on cyber-risk. We're already the leading insurer by the way on air traffic controls, which is very similar to what is going to happen. So think again what is going to happen in the future in terms of who is going to be around. Do you think (18:28) is going to play in this game? No, they won't, but we would.

Now let's talk a little bit about where we are. We have a number of very strong assets that we'd like to reinforce, that is trust and resilience and that's very important in the world that is more and more unstable – you really don't know what is going to happen in two years. You need financial institutions that have balance sheets that are resilient to any shock that you can imagine, whether they come from the financial markets, whether they come from regulators, consumer activists or other parts of society.

We've just today gone out and saying we have been the first financial institution that has a comprehensive environmental and social scoring for our assets. You've probably seen this. This is not about the one day declaration, let me divest a little bit in call (19:22). This is going to be about a comprehensive view on what makes sense as one of the world's largest investors to go through when we invest with responsibility for society.

We have very strong profitability. I think it's often misunderstood how good our margins are. We'll talk about it today and that is very important because that profitability is very stable. When you think about the issues we had with PIMCO because of the tapered tantrum and because of what happened to interest rates and how a P&C and Life were able to pick up the reduction on profit until PIMCO is going to be back anytime soon, very few financial institutions would have master outflows of that scale and growing profit. And I think that is underappreciated. And we have very strong people. When you look around, we're not shy, the best people want to come to work for us now from our peers and we are very happy that they're coming for us and the better ones, we actually take like Sergio. So we are very happy for him to be here.

Now lagging. We have a few things to do. Well, we're clearly not where we need to be as around customer centricity. That is an industry issue. That is not particular to Allianz, but we think we need to move fastest and without any doubt because we believe in the world that is unfolding being number one in the eye of our clients is most important. Let me take a step back and talk about digital revolution again.

When you think about Airbnb or Uber or any of the global scale innovators, they are not great because they have the better technology. In fact, you can download their technology from the app store by and large. The reason why they are successful because they use technology to build something that is actually better for clients. And because they reinvent the business with only one objective in mind, how do we create a better value for clients, leveraging technology. That's why we are putting customer centricity ahead of digitalization because technology is a means to an end. It is not the objective in and of itself. So being truly customer centric is important.

Now everybody says that. Why is it so important for us as an industry? Actually, we were never invented by clients. I'm not even sure people would insure themselves if they didn't have to. Because nobody wants to think about risk. And for the better part of our 125-year history, our clients were a contract. In fact, we would talk to a contract not to a client most of the time, because our intermediaries were between us and our clients. We wouldn't know the person behind that. That is changing fundamentally.

The second thing we'll need to work on is capital efficiency. It's absolutely clear because of very strong earnings in the past and earnings growth. We hadn't really thought about it that much, but as cost of capital is remaining very high for equity capital, it is very important. We've worked many years now, as you know in first of all making capital internally fungible. Because of our minority structures in the past, which we need to buy out, because of complex legal structures and tax structures, we had a lot of capital stuck in local businesses and we've worked very hard to make it fungible.

Now it's time to make sure, it's used in the most productive sense and we're working very hard on capital allocation and management to make sure that in every business that we run over a proper investment cycle, we make at least the target returns. We had a history of having cross subsidies between the various businesses. We cannot afford that going forward over longer periods of time.

The fourth item is productivity but before I get to that, it's about growth ambitions. We had a reason to be very cautious the last few years because of the large financial stocks we had in the last decade. Remember, 2002 and 2003, remember 2008 and 2009, and then we came out much better in 2011 and 2012 with the European debt crisis. That has been very deep in our DNA and has really created the culture where we look very carefully at risk. As a financial institution, you have to take risk. You just need to make sure you're getting paid for it. And therefore going forward, we need to think about where we should have stronger growth ambitions and how do we achieve them while we protect the balance sheet. And productivity is an evergreen in our discussions. We're not known to be the most productive and we will never be the leanest because we are premium provider. However we really need to work harder on being productive.

Most of our cost programs have been able to only balance inflation on salaries and other cost items and that has to change. We will work over the next few years to actually achieve net productivity gains after inflation and digital will help us tremendously. We know from some of our largest OEs that just getting rid of paper – just getting rid of paper reduces the expense ratio by about 50 basis points and that is something that absolutely has to happen. We're going to take big steps.

Unfortunately, we need regulators to allow us to do what we want to do. So in many cases, we still need to renegotiate can we actually substitute paper with e-mail or PDF files – not in all countries that is actually allowed but we are pushing as hard as we can. So let's change agenda and I don't want to go through the slides, you can read about them and it shows our ambitions, I'd rather show you some of the facts.

What is very important for us to be able to execute is to have highly motivated people. And over the last few years, we've continuously increased the motivation of our staff getting better and addressing their needs and getting better motivation. We just got the numbers last month out of our Allianz Engagement Survey for 2015 and we've reached an all-time high and we intend to strengthen it.

The other thing that is as least as important is to work on customer centricity. We have – last year had about one third of our markets where we add the loyalty leader i.e. are the ones that have the highest customer satisfaction and that number has to go up in another 15, we are above market and you will very soon see the ambitions.

I wanted to give you those health numbers because we care as a company, not just about financials, but obviously about who do we serve but now let's get to the hardcore financials. When you look at our return on equity for last year, it was actually pretty good. However, if you take a deep dive into the Life and Health segment, in particular, and you extract Germany, you're seeing we're not making cost of equity.

You extract Germany, that has an ROE of exceeding 24%, so actually an extraordinary profitable and strong company. I don't know why continuously particularly foreigners write negatively about German life insurance and our company. We'll talk a lot about it today to make sure that even the last person in the room understands the facts, but we do, do have an issue outside of Germany. And this is the first time we'll show you this and we'll show you this again and again with new numbers as we move ahead. And a number of places for various reasons, we'll have to improve significantly to reach the 10% cost of equity.

And that in itself is going to lift the segments significantly and there're many measures that we're going to apply to achieve that but I can commit to you today that the whole organization including my board colleagues are working hard that by 2018 already, every single company will be above the 10% or else. We'll take no more hostages. Now the issue is now you might call and ask later, tell me exactly what are you going to do in this country. We are not going to tell you because we don't want to front-run the market. I've already received like Dieter and others, lots of very nice calls from bankers that said we have this fantastic solution for you to talk about your backbooks. It's only at 16% cost of capital, doesn't really work. So we are going to work on the backbooks. We're going to work on the new business and by 2018, every single one is aiming to be above 10%. That's by the way not just an issue for life. There is more to that. We have a few businesses in P&C where that also has to happen but here is the most of the focus because it's significant part of the balance sheet.

Now I show you numbers today for the first time that we have never shared with investors. And that's around the business mix. As of Q1 next year, Dieter and team will provide you with the details on what we call capital-light products. We've never had separate reporting on how are we actually differentiating guarantees. And we've worked very hard for more than a year now in our systems to be able to separate traditional with guaranteed products i.e., you have interest rate guarantee, that's the lower part of the bars. And we are applying highly efficient capital guarantees that's – a rough computation have 75% less capital employed while offering guarantees. By the way, I believe personally that this is our future. Future is not just in many cases to be pure unit-linked. You have to have more value for clients than having an investment fund inside. So we are exactly right where we want to go with our business mix.

The other thing that I'd like to mention that reporting is not consistent across the industry. And I don't want to ever be negative on competition but be very careful when you analyze data on present value or future business premiums. We only show the premium, for example, in protection that is actually protection premium, not traditional life products that may have 5% protection in them. That is not Allianz style. So what you see here is the fact on what is really in the various components, and that's a very strong achievement with less than two years' work, we're down to below 40% in terms of traditional product and it's going to go down over time as we change distribution incentives in particular and work with our clients to change the way the business is working.

Now we have to address one item and that's the difference between our track record over the last few years and the market outlook as it was on November 20th. While we had 8% operating profit growth and earnings per share growth and even 11% almost in dividend per share growth, the expectations have been very subdued and we find them unjustified, and we want to address them today. And I'm going to show you now how we're going to do that.

Now, what are going to be the pillars of continued industry leadership? The first one is really bring capital allocation discipline to free up significant resources; second is to work on our portfolio of businesses; and third, to execute the Renewal Agenda with five levers which are true customer centricity, digital by default, technical excellence, growth engines, and inclusive meritocracy. And I'm going to hit briefly all of them before my colleagues then provide you with details.

Now, the second thing that is really important, and that's why we've been quiet for quite a while, we need to make sure we can execute this very ambitious agenda. And it's very important to recognize that number one, we're building already on strong foundations, so we don't have to re-win (31:08) the world and we'll talk about that, particularly, our global region, the business lines and technology convergence. But we'll also have to employ a new change process that is more horizontal in nature.

We spent a lot of time, starting in the beginning of the year, to get our top 300 people into the change process, worked with them in terms of delineating our ideas and the execution plans because it's only coming from the people that they will then execute. Now, we will also redesign our governance and incentives to facilitate capturing skill and scale benefits. And we need to make sure that our center is becoming a little more agile and market-focused, not just on controlling and risk aversion.

Now, what are the objectives? We are trying to grow earnings per share 5% on average every year to have a little more than 15% over three years, to bring capital productivity to the 13% return on equity, excluding unrealized gains. By the way, in terms of tangible net asset value that would amount to 18% return on P/NAV (32:16) to significantly reduce capital intensity.

Now, the real limit is no more internal capital fungibility to the vast part as some left (32:29). But the real issue is to make sure that, over time, we reduce the volatility of our solvency number, so we can free up more capital and for investing in further growth of earnings or repatriate and therefore making sure – and we've worked on it for quite a few years now that you know – to have remittance ratios at above 80% and that is very, very strong. Dieter will talk to you about this the stuff in more detail, but just to give you the top-down heads-up.

Now, let's talk a little bit about our portfolio. When you look at our portfolio of earnings machines, we have PIMCO at the top and Germany, then we have Italy and France, then there's the U.S. that is growing strongly in earnings, AGCS and a few others. And then we have quite a few businesses that are very good, but they are relatively small in terms of contribution to the overall profit of the company and that we have to improve.

And we'll basically employ four levers to do so. The first one is we need more earnings engines with more than €1 billion in profit, and we'll work on that to build out more commanding market position. And the opportunity for consolidations are very strong. We just have to be very disciplined.

Second, we, in particular, like to scale up smaller but high-performing businesses in order to get true benefits from scale that, by the way, doesn't always mean acquisitions. It might also mean regional consolidation. So, for example, in Eastern Europe, in LatAm, in Asia, in the Middle East, we'll consolidate our businesses on that front.

The third one is to really restructure larger and less profitable businesses. We've been very patient as Allianz with underperformers in our history, too much so, and we'll certainly fix that because we need to release capital and need to admit if we can't perform and then move on. And that's certainly true for uncompetitive businesses. We don't have too many of those. We have some and we need to address them in due course. And therefore, we will look at external opportunities with discipline but also with the opportunities to build out the market positions that we need to have.

So, so much for the portfolio; I'll just have a little bit of an additional comment on regional models. So we have already started to integrate regional businesses. The Benelux is one that you know where we brought Luxemburg, The Netherlands and Belgium together with significant success in terms of synergy. Iberia, as you also know, we brought our systems to Portugal, brought the expense ratio down 3%. And the next one we are working on is Latin America. We had some issues introducing our IT there, and we've sent our strong COO from Spain, Iván de la Sota, now to São Paulo to not just fix it but to build a very strong platform for Latin America.

Now, George Sartorel is the next. He is working on rebuilding our Asia-Pacific model, and it will also be much more integrated than it was in the past. And the next wave is going to be Central and Eastern Europe and MENA/Africa where we have significant plans for growth and performance.

Now, I just like to remind everybody that we've been very disciplined but still active over the last two years in terms of M&A, and we have been very good. Many of these things I obviously know really well from my old job. The TIO in Australia is one addition where we constantly look at, are we getting cash-generating businesses, do we have presence already in the region there for synergies, do we believe this market will be productive for us, do we get additional productivity in distribution or on products, and we'll be disciplined the same way going forward.

Now, let's talk about the Renewal Agenda. Let me remind you what this is about. The first one is customer centricity. Making superior customer experience the top priority for all our action is a culture change program and is not going to stop in three years, but it's the most important priority we have at this point. And I'll give you a couple of examples of why this is so relevant.

Second, we have built some selected high-performing digital assets in a number of countries. What we now need to do is to scale them across the group. No more the coalition of the willing, let me see what may neighbor has; if I like it, I take it; if I don't like it, I don't take it.

Third one, we have superior margins today and we have innovation on pricing and underwriting. It's particularly true for retail, property, casualties; not yet true for commercial lines where we need to be much better. And even in retail, there's quite a few things that we can do further, particularly in terms of bringing pricing excellence to the market.

The fourth one is growth engines. We really have to think about where in the next 5 years to 10 years underlying growth will come from. Let me pause there a second because, as I said, the last few years, we have to continuously think about the next crisis and how do you protect the balance sheet. And therefore to a certain degree, we were not able to invest in some of the growth platforms as others could do. Let's think about Asia for example. And you might think it's too late; it's not too late. We'll show you because we're going at it with a different angle than others are doing.

The fifth one is what we call internally inclusive meritocracy. Why should you care? Well, at the end of the day, it's people that have to execute this agenda, and I need about 150,000 of our colleagues to work on it like we do here in the board team of management. And therefore, we need to think about how do we get this done.

And it has two components. Number one, we have to become more diverse in terms of culture. That is not just agenda issue but also nationalities, different culture backgrounds in the leadership of this firm. We have somewhere to go there. And the other one is to be more about accountability in the various businesses. When you are a winner, it always works nicely. If things don't work, it's often difficult to find out what happened, and we will address that. And all of these five areas are reinforcing.

Now how do we measure true customer centricity? Let me speed up a bit as we go through the levers. Number one, we were one of the earliest adopter of the net promoter score, something that tells you whether our clients are recommending Allianz to their families and friends. However, we spend most of our time in the past on measuring the number and trying to understand why it's high or low rather than making it a true objective for increased performance. And we often didn't really understand what were driving the numbers.

The difficulty with this measurement is that it tells you where you are but not really what you need to do to change it. And it's very important that that changes. Now what are we going to do? We want to be more than 75% of our businesses the loyalty leader above market. That basically means going up from 47% that you saw before which is a huge leap in just three years.

Actually, our flagship, we want to be even higher at 80% that is up from 45%. That's almost doubling loyalty leadership and for us, that's really important. And the conservative estimate of what that would do is 5 million more customers and €6.5 billion in revenues. Now why this is so important? Because it also drives everything else. Whether that is employee engagement, it defines the design principles for digitalization, it determines the standards for technical excellence because we want to be more easy to deal with, no more 25 questions in order to get a car policy, and it's the basis for stronger and profitable growth globally.

Let me show you a very simple number. So, let me show you a very simple number. For the businesses that are scoring at or below market in terms of customer satisfaction over longer periods of time, we had about 1 year to 1.5 year growth over many years. Those that are loyalty leader or above market are growing three times as fast. And that is just on our portfolio. You can't (41:11) extrapolate that across industries. So this is not about being nice. This is about capturing growth in mature industries. And it will come to every industry and it will come to financial services. And there is more to that around profitability too because we have much higher retention than we have in low-performing businesses and lower cost of acquisition.

Now, the other thing that is hugely important – this looks like a finance textbook, but I wanted to show it to you – is customer satisfaction is hugely correlated to employee motivation and the other way around. There is no happy client without motivated people. There's no motivated people without motivated clients. In many of the businesses that we have where we are struggling to serve clients properly, the employee morale is low and productivity is very low. Now, again that's management 101, you may say, but it's very important to understand for an industry that never thought about the client outside.

So, let me move forward on digital. We have quite a few slides on digital. I don't want to share them today. I just want to talk about the ambition. The first one is about communication. Today, we have less than 25% of our communication with clients in digital, either over the phone or digital. That has to go in three years over 50%. I'm a little bit sad that it cannot be higher, but regulatory constraints are making it difficult to move to higher numbers faster.

We want to extend our digital offering for retail products close to 100% that in three years, almost every product that you will find Allianz, you will be able to execute digitally. And we want to reinvest recurring productivity gains of €1 billion into our customer-centric transformation. I want to hit this upfront. We can talk later about what are the expenses and so on, so forth.

Let me tell you upfront, we quite have some money slack in the system. I mentioned the paper issues and process related to paper. We will reinvest this very, very strongly into building this business and make it more efficient. So if somebody says, well, but you have to bring €1 billion net through the gains outside, no, we are not going to do that. We will have significant gains and we'll detail it over the next few months for everybody to understand, but we're not going to go into and saying this is a few hundred employees there and a few million there. But you can be aware, and you will see it that everywhere in Allianz, we're going to go after productivity gains. You saw the announcements already for part of our organization, everybody is going to work on it, even PIMCO Doug will talk about.

Now, a few things that we've done over the last few years to be actually be prepared for this journey. Many of you written that we're already along the journey, but it's important to note that we started fairly early. Very soon, we will be able to have a significant part of our platforms, on one of our three platforms. By 2018, 70% of our gross written premiums and more than 20 large OEs will be on a global back-end and common front-ends. I don't know any other company in our industry that is there. And we are going to build scalable assets in order to deploy them across the market. By the way, this is not just about Fast Quote, i.e. you can get a price in 30 seconds. That's what we've talked about.

In Austria today, you can actually get a click and buy a policy in less than three minutes, in less than three minutes. And this trend is unstoppable. And we are also investing a lot in what we call connected capabilities in order to benefit from emerging revenue pools. The most important learning from digitalization is it's not just about being part of the new ecosystems that are building, but think about the revenues that are coming from services.

I would like to remind you that we are the world's largest assistance provider, having grown Allianz Global Assistance from €1.5 billion revenues to €3 billion in just a matter of very few years. And that is going to be one of our pillars to outperform the competition because we're in almost every service process that you can think about; from automotive to healthcare, from home care to serving our commercial clients. The future will be a lot about combining insurance product with services and when others arrive, we're already there.

Technical excellence. Again, Axel is going to talk about it in detail on P&C, so I'm not going to talk about it a lot. The only thing I'm going to mention that we are investing in a lot of things that will make our margins resilience, whether that is advanced risk and credit modeling, micro-zoning – price-to-market execution is actually very important, not just what should be the price but how do you actually get it – to database fraud management and real-time loss trend and analytics. Losses are today changing fast, and you cannot wait a few months to find out what has happened.

So let me talk a little bit about Life/Health. I mentioned earlier that we are on a journey to totally transform our Life business. When I joined this company on investments, we believed in mean reversion, like everybody else. Interest rates have to go up. Now, we did have a stress case. It was a scale (46:46) scenario of black swan. And the Black Swan at that time was Japan, but it would never happen. Everybody in Allianz told and said it will never happen.

Today, Japan is our base case because we cannot afford to be wrong. We cannot afford to be wrong about life insurance because we're betting your money and the money of our clients on interest rates. No more betting on financial markets outcomes. And that is a fundamental departure from the past, and we are doing it around six levers or seven levers that you're seeing on this page.

The first one is we have to have hedgeable guarantees. In terms of financial market risk, we're already there. There's still some risks that I don't like, particularly around client behavior that you cannot hedge and they have to be treated with management levers. For the most part, we are there, but we are not yet complete. But in general, you should never have to worry about Allianz issuing guarantees to people that we cannot hedge and that we're not getting paid for anymore.

That will dramatically lift capital requirements, not just in the models. That's the one thing, but ensue economics. And we will grow through improved margins and change in business mix from Protection & Health. Now, everybody is saying that, but it's important to recognize that you need to have the underwriting capabilities to be able to do this successfully. So rushing into business, remember long-term care insurance, if you don't know what you're doing in disability, you're going to lose a lot of money. So that's why we are very confident but cautious to grow in the rider business in a way that we really do understand.

Now, the second thing that is new is in-force management, at least to us. In the past, we would look at crediting rates. Obviously, we would think about repricing, but in reality, working on back books was not a strong discipline of Allianz. That is changing. It's an issue of attitude and obviously, we need to manage the relationship to our in-force clients and to regulators and particularly to distributors properly. So do not expect headlines tomorrow that we are going to sell this book without having actually solved the issue of how do you sell it, but we are working on it. And we are working on it. And a business that is not earning its cost of capital will get restructured.

So therefore, the ambition is to increase the new business margin above 3%. By the way, last quarter was the first in many, many, many where we were able to achieve that. We got a little bit of a wake-up call in the first quarter. Each OE has to be above 10% return on equity and very important, we want to significantly reduce the sensitivity of Allianz balance sheet to interest rates, and we are going to get that done.

On the other hand, don't think we are not growing. We've been so successful with the transformation into the new product that is we actually believe it's time to accelerate growth about capital-efficient products as Protection & Health. And we are pushing very hard our businesses to grow strongly and create more value.

And the whole issue of growth, we can spend the whole morning on. I will not do that today because we have quite a few things to talk about. I will just give you a couple of example, but we have very clear ideas on where we are going in Europe, the U.S., Asia-Pacific, LatAm on the global lines and how we are doing it between P&C, Life and Asset

Management, in particular how do we create synergies between the various segments. And again, it would take too much time.

Now, I would like to tell you something that has just been launched. The formal press release will come out on Thursday from the partners in China, and we are very proud of the team around George Sartorel, they have been able to do it. We have just formed and signed the papers last night, the joint venture between Baidu which has 8.2 billion searches a day in China and covers more than 90% of the Chinese Web users.

Allianz and Hillhouse Capital, the leading PE firm in Asia, that is also strong in financial services. We're one of the first companies to go there. We will have just below 20% as each of the other ones – foreigners cannot go above 99.999% in these joint ventures, and it will be creating a totally different way to look at insurance. We believe, based on numbers, we know from the government and the research institutions there will be more than €100 billion in annual digital insurance by 2020.

We have access to more than 90% of China's Internet users. We have applied for a nationwide digital insurance license. We focused initially on P&C protection, on insurance product innovation and modular architecture like we built in Italy and other places. And we have first-in-class analytics and customer insights based on the work we've done with them. And Baidu could have gone to anybody in the world; they chose to work with us, and this will restart our ambitions in Asia that we've forgotten a bit over the last few years, particularly in China.

And the idea is, by the way, just to start in China, but to go outside of China through Greater China and neighboring countries over the next few years. So, this is a very important moment for us today and we wanted to (52:33) internal model approval for this conference.

Now, restarting Asia, we'll have a lot more to say about what our ambitions in Asia are over the next few months and years. So, we didn't want to give you everything today and then you don't come back next time. So, we are saving a few things for the next few conversations.

Leadership as a profession, very important. You might not want to know the details, but I would like for you to remember a few items. The first one is we have to change the way we operate. We have to move more horizontal. If you remain a top-down enterprise, (53:09) of top-down leadership is growing by the day. If you want to scale innovation from market-to-market, to order it from the center will never work. Therefore, we need to connect our people from market-to-market and the center becoming more or less a facilitator of innovation and innovation transfer. Therefore, we are totally changing the way we are incentivizing people, not just on outcomes that is financial performance which used to be basically 90% of what we were paying for, but also on the how people achieve these objectives.

And in the past, if you were a CEO in the country of Allianz and you would meet your financial targets and outperform, you would be the hero. In the future, heroes are those that do that, plus add significant value to the group. Now, how do you do that? You import innovation seamlessly and bring them into your client base. You create innovation and export that. You build leaders and bring them to the group, or you bring leaders into your company and train them up. It's a strong departure from the past.

We are also working on gender diversity that is less relevant for you but very relevant for us and me. And we certainly want to have more culture diversity in senior management, also in Munich. There's a lot of implication for our people because change is stressing our people. It requires a lot of support for our people with work and have been working on very fundamentally changing the internal communication models.

On frontline, empowerment, it sounds like a headline, but it's very important. So we're going to go another step in terms of reducing layers in our large businesses and work more with frontline people serving clients in terms of creating processes and technology. You might think that is everyday work, it is not. The other thing is we actually do not like restructurings. It's not just that the unions don't like that. We don't like them either. Productivity management has to become everyday discipline.

So, when you start with a year and you know you're going to have 2.5% to 3% salary in cost inflation, you need to have a plan to outperform that inflation. That is another discipline that is strong in our industry, and we have to work. And you have to have as a manager a five-year plan on where staff is going to go, so we can work with our social partners on productivity improvements not to say sorry, I slept for three years, now I have to fire hundreds of people. That's not what we're going to do, and management discipline is actually getting cost down on a consistent basis every single day.

Now, execution. A lot of people will say, that sounds all great; how are you going to deliver given the setup of the company, the difficulty of the environment, interest rates down, cycle turning, how are you going to do this? There are three levers that we are pulling. First, we have a new horizontal change process, and that's very important because we worked very hard on mobilizing the entire global senior leadership.

We have a team at the top. Each of my board colleagues is – and the teams of two are responsible for an item on Renewal Agenda. So, we're not delegating it to staff. It's everybody doing it, not just Dieter and me. Everybody in the team is working on it. Together with tribes of our CEOs and people from the staff – it's also not center-led, it's actually been our CEOs and our top executives from the line. And as you may have seen from recent staff announcement, we're bringing now our strongest CEOs to Munich to help drive the change agenda because they have the credibility with their peers for achieving change.

And we need to focus more on the outside. It's very important to make sure that we're outside focused, have relentless benchmarking and beating competition, not plans. A lot of energy in the past has been going on, establishing plans and meeting plans. That's very good because it fosters discipline on financials and on execution. But it doesn't matter if you beat a plan if your competition is ahead. And therefore, that is going to be what matters.

Second, we are redesigning our organizational model in terms of how we are bringing more convergence in the business models. Again, having the same IT is not good enough. Product architectures, business model design have to converge and they are convergent. Digital is helping and we have to have the aligned incentives and how do we train people.

And the last one, and then I'm almost done, is increasing the share of leaders with proven local business leadership record in the holding and making sure our customers and markets are being looked at, and we adjust the incentives.

Now just to give you a little glimpse of how this works and how we measure this because what you don't measure, you can't manage. That is just anecdote, but they're important because you need to bring the people behind the top team in order to succeed. The left-hand side just shows you the evaluation of our top management meetings. And the right-hand side gives you feedback on our (58:16) engagement, how do people buy into our strategy. And all the data is from September of this year. And what you can nicely see that our people buying into our story and they are strongly supporting it. And that is what you need to know; otherwise, it will not work.

So, let me summarize our ambitions for 2018 and how we are going to achieve stronger performance in Health. Let me reiterate, a successful company like Allianz will only be more successful if we carefully balance the performance and the health of the organization. And for the first time, we are committing ourselves to managing the balance between the two. We're going to go for a return on equity of 13%, that is excluding unrealized gains and on P/NAV (59:06) it would be around 18%. And we want to grow our earnings per shares by 5% compound over the three-year horizon.

On the health side, we want to have 75% of our markets where we are going to be better than market or loyalty leader, and we want to bring – and that's an indicator for leadership excellence in the group from where it is today to 72%. And we are monitoring that. Now, all of that will not be a straight line, just to be very clear. The world is not a straight line and there might be volatility in the numbers, but the whole team is committed to achieve those objectives both on performance and on health.

And now, you can look a little bit at the details of how we are going to do that and talk to my colleagues that have been driving the issues internally. First, Sergio Balbinot is going to talk about what true customer centricity means for us and how are we going to bring it to life. Then Doug Hodge is going to talk about where we are with PIMCO and what our plans are and what is the trajectory. Axel Theis will talk about technical excellence because that's about the core of our earnings engine. Max will talk about how we are going to bring life insurance to world class, not just in terms of size and expertise but also in terms of returns. And then Dieter is going to summarize at the end of the afternoon around value creation.

Not to forget, we are not sparing digital, but we have discussed that last time, but we didn't want to bore you too much with that today. On our next Capital Markets Day in the middle of the year, we'll do a lot around the next wave for digital and hopefully surprise you.

So I do thank you for listening, and I hope you enjoy the rest of the day. Use the Q&A sessions. And now, Sergio.

Sergio Balbinot {BIO 1521056 <GO>}

Thank you. Good morning to everybody. Let's talk about customer centricity, a concept which, as you can imagine, is very strategic for a lot of company. You had a lot of presentation probably regarding customer centricity, would it be (01:01:17) a focus on customer and on how a company can evolve and should evolve to a customer centricity organization is on.

So what I would try to do today is to be a little bit different, if I can, in terms of I would like to show you concrete examples, what we are doing in order that you can see what is the ambition, but also to see what is the journey to get this ambition and then to see step-by-step on this journey what kind of targets we would have on this.

So let's start with the concept. Okay, what is for us? What does it mean for us customer centricity? You see here, to delight a customer by delivering superior value with an excellent and caring customer experience. So why I wanted to put this slide here because this has embedded two concept which, for us, is very, very important. Delivering superior value is fundamental to what? Superior value, something very important, something which really could exceed the expectation of the customer.

But even if you get superior value, you get a huge reimbursement, whatever, what you'd experience in order to get this is not a good one, then you do not get the customer satisfaction. So, the how is also very important. It's also very important for us how you make the journey, and the journey start from the beginning to the end in each touch point you have. And if we do this, then we can get not only the customer satisfaction, what we get is emotional connection which is the most important thing we are looking for.

So, let's go to how we get to this superior value and this excellent journey. And you see here three concept. These three concepts are very important for us because we embed this and we would like to embed this in all our proposition we do, in our processes, in our interaction. Easy and convenient. Simplicity is fundamental, simplicity in everything we do, especially in how the customer can get access with us, simply, and how the customer can understand a product and simple also on how he can purchase the product but in all interaction.

Convenient is the usual equation that you have as value for money, whereby value is not just the coverage you get but also what kind of service I can have. We have heard about service possibility, but important is we have service which are relevant to the customer.

And here's the topic about relevancy. Relevant must be not just for us but for them. We think a lot of time that I mean we should increase, for example, the interaction with a customer because we have just few interaction with them, but this sometimes is not relevant for them. We have to do what is really relevant for them because this is really increasing and getting this relationship with the customer.

And finally, the trustworthy. Trust is fundamental. We are in a system where we have an intangible product, therefore trust is important, but trust is also reliability. We should be reliable, reliable in not just our overall concept to the customer but in each point, in each touch point we have with them.

So, let's go to something more concrete here and say, okay, what is our ambition? Ambition is logic (01:04:28). Customer satisfaction means, for us, loyalty. And loyalty, as you can imagine, is fundamental for us because loyalty means retention. And I don't need to tell you how important is to increase our retention and how much the cost of retention and cost for getting a new customer, yes.

But how is the way we calculate this? And this is important here. We discuss it among us and then we said to use the NPS, the top-down NPS methodology. You have heard what NPS is, Net Promoter Score. So you ask one question. Your recommended company is scaled 0 to 10; 0 to 6, you have the detractors; 7, 8, the neutral one; and 9 to 10, you have the promoter. Promoter less detractors, you get the Net Promoters Scores.

So, we know that this system, the top-down NPS, has its own limits because you don't get only customer which have a direct experience with you, it is a lot based also on perception. So it's important (01:05:24) branding, marketing prices, has expectation. Probably from our company, the expectation is huger than other one.

But we note two things. This is very important on NPS. First, this system is the only one which can give us the possibility of benchmarking. And for us, benchmark is fundamental because we know where to stand compared to the other one. If you do just did bottom-up NPS, as many companies are doing, we just interview our own customer in an experience and then we see how satisfaction was or not. But here, we want to see where we stand compared to the other one, and this is the only methodology.

And the second point – and Oli was saying this – we made our own experience, not just reading the books, but our own experience says very clearly where we have an NPS which is at market or below market. The growth of our customer is between 1% and 1.5%. If we are loyalty leader or we are above market, then this number goes to 3% to 4%. So, we have a multiplicator factor of 3. And this is very important because then you can understand if we move our organization towards the green part, how much customer we can get and how much is also the premium we can get.

So, let's come to the next one, which is an important one because here we want to show you what is our ambition, what are the stumbling block, where we come from, where we go. We will have one slide for each of this, but this is important in the sense that we should and we try to define per single step on our journey the ambition that we have.

And let's start with the first one. The first one is the NPS calculation in terms of KPI for our customer. So, we used to have NPS, yes. We used to have the NPS a lot of time in the past as well, but it was much more a qualitative element in this. So, we study this. Where we are could be better and so on. For the first time now, and we started with the planning dialogue, we had it for the three years plan. We asked to our companies very clearly, show us where you are, give me a couple of slides where we are today, and what is your ambition. Let's discuss on this. Let's agree on this and then have this with KPI. And then your remuneration, your mid-term remuneration will be based on this.

So for the first time, this is really something very important, we will have NPS as a KPI for companies but also an element for remuneration of the system. It's not just for us, as a board member, but it's cascading down to the CEOs of the companies and to the board member of their companies.

Let's spend a second on the methodology, and give me a couple of minutes here because this is important one. So, I'll say NPS is the best methodology for top-down customer satisfaction. But if we want really to see the linkage we have with the business performers, then we have to complement this with the so-called customer journey to understand the customer behavior in each point, touch point we have, pain point or (01:08:41).

And we launched here a project pilot in Turkey where we adopt this methodology. What is this methodology? We do not just ask one question, the only question, the first question (01:08:55) recommend. But we're cascading down the question, as you see here, on different levels. We start the NPS all line of business because we want to understand what are our line of business. And then we say, okay.

In Turkey, for example, we had, okay, let's focus on the motor business because it was the one where the NPS maybe we're not so good. And then we say, what are the business drivers here? And let's have the NPS also on the business drivers; brand, product, price, service and so on, NPS and also to understand how important for the customer each of this is. And based of the two, we cascaded down and say, okay, what are then the next business drivers? Is this on sales, is this on claims, is this on renewal? And we define on claims.

So, the top-down goes through the claims, and the claims we start it with a customer journey. We ask to the customer, tell me your journey from the beginning to the end, each touch point. And in each touch point, we define the level of satisfaction, the level of importance, and also what is the threshold when I can change from unsatisfactory to a satisfactory moment. We did this. We see how our customer react on the journey and we compared to our process.

And I just make this example, but this is important to us, in our process in Turkey, we're focused a lot on the way how we can reduce the time to get the tow truck in time to the customer. Everything was based on this. And then we see to the survey that this was important, but it was just number eight or number nine, whatever. Much more important was for the customer to understand what is going on, what is coming next, how much should I see what is coming.

And then we switched to completely a different way. So, let's have expectation management. So, to show to the customer and say, don't worry, this will happen, this will happen next and so on. And we did this. So, we reversed the process and you see that the NPS went up by 47%. And something similar we did in Germany, as you can see here, also a pilot project. And here again, in Germany, it was the same. You call for a claim and then someone, he send a letter. Again, expectation management.

We send the client immediately. It will take more or less so. And with SMS, regularly inform the customer what will going on next so the customer knows. And here again, with this pilot, we see that we have 100% increase of NPS. So this is just some pilots, but then the decision we're taking and you see here the result here we decided that already in 2016, not 2018, in 2016, we will have for every OEs at least two journeys, two important journeys obligatory for every company that we have. And this is something that we will apply.

Let's come to the Fast Quote. I mean Fast Quote, we use the Fast Quote quite a lot. We start it couple of years ago in Italy and we have tremendous result of numbers. Two basic questions, 10 seconds, you get a quotation and so on. NPS went up and is going up a lot. But the question was, can we scale it up? And this is something what Oliver said quite a lot of time. Are we able to scale up things here? And this is what we did in this couple of years. And I can say that today, we have 15 countries using already Fast Quote in a different way. In some cases, you just have two question because you have a lot of data that you can rely; otherwise, there's four or five. But we have already 15 countries which are today with Fast Quote.

And here's a couple of example. We put France because we have quite a lot of pics (01:12:38) on France but also Belgium. Belgium, for example, we are the first one having a pilot in Belgium for brokers. It's a broker business and we do it for brokers, and the results of the pilot were very, very, very interesting because we have three times more conversion if we compare it to key aggregators, but also 33% of cross-sell from the broker.

Then we have Austria that it has also different ways, so you have just to fill it up. But this is something that just come. And here again, what is the ambition? I will say very clearly – and we discussed it with other company on the planning dialogue – we want to have, in this period of time, at least two major product with this Fast Quote system in each OE that we run.

Let's come to the next one. And here, I would like to show you a video and then we can discuss it because this is important, the new way we can approach the customer. So if we can show the video.

Sorry for the shrink (01:13:39) because we translated from the Italian to the – no, sorry, this is not the right one. This is on the branding that we will have later on.

[Video Presentation] (01:13:51-01:15:46)

Why I wanted to show you this because it's a completely new approach on insurance. We've tried really here to bring the same approach of purchasing something that the customer has in all other industry, also in the insurance industry.

Normally, what you do when you go and buy something, you see something, you like something, you see the price, and then you purchase. You see the insurance side. You start, you have to answer 10 minutes, 15 minutes of questions, and then you get a price which is normally a very high price, and then you start to speak about the product; exactly the reverse.

And here, we wanted to put it like (01:16:25) with the typical experience you have. So, we put all the products we have like in the supermarket in the shelf. You can see it very clearly. Let's define a price based on three question. You get three question and you give immediately the price, and it's a monthly price. So, we have to avoid this barrier of the high price. It's a monthly price, and then you can decide and interact to create your product and module as you want.

And this, we don't have a problem in the technical side in the sense that every module is really quoted and analyzed by himself, no cross-subsidy from one to the other one – this is very important – and getting 10 years of portfolio experience to understand how to build the price in it. And this is very important.

And on this in Italy, this year, it's not the 1.1 million quotes, but the fact that we have 300,000 people in Italy in 2015 spent more than 15 minutes in doing this. And this is important. 60%, as you can see, of the new businesses originated online. So, we find another way to get to a customer which is not only the motor policy, and this is important. And then we can say about the fact that we have younger family doing this, so their average of age is down. Their retention is higher and so on.

And what we did and we launched really a couple of weeks ago in Italy is exactly the same model for the small enterprises. Small enterprises, exactly the same system, three question – how many employees, what you do, where you are – and you get a quote, same kind of idea, module and so on. So, this is something really different that we want to enter in a different way and to align the experience of the customer with this usual experience. So, here again, there's an objective, yes. We will now (01:18:17) to have in 2016 already two pilots to four pilots in different countries to roll it out then in the next years.

So, Assistance, I don't want to speak too much a lot. I think Oliver said it, the future will be a combination of system insurance. So we know that we don't have interaction or we have just couple of interaction, most of them negative. Service is important. And here, we have really, really – we have here something that nobody else has, an asset which is much bigger, almost twice bigger of the competitors. You see here premium, how many countries, how many languages and so on.

So what is the objective here? We want to have in 2018 that at least the best products that we have in each OE would have an opt-in, opt-out possibility with Assistance. So the service will be fully integrated in our activity.

Let's go to branding. If we do NPS and top-down NPS, branding is important. It can have an impact of 20%, 30%. So we wanted to do a fragmentation of branding to a more solid branding. The value of the branding is high and so on. But we want to repositioning ourselves of our branding. And this repositioning is what we are doing now with a concept to dare (sic) [Dare to] (01:19:33).

So we can start maybe the video that we started so that you understand what we are talking about, about the repositioning of the branding.

[Video Presentation] (01:19:44-01:20:54)

So, we launched this already in Belgium as a pilot and you can see here that the acceptance is quite high, so from average of 3.8, we went to 4.5, so 18% more. And we will roll it out in all the different countries.

So, let's come to the end and here's the final ambition, already Oliver told you about, but this is very important. You see 47% of our business today is above market loyalty leader, and what we want to achieve is 75%. This is a big jump because there are a lot of points. And most important that we want to hit the flagship, the big companies of this group going 80% of their business on this green spot. And this for them is even more difficult because you see we have to go 35% up.

This is what we committed, what we discussed with all our OEs. And if we achieve this, then we can make a calculation. We believe that at least we can get 5 million customer more and €6.5 billion, not talking about the retention element.

So, thank you very much and I'm looking forward for your questions. Doug?

Douglas Michael Hodge {BIO 3302044 <GO>}

Sergio, thank you and good morning. So, we've heard about Allianz. We're going to spend a few moments talking about PIMCO, and I'm going to look at PIMCO both the present and the future. So much has been said about us about our past. I might touch upon some of the events that have taken place over the last few years, but I'm going to focus more on where PIMCO is today and our strategic priorities for the future. And I'm going to do it along three dimensions: our clients, our markets, and our partnership with our shareholder, Allianz. So let's begin.

Let's take a look at PIMCO just at a glance, just for a moment. So today, we manage €1.3 trillion in assets under management. A little bit over €950 billion for third party clients and additional €340 billion for Allianz insurance entities around the world, working with our colleagues at Allianz Investment Management, AIM.

And you can see here that with respect to the third party assets, we have about two-thirds of the assets we manage are for clients who are domiciled in the United States. And similarly, we have 64% of our people working in the United States; in Asia-Pacific, 12%; Europe, 27% of the assets respectively and similar allocations in terms of staff and resources outside the U.S.

So about a third of our business now resides outside the United States. And that alignment is by design. We recognize long ago that in order to meet and understand our client's needs, their investment objectives and understand their risk tolerances that we needed to put our people close to our investors, close to our clients. And similarly, we also understood that in order to be a successful investment manager in this complex market environment that we needed to have trading platforms around the world. So we have 13 global offices with seven global trading platforms today.

But to understand PIMCO more fully, I think you have to step back and look at what are the industry trends that are shaping our industry and that are ultimately going to define PIMCO. We're in a growth industry. The asset management industry is a growth industry. And whether you take the studies by McKinsey or BCG, or these figures here in the upper graph from Pricewaterhouse that show that the total industry had, in assets under management, €48 trillion as of 2012. We then estimate to grow to €77 trillion by 2020. We're in a growth industry.

Now, that growth is a bit uneven. But there are couple of factors which would define that growth, the stock and the flow. So, let's look at the stock of assets for a moment. In the United States, if you take the United States and Europe, that would account for about two-thirds of the accumulated wealth in the world. If we added Japan, we'd be in excess of three quarters. That is growing at about 3% to 4%, a little bit lower today as a result of lower interest rates. But let's use 3% as a round number.

Outside those developed economies in those developed countries of course, much higher growth rates, and I'll come to that a little bit later in my presentation. But that stock of assets that roughly close to 80% of global wealth that's held by people in the developed countries is being influenced by three important factors, secular trends if you will.

First is regulatory, the shift of moving that decision from an institutional-oriented investor to an individual-oriented investor. In the United States, it's a defined benefit to the defined contribution. In Australia, it's the superannuation funds which moved to choice. I could use in Japan, is the (01:26:17) regulation. I could go down the list. It's shifting that investment decision from an institutional investor to an individual.

The second secular force that's moving that decision are just simply demographics that as people reach their retirement, they often take a lump sum payout of their retirement savings and now it's their responsibility to decide how their wealth is going to be allocated and invested in the capital markets.

And then the third are interest rates, what we do, what PIMCO does, interest rates. We live in this world of low and flat, low interest rates and flat yield curves across all of the developed markets. And whether the Federal Reserve is going to raise interest rates in December or next year or not, where the blue dots fall, it doesn't really matter in that regard. We're going to live in this world of low and flat for a while yet.

Look what's going on around the world, look for commodity prices, oil at $40, other commodity prices at secular lows. There continues to be significant slack in the global economy, and it does not appear that inflation is certainly on the horizon and we struggle. We struggle to create economic growth in many countries, particularly the developed countries around the world. So, we live in this world of low and flat.

That shifts those three trends – regulation, demographics and markets – determine how people allocate their capital and where they will invest their wealth, and we have been responding to that. We've been responding to that. And those managers who are going to be successful in this market need to respond. They need to respond with the right types of products that responded the needs of these individual investors who have different investment timeframes and horizons and perhaps their institutions do. We need to be able to respond to the changing regulatory environment, as well as look at the opportunity to invest in some of the emerging economies.

If you look at the bottom chart, it looks at assets under management and in those circles, the cost to income ratios. So here, PIMCO at 58.6% with the €1.3 trillion. We are well positioned to invest in taking advantage of the opportunities that lie before us. And as a result of our size, our scale and our cost to income ratio, we have the resilience, the resilience to withstand the volatility of the markets that we've all seen over the last several years. And let's be clear, it's not done where it was again, we have the Taper Tantrum two-and-a-half years ago that created a whole episode of volatility in the markets; perhaps not the case this time around if the Fed does raise interest rates shortly. But nevertheless, we live in a world where market volatility is higher. We live in the new normal, in the new neutral.

We've come through a period of organizational change at PIMCO. That's been well reported. I'm not going to go through the events. I'll just simply say that where we stand today and our objective coming into this year was to promote and preserve organizational stability, for organizational stability. We quickly transitioned our team in 2014. We had our CEO leave our firm early in the year, and of course we went through a CIO transition, now about 14 months ago.

On the business management side, I share the executive responsibilities with my colleague, Jay Jacobs, who is the President of PIMCO. And then, as you see on the right hand side, the portfolio management group of six CIOs, headed by our Group CIO Dan Ivascyn.

I would note that as we went through these organizational changes and transitions, we did not need to bring in anybody from the outside. These are all people with long PIMCO experiences as described on the right-hand side. Jay and myself have both been with

PIMCO, I for over 25 years, Jay for nearly 20 years. So it's a very cohesive team. We understand each other. We worked together for a very long time. And we've institutionalized the governance of the firm. It's a model that has a more disseminated authority than what we lived in previously. It institutionalizes the governance of the firm and it institutionalizes the success of our organization.

I mentioned our partnership with Allianz. So let me describe it. When I think about our relationship with Allianz, our partnership, it has three elements. Allianz is our shareholder, Allianz is our largest client and perhaps, most importantly, they are our business partner.

So let's take each of one those in turn. We became part of the Allianz Group in 2000. So we've been part of Allianz for 15 years. During that period, PIMCO has contributed €18.6 billion in operating profits. We have grown in that 15-year period. We've compounded our growth at 13% per year over that 15-year horizon. When we became part of the Allianz Group in 2000, we were about 5% of their annual global earnings. Last year, PIMCO contributed 22% of the annual global earnings. So we've grown as a member of the Allianz Group and they have been a big part of it.

In terms of the assets we manage for the group, as described here, they have allocated to us over half of their investment portfolio, about €340 billion, as I described a moment ago. And you can see the returns, both on an absolute basis and on a risk adjusted basis, we have exceeded our return targets on behalf of the group. We work very closely with our Allianz colleagues, not only here in Munich, but in other offices around the world. We manage over $100 billion of assets for Allianz Life for example in the United States, Allianz Australia, I could go on, all across Europe. So this is a large and important relationship for our firm. We have dedicated teams working with the Allianz investment professionals not only here but around the world. This is an important relationship and it's a very symbiotic relationship, and with respect to symbiotic relationship, as a business partner.

Looking back, Allianz helped facilitate our move into the global wealth management, responding to individual investors some years ago and, of course, they've been a very supportive partner right here in the German market where they have a dominant position not only in the insurance realm but also in asset management, and we become one of the largest asset management firms in Germany, partially as a result of our relationship with our parent.

But there's much larger scope for that partnership to expand. We are working with our Allianz colleagues in Australia and in the United States to develop annuity investment, annuity products as we respond to this need on behalf of individual investors who are trying to source high quality income and security.

We're working with our Allianz colleagues here in Munich and across Europe to develop multinational investment platforms, so that large corporate clients of Allianz and PIMCO can work with us across the entire spectrum of their businesses and the countries in which they operate, and a little perhaps, a little bit further out on the radar, not yet fully defined is China. Oliver referenced China earlier, and we would do the same.

One of the observations about China is – that it is moving quickly and it is a big opportunity for the financial services industry broadly and certainly we believe it's a big opportunity for PIMCO, and I'll come to that in a few moments.

One thing that has not changed at PIMCO is our investment process. And our investment process, as many of you know, is rooted in taking a long-term view. That view has been expressed and I think widely accepted – the new normal which then became the new neutral over this period in the post-financial crisis years, which basically our thesis is that interest rates are going to stay low and yield curves are going to stay flat. Basically the new normal was that as a result of the financial crisis, we could not return to those growth dynamics that we experienced pre-crisis, the new neutral thesis is basically that, neutral real interest rates, so adjusted for inflation, are going to be lower than they have been historically.

Interestingly, there was a paper just released by the San Francisco Federal Reserve just last week that would confirm that thesis. John Williams who's the President of the San Francisco Fed and one of his colleagues, researchers put forward a paper, that said that the real neutral rate is somewhere around zero now in the United States and we would argue similarly across most of the developed countries. So that long-term view, which is the foundation of our investment process, guides how we invest the assets not only of our parent but of course of all of our clients, but it is accompanied by the day-to-day rigors of risk management.

We are constantly analyzing the shorter term movements in the markets, the economic variables, that are going to drive interest rates and currencies and credits and of course, we apply a consistent and very comprehensive risk management framework across all the assets we manage. With respect to our secular process, we hold a secular forum once a year typically in the spring about May. Over the last several years, we've invited in, as we have traditionally done outside speakers. In the last couple of years, we've had Jean-Claude Trichet, Gordon Brown, among others. And of course, we have our own Financial Advisers, Ben Bernanke works with PIMCO now, as such Nobel Laureate, Michael Spence and Gene Sperling, who was the right hand economist in the Clinton administration. So we bring to bear a lot of expertise in order to think about the global economy, global markets and of course interest rates.

And that process remains the hallmark of PIMCO. It is reflected in performance, performance comes as a result of many things but I think it really is the result of two important variables one the talent, the quality of your team and the process itself.

So three takeaways from this page. One the consistency, 85% of our assets are outperforming their benchmarks over a five-year horizon and I could pick almost any five years over the last 20 years, 25 years. And you can see that number probably north of 80%. And then you can see jus a list of some of the awards that we won over the last couple of years. One is across multiple products, multiple geographies, and secondly it's not about any one person. Dan Ivascyn and Alfred Murata won the Morningstar Fixed Income Manager of Year in 2013 for their work on our income oriented strategy, our income fund, whereas Mark Kiesel won it in 2012 for credit. So I think that speaks to the depth and the breadth of our talent and our team and our performance.

The other reflection of our business beyond performance is flows – flows from our clients. This is the perhaps the primary testimony of client, loyalty, clients, centricity, our flows. Now as we all know PIMCO has come through a period of outflows, in fact the outflows began at our firm in May of 2013, coincident with the taper tantrum, 2013.

But as we look over the course of this year, starting in December and nearly every successive month, the outflows have been less in the previous month coming down successively. Quarter-over-quarter, you can see the results here. Of course, in October, we had positive inflows for the first time in 28 months. That speaks to the whole firm. In many parts of our business, we're growing – in the Asia-Pacific region, in Australia, in Japan, in Asia ex-Japan, we have seen net inflows and revenue growth. In Canada, we're growing at double-digits – as well as in Latin America.

And we've seen flows into some of our products, particularly income. In this world of low and flat investors, particularly individual investors, but now increasingly institutional investors are looking for a source of high quality income. They're also looking for credit solutions and enhanced equity.

So that defines PIMCO today, let's turn to our strategic priorities. Now I'm going to talk about some of the growth initiatives that are underway in just a moment but I want to assure you that the bedrock of PIMCO remains our institutional client base. So I'll talk about individual investors but we manage today about 60% of the assets we manage on behalf of institutional investors, 40% on behalf of individuals. That institutional investor base is the legacy of PIMCO. It is the bedrock of what we do. We'll talk about growth, you saw those – we saw those growth rates for some of those non-core strategies, but nevertheless that core portion of our portfolio traditional bonds, if you will, remains an important component. And it is the natural habitat of most fixed income investors. But in this world of low and flat, there is not much demand for that. But when rates do rise at some point – yield curves do steepen at some point – we want to be the leader in that space. We are today the world's largest active fixed income manager. We are the largest core manager in the world and we will not compromise that position.

But let's turn to our strategic priorities for a moment. So we have been diversifying. And as I talk about core and traditional bonds that you can see here in the bottom part of these bars and you can see the migration through time, in 2008, 50% of our assets were invested in traditional bond strategies that contributed 45% of our revenues, as we move to the right hand side. Today that number is 23% and the revenue contribution is actually 18%. Meanwhile, the growth in our credit strategies or income strategies and, in particular, as you look at the upper parts of those bars alternatives, asset allocation, income solutions and alternatives, now constitute for nearly 35% of our revenues.

And you can see that reflected here. In terms of the growth of assets and across income, across credit, we now manage $195 billion in dedicated credit portfolios and alternatives. And although that number in terms of assets is relatively small at $18 billion, it is a significant contributor to our revenue, contributing close to a little bit over 20% of our revenues, closer to 25% of our revenues come from alternatives.

Our growth strategies have basically four elements: one, is to respond to the needs of the individual investor, to global distribution; two, is to continue to build out our alternative suite and income products; and third, is to continue to build out our asset allocation and solutions platform and you can see the results here as we look about around the world. I talked about the growth, the opportunities outside the United States and you can see here in Canada, Latin America and Asia-Pacific where in Canada we're growing at close to 20% – over 20% in Latin America and Asia-Pacific. This is one of the tilts, if you will, one of the growth themes of PIMCO. First, this is where the wealth dynamics are more positive, in places like Latin America and in Asia. And secondly, where we have quite frankly in a country like Canada, where we have a lower market share. So, as we think about the where the growth opportunities are, yes, Unites States is an important market for us, it's two-thirds of our business, but the growth opportunities reside outside the U.S. right now.

Turning to Asia. We manage today €41 billion in assets under management in Asia outside Japan. You can see the growth rates there. Most of that money is managed on behalf of the official institutions and other financial institutions. The opportunity is in the private wealth markets, and I spoke about China a moment ago. China is on a pace to change regulation in a way that will open up the markets. So I draw attention to the fact that two weeks ago, the IMF recommended that the one would be become part of the Special Drawing Rights program, basically as they move towards becoming a world's reserve currency.

This is a fundamental change, and it opens up the markets for people like PIMCO, for Allianz and for others. And we see it being a very large opportunity, both from an institutional perspective as well as from a global wealth management or individual perspective. But if we're going to grow and respond to the external factors, the external forces, we also have to invest in the internal enablers. We have to build the digital platforms in order to expand our global distribution capability. We have to continue to invest in our brand, PIMCO has a global brand. We're known around the world for investment performance, for excellence, for trust. This is where we need to continue to build out that capability and invest in our brand through both a thought leadership, as well as paid media, and of course culture and talent.

We're in a talent business at PIMCO. We need to be able to recruit, hire, incentivize, reward and retain the world's best talent. That has been the hallmark of our firm. We've been able to do that even during this period of organizational change. I won't list all the people who have come to work for PIMCO over the last two years. They are extraordinary. They are truly extraordinary. When we go on business school, campuses and PhD programs, we get the best and the brightest and that's what we need and that's what we want.

On the other side, we need to continue to realign our resources. We have to acknowledge that there are certain parts of our business that are smaller today than they were two years ago. And we need to realign our resources accordingly and focus on as always to be vigilant and focus on cost management and expense management. There are always ways to be more efficient, whether it's through technology, procurement and other processes.

So in closing, we've come through a period of transition. We have achieved stability over the course of 2015. As we look forward, we're in a process of realignment, renewal and growth. We are a growth company and it's our full expectation that we will be a growth company again in 2016.

Organizations like organisms evolve, they change. So I borrow this quote from Charles Darwin. It's not the strongest or the most intelligent who will survive but those who can best manage change. And indeed, that's what we have done. That's what we're doing. I have every confidence that PIMCO has a large and bright future ahead. Thank you.

Unverified Participant

Okay. Thank you to all the presenters, so far. We have now 30 minutes to take your questions and then we will break for lunch. Should we start here at the front row, Jon?

Q&A

Q - Jon M. Hocking {BIO 2163183 <GO>}

Thank you. Good morning, everybody. Jon Hocking from Morgan Stanley. I've got two questions, please. Firstly on digital. So Oliver, you mentioned scalability in digital. And you mentioned a couple of companies like Airbnb and Uber who scaled digitally. I wondered whether the opportunity for Allianz is actually sort of riding (01:47:25) the back of other people's scalability? Or [indiscernibe] (01:47:28) opportunity for digital products and insurance to scale globally? First question.

Secondly, you also talked about Japan being the base case. I wonder whether that had influenced your thoughts on capital, particularly given this sort of regulatory environment, we sort of see that with oscillating curves (01:47:45)? Thank you.

A - Oliver Bäte

Yeah. Thank you for the questions. The second question is a good segue to introduce Dieter on my side, that was just no coincidence, to talk about that more. And the answer to the second one is absolutely, yes. (01:47:59) the cost is very high and, as I said earlier, I can't be (01:48:03) more explicit. We will not have idle money sitting around that we will not need in the future. When and how we redeploy that is a matter of opportunity and of discipline and again Dieter will talk more about it today.

Let me go to the first question. Absolutely right, we're working a lot to partner with others in terms of exploring opportunity to add our products but it's very important to not just think about Allianz as an insurance or an asset management firm, I think by the way often asset management comes in too short but also in terms of the world's largest service provider, assistance provider and we are combining the two.

Now first, it has to do something with the mission that we've outlined. On every single product where we have an assistance product embedded, our profitability, our client satisfaction, our retention is higher. Now what we have not done in the past is to systematically require people to add to that. So it first starts with ourselves and then the second stop is what you have described: how do we partner up.

Now we also have to be very cautious, I'd like to mention that. There are a number of parts of retail products where insurance is embedded where we are very cautious to attach ourselves, if the distribution costs are too high. We see a lot of, what I call, Wild East and Wild West where distribution commission ratios are very high and we need to be very cautious to not sort of get abused to supply a product in areas where that is not in the interest of the consumer. So we'll balance that very carefully but the answer is absolutely correct.

We'll have €20 billion by the way of premiums this year just out of insuring mobile phones and tablets and we are playing in this market but again making sure that the value for the consumer is there.

A - Oliver Schmidt {BIO 15891487 <GO>}

Next question, let's stand (01:49:57), okay. Yeah. Farooq? 01:50:00

Our next question – let's stand, okay. Yeah, Farooq.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you very much. I'm Farooq Hanif from Citigroup. On the €6.5 billion extra revenue that you think you can get with the net promoter score improvement. Have you simply taken the growth rates over (01:50:18) businesses and increased them? So, is the sign of your success also not just the revenues and the customers, but also that you see better top line growth rates for 2018? That's my first question.

My second question on customer centricity is a question that you obviously get every time we meet, but just on how you integrate your distribution, your own agency distribution within that, because obviously you're talking about getting close to the customer, enabling them to chose what they want and it seems inevitably ever more in traditional distribution markets such as Germany, in P&C, that the broader the agent becomes different. Could you comment on that, please?

A - Oliver Schmidt {BIO 15891487 <GO>}

On the first one, I mean we make our calculation and say, if we really are able and we discuss it with our OEs during the planning dialog we had with our companies and see if we can really bring the NPS to this level, based on the experience that we had in the past, we can see that we can bring this level of 5 million customers more. And then, we make a calculation how much will it be in terms of a premium, because it depends where we have to hire customer growth and so on, so what is the average premium they can pay and so on. So we came on this average of 6.5 billion.

But it is important as that this is a threshold where we say without taking the consideration one element, which in my opinion is fundamental when talking about customer simplicity which is the retention issue, because I mean the most important point on this exercise if your customer is satisfied, you keep it, and if you keep a customer, you can imagine how important this is, because I mean, it costs much less than a new customer and then I mean you can also work a lot on the cross-sell elements. So this we believe can be on top of this. So this is first just our – the first analysis where we can go and then we add to that with the retention capacity that we probably will increase a lot, if we go this direction.

And what is important to mention is and I mentioned during my presentation, but it is fundamental. I mean, the biggest effort has to be done by the flagship companies because they will ask really to go just one step, but sometimes two step up. And you can imagine on all these exercises not that you just tick a lever and automatically the NPS is changing. It needs a lot of elements, it needs a lot of activities, and you see the result only after a while. Therefore we take also three years time. In our experience. We cannot say tomorrow what will be the NPS, but we see in three years, we believe we could gone there. So, just to say it is because it is important, flagship is really a big challenge, and the flagship they commit on this.

In terms of – for sure, I mean, we have to embed everybody in this journey. I mean, a customer's interest is something that if you do it in just one part of the organization, and I including the organization, also the agent is following will not be successful. You need to have everybody embedded. Only if everybody is embedded, starting with our employees.

So, employees engagement for example is fundamental. If we are not empowerment, give the empowerment to our people, if we'll not engage our people in what they do, I mean, we will never succeed on this. So, it's starts with the employees, it starts with the tools that we have, and it is also fundamental, and also is fundamental for the agents. And you see something that we do for example in terms of digital, in terms of Fast Quote. We also embed the agent in this journey because they bring them into this one web situation because at the end, we then direct the customer to the agents and the agent is closing this. So they are embedding this and this is very important for us.

A - Oliver Bäte

So let me give you a couple of examples to expand to that. For our agents in Germany, which are our strongest agency force, we in the future will have totally transparent TripAdvisor score visible to the outside of how happy are their clients with agencies. So what you are describing just does not apply to Allianz internally but also our distribution partner. We are measuring their NPS that are receiving by their clients as a key criteria for their development in centers in the future. So everybody was, Allianz outside has to be Allianz inside in terms of the aspiration.

Second component that's also important as Andrew (01:54:51) said it, as we're moving in a world where you have a lot of ROPO clients – research online, purchase offline – a lot of the leads are funneled from Allianz to our agents where they commit to minimum standards of quality, which means they have to respond in a number of minutes to the request, really, from clients for conversation, and "if the service experience is not proper, they fail to be part of that journey in the future." So the digitalization actually gives us a huge opportunity to improve the responsiveness and the quality of service that our agents are going to provide to the client. They have to be part of the journey and they have to commit to that.

A - Oliver Schmidt {BIO 15891487 <GO>}

Okay. Let's go back to the front please. Michael, then next to him, Vinit.

Q - Michael I. Huttner {BIO 21417183 <GO>}

Just, you spoke about – not about PIMCO right up to now. I just wondered if you could give us a few targets as well and maybe in terms of net inflows, how you see the assets and also the cost/income ratio. And on the – Mr. Bäte, you mentioned you wanted to make acquisitions and you mentioned deal discipline, so I wondered what metrics you could maybe give us and how much of the 5% EPS growth is to come from deals? Thank you.

A - Oliver Bäte

Let me get that up front. So, the last one I obviously will not answer to, because I don't want people to raise prices when we call. Second – sorry, Michael. Second is, disciplines means we're going to do what we have been doing. When you look at all of the acquisitions we're doing over the last few years, they've all met the cost of capital requirements, they all were EPS-accretive, so nothing magic about that, nothing really magic.

What we would abstain from is very large transactions in markets, where we do not a track record to perform really well, where we don't a management team that can master the integration, so there is both quantitative and qualitative requirements. We're looking mostly for P&C bolt-on acquisitions in markets where we do have a strong platform and we do have a strong management team and record to be able to implement and realize the synergies that everybody thinks we need to (01:57:15).

A - Douglas Michael Hodge {BIO 3302044 <GO>}

So, I'll answer your question. You asked about flows in assets and cost/income ratio. We're at an interesting point here, because certainly the messages that are coming out of the U.S. Fed Reserve, which speak to the rising probability that are going to raise interest rates in December. Of course there was a lot of speculation that they were going to raise at the September meeting and some of the statements by some of the FOMC members would suggest that perhaps they're even looking at December even as a more likely case.

At these inflection points wherein Central Bank policy changes, and go back to what happened, what I describe the taper and what has become the taper tantrum – which somewhat ironically even Ben Bernanke calls it the taper tantrum now. This is a period – this is a point where investors tend to step back from the bond markets because they want to see how the markets are going to respond, and we recognize that. At the same time, go back to my earlier remarks; this has been a threat, if you will, for the last 2.5 years, really, since the taper tantrum, and we have responded to that.

Look at where the flows have been coming into PIMCO, in income products, in credit products and I didn't speak much about some of our alternative strategies, but in the private debt, private credit markets where we have launched several private funds. This is where it's captive capital. These are areas that are a less sensitive to interest rate. So our – and go back to again to the diversification of our business. We're less sensitive than we were historically to a potential tightening cycle.

With respect to assets though, let's be fair, as rates go up it does have an impact on our asset base and of course on flows. So we look at 2016 very cautiously, but we're focused on growth and profit growth. And that can be achieved through two ways. One is through obviously rising revenues, and we believe that we're looking at revenue growth in 2016 over what we've experienced in 2014 and 2015; and of course managing expenses, and that comes to the cost/income ratio. So our target is to keep the cost of the income ratio below 60. That's our target.

A - Oliver Schmidt {BIO 15891487 <GO>}

Okay. Let's stay at the front row; more questions please. I think Vinit, the gentleman over there, was first. And then Andy. Sorry one gentleman – this one, yeah, then Andy afterwards. Thank you.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hi, Vinit, Mediobanca. Just three questions, quick ones, please. Firstly is on this whole talk of M&A. Just if you could guide us again, the budget that was announced in last year's dividend policy, is that still the way to look at it in terms of the 20% of earnings? Is that still the metric we should look at for M&A?

Second thing, just on the presentation by Sergio, it's seems to be a really strong – I know you are targeting NPS growth, and that by itself should bring it top-of-mind for management. But are there any instances where this kind of very strong pickup in NPS has happened in any other industry or any other time period? Because just by targeting it, it's is not always so obvious that it should happen. It could happen, but is there any evidence you can think of?

Lastly, for Doug on the revenues chart on PIMCO, it's seems the alternative and the asset management – asset allocation strategies seem to have been massively bigger contributors to revenue than they were five years ago, seven years ago. Is there a projection that continues at some – at this breakneck space or what do you expect? Thank you.

A - Oliver Bäte

I don't know in our industry, I mean, fairly speaking. But I mean when we defined this targets, it's not that we want to step down and to call all the people and say you have to do this and this. It was a discussion that we had together our CEOs starting from where they are and then knowing what they can do in order to do. We met some pilots. As I showed you, Turkey, for example, Germany and others, and we see that we've seen that we can do this. We can improve this. So the numbers were with us. So we're ambitioned.

Yes, we are ambitioned, but we are not stupid in the sense that we just put in targets like this. We discuss it with our people. We see what levers are in order to move it. We will take three years' time, but I still believe that we can get it.

A - Douglas Michael Hodge {BIO 3302044 <GO>}

So, to your question about asset allocation and alternatives, my simple answer would be, yes. And I say that simply because that's what our clients – that's what clients, that's what investors are looking for. Again, go back to my – to our market – to our market view, we live in this world of low interest rates and flat yield curves. And that – that is a – that is a defining element in terms of how capital is being allocated, particularly within the fixed income markets, but I could argue across all asset classes. So, let's talk about alternatives for a second.

Coming out of the financial crisis, obviously there were enormous dislocations in the capital markets. And some of those dislocations in the private debt markets perhaps not as large as they were five years or six years ago are still – are still – are still available. And there's been a fundamental change, which is the private credit markets have traditionally been the purview of the banks, right. Debt origination has been through the global banks. Many of those banks held that risk on their balance sheets and of course we know how that ended.

Today two phenomena have taken place. First, regulations have changed. They are no longer able in some cases to do that debt origination, to conduct the debt origination and they are no longer allowed to hold that risk on their balance sheets. And secondly, they don't want to.

Look across the global banking system. The collective balance sheet of the global banking system has shrunk by about a third, since its peak just prior to the financial crisis. Most of that consolidation has come through in the United States and now is underway across the European banking system. So their willingness to hold those assets on their balance sheet is decisively diminished. This is where private capital, this is where PIMCO and PIMCO's clients, who are searching for return and searching for yield and they will express risk differently. I realize that if you're an institutional investor and you have a liability that perhaps has been priced at 5%, 6%, 8%, you can't get there from here in this very low interest rate environment.

So they're prepared to express risk differently to take on more liquidity risk, to potentially take a more volatility risk as a result to investing in hedge funds for example. And this is where we have responded. In asset allocation, asset allocation, I would broaden that topic to solutions because embedded in almost every solution is some form of an asset allocation approach and that's been an important part of our growth.

Again industry studies would suggest that that's going to continue to be a driver across the entire asset management industry and we have a very important role to play, and quite frankly, in some of those products, we've performed quite well. So we have – we can recognize for our performance in those particular areas.

A - Oliver Bäte

Maybe just to add to that, I know what that you are trying to come up with a computation of what we can do and to enlarge it in detail, we'll give you a lot more time later on this one. Try to do two things please, differentiate between the flow perspective, i.e., how much net income are we generating and how much goes to (02:05:46) and therefore what we have available; out of annual and accruing budget from the stock issue, i.e. how much capital can we mobilize our existing balance sheet. And my high level response is we have all the financial resources we need to invest in external growth and do really well beyond the budget that you have in your mind. So, it's not an issue of how much money do we have available; the issue is where we can find the appropriate targets that will help us to build commanding positions and grow in particular P&C earnings going forward. We are not constrained by the annual budgets that you were just trying to compute.

A - Oliver Schmidt {BIO 15891487 <GO>}

Okay. We'll take one last question from the first row and then we move back across the second row.

Q - Sandeep Bordia {BIO 15148789 <GO>}

Yeah, hi. Sandeep Bordia from Barclays. A couple of questions. You mentioned, Oliver, that you've changed your benchmarks, if you like, to not just beat the insurance industry, but beyond that. So the question is who are you using and what kind of metrics are you taking from these benchmarks? And also you talked about diversity and gender and national, but also I wondered about cross-industry diversity, because that's something I think we struggled with as an industry over time. The second question, just more specifically, actually, was about you talked about applying for nationwide digital licensing in China. It's something on how that worked, actually, as you understand it.

A - Oliver Bäte

Last one, I have to ask you to wait for Thursday. On Thursday we'll give all the details as we're going live in China with Baidu itself, and we can explain to you all details including how the business model is supposed to be set up and so on. Second, on the first question, the benchmarks are those that our clients have for determining service experiences. So, when you go and have your expectations framed by the experience that have let's you say have, for example with Amazon, that then forms your service expectations with others or Apple. Remember, the movie on Allianz one in Italy, that was actually the role model and the development happened together with people that have been designing the store – in-store experience of Apple because that is seen to be one of the best ones.

By the way again, remember, Apple went from being a reseller in actually having stores in order to facilitate clients' experiencing their product and you see the quality of the product and the price first. And insurance used to be the other way around. As we have explained earlier, you ask 30 questions and then you may get a price that you then not can compare, and by the way, you also don't know what you're getting. And that is fundamentally changing.

So we do that by serving our clients' (02:08:35) in terms of expectations for Allianz, what is your relevant benchmark, and that is what we're going to use, that is both intra-industry but more and more driven by experiences that you have in everyday life, and the higher the frequencies therefore retail purchases matter a lot, both on food and non-food where we are looking.

Second, you are exactly right, we have to bring in a lot of people particularly around digital that are not coming from our industry. But to be fair, they have to understand our industry as well. Therefore, you have to bring people and they do understand service logistics, very important. We're not a retail provider. So if you work for P&G, you understand marketing, but you don't understand logistics, in essence, with delivering service experiences.

So the most relevant industries to look for is those services industries that have gone digital first. For example, travel would be an example of that. So that is framing that experience, if that, I hope, helps you. And we're doing it really, really constantly now.

Now, to be fair, you had an implicit question that I'd like to also address. This requires huge changes to the way we design processes and how we do technology. And let me give you an example because that may have gotten a bit lost. The customer experience management, the things that Sergio mentioned, is really the biggest change. We used to measure like many industry touch point performance on bottom-up NPS. So you call a call center and then you get an SMS to say how did you like the conversation. Unfortunately, for a claim experience, that's totally irrelevant because you have four to five experiences until you actually receive the money and/or you receive your car back. And you might have two or three great experience; if the last one is not good, then the whole customer experience on that journey is bad. So that's totally different from how any other company in our industry manages that in terms of measurement.

It is also important to see that this minds retooling the IT. Mostly, today we have IT service levels that are around 90% satisfaction. Now, do a simple math. You have five experiences, all designed for 90% service efficiency. You do 90% to the power of 5, you get to less than 50% excellent service experience if you do not redesign the journey. So this sounds simple; it ain't simple.

A - Oliver Schmidt {BIO 15891487 <GO>}

Okay. I think, James, you were next. The gentlemen in the second one, in the middle, please, white shirt, James.

Q - James A. Shuck {BIO 3680082 <GO>}

Thank you. It's James Shuck from UBS. I just liked to return to asset management. I'm keen to understand the cost/income ratio and how you've actually progressed in the year-to-date, because the number is sort of well above 60% in the year-to-date, and at the start of the year, in the annual report, you have a target for an underlying cost/income ratio for below 60%. But it's not clear to me what you mean by underlying. So could you just sort of say where the current cost/income ratio is relative to where you thought it would be when you put that in the annual report only a few months ago?

And linked to asset management, Doug, could you just comment? There's been a big shift of change in the asset portfolio, particularly potentially assets moving out of the Total Return Fund, which represents your higher margins. So could you comment on the outlook for the revenue margin going forward, please?

And then just my final question, just on the EPS growth of 5%. Could you just elaborate a little bit about what you are actually assuming within that number? I mean is it do with – are you assuming freed up back book capital? Are you assuming the net promoter score improvements and the three-time gearing that you showed? Thank you.

A - Oliver Schmidt {BIO 15891487 <GO>}

It's a good way to introduce Dieter to the discussion.

A - Dieter Wemmer {BIO 4755450 <GO>}

I think it is – I could explain with nine months disclosures that we are moving forward in PIMCO's cost/income ratio. We were at 58.6% in the third quarter. Yes, we were before above 60%, but there were also some one-off expenses. And as you could also hear from Doug, that we are focusing more stronger on our revenues than on our AUM base. So the revenue margin can't be our concern when we make such strong statements for the year 2016.

I will touch on the EPS growth number later in my presentation, but to keep it very short, it is a combination of all of that, which make us believe that we can achieve more than 15% EPS growth over the three years combined. And I think that is a confidence you hear in all individual parts of the presentation and which allowed us to come to this conclusion, and therefore ahead of your current views. I would suggest when we have completed the afternoon, then maybe we can we can come back to your question, James, and then see whether all pieces together make a good story that it is a credible number.

A - Douglas Michael Hodge {BIO 3302044 <GO>}

So, I'll just talk just for a moment about the revenue and the revenue margins. If you look – I would suggest, we're one of perhaps, one of the few managers in the industry, certainly in the fixed income, in the fixed income segment that has been able to achieve higher average fees over the last five, six years. And the recent experience, with the outflows from – and the outflows have been largely concentrated in the United States, and among that core or traditional book of business.

That – as you look at the flows that I have down, right? So, we have net outflows and of course they have been successively left each quarter, and now almost every month. So that money is coming back into PIMCO. It might be leaving the total return complex or the traditional bond complex and then coming back to through some other through – into some other product or some other strategy.

On the whole, that has tended to actually raise our fees – raise our average fee, because its leaving a low fee strategy or I'll call modest fee strategy. Our expense ratios at the Total Return Fund, for example are right in the middle of that cohort and coming back into some of our higher fee strategies, like the asset allocation solutions, alternatives, even the income products, some of the income funds that we offer are of higher fees, higher revenue margins.

A - Oliver Schmidt {BIO 15891487 <GO>}

Okay. We have five minutes left before the lunch break. So, we have time for one or two more questions if there are any. Yeah, Thomas here on the left-hand side.

Q - Thomas Seidl {BIO 17755912 <GO>}

Thank you. Thomas Seidl from Bernstein. One question on the incentive. Oliver, you mentioned, you're changing the incentive scheme you align it with strategy. To what extent should we also expect to change the very top the Board of Management long-term and mid-term incentive system, any changes planed there?

And the second question is going to Doug on the – so growth seems to be a mainly outside the U.S. if I got you right. So, what are the key initiatives you're planning particularly in Asia to make sure you get a fair share of this growth?

A - Oliver Bäte

Okay. Let me respond, and that is before, we are discussing then, you have to give a procedural answer not because I'm evasive, but because it has a legal implication. So the board compensation is determined by the supervisory board and we're having the approval of our three-year plan including the ambitions that you're hearing in the first two weeks of December, right?

So, I can give you a conceptual answer, not a precise on of the numbers because the supervisory board has it. Now, what I can tell you is exactly the same that our top managers have, so it's fully cascaded down. And as you know from our annual report, it has always a financial component on operating profit and net income. And on the other side, it is related to qualitative targets and quantitative targets for those colleagues that run business divisions. What we are now doing is to separate what we call the what and the how and make them equally weighted.

So, on the non-quantitative group results, the half of them will be related on how they're implementing the renewal agenda, how do they think about it. And then on the what target is what is supporting the renewal agenda on the business side. So, for example, if you run a large P&C shop, the things that Axel is going to talk about, technical excellence, will be in everybody's target that has to work on that. In terms of Max, presenting on what we do on the life side will be directly translated in the board targets and the CEO targets to implement that.

Let me explain one minute on the how target. It's very important that we do this in a collaborative sense, 10 years or so ago, people were sharing a certain degree of their income in the board of management on the overall financials, but largely people were paid what was happening in the business division. Already five years ago, we made the majority of the incentives based on team performance, and I think the team shares that assessment it's dramatically increased collaboration.

Now, it is also how we help each other, i.e. is their pro-activeness in bringing, for example, innovation from one set of business division to another? So when earlier, Sergio said we have to roll out Fast Quote, we'll be looking at how proactively other colleagues and the CEO is embracing that or do we actually need to constantly nudge them. So the way people will have to operate, has to fundamentally change.

A - Douglas Michael Hodge {BIO 3302044 <GO>}

So let me directly address your question with respect to the Asia-Pacific region and the growth opportunities there. So first, when you look at people like McKinsey, BCG and others that look at the global wealth markets, they would all conclude that Asia particularly has very favorable growth dynamics for the asset management industry. So this is not something that we've come to on our own, it's widely understood. So there are many very able competitors in that marketplace and we're going to have to compete with them just as we do everywhere else in the world. So I have no misgivings about that.

I would suggest that we were well positioned, we're very well positioned in that part of the world. First, we're one of the largest fixed income managers in almost every country in which we operate, one of the largest foreign fixed income managers most certainly in Japan, in Australia, in China, I could go down the list. So, we start – we start this race with a head start. Now, the assets that we manage as I described earlier are primarily for financial institutions, not exclusively, but that would describe the majority share.

The opportunity is what I described as well earlier. It's oriented around regulation, demographics and markets. So, what's happening from a regulatory standpoint? From a regulatory standpoint, in all of the major countries, there has been regulatory – there's been positive regulatory change; think of it that way. Look what we've been confronting with here in Europe and in United States, which is regulation, which constraints the financial sector. And perhaps with some good reason after what happened during the financial crisis, but regulation in other parts of the world is actually coming down.

So, in Japan, for example, the NISA regulation, which basically was a government initiative to incentivize savers to move out of the banking system where their wealth has been trapped inside the Japanese banking system for the last nearly two decades, moved savers to become investors. Today, there are – it's a record percentage of wealth in – Japanese wealth that is now invested in Japanese mutual funds. It's a still very low percentage on global terms, but much higher than what it was even two or three years ago.

We're building that capacity – that retail – that distribution capacity working with the large brokerage houses, insurance companies, banks who are distribution partners in Japan, building the digital platforms to provide the information to get – for individual investors to get access to our products and our thought leadership.

Similarly, in Australia, now, Australia's further along in that development with the superannuation fund regime being in existence now close to 20 years, and of course choice, but we again are building out our own dedicated distribution capability in our Australian business. And then, finally, in Asia ex Japan, in Hong Kong, and where we are, again one of the largest fixed income manager in the region, building out our capacity to reach individual investors and we're standing us literally on the frontier of China. So I ran our business in Asia-Pacific for seven years. I lived in Tokyo from 2002 through 2009. I've been involved in that business for nearly 20 years. What I said earlier, I absolutely believe that the pace of regulatory change and the steps that the Chinese are making are like none that they have taken before.

Now, we've seen this before, where they move forward and then they step back, this government seems more committed than perhaps others, previous regimes to the recognition that they need to institutionalize the financial economy inside China. And one way to do that is to open the doors, is to let foreign companies come in and compete. And that's what they are doing and we're ready to do that.

A - Oliver Schmidt {BIO 15891487 <GO>}

By the way, be on PIMCO, Doug might do this. Do you know that we're already market leader in Hong Kong and Taiwan, in asset management through AGI? If you don't know take a look, so when you upgrade a China, Allianz is already there. So, the day the markets really open up for profitable business on Mainland, we are, as Doug just said, already on the doorsteps through both our great asset management franchise. Maybe that's a good transition for lunch, Oliver?

A - Oliver Bäte

Exactly. So, thank you for your questions so far. We'll now have a one hour of break for lunch and of course for informal talks. We'll reconvene here in our hour; this would be 1:50. Thank you so far.

A - Axel Theis {BIO 4095028 <GO>}

Okay, thank you very much for coming back after lunch. This is already an encouragement for me. Also, so far that I've heard from Oliver, after the first part of the Capital Markets Day, the share price did quite well. Let's see what happens after the second part of the Capital Markets Day.

You have may asked the question to yourself why after 125 years, Allianz has identified technical excellence is a strong lever for property and casualty business. And the question is quite simple. Our business has taken risks. We need to expose our capital and we should better know our exposures, we should better know our risks to be able to manage them. And as we are in an exciting but also challenging environment, it's about managing the challenges and turning challenges into opportunities. And there, technical excellence and continuous improvement of our expertise of our processes will help us to achieve the desired ambitions and goals.

When you look on the left side, this is about the environment, and this is the challenges we are in. It's a low interest rate environment, and even if we might see some changes in the United States, it's there to stay. So we have to live and we have to manage our business in this low interest rate environment.

Secondly, you heard from Oliver that we are experiencing lots of changes in market shifts. It's about move to technology. It's about using new technologies – data mining, big data for our pricing capabilities for our underwriting, but it's also about market shifts, what do our clients expect from us.

They more and more want to communicate with us in a digital way, which also means we need to provide products to them which are meeting those expectations. And this means simplifying products; this means developing modular products where people can pick and choose. This all has to happen in a seamless digital way, in particularly on the retail business, but also more and more in the SME or SMC business. And you heard already today about a couple of examples.

In addition, there are some sort of bigger developments. In big cities, the younger generation, they don't want to own cars anymore. So this is about shared – about the shared economy. This is about assisted driving, this is about autonomous driving, Google investing into this technology. And this will lead to a fundamental shift for our business, in particular in our motor portfolios, in the next years. But in 5 years, but definitely in 10. And as Oliver said, we're perfectly equipped to manage this transformation.

Whilst the risk then might move from the individual driver towards the one who opens the traffic, who's running the car fleet or who's opening the traffic, which will lead to assisted driving or autonomous driving, we know how to manage that, because we're one of the biggest product liability insurers. Lots of big car manufacturers are our clients. And as Oliver said, since more than 20 years, we're ensuring air traffic controls.

So this means on the right side for us, replacing shrinking investment results, creating the new technology, the new form of products to meet to those expectations, and to invest in those technologies, but also invest in the training, the education and – of our people, and to attract the right talent for that. And this is what technical excellence is all about.

Over the next couple of years, we might lose approximately €1 billion of investment income for our P&C business and this is what we have to replace via sound underwriting results.

And there are two levers, one is expenses, expense ratio, and there digital by default will play a significant role. And the other one is loss ratio, pretty simple, and there technical excellence will help us to achieve that. Now when we talk about technical excellence, then we are talking really about a mindset and the behavioral change. And this is around those five pillars. It's about pricing and underwriting, it's about data and IT; it's about people and claims. And this is what we call the technical foundation of our business.

In all of those levers, all of those pillars, we will have to address over the next years to achieve what we call the guiding principle of technical excellence, which means that growth in margin is equally important. I'm currently sponsoring Allianz Management Institute course. I stepped in for Oliver because in his old role, he had two courses, one in spring and the other one in November. And as you all know has now different duties; he handed over to me.

This course was labeled growth, bold but not reckless. I had changed the title into profitable growth, because that's what it's all about. This means sound technical skills. It means using technology, using underwriting, using technical expertise as an enabler to develop new products, but also to manage existing portfolios.

And then I'm hearing, and I had discussion today that some of our peers are feeling uncomfortable with nat cat exposures. Then my answer would be we should feel very comfortable with this nat cat. But to be able to feel comfortable, we need to have the data, we need to be able to manage those data, and we need to be able to manage our exposure, because then, we can decide what risks we are taking on our own balance sheet and what risks we cede to third parties.

Here are some examples, technique in action, which also shows that downside can lead to a significant upside potential, now we explain to you why. In 2014 – this is all public available information, so no new news. We had €200 million of negative underwriting performance coming from portfolios, then from OEs who besides those underperforming portfolios actually achieved the expected results. So to turn those relevant with right discipline, cleaning, changing, changing rates, changing covers, during the constant re-underwriting process, rich upside potential. That's what we going to do.

Secondly, these are the well-known loss leaders: Fireman's Fund, LatAm, Russia. By the way, Fireman's Fund and Russia is now part of my responsibility on the board, maybe happened by coincidence. And those topics will get addressed, are getting addressed, and I will show you in a minute with which has been already accomplished with the integration of Fireman's Fund into AGCS.

For Brazil, we have developed a special turnaround plan. So we had teams in our group supporting the colleagues in Brazil on the ground to reestablish a technical pricing approach, which also takes care of the current challenging economic environment. In an environment where you have inflation of 9% and more, you need to be able to change your price very, very quickly. And you need to be able to take corrective actions also very, very quickly. And we're not letting those teams be on their own; we will support them within our group with expertise from around the group.

There is also pressure on the motor portfolios – multi-portfolios in some of our markets. This is in particularly caused by – which is by the way positive, that in Italy, that in Ireland for example, the economy on Spain and Portugal are starting to bounce back. So this leads to that people, so to say, start again driving, use their cars significantly more than they did in the past. Also, gas is quite cheap, which means for them the affordability of using the cars is significantly improved. And then, also, as the economy is doing better, then you will have more traffic, you have more frequency, and you have also more severity. So there, it is really important that you act really fast, changing your prices, adjust your prices. In Ireland for example, we increased our prices within one year by 52%. And the benefit of this we will see in 2016.

We also, in our work within technical excellence, identified six levers, what we call must-have initiatives, and must-have means non-negotiable. When you see all the flex on the right side, those OEs are participating in those initiatives and have given their clear commitment to implement within the given timeframe.

Technical pricing systems. This means that by 2018, more than 80% of our premium is based on a certified technical pricing approach, where the technical price and the actual price per policy is captured in the system and we can start to derive from this knowledge the right actions when it comes to pricing, sometimes even decreased prices because on the price bell curve, it might lead to profitable growth, but as I said, also in the other direction.

And smart circle for example – not smart circle. What is behind this smart circle means that we have on the regular basis in all our business communication including top management with the pricing attributes, reserving attributes, the claims people, the sales people, the underwriting people to go through the portfolio on a regular basis to understand where there are issues, where there are growth opportunities, or where there need to be corrective action taken as swift as possible.

And I can say if all our OEs would have implemented this until today, the number of bad surprises like Fireman's Fund, like Russia, would be significantly lower, because people would realize that there would be issues on margins, on reserves (02:37:30) much faster, or where sales or claims developments are going wrong.

And deriving from the sort of knowledge coming out of those regular feedback groups, ideally on a monthly basis but at least on a quarterly basis when the OEs are doing their closings, this then would be called enhanced portfolio management. So deriving from those facts, from the knowledge, then, making business decisions about where to grow, where to shrink, or what to change.

Then gross underwriting culture; it's a very simple thing. Using reinsurance to manage volatility should be a straightforward excess of loss. And using quarter shares proportion reinsurance only to manage capital. And as 98% of our property and casualty premium of our OEs is ending up here, while other reinsurance optimization – actually, it makes more sense that OEs are arbitraging in against the parent.

Decoupling pricing engines. To be able to change your prices very, very quickly depending on the segment: motor, retail, direct. In some areas, you need to be able to do that on a daily basis, even on hourly basis. To be able to do that, the prici0ng engine has to be technically decoupled from the main system. On the retail side, lots of OEs were already there. So some room for improvement. On the commercial side, we have some room for improvement and this is something we will focus on.

And last, but not least strategic people plans. This is about our bench. Do we have the right quality in underwriting? Do we have the right quality in claims management? Do we have the ride quality in loss control engineering and actuarial? And where we don't have it, look whether we can find it, maybe also at our peers, or have a clear development plan for our people to meet our expectations. And to do this in a structured way, also in a transparent way that we can start to exchange between OEs, but also between head office and OEs. We also have agreed on 20 additional what we call Wave 2 initiatives, which will circle around more of the mid-cap space, the claims space, and advanced retail pricing.

An example, Fireman's Fund. How much progress we have achieved by the integration. So the forecast for 2015 will lead to a combined ratio of 109%. Not great; however, take into consideration that we really took the opportunity to clean everything in 2015, increased some reserves, in particular in the professional indemnity book. Also as the sales could be concluded only after the first quarter; unfortunately, had just some natural catastrophes on the present Allianz side.

I think it is already a very decent result, in particular when you look at the cost ratio, as we were able to achieve all the targeted synergies and cost savings via the integration into AGCS in 2015, which you can see here on the right side. Closing offices, merging the portfolios, reducing staff by more than 1,000 FTEs, partly as staff moved towards the (02:41:43), but also because by more efficient management of the business now with the integration into AGCS.

And it has done a very, very well. I'm really proud of the team to achieve that. As you know, Fireman's Fund used to be a Californian license company, we're able to do that without a single lawsuit.

In addition, we decided to create a kind of a bad bank. We took all the run-off business of Fireman's Fund, which caused some issues in the past, but also the business we decided to discontinue and moved it towards a kind of bad insurance company, run-off company, and we used the San Francisco re license for this. This business we took out of Fireman's Fund and AGCS moved to Allianz Re. Reason, those people should focus on the ongoing business, managing the turnaround, but also start to focus on developing the business.

And now we have a specialized team focusing on the run-off, which also will be the starting point to move more run-off portfolio within the Allianz Group towards this unit called Allianz Run-Off Management. In addition, we're currently negotiating with two specialists who are very keen, because they compete – we have started the tender process – to agree with us on a quarter share arrangement on this run-off portfolio, where we'll also be able then to gain their expertise to potentially achieve an upside out of running the portfolio off that I think also gives a great sort of credibility about whether our reserving levels are now sufficient.

When looking at motor in this current competitive environment, we are not able – we're not only able to manage the profitability toward the combined ratio after the third quarter of 95%, but we will also able to grow. And the way we did it, and again really proven technical excellence, is with a strong focus on pricing. And here on the right side, you see all these sort of initiatives and what we did.

In addition, which is even more positive, for the first time, we were able to grow our market share in the non-motor retail business in our large OEs, while the new product generation. We achieved this in Italy, we achieved it France, but we also achieved it in Germany, this new product called (02:44:55).

Then, Spain. Spain, I think, you all already heard lots of good stories about it. Spain is able to achieve profitability and growth at the same time in a competitive market environment and they did it over all the most recent years from 2010 to 2014, a great track record. And how they did it? They did it this a simplified product design, advanced underwriting technique, understanding elasticity, having an advanced IT system which is able to cope with those challenges. And for us, it's a model, which we'll try to replicate in other OEs. So this is also part of technical excellence: take from OEs – we used to call the sustainability approach. Take which works well in one OE and trying to replicate and share it with other OEs, so that we are learning from each other, we're able to replicate successful models in other OEs, and do this in a structured way.

Allianz used to be a late starter on direct, but as you can see here, over the years we are able to increase our portfolio. And we are able to increase our portfolio by keeping the profitability under control. And I think this is the foundation and the basics which we need in the new digital environment where direct will become a very important sales channel into the future. And looking at the upside potential, we have 63% of our portfolio which already on the right upper corner: return on risk capital of 20% and plus, and a nice, excellent yield combined ratio.

On the other hand, we have 23%, which is not where we would like to have it. And technical excellence will in particular focus on those 23% to get those portfolios in the upper right corner – significant upside potential.

And then, last but the least ambition level. Ambition level is that our market share of profit is always bigger than our market share of premium. And again, what you can see here, 51% of our business is already there.

On the other hand, 49%, we have room for improvement, but in particular we have a strong focus on the 23% where we are negative on the market share and negative on the underwriting result. This will be the areas where we will have the strong focus on and try to get it up to the upper right corner.

So our ambition is to achieve a combined ratio within the period up to 2018 below 94%, and the levers will be the rollout of a technical excellence work stream, the six must-haves, but also the additional initiatives in Wave 2, and with a strict discipline on cleaning the negative portfolios and making sure that in the future we will have significantly less negative surprises. Thank you.

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Hello, everybody. I'm always waiting for the applause so that I can come here and present. So I think we are (02:49:18) event; that's obvious. Perhaps I should tap and dance a little bit, get a little bit more lively.

Life insurance. To say something about life insurance, life insurance, I think in general, has been built on tradition, not so much on innovation. And I think that, we have to change. If you work for 20 years for a life insurance company, usually you think capital markets are moving up and down, everything is only noise, you have 30 years there because of a long-term horizon, therefore you do not have to change anything. That is, I think, it still the stance of a lot of people who are in that business, and some of the people still hope that interest rates will go up in the end, and therefore they do not have to change anything. And I think that's totally wrong.

But first, let's have a look on the overall cycle where we are, so to say. This is not a cycle. This is showing we have long-term trends in general, as you can see. The demographic trends are everywhere the same; that's not in Africa.

Social security systems go down. That means people have to save more for their old age. That means that there is a need for additional savings, and you have even to save more because you do not earn a lot of interest on your existing savings to make up for the losses on the yield side. That is a wonderful environment for the life insurance business, because it causes additional premium if you do it right; that's obvious.

But because of the very low rates, we have a lot of challenges. Costs for example a very much important, but most importantly, the guarantees which have been provided in the past, they can't be the same in the future, because the low interest rate environment together with Solvency II make it nearly impossible that you can really cover these kinds of guarantees very long-term.

And it's also given (02:51:14) easy to sell only savings products but with the tax advantage combined. That makes it easy to serve this kind of product. Right now, we have to think of first what the customer needs most, and that is usually at first biometric risk covers and then the saving part, as part of the overall equation.

I think in general, we should not only think of the shareholders and of the risk cover, what is needed to cover this kind of business, but also of the policyholders. And therefore, it's very much important that we change overall our product, because if I lock in with a zero bond for 30 years at very low interest rates, I think that's not a very good business proposition for the customers. Therefore, also, the customer needs some upside, and this is only possible if we reduce overall also the guarantees.

Now, what made us so reluctant to change anything, if you think only after development of the overall business, everything seems to look very, very nice. Revenues went up sharply. It's more than 50% of the revenues of the Allianz Group. Operating profit – yes, there was some point in time when it went down due to the financial crisis, but I talked about cycles. Then we are now back again very strong results last year, and the same applies also to market-consistent embedded values overall.

Even if you think of the buffers we have in place, the overall level went down, but the buffers are still there as you can see. There's a difference on the left hand side if you think of the portfolio between the total book yield that they get from our assets and the minimum guarantees. There, you still see a healthy buffer of 2.3%, which looks really nice, but even if you compare it only – taking into account only the new business, even still they are able to guarantee as it 0.8%, if you think the new business – the reinvestment yield is also I think very interesting, 1.7%.

And the reason for that it is that at least there was some action in between. We have reduced overall the duration gap, what was very positive and helped us also on the risk capital side, and especially to reduce our overall interest rates sensitivity as you can see. Therefore, the required capital at least in the year 2015 went down.

But the picture is not complete if you do not have a long-term view on it, and as you can see, our OE's numbers do not look so favorable if you compare them with the past. We went from 13% to 10%. Net income was mainly stable, but only because we have grown the reserves. Hence, we needed more share capital to really cover the guarantees of the overall business. That made it less attractive for the shareholders to really grow from more life business. The same applies if you think of the new business margin. There, you see a direct impact of the very low interest rates.

We have now – a view on the development of the RoE, you should also think of which (02:54:22) OEs or companies are really providing these kind of returns. If you take out Germany, and Oliver has already described it, the average is only at a little bit more than 8%. That means not at least to 10%, which should be a kind of minimum target. And at the end, I do not know whether you're familiar with all the facts (2:54:42). These two countries are in Asia. Perhaps, I do not have to say more than that. These are now providing negative RoEs.

And also, if I think of the new business, we now try to come up with an order – let's say up to 1.5% our business margin. That's more than one-third of the business still. And above 2.5% is only 31%. That means obviously there's a need to change to do something.

What I've added on this slide are the new targets. That is very much important. I think we convinced all our (02:55:21) that now the time is there that they really have to change. But implementation is key, and therefore, you need to hire (02:55:27) targets which are linked to boni (02:55:29). That's very much important overall.

And we said we do not want to go for an average RoE. We want to see an RoE target per each OE. And the minimum target is 10%. That is really ambitious only to say so because if we do nothing, the RoEs will go down due to the falling interest rates into portfolios. That means we even have to do more than let's say improve at an average by 20% or 25% for each company. How we can do that? I'll come to it overall later.

Then we have also the task to reduce the risk level that's very much important as an activity (2:56:06) because there we could invest also in more attractive asset classes that provides us and also with some additional yield and that is also necessary for the overall customer.

We have also special targets now for the new business, very much important that therefore the change is really happening. You know we are accustomed to serve for 30 years the same product. Therefore, you need some push. I can tell you to change that. Therefore, we have also heard it for the new business margin. And new business margin is not applicable to unit-linked business because they do not need a lot of that one. Therefore, we've also an additional RoRC targets and that's linked to the risk cable (02:56:46) that's at 15%

And for each single product, we do not want to see product's negative margins nor the minimum hurdle should be at least 0.7% new business margin. But overall, the average RoE should be 3% and above. That alone I think would really change overall the business and the business mix because there's no other possibility to achieve that.

We tried to come up with a new category that – these are the capital-light products so that we can really steer business. We want have also targets on the new business mix. And the development right now I think is really positive. Only in one-year, if you think of 2014 and now take only the third quarter that's the right column, and there you can see that even only within nine months, we have achieved that the traditional business went down by 9 percentage points. That is really a lot because usually you need sometime not only to change the product but also to convince your sales forces that they should sell the other product. In general, protection and health, 14% I think is not a very high. That's yearly markets average you can say overall. And also in retrospect, I think we have to do more.

The overall ambition level you can see here. I think, in general, I expect more than that. That is from an ambition level. But usually, if people are not accustomed to a lot of changes, they are very conservative in their assumptions. I think if everything is rolling, you have convinced your sales forces, it will be even more than that one.

What is not so easy to achieve is the 20% for the protection business. That's for sure. This business, to say, needs much more time for the agents. That means airtime, and therefore, I think there, you have to change overall the sales process as such. Very much important for all of this is that there is re-buying the management and management has to go through the sales events and really show a strong commitment. And we have some very good examples, two large companies, that's Germany and Italy, who have done so within the last two years where you have seen a significant change also in the new business mix. That makes me really optimistic and that we can overachieve these kinds of targets.

Now, you can differentiate if you think of the measures, new business from in-force management. New business is always to start. That's for sure. But you know the business is long term. It's not P&C. That means if you change the new business, the ROE will move but only very slowly. If you have a duration of above (02:59:28) 10 years or 20 years, it's clear that usually new business alone is not enough to see a big change on the RoE side. That means we have to concentrate also on measures on the in-force management.

And but first, let's start with the new business. Protection, I see protection in general on the life side is totally underpenetrated in most of the markets. The main reason I already mentioned, it was easier for the agent or broker to sell savings products if the commission is related to the premium then if you can earn more in the same point in time when you sell a protection product. Also, protection products are more difficult to explain overall. And therefore, I think overall we have to change the stance from a product-driven sales process to a niche-based sales process. So this should be the starting point. Then we have to make it easier for the sales forces to serve kind of products, not so many questions that's for sure, using better data, you can do a lot of things on the underwriting side, and you can combine savings business with riders where it's a very easy way to get a higher penetration on the protection business.

There are a lot of ways I think where we can do much more. And we have a lot of OEs who already have achieved that. And I want to mention one example. And this is Switzerland on the left-hand side. Switzerland, there was a need to improve the new business margin. And if you think of negative yields on the front market, it's relatively difficult to provide than a positive new business margin. That's obvious.

Therefore, if you want to sell these kind of products, we have to do it in a clever way. We have to reduce our guarantees. Lowest guarantees Allianz Switzerland is providing right now is 60% of their premium. Even that one is accepted by customers as they get a wonderful upside. That means we can invest more in other asset classes. But also, you can improve the new business margin by putting in additional riders. The average in Switzerland is four riders per savings product.

And the impact on the present value of new business premium is only marginal as you can see. That's the left-hand side. And the middle, the new business margin, because these products are much more profitable in general, is very positive. Other wonderful thing is that usually there's a wonderful diversification benefit, you do not need a lot of risk capital for protection business, and it's totally independent of the interest rate environment. Therefore, also for our business mix, it does really wonderful things.

We try to copyright now all the strategy for example in France where we now started a new product generation November 1. There's a possibility to similar as we have seen it also from sales routes (03:02:19) that the customer really can pick everything what he needs. Yes, that means you can pick all the riders. And it's very easy for the customer then to say what he likes most and what he needs first.

Then, I think you have start with some kind of principles. Otherwise, some of your colleagues are still – would be still reluctant to change something. The first principle should be an agreement to Solvency II towards (03:02:44), you should only offer guarantees you can hedge.

If you can't hedge the single your business piece, then you could – should at least hedge it in a portfolio sense. That is absolutely crucial. That means, in general and that it should be also given, but you can't see it everywhere in the market, guarantees should be usually below the investment yields and you shouldn't take into account also the expenses, what is very much important.

If you're seeing – searching of the guaranteed rates which are allowed by regulators, they are still in a lot of markets, too high in that respect. Therefore, you have to be very careful.

Very much important and very often underestimated is the length of the guarantees. We are accustomed to lifelong guarantees. I think that is really wrong because if you have to match them, as I already said, you lock in the very low interest rates. That means it's also in the interest of the customers that you have a reset of guarantees. The new guarantee then, at some point in time, should be dependent on the market yields at that point in time. That means, there's much more upside that's also in there for the customers.

Then there are some products and we will show that you should have some repricing features and sell them.

One example was Perspektive where in the end, the guarantees have changed valiantly (3:04:01), meant that was sold very strongly within the last two years. With the guarantee level as such, it went down to only premium guarantee and that was the first one. But the use also and a more terminal bonus that means more flexibility in the end if markets are crashing or going down and I will show that later on, terminal bonus is really wonderful because you can use it instead of the risk capital that has to be – really brought by the shareholder. That's very attractive. That is increasing therefore overall also the return on equity.

This I think is a slide Dieter Wemmer likes most because it shows a total flexibility, not only on the product side but also if you think of the in-force portfolio. This is fixed index annuity we offer in the U.S. And you can adjust the terms of your policy nearly every day or let's say every two weeks. And that makes – you can really react if they are significant market changes. It's a tranche (3:05:08) product if you sell it. That means you can adjust.

If you want to achieve an IRR of – here, 12% is an example, then you can adjust always the terms in-between, mainly by changing, for example, the cap rates and that is also what you have in-between when you have locked in a such product. And let's say it has a maturity of 12 years or 20 years, even then, in-between, you can play with a cap rates if volatility goes up or interest rates go down as an example. That means for the shareholder everything is nearly stable.

This kind of flexible product, there are a lot of advantages that's for sure because there's also – there are no arbitrage against such general account procedure. That means it provides also some advantages for the customers in total.

Now, if you come from a traditional world with traditional product, at least in the German-speaking countries that was our the starting point two years or three years ago, you have to think what are the next steps and what can do. In an ideal world, if I think only of risk capital, I would offer instead of traditional business only unit linked. If you think of your sales forces and also that depends on the country of the customers, it's very difficult to make this very big step. Therefore, usually, you start with something in-between. You come up with capital-light products, which do not need so much capital. And I will show an example. With as mix chart of traditional and the unit-linked business or if you want to go to the unit linked directly, you should at least offer funds which provide a very low volatility. That was a concept of success in Italy where we are still market leader on the unit-linked space in general.

You can see that as a kind of toolkit or toolbox, every OE in the Allianz world can pick one solution which is fitting to their own sales force and then should start to do it. This is the overall idea how we would like to share the knowledge within the group. And we have some (3:07:08) very successful examples where that has been already achieved. But there's a long way to go.

Now coming to Germany, Germany has a broadest product range that started much earlier to diversify in that respect. And to say – there you see the product range overall, the traditional one which is now pretty small if you think of new business, then the Perspektive that was launched in 2013 and the new one that's KomfortDynamik that's a special fund which is managed by Allianz and combination with general account. Everything is fully serviced to the customer. Customer doesn't have to care about asset allocation or other stuff. We try to find solutions which are very cost efficient in the end for the customer, but also, it's building on the know-how we have on the asset allocation side.

Therefore, it seems really attractive solutions that means also additional year possible for the customers. We want other ones there below where the customer can at least choose and then select as kind of fixed index annuity where the customer can chose every year, whether they want to have the feel (03:08:14) from the general account or when whether they want to go for a stock index, like Euro stocks as an example, and then their performance linked to that index is provided. And then you have the other hybrid products.

So that means you have broad range. That means if you're a bid (03:08:32) customer cluster and say according the risk-return profile of the customer, we have all the products which every customer, depending on his risk profile, is really needed. And then can you combine it with other risk riders you can see overall there. I think that's the ideal concept and the concept overall for the future of life insurance.

Now, this is more of the customer view now, let's have a look as a shareholder. Why is it attractive for the shareholder? Now, think of the traditional product and now thinking of the interest rate sensitivity. If you think of the current markets and conditions still, you need a lot of risk capital for the guarantees.

Now, think of an interest rate shock, the traditional products are very sensitive on the interest rate shock. That's very clearly because we have very low interest rate basis overall. And if you'll now think of the new product Perspektive or KomfortDynamik, then you can see only the base case without taking to account the question now on the interest rate side that is 50% less risk capital that you need. And even on the shock side, the sensitivity is reduced as you can see between 30% and 40%. That's really a lot I can tell you.

And also to prove that the new business margin of the third quarter of Allianz Leben after such a shock, you can see that here, 100 basis points. Also, they have the impact on the new business margin was only 0.9%. That, I think, overall shows that these products are also really interesting for us as a shareholder.

Now, digging deeper into what Allianz Leben has achieved up to now. And what is really amazing you to differentiate between the retail business and the corporate business. The left-hand side is showing the retail business and overall what you can see on this thing that is in the short time period really fascinating they would use the percentage of traditional business from 50% within less than three years to less than 20%. That's really good, that is what I would like to see from all of my (03:10:42). And that also by improving the protection side, but I'll come to that later.

On the corporate side, for the corporate businesses, it lasts longer. The main reason for that is first, you have to convince the employers because you have a contract with the employer that it sets up a new contract, and then afterwards, you can change the business mix within. But even there, as you can see, there was a significant change within the last two years. That makes me really optimistic that we are on the right path in that respect.

Now coming to protection. We're right now – all of the life insurers, I think, want to have more protection business. Therefore, it's a crowded market you can say. Therefore, you have to do something special to really increase your market share, not that the business is not only growing as such more than the savings business but also that you grow market share. That is not only that you come up with new product solutions and clever combination with savings products there, some more things to do you have to convince, for example, the underpenetrated sales partners you have on the broker side. There are a lot of possibilities how you really can change it. And what you can see from Allianz Leben, only to pick it as an example, over the last years, they have significantly increased their market share, first in the standalone risk covers and then the second one are the risk rider business, yes?

And I think that is encouraging that we can make it with the right products in mind, the right impetus on sales that you really can achieve a real change in the business mix. This picture looks a little bit like what AXA has shown. Unfortunately, on the right-hand side, there's only 24% of the business and not 63%. That means there is a long way to go. As you can see, what was very positive only within one year from 2014, 2015, we think we can change significantly at least if you think of the business, which is less profitable, we really reduce it from 42% of the overall business mix to 20%.

Very often, people think only of a new business what they can do in that respect. That is really wrong. If you really want to really change your profitability very fast, you have to react also on the in-force side.

We have, therefore, started to implement an organization who takes care of that one. That means at first, a global task force who goes specially for the back-books which are not profitable or loss making. That's very much important and that you need a little bit more push. And then also, for each OE, there is a responsibility to nominate such kind of in-force management. Why is it so much important? Crediting rates are very often driven by new business needs. That means they are often too high. We need someone who is really taking care of this without only thinking of sales. Therefore, I think it is very necessary that you do some kind of organizational changes as you see it here. I'll come to the measures in a minute.

Often, also very much underestimated is the form of the crediting rates you provide to the customers. Usually, the standard crediting rates you provide to the customers is the recurring bonus. And the recurring annual bonus is up to the existing guarantees. It is guaranteed after one year to the lock-in function. That's the standard form almost crediting rate in this sector. I think that is very dangerous in the end. That means you increase over time significantly the guarantees and have no leeway to react if interest rates stay at very low levels or markets are crashing.

Therefore, I think that's easier than usually done or sort. We should go for a higher portion of terminal bonus. We see that in a lot of country right now. Not in too many, I have to say. We have to do more in that respect. And there are some other advantages. We truly speak for this kind of strategy.

Another one, what is also that you do have – that you can use it in an emergency situation, but – and that is their positive. It can really replace the shareholder capital because terminal bonus funds are seen as a kind of equity or risk asset. That is along improving a lot. They are returned on equity and on risk factor. It's building up over time and therefore very significant overall.

And we shouldn't have underestimated risk. If interest rates are going up, there's possibility at least to work against arbitrage and also can reduce overall the payments to the customers that means you can react in capital market changes. Very often, we have guaranteed surrender (03:15:34) values in most of the markets, and then if we have a free pot of what you would like to pay the customer in form of return or bonus fund, we have much more flexibility also in that respect.

And for the customer, I think it's also very favorable because usually, the normal case is you do not reduce the terminal bonus. But on the other hand, it provides you with additional risk capital that makes a positive possible to invest in more higher yielding other asset classes. Therefore, for me also, this is a kind of win-win.

Now also referring to the example of Allianz Leben, why I'm always mentioning Allianz Leben because it makes up for just 42% of the technical reserves (03:16:21) of the life business of Allianz. That means it's really a very big part of our business. And what we have done on the in-force side only to have a practical example of that one, we extended the asset duration significantly, partly that was done because interest rates have gone down. That's for sure. But there was a lot of active management behind. And now, that is very much important. Have a closer look on the right-hand side to dynamic asset liability management. I would like to explain that.

If you only think of duration management, this is only a rule of thumb that doesn't show you which maturity bracket you have really to cover overall. Therefore, we have to make sure that at least for a very long time period we can cover this already fixed investment income all guarantee needs. That is what you can see on the right-hand side. That means at least for the first 30 years, the green line is showing the development of the guarantees overall and the dark blue line is the expected investment income. That means you can see in every years, we have still a buffer there. I'm not sure that there is any other life insurance company in Germany who can say that. I doubt that only to say that. I very much started it.

In addition to that, you could also find into guarantees through – with additional technical income that's light blue one. But it should not be our ambition, that's for sure. That means we have to think of an advance asset liability management, not only thinking of a kind of duration management.

Crediting and terminal bonus, I already mentioned. That's an interesting part of Perspektive. Our line – the loan has right now a terminal bonus of 0.8%, providing additional risk capital funds but also additional flexibility. And what's very much important if you think of the single premium business is also this diluting their existing books yet, you have to limit them. And the other possibility is also that you come up with different crediting rates for single premium business in comparison to the existing back-book. And that is what we've done on the right hand side. That is also working against the arbitrage from special customers.

Now, some words about investment management because at least a little bit more than 13% was indicated also to investment management. That is not only referring to the life business. That's the total assets of the insurance business overall. These are €630 billion as you can see. We measure our investments not only against market benchmarks, that's a given, but also against competition although that is not perfect. But – and also competition now is providing information about the hidden reserves. Therefore, you can come out with a calculation of the real total return of performance. It's not totally perfect but at least a very good indication.

We compare against 10 peers every year. We'd have taken years to compare us with our peers which we can compare best because they are working mainly in the same markets. Otherwise we have some distractions because of the currency movements. That's Generali, AXA, and Zurich. And here, I come up with long-term comparison we have achieved over the last 8 years in addition to return of 0.5%. That is very much important.

I'm not sure I would like to promise that for the future. But let's see how good we are at that. Why was it possible to achieve this kind of outperformance? I think there are several reasons for that one. The first I think it was a setup of the Allianz Investment Management nearly six years ago. We were the only one who really separated the investment management and made it a global operation. There, we do also all the asset liability management, but you can use the global expertise in a better way than if every company does it on its own. I think that alone is a very, very, big advantage. And there are at least one competitor who even – who would tries to copy us but the others are little bit behind in that respect.

What we did not do? We did not go for higher crediting rates as you can see. We've compared ourselves not only according to ratings but also to the loss ratios, which are behind the ratings. And what we can see is that the credit quality of our portfolio is a little bit better than this of the peers (03:20:43) overall. And we provide higher current yields (03:20:47) life insurance business.

Some other building blocks for the outperformance, Doug mentioned one. This is the special expertise we have on the asset management side. 53% of our assets are managed by PIMCO. And there was a continuous outperformance. That's obviously something that helps us. But it's – the same applies for AGI especially (03:20:08) if we invest in equities. And we have some other own shops who are only managing our assets, Allianz Real Estate and Allianz Capital Partners. And at least I want to say some words about them.

How important the investment income is you can see on the right-hand side although it has gone down due to the falling interest rates. Still, 58% of the operating profit is linked to investment income. That's really a lot. This is one example how we try to achieve a continuous outperformance. If you invest only in listed securities, it's very difficult to differentiate from others. Therefore, you have to think of other assets where it is not so easy to get access through. You need usually to specialized asset managers for this kind of things. And there's real estate mortgages, infrastructure, private equity renewable, and what you have. You always to take new asset classes. Very much important is that you should have cash flow profile which looks really stable. Otherwise, it would not fit to our overall business.

I think we can even grow that business stronger. Right now, we are at $86 billion. We have said we want to go for $110 million within the next three years. I think we can achieve more. But it will also depend on the market conditions. If we do not get the right spreads for that one, we would not do that. That's obvious overall. But also, there, I think we are better off or advanced in comparison to the competition.

Now, to – only to show you something if – the Renewal Agenda how we worked. On the right side, we added little bit easier because we started a little bit before the Renewal Agenda. Then we set up the process with work streams and most of the CEOs were involved so that we get a real buy in what really can be done. And then we defined initiatives similar to the P&C side. And there is now a very big buy in the first wave right now is (03:23:04) involved all the large ones that's for sure. (03:23:10) alone stand for way more than 80% of the overall business. And the smaller companies will follow. That means there's a rededication and commitment. But the reason for that is that we have hard targets. And therefore, there's also an incentive for the areas we need to really to single implementation.

Only to sum it up, in general, there is still a lot to do. But we have already started was what is value positive overall that will be let's say 80% change of the overall business. We are a big tanker if you some time to get speed. But I think we have taken it up. And therefore, I'm very optimistic that we can really achieve these targets, and they are – I think they are not too ambitious overall. That means in the end we need less risk capital for the same profits. And we can grow overall the profits. What is very much important overall and this by a combination of measures on the business side but also in the in-force management. That is very much important.

And foremost, we should not never forget that you could only achieve that if there is also something in need for the customer. And I hope I have convinced you that this is really the case in a very low-interest environment. You hate to have to change the product. Otherwise, the customers are the ones who are paying the bill. That is not what we would like to do. Thank you very much.

A - Dieter Wemmer {BIO 4755450 <GO>}

So good afternoon. Strange title for the CFO presentation. It's like the business is dumped all these stuff on finance and we have to turn it into gold.

I'm not sure that this is the case. Value creation only is taking place at two places, at the customer interface and at the investment processes. So what I will talk about, are we able to demonstrate that we have created value and are we able to show it?

So let me start with something familiar. Our dividend policy we introduced last year. Just as a short reminder, it is still valid on an unchanged basis. So it is coming from heritage and survived renewal agenda. So we pay out 50% of our net income as a dividend. We still allocate a 20% of the flow result to M&A. And currently, as you can also see from the chart, from the years 2014 and 2015 so far, €1.8 billion are still unused for M&A activities. And then also I think that was a question in the last analyst call. We have a ratchet in our dividend. In case that net income is not doing as well as we would like see it, and you would like to see it, we stick to last year's dividend.

So then let's turn to the famous Solvency II question. First of all, why all this excitement when you look at this graph? I've put this table five-year track records. It's a number somewhere between 190% and 200%. S&P also very happy with the numbers how we presented, very stable rating. Still, each level movement, each announcement about Solvency II creates hundreds of comments and questions.

So are we finally moving away from this? Yes, at least our Solvency II model got approved last week. And more specifically, a proof got submitted how we calculate our Solvency II ratio. And why is – I'm making this fine distinction because we have only for some of our countries for 72% of reverse capital applied from internal model, some are going to the standard model, you can see it here from the chart 14%. And so, the remaining 14% is actually asset management and our U.S. life business, which follows U.S. equivalents.

On the – and you can see also here from the flags, which countries are under the standard model. And you'll see here that also large countries are obviously under the internal model.

On the left-hand side is the composition of our available financial resources. When we start this grey box other, that is called other and not in the tiering of Tier 1, Tier 2, and Tier 3 because that is matching the U.S. equivalents and the asset management, which is officially not in the tiering of a market consistent balance sheet of an insurance company. But it is still in the overall aggregation, and by chance, it is also 14%. So you can see that pure insurance businesses have the same ratio of 200% as the other category.

All together – well, when you both put the grey part also into the tiering, it would be all Tier 1. This of course is all paid in capital and retained to earnings in the various units that is nothing special in these businesses. So a pretty strong coverage by Tier 1 capital even if the insurance industry would go like the banking industry to any requirements on the quality of capital and also I think a solid base how we calculate the risk capital.

What does this – how does this now link to what we have heard before? What I'm showing here on this slide is actually our interest rates sensitivity broken down to the various categories of businesses. So for the whole group – so for 100%, a 50 basis points interest rate shift, it's a parallel of the risk free rate creates 12-point reduction. And that allocates mainly to the life business and among the life businesses to Germany was 42%.

But what I feel is actually for you more important, what does this imply on the free cash flow of the underlying businesses? Well obviously, asset management is de minimus to impact or zero. In P&C, it's also a tiny impact as to some movement because we have discounting of reserves. And therefore, it's a minimal impact on both on the solvency. Our Asian life business carry 8% of the interest rate sensitivity, but the local solvency is matched up in different systems. Therefore, the dividend flow is not linked to solvency to movements.

In the U.S., pretty much similarly. So the U.S. risk capital system is not interest rate sensitive. So even if you have fits and movements here, it is only small. Germany has the biggest movement, but our solvency is mainly covered by policyholder funds. So therefore, even as the solvency moves, we will always pay the same dividend out of the s business linked to the local statutory results and policyholder-shareholder profit sharing.

And then, where we actually have the highest sensitivity is in non-German European life businesses which are probably not coming as a surprise. And that is a focus area. Max has spoken about where we are looking how to increase the RoEs. And with increasing the RoEs, we have actually also to reduce interest rate sensitivity. And therefore, it is not a surprise that we are targeting altogether a 25% to 50% reduction of our interest rate dependence for the group. And that is this 12% shock I have just explained in more detail.

The other sensitivities are less affected by the Renewal Agenda because when we expand our real assets allocation and certainties sensitivities to equities stays. And the corporate bond and government bonds plot (3:32:13) is a consequence of the chosen models for Solvency II that an insurance company has been measured on a trading approach, which we – that means market values move with some market values of the bonds, which has actually from a risk management point of view and being able to pay the cash at the end of the returning of the bond have a very little impact. Here, it would be much more important to see is the default ratio of the underlying bonds changing and not the market price of the bonds.

So what does this means for our risk management and our capital management is yet (03:32:59)? First, what we have established for all of our solo subsidiaries is a list of stress tests, which each of these solo entities has to pass and stands for on their own, with all – without calling in Munich and asking for capital injection. And after this stress test, they should stay between 100% and 130%. Mostly, we have calibrated some at 115% plus on top and everything in capital, they have buff (03:33:39) up to the corporate center and that come to this in a moment.

Thankfully, we have filled a group cash buffer, actually, then if stress tests go beyond what we have calculated in and then subsidiary needs a capital increase that we can immediately react to it. So, how are we now managing it on a group level? Here we have defined more extended stress test. One of the stress test is for example, the 2008 financial crisis scenario with the widening of the credit spreads, a movement of interest rates, movement of the equity markets, so the full 2008 scenario. And what – how we run the group is that we won't after this stress test still end up roughly at 145% Solvency ratio. So, adding back the stress test is leading us then that we run the group now day-to-day in a target range between 180% and 220% Solvency II ratio.

If it goes below the 180%, we have to start the de-risking, also that dividend space impact because 160% is a point where we said we would review whether we can still fully afford the dividend, so we stay above this level. And if the ratio goes clearly beyond the 220% level, it says here on the slide, re-risking and re-risking means also giving back to the shareholder is also a version of re-risking from a risk management point of view. All you invested in (03:35:28) or new business opportunities.

From all the presentations you have heard, to summarize all the financial targets. So, we clearly won new business in life and P&C on a return on risk capital about 15%, that is the target, and please be reminded that in P&C business, almost every policy is new business every year. There are only very few policies which runs three years or five years. So, it means actually also the renewed policies of the season which follows return on gross capital requirement.

Life and health, it is – it's a 10% ROE on an individual legal entity basis that is mainly then working also on the back book. A new business margin of 3% and then for the business which is more capital intense, so return on gross capital is a better measurement. We are on a Unit-linked policy and on a (03:36:36) policy as a new business margin is a more relevant measurement because capital requirements are so tiny.

I would also like to point out new business margin. It sounds very familiar, the industry is using it for many decades. It has more variation than the internal models, I can promise to you. And we have here aligned our new business margin definition with our Solvency II market consistent balance sheet. That means we are using the same discount rate and the same (03:37:11) scenarios for calculating the new business margin as we use in for the value in force in the market consistent balance sheet.

That means also for products which have non-guaranteed rates that it is only a one year period calculation and not a multi-period calculation, as actually as we're used to but with the boundary – contract boundaries introduced by the Solvency II framework, we have fully adjusted to this calculation. And that reduces clearly our new business margin compared to other competitors who might use a fixed interest rate for calculating their new business margins, so what we call the European embedded value and I think that is a pretty tough measurement, what we are using here.

Asset management that is just any profit is good profit, so there is less of the risk capital or our (03:3:15) seen. External growth clearly should be EPS accretive, and I'll come to this in a moment, and on a group level, we want to create earnings per share growth of 5% per year. However, not that you are coming back after quarter and tell us it is now 4.5%, you said 5%, so it is really until 2018, we want to show that the average – CAGR is a 5% number. And that translates then that we have to drive up Group's return on equity to at least 13% that's the two measurements are matching.

How is the capital consumption changing over this period? Well in consequence of what you have heard, underwriting risk we want to grow and underwriting risk means P&C, as well as the biometric risk on the life and health side. Credit risk more or less stable and market risk and that is mainly the interest rate sensitivity down and that translates then to an equivalent observation on the segments, so that means life and health consumes relatively less capital going forward, P&C up and asset management not relevant. Here in the asset management, also risk capital is allocated to operational risk which should be pretty stable over time and maybe has even the opportunity to be improved.

On the acquisition side, I think that slide has been already shown by Oliver in the first presentation. I think we are – we have done quite well with the small and mid-sized acquisitions of the last four years, they are all on track and I must say Yapı Kredi was certainly, financially, the most challenging one because the Turkish lira is a currency under pressure but still we are producing really excellent profit and also growth.

And so disposals (03:40:37), I have not judged (03:40:40) whether the return on investment is on track, I leave space to the acquirer of this businesses. So, we have disposed personal lines business of Fireman's Fund and then our reinsurance operation in Switzerland, included a runoff book of long-tail P&C reserves we have disposed recently for a small profit and that means that also this was off the book (03:41:11), giving release to some capital and certainly they did not produce a decent return on capital.

I showed you last year already what are we doing on bringing excess capital from the subsidiaries up to the center. The first three years is already is the money which is in the bank. Yes, 2015 is still a forecast, but we have four weeks to Christmas. So, you can be sure that the number is pretty safe. So, we have already moved up around €4 billion in the last three years. And we have identified and project in place for another €4 billion of excess capital upstreaming. And please, remind two things. On one, it already includes that each OE keeps a stress buffer and not calling immediately for fresh capital when there is something happening in the financial market.

And secondly, what we do on the life back books in future is not yet included here in this number. So, these are projects which are already clearly in place and in execution. So, therefore then give us in total €8 billion of out of the stock cash we have screened up to the holding company. So, our cash buffers are well-filled at the moment and have a positive outlook for the future.

Now, turning from how to manage the existing stock again to the flow, I have shown you the upper half of the slide last year and we believe with the changes we are doing, we can even slightly increase the payout ratios of our life companies going forward when we are going to less risk demanding and risk consuming businesses plus we get more flexibility with the higher new business margin because new business margin means higher value of new business and in the Solvency II world, the value of new business is clearly part of the financial resources that means you get more flexibility in your Solvency II ratio.

And in the central place as a corporate segment, we are seeing, in 2018, a smaller consumption of cash and expenses, so that we get also a little improvement in the day-to-day cash spending here in Munich.

How does this translate to the annual free cash flow generation so that is independent on top of the €4 billion (03:44:18) I have shown you before because that is now based on the payout ratios we just discussed on the previous slide, what is coming in free cash every year. And in 2015, it is roughly €5 billion (03:44:32), it is only a little bit more than 2014, but pretty much the same level of free cash generated.

So, then I'm already coming to the summary. We have from 2009 to 2014, actually produced an EPS, CAGR of 8%. We have increased our dividend on average by 11%. We have based on the presentation from the life excellence, additionally to the numbers I have shown, a potential to free up another €3 billion of capital from the life books. We have a very healthy cash flow, €5 billion free cash out of the annual profit, further upstreaming of €4 billion over the next years and I think we can manage the group at a 13% return on equity.

And out of this, we believe that all things being added, that a 5% EPS CAGR for the next three years is very much achievable. So, be reminded EPS is net income divided by number of shares, but I assume that this formula is very familiar to you. And that translates then in combination with the existing dividend policy, that's dividend scoring at least 5% per year obviously.

And maybe you got disappointed about target range of the Solvency II ratio, 180% to 220%, so again, these guys are waiting the share buyback program and announcement of it. But let me – so that was on your mind (03:46:34) so, I thought so.

We should look what the renewal agenda is actually doing to our Solvency ratio. Well, there is on one hand, we produce going forward a higher Solvency ratio out of the changes in the life sector that is not only the release of the €3 billion, the higher value of new business production, it is actually also that's a new business mix is consuming less capital.

Markets has shown it's a German example, when you actually (03:47:09) new, new business mix, a projection of our German Solvency II ratio with good growth over the next 10 years, was taking out a dividend every year, the Solvency II ratio is by itself actually going 15 points a year. And that is actually – that is one example how – when you really drive to the capital-light product and sure, it takes some time. We have done some scenarios for more than 10 years to see how long is it progressing and it was a very stable development and that is – therefore that is the organic impact of our new business mix change on the Solvency II ratio.

And that I think are the main points, plus when we reduce the sensitivity, we can, of course going forward also, squeeze our ranges, we need to cover the volatility to run the group and that is the other opportunity going forward, there is also probably some learning of the Solvency II ratio and included, you will still see how we can optimize certain things and that is – it is such a complex system and each new one of the system allows us actually also new insight because each change in the financial market gives you a new data point and you will not stop learning with such a system.

So therefore, I think going forward, we have a lot of opportunity to improve the Solvency ratio without and making more efficient use of shareholders' capital, plus actually then translating it into EPS growth through the various measurements for our shareholders.

And with this one, I would finish a little bit early because, as you see, the value creation finance is always much faster than on the business side. And then I would probably directly move to the Q&A.

Oliver Schmidt {BIO 15891487 <GO>}

(03:49:35-03:49:53)

All right. So, thanks again for your attention, and again we will be very happy now to take your questions. I think we should now start in the rows further in the back.

Could you – Michael (03:50:07), did you have a question or – Yeah. The gentlemen on the last row please, Diana (03:50:11).

Thank you. On slide E27, the chart in the upper right-hand side. Can you tell us what the assumptions are behind that, i.e. regarding the reinvestment yield. I assume the technical income is the risk plus the cost plus the other result cross of policyholder participation. What did you assume regarding conversion of policies into annuities? And, why is the investment income increasing after eight years?

A - Maximilian Zimmerer {BIO 2557503 <GO>}

That's a little bit tricky. Okay. Investment income is usually always based on the current income, that means on the returns you can achieve right now as reinvestment yields, we always assume for the planning that there is no change in time. It means take always the current yield and say these have been also the future yields. That's the (03:51:12) stuff we do.

The conversion rate is a dynamic one. Therefore, that's a little bit tricky to do to save it, because conversion into annuity depends very much on the business when it was underwritten. Take an example, it takes (03:51:27) up to the year 2004, there was a tax privilege on that. That means it was attractive for the customers after the usual maturity to grow for a lump sum payment because that is tax free for the business that has been written after 2004, there is no tax privilege, there is more incentive to go for the annuity business. Therefore, also depending on the age of the customers, when they started the business and also the year when the business, the policy was setup, there are different conversion rates. That's why I can't say one number, yes, that's a dynamic assumption we have behind (03:52:00). What was the third question? I think there was another one.

Q - Oliver Schmidt {BIO 15891487 <GO>}

Yeah, the technical income, is it the risk plus the cost plus the other results cross the policyholders...?

A - Maximilian Zimmerer {BIO 2557503 <GO>}

...Yes. That is the technical income and you had a fourth question – sorry I forgot that. Why the income goes up in the year, that's depending on the point in time when you brought the bonds, if you have higher coupons and extended the relation in (03:52:28) and there were higher interest rates, then you have also higher income in that respect. Therefore it's not totally the same income for all years. It's a mixture out of the existing business block you have. That means, you're already looked in and the reinvestment yields of today, yes.

Q - Oliver Schmidt {BIO 15891487 <GO>}

Okay.

Okay. If you just move forward a bit. Gentlemen, second to the last row. I think you are in the middle, Farooq?

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, Farooq Hanif, from Citigroup. Companies are usually reluctant, I found to have both an earnings growth target, I don't know, ROE target, because obviously, you're trying to maintain your ROE, you have to sort of maintain your E (03:53:12) as well. Is the answer to this question and your EPS target growth. So, I mean is that clearly an important component going forward? That's question one. Question two, on your 94% combined ratio target, you probably answered this question, but I just want to make sure, I mean have you basically done a bottom-up exercise throughout the group where you've identified some of the parts basis? We get to 94% by 2018. Thanks.

A - Dieter Wemmer {BIO 4755450 <GO>}

Farooq, yes. Clearly, it's a – the EPS target is a leading target and see ROE target is more – it's a derived number to give this as a reference point. And the 94%, yes, that comes out of a bottom-up post.

A - Oliver Schmidt {BIO 15891487 <GO>}

Okay. Second row, just the gentlemen to the left, please. Thank you.

Q - Paul De'Ath

Yeah. Hi, there. Paul De'Ath from RBC. Couple of points of current inflation rate (03:54:21), it's just on the excess capital that you've identified that is being upstreamed into the holding. And presumably, the stuff that has already been upstreamed was excess to the subsidiaries but not excess to the group because your – within your target range on the solvency. However, going forward, do we view that as actually excess to the group rather than excess to the underlying subsidiaries?

And then the second point was just on the €1 billion of efficiency savings that you've mentioned earlier in the piece, I'm just trying to get a clarification, I guess, on that being reinvested into growth, but should we expect any kind of improvement to the overall expense ratio or something going forward on the back of that? Thanks.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes. With the excess capital, you are fully right. I think that you can finally pay out something, you have first to ensure that you mobilize it from a subsidiary level to the holding level and on the holding level, it is then the overall risk budgeting and risk consideration, which can decide whether you can use it for something or not, but I think it is important that we screen it up to the group because we want to run the group in this range, 180% to 220%, and we will not be nailing ourselves to a single point, we really will use this as a full range to optimize the company.

So, the €1 billion efficiency savings, that is used to reinvest in growth and in new technology, and better customer interaction and then I think we need some money to get this additional five million customers and €6.5 billion revenues.

A - Oliver Schmidt {BIO 15891487 <GO>}

Okay, we will just continue to move slowly forward so it's taken to first row here on the left side, please.

Q - Thomas Seidl {BIO 17755912 <GO>}

Thanks. Thomas Seidl, Bernstein. On the life side, I think you had seven, eight ROE, you want to move to 10 ROE. Can you give us a flavor for how much is coming from new versus the in-force (03:56:51) actions? And also how much is coming from returns versus the equity side of the game?

And on the P&C side, 94% targets and you listed a number of improvement actions and you're actually pretty close today, so is this sort of (03:57:07) target and does it allow you to compensate the €1 billion low investment income?

A - Maximilian Zimmerer {BIO 2557503 <GO>}

My answer is very short, no. That would be over-precise. We have assumptions behind that, that's a given, but these assumptions are very much dependent on the changing environment. Therefore, right now – mentioned a fixed (03:57:29) for example what comes from new business and in-force (03:57:31), it would be, in the end, always wrong, the outcome.

A - Axel Theis {BIO 4095028 <GO>}

Tom, yes, for the 94% combined rate, this includes that we will have less investment income in the future. So, we need to counterbalance that. So, the initiative will help us to counterbalance what we will have less on investment income but still achieve the desired ROE numbers.

And, also, one has to take into consideration in the next three years, there will be upside developments and downside developments which we also have to counterbalance.

A - Oliver Schmidt {BIO 15891487 <GO>}

Okay. Next question please. Just – let's move up the row and then, yeah? France (03:58:18)?

Yes, (03:58:20) Société Générale Credit Research. Two questions for Dieter. First of all, regarding your – the Solvency ratio, you explained your target range, your dividend threshold. But, is there an absolute hard bottom line, where you say Solvency ratio will not go below that level?

Second question is regarding your capital structure. Now that your model is improved, is it right to assume that all outstanding sub-debt (03:58:47), probably the exception of the 2.2 for 1% (03:58:51) fall under the grandfathering regime and is not (03:58:55) own right?

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes. I said that our hard, lower level is that we have under the various stress test scenarios, we have tested 145% would be really our hard low point. And, with the capital structure, you are fully right. I think the grandfathering is also mentioned on the slide I have shown. And, that is all correct what you said.

A - Oliver Schmidt {BIO 15891487 <GO>}

Okay. Just move on there, Andrew.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

It's a Andrew Ritchie from Autonomous. So, I'm still a bit confused on the – the life, the improvement of those ex-German books to 10% ROE. Because, if you're saying you are going to free up $3 billion from the back book, the employees is mostly the E that you're going to reduce not improve the R. And is that – I'm assuming that would have some impact on the – unless you plan on selling those books or does it assume some disposals in organic fashion. Have you got any examples where you've actually taken significant capital out of a back book so far? I guess it just seems like an – it's a nice idea, but I'm not sure we've got a lot of tangible evidence of how easy it is to do it. So, a bit more granularity would be helpful on that?

The second question, just a quick one, the cash you're accumulating at the center, what did you do with it? I mean you're not returning it or spending on M&A so far. So is it literally sitting as cash, I know you're talking about a large cash flow in the next year. And the third very quick question for Axel, I think it was slide D6 where you talked about getting to 80% technical pricing on your portfolio by 2018, where is that now? I recall something that – a target similar to that a few years ago. So maybe just tell us – how much of your portfolio is currently under technical price?

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes, the pot of gold at the center is invested in a mid-term bond portfolio, because as pure cash returns, even when PIMCO is doing a great job on our cash pool (04:01:25) that would not be a great return. So, we have invest it as mid-term. The life book improvements, it is – it will still be a combination of R&E (04:01:41) and the $3 billion is probably not to be seen fully as IFRS equity here, it's actually more also the risk capital reduction, which is for – in a Solvency II subsidiary. Pretty much the same, because what you don't need for your Solvency ratio, you can also take out as real capital that is when you are outside a Solvency II country that is then getting a bit more complicated.

And the proof points, yes, you have to wait for it, and we will then, with each announcement, tell you what is counting for this target and what not. But we have – it's a – and it will certainly from (04:02:29) also for some of the changes to pay some cash, it will not be a cashless transaction obviously. The technical price that (04:02:42).

A - Axel Theis {BIO 4095028 <GO>}

I mean, what we did – we made a clear sort of description and reclined (04:02:51) what it means that we would accept a technical pricing on an OE level, which would meet our expectation to say we will certify this as a technical pricing meeting our standard. That's why, it's difficult to compare this what has been in the past, because we have in lots of business, we have technical pricing but the technical pricing point (04:03:13) might not meet our requirements, where we want to be in the future to meet the sort of the challenges and the expectations.

Now, meeting our (04:03:25) today, I would need to guess but we would be approximately 40% to 50%. We are pretty advanced on the global line, so Allianz (04:03:34) and AGCS. We're also pretty advanced in some of the motor books. Italy for example, Spain for example. So, parts of the German motor and retail business, we are pretty advanced, however, when it comes to the mid-corp side, when it comes to commercial, some of the non-motor retail portfolios with still some way to go. I would – but I'm look that's more I guessing then really a science that we would be at 40% to 50% of our portfolio today.

A - Oliver Bäte

Can I just add to Andrew's point on credibility. We're a little between a rock and a hard place. So, the answer is yes they're ROEs, but if I tell you what we did, I might get a call from a regulator or somebody else, interested party, as we move along the way. But let me describe the answer a little bit differently. As Max has said, we started in earnest at the beginning of the year to work with a transaction team, and we're going to hand into our supervisory board in a few weeks, that is (04:04:40) a three year plan – industry plan. Every manager around this table and in the OEs will be paid on reaching these targets. And we're not known details – not known to put ourselves' bonuses in jeopardy if we don't believe we can execute.

Now the reason why we – you would say, then why haven't you done it in the past, right? So, why haven't you done it in the past and would make you confident that you can achieve that? It's a multiple of levers that start with how we write and what do we write business, how do we put management levers on pricing for example for longevity risk on how do you differentiate crediting rates across policyholder generations. And if you have carefully listened to Max and to be fair we've given you a lot of stuff, that probably you haven't seen from any company yet on life, because most people think about ourselves as a P&C company.

We are getting as good on life as we are on P&C. You can already see, as we've done it in Germany, we're applying the same rigor in terms of pricing and reprising the business, so it's a mixture. If I told you today, it's 50% capital upstream and 50% earnings measures, you are going to ask me, okay, show me by country and show me by commercial versus retail, show me by distribution channel and so on and so forth.

And then you can delineate that in detail. At this point in time, we prefer to outline as Max has said what are the levers and how it works, for example, moving crediting rates for annual credits for terminal bonus, which dramatically improves capital efficiency, allows us to have less capital consumption, the moment you've done that, you can upstream down, use capital upwards.

It also obviously depends on how quickly are we turning the new business and in some markets, we have rather shorter duration liabilities. Italy for example, where in bancassurance, the average duration is four years and less. And others we have longer duration. So, giving you an average temperature of the hospital will not help.

What helps is to see that we first showed you the numbers for the first time by country where we are, to tell you that it's three markets or four markets where to happen and we'll report regularly on progress where we're at. But I also don't want the market to price against us.

So, please be understanding in terms of carefully digesting what Max has said should give you enough indication on what the levers are and to make you confident that we – by the way, it might be that some people don't make 10.0, but they might may make 9.6, that's fine given where we are coming from. And if you think about the impetus for the overall, Dieter gave you fantastic numbers. The last 10 years, we've basically – we are riding the same P&C top line today as we did in 2006. So we've not grown our P&C portfolio, which we fundamentally want to change.

At the same time, we've grown the earnings in life and kept it above the trendline, but what we've done, we've really put a lot of risk capital in life without really understanding what this would mean in a low interest rate environment, and I think that's what investors didn't like. And we are moving totally to the opposite, which is reducing the amount of capital that is bound on the life side while significantly improving capital efficiency. That's the biggest value lever that you have.

And the third one that you're constantly questioning us of, yes, I know that the ideal thing to say for a buy is there's going to be a share buyback program of €7 billion or so because we're going to reduce 20%. The solvency level will not going to tell that by what Dieter just telled you very clearly is that now that we have the model improved, we work very hard to reduce capital assumption on two levels. Number one from the ongoing business, number two from the volatility of that number around its means and those will enable us over the next two years to free up significant additional capital, either for reinvestment in the business or return it back to the shareholders. It will not sit idle somewhere in the balance sheet.

A - Oliver Schmidt {BIO 15891487 <GO>}

Okay. The last question from the second row please, York. (04:08:53) James, and then, move to the first, okay.

Q - James A. Shuck {BIO 3680082 <GO>}

My name is James Shuck from UBS. I just wanted to return to the EPS 5%. Just to clarify, I mean, 2015 is a low net cap year. I just want to make sure, I mean is that a fair reflection of a normalized level of earnings as a starting point or is 2015, as it looks, is that slightly higher profit numbers as a starting point? And then, kind of when you think about, I mean, the question I asked earlier on, I just want to get a feel for what's actually included in that number? So, what's range of possible outcomes? Your one-year target operating guidance, it gives a range. So, if everything goes to plan, if you redeploy surplus capital, if you hit your MPS targets, et cetera, then does that 5% look more like 10%? Perhaps, that's my first question.

And then secondly, I mean, the communication around the capital position and the Solvency II ratio, you've obviously got guidance of 180%s to 220%, which you rightly pointed out is a very generous range. You've got a very large buffer for the current environment, and that environment may or may not get more stable as QE starts to unwind by, let's say the end of next year. But my question is more around, how do you think about communication of volatility and the absolute quantum of that level and shrinking the buffer? When we look ahead to next year, what are the kind of milestones through the year you think about, when you can start sort of giving this guidance you chopping up that target level?

And then, the third kind of quick – very quick one. But, all of very – just two, three of your favorite kind of businesses that you think excite you the most in terms of scaling up? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Well, I think it would be rather difficult to communicate an EPS target to normalize for natural catastrophes. So I think, take the EPS target at face value, as simple as it is. So, it is 5% per year on average for the next three years. And I think, it is – 2015 is a good starting point, as good as any of the previous years, where we were always above the 5%. When will we start communicating, sharpening the target range? I don't know, but we will certainly not – not start working on this every quarter, but I assume the 2016, a lot of things will stabilize and when QE would certainly been easing then the Solvency ratio even when we reduce our interest rate, so volatility would still go up.

So, a stopping of quantitative easing that would be probably still be very welcomed by the insurance industry in channel because that means Max has higher reinvestment rates in all categories, he would be certainly appreciate it. So, and as I said, the range, we will not stick (04:12:23) to the decimal point of the number, we will also take business decisions during this period with a bigger range, and move this in the range.

A - Oliver Bäte

So, let me add in terms of scale and it is not totally surprising our European P&C franchise is very strong, but it can be stronger. We have a number of markets where we are profit leader and by the end we are NPS at the same time, I'll talk about that in a second and we'd like to scale up Europe significantly because this is where we have the largest synergies, not just in terms of in-force cost base, but also in terms of investments into digital, because you have a lot of fixed investments per market and that makes no difference whether you have $1 billion in premium, $2 billion in premium, $5 billion in premium. So, reinforcing Europe's very important. The other one on the second horizon is reinforcing Asia. We have had 10 years of having to be cautious dealing with crisis now with George and the team, we will be up for significant innovation. However we'll (04:13:26) as you heard with Baidu today, we're going digital in order to bypass having to go for traditional growth model.

So, you can expect a lot of innovation and a lot of growth from our Asian franchise, as we rejuvenate it. These are the two most important ones and that can include significant inorganic investments, but we're not going to do very expensive, bankassurance. For example we're not going to do overpriced life books or the few (04:13:55) involved in that.

The other thing is in asset management we'll grow – want to grow, this is consolidating very quickly both in PIMCO, but more importantly in AGI. We haven't talked about Allianz Global Investors at all today because the focus of you have been mostly on PIMCO, that misses the very strong performance we had in AGI over the last few years. They have had constant inflows. The profitability has improved. Their cost-income ratio is also moving towards target below 65% over the forecast period.

So, there's a lot of growth to be expected from AGI to something that we've neglected in our discussion today. And then we are building a number of global businesses including Global Benefits that we haven't been really been strong in. When we'll have the next capital market, they will talk about this in more detail because needs to refine itself and mature. We'd rather give you (04:14:45) first the example of the success and then the logic because, obviously, everything here is online and many of our competitors are sitting there and writing down the answers to your questions.

By the way, I would like to say something that I heard in the break that I would really like to hit on. There were a number of very strange comments on, if you're going for customers especially in dealership, the claims ratio will go up. And I would like to address that very clearly. All of you probably have an iPhone, or many of you have one. Do you know what the margin on this iPhone is? Yeah, depending on the sales, it's 80% to 90% and they have the highest customer satisfaction.

Does the high margin pretend you from buying the product? I don't think so. I don't know why people consistently believe in financial services, you can either have happy customers or happy shareholders. The opposite is true. Our highest performing businesses, whether that is Spain, Italy and others also have consistently the highest net promoter score and higher customer satisfaction. It's totally nonsense. If we were as good as in Spain on customer satisfaction, some of our core European markets will be much better also in terms of profitability, just to clarify something that was lingering, I think.

A - Oliver Schmidt {BIO 15891487 <GO>}

Okay. Now, we will take couple of questions from the first row, please, (04:16:14) If you could start please. Thank you.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Thank you. Jon Hocking for Morgan Stanley. I've got three questions please. The life presentation, going back to slide E27, I just want to make sure that I understood the slide correctly. It looks to me, it looks of the year six, year seven, year eight on the run-off book, the investment margin looks like it goes to pretty much zero. Am I interpreting the slide correctly? And if so, does that mean that all the investment margin comes from the new business over the next few years? That was the first question.

The second question, again on the life presentation, just looking at the return on risk capital, it seems to be using a matching adjustment around the volatility adjuster. I just wonder that how that return on capital actually works and is it using the Solvency II numbers? Has it reconciled the 13% IFRS RoE? If you could unpack that target a little bit. And then, finally, just on the M&A targets. Your EPS accretion, something that (04:17:15) hard to achieve at the moment, wonder how (04:17:18) RoE target for deals as well as the EPS target. Thank you.

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Yeah. The first question, let's go to the page 27. You're referring to be the above right slide, while ....

Q - Jon M. Hocking {BIO 2163183 <GO>}

(04:17:36)

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Yeah. The reason is very obvious. The reason is that and if you compare now the average of the yields, there was a point in time when we have invested and the guarantees are much higher than in the year of 2013. Therefore, usually, as you can see also these numbers are a little bit lower than that. But we feel that the difference overall is smaller, but it is very much depending on how you realize them your hidden reserves that is only showing the recurring yield overall of the portfolio that is not showing the flexibility overall you have in the book to really, let's say, realize some more yield if you would like to need this, yes. That is not a forecast of the, how can I put it, of the profits that comes out of it. It's only showing the maturities of the bonds and the coupon that goes within them, yes.

Q - Jon M. Hocking {BIO 2163183 <GO>}

(04:18:30)

A - Maximilian Zimmerer {BIO 2557503 <GO>}

This is all ex-realized gains, that's true. That's true.

A - Dieter Wemmer {BIO 4755450 <GO>}

Maybe we should have said right from the beginning, this German local statutory numbers because to match the guarantees, you have to do it under the local accounting.

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Sure.

A - Dieter Wemmer {BIO 4755450 <GO>}

And therefore also the production of the investment income is through the local accounting and how we actually take out of mutual funds which are 100% owned by this balance sheet the investment income to feed the guarantees. So, that is a more technical slide and not a market consistent slide.

A - Oliver Bäte

M&A, we obviously have return on investment targets that differ by market depending on the risk in that. So if we were investing in Turkey, obviously we would do apply a higher cost of capital, then we invest maybe in Germany. We obviously do have that. Otherwise, we cannot meet over time our ambition, but sometimes the timing differs, right.

So for example, it wasn't Turkey but the difference, some people were criticizing how can you spend so much money on Turkey and rather than paying a special dividend? Well, guess what? Despite the fact that the exchange rate went down, what was it, 24% when we looked last time, the increasing investment income and increasing underwriting margin we were earning and the higher synergies were over compensating the decline and the rate. And that is very difficult to put into a business plan spreadsheet.

So that's why we do apply those, but we don't go for every single acquisition and say, here is the new ROI target and this is month three and where are we on the synergies. But I can tell you on all the things that we put on the slide before and every single one, we've made the returns that we were planning to do.

A - Dieter Wemmer {BIO 4755450 <GO>}

The measurement return on risk capital, we use as a matching adjustment. As we are investing almost nowhere in total A government bonds. I think it would not reflect our investment process when we would use for our internal steering and that is an internal KPI a low-risk measurement.

And this fund of 15% is calibrated to our IFRS RoEs. We have translated this as good as it is. Of course, one parameter is a bit more volatile, with market parameter. So therefore ,it doesn't translate perfectly but it is a good benchmark.

A - Oliver Schmidt {BIO 15891487 <GO>}

Can we stay in the first rows in here, Michael was next.

Okay. On the non-life, I have a couple of questions. You mentioned the €750 million but also the improvement from 23% to something. Now, I just wondered, were they the same numbers or if I talk about the €750 million and the other, would I be double counting? Then, there's a footnote from one of the slides. I think, D11 saying you exclude UK direct from the 100% combined ratio. I just wondered if that's of any significance.

And on the life side, I love slide E23, which shows the same progression. I just wondered if you can give us a little bit of a feel for how much of the improvement in return or – of the €3 billion is coming from that move from the 42% becoming 20% or something? And then, maybe we could have the base number for the capital where you calculate the 13%? And then the last question was that for Dieter is, I hope you've ensured Max for the €3 billion?

A - Dieter Wemmer {BIO 4755450 <GO>}

So, let me start. Yes, when you look at the €750 million, which is the €200 million underperforming portfolio, the €200 million underperforming portfolio, you can also have underperforming portfolios which are actually above the hurdle rate. And there're couple of examples, which actually while management sometimes seems to be a bit sort of, I wouldn't say, lazy, but less active because overall, they are meeting even outperforming the hurdle rate whilst we believe they can still do better by focusing on those topics and to make this transparent and then monitoring and following up on it, and then you should be able to achieve that.

Secondly, yes, part of the underperforming, what we see in Brazil, what we see – what we used to see in Fireman's fund, which still has a sort of the lower effect by addressing the PIA under reserving issues, you will find in the sort of 23 lower left corner.

Then coming to UK direct, UK is a bit of a special animal because there it was decided to have a special investment case on moving into the direct motor market to put us in a better position for the whole retail market. And there we are currently sort of reassessing and reevaluating the investment case. So putting some sort of new efforts, technology and pricing expertise into the business and monitoring very closely to get it back to the original business case.

A - Maximilian Zimmerer {BIO 2557503 <GO>}

Referring to 23, I hope I understood the question the right way. The improvement of the 20% between 2014 and 2015 is, let's say, half of it is responsible for that, is the change in business mix. You can see it in two slides before the new business mix. That means a reduction of the traditional business. If you think of the business mix and the new business margin, there is a clear correlation. Traditional business has the lowest new business margin in average and it goes up and protection has the highest one. Yes, that's the first explanation. And the second explanation is that we also have improved the new margin on the traditional one, mainly by reducing overall the guarantees.

A - Oliver Bäte

I think I should say something about the ambition level in P&C because people appeared to think that it's very ambitious. And let me tell you again what our economic environment forecast is. Not only have we in P&C significantly declining investment income. So, we look for that. But, also we have a number of markets to that going from the peak of the cycle now down. So, we've enjoyed now five years of very strong positive cycle, and that is clearly showing coming from the reinsurance markets, down to large commercial credits, and the Anglo-Saxon markets first.

So, Axel will be very busy the next two years. And, the most important thing is not to write top line that is not profitable. We have other markets like Italy, where we also see peaking profitability and the weaker players losing not just top line significantly. Already, this year, you see that 8% to 10% top line decline, but also loss ratios will improve as people are using past high reserves to support the business.

Now, we are 10 points better than the markets, so we'll do it, but you will see some FX, too. So, we are entering a cycle that is going south. We have other markets like in Germany, still strong. France is also still very good. So, it's heterogeneous, but the overall trend is down. So, maintaining that requires really going after the loss leaders as Axel has prescribed, and particularly where we are in a significant off cycle, as the markets I just described, will go consequently after cost. That is very clear.

But, therefore, we've mentioned the numbers before. However, I don't want to now say in this country, we're going to take out this amount of costs because the next phone call comes from the local labor unions. But, be aware that we have this in mind, and we need to improve efficiency where the cycle is going down and we have productivity reserves to be addressed.

A - Dieter Wemmer {BIO 4755450 <GO>}

The question, what is the E for the 13% RoE target, that is the same question I think to split EPS growth into profit increase and capital management activities. And we really want to keep our options here open. I think important for us is we want to deliver it.

A - Oliver Schmidt {BIO 15891487 <GO>}

Okay. Next question please, we stay here. So let's go to the (04:27:25) side over there please, Stephanie, Michael. In the first row, Stephanie. Let's start this with Michael and then we...

Thank you. (04:27:39) from Bank of America Merrill Lynch. Two questions, on the $3 billion in the life business that you tried to get out through essentially de-risking, can you talk about what the earnings impact will be of those measures? And secondly on the €4 billion that you would like to upstream as excess capital, can you split that by business units in some sort of way or indicate what the efforts are that you're looking at? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes, the €4 billion upstreaming, I could even split by year and legal entity. It is quite – it is actually, I think the majority is coming from the P&C units, that is coming a little bit from life and also asset management is also contributing to it because also there we have room to reduce working capital. The €3 billion life will reduce probably in total some return, but not a lot. I think our new business and the profitability of ongoing business should certainly make up for it.

A - Oliver Schmidt {BIO 15891487 <GO>}

Yeah, Stephanie, please.

Q - William H. Elderkin {BIO 3349136 <GO>}

Thank you. It's William Elderkin from Goldman. Three questions. First of all, could you just share the financial market assumptions you're using in some broad terms behind asset management rollout, unit-linked and so forth? And also I think Max touched on it, what you are seeing in terms of reinvestment rates both the P&C and life business? And secondly, in terms of your overall group leverage, how should we be thinking about that? What scope is there to increase leverage in the balance sheet, how you're thinking about that going forward?

And finally, apologies if it's in there and I've missed it, but can you give us a sense of what's happened to the Solvency II ratio, if the UFR assumption is revisited? And also just on that point, when we think about the cash flows from the life business, particularly for using the IFRS net income as a proxy, do we need to think about a sort of UFR unwind effect as a charge to that potential life cash distribution?

A - Dieter Wemmer {BIO 4755450 <GO>}

The last question is a very interesting question. I must say, I have not yet thought about it. But also the UFR unwind effect and the risk capital is happening gradually in 22, 23 years from now, and the full UFR is build up in 60 years, I assume that even my successor will not deal with it. So, therefore, that is probably sometime before we will see it in the accounting numbers. The group level, which we have so far assumed that we run it at our stable AA level, we have not built in any special leveraging up, but I admit we have room to do so on the categories.

In case, the UFR would really be changing and I think favorite test number is a movement of 100 basis points that would reduce our Solvency II ratio in the current setup, without any of the de-risking measurement and also changes by 12 points.

So, it's – and a movement from 4.2% to 3.2%, I think, that is very unlikely. I'm sure that this will not happen. The German Central Bank has just released actually a paper, testifying that a 4.5% long-term input rates, used for German accounts for the local pension plans, is for long-term assumption acquired sensible assumption. So, you'll see there will be different opinions in Europe, on what is appropriate long-term rate, when you go six years forward.

A - Maximilian Zimmerer {BIO 2557503 <GO>}

There was a question about reinvestment yields. I think they're based on the market conditions, end of June, if I'm hope I am not wrong, I think that's the case. That means you take usually then the reinvestment yields from there.

A - Oliver Schmidt {BIO 15891487 <GO>}

Okay. Yeah. Andy, please.

Thanks. Just a couple of questions. One on the P&C, I mean, you mentioned specifically around the UK motor direct exclusion. I'm just trying to reconcile what I think was said last year about the intention to try and push a little bit on UK motor what the direct consequences of that was. My understanding, that was an aspiration. You hadn't actually started doing that, but now you're saying you're actually having to re-look at that a bit. So I was just wondering if you can describe that a bit.

And then similarly, and it does (04:33:22) to pick on the two things you practice is knock on white, but Ireland, a very sharp increase in the pricing. When it's that rapid and I know Ireland has been a challenging market for everybody but that rapid a price increase suggest that probably a monitoring might have been a bit slow to see what was going on. So I just want to understand if that was a monitoring issue whether it's a purely a market issue and your thoughts on that.

And then, just on the other question, the reduction in the interest rate sensitivity and target, I'm assuming most of that comes out of the non-Germany, Europe life activities. How much of that will be from changing the sort of, if you had the inwards exposure versus what you take to mitigate in terms of hedging and other sort of net reduction actions that make sense?

A - Dieter Wemmer {BIO 4755450 <GO>}

The interest rate reduction targets will also include Germany, so we work on this question and every area and certainly is a new business mix in Germany as a long-term tool towards it, but also short-term, we are looking how we can reduce interest rate sensitivity further. There will be also some additional hedging activities to reduce it and then also the back book transaction Mark has spoken about are the key measurements to move from it. I think motor UK and Ireland, that's more Axel's area.

A - Axel Theis {BIO 4095028 <GO>}

(04:35:04) I mean, first starting with UK. Yes, you are absolutely correct. I think, after the last capital markets day, Jon Dye explained the strategy, more focus on retail because Allianz UK has been very, very successful in the last years elected, I mean, a couple of times and throughout the year in the UK, and very, very successful outperforming the market on a regular basis on the commercial side.

But, relative towards some of the peers and the represented on the retail side in particular on the household – in the household area, which is the more interesting bit. And then, deriving with that develop a strategy to go – to put more efforts on motor, in particular using the direct channel and also using this as the baseline for cross sell also into the household.

This was an investment case. It was expected that we would have an underwriting loss in 2015 and 2016, and then get close to breakeven. However, what we realized that the business case was a bit too aggressive. So the underwriting loss was bigger than originally expected, and assumed in the business case. And as you ask whether we have acted as swift as possible, I took all the responsibility from January 1 this year.

And I think, a couple of weeks later I started to take actions and question and do mystery shopping and look into portfolio and whether we grew in the wrong areas, which originally wasn't the case and this then led to pushing back a bit on the sort of expectations volumes, and now we will have a more flat development and reassess how to do the pricing and what will be the right segments, which is already underway, which will mean the original business investment case will be reduced from a top line perspective and constantly reviewing.

Secondly, to Ireland, Ireland, we experienced what happens if, which is positive and I said it before, when the overall economy is bouncing back and people have more funds available, drive more then you are experienced and that's very, very difficult to predict. The people drive more, gas is cheaper, which then leads to increased frequency and to increased severity. Now what also needed to understand in Ireland, you cannot change your prices on the daily or weekly basis, you have a bit of a time lag.

So, what the team did really monitoring also the elasticity, so the balancing between top line and profitability or in this case lack profitability and then started to really lead the market on price increases and that is in five steps. So, overall ending up at this really sort of aggressive or sharp increase of 52 percentage points. We will have an underperforming portfolio in (04:38:20) of this year, and after the first quarter, we will back in sort of the green or the black territory. So, we'll then have a – we are back into profitability in Ireland then in 2016.

And by the way great case, great lessons learned what happens if you are in markets where the economy is down and then you see a significant improvement.

A - Oliver Schmidt {BIO 15891487 <GO>}

Okay. Yeah. James. Second row, please?

Thank you. Could you just quantify the amounts of Solvency II capital that's in South Korea, Taiwan and U.S. (04:39:09) book, please? That's my first question. And then secondly, we've got the insurance distribution directive based on the consumer protection initiatives due to come in next year – year after next actually and the (04:39:25) disclosure around products and pricing and consumer value, et cetera.

So, could you just talk about the landscape as you see it from a regulatory perspective? You obviously talked about how some of your products are going to be more pulled as opposed to pushed. I'm just interested in what that means for a competitive landscape in served markets.

A - Dieter Wemmer {BIO 4755450 <GO>}

So, that was Korea, Taiwan and VA U.S. Korea and Taiwan is plus, plus minus, now, it depends on whether you calculated and undiversified or diversified. I think the undiversified local is some €2 billion out of the two Asian markets and then with the diversifications on a group level that is then a little bit less than half of it.

The VA in the U.S. I can't split from the rest of the business, we are – I think our fixed index annuity business is dominating more and more because our inflows this year, new business mix is more 80%-20%, 80% fixed index annuity, VA 20%. And as we're using U.S. equivalent, so that is more of the U.S. First Capital approach in the sense, they are not our internal model, but happy to look it up in more detail, but I don't see what consequence that number has.

A - Oliver Bäte

So what you are interested in is really how much RBC do we need to hold relative to in the overall company, that's what you should focus on for the future. And VA, again, portfolios you cannot typically sell if that's on the back of your mind. Unfortunately, you cannot do that under U.S. regulation. It's very difficult to do if it's an integrated par. But what really is interesting is at what RBC level do you need to run the company. Fixed index annuity, as Dieter just said is dramatically more stable particularly since we re-jigged the whole business model in 2008 and 2009, than the past models that we had, much more predictable earnings and, therefore, total risk is going down significantly.

It's very different from when you run more than VA or others then you still need a lot more buffer because the underlying volatility can be dramatically higher than what we've seen over the last few years because of the equity market is continuously growing down. Got a little bit of warning in the third quarter of this year and I think people have used every mechanism in accounting to buffer that, but you could see some of the rumblings, if you have got a bigger shop to VA books.

So to point out, on the regulation, you're hitting a very important point. The last few years we've been all around capital regulation. We spent all our time on Solvency II and anything related to that. I might also add with permission of Dieter that even – we're not even talking about global SIFIs anymore. The last few investor meetings, you would have continuously asked what is that going to do to you? The answer is probably very little, yeah. And so, it's shifting from capital to consumerism now. So, the next waves that we have been actually getting prepared for and you had a few of the retail review in the UK and many other initiatives, the PRIPs in Europe and so on and so forth and there is more and more push to get consumer protection up the list.

The most important thing we do is not to try to respond to that, but ask ourselves whether we are offering a decent value to clients, we have – actually had a number of projects internally to look Edward for example in life insurance this reduction in yield to consumers from the gross investment return out of costs to shareholder returns and costs for guarantees and is the net that we are providing actually proper and for filling minimum standards and that is the true challenge by the way for life insurance in the future and that's one of the real reasons why we are moving the product mix because it's not just about return on investments and return on capital, but returns relative to costs to consumers.

That's why we are moving and therefore – and that it ties very nicely to what we've been trying to say today around consumer centricity because you will find quite a few business models over the next few years where regulators will be not so happy. I think the biggest problem you saw in the United Kingdom was a credit insurance that was tied that created huge losses for the banks and I hope our industry does not have that. Certainly, you can expect Allianz to be on the forefront on making sure we protect our clients and us and you from having similar outcomes.

A - Oliver Schmidt {BIO 15891487 <GO>}

Okay. Let's move to Thomas Seidl and then Michael. Okay?

Q - Thomas Seidl {BIO 17755912 <GO>}

Thanks. Two questions. One on Asia, I think you just mentioned the Baidu investments. Can you also talk about your ambitions on Asian life? Is there any plans you have despite the weak performance of the existing life business? And the second is given the quite different earnings and risk characteristic of life with the rest of the group, would you consider a spin-off of the life business?

A - Oliver Bäte

The answer to the last one is no because that would be totally stupid. We have a very strong link between what we do in asset management and in life. When you see what we're doing with new products, it actually becomes more integrated because in the future with margins under pressure, the most important thing that you will see is that you will need asset management and life returns to get attractive return on assets.

What people really look at is always return on employed capital. What nobody really looks at is, if you get €1,000 or €100,000 from your client, what is the decent profit margin you can get for the client and yourself? If you can combine the life and the asset management component with obviously the proper mix, making sure the funds really do outperform, you get much superior value creation for clients and shareholders than if you're only supplying the life repo or the fund component because I also believe that fund returns will come under much more severe pressure in the future.

So, we really believe we are in a sweet spot both for institutional investors and for retail investors combining insurance and asset management. A glimpse of that you get already in Continental Europe where we can basically give corporate clients any solution they want from pure CTAs to pure traditional pension product, most are obtained now for the combination of the tool and that is just growing and importance as we speak. So, that is clearly integral part of what we are going to do.

The second question related to life. That's interesting, so you overall said life. I would segment Asia life into two components. We have portfolios and we have them in what we call mature Asia, which is particularly Japan and Korea, and there we have had very bad experiences. Historically, Japan, we've already closed and Korea, we're working on very hard. And then, we had through an acquisition, some difficult back-book in Taiwan, which is already being addressed because we are so successful in new business.

Now, by the way not just in life, in asset management as well, that deals for itself. However, I would love not to have the Taiwan back-book just to make it clear. Then it's totally different some Southeast Asia, where we are significantly below scale relative to a Pru or an AIA, but where we have very strong engines, whether that is in Thailand or Indonesia, and we're going to grow these.

And we're growing to grow these further over the next two years. We have one or two markets that we are not present that we believe we want to be in. So, Southeast Asia for us is going to be a growth story. The way we're going to go after that is however as indicated earlier and that's a good analogy to the Baidu case, by jumping ASCO, (04:47:33) so not replicating, buying highly expensive bancassurance distribution, paying 25 to 30 years of profit upfront that hopefully will get my successor of successfully seeing the money ever back. But focusing on other distribution models in order to see more value, more quickly. And we're happy to report about that in about six months at the next Capital Markets Day.

A - Oliver Schmidt {BIO 15891487 <GO>}

Okay. Michael, could you just grab the mic? Thank you.

Okay. So it's actually – it was just interesting the timetable for deals, what we expect first. So I think Doug Hodge was kind of indicating that there was something coming in China. You've obviously said China and Indonesia. And I wondered – I mean the other obvious one is the listed company you have in France. And then, whether you – those who'd be prepared to buy – I think they called some in technical startups in insurance to grab some more quickly. And then the – Switzerland, we think as is it new, I hadn't heard before, but maybe I was completely asleep here, most likely I was, and that's it from me.

A - Dieter Wemmer {BIO 4755450 <GO>}

So it's hard actually to make an answer out from your question. Yes there are many opportunities in the market and as usual we look at everything and if you have two willing parties and a reasonable price, then certainly something could be moved. But at the moment it is -- there is nothing to be announced. And (04:49)25) is a very small auto insurance carrier where we had just some run-off liabilities and somebody wanted a license in Switzerland. We have enough licenses in Switzerland, so we were happy to share one.

A - Oliver Schmidt {BIO 15891487 <GO>}

Okay. Any more questions?

A - Oliver Bäte

(04:49:49) to Michael. The point on M&A if I may give you a tip is a little bit, if you think through dynamics in the industry as the margins now go down, you have some people that get lucky by doing large deals and try to escape the pressure for the next few years, and the U.S. market has been very accommodative to very large transactions. But by and large investors are very, very strongly scrutinizing deals and you have seen that in Europe more recently and then internal management dynamics can get very difficult.

We expect actually a lot more pressure for companies that are strong in two markets or three markets and have 10 or 12 tiny ones to be forced, not to want to, but to be forced to sell them off. In many of those markets, we are there, we have great platforms and we are waiting.

A - Oliver Schmidt {BIO 15891487 <GO>}

Yeah. Stephanie.

Q - William H. Elderkin {BIO 3349136 <GO>}

This is William Elderkin again from Goldman. Two questions. On the P&C side, in Europe, where you seem to have considerable impression to grow above the rate you have done over recent years. Can you give us a sense of how far you can actually grow market share, which would seem to be the key moving part over and above buying growth? And then, just from my earlier question, (04:51:12) assumption in the plan and in terms of bond fund return within your asset management business and so forth? I'd be interested if you could give any sense to EPS growth rate, should that be higher or lower than you hope.

A - Dieter Wemmer {BIO 4755450 <GO>}

Well, I think that is a discussion we had on many previous meetings. I think in beginning of the century, a 5% market share was in P&C Europe, a good market share to compete. I think that actually to scale demand to be ready for all the changes is probably 10% plus, and it's not a precise scientific number. I think it is a number where you can really then act from a point of strength and deal with all the changes we have discussed today. So that means, we have in some areas, we are in the sweet spot. In some areas, we still have room to improve.

A - Oliver Schmidt {BIO 15891487 <GO>}

Okay. I think we have taken all your – Oliver, can you -

A - Oliver Bäte

Sure. Assumptions on some of the capital...

A - Dieter Wemmer {BIO 4755450 <GO>}

So, I think we have in this environment assumed a very slow growth of the intrinsic movement of our AUM, well, aligned with market interest rates. So there is nothing specific in it.

A - Unverified Participant

Okay. I think that was the last question and we can close this event. So let us thank you very much for your time and for your attention. We say now goodbye to those who have followed us online and, to those in the room, we wish you a very safe trip. Thank you.

A - Oliver Bäte

Thank you very much.

A - Unverified Participant

Thank you.
