Analyst Meeting

Company Participants

- Bernhard Kaufmann, Chief Risk Officer
- Christian Becker-Hussong, Head-Investor & Rating Agency Relations
- Johanna Weber, Head-Media Relations
- Jörg Schneider, Chief Financial Officer
- Markus Rieß, Member-Management Board
- Nikolaus von Bomhard, Chairman-Management Board
- Torsten Jeworrek, Member-Management Board
- Unverified Participant

Other Participants

- Andrew J. Ritchie, Analyst
- Frank Kopfinger, Analyst
- Jochen Schmitt, Analyst
- Kamran Hossain, Analyst
- Michael Igor Huttner, Analyst
- Olivia Brindle, Analyst
- Thomas Seidl, Analyst
- Vinit Malhotra, Equity Analyst
- William Hawkins, Analyst
- Xin Mei Wang, Analyst

MANAGEMENT DISCUSSION SECTION

Christian Becker-Hussong {BIO 19080254 <GO>}

Ladies and gentlemen, welcome to the Munich Re Annual Conference to all guests in this room. And of course also a very warm welcome to all of you listening to the conference from their offices via Internet.

Today, same procedure as every year, more or less, the usual six presentations. There will be a first Q&A session followed by a break, after the third presentation and after the second round of presentations, there will be another Q&A session. I will make a separate announcement on the further time schedule just before the break. The formal part of the conference should then be finished by approximately 5:30 hopefully, a bit earlier depending on your questions of course. Anyway, thank for you dedicating that much time for us.

Afterwards, there will be as usual further time for informal discussions with all speakers of today, and we are looking very much forward to meeting you there in the function room on this floor. This afternoon, beyond discussing the 2016 financial results in more detail, we first and foremost aim to look ahead with you on Munich Re's future prospects. So, let me introduce today's panel starting right next to me with Bernhard Kaufmann, our Chief Risk Officer; then Jörg Schneider, Chief Financial Officer; next to him, Nikolaus von Bomhard, CEO of Munich Re Group; then Joachim Wenning, incoming CEO presenting Life Reinsurance; next is Torsten Jeworrek, CEO of Reinsurance; and last but not least, Markus Rieß, CEO of ERGO.

Quite a few colleagues are sitting in the first rows of the auditorium, they will support us in the Q&A session including Christoph Jurecka, the CFO of ERGO, you know him pretty well and Alexander Ankel, the new COO of ERGO International. This conference is as usual being transmitted over the web, so far so good.

Now I would like to hand it over to Nikolaus, please.

Nikolaus von Bomhard {BIO 3123407 <GO>}

Well, thank you, Christian. Good afternoon to all of you. It's a pleasure to be here with you, as you know my last time. And this is a wonderful opportunity for me to say thank you to all of you, because some of you I know for almost - it feels like forever. And you accompanied the company and of course what we did and what I did with what I would call constructive criticism, it could be different too and all that, and I had personally the pleasure of being accompanied with that what I call general sympathy and understanding, and I truly appreciated it all through those years.

Well, you may say there's many things that didn't work, some did. As a German, we focus on those who did not work and there are many, my list is longer than yours, believe me. And I'm not shy of admitting that. You may have sometimes thought he is very stubborn, for example when we discussed ERGO and I admit, yes, I was. And I have always been convinced that the strategy was right, I admit that execution has not always been right.

But believe me, if we did re-buy something like ERGO, the work that we would have to put into it and the risk would be disproportionate in consideration or in comparison to what we have now and what we do now at ERGO It is of course not easy, but digitalization here for us in the very face of the group and specifically ERGO, I rather would see as an opportunity to even make sure or make it more likely that ERGO will move not only to catch up, but rather put itself in the front of what is insurance or primary insurance today.

I also admit that I managed in all my life as a CEO to never see interest rates go up. And I said it early on in the media conference, now I'm giving up because I can't wait any longer and even though I tried everything to convince the European Central Bank and Mr. Draghi to do something about interest rates at no avail as you know, we are where we are. But I hope I get old enough to still experience this change one day.

Well, here we go. The program is the usual one. You have the presentations of all of us and I have the privilege or the chance to fly very high. And I would just that.

First slide, just in a way summarizing what's happened in the last year. All these numbers you know of course. How would I label the year? I would call it an okay year, sound result, nothing to be overly excited about, but of course the environment is what it is, so let's be happy with what we could achieve, and that is important to me, we did not have to dilute what we call our strong balance sheet to come up with the numbers you see here. We did that, just doing regular businesses and not stretching ourselves anywhere in the wrong direction.

The balance sheet , that is important to Joachim of course too, I would consider quite clean. At least, I'm personally not aware of any skeletons in any closets anywhere. So, at least here, my mind is free too when I step down and we also, I think in Europe should then confirm that I was not asking for gold plated results in 2016 to make my leaving a better one. This is not the style of Munich Re, my predecessor was also leaving at the - you could call it, the worst point in his personal career at Munich Re and he didn't hesitate a second. In my case, it's a lot easier leaving now, but again, we're just handing it over and it goes on.

The next slide is interesting only for one reason, of course, you could cluster the challenges in many, many ways. We had three challenges that we put on the upper side of the slide here and I start from the right. Of course, still the macroeconomic environment is a challenge in itself, because it's so heavily influenced by politics these days and that is very difficult to predict. But then going to the middle, we have digitalization. I, in the beginning of course, was not sure what that will mean to the industry or our company, nowadays I would say and you'll hear a lot about innovation and digitalization today. I think for a group like us with the DNA and intellectual capacity that we have at hand, this is a chance, much more than a risk. So, I'm absolutely sure, we will make this company a better company, thanks to digitalization in comparison to all our peers.

And the last, of course, and you sensed it with us, is the environment in the narrower sense in our industry and the liquidity out there, the tremendous amount of supply, certainly and specifically also in reinsurance did not make our life any easier. But you can rely on the underlying sort of foundation that we have built over the last years, starting from the right, again and this is the answers to those three challenges. Risk management is key and it is obvious for an insurance company, but many speak of all the risk management, we take it very, very seriously. So the volatility should be under control to the extent, it makes economic sense and Bernhard later on, of course, will talk about just that.

The innovation piece in the middle that is some - that of course, we all are involved in but certainly Markus and Torsten more than anyone else, they stay ahead with the movement of innovation and at the same time if those still among you don't believe that it make sense to run ERGO and reinsurance under one roof, with innovation and digitalization it becomes so obvious that I hope that even the last who did doubt, will stop doubting.

And then agile business model, that again is a generic term. What it means is that we can along the value chain of insurance and what will be changed with digitalization going forward, we're very, very flexible and putting ourselves right on that link of the very chain that we consider interesting for our shareholders, clients and employees. So we are in a position to respond.

Well, talking about interest rates, political uncertainty, I can be short here because that of course is close to everyone's heart here in the room. It looks like, we see a little bit of a silver lining on the horizon as regards the interest rate movement. I am very cautious here, because the system is extremely fragile and it doesn't take much to again fall into the crisis mode. For us, of course, if interest rates go up, even if they go up for a crisis, it's still helpful, as long as we have a resilient balance sheet and are not taking big bets which we don't. So the fact alone that the German 10-year treasury bond is moving into a territory hovering between 40 basis points and 50 basis points, for us even though small, the increase is very, very important, it came from minus 20.

In the U.S. even more so, thanks to whoever out there, the fact that reinsurance is heavily invested in U.S. dollars of course is support for the reinsurance return as well. So, we think things may change a little bit there. The worries that some express then of course its inflation. And inflation of course is a two-edged sword, some governments would hope for inflation, the sooner the better, the bigger the better, we think inflation can be a challenge, but Jörg later on will talk about reserves too and we are not very afraid of inflation in terms of our reserving and the releases we have shown to you, because we try not only to hedge the exposure we have on the balance sheet but we also think that our reserving is so solid that we can live with some inflation very well indeed.

The reserving also you may have seen it, it fluctuates a little bit. We have released in 2015 7.2%, last year 5.5%, the current year in our estimates we built in some 6%. So you would see the flow was always the 4%. We have a half commitment out with you that that will be the minimum, but you see north of the 4% there is room and we don't commit ourselves, in the sense that every quarter-by-quarter we deliver the same percentage rate. There is room for us and as I said last year, we didn't have to stretch ourselves with the result, so it was maybe 5.5%, that may go up and down a little bit, but the reserving is rock solid.

Here comes a view on what is the issue right now and I guess some of you have been - maybe surprised, disappointed, whatever you word it with the outlook 2017. And that's just and it's in older slide, is meant to remember you of what we lost partially by not doing anything, and I'm talking about the interest rates and that's a big bill here.

From 2012 to now 2016, we lost a good half-a-billion of net income just for the fact that interest rates came down, down, down. On the other hand and that is the more unpleasant news, is of course reinsurance markets that also softened over the last year's, it added another €700 million, luckily, more or less to our net income or took it off the net income. This is partially structurally and that is the problem, some may be cyclical, so it will bounce back once the market hardened and that may have to do with interest rates levels as well. But on the other hand, it will be difficult for us to regain it and the key here is innovation.

We try to refill the top-line of those business that we lost on the structural side with new businesses and that is why innovation is so important to us. No backlog here, that's the good news. As I said, I'm not aware of any skeletons in any closet anywhere. So no backlogs. So what you see here is exactly where we stand as of today and we will continue to deliver.

And some say because we are so conservative even with outlook, maybe we are, I guess we are – then that is why we have the 2017 outlook from €2 billion to €2.4 billion. We do not feel uncomfortable at all with that kind of outlook. And let's not forget, alone (13:36) for the interest rate movement still sort of gradually creeping into our asset book will cost us around about €150 million and at the same time, we lose another €100 million to €150 million on the reinsurance side, just for the trickling of the lesser rates in reinsurance into our portfolio. And if you don't do anything, we lose these €200 million to €300 million in 2017, that will then bounce off. But we are not at that point yet. We will try to refill, but we did not promise as of today that we can refill completely, this is why you have the outlook and there is not yield hunting, we don't take more risk just to make up what we lose on the net income side.

Here is a slide about the reserving, Jörg will come to some of those reserves in his presentation. Some of you are with us for so long that I can even remind you of the Changing Gear program in 2006 and 2007. I think, I once made that comment already maybe two, three years ago, at that time we promised or committed ourselves to 12% RoE and everybody laughed at us and said it's possible, that was in 2006, before the crises and the interest rates were a lot higher still. Now, interest rates came down, we went through a crisis, and we delivered on average, close to 11%, that's why I feel not great. But, I feel okay with what we have achieved over the years. Of course, capital cost came down and thanks to the low volatility, I think we can claim that we at least have a capital cost lower than most of our peers, and then the 11%, let it be 8%, it's not so bad after all.

The E is still big. Our equity that's of course also a challenge when it comes to equity and maybe later on we'll talk about that a little bit. Of course, you can engineer that very easily to have less E and more debt and you look great on RoE. But we think, let's look through all those in an environment of uncertainty to the level we have it now, we should not engineer too much in our balance sheet.

The right side of that slide is one that you know very well. We add year-after-year to the slide. The good news is, we are the furthest left. The not so good news is, we're not the highest and it will be difficult to beat Peer 3 here on that slide. And this is the brief for Joachim, this is your job Joachim to do, I didn't manage that. Either Peer 3 helps you in coming down or you work your way up to him, I don't know whether – which choice you'd take, but stay left. And that is about the volatility management.

I think, total shareholder return isn't crummy, it's certainly above the index. It's certainly above all the other peers over those years, but I think, we can still do a little better. And that's exactly, what we will try to do and innovation again is key.

Jörg and I, we do feel quite okay, if not great, and here I've used the word great, because the shares that we had to issue, my first contact with many of you late in 2003 was when we bagged for €4 billion of capital, luckily investors with your support gave it to us. Of course, we had to hand it out at a horrible share price and when we bought it back, it was more costly. Still the shares are not on the market anymore and in fact, we bought back more. We bought back, in terms of value three quarters of the market cap of today, since 2005. And as we announced today, we will go on.

Here is a slide, this is actually a reinsurance slide, it's not an innovation slide. It's reinsurance slide, just to show, it's not about innovation only. Here I focus rather on the traditional reinsurance, there's still a lot for us to do under reinsurance all over the place, be it emerging markets, be it developed countries. There's a lot of room for us still to do things

The question on these, is the margin right and that's why we have to move the boundaries of insurance further out to get the margin that we think is right instead of trying to churn and have business churned around in the market and getting it next time or the second time, first you lose it, then you get it back and the margin is each time a little lesser. That is not what we try to do, we rather let the business go 5%, walk out of the door during last tenure, mostly Chinese business. But you have to be determined to let business go. But there is enough room also on the traditional side, not to speak about risk solutions and innovation. And risk solution maybe interesting too. I spoke about digitalization and ERGO and reinsurance moving ever closer together, the same and it specifically happens with the primary business out of reinsurance and the ERGO business itself.

Here the – call it value synergies, are now really tangible. I talked about it for many years and few of you believed me, now I think we can prove it.

A short word on ERGO also for me, I've said I'm flying very high. What changed here of course is the target we added in Munich – International Munich, Munich Health International business now to, the primary side of it, to ERGO International, it will be integrated over the next month and that puts the numbers a little higher. Markus will give you more detail on that because it's not only the health business, the International. The strategy program as far as I can say is, so far so good.

The ERGO profit will gradually increase what is relevant I think to you for my end here is first, again no backlogs, no capital is planned anytime soon to be leaving Munich and going to Dusseldorf, not planned. And all the program that ERGO runs now, the €2 billion gross, is auto finance except for the dividend. We waived dividend, yes for the time being. But there is not a single dime going from Munich to Dusseldorf. Of course, I cannot put my block – my head on the block for everything that possibly could happen out there, but the likelihood is not high and ERGO takes pride in trying to avoid exactly that. So both want the same, no money flows from Munich to Dusseldorf.

Well, that being said, a short word on Munich Health and here you see the two blocks. The reinsurance block is bigger, but the result is smaller in relative terms whereas the primary block is small in terms of revenues, but it's bigger in terms of result. So, if you want to say that, ERGO took the better part of it. Be it as it were, ERGO will have to do some work to integrate it. We gave up on having Munich Health separately because we felt that it's the time (20:45) first of all that ERGO was rethinking its international strategy anyway. So we thought okay, then let's think if it makes sense to split the business again and put that side to the ERGO colleagues.

And on other hand of course, we were not entirely happy with the growth rather with the result. Result of course wasn't too great, some years as well, but we had expected when we set that up 20% CAGR. Because we thought the insurance, health insurance side is growing so fast, it would be a pity not to be part of it and we felt that she would do it. But at the same time, first of all and yes weren't very successful to put it mildly, two, clients changed their attitude too on the reinsurance side. So we had a couple of reasons to rethink the strategy and it ended up as it did, we split the Munich Health block again into two and redistributed it to the other business fields.

Innovation, my last slide. Well, is it harvesting time and I think, we are getting close to it. It's starting to come back, in terms of result, what we have invested over the last three, four years and it's a mix, we started of course, with strategy, culture, and ground work to set up all these tentacles that you need to be able to communicate to be part of the ecosystem of innovation and digitalization. And, I'm not shy saying that Munich Re Group on the worldwide scale is certainly among the top three in that regard.

We are very well connected now. We think, we know what we should do, what it takes to make the difference and we start to focus, we cut off and trim the tree of innovation and digitalization to be able to focus. And, we have the right people to run it at the top, but not only at the top, it's about 200 to 300 people exclusively working with innovation and digitalization. And the money alone for these activities, not any investment, is about $100 million a year. That looks small compared to others, but others work in their investments as well, that for us is entirely different basket. Corporate venture capital is extra and on top.

Well, that all being said, I think, I should conclude. First of all, by thanking you again, wishing Joachim all the best. He will soon take over 27 of April mid-night or 26 rather mid-night to 27, he would takeover. He is very, very well prepared for the job. He had a good – you (23:22) also to ask all the questions you could possibly ask, (23:25) talking to you, consultants, whoever out there. So, he is not short on information and intelligence, he has it all. And I think with 25 years and more on the back of not only Munich Re but in reinsurance, he also should not be short of any relevant knowledge moving forward.

So the motto of this conference is shaping change in insurance, I would slightly sort of reword it, shaping change in Munich Re. Joachim Wenning is the one, he is the right man for the job. He has a great team supporting him. I was fortunate to have my folks of the Executive Management Board level, but I'm also grateful for all the employees on a worldwide scale at the Munich Re Group. Without them, we would not be where we are. Thank you.

Jörg Schneider

Good afternoon, ladies and gentlemen. I'm allowed to continue. We had a very sound operating performance and some one-off effects with which we largely compensated for the cost of the strategic reorganization of ERGO restructuring and the burden from putting off the business in run-off mode in Belgium. We did not dilute the strength of our balance sheet and we took the numbers as they came out of the systems.

The differences between IFRS, Solvency II, economic numbers and local GAAP numbers are more of a temporary nature and due to the specifics of the different accounting rules. Our local GAAP earnings improved substantially to €3.4 billion and our distributable earnings and revenue reserves of €4.2 billion continue to provide the basis of high payouts with earnings ongoing here. The asset portfolio is dominated by the structure of the liabilities. We take asset liability matching very, very serious and only to take very limited bets. We were beneficiaries of the currency movements with our short position in British pounds and our long position in U.S. dollars. And, therefore, we had IFRS earnings from the FX of almost €500 million.

On the segment results, Thorsten and Markus will report, a few words from me only on the claims reserves. Our strong reserving position has been stabilizing our IFRS earnings over the last couple of years. The full year change of estimates (26:43) for basic losses for primary and reinsurance were €1.4 billion which was a bit less than 3% of our loss reserves held at the end of 2015 of €48 billion.

After deducting primary insurance, health insurance and major loss reserve releases as well as foreign exchange effects and our sedans, participations under sliding scale arrangements, the net pre-tax financial impact for reinsurance was €924 million and this was 5.5% of the net earned premiums of €17 billion in 2016.

As an outcome of our annual reserve review, a higher release would have been possible. But, we deliberately decided to maintain a high level of prudence in our reserves. Overall, we consider our reserving situation to be at least as strong as it was one year earlier. To some extent, the reserve releases were supported by benign inflation environment.

So what does an inflation uptick mean for our reserving position going forward? CPI is a poor proxy for reserve positions. The increase of insurers' claims severity and frequency is due to different drivers like construction costs, like medical inflation, and the changes in the legal or biometric environment. Let us look, for example, at the UK motor business, and the recent decision of the Lord Chancellor to decrease the Ogden discount rate for victims of life-changing injuries from 2.5% to minus 0.75%.

How much is Munich Re affected by that decision? First, our risk selection was very helpful. We limit amount of business with high inflation uncertainty. For example, we reduced our exposure to UK motor XL business since 2009 by 80%. We got rid of clauses under which reinsurers would cover a larger share of the inflation risk. And we use sliding scales to align interest between primary and reinsurers (29:48).

Second, we set our claims reserves using conservative inflation assumptions, not based on CPI, but highly specific to the respective claims and include very substantial buffers for changes in legislation jurisdiction or any other items of the environment. So, there will be no impact on the sum of our reserves from Ogden because we had already taken care of that risk by having a very high IBNR and margins, which we explicitly devoted to this risk, risk from change in the Ogden tables.

Back to our general inflation risk, and because of our asset liability management procedures, we identify inflation with the hedgeable part of claims inflation and holds (30:56) inflation-sensitive assets in the order of €34 billion, it's €9 billion in equities, €10 billion in the inflation-linkers and the like and €11 billion in the real estate. That means, there's also some protection on the asset side.

Staying with the investments, what you see here, the specifics of the two business fields; ERGO with a very long duration, strong focus on the eurozone with 95% of the assets in euros, especially here on Germany. And here we have been suffering, we continue to suffer from the very low reinvestment yield. For example, in Q4 with 1.3% only, the duration 9.3 years.

On the other side, the reinsurance with 46% in U.S. dollars and only 23% in euros. And here you can see how the difference between the running yield 2.7% and the reinvestment yield in Q4 was tightening. That means, the pressure on our running yield is lower in reinsurance and is coming to – I wouldn't say to an end, but at least, it is of lesser importance. And since, the reinsurance result after tax goes fully to the shareholders, whereas in primary insurance we shared with the policyholders. That means, overall that the current development with the high interest rates in the U.S. is positive especially for the shareholder sphere of Munich Re.

What you can see here is our sensitivity to interest rates, showed as the example of a change in interest rates of 50 basis points. And as you can see, this would be – we are sensitive to it with our Solvency II ratio, with an increase in rates being helpful for the economic solvency ratio. In the same scenario, we would see a decline of our IFRS shareholders' equity, which wouldn't disturb us too much. The investment result would only react very mildly, short-term, a slight reduction in the mid-term and long-term we would profit from such an increase in interest rates.

Hence, for the local GAAP situation, we would, in theory, be heavily exposed to the risk of rising interest rates. But we could immunize the fixed interest portfolio by booking it as held-to-maturity, which would then reduce the write-downs on the fixed interest securities. That means, it would have an impact and the accounting relevance would be well manageable for us.

The Solvency II capital generation reflects the capital-market-driven change in capital requirements. You can see all of the details of our economic earnings in the appendix page 67, 126, 141, and 148 for each of the segments.

To summarize, we had strong operating earnings in life and non-life reinsurance. Especially, experience variances coming from reserve releases and good value of new business coming from the lower than expected major losses in non-life reinsurance.

On the other hand, we had negative economic earnings coming from the ERGO restructuring and investments in the Strategy Programme. We had relatively high economic effects, the impact of capital markets differs here from segment to segment, the dominating positive effect of our currency movements and tightening credit spreads in reinsurance partially compensated by the impact of the lowering of interest rates in primary insurance. The normalized level of economic earnings of 2.5% is close to our 2016 IFRS profit.

Another look on our local GAAP situation of the parent company, as you know this is important for our distribution capacity and we are here in very good shape. We had an increase in the HGB result, you'll see it on the right hand side coming especially from the investment result. In 2015, we had a huge write-down on the ERGO shares and in 2016 we had an intragroup transaction, which provided us with gains from disposal in the order of over €600 million that makes up for the difference and therefore €3.4 billion is a very high number, bringing our distributable earnings to the very high level of 4.2% in spite of dividends and share buybacks of €2.3 billion.

On the outlook for 2017, the volume, gross premiums written should be on previous year's level. Net result is based on the assumptions you see below here with a 3% return on investment running yields, minus roughly 20 basis points. We still expect substantial disposal gains. The combined ratio in reinsurance comes from normalization of the 2016 combined ratio, which was somewhat below 100% - roughly 100%. If we include the spillover effects from 2016 to 2017 and the slight negative impact from the January renewals, then we would expect a 100 combined ratio - normalized combined ratio for 2017. But they are already two months behind us with a relatively benign major loss environment that makes up for 1 percentage point and then if we compare the usual reserve release, which Nikolaus mentioned before, 4% with what we would expect coming from the very high and very comfortable level on which we are sitting for 2016, so we rather expect again a 6% reserve release, then you come up to this prognosis of 97% for 2017.

For Life Re, we expect a technical result of €450 million, which Joachim will explain later on. For ERGO, €150 million to €200 million is fully in line with what we showed you last June when we presented the Strategy Programme plus the impact from Munich Health International primary insurers, which make up for the difference between €130 million originally and now €150 million to $200 million. So ERGO is fully on track, and the same applies for the combined ratios which we expect there.

So, overall good prospects. And with that, to Bernhard.

Bernhard Kaufmann {BIO 18347993 <GO>}

Good afternoon, also from my side. I like to start with a view on the current risk landscape. As Nikolaus already point out, we live in times of political and economic change. Political and economic trends are breaking down or are reversing interest rate in the U.S. is one example, re-emerging populism and nationalism, another one, many analysts also expect that the shift of geopolitical power will continue. So such environment can lead to surprises, good or bad.

As a matter of fact, the current perception of uncertainty is extremely high in this environment, also if you compare it in a historic context. Does this mean this is now an environment to hide under our desks? Definitely not. What do we do? On the one hand side, we prepare for what maybe next by forward-looking assessment of scenarios of the risks that are out there, and building the resilience where the uncertainty is, for us, likely to hit us first, that's mainly via capital markets.

On the other hand, we enable business opportunities in this environment, take over more complex risks, emerging risks, and you may guess that as an example the demand for political risk cover is definitely up these days.

Solvency ratio of Munich Re Group, end of 2016, is at 267%. This is excluding any long-term guarantee measures or transitionals, including the effect of transitionals for ERGO Leben and Victoria Leben (41:52), you find the number in the footnote, that's from a Solvency II regulatory point of view relevant ratio of 390% (42:06).

The decrease of the solvency ratio in our internal view compared to last year is mainly driven by the increase of the solvency capital requirements, which are up from €13.5 billion to €15.3 billion, all funds were stable (42:25).

The capital requirement increased not because our underlying business has changed, there was some more business coming from life reinsurance that added also to the increase of our capital requirement. But the main drivers for the increase, foreign exchange effects, so weakening of the euro against U.S. dollar, that's mainly the driver for property-casualty capital requirements going up. Then lower interest rates in Europe, again driving life and health's risk capital requirements and also market risk capital requirements up. And we had model refinements. For example, a reassessment of our cyber security scenarios that you see reflected in the increase in operational risk capital.

Then we had a reclassification of the treatment of minority insurance participations of Munich Re, that's – you see mainly contributing now under others. And this is also reducing the diversification benefit that we had before and this change goes back to requirement within Solvency II that these classification has to be under the column of others.

We also have now full recognition of negative interest rates, that was one of the drivers also why market risk and life and health's risk went up.

And allow me one (44:23) on negative interest rates. So with the full recognition now in our valuation and risk models, we saw a decrease of about 10 percentage points of our solvency ratio driven by all the different effects that are related to this refinement.

Main effort was about changes in the valuation models that means adjusting also management rules how you act in a low interest rate environment, but also the market consistent scenarios that you're using too, then also value the technical provisions and also the other basis for the stresses for the risk capital. The adoption in the risk model then simply by also allowing in our forecasts – all the year forecasts of scenarios for negative interest rates was easiest part and also had the lessest (45:35) impact, but overall, it was an impact to mention also separately. Important for us, it's not only about then also being compliant with requirements from auditors and regulators with respect to negative interest rates and how to model this. But as this also gives impulses for pricing for ALM, also how to look at certain kind of stresses, it was important for us to also have this fully implemented. And if now interest rates rise, that's also perfectly, of course, fine for us.

Now back to the development of our solvency ratio, on this slide you see the development of the two components, eligible own funds and the solvency capital requirement from end of 2015 to end of 2016. And the waterfall chart breaks down this development into the relevant drivers. So from left to right, first, opening adjustments, the net effect that you see here relates to increase in the solvency capital requirement, mainly driven by the aspects I just mentioned; reclassification of minority, insurance participations and recognition of negative interest rates.

Capital measures, you know this number, dividend and share buy-back in 2016 are summarized here, mainly affecting little bit own funds. And then in the middle, that's the expectation or the normalized expectation for 2016 based on our risk profile what's the assumption what we will earn. And the next two steps now show how we deviated from this expectation, so operating and non-operating variances and capital market variances.

Operating and non-operating variances mainly driven on the – little bit own funds side by positive effects coming from P&C reinsurance, so reserve releases above the expectation, but negatively contributing was the ERGO strategy program with the effects of the investments that are not reflected in the expected additional earnings in this chart here.

SCR increase under operating and non-operating variances is something simply because our assessment of certain risks has changed that were not expected like for example our cyber risk assessment, and that is classified here, and also the operating variances in our risk capital requirement.

One additional remark to non-operating variances, so typically this is about taxes and these kind of effects. In the last year, one main driver was here the increase of our risk margin. And so, in Solvency II, we not only have the best estimate liabilities, but we have an additional liability for the cost of capital to run off the liabilities and this increased by more than $1 billion. That is here shown under non-operating variances and this is also mainly driven by lower interest rates.

So in the Solvency II vote, you're hit three times by increasing interest rates. Last year, it was mainly the euro interest rates that hit us here. Its increase in capital requirement, you have also a negative effect on the own funds because option and guarantees are going up in value and you have a risk margin that goes up. And so, three times going in the direction of reduction of solvency ratio. If interest rates increase, of course you have three times a positive effect.

Capital market variances. This is what we saw above the expected return out of our investment strategy. For example, credit spreads tightening in the U.S. was one major contributor to this. And also for example, lower interest rates in Europe again driving up our capital requirement. Like we have already mentioned, the details also for all the individual business fields of Munich Re are explained in the appendix and they link to this logic also and there are more details given in the appendix.

Now, after looking into the drivers of the development of our Solvency II ratio, capital markets volatility is one of the relevant drivers, as you all know. And this is especially true for us, as we do not consider any kind of dampening effects of long-term guarantee measures under Solvency II.

On this slide, now you see how the contribution of the different risk categories are assuming now different return periods. So one in five year event, so a more typical kind of scenario. We expect that mainly market risk is driving such an event and that is what we see also in the last year that there's of course a lot of volatility coming through a market risk. But if it comes to higher return periods, where of course the possible loss scenario is higher than the – and the scenario is much more unlikely than the drivers are.

Insurance risk, these are our insurance risks from life and non-life, driving then in the expectation and these kind of loss scenarios. And the nice illustration that the impact of our strategy to have the business focus on insurance risk is also reflected here in this analysis, which will definitely look different for our peers.

On the other hand, this of course remains challenging as over time, it will be difficult to filter out what are the drivers for changes in economic earnings, changes in solvency ratio that go back really to business-related effects and those who were driven by capital market effects, but we try to be as transparent as possible on this.

Now my last page is on sensitivities. Here, we have the typical stresses all on (53:36) basis and mainly this is done the reason of comparability. But again, the warning about this is not really comparable because no long-term guarantee measures, no volatility adjustment here. Volatility adjustment, for example, of course would bring down spread, risk and spread sensitivity extremely.

So even if you definitely will get something out of the additional Solvency II reporting on the (54:13) that is then public and the information provided there. You will not be able to really compare sensitivities in the industry because they are just calculated once and then based on the base model. So, just as a warning if you compare us to our competitors.

Inflation sensitivity for us is very low. The reason is, here we only talk about CPI inflation sensitivity. And as Jörg already pointed out, this is a part which is the lesser part of the dependency of the reserves and it's hedged, so that's the reason why it's so small. The non-systematic part that is part of the management of our reserve risk.

Perhaps one good news about sensitivities what we saw this – last year is that, for our run-off carrier that already is in run-off for three or four years, Victoria Leben, the sensitivities have reduced substantially, liabilities are going down. We earned risk premiums on the investment side. We have unrealized gains to – and also finances et cetera (55:35), and also buffer some stresses. So this is a nice example that run-off makes sense in respect to also being able to manage risk capital requirements down.

More details are in the appendix, and I hope this gives you then also enough confidence that you do not have to hide under your desk.

And with this, I give back to Nikolaus. Well, Christian?

Nikolaus von Bomhard {BIO 3123407 <GO>}

Thanks.

Q&A

A - Christian Becker-Hussong {BIO 19080254 <GO>}

Okay. Thank you, gentlemen for the first round of presentations. So, let's go for the first Q&A. I would like to ask you to only ask questions on those group topics that have just been presented. And to please address questions on ERGO and reinsurance in the second Q&A, after the second round of the presentations. And as always, housekeeping remark, a maximum of two questions per person, please. And just use the microphone in front of you, please press the button and give the name of your company and your personal name first. Who is first, Kamran.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. It's Kamran Hossain from RBC. Two questions, the first one, you've obviously benefited this year in your HGB result and the distributable reserves are at pretty high level. When you think about the buyback this year, how do you consider doing something like kind of announcing a multi-year buyback? So, that's the first question, whether that's something you might think about.

And the second question, just about the 2017 HGB, I guess, earnings (57:23) development of what we might expect that, should we see any kind of equalization benefit in that number this year? Thank you.

A - Nikolaus von Bomhard {BIO 3123407 <GO>}

Thank you. I'll start with the first and then Jörg takes over. You're right, call it, cushion or the financing capacity on the local GAAP balance sheet is relatively high these days. But you know as probably well enough that we will never under deliver, rather under promise.

And we always said that and the question is not up for the first time, why don't you do €1.5 billion or €2 billion or commit yourself to something that goes beyond one year. And so far, we felt in the overall environment with that tremendous amount of uncertainty out there, that we'd rather stick to our – I call it knitting, what we did so far, that is a €1 billion.

And then, we see going forward what happens, because let's not forget, if things get really ugly, then opportunities might arise, both on the business front and on the M&A front. And that's why we don't want to take back that such a commitment, the €1 billion we think is well within reach obviously, then otherwise, you wouldn't ask the question. And we can deliver on this one, but this is it. Jörg?

A - Jörg Schneider

Equalization reserve is organized in various parts according to lines of business, little bit difficult to predict precisely because it's not on the overall underwriting performance. But, it's highly probable that we see a reduction of the threshold demand which we have to achieve to which we have to fill up, because the formula is based on the 15-year volatility and the premium income per line of business, and that means especially for the fire and for the liability business. The 2001 WTC attack with the huge loss, will fall out of the 15-year observation period and we accept, I would guess, a high triple digit million amount if not, billion amount, which we can be released pre-tax, which means after tax 33% less than that. So overall, 2017 should have been the peak of the development of the equalization reserve.

A - Christian Becker-Hussong {BIO 19080254 <GO>}

Next question, Michael Huttner please.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Just two, on the solvency chart, slide 26, there is this figure operating and non-operating variances of minus €1.1 billion. And I may have misheard, but I thought you said that in there you put the ERGO restructuring cost and does it mean you've actually put the full restructuring cost for the five years in here? That is my first question.

And then the other question is on the reserving, so every year, you say we feel more comfortable than last year or at least not as less uncomfortable than we might have been last year. Anyway, they seem to be going up, so – and for memory, maybe you wouldn't have said the same in 2002 or 2001. So things have improved which basically means that you've been under-reporting if one were to be at the mid-point earnings and I just wonder if you could give us a figure for this kind of annual under reporting. My guess is it's somewhere between €300 million and €400 million a year, and I suppose the question which follows from that is, are you still understating your earnings today by that amount? Thank you.

A - Jörg Schneider

Okay. On the restructuring costs of ERGO, they are fully included here, whereas the impact on the new business as of 2017 is not included. That means, future new business is not part of the economic earnings, that means we have the full burden at the beginning and you do not have the benefits which come in. So, for example, if you do a valuation of ERGO based on the effects of the strategy program, then the strategy program is clearly beneficial, whereas in the economic earnings methodology, it's not beneficial because you do not have the long-term benefit on it. Nikolaus?

A - Nikolaus von Bomhard {BIO 3123407 <GO>}

Let me start and Jörg has the obligation to correct. A word like under reporting is not part of my active vocabulary, and but you're right, if we take a glimpse to history, of course, we had difficult years and you mentioned those, stemming back from U.S. business mostly in the late 1990s. And I think we swept all those out until 2005 ultimately. And since then, it was an interesting picture and we showed that slide in the past, we don't show it anymore. And we had practically a €200 million added to the releases year after year, it was almost like a step and most of it (1:03:03) we did not plan for that. The effect was €200 million, €400 million, €600 million, €800 million and then we crossed the €1 billion line, and that's pretty much where now it's sort of kind of oscillating between €1 billion and €1.23 billion. That's why we always said, this is that 4% where we feel comfortable, it maybe a little bit more, but it's around there.

You – yeah, the word I would not repeat, but of course we have auditors and these auditors come up with a best estimate and the range around it. And they make absolutely sure that we stay well within what one can report and should report and I think we said it over the last two years, we used a picture even, if you think of a room with ceiling, we're standing in that room with that hat slightly bent already, but we're still below the ceiling. Jörg?

A - Jörg Schneider

Yeah, that is absolutely true. Some 12 years ago, 13 years ago, we had to and we wanted to increase the comfort level in our reserves. Perhaps, some of the messages we conveyed internally, were somewhat over interpreted by the colleagues here, yeah, because everybody was very busy in putting up additional comfort layers on comfort layer, and it is no longer our ambition to increase this comfort level. And my best guess of what happened in 2016 is that it went side-wards. With that, I'm personally convinced that we are somewhat ahead of the industry, yeah, which means perhaps we see in the market as a whole, a little bit of a release of the reserve comfort level, whereas we stayed at the level which we had at the end of 2015.

A - Christian Becker-Hussong {BIO 19080254 <GO>}

Okay. And Vinit please and then Andrew.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, it's Vinit from Mediobanca. Just, Jörg, on this change of the Munich Health allocation, just from the outside, I mean, the segment was relatively young, it was carved out in 2009 probably with the certain rationale in mind, and now it's been folded up again into what worries is that into a segment which is under restructuring so much. So, if you could just comfort us a bit more on what was the rational to make these changes to this reporting.

Of course, you have laid out the profit forecast, but just to make us a bit more comfortable please?

And second question is just on the use of the balance sheet and the reserves have already been commented on, so I'll move to the next topic which is the realization gains. And I know that you have stated to us at least N number of times that there is no harvesting policy. But is there a thumb rule that when the unrealized gain level will be X, we try to maintain that level. Or how do you even determine whether you're aggressively harvesting or whether you're not really aggressively harvesting? Thank you.

A - Nikolaus von Bomhard {BIO 3123407 <GO>}

Thank you, Vinit. I start with Munich Health and then Jörg can take over and also go for your second question, where I only would like to say one word, we really try to maintain our reserves on the assets side of the balance sheet to the extent we can. And if you think back of quarter one, of course, it would have been easy to smooth in quarter one results that created some hiccup also amongst yourselves and where - we just didn't because we feel this higher coupon is overvalue, we don't know what will happened going forward, but this is for Jörg.

As regards to Munich Health, actually Munich Health is a little older. You saw it first really in 2009, but it was in fact created in 2006 as a virtual setup in the beginning.

We did kind of legalize it only in 2009, so it has more than 10 years on its back. And the idea behind it was in the first place to make sure that we cross value synergies between reinsurance and Primary, the same idea and concept that we had with ERGO and reinsurance, but here we really pooled two entities together because it was in fact an oligopoly in the market. There were not many players on the health reinsurance side.

What went wrong? I talked about the expectation, 20% CAGR, and then we thought, it has to be the U.S. involved and we went into primary U.S. And there, we learnt a lesson in the sense because we were two times caught on the wrong foot in terms of strategy. And the first was early on when the cold calls were not allowed anymore in the health business and when also some products we sold were criticized, and we had a pretty much one sales channel, one product policy, niche, good if you are small, risky, if you are taken by surprise, and that's what really then almost killed us in the U.S. was Obamacare and all the scale that then went into the business.

So that made us wonder already at that time, what to do. So we were a little lighter in defending the business model of Munich Health. And then on top of that happened what I just mentioned, then we had the restructuring on the redefinition of the ERGO International strategy and we felt that our reinsurance clients when it came to capital relief transactions, we're actually looking as the business as a whole rather life and health take Asia as the one where we grow most right now in life, they don't make a difference between life and health.

Mostly the health business is a rider to the life block. So then we felt, is it really worthy to keep up that model since we are also handing over, then all that together made, Joachim, first of all and he is the one buying, and so if he wants to correct something, that's your chance Joachim, that we changed all the setup and felt that we will not get soon heavy enough in big markets to make the difference. And there was one flaw always also in there that we had the German health business with ERGO and the International elsewhere and the health German business is a huge one. To be honest again, as we always are, we were not really in a position, we were not really great in pooling those two in terms of value synergies together behind the scene. Then all these contributed to ultimately the decision to say drop it, do it differently and try another way. But the strategy and the idea of liking health business in general did not change.

We think it's a very interesting business, a lot of growth prospect out there and very different if it stands separately from life or non-life. There are some kind of similarities, but this is a very tricky business specifically for the providers that you have to manage, and that's not so easy to copy. So, we hold on to health business, we organize and structure ourselves differently, we still dream of the 20% but I think we're a little bit more sober on that side. Jörg?

A - Jörg Schneider

Yeah. I cannot add a lot here except for the fact that there are also a lot of synergies for the international operations in primary insurance which we perhaps underestimated somewhat but now in the course of the integration of the Health, primary insurance subsidiaries in the ERGO Group, we see that there is much more to do on the International side between non-life – property-casualty, life and health players than between reinsurance and primary insurance here.

With regard to the valuation reserves on the investment side, they stand at €28 billion total reserves on and off balance sheet, which is huge, and with the shareholders share of close to €8 billion.

What happened in the past, we had pretty high disposal gains during the last couple of years like in 2016, 1.1 percentage points of contribution to the investment result, but this was mostly due to rearrangements of our asset portfolio instead of active harvesting here. But whatever we touched here, there was nothing left without huge unrealized gains. If we wanted to actively harvest gains, that could become a pretty expensive exercise in markets with very low volatility and very high bid asks spreads. And, therefore, I personally and the full board would like to be very careful with that kind of policy, I would personally rather have the results, have a dip in a certain quarter instead of having its movement through the realization of – through an expensive realization of investment income.

A - Christian Becker-Hussong {BIO 19080254 <GO>}

Okay. Andrew, please.

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

It's Andrew Ritchie from Autonomous. I'm not sure this is the question for the outgoing CEO or the incoming CEO or maybe both. It's the first presentation, I remember, Nikolaus, we haven't talked about RORAC, I mean RORAC, I think, is something new introduced to the group or as a measure. It's still part of the remuneration plan according to the annual report, you have (01:13:02) ROE. So is it ROE, not RORAC? Now, I mean part of the issue is that you're holding and continue to want to hold vastly more capital than your 1.75 times Solvency II requirement.

So I'm not sure how appropriate RORAC is, but maybe just your thoughts on – the aspiration I think used to be 15, I think you just did 11. Does it matter? Is it really not appropriate, given you're still holding a lot more capital than that?

Second question, it's a technical question on the economic earnings of P&C Re. It's a negative new business value, it's a P&C Re, but positive variances, is not always going to be case. If you're setting up your initial loss picks above best estimate, does the new business profit by implication will be negative, but then you'll have a positive variance, is that how we should think about it? Thanks.

A - Nikolaus von Bomhard {BIO 3123407 <GO>}

Well, we both keep our powder dry with your first question. And you're right, when we started with the RORAC concept, RORAC 15% translated exactly into 12% ROE, and at that time corresponded, so of course one was half economically based, the other one was not at all. The RORAC is somewhere also between two worlds, that's why we never really loved it, but at least you had a chance to kind of reconcile numbers.

If you went fully on the Solvency II side, it would be more difficult back then for us and for you. Now we are in a different world, but I think three years now, Jörg, we announced that we will change it, and then we said we will not change it. Now I'll leave it up to you, will we change it and what's the way forward? And the second question, I think, you will answer in fact yourself.

A - Jörg Schneider

Exactly. Your answer to the second question is fully right. So within, let's say, call it over reserving of 4%, we will show a new business volume value which is structurally negative with an impact of the over reserving of €700 million. And in the cause of the runoff, we would see same amount of (01:15:13) here.

On your first question on the RORAC, we do not like ROE too much because there's not any element of risk taking. So if we steer our company according to return on equity then we would have a very strong incentive to go into low frequency, high severity risks. And in the typical generation of manager, you wouldn't see the disaster. And then after 20 or 30 years, there would be a year with minus €10 billion or so.

So therefore, we still regards risk-oriented numbers as being more meaningful target. RORAC didn't fly, I frankly admit it. But now we are slowly walking into the word of the economic earnings which have, in our view, a lot of attraction, difficult to understand. We have to learn our life with these numbers, we have to get accustomed to it, but it's a good way of steering the business in internally.

Therefore, I hope that the market will move somewhat in that direction in the course of the disclosures of 2017 for 2016, and then later in 2018 for 2017 where everybody has to show the profit and loss attribution in a similar form.

A - Christian Becker-Hussong {BIO 19080254 <GO>}

Okay. Next question from Thomas Seidl, please.

Q - Thomas Seidl {BIO 17755912 <GO>}

Thanks. Thomas Seidl, Bernstein. My first question is on slide 8, where you showed the TSR performance in last 12 years. And you said, Nikolaus, that you couldn't achieve the peak Peer 3. One of the reasons I think for that is the topic Andrew just mentioned, the high excess capital you carry around. And (01:17:08) recently one of your peers has also optimized its capital structure, and over the last five years (01:17:14) on total shareholder return. So my question is, do you really have the right capital structure and is the market really rewarding you for this tremendous excess capital? First question.

Second is, you said on the ALM that we take it very seriously. This one exception which is FX, and I wonder what makes FX a better risk to take than other ALM risk, and how do you think about a €400 million loss (01:17:42) on U.S. dollar or pounds? Thanks.

A - Nikolaus von Bomhard {BIO 3123407 <GO>}

That's a mixed answer. Again, I would advice Jörg to keep his powder dry for the time being as regards to capital strategy here because that of course is an obvious one that you put up. And in a way as if I expected your question, I tried to answer it already that we think in the current environment we should be cautious, but this question will be on our table very soon when our current subordinated 2017 callable bond will be up; and Jörg, maybe give you the latest on this one.

As regards to foreign exchange in general only, we always said we don't take big time risk. And if you look at the foreign exchange results over the last six years altogether, would see 5 times on minus and once on the plus. I admit that we took a little bit of a position in the run-up for the Brexit and the elections on the outside of the Atlantic, not knowing what will be the result. But not only us, many were U.S. dollar alone and British pound rather short and some other currencies helped us too, but this is a kind of a profit that actually if I had a choice, I'd rather have a zero all the years here. And we try to economically match liabilities and assets, but the accounting is different.

And therefore we get these hiccups, what you called an accounting noise. They know, it makes your life miserable, because it's very hard to predict. And last year, of course, the amount was so big that we easily could pay all the restructuring cost of ERGO with just that one profit. But we did not go for it, I admit it. Jörg, on both capital and foreign exchange.

A - Jörg Schneider

Nothing to add on the second one.

With regard to capital, I can also confirm what Nikolaus said. We know that this is an issue. And we still dream of very attractive chances for growth. We do not keep a watch as for M&A here. We have to look at the HGB local GAAP balance sheet, which means the currency situation is very positive also for the years to come. We're very optimistic with that regard, but it is a constraint and we never want to cut the dividend. So therefore, it's a mixed situation.

Overall, I think, we have a very attractive distribution, and it's absolutely reliable. It was so boring this morning, when you got the message of €1 billion share buyback. So who else has such a track record on constantly high distributions. Most of the others have been talking for a long while before they started. So therefore, I think, we have our challenges on that front. We're aware of it, we're not proud of it, but in our view, one should somewhat live with it and also by the way, the problem has been reduced recently by the effects which Bomhard described before coming from the modeling of the SCR.

A - Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you. Last question before the break, Frank Kopfinger. Please.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Frank Kopfinger of Deutsche Bank. I have two questions on the return on investment on your outlook for 2017, and the 3% ROI outlook that you have, comparing this year's guidance with last year's guidance, it's on the same level. Last year, you mentioned already 3%, and so it's stable year-on-year within your normalized view. Could you elaborate a little bit on this, whether you have some shift, also you denied to have higher capital gains over there, there is a shift from running yield to capital gains to keep them stable, or whether it's only and this could be also the case whether it's a pure function of a denominator which gets lower as rising yields put pressure on the bond prices. And this is also linked to the question on page 17, where you show already that, within the Reinsurance segment, you have a higher reinsurance yield. Is this just purely to this function that you might have lower assets?

A - Nikolaus von Bomhard {BIO 3123407 <GO>}

No, it's also due to the stabilization of interest rates in the U.S. which is helpful, with the half of the portfolio being held in U.S. dollars. Overall, I think we perhaps underestimated the impact of disposal gains when we did our prognosis last year. Perhaps it's more realistic while sitting on €28 billion of unrealized gains that there will again be a high level of realization in the cause of the normal developments of the portfolio. Therefore, there is not really any substantial new information on that, perhaps a little bit less of conservatism here on that front for 2017.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Could you breakdown this 3% into running yield and realized gains?

A - Nikolaus von Bomhard {BIO 3123407 <GO>}

Running yield is 2.8% for 2017 and the remaining elements between disposal gains, write-ups, derivatives and so on, they're mixture of what is economically in the same bucket. That means, there will be positive impact from these elements and we will have our expenses, which should still – the other income and expenses should still be in the order of 20 basis points or so. So nothing new of a spectacular character here.

A - Christian Becker-Hussong {BIO 19080254 <GO>}

Okay. That was a very quick one. So, therefore, I'm a nice guy and take another question. Xin Mei, please. I think, you are first.

Q - Xin Mei Wang {BIO 16662657 <GO>}

Thank you.

A - Christian Becker-Hussong {BIO 19080254 <GO>}

Sorry to surprise you now.

Q - Xin Mei Wang {BIO 16662657 <GO>}

Xin Mei Wang from Morgan Stanley. One of my questions has already been answered. But my second one was more on the strategy. You talked about innovation and digitization. Jörg, you can help me understand this a bit more, the product landscape, technological developments, regulatory developments, they change very quickly and it continues to evolve. How quickly do you think your product pipeline, the distribution culture, for example, can adapt to very maybe unforeseen or quick changes in technological, regulatory developments?

A - Jörg Schneider

Thank you, Xin Mei.

I think you will hear more about it later on also, so I give you a high level answer now on the and the two gentlemen, Torsten and Markus have that on their agenda one way or the other anyway. But then they will dig a little deeper when they talk about it.

It's a little bit of a race normally that regulators, although starting with regulation and product innovation, play catch-up game. Those who know Singapore, it's a very interesting setup they have there. The regulator himself set up the ecosystem and its financing part of it and calls in companies to co-finance and that is the regulatory sandbox, if you like. So they specifically put some businesses aside to create more room for those who try to, some extent, reinvent the industries.

Other regulators are sometimes (01:25:38) used by the incumbents in building high walls to make sure that no one can enter. I think the first is the better approach, make it public, make it visible, tangible, invite the industry, and help the very location, the jurisdiction to flourish by making sure that you are at the front end of developments. We will not be well advised the reuse (01:26:03) regulation to prevent innovation.

On the other hand, of course when it comes to new products, you have to be sure that the regulator is with you and of course, here scale and size help, because we have access to those out there to jointly, if needed, developing things. When it comes to other question (01:26:23) Torsten, you would like to add one layer already now, please.

A - Torsten Jeworrek {BIO 5724439 <GO>}

Perfect answer. I give you – what I wanted to add here is, there are examples, where I think the regulator will step in or will come up with new rules or regulations, when we go more into innovation or changes of our industry, let's say. I'll give you two examples, which are at an early stage, therefore, not on the radars of regulators, not yet in my opinion.

One is, when you look at the capabilities or the various use cases of Big Data and Analytics, where more and more client and customer behavior – individual customer behavior can be used for risk assessment.

Then this even – more and more individualized tariffs and policies will raise questions in the future. And my best example – but it applies to all other segments as well. My best example is health insurance. When you look at health insurance and you think through, you can say, okay, using customer behavior already today means, this guy should be more expensive, this guy should be less expensive, when you look then at strong progress in genetic diagnosis, which give you a very – in the future, on a very automated basis, clear indication of the exposure of certain clients to certain diseases or mortality or the sort of stuff, then you can ask the question from a society perspective, is that the right way that we more and more individualize the tariffs, which means, the very healthy people because of their better genes or better behavior, whatever there is, so to speak, almost pay nothing in the future, I exaggerate a bit now. And some others are excluded from the portfolio of our industry.

Then I think at some stage, the regulator will step in or the reason industry should ask is that, so to speak a desirable ambition for our industry. However, in a competitive market environment, there's no chance – no other chance than pursuing that direction, because if we don't have the best analytic capabilities and can do that by ourselves, some of our peers will take the risk away from us. So that's a conflict here.

And now I give you another example, which is not innovation per se or not digitalization, but you know that more and more alternative capital came into the insurance industry over the last years. Hedge funds, pension funds, participating particularly in the tech business and there is a trend that not all of the limits they provide, cat limits are fully collateralized anymore. It means, there are 10 scenarios, hurricane, earthquake, European windstorm and so on, which are put together and note that not 10 times the limit is collateralized, but let's say only 4 times, 5 times. It means, these hedge funds and pension funds, so to speak, in the future, if they don't have to provide full 100% collateralized for the limits they provide, they mean a certain credit risk for the buyer.

The more they entertain, the more there is a likelihood that this reinsurance can also fail. The question is, how far will that go and will this kind of not fully collateralized reinsurance, will that be then accepted as a reinsurance by the regulator, or will that be penalized at a certain time. Otherwise, we don't have a level playing field anymore, which means a traditional reinsurer, who are strongly monitored and regulated and all the reporting is really expensive and burden for our industry and for us. And on the other hand, you have very lean pension and hedge funds, who even don't have to provide the same amount of capital for the same risk.

A - Christian Becker-Hussong {BIO 19080254 <GO>}

This...

You wanted to add something.

I wanted to, because this is a very – it's a deep question and we should not spend all the afternoon with it, but it's very, very relevant. And the question that – Torsten talked about this the question of this Solidarity Fund that we organize, in fact for our insureds, and we have mutual systems out there.

We have the sharing economy, and these things sort of are blurred now. We don't know exactly how that will play out over time. We must only make sure that we can play on each of those heels by having the data analytical capacity and skills that we have access to clients and all that it takes and it's interesting to me, that start-ups if you ask and why do they look and go for us as a partner, mostly there are three answers. One, scale; two, underwriting know-how; and three, regulatory knowledge.

So they themselves feel, there is something out there that we're not in full control yet. And it will be a little bit of trial and error, but if you play on all those fields, at least you won't miss it all, that's practically and basically the strategy.

There is one other dimension of it, which I think Torsten did refer to, which is a totally different thing again. The regulator is our friend, when it comes to cyber risk. More and more regulators, not ours. Regulators who look after cyber risk in general could be even national agencies want business to protect themselves.

And of course, we are at the front line of those who can help, not only with insurance. We would never insure a cyber risk, unless we had a deep and thorough risk management process before. It's about prevention and insurance, but you'll be called to the table, and of course, this is what we know and here the regulator in that regard is even our best friend, because they help us creating a market.

A - Nikolaus von Bomhard {BIO 3123407 <GO>}

I have to make a correction to Frank Kopfinger's question. Our running yield or regular income is expected to be in the order between 2.6% and 2.7% instead of 2.8%, so I apologize. Then, we have an impact of minus 0.2% for other income and expenses, and between 0.5% and 0.6% for disposal gains, write-ups, write-downs.

A - Christian Becker-Hussong {BIO 19080254 <GO>}

Okay. Thank you. Time for the first break. Whatever you do, wherever you go, please do not get lost in the park or any place else. Please be back at 3:30 sharp, so we can restart on time. Thank you.

MANAGEMENT DISCUSSION SECTION

Markus Rieß {BIO 1835270 <GO>}

I will use the next 20 minutes to speak about ERGO, and I would like to reiterate what Becker-Hussong had said in the beginning, we have both Alexander Ankel and Christoph Jurecka (01:33:40) who will obviously be able to discuss with you in the break and after the meetings even more detailed questions that you have, and obviously you can direct them to me as well. So, use this opportunity.

And I will lead you very briefly through the exhibit, and I'm looking forward to your questions. First of all, where we do stand in the ERGO restructuring program, we call it ERGO Strategy Program. And here we have the numbers as of 1st of June, 2016, and you see that we have basically delivered on what we have promised. We have a little more premiums. The net profit is slightly negative. I think that is very positive result, because it also includes the restructuring of Belgium. The cost savings are delivered and the P-C combined ratio in Germany is actually better than we had anticipated by 1 percentage points.

If you read between the lines, I would also like to say that on the sales side both in Germany and internationally, we have seen a positive sales result year-on-year, plus 3%, co-incidentally, the same number both for Germany and for international. And also on the international side of the business, we have seen the combined ratio improving by more than 5 percentage points.

So, my personal judgment on 2016 is the year 2016 has been much better than I had hope for, and I can tell you that we have basically been successfully able to fight off the challenges that we had ever since the beginning of the program. However, and I say that very humble, the program is ambitious, it's long, and this is just the first half year that we're talking about.

If you go a little bit into the details, you see them in page number 31, you know the categories in which we look into our program are basically fit, digital and successful. Here you see a couple of milestones that we have achieved. Let me just briefly summarize them for you.

On fit, which basically addresses primarily the efficiency issues, we have successfully completed the discussions with our workers' council and I can communicate to you that we have already basically solved 40%, four-zero-percent, of our overall target in terms of staff reductions, which translates into more than 800 people that we have already addressed in that context, which is a very serious and complicated process which has to be executed with lot of responsibility as you very well know.

The new structures that we have basically designed will be in the go-live process at the latest, at the beginning of 2018. The most urgent one, which is on sales, is already effectively up and running since 1st of January, 2017, in Germany, and that is not only from a managerial perspective, but also from a technical perspective. So we have basically migrated all of the technical, sales, management support systems effectively and successfully on the 1st of January. And that is I think good news. So we can operate in sales in the new structure already.

On digital, I'd say we have an ongoing transformational process in order to achieve the organizational set up for our transformation of the business digitally. And I'm already seeing the first positive milestones in the successful category. The modular tariff structure, which we're already having in motor and in household, this already leading to very small positive increases in terms of new sales. And as of next week, we have new MEAG mutual funds on the money management side and on the saving plan side, which will enable our old-age provision service offering agents to basically have a competitive product in that segment as of mid-March.

Now, let's basically briefly lead through the numbers. The numbers basically you have already seen, so I will be very brief and I report by segments. The first segment is the Life and Health segment in Germany. Here you see that as expected, we have a reduction of cost cut in premiums of €200 million that is coming primarily from Life – within Life, primarily from the single premium segment and it's an immediate derivative of the decision that we wanted to reduce our exposure in the classic life book.

On the net result, you see a swing of more than €400 million, which is primarily due to the fact that the goodwill impairment that we had in 2015 did obviously not repeat itself. Here we have strategy, cost – restructuring cost already included, we had this discussion already in Dr. Schneider's presentation and we had comparatively high capital gains because of the funding of the (01:38:49) et cetera. So, I look at this result as being artificially too positive because of those technical factors, but these are the numbers as they are.

Return on investment, as Schneider already gave the numbers just recently, you see that we have 3.6%, here we have the same tendency as from Munich Re, the regular income is lower due to the macroeconomic effects. The capital gains are exactly offsetting that by quite a significant amount, so it looks like 3.6% as of 3.2%, but the regular income has clearly decreased in the same way as it has on the reinsurance side.

On the Life Germany side, a new organizational setup for the management of the back book is already in the process of materializing. However, as you might have seen from the milestone chart, it will not be complete before the first quarter of 2018, so we are still in the preparatory stage.

I would also like to draw your attention to page number 118 in your booklets, which has a cash flow perspective on our existing Life business. It will tell you that we have roughly €8.5 billion as buffer for the next 40 years. That means, that we are, I think, very well reserved when it comes to the life insurance side of our business. However, we are sticking to our decision that we want to, what we call, encapsulate the back book and try to manage it more effectively and efficiently and I hope that we will be able to discuss some results with you in two years at the latest, preparations are going all according to plan.

Very briefly on the property-casualty side, here we have positive results. We have growth of roughly 1%, even in spite of the restructuring, which gives us now €3.2 billion gross written premiums. The growth is pretty much according all business lines, 1.3% in motor, 1.7% in liability, 1.5% in LPI. We only have a decline in fire and property and in personal accident, in that context.

The net result is with minus €72 million, obviously, severely impacted by the restructuring charges that we have, also a lower capital results in this regard and also a non-repetition of a one-off positive tax effect in 2015 is responsible for this swing according to minus €72 million. All of these factors are exactly as planned in our strategy.

Now the combined ratio is better, we have 97% as opposed to 97.9%, so we are 1 percentage point better than the ESP guidance and this combined ratio of 97% is impacted by the Strategy Programme by 1 percentage points. You'll remember that basically the story is that we would like to achieve 4 percentage points improvement of the combined ratio, because of lower administration costs. And obviously we have to address the issue of it by restructuring charges and they affect us negatively in 2016, and they will also affect us negatively in 2017, and this you can visualize here on page number 35, where we have the combined ratio over the five-year period. And you see that whereas we have outperformed with 97% versus 98%, the target for 2017 is 99%.

We have already started some cyber products in connection with the reinsurance side. Torsten Jeworrek will be much more competent to speak about that later, but it shows you that here some of the knowhow synergies are already taking place even though on a minor degree for the moment.

With that, I come to our third segment, the International segment, which you'll find in your booklet on page number 36, and here we have all the numbers on one page. The International business in 2016 has significantly improved as opposed to 2017. You see that in the P-C gross written premium numbers, which are now at €2.5 billion, which basically means there's an increase of 4.6 percentage points. And the nice element about this is that the growth is coming from a variety of regions. We have growth in Poland, in Greece, in Austria and Russia and in the Baltic states. Now we still have declined in UK and Italy, because of restructuring, and also in Turkey because of the focus of the portfolio improvement in this regard.

In Life, as expected, we are going down quite significantly from €1.6 billion to €1.2 billion. Here we have Italy and Belgium, which are clearly negatively affected. This is all a derivative of the de-risking strategy that we are envisaging, so also that's something that we basically planned. If we look at the overall portfolio, over the last two years we now have 4 percentage points less exposure to Life than we had two years ago, which is basically supporting and decrementing our management impetus to basically grow primarily in the P-C segment.

On the combined ratio, I already mentioned that we have an improvement of more than 5% to 99% on the International side, and the net result is impacted negatively by the restructuring in Belgium, which costed us €100 million or €99 million to be exact. We have positive effects because of the lower reserve strengthening in Turkey and in the UK. But generally speaking, I'd say we are on the right track with regards to the International side of our business.

Now we have promised that we would like to address the content of the ERGO Strategy Programme on the International side of our business in more detail during this conference and I would like to spend the remaining five minutes highlighting that. And then, obviously, we'd be more than happy to take your questions in this context when we have the Q&A round.

It's very clear that we have basically appointed the fit, digital, successful framework also in the International side of the ERGO Strategy. And I would basically like to focus in the following minutes only on those four issues that are highlighted on the chart.

If we want to achieve our goals on the International side, then I think that we need very clear governance process and we are clearly opting for a more centralistic governance solution. We are actively reviewing the portfolio. I am very convinced that there is synergy potential in terms of interlocking the business system between the reinsurance side, and the primary insurance side much more intensely than we did that in the past. And last but not least, we are in the process of integrating the primary insurance side of Munich Health's into the ERGO International environment.

So if you bear with me for four more charts and I'll lead you through this. Governance, here you see the general cornerstones of our governance concept. And I do not consider that to be rocket science, but it's clearly a different model from where we were coming from. And it's basically that we have three lines of business, and for the purpose of clarification, I'll leave financial products out for a moment, so we have two primary insurance business lines globally. One is P-C and the other is Life and Health. And centrally, we will now basically be responsible for the product development and the portfolio optimization, which means there's a mandatory four-eye principle in each and every country for each and every line of business, and there are global standards and actuarial pricing models and risk appetite. Again, I repeat myself, this is not rocket science, so the key here will be the execution and we have made sure that the execution will work very well going forward.

We also will look from a central perspective on claims efficiency and effectiveness on the P-C side, and we'll continue to de-risk our Life books on the Life and Health side. On the other hand, we need to foster climate and an environment where senior CEOs can run their business, so they will have entrepreneurial decrease of freedom, but in the limits that I have just been sharing with you, so they will be operationally managing their respective entities. This is a classical matrix structure. We all know, matrix structure works if the people buy into that, it's always a question of people. And after we have debated that over the last couple of month both, with our new central management as well as with our local management, I am very optimistic that this governance structure will work going forward.

On portfolio side, you know that we have been looking at the portfolio a couple of times. And from now on, we will basically categorize the portfolios into three buckets. Bucket number one is, in those countries, which you could consider developed markets. These developed markets, where we already have a significant market position are, and I'm using this here as examples, but it's pretty exhaustive, Poland, Austria, Baltics and Greece. These are markets, which can be considered developed in terms of insurance penetration. They are including Life and Non-Life, but Life in Austria is already a pretty much de-risked book of business, especially in the new business, where we have hybrid products going forward. And here, the idea is that we want to strengthen this business organically, i.e. diversify the distribution mix, try to gain more market share in the countries and of course try to act as a consolidator for smaller companies if the opportunities arise, but that's a classical synergistic game.

In the medium category, where we talk about global specialized business experience, and that is also not new. That's something which already we discussed in Capital Markets Day in 2013. We have the business lines LPI, legal protection and travel. And those have already pretty much a Pan-European or international or global scope, however you would like to call that. Basically 18 countries in the legal protection and 24 countries in travel.

Here we focus on efficiency going forward. Foster and encourage even knowledge exchange and try to come up with structures that take out costs out of these global business segments. In addition to that, we will launch two new global business segments. One is the pure digital player, which in Germany starts as I argued already, end of (01:49:56) fourth quarter of 2017, under the name of nexible and that will also be a multi-country approach and our new efforts on mobility solutions, i.e., talking to mobility companies such as car manufacturers and try to gain, I'd say, a holistic view on the risks coming up basically for new supporting assistance systems in the car environment can really try to gain as a competitive edge in that context. Again, focus, efficiency in this context.

And lastly, bucket number three, is a very conscious decision to grow in growth markets and these are existing joint ventures that we have, in China, India, Vietnam and Thailand. They grow between 10% and 70% per year. These are not market growth rates, these are growth rates of the business plans that we have. Uncle (01:50:51) and myself have challenged them quite significantly. I believe that they are viable and it shows that we also would like to have our footprint in the growth areas.

Same is with Turkey. We all know about the challenges in the Turkish economy, still a growth rate of 10% we believe might be possible and that's why the third strategy is we want to capture opportunities in growth markets. Now these are the three categories we think about going forward. And basically every company we look at will basically have its place in one of these three buckets going forward.

The interlock business system and that's my third point, in this context is extremely important to me going forward. Because I believe and I might say that I share that with Torsten Jeworrek and we really have opportunities in bringing primary and reinsurance expertise together. And von Bomhard has already alluded to that in his opening presentation when he talked about innovation and the primary insurance element that is in most of these innovative startups together with the product expertise that we have on the reinsurance side, I believe there's a big opportunity.

And that's why Torsten and myself are very interested in exploring those opportunities. This is a long list here as you see and I will not commit to you that we will basically bear fruit in each and every of these points, but there is a big opportunity and I'm very, very optimistic that we'll find a lot of areas where we can work together and that I think is underlining the strategy of the Munich Re Group to have primary and reinsurance under one roof.

Last comment on the international chapter is with regards to the primary insurance companies of Munich Health. We have already talked about the rationale of why this was changed. These are the companies that we basically take over in hyphenation points from the Munich Health division. They are significant, they are significant size. They are successful in their marketplaces and we are now in the process of integrating them into our organizational structures. I'd I would be happy to report to you how that works when we see us the next time.

Now, where does this all lead to? These are the new figures that we have based on this International strategy, they look better than the original figures that we presented to you a year ago. They have basically two major differences. The one difference is that we have a little higher growth target in Germany, because we believe that on the German side, we can be a little more aggressive that we were in June, but this does not translate into a higher ambition with regards to profitability in Germany.

On the International side, we have the leveling effect so to speak, that Munich Health is now basically included in those numbers here. And in addition to that, we have basically added €20 million net profit commitment from the ERGO International side. What does this mean? We believe that we can live up to an ambition of €600 million in 2021, as opposed to €500 million, that you know in 2020 instead of €450 million We now commit to €530 million, again, that includes the primary health division that we have here.

On the premium side, if we do not look into the joint ventures, none of which we consolidate, we are all minority shareholders here. We'll have €1 billion in terms of new premiums. And if we did include the joint ventures, obviously only with the quota that we own, we will basically double the amount and believe that we can achieve a profitable goals growth of another €1.8 billion and €900 million obviously is a part of that, which what (01:54:53) the ERGO Group make a €21 billion company by 2020 in terms of premiums.

There are two caveats I'd like to point out. One is that in those numbers, the further de-risking in Italy and in Belgium and in Germany is fully included that's why the numbers I believe are more ambitious than they look like when you just look at the headline figures.

And secondly, and I have to say that I was very enthused to see Nikolaus von Bomhard so passionate about this point, because I always believe the primary guys are the passionate ones here, but when it comes to capital, obviously, we have the same level of passion and it's very clear and I share everything he said, we would like to self-finance that at ERGO Group, and going hypothesis is that under foreseeable circumstances the ERGO Group can finance this program on its own. This is the advantage.

Torsten Jeworrek {BIO 5724439 <GO>}

Yeah. Thank you, Markus. Good afternoon, again, ladies and gentlemen. Before, I start with P-C reinsurance, and that is still not part of my presentation now. Let me explain that, I have the most difficult job here today among all my colleagues. And what is that? This guy here, and all the colleagues got to support, squeezed me into a 25 minute slot today. I'll do my best to meet this expected value, but like in P-C, there are sometimes – there are sometimes volatility and some deviation, so we will see how I deliver today.

So, let's start P-C Reinsurance and I'll cover three topics basically; the portfolio and the profitability, where we stand; then I'll cover growth ambitions and opportunities in traditional and non-traditional business; and my third part is then innovation and digitalization, as a various business model which we have under development.

I make it short here, P-C Reinsurance in 2016, €17.8 billion. In difference to many other companies, we didn't grow much that is 0.8% growth vis-à-vis last year. Also reflects in my opinion, our sort of disciplined underwriting policy, where we clearly respond to price erosions in the P-C market, particularly in the traditional business. In hindsight, you can argue, if you had written more of the cat business in the past three years, four years, of course, you hit results like a hero in hindsight, because no cat – big catastrophes happened in these years, but we clearly steer our business on an economic business, and particularly the cat business showed more severe price reductions over the years.

€2 billion result, which is versus €2.9 billion, 95% combined ratio versus 89%. These two figures are a clear deterioration vis-à-vis 2015. How can that be explained? The biggest factor is the effect of cat and large losses, where – when you remember we had in 2015, only 6% large cat loss burn of our P-C premium, this year 9.1%, still below our long-term expectation. But that makes about 3% percentage points and then, we had an extraordinary high level of reserve release in 2015, which are still at a high level, 6% in 2016, but below the 7.1% of last year. So, taking that into account and a bit price erosion in the market, then you exactly achieve this 95% combined ratio.

Here on the next slide, you'll see our portfolio composition in P-C. On the left side is €13 billion traditional P-C Treaty business and Facultative business. In the middle part, our Risk Solution and on the right part, which is a bit side remark here, you'll see our production of new products. That is a group figure, because part comes from Reinsurance, but we show here group figure, because a lot of the product development happens internally together in our network of Risk Solutions companies, including ERGO, if I may say that.

So therefore, that is a success. When you look at the €4.8 billion Risk Solutions, then I reiterate what I said last year. Most of the business maybe excluding our Watkins Syndicate and CIP comes from insurance companies and business models, which are knowhow driven, knowhow related. So that means about 75%, 80% of that business is not exposed to the global price cycle these days.

I'll come back to product innovation later on. Traditional reinsurance one last remark. Our broker business becomes more important over time, as the ratio between direct business and broker business is 42% broker, 58% direct business, where the direct part is still significant, but broker is important, particularly in the United States.

On that slide, I just repeat the renewed results, which you know already, which we published five weeks ago. I would like to make a few remarks about the market environment, which is pretty much unchanged as the Reinsurance capacity is still in the market, plenty of capacity in the market like the year before.

What has changed is maybe that increase of alternative capital that means that capital which comes from hedge funds and pension funds, this trend is slowing down a bit. So there are still some sort of single-digit percentage increase from alternative capital providers, but they are even capital provided, which have withdrawn from the market or reduced their capacity. Why? Their ambition to come into our market, because they look for alternative investment opportunities is certainly unchanged in that environment. But they also see the impact from the price reductions particularly in the cat segment, which led to some reduction in the risk appetite in our business.

There's another trend that this small – the small projects or attempts to come with what was called, our hedge funds reinsurance into our market. This trend is almost dead, I would say. That was an ambition or an objective to bring non-cat business into the hedge and alternative markets by founding between traditional companies and alternative capital providers, joint ventures, support entities companies, and they were very much betting on so to speak higher investment results from the cash flow of that business, that they suffered some significant losses, and that business is now on a very low level, or almost dead, I would say.

What else did we see in the renewal? The competitive behavior was different between what we call Tier 1 reinsurers and the other reinsures, Tier 2 and Tier 3. Why is that? In our opinion, because there is clearly a preferred access to the business from the Tier 1 reinsurers. So there are big six reinsurers, seven reinsurers in the market and the smaller reinsurers really have to fight for the business these days. That is, you can argue that is good for us, it's not so good because the other reinsurers really almost offer any price to the customers to stay in the business, which of course, brings further price reduction into our industry.

When you look at the volume, our volume declined, premium declined 4.9%, when you add up the two figures. That is almost fully explainable by our decision to give up significant parts of our Chinese business, which was up for renewal at January 1. So €350 million China business came from Non-life, which we did not renew and another almost

€100 million from credit insurance or reinsurance. Reasons are, credit insurance not profitable anymore, so we had to take our decision, give it up finally, couldn't improve terms to the extent we wanted.

And the Non-life business, that was a different story here that was introduced into the primary business, sort of premium tax in China. And since our clients wanted to pass on this tax to the reinsurer under these quota share businesses and wanted to get a compensation from us for that, which we couldn't give, because these (02:04:44) structured reinsurances was low margins and therefore, we had to take a decision to cancel here.

Result-wise – premium-wise and market share-wise, that is of course, disappointing. Result wise, that is very digestible decision, as mentioned, these were basically multi-quota shares, structured quota shares where the margin was single-digit, 1% and 1.5% so to speak, which we finally lost here. All the other businesses which we gave up because of our stringent underwriting policy could be replaced with new business opportunities.

New opportunities brings me to the next slide and what I want to show you, I don't go through all the examples here on that slide. It shows that our ambition to generate new business and new profits basically comes from the ambition to find completely new business opportunities in the market. So it's difficult in our opinion to generate additional premium and profits for us by taking away existing business from one of our competitors to us, because you can only do that if you offer further surprise reductions. Here we have completely new opportunities and we show you in that slide a few examples, which materialized already.

And very often we only talk about the emerging markets, which you'll see in the green part on the right side of the slide, that is right. There are opportunities. We are proud to have our first license now in China. We have our local license where we participate in the business. We offer sort of rating solutions, which is the third part of the slide, we have companies in South Africa, who want to expand abroad into foreign countries.

From their perspective, are suffering from their bad country rating, here, we bring our rating into the game. But maybe equally important or maybe sometimes more important is the under insurance or under penetration of insurance in the mature markets, which you'll see here on the left side. And these – why is it important? Because, here we don't have to wait for growth. Very often that is business which is already somewhere in the market and we have to find the right solutions, right pools to take advantage of the business or to convince the government that they give this business back to the private market.

Two examples, Flood Re in UK, where we are leading reinsurer. Another example is the pilot project of the National Flood Insurance Program in the United States, where the state organizes basically the insurance production today and we think here these are, I would not say, low hanging fruits, but at least business opportunities which we can actively develop, we need the right models for that, but they are the business, which really can grow fast and soon.

The next slide is very similar to what we showed you already last year. That is the development in indication, illustrative development of our portfolio profitability, where you can clearly see over the years. We took here 2013 through 2016, here is the last four years that the profitability in property came under severe pressure and our portfolio did respond in the right way. That means, we have steering mechanisms and processes in place which automatically address the margin reduction and profitability reduction. And you'll see here then the property minus 3%, which is basically driven by the reduction in the rates in the cat reinsurance and on the other hand, casualty in relative terms, became a more important class of business for the Munich Re.

All these segments, which you see here, the major segments perform above capital cost. So, we have no big segments in our portfolio, which we intentionally or allow to fall below cost of capital. That happens sometimes on a single treaty relationship or small program or so, but the segments are steered in a way that the projected profitability is above capital cost.

On that slide, we show you another trend, which is also an opportunity for us. We grow more and more, we see a demand and for us an opportunity to grow more and more what we call tailor-made business and structured reinsurances.

As demand is certainly in the market and will increase, why is the market low, where does it come from? First, many insurance companies have the demand to find different mechanisms or tools to manage the capital and solvency ratio. Rating management is for many companies an issue. We support investment banks with M&A activities, and we support legacy book and offer LPT transaction and this sort of stuff. There, we have built about 1.5 years ago, a separate dedicated unit, who looks after that business with separate and special knowhow, therefore approximately 180 deals or prospects in the pipeline.

Of course, a hit ratio (02:10:39) here in that business is not 100%, it's below 50%. And nevertheless, we expect that we really can make money with it. When you look at relative profitability, which is shown you on that slide in the upper part, then you see, there was also margin pressure in this tailor-made, what is it, the light blue line, but considerably less than in the traditional reinsurance business, that makes this business so attractive. It's usually not placed in the subscription market, it's usually placed either with us or only a few reinsurers.

The next slide is a bit illustrative. And here the question is, what are we doing with our business model? How do we position ourselves? And in what kind of knowhow do we invest internally our money? And what you see here is, two things, first in the bars, you see what kind of - roughly, what kind of investments we made over the last four years, to invest into traditional and innovative knowhow. There is a figure in the order €175 million in 2016. I'll give you a few examples what we mean here. We built corporate underwriting and geo-scientific unit.

The geo-scientific unit to have the ability internally available to tell us or our underwriters what kind of loss behavior or loss activity can we expect in the next winter season or the next hurricane season, on in Australia in the convective (02:12:28) weather patterns.

We built a loss control engineering, which is basically a pre-risk assessment of large risk, we built claims data and analytics unit, motor consulting units and so on and so on and so on. So we invest into knowhow. We consider ourselves as a knowhow reinsurer. We are not the cheap market who just goes with the cheapest capacity in the market, and plays that game. We invest into knowhow.

On the other hand, and you also see that here in the line below, our admin expense ratio in traditional reinsurance that excludes risk solutions in traditional reinsurance that kept stable at a level of 6% of our premium. So 6%, so that means in spite of all these investments which we make into knowhow, we keep our admin level on that level. That means, we reallocate investments, take expenses out of the traditional bread and butter business, and invest significant amounts of money into knowhow.

Now, the next part, the risk solutions, and here I have to make a few comments. Risk solutions, that is our Specialty Insurance business. And here I have to make a few comments about premium development and combined ratio.

So premium development $4.8 billion of the non-life premium comes from that business, that is slightly below what we showed last year was $5 billion. How can that be explained, because we told you last year, we have the ambition and the intention to grow that business. Why is that now slightly below? There are two reasons for that.

I mentioned earlier, we have two units, Watkins Syndicate, MRS Syndicate – formerly Watkins and Corporate Insurance Partners, which are exposed to the global cycle in their business, marine and large industrial risk. These two units is a exercise cycle management, like we do it in traditional reinsurance. Here we gave up – voluntarily gave up around €100 million, €110 million of our premium that was cycle management, that was intentional.

We're happy that under – in this environment, these two units delivered 95% combined ratio, which is a success, so that was good decision. The other €100 million, which are below the €5 billion level of last year is portfolio management and here we took two tough and hard decisions. We took the decision during 2016 to give up what we call our financial institutions business of American Modern in Cincinnati, that is all of lenders place business and this business came under increasing regulatory pressure, which is written behind banks. And profitability was not good anymore or we have to invest further money, which we didn't want.

And the other decision was similar, we decided to give up our Great Lakes Australia business, that was a unit, which we found maybe six years ago I would say, I don't have the year in mind, now, why because we have to realize the Australian market, it's a very concentrated market, there are three or four very big players and we didn't achieve the scale, which was necessary. So, therefore, active portfolio management and therefore we couldn't show the growth which we expected.

Combined ratio 95.4%, which is still a good figure, but also a bit above our expectation, what drives is increase and how will it develop in the coming years. We mentioned, I think Jörg mentioned, this time or during one of the last conferences that we had, in the first quarters in our risk solution in the United States a bit above average large loss activity, which is below our Munich Re large loss threshold, so that was a bit volatility and bit lack of about 1 percentage point in that segment here.

And then, we have of our run-off Great Lakes Australia and other about 0.5 percentage points negative contribution to the combined ratio and another about 0.5 percentage points combined ratio because of IT investments which are still underway, where we change our mid (02:17:12) and back office systems and which will last until about 2020.

So these three reasons contribute about 2 percentage points to our combined ratio of 95.4%, some of them will continue in the last three years as they will disappear or were volatility only. So that means, we will keep that business on a good level, and of course I can only highlight again our flagship here is still the Hartford Steam Boiler with 85% combined ratio in the market and with our flagship to develop products and services.

And services, this brings me to the next slide, and here now I go from traditional business into innovation. How much time is left? A bit yeah? (02:18:03).

Unverified Participant

A little bit (02:18:05).

Torsten Jeworrek {BIO 5724439 <GO>}

Okay. I'm well on time. Thank you. And what I want to show you on that slide, the left part is I think more important here. When you start on the lower left part, you see the internal IT infrastructure which we built over the last years to be positioned for innovation and particularly for the digital business models in the future. That means, we spent a lot of money to buy and build and rollout a worldwide digital platform. We have almost 1,000 users on that platform today.

We invested into SAP HANA in-memory technology where we can really analyze terabyte of data within seconds, and we also offer this kind of service for smaller and medium size insurance companies, which will never have the financial flexibility and the money to make these sort of IT investments.

And the third is we restructured our IT and built a separate unit, which we call Agile IT, which is responsible for fast prototyping, which does not fall under the obligation of this structured processes of our back office systems.

The upper part is our innovation setup internally and externally, with the scouting Silicon Valley, Israel (02:19:30) London and Berlin, with our innovation labs, which is so to speak room with IT service where our projects together with clients can be executed and with our partnering.

In the middle part, you see four pillars of business models or the content of this innovation strategy, new insurance product, that is a part where we showed the €650 million, most prominent example for that is cyber I'll come to that. Then we built completely new business models. We look into questions how is – the shared economy for instance (02:20:10) these can be treated, we find new clients and we built more-and-more risk related services.

When you look at that slide, that is an update on cyber, worldwide and Munich Re, cyber business worldwide stands now at a level of about $3.4 billion premium, 85% from the United States. Our share in that premium is $260 million by end of last year. That is an increase of almost €70 million, so that means our portfolio grows rapidly. And we expect further growth in the market in our portfolio because there's more demand in the United States, and we think this demand will now spill over in the next – certainly next year and the years after to Europe because, although regulators and the legal environment will change and will put more pressure on the companies to protect themselves.

When I talk about cyber, I talk about the demand side, fine. And I think we as an insurance industry, we are responsible and should meet the demand with insurance market. However, cyber is dangerous business, and it changes permanently and it's much more dynamic in its nature. That means collecting data and building a model like an earthquake or flood will never be completely sufficient because data of 10 years ago do not reflect the IT infrastructures in the future.

And therefore, we built a strong ecosystem. We are in Israel, we are in Silicon Valley really to partner with the IT industry. And the business model what we have in mind here is not just is an insurance product, we want to build a product bundle of risk assessment of the IT infrastructure of our customers, which gives advice to the customers what to do and what not to do. We want to offer an insurance product and we want to help our customers in the recovery in case of a loss.

Very important for us is risk management, Mr. Kaufmann. Why? Because not a single loss and the uncertainty of a single loss concerns us. The problem in cyber is a big accumulation loss. And so accumulations at one incident or one hacking attack can really cause losses of thousands of our customers or ten thousands of our customers, this is an accumulation potential which can be larger than in earthquake or than in Hurricane.

And therefore we have, identified such scenarios together with the IT industry, cloud text, super viruses, data breach scenarios, and one scenario is, which I mentioned here and we are ask you take that back, when you talk to other representatives, companies of insurance and reinsurance industry is network failure. Network failure is something you should observe, why is that, that is a loss which can happen to our customers if the internet breaks, and if the internet breaks, you can imagine, you have business interruption everywhere and there we've considered that as a very specific new accumulation scenario which we have to watch and we should probably not write extensively. Therefore, I mentioned it, you can support us here.

That is a last slide, within my time budget, before I finish, here I give you an overview about our business models and services, digital services and business models, on the left side, probably one of our most promising initiative Internet of Things. Internet of Things is our business model, where we built sensor based, sensor related services to build risk prevention, risk mitigation, loss mitigation on that basis together with an insurance product, we've built a twin unit in Hartford and Munich was a special expertise for that. Then in the middle part, you have our Digital Partners in London and in the United States, they are our end interface with the InsurTech environment, they basically look after new distribution models, they look into the shared economy and they look into data base business models.

And on the right hand side, you see our ambition to build risk related services. Here we basically want to use our internal data or new data which we buy from other sources or which we get from our clients, which are put into risk management platforms and we have few already available, like early loss detection, like digital risk management platform which was developed in Mexico first and the cross-selling activities or platforms by using Big Data where we think, this will position us as a very strong partner for our traditional clients and for completely new clients outside of our industry.

This slide here, it's a business model tier. And certainly when you look at the timeline, beyond the business opportunities far away from the traditional business opportunities, which I've shown you before, so cat pools and that stuff. However, if they apply, we can position ourselves, as a very strong partner in our industry and for other (02:25:50) industries. Here, I would like to finish. Yes, thank you.

Johanna Weber {BIO 16192902 <GO>}

Thank you, Torsten. Ladies and gentlemen, good afternoon also from my side. I am going to lead you through the slides of the life reinsurance business. I'd like to anticipate that 2016 was a pretty good year for us in life reinsurance. New business was outstanding and ended with a record high €1.2 billion of new business volume. You also see that the technical IFRS result ended with €487 million. So, that is little less than €100 million ahead of the guidance that we have given out.

Admittedly, this tends to be a little bit on the high side and the reason why is, that there have been one-offs and the one-offs nature is that they don't happen every year, but even if you take all these one-offs out, then we would have met the €400 million guidance.

In addition to the technical results to the bottom right, you see a fee income business of €41 million. This is from low risk transactions and I think we've talked about this in the past, we've never taken this into our guidance, but on my last slide, I'm going to talk why we're going to include it into the future guidance.

Let's then have a quick view on the regions where most of the businesses that we are writing are coming from. And let me perhaps start with Canada. The technical margins in Canada are attractive, and they continue being attractive and this is a good news because if you recall, last year, we reported that in one or (02:28:02) the other case back in 2015, we've seen some rate disruptions. We haven't seen this continue. So, this is a good news and also the new business activity in Canada continues to be quite active. So, a lots of new business value contribution continuing to come from Canada.

The U.S. is offering reasonable returns and that is true for individual life business, that is true for the group business, and this is also true for the Fin Re area which is increasingly important in that market. If we then move on into UK and Continental Europe, with regard to UK we can confirm that the margins are stable, but unattractive, and that is why and that leads us to being almost out of the new business activity, but against this background what we see is good prospects with regard, and actually also good performance with regard to mainly financings, smaller financings but also large size financings.

Continental Europe is struggling with regard to new business development, so the original markets are struggling a little bit, so do the reinsurers. But technical margins are pretty stable and they are okay. If we then move further east, then Asia – Asia just continues growing. And Asia continues growing with excellent results, so this is a success story.

And then we have Australia, in Australia we had a huge and massive new business success in 2016, and I'll come to it later. However, I think this huge success shouldn't overshadow one thing. And this one thing is, you do recall the disability income business, the DI business. The rehabilitation of the market in DI, yes, it is a massive effort for the whole industry So, the rehabilitation starting from the reinsurer, bringing it to the primaries then through the brokers to the end customer, that is a massive effort.

And we have seen very significant progress on this path in 2014. We have seen material progress in 2015, and we have seen some progress in 2016. However, we see a certain slowdown of this progress. And we think, we should highlight this, and I think we should also highlight that on a pure standalone basis. The new business in the eye as it stands today, we think isn't yet attractive enough, in other words, there is still some room for improvement. And we will suggest that the whole market reinsurance and primary, they continue on this path to really fully learn all the lessons from the recent DI crisis.

You will then recall this illustration, I think from last year or the last two years. This illustration highlights, how our market share and our positioning in the different lines of business in Life Re, how they compare to our global market share. And to start with, I start with the underweight. So, we're – our share is underweight compared to also our competitors, and this is longevity. This is deliberate, you know our position, you know our risk appetite, you know the reasons why our risk appetite is lower than the risk appetite of our competitors.

We continue building this business. We are writing one or two deals per annum. This corresponds to $1 billion to $2 billion of new liabilities per annum. We write it because it adds a positive effect and natural hedge effect to our portfolio, which naturally is mortality long and of course it also adds to diversification. Also the performance of this still young book is five years old. The oldest is five years old then the younger one is four years old, three years old, two years old is precisely as expected, but it's way too early to make a final judgment of the ultimate performance of the longevity book that we are writing. So, rightly or wrongly so nothing changed with regard to our risk appetite. We are not willing to take a bet on future deterioration of mortality trends.

In Asia that is the bubble towards the upper left. In Asia our market share is pretty much the global market share. We believe the composition of our portfolio though is above average attractive and that mainly goes back to the – very material weight of our financially motivated business in that whole chunk and it goes back to our prudency with regard to writing critical illness business down there.

We believe then we are overweight in the financially motivated reinsurance business and only in 2016 we could conclude 25 transactions around the globe. Eight of these transactions were new type of Solvency II related transactions and among the 25 also 2 publicly known transactions. One was with AMP in Australia as you may recall, and the other one was with Citi, which was a book of pure term life business in Canada, originally written by Primerica.

And why do I highlight these two transactions, and why do I highlight the financially motivated reinsurance business. I highlighted because we know that we have a proven track record, which is a reason for choosing us. We know that the execution power of concluding these deals of getting them done is one of the major reasons, and with regard to the AMP transaction, we firmly believe that our experience and our knowledge in the DI area, which has cost us a lot in the past to be honest, in this case, it was giving us a competitive edge to our competitors.

And finally, there is this smaller bubble called asset protection business, which is a USP, and the value proposition ranges from launching new savings products to structuring capital release, including market risks from our clients.

When it comes to innovation then the focus of the life reinsurance business is three-fold. I think known to you is that we do launch new products together with our clients, whether by metrics related or savings related. Another focus is Solvency II related solutions to our clients, I mentioned them already, so let me focus a little bit on the service proposition of the Life Re area.

So area. So clients continue asking us for services mainly in the underwriting area and mainly in the claims area. And to the extent that these services include an automation component. To the extent that these services that they contain digital element, data exchange options, so that they contribute to becoming predictive analytics tools to that extent, they become more attractive.

And actually in some cases, we charge a fee for these services. In other cases, we just contribute this service to the client for a longer term nice reinsurance agreement. And in other fields, fewer cases, we have a real strategic partnership, where we put parts together and our partner puts part together for a new business model, which we would then share fully.

All that said, I think you should have in mind that the life reinsurance business has been growing and continues growing. And our key strategic focus areas which you see there, longevity little bit less, but Asia, financially motivated reinsurance and asset protection, they continued to persist (02:37;49), they continue to perform. So all these innovation initiatives, they will go in addition to this.

Last slide, this is the result guidance going forward, you recall that our guidance so far has been €400 million technical result each year. And you also recall that there were actually more years in which we didn't meet this guidance and then there were years where we met this guidance for the reasons that you know. Going forward, we increased this guidance to €450 million, but it's a different basis. We now include the fee income business, and why is this, the reason why is back then, when we didn't include it, it was so insignificant, it was so small that you could ignore it.

It, in the meantime, has become pretty significant and it will sustainably deliver something like €10 million or €20 million or €30 million, this year it was €40 million or €41 million. So we think if you want to measure the full contribution of Life Reinsurance business, you have to include it and our guidance is €450 million going forward.

Thank you very much.

Q&A

A - Unverified Participant

Thank you, gentlemen. Now for the second round of Q&A, who is first. I cut off William Hawkins, just in the last Q&A's. Is there a question, you want to raise or otherwise we will, we will simply wait.

Q - William Hawkins {BIO 1822411 <GO>}

Well there wasn't - I guess I'm - you may consider it's not diplomatic or it's too early to discuss, but those (02:39:47) things we have the handover of the, the top role in the next few weeks. Again, you presented a very clear, medium-term outlook. But are there any issues of nuance, or style or anything that we should think about, evolving with the new leadership. Thank you.

A - Torsten Jeworrek {BIO 5724439 <GO>}

Thank you, William. So what I think makes sense that, that is clear is when we look at this strategy of the group, and we look into (02:40:19) top-down the overall strategies also of the business segments. When we look into primary, into ERGO and the ERGO Strategy Program, and we look into now the ERGO International Strategy. When we look into the reinsurance strategies, whether that is the non-life strategy as presented, whether it's the life strategy, they make a lot of sense. So, we don't have a strategic issue, which we would need to fix or to resolve. In other words, strategically, we will keep in target.

That said, it doesn't mean that there never is any part which can be improved, right? But globally, we stay on target strategically. Then, I think, we have a good opportunity that we become very business, very new business focused, I think both gentlemen on my left-hand side, they emphasize that. If you look into the last year's how much internal focus just for accounting regime changes and regulation, all the industry had to absorb, including ourselves. Then, a lot of that, it will never be done totally, of course, but a lot of that has been done, a lot of that is in the organization. We think that a very high business focus will help us writing more, of course, profitable business.

And don't get me wrong, it's not like we are growing in a soft market. That's not the message. Of course, that will be stupid. But, there is opportunities. And when we also take into account that we have seen cases, where, yes, our technical approach paid off and our cycle management has been outstanding, yet the rigor, the technical rigor which we have applied, we've seen one or the other case where we say, at the edge, perhaps a little bit more nimbleness, a little bit more flexibility without giving up the technical ambition, perhaps, would have included one or the other deal. And those deals we want to be ours in the future. So, this is business focused really within giving strategies, it's about executing this with passion and executing this with rigor.

With regard to the financial delivery, I think a lot of this has been said, you should not expect any change in a positive sense, you should continue relying on when we give guidances, we do our best to give realistic guidances and not to build in any dreams. And when we deliver then on those, we try to do everything to really meet them and to deliver on these guidances. This will not change. When it comes to capital management, dividend payments or share buybacks, we're absolutely committed that we want our shareholders to participate in the earnings that we have.

And actually, if you look into 2016 with a $2.6 billion result, and how much we cash out of that, when you look into our guidance for 2017, and you just expect and believe in continuity on this, then we're practically cashing out a 100% of our future earnings. What is our best feel in terms of how the result prospects would probably be, are they going to increase, are they going to decrease? Then, a realistic view that we all share here on this panel is, there is positive elements, like ERGO is from very low gradually going up, this will make a contribution.

The life reinsurance business, if you allow me that, even if the guidance is prudent still because we haven't delivered too often on the IFRS guidance, it feels like – it's sound now it's a good feel. When we look into capital relief opportunities, we have seen many under life re side (02:44:53), we have seen this last year 2016 more and more coming from the non-life side, so there is potential in the market that we can call traditional or close to traditional and we also see them in the specialized areas.

So, there is positives, how much will that contribute to gradually perhaps increase, who knows, but there is still some strain on the traditional P-C side, which is for the rates. And this is the most massive or has been the most massive result contributor. If we take all of that into account, how will it balance out? It feels like very short-term, there is still some strain and we think we will meet the challenge that we stabilize our earnings and not allow them just going down or slipping down and then gradually, hopefully, this is our firm belief gradually increase these results.

We want to be realistic, we don't want to create any unrealistic expectations at your end. Innovation – pure innovation like not the transformation – the digital transformation of our industry, but pure digital businesses adding so material amounts to the bottom-line that we sort of correct our guidance upwards, this hopefully will happen sometime, but I wouldn't commit to it today and certainly, it will take a little bit longer.

So, this is why I think in terms of what should your expectations be not only for 2017, but 2018, 2019, 2020 say in that range of three years, four years, five years, six years? It will probably be pretty much in the range that we offered for 2017 with a gradual increase I think €3 billion or more, we would consider unrealistic at this point in time. We will try to earn what we cash out. So if you take the €2.3 billion of 2016, then we would try to earn that, perhaps €2.4 billion, is that impossible that it may be €2.5 billion, but don't take it like this is the guidance.

A - Christian Becker-Hussong {BIO 19080254 <GO>}

Olivia, I think, what's the next question?

Q - Olivia Brindle {BIO 17273762 <GO>}

Yes. Thank you. Two questions. And the first one on the P-C side just relating to the large transactions. The sense that I've got from you historically is, especially on the casualty side, you've been a little bit more cautious on those large deals compared to some of your peers. But, looking at the numbers here, 70% growth over the last couple of years is clearly quite material and you seem a bit more constructive on the other moments (02:47:51). So, just wondering if there's anything changing in how you see that market? Is it maybe something you've become more comfortable with or if you could just give an update on how you're thinking about that, that would be helpful?

And then the second question on the life side, the €450 million. Do we think of that as €40 million plus €50 million? And I guess what I wanted to understand was the fee income part of that. It's a part of the market, which, as you said, have some opportunities. One of your peers recently was very constructive on new business opportunities there as well. Yes, it did €40 million last year, but in previous years, it's been as high as €70 million. So, why is that number not higher for that? Thank you.

A - Christian Becker-Hussong {BIO 19080254 <GO>}

Torsten, please start.

A - Torsten Jeworrek {BIO 5724439 <GO>}

Yeah, I start with P-C. First of all, you are right, our, let's say, portfolio of opportunities (02:48:49) which are in the pipeline that has considerably increased. In my opinion, it has not so much to do with the complete change in our risk appetite or so, I wouldn't say that, it has more to do with the bundling of expertise and the push we gave to the organization really to look actively after that business.

When you come to causality, and the increase of our risk appetite there, you are right, there are parts, I would say parts in the causality segment, where our risk appetite on our business model is not always the highest, and it's a most competitive one. What is that? That is that part of causality business, which plays a very important role in retrospective transactions.

We basically have prospective and retrospective transaction, sometimes both. The retrospective transactions are often very important from capital management purposes, there are sometimes huge transactions out there in the market, and in many of them, we were involved that finally decided not to participate. What is the reason for that? First, there are a few segments, when it comes to retrospective transactions, where we are still a bit hesitant to load huge exposures into our books. And one good example and permanent example too is United States workers' comp business and asbestos business. These two segments particularly from the United States, you can say because of our own experience of 10 years ago, we burnt our fingers, and not only our fingers, almost our whole body, I would say, right, changed our risk appetite and we are still sticking to that.

And because this business is so long-term and has so much implication from regulatory changes, legal changes in the market, economic changes, weak economy means higher exposure to the workers' comp market [indiscernible[(02:51:16) a certain loss to the insurer and the sort of stuff. So here, we really burnt our hands and you can still argue, they are bitter and worst [ph] states fine (02:51:26), but here we are bit reserved you could say in our risk appetite.

The other things, when it comes to retrospective transactions, and, of course, UK – our asset liability management internally is almost a philosophy, our business project means, in our underwriting, we use the expected investment income on the cash flow, but only on a risk free basis. That means if there is a long-term exposure like liabilities, certain liability, multi-business or whatever that is, then we look at a payout pattern and really use the risk free investment income on that cash flow to give it back in our underwriting to the client.

Some of our competitors use more, they use some parts of the risky assets of their equity expected return from the equity book, asset portfolio, which we don't do. That means, in these cases, we are not comparative. These, I think, are the two drivers, which prevent us sometimes from going into the big transactions in casualty. Otherwise, our risk appetite is as good as in property or any other line of business.

Andrew first and then Vinit. Sorry.

A - Christian Becker-Hussong {BIO 19080254 <GO>}

Second part (02:53:01).

A - Torsten Jeworrek {BIO 5724439 <GO>}

Yeah, I'm sorry, Christian. So the second part with regard to the life reinsurance guidance of €450 million, €450 million is not €400 million and €50 million. So, it's not two sub guidances. It's one compound guidance. You are right, that last year the fee income was some €70 million, I don't recall the exact number, but it was $70-ish million number. And back last year, I think, I anticipated and said, this is going to half down at least because of a transaction that we knew we're terminating. So, you knew already that the fee income would drastically drop.

What I wanted to explain by this is, the fee income business is roughly gone in five years, right. This is not exactly precise what I'm saying, but it's pretty accurate. So, if we don't write any new business, then the €40 million today, that will be gone and then, it's a pretty much zero. So, there is an ambition behind, you have to produce against this number.

Why haven't we further increased then the €450 million? Why haven't we set for €60 million, for €60 million? First of all, it's not a wrong number, but that is more of a joke. We were quote by accounting asymmetry too often in the last years. Accounting asymmetry in the sense that in case of deteriorations, we got hit by the full effect of the present value of all the future deteriorations, whereas in case of positive developments, we can only show the positive impact of that one calendar year. And we were quote by this in four year or five years out of the past eight years. So, this doesn't give us enough comfort to just increase it going forward, and then perhaps next year or in two years being quote again. These are the reasons. If you take accounting asymmetry out of the equitation, which you cannot in IFRS, if you purely look at it economically, then we are very confident.

A - Christian Becker-Hussong {BIO 19080254 <GO>}

Andrew?

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

Hi. There are some questions for Markus. I think you launched the new modular motor product in 2016, I think as the other products start in 2017. What's been the reception so far? Or in fact just around generally opening (02:55:45) the new products has produced, has been the general perception in the marketplace, just obviously product innovation has been one of the key focus areas.

Secondly, the interlocking components you talked about working more closely with the reinsurance is not incremental to ERGO's existing profit targets or is that part of the profit targets or is it not going to be meaningful over the planned period?

And finally, M&A, I mean, do you envisage or do you expect M&A to be a component of the international strategy, is it more net disposals or exits, I mean, what thought have you given to that, presumably also if there was any, it would be not self-funded? Thanks.

A - Markus Rieß {BIO 1835270 <GO>}

With regards to the modular products, they have just been launched the first ones in the fourth quarter. So, it would be premature to basically talk about any kind of sustained market reaction towards these products. From what I see, basically seeing in the sales numbers and in the reception of the agents, I'd say that the reception is positive. Now with modularity, you always have, in general speaking, lower premium income, but a higher cost/sale ratio. So it really depends on how you count that. That's why I would like to apply that was judgment and my management judgment would be that we're talking about (02:57:25) something like a 10% increase overall in units and in volumes. That means as a positive, but not yet an enthusiastic kind of reception, but that could not be expected three months after the launch.

We will have more of these products throughout 2017, so I expect to be in a better position by the end of next year to really evaluate that economically. But the incremental profit that we have basically attributed to these products have been carefully computed into our five-year plan, so I do not see this to be deviating from the plan in anyway. If so, current signs are rather positive than negative.

The interlocking component is not explicitly moderate in our business plan. So, yes, it would be incremental to the strategy volumes. However, I would be very careful to put numbers to this as of yet. We have one very concrete example which is towards the application of IoT technology kind of solutions into the top and medium (02:58:36) space of our clients and we will approach that on a multi-country level Germany, Poland, Austria, maybe India going forward. By the end of this year, I have a better judgment on whether this will be just pilots or be sustainable business propositions, if they were. And if they were significant, they would be incremental.

Thirdly, M&A. I look at M&A clearly as a tool towards our International Strategy, but it's not our core focus. The core focus is coming exclusively from these three categories that I've been speaking of. So, all of our plans are basically calculated without an M&A impact. I do not foresee sort of the big M&A that would be coming, but M&A rather is a proposition of our portfolio optimization approach and ultimately that would mean, whether that would be incrementally positive or negative in terms of premium would depend on what's the balance between things we let go and things we ultimately buy.

I do not consider it to be the strategic lever to achieve our goals. Let me repeat that. All of the planning and I presented today was without any M&A effects calculated.

A - Torsten Jeworrek {BIO 5724439 <GO>}

And I have to make one small addition, since I was so passionate about the question who finances what. If there was or were an acquisition of a certain size, the wings of ERGO should not be clipped because you didn't sell enough to create enough of firing power to buy something. So if there is a convincing M&A case, then mother would look into it and then see what we do. (03:00:20) that cannot be the financing means of ERGO determine the firing power of the company in case of an interesting M&A.

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

Thank you.

A - Christian Becker-Hussong {BIO 19080254 <GO>}

Vinit, please.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you. Vinit from Mediobanca. And just on the topic of innovation please. In the past, the definition was quite strict in the sense that I remember having a conversation maybe one or two years ago that every three years or so, a product would no longer be considered innovation or innovative. And now, not only the def - I mean, if the definition is still the same and now the numbers also gone up some from €500 million to €650 million, because if indeed the definition is same, you're looking at a very much more sizeable impact from innovation. So just any confirmation or comment on that please?

And second question for Markus Rieß please. On the ERGO, you have convinced us about the cost cutting and the new products strategies. But just on the reserving side for example in German industrial liability, there frequently come up these topics. I mean, are you watching that as well? I mean, what if any comment on that because it's reasonable maybe 8% or 9%, 10% of your portfolio, if you just comment please? Thank you.

A - Markus Rieß {BIO 1835270 <GO>}

Shall I start...

A - Torsten Jeworrek {BIO 5724439 <GO>}

I'll start with the first, and it's the innovation question. And of course, we did not make that an art or a science, and you didn't insinuate it, but I take it up as a question that might be a rhetoric a little bit in that regard. And we are taking out innovations that have a certain sort of time lapse, but there are innovations, certain products and cyber is one example that stay a little longer, but it's not that we work backwards and look what number do we need and then we take out accordingly. It is rather that we are not that determined yet and decided yet how to exactly do it. The basic concept is still there, but you would find some products that are in the fourth year. So to be sincere, we have to make that a model that we can present to you and the logic of it, but we are not yet entirely there.

A - Markus Rieß {BIO 1835270 <GO>}

On reserving, you're absolutely right looking into this issue. Clearly, I have been from the start looking into the reserving situations. I have found ERGO to be actually quite well reserved and we have even further increased the reserve levels over the last 15 months. I think we can state that we now and that's also true. If we look into the international portfolio, have no country or German line of business which we would consider to be not appropriately reserved, and obviously we validate that with certain external benchmarks as well. That's also a synergy level with the Munich Re actuaries and the underwriting functions and without wanting to sound too positive because you always have to be careful about reserves, as you very well know. So currently, I don't think there is an issue and we are rather well-reserved, would be my judgment.

Operator

Okay. Thank you. Next one is Michael (03:03:43) and then Thomas Seidl, please.

Q - Christian Becker-Hussong {BIO 19080254 <GO>}

I may cheat and ask a double question. One is for Mr. Rieß and one for Mr. Jeworrek. If you could talk a little bit about the renewals, some renewals in reinsurance, but in primary, I guess, what I'm asking is one of the trends in motor insurance, which is the biggest line. That's a little bit cheating, because I had another question which is – so you've got, looking at the split of capital, ERGO consumes about €7 billion, I know there's a diversification if we take the €7 billion number. And if things were account, you'll make €600 million in 2021 or something, which is okay, but it's not a great return. And yet you seem to be quite convinced about the validity of the plan, et cetera. The way I would interpret that is that, you're effectively building a business up, which actually could then, where the value wouldn't be represented not by the earnings because they are reinsures in a good (03:04:48). Even if I don't say you've got twice as much capital as you need, but effectively, it would be a business that you could sell, that's where the value would be. Is that something – is that how you think about?

Torsten, are you ready to start or Markus you start with the first.

A - Torsten Jeworrek {BIO 5724439 <GO>}

Okay. I mean, on the renewal business, a couple of comments. If I just look at the numbers on the motor insurance, I'm actually positive with regards to renewal. So, we have a net growth on the motor business line. Now, whether that will be above market or below market, is something that you can't say yet because the market data isn't there, but my guess it will be still be below market. And this judgment, however, the renewal generally speaking felt positive. Now, please bear in mind – beware (03:05:43) in mind that we do not have the modular products to a degree that I believe they are necessary.

We don't have a convincing offer on the direct side, we don't have a convincing offer on the digital side. So all of the elements that we put into our overall strategy will ultimately strengthen our position for the renewals going forward. So, I would repeat my judgment that I have made for the general ERGO perspective, and that means that we are, that I'm positively surprised about the result in 2016 and that's one of the takeaways that I would be looking at.

I make one comment with regards to your second question, even though it is clearly more tailored towards the more formal representative of the owners. I concur with you in your diagnosis that the €600 million is not something which would be the ultimate game plan. But the diversification effects are significant, so if you honestly computed, the returns not as bad as you just calculated it at the back of the envelope. So, it's okay.

But in my mind, it's very clear that we are now building the basis for even larger profit contribution beyond 2021. But, that's something which we cannot seriously evaluate yet, because we have to do a lot of homework. But if you look at the composition of the ERGO program carefully, you'll see that there is a significant cost cutting element to it, as you very well know, but there are also growth initiatives. Now, those growth initiatives will not have yielded the optimum of the results by 2021.

So, it's basically an already built-in sector for the future beyond 2021 to contribute additionally to the bottom-line. Now, what kind of numbers we put to that statement would be totally inadequate for me to say now because that will be really something like the second derivative going forward. Now, we really have to do our homework, now we really have to try what we can achieve. I think that the €600 million are and even more ambitious plan than we had before. I still stand confident that we can achieve that, but it would still really basis for an even improved bottom-line going forward.

A - Markus Rieß {BIO 1835270 <GO>}

I cannot talk much about motor renewal now because that's for us worldwide business at the end of the day. And here, the premiums and the markets rates basically affect us through our proportion of business and they are very local and differ from market to market. So, therefore, more a bit, I'll give you a global answer what concerns me and what does not concern me.

The three concerning segments in the renewal were property, non-proportional. That is ongoing and not new. That basically is a cat business. So, rest is more or less loss-driven. You have reductions there, increases there. Here is the market response very individually. But in the cat business, you still have the worldwide price pressure, you could say in the renewal I made this joke so to speak is the more you go from the United States coming eastward, there were surprises. That means the U.S. a bit better in that renewal, there were a bigger stabilization in the cat market and in the property market, in reinsurance. And the more you went eastward to Europe and then to Asia, the worst price behavior or competitive behavior from our perspective was. So, that is still concerning. Nevertheless, as I mentioned before, in U.S., where you don't have losses, even those who write business look great, fine.

The second concern in the renewal is a marine business. And here, we have to differentiate more the global marine business is offshore energy stuff than the inland and traditional marine business. That was okay, I would say, it's a global business, globally placed business was on the much more pressure. Offshore energy is the biggest concern here for two reasons, worth, we have had over years, because of the reduction of the commodity prices in the other industries, less demand for insurance, that's a problem, and at the same time, a reasonable loss experience and an unchanged capacity of our industry in that segment. And this is us so to speak, which increased here, we just kept, which increased, so to speak, future competition. That was a real problem.

So, in standard marine business, fine, global marine business under severe pressure. That was a reason why I am still so proud that our Lloyds Watkins, who is in that segment, still managed that very well, but not a good market. And I don't see a quick change here. Where should it come from? You have to take capacity out before the market will recover, in my opinion.

And the third difficult market is aviation. The airline business is still under pressure. General aviation is still better. That is an unchanged picture. And here we always ask the question, is only the market and the pressure because of overcapacity? So, is it a bit our problem of our industry or to what extent does a market correctly already anticipate the reducing lost frequency and severity, which comes from better technology and assistance systems, particularly in the airline business, yeah?

So, I think that our industry is too far ahead here, but there is this underlying trend, which we also observe or have observed since 2001. And then, in our renewal picture, when you are on slide 128, there is more information, there is one counterintuitive information on that slide in all these three segments, which I mentioned. We've responded I mentioned we've responded I think in the right way and took our exposures, our market share back, reduced it. Beyond our counterintuitive figure, which you see there, is in my opinion proportional casualty business, because that business, proportional casualty, in the middle of the slide, showed a positive price change, which is good. And at the same time, we reduced our market share and that is China. Yeah, that specific path led to this picture here, which was not – it's not very pleasing, of course, but was necessary. That is my summary as the rest is a bit unspectacular, I would say.

Well and I've come to your second question, Michael (03:12:46). This is exactly the exercise that I do myself all the time and ask myself, is it worth it? And the answer is maybe astonishingly simple. If you take from that deck of slides and you probably did 105 and 108 and 105 shows you the split of the sort of the capital requirement and then you see the split up of market risk on slide 108.

And what strikes probably, would strike and should strike you is the amount of market risk that we have to put behind the Life – the ERGO business as a whole, including, by the way, Life and Health, which also is partly an issue. And then, if you look at the split before diversification, you see around about €4 billion each general interest rate and credit spread. And even though, it doesn't look like it was credit spread in the first place, they all are hinging on the level of the interest rates.

And if interest rates move up and down and we showed you some sensitivities, the capital requirement will react heftily – heavily. And I did my rough calculations that may not be right, because I have to take in diversification and Bernhard would be would be probably embarrassed with my calculations. I don't know what the interest rate has to do exactly, but if that market risk capital comes down by 20%, 25%, the issue is pretty much solved.

And since we are in the money with money guarantees, it is one for one a decrease of market risk if interest rates go up. And if I was right with what I said earlier on that I see a silver lining at least on the horizon, it's not that we then stop managing the back book, but it may get solved. And if we now overreact, of course that maybe a mega bet now, because I always say we don't take bets here, you may say this is one.

What should we do in current circumstances? Wait, as we did for so long now. We took all the pain or not, but let interest rates go up a couple of basis points. I don't know how many exactly, I don't know if you have a gut feeling for it, somewhere north of 50, maybe closer to 100, then the profitability level in economic terms of ERGO will be then close to where it should be.

Operator

Okay. And Thomas (03:15:12) and then Jochen Schmitt, please.

Q - Christian Becker-Hussong {BIO 19080254 <GO>}

Hey, thanks. Two questions on German life, maybe one just following this discussion of rising interest rates, while it may look good on solvency, it may not look that good in account, in terms. I think we have to evaluate that you may push the assets to held to maturity, but what about lapses, rising lapses in the rising interest rate environment? Any thoughts you can share, you know that this doesn't end up ugly on the accounting side rather than on the economic side?

And the second thing is on ERGO, that you – basically, there are CEOs in Germany saying they are shying away from putting life companies in run-off, because they fear for new business. Now you have basically, not you, presently that ERGO has shut down two major carriers. So, what gives you confidence that this doesn't hurt future in new business sales of ERGO?

Jörg will start with the first one as regards how nervous you are, in case what Michael (03:16:13) and I would like to see happening that interest rates go up, how much stress would then that create, be it accounting in general, be it lapses, as Thomas (03:16:23) mentioned it, how nervous are we of course, Bernhard is looking into all that, that is exactly what he does, playing it both ways. But maybe Jörg you start and, Bern, if you feel, you kick in as well, and then Markus.

A - Jörg Schneider

Yeah, there could be high lapses in primary insurance, but we are able to deal with it. The bigger risk is having too low lapses in case of a very low interest rate scenario, because lapses are in tenancy favorable to us. There could be temporary stresses for the balance sheet, but we can deal with it easily more or less. Same applies, as I showed before for the local GAAP situation of the parent company, we would just have to book our fixed income portfolio under held to maturity in order to avoid write-downs. So, therefore, I would rather like to have these kind of issues than the very long term in a low interest environment.

A - Torsten Jeworrek {BIO 5724439 <GO>}

Don't forget that ERGO, as a whole, is sitting on €22 billion of valuation reserves, not all in Life, of course, but the bulk of it in Life. If you don't have those, I'd be very nervous. If you have them, you are relatively, relatively relaxed.

Markus?

A - Markus Rieß {BIO 1835270 <GO>}

It's very clear that if you are in sort of rundown or runoff modes, there is a concern to what the new business justifies. I mean there's no question about that and, yes, we do experience that when we come to our clients, try to sell biometric products, we always have to convince them because of our relatively conservative approach towards the existing guarantees.

Now, there are two answers to that, first of all – or three maybe. First answer is we will do all the new business in a more different structure in a hybrid kind of a way with more direct capital markets exposure and we do it, secondly, with a new risk carrier, which we call ERGO (03:18:31), gets an already existing risk carrier. It's the risk carrier that will now be strengthened by merging the existing ERGO Direkt life risk carrier onto this carrier going forward and that will basically make this – it'll make the economic situation of this risk carrier more competitive. So, I believe economically, there will be a viable proposition for those products.

Thirdly, I think there's also, I quote, side of an understanding that our relatively stringent position on new product necessities and plus the reduction of exposure in classical products is increasingly met by good understanding.

So, I think the real question that ultimately remains is, will we be able to activate our sales agents or other intermediaries, brokers for that matter in order to support us in selling those products? Jury is out, because realistically we'll have these products on the market not before Q1 2018. So, realistically, we will always see first reactions throughout 2018. From my personal discussions with clients in Germany and I do have those frequently, I am not too pessimistic that we will be able to bridge that.

And, last comment, we have not figured in a booming sales result on the life insurance side into our plan. So, every real big success in this regard would be rather a positive surprise. So, we have basically been little more conservative in planning it, because I do share your general concerns in this regards.

A - Christian Becker-Hussong {BIO 19080254 <GO>}

Jochen, please.

Q - Jochen Schmitt {BIO 4227302 <GO>}

Thank you. Jochen Schmitt, Metzler. I have one question on non-Life for Mr. Jeworrek. The claims payments increased by around €1.2 billion during 2016 and would you predominantly describe this as an increase versus a very low base of comparison in the previous year or do you also see some soft pricing eating into the numbers at least to some extent? What's your take on that? Thank you.

A - Torsten Jeworrek {BIO 5724439 <GO>}

You've referred to as paid figures, right? No, I don't see on that figures a trend of soft pricing, but we did commutations. Yeah, this is the major reason, yeah.

A - Christian Becker-Hussong {BIO 19080254 <GO>}

I think from Kopfinger and then the last question.

Q - Frank Kopfinger {BIO 16342277 <GO>}

I have two questions on ERGO. My first question is on, when I look at your portfolio split in P-C, then you see that the personal accident business is further declining whereas motor business is further improving. And do you see a risk that this adverse portfolio shift mix is a threat to your 92% combined ratio?

And, secondly, as we have the elections also in Germany at the end of this year, do you see a risk that a socialist-led new government might put a risk to the health insurance?

A - Torsten Jeworrek {BIO 5724439 <GO>}

The trend is, as you stated it, the degree of decline in accident is not what I had hoped for, but it's clearly within the planning parameters, because we have not yet a new personal accident product. You have to bear in mind that we are sitting on the large volumes of personal accident products and we don't have a new product yet, that will come in 2017 rather sooner than later actually. So, I would not have expected to change this in 2017. So, does this jeopardize my assumption with regards to 2020 or 2021, 92% combined ratio? As of now, the answer is very clearly no.

And on the motor insurance, I personally have good experience in profitabilizing motor books of business. I think there are certain guidance that you will need to give in order to be able to have an active pricing strategy. I believe there's room for improvement within ERGO. So, I, generally speaking, do not see this as a challenge, but rather as a larger opportunity. If we are successful in profitabilizing the motor business and like that sort of concept, so I don't have numbers to support that yet, but your question is, does this make me nervous? The answer is not at all.

With regards to the political situation, I think it's pure speculation. I remember the last three elections and each of which, especially last two, the so-called (03:23:30), which is sort of the general challenge to the comprehensive health insurance in Germany you have in mind, has been sort of a phantom on the wall.

It would be ignorant not to deal with this risk as a risk, that's why we have looked at this risk from various angles, but it does not concern me in a way and then basically now time to come up with this special managerial measures that might deal with this, because there are constellations of a (03:24:02) that might absolutely be very challenging, the more likely scenarios and the (03:24:11) might actually be not so challenging for us. So, as of now, is this a risk? Yes. Is it something that concerns me significantly? Also, no.

A - Christian Becker-Hussong {BIO 19080254 <GO>}

Hold-on please.

One question on P-C reinsurance, please. We're seeing rising interest rates in the U.S. and also in Europe. Would you expect any positive impact on pricing developments going forward or could you give us a general outlook, what do you expect for the upcoming renewals? Thank you.

A - Jörg Schneider

The last one is probably the more disappointing, obviously it's easy answer. We have two further renewal dates this year, April and July. They are not significant in terms of contribution to the portfolio. They are pretty small, both. However, they are more cat-driven. That means the relative share of cat business in these two renewal dates is significantly higher than in January. Therefore, my expectation is that we – in these coming renewals, we will see still some smaller reducing, but erosion of prices, particularly in the cat business.

I personally think that then beyond 2017 – this is what Jörg Schneider says, building a ground floor, so to speak, for the prices. That is achievable in my opinion. But not because of the cat activity or speculation on cat losses during the hurricane season, this sort of stuff, I don't do that. But for two reasons, because I think first that, as the contribution of positive reserve development to our industry will reduce, we see although first (3:26:08) negative developments, particularly in the United States, in the primary market, not only on the reinsurance side, that will certainly help.

And then, I think all the (3:26:20) investment income is a factor which puts further pressure on all our balance sheet, as we see it in ours. So, for that reason, I'm carefully optimistic that we find the floor. Some of our colleagues say, that's from October. Not so, we will see. That is a bet. I'm carefully optimistic that this will already mean a sharp turn in the market, price change upwards. I don't believe that here probably it needs more combination of result pressure and cat activities, this sort of stuff. But I don't see the future sharp price reductions as we saw it in the past years. That is positive.

What was your first question, by the way? Rising interest rate, right. Got it. Rising interest rate is a mixed thing, because I think you have, of course, then maybe – let's say you can argue that it's positive for us but – particularly for longer tail business casualty lines. Here, rising interest rates help us to generate more income from the cash flow which we make. Even on a risk-free basis, that helps us. It's positive. It increases our economic profitability on certain businesses, particularly in the United States now. Second, you could argue if the interest rates begin to rise, although our clients know that, will they use this argument to put price pressure on us and ask for commission increases or so, which we will of course defend.

But (3:27:59), this could be a strategy from our clients, particularly if they are under pressure. And third consideration is the interest rate alone doesn't tell much in my opinion, because what we always do is, in our underwriting and our pricing of the treaties, to look at interest rates on a risk-free basis, as I mentioned, in the respective country. And at the same time, we ask the question, how much inflation do we have to expect. And the ratio of the two, in my opinion, is decisive to answer the question whether the profitability under a treaty – all other premiums and conditions remain unchanged, whether the profitability does increase or not, and therefore, where particularly inflation assumption is for us a very important, let's say, instrument in our pricing in the traditional business.

A - Markus Rieß {BIO 1835270 <GO>}

I'd like to make one (3:28:57) Kopfinger, to your question with signature health (3:29:00), and that is obviously there are a couple of absolutely non-regret strategic moves that one can do. And the most prominent non-regret move is obviously the focus on supplementary health insurance, which we're having. And I just like to take the opportunity to say that we have again won roughly 60,000 new risks or new people who have a supplementary health insurance over the last 12 months, and that's a very stable figure. So, we are by far the market leader in Germany in supplementary health insurance both under the brands DKV and ERGO Direkt, and we roughly gain net 50,000 to 60,000 risks every year. And I think that is a very reasonable strategy, regardless of what kind of political fall-out we have at the end of the year.

A - Christian Becker-Hussong {BIO 19080254 <GO>}

Okay, thank you. We are almost done. But before wrapping up, I'd like to hand over to Nikolaus and to Joachim, please.

A - Nikolaus von Bomhard {BIO 3123407 <GO>}

Yeah. Thank you, Christian. Actually, I said thank you in the beginning to you in the audience. I would not like to end without saying thank you to Christian and his team both in Munich and Düsseldorf. You make sure that I never did get too optimistic. Thank you for that one. And you guided me well through the ups and downs of the markets through many years, and I owe you a big thank you.

A - Christian Becker-Hussong {BIO 19080254 <GO>}

Thank you.

A - Unverified Participant

Yeah. And as this is Nikolaus' last Analyst Conference, I think it's time to say thank you to Nikolaus and to wish you well, also in this room here and in your name I hope, but certainly in the name of all of the colleagues here and on the board. If we look back, you cannot say everything in two minutes, of course. But if we look back, then I think it's worthwhile highlighting that Nikolaus has led Munich Re through various crises and very successfully, outstandingly.

So, if you just look back into the 2002-2003 dot-com bubble crisis and the consequences also to Munich Re, you're well aware, I think you alluded to it earlier today. If you then look back into the financial crisis and how Munich Re Group has done compared to other companies, other peers or the whole industry. If you also look into the ERGO crisis some years back, then what is worth highlighting is the way that, Nikolaus, you've led the group successfully through it. Never any noise, never any nonsense. It's all with passion and with resolve and very successfully. So – and we are very grateful for this.

Under your leadership then, also as a consequence of the 2003 crisis, of course, you've practically turned our asset liability management practice upside-down, which was a fundamental change, and it paid off. And under your leadership, we've become the underwriting company. You've mentioned that earlier today. We have become a company that has become able writing outstandingly positive technical results. That was a new phenomenon that didn't exist before 2000.

So, in addition to that, you've always created new options to the group, and by nature, you're a business supporter. So, thank you very, very much for all of this, all of your contributions in the name of all of us. Those who have ever worked with you, those who have ever interacted with you, I think they would immediately agree when I underline that Nikolaus is a very fine and noble gentleman and leader. Thank you very, very much, and we wish you very well in whatever you do, private or other professional undertakings. Thank you very much.

A - Nikolaus von Bomhard {BIO 3123407 <GO>}

Thank you.

A - Christian Becker-Hussong {BIO 19080254 <GO>}

Yeah, thank you very much. There is really nothing I can add from my side. It's time to wrap-up. Thanks for coming to Munich. Hope to see you all at the next conferences and road shows and what have we. Those of you who are not back home at your offices, but here in this room, we – are of course cordially invited to join us on this level in the function room for further informal talks. Thank you very much.