Q2 2016 Earnings Call

Company Participants

- Dieter Wemmer, Chief Financial Officer & Member-Board of Management
- Oliver Schmidt, Head-Investor Relations

Other Participants

- Andrew J. Ritchie, Analyst
- James A. Shuck, Analyst
- Michael Igor Huttner, Analyst
- Nick Holmes, Analyst
- Paul De'Ath, Analyst
- Peter D. Eliot, Analyst
- Thomas Seidl, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the Allianz Conference Call on the Financial Results for the Second Quarter of 2016. For your information, today's conference is being recorded.

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

Oliver Schmidt {BIO 2473131 <GO>}

Yeah. Thank you, Suzanne. Good afternoon from my side as well and welcome to our conference call about the results of the second quarter 2016. There's nothing specific to be added from my side today. So, without further ado, I hand over directly to Dieter.

Dieter Wemmer {BIO 4755450 <GO>}

Yeah. Thank you very much, Oliver, and also a warm welcome from my side to our second quarter results call. I dive directly into the presentation. I hope you have it all open in front of you. So I start on page three, first discussing the overview of the six months figures. Group revenues, €64.8 billion, minus 4.7% adjusted for currency movement and acquisition disposal. It is a 2.5% decline in revenues driven by our Life and Health segment which on the internal measurement reduced 6.5%; P&C is up 3.1%; and Asset Management is declining more than 9%.

That resulted into an operating profit of €5.1 billion for the half year. That is roughly 49% of our €10.5 billion target for the year which we, by the way, confirm and stick to. Our net income was €3.3 billion, is 14.5% lower than last year. However, when you look at the full year 2015, we are, after six months in 2016, exactly on half of last year's profit. That means for the people who are always doing the little calculation on the dividend, we are, at the moment, at least on last year's level, which I think is a great starting point for the second half of the year.

Combined ratio is up against last year and, in particular, it worsened substantially in the second quarter due to – well, actually, normal insurance volatility. I will talk about it in more detail. New business margin continues the trend of the previous quarters. Our new strategy is manifesting it in substantially higher new business margin despite the low yield environment.

Cost-income ratio for Asset Management is shown flat six months over six months, but actually we are making nice forecast in the second quarter, also a good story to talk about later on the detailed slide.

So, with this one, let's go into the second quarter. Certainly, below €2.4 billion operating profit is not the number you and also us were hoping for. However, there are good reasons that we are where we are. The whole drop is in the P&C segment. Life and Health is actually nicely up. Asset Management stabilizing even over 2Q 2015, actually up 8% against Q1 and, the rest, it's a normal – little noise around the corporate segment and consolidation.

Net income almost cut in half, driven by the lower operating profit, factor number one. Factor number two, recognizing an anticipated disposals loss using the IFRS 5 accounting rules for Korea of €352 million. And, number three, additional impairments on equity investments coming from the volatility of the Brexit mess after end of June.

So, when we now go to the balance sheet, actually shareholders equity is further up. Not surprisingly, our unrealized gains and losses got a real boost with low-yield environment. And actually, also, our unrealized gains in the equity portfolio is unchanged, but we had to recognize on a gross basis €1 billion write-downs on our equity investments.

Solvency II capitalization, 186%. So we focused not only on the Life segment, but also keeping in this volatile times the Solvency II capitalization in good shape was clearly one of the focus areas. And when we go to the next chart on page nine, then let me explain what special actions did we do which were not, I think, not obvious in the normal sensitivities announced.

First of all, we did hedge or sell some banking exposure in April. But also, we hedged all currency exposures we had from the British pounds in all other balance sheet which are non-pound denominated. And then, we did additional credit spread hedges on some more southern government bonds. So that helped us actually that we could keep our own funds very stable because when you look at the own funds development, the little pluses and minuses between the various segments ended up in total with zero impact of the market impact. So, certainly, lower interest rates were compensated by falling credit spreads and our long credit bond investments helped us in the quarter. And in the derisking, there was only small that was mainly a reduction of bank equity which created the little reduction in risk capital.

The operating Solvency II earnings are lower than in the first quarter and probably you are asking, well, that is again a volatile number, in particular the Life segment has some ups and downs, and the up and down is coming from operating experience or operating assumption changes in combinations or mainly operating experience. I would say when you take the half year figure, then the half year figure is probably a good combination. That means instead of the four points of capital generation you see here on the chart, we had 9% in Q1. I would probably use somewhere in the middle between the two. So, let's say, around 6% as a good average between the two numbers. So that is the main explanation why we stick to 186%, and I think it is a good work of the risk and investment team that we ran through these difficult times fairly untainted.

P&C, actually, good growth, internal growth accelerated to a 3.7%. That is half a point more than in Q1. Good basic growth in Germany and France, Allianz Worldwide Partners. Spain continues to perform excellently because in Spain most of the increase is still price, that is actually a very good development. And then, two markets, which are not individually shown here is Turkey, where we still grow market share and also, Argentina, where we take rates as recovery for last year's substantial underperformance.

When we go now to the combined ratio, that is hopefully the story we will discuss in the Q&A afterwards the longest, quite a drop in operating profit for the P&C segment. Actually, in all three areas, the area Other is easy explained. We had last year in this category shown the one-off coming from the disposal of Fireman's Fund. So that was a €200 million gain. So that obviously is not being repeated this year. Investment is mainly falling interest rates reduction and also capital upstreaming to the censor, therefore, less investment income allocated to the segment P&C.

And now the underwriting results. Quarter-over-quarter, we have an increase of 3 points in the combined ratio. The 3 points could be explained at face value with the increase in cat losses. We had €500 million this quarter. Last year, it was some €120 million, €130 million. So that is a simple explanation. But as we have also an increase in the run-off ratio by another 3 points, there are still 3 points missing.

So we have – besides the cat loss increase, we have actually also an increase in other man-made losses. So the large losses are more than 1 point up, plus we have additional smaller weather-related events which are not included in the cat definition. So I would say the net increase quarter-over-quarter last year is about 60 basis points, 70 basis points in underlying attritional loss, a number I would have not liked to talk to you about because I was still confident that we could compensate the markets which obviously had a tough environment like Italy, the credit insurance but also our large corporate business and our assumption was that the rest would make up for it. But we are behind the curve, again, in our development in Latin America. So that is the main driver, I think, which makes probably most of the 60 basis points.

So it is a delay, but still thinking that's getting to the 94% by 2018, with recovery in loss ratios but also with more work on the expense ratio, which is at the moment more showing the effects of additional investment instead of reduction, is probably a fair assumption.

So when you go on page 15, into the detailed page, there you can see actually which countries were mainly hit by catastrophe events. Germany, it was a series of bad spring/summer weather events; France, the same, floods and hailstorms. Not here on the list, Belgium and Netherlands, affected by the same series or similar series of events. Our Global Corporate business has some European damage, but also a little bit of the Japanese earthquake, a piece of the Canadian bush fire, and also of the hailstorm in Wylie, Texas. But probably we will talk about it later more.

So I would now go to the investment area. I said already investment income for P&C down. The reduction is a little bit smaller average asset base, that is reduction you see on – shown in the bubbles, plus a reduction in yields which you can see on the right-hand side which is very much expected in this environment. I think we are still doing a very good job on keeping the reinvestment yield at a 2% level which is a good number. Certainly, we have increased slightly the duration in our P&C segment also to keep the yield up.

So moving to Life. Actually, page 19 is an excellent proof point that our Life strategy is working, that we can adjust to the current market environment. Volume-wise, in the second quarter, we are almost catching up with a strong year, strong quarter in 2015. And the main contributors in growth are actually Germany and the U.S.

We see a reduction in business. Well, we have – first of all, we have excluded Korea from the operating numbers because we move Korea to non-operating. But also, we see a drop in our new business volume in Taiwan that is a unit-linked business and unit-linked market was substantially smaller in Taiwan as customers are more nervous about equity volatility in this part of the world. So that explains also why the category unit-linked without guarantees was smaller where the category capital-efficient products that is mainly U.S. and Germany are substantially up. That is also – well, the new business is actually not resulting in a good operating profit because we have still, coming out of the new business, roughly €100 million loss from the new business written in the specific quarter. So that is always included in the overall operating profit.

Operating profit at €1 billion. This is a good and extraordinary number. No, I think it has normalized in a lot of categories. But Korea is excluded as we affirm that we are – that disposal of Korea will be completed during the year. And the investment margin which is slightly up, that is mainly Germany, that is normalizing an ultralow investment margin we had in the second quarter at 2015. So, actually, it is a pretty good picture of the earnings power of the Life segment at Allianz. So when I go to new business, also new business generation is at a very good level, that is enough value generation, actually took place in the operating profit maturing business. And I think we are on a good track with our overall outlook for the Life segment.

Page 25 is the usual page on demonstrating how audit guarantee move, how much yield are we still producing. I think that is more the proof point that the guarantees are not biting, that there is still enough for the customer and also the shareholder coming from the investment returns.

So let's move over to Asset Management. Sure, assets under management, 5 points up. Outflows at PIMCO, €18 billion; at Allianz Global Investors, €1 billion, compensated by market movement which makes 2%; FX also 2%; and other is first time integration of the Rogge acquisition of roughly €30 billion assets, leading to the overall €1.3 trillion figure.

The outflows at PIMCO, higher than in Q1. But we are still sticking to our statements that we are expecting a zero number for the second half year of 2016. Actually, when I gave the message in May, the outflow of €18 billion at PIMCO was already known because it happened very much in the beginning of April. We had institutional money of €17 billion leaving the door. And the rest of the quarter and all customers together generated just minus €1 billion, which I think is a very good confirmation for the direction overall.

The margin in Asset Management are holding up. We are even a little bit higher than actually in the first quarter, but that is the usual story about the number of fee base. So I would say it is unchanged level to Q1. And, therefore, we see actually in the operating profit an unchanged figure to a year ago and a slight positive figure or actually a good positive development against Q1. Operating profit in Q2 is 8% higher than in Q1, mainly driven from PIMCO.

The non-personnel expenses at PIMCO has reduced. PIMCO had a 62% cost-income ratio in the second quarter. We still have some of the special retention package we created after Bill Gross' departure, so 18 months ago. When I take this booking out, then we would be at 61.1% cost-income ratio for the second quarter. So, actually, I think we are also here on a good track for development in the direction of 60%, as we have stated as one of our 2018 targets.

And with this one, I'm coming already to the end of the operating profit story. Corporate segment, almost no movement against last year. We are now back to a normal quarter. The first quarter had a special effect from own pension transfers already at a year ago. We are now here at a normal quarter. Therefore, when we take the first half year, take the one-off out, we are very much on track with our overall operating outlook for the year.

So summary page showing the translation from operating profit to net income. I would really like to spend first a minute on Korea. We have signed the sales agreement to Anbang on April 6 and decided that we would show the business from April 6 on as non-operating as we are working with the buyer on actually execution. The transfer, we had also agreed with them certain changes, we managed for them already in the company that is restructuring, but also agreements with the trade unions and so on. Therefore, I think it is really an entity which is not anymore being run as Allianz-managed company.

So, the IFRS 5 rules, when you move something as held-for-sale, is a quite complicated standard. Therefore, we could impair all non-current asset in the balance sheet of the Korean subsidiary that is in total €209 million and that means there is no other non-current assets left in the balance sheet.

Additionally, the operating losses, which we crystallized in the second quarter of €250 million, plus the tax effect, brings us in total to €352 million net impact. And this number brings us fairly close to the result when the disposal is then finalized after all regulatory approvals have been progressed. So that is a complex process, but I'm not the owner of the IFRS rules. We are only the owner of the execution of the IFRS rules, and that we have done according to textbook.

So the other important number to mention is, besides Korea, we had more impairments coming from the equity markets. Even if the markets after the Brexit referendum, after some volatility, recovered quite well, actually the tax was quarter-over-quarter only down 3% or 4% while actually the FTSE 100 was even up. The market movement of individual stocks showed much more volatility. Therefore, we had actually to recognize twice the number of impairments in the second quarter from these big, big things in individual stock prices.

But overall, our stock portfolio is in very good shape. And, actually, when I look at it today, we are substantially above half-year level. And we decided at the end of the quarter not to start now to sell some equities with positive development to make up for the impairment losses because we felt selling was end of June a really bad timing as we felt that the market would continue to recover more which seems to be, at least as of today, the reasonable strategy.

So, with these points, I think we are coming to the end. Let me summarize the overall results. Q2 hits by a lot of additional volatility and Korea one-off, in particular, still – besides, if you want to say so, a lackluster second quarter, our half year is still resulting in an annualized RoE of 12% which I think is still an outstanding number in the world of financial institutions.

For 2018, we feel also that our P&C combined ratio, still on track to achieve the 94%. Life strategy making good progress. We believe we will move the segment to the 10% hurdle to a very large extent. New business margin very well on track. Cost-income ratio for PIMCO on track, and the other parameters will be updated over time, but none of the parameters giving us at the moment any concerns that we will not – cannot shine with them in 2018.

So, with this one, thank you very much, and I interested to learn about your questions.

Q&A

Operator

Thank you. Our first question comes from Peter Eliot of Kepler Cheuvreux. Please go ahead.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thanks very much. I have three questions, please. The first one was I was wondering if you could give us a bit more color on the AGCS claims. I mean, there seems to be a bit of a trend in weak results from Corporate solutions businesses across the industry, especially from large losses. And I was just wondering if you could comment on – to the extent that you think this is one-off or an ongoing trend?

Secondly, on targets, I mean, you mentioned how we can get to the 94% by cutting expenses, turning around LatAm. I guess you're always probably going to have – by the nature of it, is going to have some underperforming businesses, and you've got some adverse trends which give you a little bit less wiggle room on the combined ratio. And unlike one of your peers, I guess you've chosen to go through a point target on the sort of the group EPS. You've got a bit more visibility now on how you might get that. I was just wondering if you could comment on the sort of the confidence on the EPS target as well.

And then finally maybe a bit lighter off the results, I was very interested in your press release in the 15th of June on the use of blockchain technology for cat swaps. I was wondering if you could comment how quickly you anticipate that sort of technology being ruled out, both from yourself and across the industry in general and the sort of relative and absolute sponsorship (29:58) that might bring? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Thank you very much, Peter. So, AGCS, I don't think that we can recognize a claims pattern. Let me take the example of the hailstorm in Texas. Wylie is a nice little town in Texas which was hit in March 23 actually and April 11 again by a big hailstorm. It's actually, I think, the April 11 event resulted in a €1.5 billion to $2 billion event for the whole insurance industry, so quite substantial. And we have only very few customers there. But it did cost us $80 million, the April event, and we had already in March something to book. So for the half year, it was €100 million which we had to recognize for this event only. Then there was the bushfire in Canada. There was some €20 million – the earthquake in Japan. And then we had also a few large man-made losses here in Europe, but also Latin America. I would not say that we can really say that is a claims trend which should worry us.

And then the aviation losses, I think that is just – I would never (31:46) this quarter had none, but actually the third quarter started already with a smaller aviation loss, but one everybody could see in the news. So the 94% combined ratio, yes, there will be ups and downs, but I think the overall portfolio management and we are in total not so far away from the 94%. I think when you look at our numbers over the last years, we are below the 95% level. So the 94% is this last percentage point we have to move the average to. Quite some levels, quite some different events, and I think we are still believing we can move at least there.

The EPS target, you can say a points target, sure. And I said when we introduced it, that is about having in 2018 15% more than three years earlier, not that we go quarter-by-quarter with a growth rate of 1.25%. Certainly, this year, we have, actually to bear some extras. But even in the year 2016 where we bear some extras, I think we have still a good chance that we finished the year with a higher EPS number than last year. And I think that is pretty much intact. We are, at the moment, running at exactly 50% of last year's earnings per share, if you want to say so. So there is – when you assume that we have a higher operating profit in the second half of the year and nothing special in plus and minus also on the financial market, then we are actually very much on track to end up also the year here more in the plus category than in the minus category. So we are not giving forecast on our net income, but when you add up all numbers, then the potential should be visible to everybody.

The blockchain technology, that is our ART team which is using it. I think that is certainly a very interesting test to implement it. Will it create huge volumes of new business, I think that is a bit too early to say it. But I think it shows that we are in all categories clearly running forefront technology and shows the positioning of our company. And I assume it will add a nice additional profit line. But cat bonds is not yet such a huge business that it can – even with this technology to change our overall operating profit.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you. And I just come back very, very quickly on the target and the sort of point nature. I guess, I was referring also to the fact that it's not dependent on the sort of economic environment which obviously in essence has deteriorated over the last year. I mean, it sounds like that hasn't dented your confidence too much. You may or may not want to comment. Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Well, clearly is, and if this is your question, there is still the unused M&A budget which is at the moment still piling up. And end of the year, we are sticking to our promise. If it has not been used for M&A, we give it back to our investors. So that means either M&A increases the earnings or we give it back and then the number of shares has been reduced. So in both cases, clearly EPS enhancing, and that part is certainly part also of the 5% EPS logic. And in all discussions, over the last 12 months, 24 months, I think we have never hidden that the EPS target is influenced by capital management as well as organic earnings development.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thanks very much.

Operator

Our next question comes from James Shuck of UBS. Please go ahead.

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

Hi, Dieter. It's James Shuck from UBS.

A - Dieter Wemmer {BIO 4755450 <GO>}

Hi, James. Yeah.

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

I have three questions, please. First one, sorry to return to the combined ratio in the second quarter. But I just wanted to understand the source of the underlying deterioration in the quarter. You mentioned kind of if we adjust the large losses in prior year and all sorts of things, then the 60 basis points of underlying deterioration in the quarter, the commission ratio also got worse which presumably should be high commission to acquire better profitable business. So the net deterioration in the quarter is actually 1 point year-on-year, and on your current disclosure it's quite hard to see exactly which territories and OEs that's coming from. So if you could just shed some light on the OEs that that underlying deterioration is coming from, that would be helpful. Obviously LatAm actually got a bit better in the period, so I don't see that as being a drag on the year-on-year comparison.

Secondly, on the capital generation point. So I think previously you had indicated that your net capital generation net of tax and after dividend accrual should be about 10 points on a normalized basis in a year. So if I kind of backsolve from what you were saying previously where you take the average of the Q1 and the Q2, you end up kind of 24 points pre-tax annualized. So net of tax, that's closer to 17 points. I may be nitpicking here, but I just wanted to understand, are you – so obviously that's pretty dividend accrual, so the 17 points then goes minus 10 points to get you back 7 points. So are you actually kind of saying that the capital generation is a bit less than when you had last indicated it? And when I think about that capital generation, is there any reason why it should be growing faster than earnings? Obviously, you've got the growth in there. In the new business it's very strong and that should monetize. So how should I think about the growth trajectory on that either 7 points or 10 points, whichever the number is that you're guiding to now?

And then, thirdly, I'm interested in your RoE target. So you increased the RoE target at the Investor Day, at the same time as the EPS growth target. And if you just run through what 5% EPS growth gets you on the RoE based on your current payout ratio and allowing perhaps for the deployment of the M&A budget, it still doesn't get you anywhere near 13% RoE in 2018. And the implication is you have to take – make quite a sizable move on the equity base. So could you just tell me, is there anything I'm missing in that kind of simplistic calculation? Are you planning on doing any debt reduction, or is it a simple case of you're going to end up with more equities than you actually need, particularly given you're currently very well capitalized on Solvency II basis? Thank you very much.

A - Dieter Wemmer {BIO 4755450 <GO>}

Okay. James, that is a lot of very technical question. But let me start with the combined ratio that is more – the easier one. The commission ratio increase is quite often also for a segment, the mix change and even currency rate change, the average commission ratio and nothing has changed in the provisional business. So, therefore, it's always a bit of a complicated story. But certainly, our expanding business, Allianz Worldwide Partners, which is also over the last years one of our fastest growing business, in general, the commission ratios in this business are substantially higher than what you have seen there, so what we have seen. So therefore, a 10 basis points, 20 basis points movement is fairly fast achieved, but we have also seen in markets like France or Germany a little bit increase in average commission.

The markets which certainly and that was never hidden are facing, I think, soft markets, it starts with Italy. So therefore when you see a decline in our Italian premium and you compare that also with the announcement you have seen from the Italian market in recent weeks, whether it was Victoria, whether it was Unipol or Generali, everybody reports in a decline of motor premium of 6% to 7% which is also roughly our figure around 6%. Yes, that is mainly a rates decline as it is – then the whole market is moving in this as the number of cars has not changed in a material way. So that is an example, but also the credit insurance and also our corporate business are writing more carefully because the markets are softer. So as a correspondence, you see increases in the attritional ratio. Overall, we see decreases in the attritional ratios in countries like Spain and the UK, in Australia, in Turkey, in Argentina and I think that is overall, I think, going into the right direction.

So when we go to capital generation, I think we are still pretty close to the 10% number because the number exactly, what is Life producing every quarter is a bit tricky to say. And when I meant actually around 6%, that is actually – that is a pre-tax number. And that means when you – I rounded it down. We actually had the first half year, the 9% plus 4% is 13%. You subtract 30% taxes, you are at 9%, and either you multiply it now by 2% or you save the other half as the dividend, so you get to roughly 9% in the half year. And I must say, that is probably at precise as I can say it, and maybe it's rounded 10% or it's rounded 9% that I can really not tell you. And it will vary a little bit every quarter.

The RoE targets, well, with an unchanged equity, it would mean to move from 12% to 13%, you need actually over the three years when my math is not wrong, a 6% net income increase on an unchanged equity. Then you would achieve the 13%. So either you reduce now the equity or you get to a combination of profit increase and equity reduction. I think there are plenty of combinations which would allow us to end with a 13% RoE. I think you can also test it the other way when P&C makes the 94%, asset management stays stable and we move our Life OEs as announced to the 10% minimum RoE, then also ending up (45:15). So you can actually test it and verify it in various methodologies. I think the chances are quite intact. And it was not an announcement about the result, that was just a back-of-the-envelope test to make you, James, comfortable with the number.

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

Okay. Thank you very much.

Operator

Next question comes from Michael Huttner of JPMorgan. Please go ahead.

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

Understand. Thank you very much. You actually answered almost all my questions (45:56) nice presentation. I like the certainty or the confidence on the 9% or 10%. Just few numbers, could you say what the pro forma Solvency is? So adding your run rate of capital generation plus the Korea and Taiwan benefits, I'm getting to a figure of...

A - Dieter Wemmer {BIO 4755450 <GO>}

Michael, I have not understood you. What -?

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

Yeah. Sorry, sorry, I'll say it again. What's the pro forma Solvency, if I could, Korea, Taiwan and your organic capital generation, so maybe at December 2016? I'm guessing with somewhere around between 196% and 200%. And, also, can you give a figure for these large claims? And just – it just would make my life a lot easier because then I could just pin it down and move on.

And then, more conceptually, the €1 billion figure in Life which basically one-off, so maybe dividend is a bit unusual over hedging benefit. So maybe the run rate just closer to €900 million or €950 million. How would you explain – how does one explain that to a generalist that even though interest rates have never been low in history, (47:06) earnings continue going up. That would be – if I can do that, then I think the rest is actually not so important. Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Okay. On the Solvency II number, I'm not doing a pro forma forecast. You have to wait for the announcement of the final disposals of Taiwan and Korea as well as on the progress on the operating or Solvency II earnings. I think we are – as I've said before, we are really firm that we are managing our Solvency ratio in this range, 180% to 220%, and I think we are also on good track that we can deliver also on all promises we made with our dividend policy.

So what explains the good profits in the Life segment? Well, I think the – yes, you can say we still have a duration mismatch. So we are not fully hedged against the falling interest rates. However, as we are hedged, for example, in Germany for the first 30 years where we have actually – we are not only cash flow matched, we actually have more assets there than liabilities in the cash flow models. That means that also the relation between guarantee and investment income we are making there is actually fixed for this period. So the interest rates in the market may swing, but our cash flow matching for this year is not changing. That means it's just one-off, and all this tail discussion and Solvency ratio goes up and down, that is from an operating profit point of view, we are talking here always of the years 2045 and later.

And that, I think, is always forgotten in all this debate about mark-to-market. In times where interest rates are zero or even negative, things which are 50 years away now are being looked at a magnifying glass and actually become bigger in year ones than in year 50s. That is the effect of negative rates, something we are absolutely not used to, whereas accounting runs off year-by-year and we have to wait to the generation of, actually, CFOs and accountants, actually, to show this operating profit. Therefore, we are really mixing the timeline up based on this complicated long-term models. And the new business margin and the new business value we generate has actually only to replace the operating profit which is maturing. So if the policy – old policy is maturing, falling off the value (50:30) operating profit is gone, sure. And now the only question is it's maturing business being replaced by the operating profit coming out of the new business generated. And with the new business margin of 2.5% and our current volumes of new business, the answer is, yes. We calculate actually internally, that's even more precise, but I'm now not making specific long-term forecasts for the Life segment. But you can hear that we – none of us is in tears (51:09) here. We are actually quite confident.

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

Brilliant. And just on the cost of the large claims?

A - Dieter Wemmer {BIO 4755450 <GO>}

The large claim figures, yeah. I think I gave the absolute number this morning also with the press because they asked me also for an absolute figure. And the total out of large losses, cat and other weather-related was in total close to €1.2 billion in absolute figures. We discussed before the relative change to previous year, but the total number is €1.2 billion, is roughly the number.

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

Brilliant. That's very helpful. Thank you very much.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yeah. I think I hope I covered here the pro forma. I'm sorry, you have to be patient.

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

Yeah. No, that's fine. I'll pretend it's 200% and I'll be fine. Thank you very much.

Operator

Our next question comes from Thomas Seidl of Bernstein. Please go ahead.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Thank you. Good afternoon. Three questions. First, on your 2018 targets, again, I think last year November, you told us your assumption was flat interest rate, not rising interest rate. But since then the 20-year rates has fallen from 150% to 75% (52:45), and I simply assume that like in the past your reinvestment yield is going to drop in line with those swap rates. I mean, that has been the pattern for the last five, six years. So why should it be different now? So what are you doing in P&C and Life to still allow you to achieve less EPS growth target? More important for me, the RoE target. So what additional actions you are going to take to fight this unexpected and as per last November, unplanned dramatic drop in yield? So first question.

Second, I'd like to have a bit more clarity on M&A, please. In the past, and I think also morning to journalists, you talked about the strategic fit. So in P&C, would you include greenfield markets where the market is attractive, but you are not there yet in the strategic fit or must it be like I (53:39) in the past, a market where we're already operating and have management capability on the ground?

And regarding Asset Management, I think Oliver Bäte said in March, he wants to bring down the beta of the group. How does that fit to doing potential M&A in the Asset Management space? Is that basically increasing the beta of Allianz Group?

And third question, if I may, on PIMCO, just very briefly. You're assuming now flat assets under management going forward. There was a one-off exit from one client in April as we learned. How – and at the same time you're saying you're not planning further cost cutting, so I don't square it, even if I assume rising second half performance fees, I don't get to the 60% number. So what am I missing here?

A - Dieter Wemmer {BIO 4755450 <GO>}

Well, let me start with the PIMCO at the end. First of all, PIMCO has announced in June actually quite some additional expense cutting which also affects their HR base. So therefore, that improvement is coming into the second half of the year. (54:55) the question this morning was about additional announcement, and there I said I'm not expecting for the time being additional announcements. And I think with the performance fees should bring us actually already closer to the 60% level. And what I also said before in my first presentation that actually we still have 1 percentage point in the cost-income ratio which is coming from the pension plan which is maturing and will be booked the last time in Q1 2017.

So that means there is – and then I hope also – and not only hope, we are confident that we also bring additional new developments also with the new leader for PIMCO. I think that till 2018, we want to see also some positive development. PIMCO has already some beta in its portfolio. I think when we would isolate the PIMCO's hedge fund business which is already existing for quite some time, we would rank standalone amongst the top 10 hedge fund managers globally.

So, therefore, it is not that we are in everything a bit, we are actually doing already quite a bit. So we would – it start ups, the right approach to acquire. I think we are looking also in the Asset Management field in many opportunities whether it's start-up or whether we find other things which could fit the same as we are screening the insurance M&A market.

I think in insurance, the startups are probably, we are creating our own startups certainly into digital space, but also in other spaces. But acquiring them would make in the digital sector (57:23). Otherwise, our main M&A strategy has still to be creating scale in the P&C markets where we have already a good starting point. That would be still my point.

And you have the question about, did assumptions have changed for our 2018 targets? Yes, you are right. The investment income topic became much tougher. That is certainly, I think, the Life topic we have discussed separately because the new business margin has already been adjusted to the new input rate environment. So, in Life, we are already doing the right things. Therefore, the open point is the falling investment income in P&C, how can we compensate. And I believe that the expense topic is certainly topic number one to look at.

Q - Thomas Seidl {BIO 17755912 <GO>}

Maybe one follow-up question on the M&A side. So you said when you have a starting position, this means you must have an operation in such a country where you're looking for accretive P&C acquisitions?

A - Dieter Wemmer {BIO 4755450 <GO>}

That would be the main point to look at because otherwise it doesn't move the needle too much. Yes, we do also some right spot acquisition, most recent our acquisition into Morocco. There was so far no question about it. We have so far 12 smaller countries in Africa, actually all in the French-speaking part of Africa. Therefore, actually we will use Morocco, then also as a center for driving our African developments. It's also from a language point of view, a good combination. And then we will start more systematically to build up our African businesses which are growing fine. But they never make it even to any disclosures in our reports because operating profit numbers are still too small. So therefore, Africa will not close the gap for the 2018 targets, but it is certainly a very good basis and we want to be an early mover because for the next generation, it might be a very important market.

Q - Thomas Seidl {BIO 17755912 <GO>}

All right. Thank you very much.

Operator

The next question comes from Andrew Ritchie of Autonomous. Please go ahead.

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

Oh, hi there. Just one quick question. The reinvestment rate – first question, the reinvestment rate in P&C, the economic reinvestment rate actually went up 30 basis points Q2 versus Q1 which is a bit surprising given what's happened to yields in the market. I think in the footnote saying you may have changed the calculation basis, if you could just clarify what's going on, that would be helpful.

Second question, Life RoE, that target still looks like the most challenging target for 2018, especially in the current rate environment. If I look particularly at France. The French Life ROE is very low. Is that a problem of R or a problem of E?

And finally, just on PIMCO, (01:01:11) whether your outlook is changed or not because when I look at the transcripts in Q1, you were talking about small inflows that you're expecting in the second half of this year. I think you're now saying breakeven, or maybe you're saying breakeven for the period as a whole, but you still expect to get small inflows by the end of the year. Is there a change or not? And do you expect the new CEO to bring a meaningful change of strategy at PIMCO, or is there sort of evolution? Thanks.

A - Dieter Wemmer {BIO 4755450 <GO>}

Okay, Andrew, I go also backwards. Let's start with PIMCO. No, I think that is just a nuance in language, not a nuance in statement. It's between zero and small positive. I think that we get to zero, small positive is probably the number I would expect. But I would – I think I'm pretty unchanged in the statement not only compared to Q1, actually even to Q3 last year.

The RoE is 10%, for everybody that is indeed a challenging target. But when we keep the returns, that is an E question in France and we have a clear execution plan with our French team. What are we changing? What are we doing? And we will be at a 10% level in 2018.

So the reinvestment rates, there are two – well, it's actually quite a number of explanations. First of all, the definition has not changed second quarter over first quarter. However, the cash-rich was reinvested had more emerging market share in Q2 than in Q1. It was actually 16% versus 14% because we had more fresh cash in emerging markets but it's also – I think Turkey and Argentina play a little role here. Further, we have increased duration that you can also see when you look at our Q2 2016 duration number. We have started to buy longer in the market and then also we are buying less covered bond and grow more in the Corporate space. So I think the three things together adds to this little increase.

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

So is the emerging market just because the timing of reinvestment there or is that a deliberate increase in exposure there?

A - Dieter Wemmer {BIO 4755450 <GO>}

No, no, that is in the local market. So it's not taking more work, let's say, in Germany by buying Indonesian bond. It is really – we had – I think second quarter our premium income in Argentina grew 56% and in Turkey motor we are also more than 50% growth in premium income. And when you can invest in Turkey or Argentina, you get slightly different yield than investing in Frankfurt (01:04:32)

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

And then just the question on the new CEO at PIMCO, I think you're trying to suggest that PIMCO does a lot of things already, for example, when you talked about hedge funds. I mean – what's the color behind his appointment? Do you see it that there's going to be a meaningful strategy updating change or is this more evolution?

A - Dieter Wemmer {BIO 4755450 <GO>}

Well, I think evolution is the minimum. And when he has more ideas and brings more interesting proposals, well, I think we should give him a chance to onboard. He is starting his job on November 1. So it's still some time from today. And then, I think that's probably a good question to ask in a year from now, or maybe in Q1, but not earlier.

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

All right. Thank you.

Operator

Next question comes from Paul De'Ath of RBC. Please go ahead.

Q - Paul De'Ath

Yeah. Hi. Just a couple of questions on the Life business M&A. And firstly, on the new business side, obviously, you've been doing very, very well in capital-efficient products, particularly in Germany. And wonder if you could give any comment on sort of where the competition is with that. Are you expecting others to copy your products and take some of your very strong market share in that? And going forward, some guidance on that would be good.

And, secondly, just kind of to clarify really, on the investment margin, so I think you guide to 19 basis points for the full year on the investment margin. Where does that go further out than that? Should we be expecting a slight decline in that investment margin, or after your comments on the sort of cash matching in Germany, is it going to be a lot more stable than that? Thanks.

A - Dieter Wemmer {BIO 4755450 <GO>}

Well, actually, we are stable in the individual country numbers. We raised it to 90 basis points compared to earlier years because the weight of the U.S. business and the overall segment got bigger. And certainly Korea did also not help with investment margin. So, therefore, I think the 90 basis points is intact guidance.

On the German competition and the German new business margin, it's actually a very good question you are raising, Paul. We are at the moment still showing our German new business margin in a very conservative manner. Due to the complex processes to apply for our internal model, we could not adjust the German internal model to the new products which we are selling so well and also some legal changes. We had actually to deal with this, changes with add-on and on a bulk basis that we could really keep the timeline for all this internal model approvals.

We are filing this August an updated internal model for our German Life business, which will then also be used for the official Solvency II calculation beginning of 2017, assuming that the regulator approve our changes. But what we will do is even without approval of the regulator, we will use it for calculating the new business margin of our German Life business from third quarter on because it measures that more precisely the capital-efficient products we have missed there, actually, part of the new business margin and vis-à-vis calculation will lead to a nice uplift of the German new business margin, which is a better reflection of what we are really doing.

So does this mean that we need to be frightened of our competitors? Well, even if they are now copying our products one-on-one, on average, the German competition has 100 basis points disadvantage on the expense ratio in Life. And the lower the yield environment is, the more is the competitive disadvantage on the expenses piping. Therefore, we are not concerned that the competition can really reach us in new business volumes and what we are doing. And the more we sell, actually, that clearly helps our expense positioning.

Q - Paul De'Ath

Okay. Very interesting. Thanks.

Operator

The next question comes Vinit Malhotra from Mediobanca. Please go ahead.

A - Dieter Wemmer {BIO 4755450 <GO>}

Vinit?

Operator

Vinit, please go ahead. Your line is open.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hello. Can you hear me?

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes. Now, we can hear you. I thought you switched already to another earnings call.

A - Oliver Schmidt {BIO 2473131 <GO>}

Vinit? Vinit?

A - Dieter Wemmer {BIO 4755450 <GO>}

You are gone again.

Operator

Vinit, please go ahead. Your line is open.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Can you hear me? Sorry.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes. Now, we can hear you.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sorry about that. Dieter, a few years ago, when the new dividend policy was introduced, you had also mentioned the stock of capital and not just a slow. And I was just wondering what your thoughts are on that? You have obviously this new target you have mentioned time and again, does depend also on the (01:11:22) Even if you look at 186% now, there is a couple of billion sitting there versus the 180%. So just wondering what your thoughts are on that? That's the first question.

Second question is, in the Life RoE discussion, the metric that you show on the slide which shows the percentage of the business which is producing the 10%, this has fallen from 1Q to 2Q. But, obviously, you need to get it to the 100% stage. And you mentioned France where there seems to be the labor law problem related to some changes, which have pressurized technical margin but also (01:12:07). And maybe could you just comment on which are these markets which led to the compression in this metric that we see on the slide?

And just very last, very quick one, (01:12:19). The frequency or large losses we've talked about today, does it prompt you to change anything in the reinsurance or you think this will be a one-off, no pattern kind of situation here? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yeah. Okay. I think the large losses, we have not changed our reinsurance purchases. We are constantly discussing with our in-house reinsurance as well as large OEs what is the optimal retention you should take? Is there a possibility to take advantage of the soft reinsurance market? What are still the trade-off? We have constantly this optimization questions. But so far, we have only changed some small areas where we have bought a little bit more of reinsurance, but nothing very material.

Actually, this calculation of the 10% RoE level, and I discussed actually with some of you on the call this when we had here our little Capital Markets Day a few weeks ago, that you are saying whether that's actually a very volatile calculation and there might be quarters up and down. And I agreed that it is very much up and down. And at the moment, when I look at the numbers, France, U.S. and Italy are really just short of the 10% a little bit. And when I would show more an ample traffic who is below 5% – or traffic light logic, who is below 5%, who is 8%, 9%, and who is at 10%, you would probably get a better feeling where we are and we have, maybe to consider this.

It was very much also our internal communication. Either you are on the right side of the table or you are on the wrong side, therefore we use this sharp 10% in-out calculation as a benchmark setting. That gives – I think that is good for internal measurement. It might give you not the right impression how close we are and how far away we are. And certainly, when we do the Capital Market Day in November, we will give you there a much deeper insight how we are standing and how difficult the rest is.

On the dividend policy, I reconfirm that we certainly do what we said with the unused M&A budget. Also, the 50% payout ratio absolutely unchanged. Other capital market actions, well, we have still to see what M&A opportunities are coming up because the race is not ending end of 2016. We will continue to look around. And I think we are, at some point, the market will start also to move and there will be opportunities coming out of the low yield environment. We have just to be patient. We just cannot push it through for this year, then it might be next year or it might be in two years or it might be in three years. I think the market will come sooner or later with good opportunities that we have not to buy totally overpriced businesses that surprises are coming to a more rational level.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you, Dieter. Thank you.

Operator

The next question comes from William Hawkins of KBW. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much. Hi, Dieter.

A - Dieter Wemmer {BIO 4755450 <GO>}

Hi.

Q - William Hawkins {BIO 1822411 <GO>}

Sorry, back on slide 9 and the operating Solvency II capital generation. I'm getting confused over different percentages that we're talking about. So can we just try and talk about billions of euro instead? My back-of-envelope is if I strip out the variances of the past couple of quarters and the Life business, the equivalent of the percentage points you've been giving is about €2.8 billion per quarter of pre-tax capital generation. Can you confirm that's right?

And then following from that, what exactly are these variances that have bounced around so much in the first and second quarter? And how do we assume – are these going to carry on bouncing in a big way, or has something funny been happening, and should they net to zero or to something either side? You've been doing a lot of hedging. Does that start to drag the capital generation at some point because there must be an opportunity cost of managing your Solvency II ratio to be as stable as it has been.

And then finally on this point, how are you thinking about this capital generation figure versus your distributable free cash flow? Is it a temptation to say that this is free cash flow because it looks like regulatory earnings. But actually it's basically just an embedded value profit dressed up in another way. And, for sure, if you're doing €500 million a quarter of new business value, for example, I can't believe that a regulator on the ground would consider that distributable earnings on day one. (01:17:58) brief from that last point, but just how you reconcile it with free cash flow.

And then to the extent that was about five questions in my first. Very briefly on the last one. I thought your U.S. sales could've been weaker this past quarter because of the impact of DOL on your fixed index book. That clearly was completely wrong. You've had another great quarter. But is the DOL change at some point likely to have a more visible impact on your sales and why didn't it help the second quarter very much? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

I think the DOL effect, we will – probably will crystallize more in 2017, but we are still optimistic that fixed index annuity products are actually in the best interest of customers, therefore, they will continue to play an important role. So I – that is, therefore, I go backwards with your question.

So the other one is, I think we have disclosed 9% earnings generation in Q1. We have disclosed the 4% here. So what is the driver of the ups and downs? It is not the new business volume. It is really the total operating variance as you can also see it in our old MCEV reports because it is essentially the same definition even when the calculations under Solvency II are slightly adjusted, but not big difference. The logic is still the same.

We had in Q1 a positive operating variance of €655 million and in 2Q a negative operating variance of €826 million, to be very precise. And that is – I could now split down into experience variance assumption changes and other operating variances. But by and large, you can also look at our old MCEV reports that we are in total more on the conservative side on this one than on the two optimistic side. So that means that the long-term average of this number should be more a small positive.

At the moment in the half year, we have actually a small negative out of the two numbers which is very untypical for our long-term track record, but it was a specific update in Germany which had to do with local step numbers and the way how we progress from quarter-to-quarter. So, therefore, I still think that the average of the two quarters is a good starting point and is not overoptimistic, it is a good starting point. Therefore, the 9% and 4% might be in total at lower long-term end, but it is a good starting point. Then you have to take out the tax rates and all of this as we ran through it already with James when he asked for it.

So how does it link to liquidity? Well, first of all, I think we have done a lot of cash upstreaming over the last years, has done it in a way and also we run the group at the range 180% to 220%, but individual OEs, we run at a lower Solvency II target. That means the difference between our average OE level and the average group level is the central cash.

And at the center, there is no new business value we can hold as capital. At the center, it is in the end very liquid surplus we have in our SE. Therefore, I would say the binding constraint is more coming from our decision to run the group at the 180% to 220% Solvency ratio and not from a lack of liquidity.

That might change in a number of years when the solvency generation and the new business value are becoming more and more driving elements, but I think that will take quite some time before we need to have this discussion again and revise the statements I have made.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you. And just finally on that, Dieter, with regards to the hedging, I mean, this is the ratio that I would have thought should have been very volatile. You're keeping it very stable. There seems to be a lot of hedging that's going on. Isn't there an opportunity cost that must be creeping out somewhere from that?

A - Dieter Wemmer {BIO 4755450 <GO>}

No, I don't think so. From my perspective, I think the hedging has still room for improvement. And still when we – the ALM in the Life business also improved because old (01:23:33) businesses are also maturing. When we keep the 30-plus year coverage, actually, that will then also on all the business cover. The last years of this policy, actually I would, from an ALM perspective, see that improving the hedging actually also reducing our input rate sensitivity, which is one of our targets where we not move too much this quarter, should actually still improve. And I still see in ALM hedging actually a reduction in cost and not an increase in cost.

Q - William Hawkins {BIO 1822411 <GO>}

Right. Thank you.

A - Oliver Schmidt {BIO 2473131 <GO>}

So before we continue, Suzanne, we have a couple of minutes left, so we can take one more question, please, if there's any.

Operator

Okay. The final question comes from Nick Holmes of Société Generale. Please go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi there. Thank you very much. Just couple of very quick questions. First on U.S. Life. Wonder if you could remind us of the hedging program on your fixed annuity book and your fixed index annuity, that is. And I just wondered, Dieter, whether you could reassure us on what protection you think there is if U.S. rates continue to fall?

And then the second is also looking at low interest rates this time in Germany. Just wondered if you could update us on the size of the RSP? And if you could remind us of how long you think it will take until the current low interest rate environment really eats into the German (01:25:19) policies. Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Nick, hi. When you ask the question, I always know that I came to the end of my analyst Q&A.

Q - Nick Holmes {BIO 3387435 <GO>}

Yeah, yeah, same here, same here.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yeah, yeah. As I said before, in Germany we are cash flow matched for more than 30 years. The RSP actually in Q2 was up. So also, of course, that is only the quarterly calculation in the (01:26:01) RSP calculation is only at yearend. But we are actually in the numbers up. And therefore, I see it will take quite a number of years. And you probably will not ask this question anymore when it has eaten into the system because it will still be the case out.

Our fixed index annuity business is 100% hedged. So, therefore, I'm not seeing your question. Our VA business has interest rate sensitivity and actually our U.S. operating Life profit was lower than normal because we had a small loss of the old VA book that is the VA book which was written quite a number of years ago. There we have some sensitivity. And when you look at our new business mix in Q2, VA is making below 10% and 90%-plus of the new business is fixed index annuity. So our interest rate sensitivity is small and is also not growing.

And I think that differentiates us from other players in the market, who have a very different interest rate exposure. Certainly, what you have noticed is that the new business margin in the U.S. is down because the new business margin is interest rate sensitive. And we have a lower new business margin than we had in previous quarters. That is important to see.

In the U.S., we are adjusting our new business assumption every two weeks. So, therefore, we are not following there the general group rule that we use for new business margin at the beginning of the quarter interest rates. In the U.S, we update this every two weeks because fixed index annuity business is sold in tranches and being repriced also every two weeks. Therefore, we do it like this to be always up to market and not to run any unreasonable interest rate risk in the sales process. So, therefore, the new business margin in the U.S. reflects already quite a lot what has happened to the U.S. treasury rates during the quarter. Did that answer all your questions?

Q - Nick Holmes {BIO 3387435 <GO>}

Well, yes, it does, certainly, most of them, Dieter. Thank you very much. There was just one very quick follow-up, which is just to be completely clear on the fixed index annuity, are you saying that there is no rollover risk at all? There is no variable annuities, as you've explained, have dynamic hedging and, therefore, some interest rate sensitivity. But is your point that the fixed index annuity has no rollover risk at all? You are completely hedged against low interest rates.

A - Dieter Wemmer {BIO 4755450 <GO>}

Well, what do you hedge in a fixed index annuity? The interest rate is matched because when you receive some money, you invest all the money you receive in corporate bonds, which are duration matching. So, therefore, we do the repricing every two weeks. Let's say, in the two weeks, we collect from our customers €250 million fresh money. The €250 million are specifically invested for the new money which came in. The dynamic hedging is actually to the upside for the customers where we are investing because they are participating in the upside of the stock market or whatever the underlying index is we have sold to the specific customer. So it is – actually, everything else that you hedge then the interest rate risk.

Q - Nick Holmes {BIO 3387435 <GO>}

But the fixed index annuity product doesn't have a finite term, does it? Is it not -?

A - Dieter Wemmer {BIO 4755450 <GO>}

No, it's not a finite term. But it has an experience when customers are turning. It is also used for their own pension benefits. So therefore, we use an all-in duration assumption, and so far I think we are doing very well with this duration assumption with the business.

Q - Nick Holmes {BIO 3387435 <GO>}

That's very clear. Thank you very much.

A - Dieter Wemmer {BIO 4755450 <GO>}

And we have a lot of management levels. Actually we can, for the old blocks, always increase expenses at some point. The product is also not so exciting anymore for the customer if you want to say so.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Thank you very much.

A - Dieter Wemmer {BIO 4755450 <GO>}

So then I wish you all great summer. At the moment, it's very rainy in Munich. But for me, it is also the last working day before my summer break, and hope to see you all somewhere in the next months. And thank you for dialing in.

A - Oliver Schmidt {BIO 2473131 <GO>}

Yeah. Thanks, and good-bye from my side as well. Cheers.

Operator

Thank you. Ladies and gentlemen, that will conclude today's conference call. Thank you for your participation, and you may now disconnect.
