Company Participants

- Dieter Wemmer, Chief Financial Officer
- Oliver Schmidt, Head-Investor Relations

Other Participants

- Andrew J. Ritchie, Analyst
- Andy Hughes, Analyst
- Arjan van Veen, Analyst
- Farooq Hanif, Analyst
- James A. Shuck, Analyst
- Johnny Vo, Analyst
- Michael Igor Huttner, Analyst
- Nick Holmes, Analyst
- Paul De'Ath, Analyst
- Peter D. Eliot, Analyst
- Thomas Seidl, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to the Allianz Conference Call on the Financial Results of the Second Quarter 2017. For your information, this conference is being recorded.

At this time, I would like to turn the call over to your host for today, Mr. Oliver Schmidt, Head of Investor Relations. Please go ahead, sir.

Oliver Schmidt {BIO 2473131 <GO>}

Thank you, Abby. Yeah, good afternoon from my side as well, and welcome to today's conference call. Before I hand over to Dieter, let me apologize for the delayed publication of our documents this morning and any inconvenience this may have caused. Well, I hope it was worth to wait and all the highlights you'll get now from Dieter.

Dieter Wemmer {BIO 4755450 <GO>}

Okay. Good afternoon to everybody on the call. I'm running through our presentation relatively quickly. And then, we have enough time for the Q&A session. So let me start with the half-year summary. I think the Group started really excellently into the first six months. Our operating profit in Q2 is matching almost, I think, to €2 million or €3 million our Q1 operating profit, so we're ending up with €5,860 million for the first six months.

I will not comment individual segments here because I do this when we go into the details of the second quarter. With €3.8 billion net income, I think we have also a very good start into the year. Some 17% higher than last year. And I think at the end of the presentation, we will then also bit discuss what does it mean for the full-year outlook and what are reasonable expectations?

So, let's go into the second quarter in more detail. Revenues flat €30 billion, 2% up, shareholders net income 83%, up to close to €2 billion, and operating profit at €2.9 billion. The sharp increase in net income, 83%, well, it is based on 22% increase in operating profit. And then, no negative news as we had it, a year ago. Last year, we had a number of write-downs on equities and we had booked Korea as held for sale, which dampened the second quarter 2016, I think, by some €200 million in net income. So, but like-on-like, a 23% increase in operating profit rates, and you will see with very strong performance of the segments and only a very small impact of one-offs.

Let's first have a look on the balance sheet. Equity €64 billion, yes, it is €3.5 billion down compared to quarter-end 2017. However, we paid out €3.4 billion as a dividend. We executed another €1 billion of our €3 billion share buyback in the second quarter, and we had a €1 billion impact of the weaker U.S. dollar. So, that's – then of course, offset by €2 billion net income.

So, that explains actually the movement in our net capital, so it's mainly a return to shareholders. The Solvency ratio is reflecting that our balance sheet is really in a very strong position, 219%. And as you all are aware, our management range for the Solvency ratio is 180% to 220% that means with 219% we are clearly at the upper end.

And please, as a little reminder, the €3 billion share buyback is already completely deducted from our Solvency ratio, we did this at last quarter and we will continue to spend some money by year-end, so the share buyback is not only out of the Solvency, it will also in cash terms, soon out of the door.

We also have further accrued dividend for 2017, so when you have in a quarter €2 billion earnings, then the dividend accrual, is at the (5:01) 50% mark, €1 billion. Our key sensitivities, I think, they're good use because we can directly test what we published as key sensitivities in Q1 and see when we move to the next page whether we can use the key sensitivities actually to calculate how our Solvency ratio moved during the quarter.

And it is actually when you use the movement in interest rates as well as the movement in credit spreads and you interpolate with our disclosed sensitivities then we have actually a 4-4 (5:56) split of Solvency II ratio movement. So, it's a 15% or 15 basis point movement of the 20-year euro swap and a 30 basis point tightening of our cost severance spreads that gives you each four points and that explains the Solvency movement. Yes, that would end up with eight. We had one negative, which you can't delete from the sensitivities, we lost the €1 billion as I mentioned from the weaker U.S. dollar in our consolidation and that €1 billion is then, obviously, not covered by sensitivity. But that explains very much what happened into our Solvency numbers during the quarter, also, maybe interesting to observe is it is mainly a reduction in risk capital where the own funds stayed pretty stable.

So then, let's move to the first segment, our P&C segment. Yes, we have continued really great growth from our Allianz Worldwide Partners business, this 20% plus clearly continued the success story of the previous quarters. It's a strong growth in travel business, a lot of U.S. travel is included here, but also we have expanded our network and service capabilities in Middle East for our international Health business and that is the other pocket of additional growth compared to previous years.

The overall number was 0.6% is maybe a bit disappointing. I have only to give you two explanations, I think by and large our businesses are continued to be in good shape. But Turkey has a forced reduction in premium volume as the government reduced tariff – motor tariffs by 30% and as we are the market leader in motor, that of course, is also visible in our numbers and in our large corporate business AGCS.

We have not done in Q2 any big structured deals, we had, for example, last year some €200 million in our premium number, but this is a lumpy business which comes not really exactly quarter-by-quarter. So, over the year, we are not seeing this as a big setback. The other reduction in AGCS is our participation in the Corp business in the U.S., that's runoff in the first quarter so we don't have any Corp premium book that is then visible not only in the premium income of AGCS, actually it affected also their expense ratio negatively as this is a low expense business. But I'll talk about the expense ratio a little bit later in more detail.

Coming to page 13, I think we have a great story on our operating profit in the Property-Casualty segment. Underwriting results, substantially up. And I explained the movement of the loss ratio in detail, but what I like the same is actually that investment income stayed pretty much at last year's level, which I think is as important as good underwriting results.

So, let's talk about the underwriting results. We have a 93.7% combined ratio, so we should be very happy that we are below our 94% targets that is – I think we are moving in the right direction, but we are not yet fully at our 94% target. Actually, to keep the story short, the underlying loss ratio in our calculation improved 1.7 percentage points, compared to last year. We have a good improvement but that is hard to say whether it's normal. I think we are at the moment at a relatively normal level of weather-related losses and large losses that is about the five-year average. So lower than last year. Last year, we were above the average, and cat is, with 1%, clearly below our normalized assumption, but I think we are still on a very good level. What we don't like is development of our expense ratio, yes, there are all these explanations why the expense ratio goes up, but I think that is where Allianz will clearly spend even more focus on to drive it in the right direction.

It doesn't harm a great result in the second quarter, but the level is not good enough for our mid-term ambition level. So moving to the individual OEs, actually the operating profit is carried by a broad base of units, combined ratio could be well spread, actually we have, since I'm presenting the numbers here, the smallest share in businesses above 100%, it is just Latin America left at the moment and there it's mainly Brazil. We are – that is just 3% of the overall portfolio that means 97% are below 100%, that is actually another way to explain why our overall performance is so strong.

Moving to the investment income page on the P&C business, I mentioned already interest and similar income even a little bit higher than last year. Sure, second quarter benefits also from dividend income out of stock investments which will not be this strong in the third quarter and fourth quarter, but I think we are doing well with our well-diversified investment strategy because when you look at the upper right hand side of the chart, the plain returns on fixed income investments are still continue to fall slightly. So, duration is very much unchanged, cash flow into the segment, I think, is fine, we have a slight increase in our asset base. So, I think actually all parameters for the P&C business in very good shape.

So, I have described the P&C business already in good shape. So, now I have to find the right terminology for our Life segment, it is actually in better shape than the Property-Casualty business. 3.4% new business margin, our strategic product shift mix is actually well established. Yes, the trends are now very much variations quarter-over-quarter. Second quarter, we had much stronger sales on unit-linked without guarantees. Therefore, they have dominated and increased in their overall share, but I think that we are playing between these segments, capital-efficient products, the unit-linked without guarantees, and protection and health, gives me really a lot of confidence that we are clearly hitting our strategic target in the Life business.

Maybe it's also one of the reasons that the capital consumption as you could see in the Solvency II waterfall that we are not consuming a lot of additional capital over the maturing old businesses. And 3% growth in new business is not a big number; however, when you see that we had to drop – to compensate a drop in the U.S. of 22% in new business volume, compared to a year ago, I think the 3% is a strong number that our overall segment is really in a good shape to compensate when one of the OEs has a weaker quarter.

And in the U.S., we are probably have not yet fully adjusted in the new world post the DOL rule (15:53) implementation. And I think, that it's actually still our upside for the quarters to come, so also here the Life segment in very good shape and let's now move to the operating profit.

Operating profit €1.1 billion, strong movement from the loadings and fees, actually the investment margin as a base point margin completely unchanged to a year ago. The €38 million plus is just equal to the underlying growth of the reserves you earn your margin on. And so, technical margin plus €70 million is a return of the technical margin more to a normal level. We had last year negative one-offs, therefore that is the main driver of the €70 million, maybe €50 million is one-off, €20 million is improvement of the technical margin.

Still, we don't want to oversell our Life business, so therefore, internally we calculate all the assumptions a little bit tighter and we see more a flat €1 billion as our underlying normalized profit number for Life. And then growing of course, this new business evolvement and reserve cost, so it is not that we see it as a flat number for the future, but as a basis for building on this reserve and new business costs.

And with the new business value, we have generated last quarter and also the first quarter we are probably, slightly conservative for the future but that is better to outperform than to underperform.

I will then go, again, also for the segment into this split by countries. Page 23, €469 million new business value, broad based support, when I complained that the U.S. was falling a little bit short in new business volume, where they continue to grow is actually in new business value because the margin is so much better than a year ago, that we could also compensate for a 20% reduction in volume.

A very nice development in new business value in Italy and France substantially up, but also our Asia-Pacific, I would say, now unleashed from the burden of Korea started to excel in growth and new business margin. And also our smaller units producing very good additional value growth number, so that €469 million is, I think, a new top position for the Life segment of Allianz. And that in a yield environment, which is certainly not pretty.

Usual page on the investment margin, I think, I have already mentioned everything, also in the Life business we see a more or less unchanged current yield. Last year, it was 110 basis points to use a second digit and this year it's 109 basis points, so we are - we dropped 1 basis point. The guarantees also dropped 1 basis point from 53 basis points to 52 basis points, so very much unchanged picture and that explains why the absolute euro investment margin grew by good 3.5% to €1.35 billion.

I would also like to point out that with all the ALM management we are doing, but also with the help that Korea is out of the books, and interest rates went a little bit up in the first half year, our asset duration in the Life segment is now slightly ahead our liability duration. That is not taking out input rate sensitivity in our Solvency calculation, first of all, duration is only an average measurement and our duration matching is clearly much better for the first 30 years and anything above. Plus additionally, a Solvency II calculation has a lot of second order effects even when the duration matching would be perfect for 70 years, there would be still input price sensitivity remaining because the diversification between the various risk classes is almost varying these interest rate levels and that you can never get out of the system.

So, page 27. I think there's a needed advertisement for the German life and insurance industry.

There was in our last conference call was - we had a very interesting discussions about SFCRs. I actually made a comment that I'm not really very excited about it, but at least I think we got a very detailed and written confirmation where the industries of the various countries are standing. And when I compare the countries among each other, the German life insurance industry looks to me really good and what we have put here on this page actually is a market share buckets in the various categories.

So in the top category, where we are a strong contributor and we're in total 56% of the market is, it's a category above 350%. On the right hand side, you see that when you subtract the balance sheet transitional, it's only 34% of the market in this category including ourselves as we are not using the balance sheet transitional.

But overall only small shares of the market are below 100%, without the balance sheet transitional. And when you do this in other large Life markets, I think the numbers look a little bit different. Therefore, all this bashing of the German life insurance industry is maybe not enough fact-based. And I would consider a rethinking of this one, but that is also from our point of view, your argument which we have discussed in many meetings that we have to rescue everybody else has from this slide on no basis.

And with this, I would move to the Asset Management industry, and our segment and our performance in the Asset Management industry. Yes, assets under management, flat at €1,400 billion, a tremendous inflow of €55 billion got eaten up by the weaker dollar. So, we show flat AUM, but I have to say that the inflows in particular for PIMCO, were at a record level. We have the €51.6 billion, it is all in normal PIMCO product, €51.4 billion went into what we have defined some years ago as non-traditional product, and even on the traditional that is total return fund and similar, we had a net inflow of €0.2 billion, which is I think an interesting footnote to make. €50 billion, I think it is €20 billion was - almost €20 billion was a single mandate that is a long-term fund and certainly not fully paying the average fee, but the rest as you can also when we look at the fee development is paying the average fee, we are used to in the PIMCO business and clearly PIMCO's performance on a 12 month basis, on a 36 month basis is clearly supporting the inflows.

Yes, I know there are some funds in the U.S. who are advertising even bigger inflow numbers in the second quarter, but they are 100% passive, here this is 100% actively managed, asset management business and that puts, I think, PIMCO at a very exceptional level in the asset management industry.

So, not to forget it Allianz Global Investors, €3 billion inflows, it's actually a pretty good number for the size, but also for the business mix Allianz Global Investors has. And we are also very happy that they continue to contribute to our success story in the asset management space.

When we translate this into revenues 4% up for Allianz Global Investors, 8% up for PIMCO, and 8% up in total. Extends the basis for a strong P&L of the quarter, because when you have 8% more revenues and expense is overall a little bit down that clearly tells you that profit growth will be bigger and the 17% profit growth coming from PIMCO. We're really in good shape.

Another 2018 strategic target was for us to bring PIMCO to a turnaround and below the 60% cost income ratio. I think with the 58.8% in the second quarter 2017 that is a good start for next year's 60% target. So another opportunity maybe to have some outperformance.

Moving just to the Corporate segment, there is actually not a lot of things, which happened, very uneventful quarter with some little movements, central costs more or less unchanged, some better investment results from the strong central cash buffers, and that explains most of the numbers in our Corporate segment.

When we then move to the summary chart, non-operating items is almost a flat number, realized gains making up for the - actually it's a debt - the interest cost on our external debt, and we have booked €150 million of restructuring charges that is for one restructuring in Germany, but also for our central technology company.

The impairment figure of €59 million is fairly low and includes the write-down on Banco Popular. The rest of Banco Popular is in our Life segment. Maybe I don't know whether this is a question on your list. We had beginning of Q2, an exposure of €116 million out of Banco Popular stocks. With the action of the banking facility in Europe, that got written-down to zero. And we have shown partially this write-down here in the Corporate segment's impairments, but the rest is in the Life segment. And I think post taxes because, the event is fully tax-deductible, I think, and in some parts, we have also policyholder participations, I think net it is some €45 million, €43 million – sorry, €39 million is net-net.

The effective tax rate in the second quarter is 27%. We have some tax-exempt realized gains and losses. Therefore, the rate is low. And also the Spanish impairment, as we had assumed that it is not tax deductible, we had actually taken a careful view in Q1, which now got reversed in Q2, with the final write-down of Banco Popular and that supported also our low tax rate.

When we talk about taxes, I think in our half-year 2017, we have also moved forward in what we are seeing in the last year, so already a consumption of our tax loss carryforwards, that means actually that from a cash point of view, our paid income taxes are actually lower than our accounted income taxes, another source of additional cash flow beyond the dividends paid by our subsidiaries.

And then another extra page for our usual run-through page 39, the today's announced deal with – between Allianz UK and Liverpool Victoria. I think that is from a strategic point of view a very interesting activity. On one hand, I think we are moving forward in our positioning as a strong customer-centric insurer, because that is what LV gets told and awarded for in the UK industry for great customer service.

On the other hand, I think we do here a deal to create industry logic, that industry needs more consolidation because scale really matters. The transaction looks a bit complicated, so let me explain it a little bit. In step one, we are acquiring 49% of LV's P&C business. Additionally, we transfer parts of our retail business to the LV carrier, so all the motor and homeowners business. And on the other hand, they will transfer out their commercial business because the Allianz UK will then fully focus on commercial business, so actually another €300 million of commercial business will also for us create nicely scale on our commercial business.

And in the retail, we are transferring most of it, what stays back is our Petplan business because that is anyway not running under the Allianz brand, it has its own product brand, Petplan. And it would not make any sense to combine it, there would also be no operational additional synergies. So, I think, going forward, we create really a market position of scale. When you just add in commercial and retail the premium, you come up to on a 2016 pro forma basis to £3.7 billion.

When you think about that Allianz is also writing large corporate business and credit insurance business (34:05) business and some travel insurance, probably, when we add up all our P&C premium, that will then probably end up with a number two in the UK market, but we have not done this. Because in the end, it has nothing to do with the industry logic, we are creating here.

It is the scale for investments, for bringing know-how together and really, creating a great service platform for customers.

(34:37) for 100% of the business, it would be a €1 billion. So that it's roughly on the business – did run at around 95% combined ratio. So, when you see, how the market is moving at the moment in motor, so the estimate is 11 times earnings based on 2018 numbers.

The deal is fixed at 130% Solvency ratio, and that means the acquired business standalone Solvency ratio under standard model.

So I'm not taking about moving the standard model to internal model, but already the diversification effect in our Group model from local 130% gives you a substantial diversification as it is almost all underwriting risk and it is probably ending up in the Group model at 200% roughly. So, therefore, it's really the only consumption of Solvency what the deal makes, is the goodwill we have in the transaction. So we acquire first 50%, then 70%, can be - go up to 70%. So the goodwill on a 100% basis to use round numbers would be about half, that is just sort of €500 million. That means even for the second step for 70%, you have 70 times €500 million, so €350 million goodwill and €350 million goodwill with roughly a percentage point in our Solvency calculation.

And maybe something I have forgotten to mention, as we have announced the completion of our bank disposal in Germany, Oldenburgische Landesbank, we expect this deal to close also by the end of the year, that gives us actually in the Solvency II calculation good €300 million free up. So, I would say closing the deal with Liverpool Victoria and closing the bank disposal will roughly give a wash in our Solvency calculation.

And that is I think more or less the end of my presentation. And then I would come to our Q&A and really looking forward to it.

Q&A

Operator

Thank you. And we will take our first question from Michael Huttner with JPMorgan.

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

Thank you very much. These are amazing numbers. So I don't have many questions or not very big ones. The first one, already detailed, Turkey, the combined ratio was stable, the prices were down and you're market leader in (38:11). Maybe on Brazil, you could say when you think you might actually reach the combined ratio breakeven? I think the figure was 107% in Q2. And then the third one is the U.S. turnaround. So, we had Fireman's Fund and then you had bits of losses left last year in Q1. With the AGCS at 97.4%, is the U.S. part of that also breakeven? And amazing results. Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Thanks so much, Michael, for the question. I think on Turkey, your observation is fully right. This decision to cut the prices that is going into the portfolio of course only with the annual renewal. There was no fixed date that we had to change all the prices for the customers. So, the combined ratio will certainly go into the wrong direction month-over-month. In operating profits, we make up with strong investment income. But I think, for 2017, it will be still okay. 2018, Turkey will certainly be more under pressure.

On the other hand, I have to say, we are as a market leader, we have a pretty strong expense base. We are very efficient in the market. We also can with agility move stronger and close to other line of business, et cetera. So there are a lot of counter measurements. I believe, there will be almost a cleanup among competition when the government is keeping this rule too long in place.

And when the pressure on other competitors is becoming too big, I assume that the government will then also reconsider and then we should also have some benefit from this. Brazil was on a very good rate, but I think, I mentioned already last time that, we have written two large contracts which are unfortunately not helpful for reaching the target below 100% combined ratio and therefore, we see a delayed development there. We have to get rid of the two contracts again and then Brazil should be there.

Fireman's Fund has actually still a higher combined ratio than the average, but it got much closer to the average and it is playing I think just below the 100%. It's still the expense base is still too high because we need still to pay for too many IT systems and the full completion of the new IT platform will only be in 2020.

But, loss ratio development, very much on track and we are quite happy that we did it, it's not a sick leave exercise, before you create this impression, I think it was really a fundamental turnaround of the business and bringing operation and also analyzing to the level which is equal to the Allianz quality.

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

Fantastic. Thank you.

Operator

And we will take our next question from Peter Eliot with Kepler Cheuvreux.

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

Thank you very much. The first one is on your Life ROE target of 10%, I mean, you're approaching that for all your businesses now. But you also – you've got number of businesses that are substantially above it and I'm not wondering whether 10% is the right target for those, I mean, in the case of Germany Life, that still comes with a very high Solvency II ratio as you've shown. And I'm just wondering, how much you can work on some of the better performing businesses and whether, for example, Germany needs to be that well capitalized?

Second question...

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes.

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

Sorry.

A - Dieter Wemmer {BIO 4755450 <GO>}

No, go ahead, yes, I was already jumping to the answer, yes, go ahead.

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

Sorry, I was taking too long. The second one was on M&A. I mean, you've highlighted that the deal favorably moved the dial in terms of Solvency II. So, I guess my assumption is that today's announcement doesn't really impact your appetite for any further deals and I wonder if you can sort of confirm that and give us sort of any hints at how you might otherwise prevent the ratio going above the top end of the range? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Very good. Let's start with the Life ROE. Our 10% number is not an average number. So, 10% number is clearly a benchmark for every of our Life OEs and say, when you want to stay with your Life business in long-term in the Allianz family, you are better above 10%. So, it is a minimum hurdle to participate. And the average is of course actually, I don't know the number for second quarter, but I guess it is some 12%, 13% around without doing more precise calculation. The one who are still missing on our – for six months, it is 13%. So, I guess it's even slightly better than – for the second quarter.

There's still some of the big ones missing, but when you look at the (44:44) also of the other Allianz subsidiaries and I'm sure that some of you have done this. Actually, we are very well capitalized and can further stream up capital from these entities and then they are also in the 10% category. The new business consumption is not this strong from a capital perspective. So, actually Oliver just gave me the Q2 number. We have 14.2% was the average Life ROE number for the second quarter. I'm not saying that we will achieve this every quarter, but clearly, higher than 10%.

M&A, yes, when you look at our Solvency II numbers, our Solvency II numbers are just saying, we have accrued €1 billion for the dividend this quarter that as a dividend paid next year and still we have generated 7 points. 7 points means rounded €2 billion excess. So we have €2 billion actually already generated this quarter, we could do something.

And I think, the deals are driven much more by what type of deal is available, what deal can you do at reasonable prices, because you can say that we paid a full price for Liverpool Victoria participation. I think with the opportunities included in it, that is clearly an accretive transaction. And therefore, when we find similar deals, then certainly, our appetite is unstopped, but you also see, it takes quite some time to find the right partners here.

For me, very important is that we are also prepared for creating scale to put obviously the industry logic that large scale business, top service to the customer, modern digital processes is more important than that we get everything 100% and can put our Allianz brand on it.

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

Okay. Can I just come back quickly on the first point because, I guess, my point was, when I look at the returns of the Life division and how those could change going forward? I am thinking that actually, it's probably the regions already above 10% that possibly can contribute to further improvements in more than those that are below 10%, perhaps it's the wrong answer is to look at the ones below 10% for improvement. Wondering if (47:47) could actually be made even more efficient?

A - Dieter Wemmer {BIO 4755450 <GO>}

Then, sorry, I really missed your point. I think, the two big contributors above 10% are our German Life and the Health business, and, yes, certainly, we always try to optimize, but I think that model is probably more growing at current levels whether this creates much more ROE in IFRS terms, not sure that this would be the focus where we find the biggest improvement. But certainly very safe on the performance, and I also don't see too many changes here coming forward. Certainly, the U.S. is probably the business of scale where I would see also good opportunities for further growth and expansion.

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

Thank you very much.

A - Dieter Wemmer {BIO 4755450 <GO>}

And our Asian business is, yes, well, it still needs some years to get really to scale, but from a dynamic, in very good shape.

Operator

And we will take our next question from Thomas Seidl with Bernstein.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yes. Thank you. Good afternoon. First question on Liverpool transaction, I wonder how you would describe the strategic fit, Dieter? I think, Allianz specifically withdrew largely from (49:40) UK motor because of competitive pressures, you're now the largest leader (49:44) of Hastings, and now with this transaction you will reenter probably the most competitive space in the insurance market globally, UK motor, which runs at roughly at around 96% combined ratio.

So, I wonder, what the strategic fit and also on the commercial line side ,you're acquiring a portfolio which runs well above 100% combined over the years, they're not really profit making, so that's my first question.

Second, you already hinted at this (50:15) you're paying 2 times book M&A, look at your implied PE, you expect Liverpool to improve 10%, 15% of earnings compared to the last two, three years. So, are you not at a risk here buying at the peak level into this venture?

And the third question very important one I think, for future earnings, you already commented on the stability of the regular investment income, 2 bps down in P&C, 1 bps down in Life, this compares - this is quite a contrast to previous years when you always had a like 20%, 25% (50:54) in the regular yield and this despite falling reinvestment yields. So, what's going on? Why can you now all of a sudden keep regular yields stable?

A - Dieter Wemmer {BIO 4755450 <GO>}

Okay. I think, that's a very good question, Thomas, and I take up the challenge. So, first of all, I think we withdraw from both the direct markets with greenfield activity, where here we are investing in a scale business. Clear, very good customer position plays very well in the aggregator space and makes money.

Are we investing at the peak? Well, I think Ogden is in the balance sheet and the rate prices in the market are actually at the moment pretty good. I think when you read the half year announcement of the direct insurer, and I am sure you have seen it, whether you look at direct line or issuer yesterday. Actually, the trends for the UK motor markets are at the moment very strong. That means, in the transition periods, when we have to do the improvement of systems and creating the synergies, the market is supporting this very well.

The 2016 combined ratio of LV in total was when I take out Ogden 94.1% or something like this that includes the commercial business. And in commercial, I think our organization is pretty strong. We do hear a renewal right transfer that means we will include it in our more efficient operation. We will include it also in our underwriting processes and we have no doubt that we get this done also to the right numbers. So I see this actually as a very good opportunity and also, now, from a portfolio point of view, investing at the moment into British pounds, I think, this is also a reasonable timing.

The stable P&C investment income...

Q - Thomas Seidl {BIO 17755912 <GO>}

And Life.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes. And Life. So, our investment income is not only driven by the fixed income rate, we are talking every quarter about our growing investments in alternative investments. So when we are growing above €110 billion, €120 billion, we have today announced another large transaction together with a Canadian pension fund. We have bought for €1.5 billion, a Spanish gas pipe - or a share in Spanish gas pipeline network, the Canadians did €1 billion, we did €500 million in the transaction.

So, that is another example how we generate cash flows, but also the dividend flow from the stock investments which come on top are also pretty good. And I carefully mentioned, I hope at least, I did, that the second quarter might have some isometric or a periodical, because in the second quarter, you have more dividend income from European stocks than you have in other quarters. So therefore, in the third and fourth quarter, I would still expect some decline, but not as pronounced for the whole year as you rightfully mentioned for the previous years.

Q - Thomas Seidl {BIO 17755912 <GO>}

Maybe one follow-up, if I may, on the Liverpool deal, their policyholders not need to approve this transaction, Liverpool being a neutral?

A - Dieter Wemmer {BIO 4755450 <GO>}

It's a P&C company, it's being held by the Life company and the Life company has approved it, and you are right, there is policyholder, a funds committee in the Life company and of course they have approved the transaction.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. Thank you.

Operator

And we'll take our next question from James Shuck from Citi. Please go ahead.

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

Hi. Good afternoon. I have three questions, please. Firstly, on the Solvency II capital position, so your target is 180% to 220% and you've agreed to (56:12) everything and you're still blowing up at the top end of that range. My question is really about at what stage will you run the company at the midpoint of that target range? I think your argument in the past has been, well, the world is bit risky, our balance sheet is bit volatile, we'd prefer to keep some flexibility. At what stages does that change? Is it sort of two, three years when we actually see you move down to the midpoint of that range? What needs to actually happen for us to get there? That's the first question, please.

Secondly, on the Liverpool Victoria deal, just in terms of conceptually, I think it's quite interesting seeing a mutual do something like this. And I'm wondering if you look around the rest of Europe. Is this something that, if it works well that (57:05) for Allianz to be able to partner up with other mutuals? Do you think other mutuals in Europe might look to try and release some capital from the non-Life businesses in particular?

And then thirdly, I'd just like to get your thoughts on the GDPR, not so much in terms of kind of data integrity and what happens if someone hacks into your systems, but more in terms of how it might actually be used as an opportunity for you. I'm thinking about the portability of data and whether that might mean you can partner with banks, with other commercial enterprises in order to use that data and to be able to sell into their networks? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Okay. That's a very interesting question, James. Well, when we would move to the midpoint, that would actually mean we have to give up the range and just say it is 200% and full stop. I would actually see going forward much more the question, can we move the range to a maybe potentially smaller range and/or can be moved to midpoint downward. That would be more of a discussion I think going forward has some likelihood.

At the moment, yes, when we could invest in good deals and when other mutuals would call us and ask for similar transactions when the terms are reasonable and good and create accretive transaction, we would certainly invest more than 2 points of our Solvency ratio into it. And I think that is actually also the best thing to make our solvency ratio less volatile is by clearly expanding the underwriting (59:09). Therefore, the LV deal is – I think actually for the size of the deal, we are talking already too much about it. If you see it as a prototype and more opportunities, then I would love to see it as a starting point for similar developments and 5 points, 10 points of Solvency ratio in such deals would be a really great use of capital.

The GDPR is a very complicated exercise for all, not only for financials, actually for all companies who have customer data. We have built up a large project to be able to be compliant with everything. And I think we will be. This is a business opportunity that is excellent idea we should follow up on. At the moment, it is much more the fight, are we ready in time, because (60:29) partially, it is a usual rough (60:33) idea, it starts with a good concept and then it gets into many costly details, how to implement it. But I think it backs through our colleagues and say can we make a real business out of it. So, thank you for the idea, James.

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

Thank you very much, Dieter.

Operator

We will take our next question from Arjan van Veen with UBS.

Q - Arjan van Veen {BIO 5197778 <GO>}

Thank you. I have just a couple of follow-up questions on the LV deal. So just in terms of how the deal is structured, how do you expect synergies from the deal? I assume by the renewal rights, you can do a switch off the parts of the business that are being (61:25) by each business as other retail business within Allianz and then the commercial business within LV? And then, secondly in 2019, when you take majority of ownership, do you then fold in the company's costs together and extract further expense and/or capital synergies? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes. Well, I think you answered it already, almost with your question. The first step has a two cost renewal rights. That means, we will already use the scale on motor and homeowners on one end, and on the other end on the commercial business. But the two-year transition period is allowing also LV to separate their operations between P&C and Life. And we will create in this process also probably also using some of our P&C software packages, actually a new operating platform for the retail business, so that we create here is a right starting point.

And then, over time, probably also more company-related synergies, but that would be then in a later step. The first two years, it will be really on creating specific and efficient operations for the two different businesses and run it with more scale.

Q - Arjan van Veen {BIO 5197778 <GO>}

Okay. Great. Thanks.

Operator

We will take our next question from Paul De'Ath with RBC Capital Markets.

Q - Paul De'Ath

Yes. Hi, there. And just a few more questions from me. Thanks. And firstly, just looking at the expense ratio in P&C, this is kind of one area that you kind of (63:25) and how much of the movement in the expense ratio is actually down to kind of business mix because you obviously talked about in the slide deck the increase in kind of higher expense ratio travel policies, for example, and again, essentially how much is down to that? And if it does down to that, then do you still want to battle against that? Or would you be willing to let expense ratio move up in that situation? And that's first question?

Second one, on the Life business and the new business margin on protection health was exceptionally good in the quarter and is that a level that's in anyway sustainable going forward or is there kind of something going on in that?

And then the last question on PIMCO (64:26), if we strip out the big single mandate, is if €10 billion flows a quarter or a month rather, and a reasonable run rate to assume going forward, do you think? And that's the question. Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Paul, I think out of the expense ratio, it's between 40 and 50 basis point is business mix driven. And it's also a split – do we want to accept it, well, yes – yes and no, but we still work for an improved expense ratio of more than 0.5%. Costs and the business mix shift to your starting point up then it's harder to show a visible reduced expense ratio. But I think we'd also see we have the one-offs as the AGCS premium income was very low, so therefore I would not take the 28.8% now as a normalized starting point.

We have still to see for next year how we get close or below the 28%. The Life new business margin is, I think is a bit better. There is certainly a little bit of additional improvement from our French health and protection business in it. I think there is a little bit of one-off character included in it, but not dramatic we have in the pure protection business clearly a new business margin larger than 6%.

And what has also improved well is individual health business in France, also very strong new business margin. Our group business is still a little bit of the laggard (66:47) in this calculation. I think it has contributed in Q2 with some 3.2% new business margin and there was a little one-off included in this, but the 3% new business margin for the French group business would be our mid-term target anyway, so that means the number should stay close to this level.

PIMCO run rate, yeah, well, it's around $10 billion is probably a good number for the time being. The fight for customer inflows are pretty tough. Will we have every month the same success? I don't know and I can't give you a guarantee for this, but the last 12 months we have certainly produced a wonderful track record.

Q - Paul De'Ath

Excellent. Thanks.

Operator

We will take our next question from Farooq Hanif with Credit Suisse.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, there. Just three questions. Firstly, on AWP, I mean, it's rapidly growing and it's been rapidly growing for years. I'm guessing that the travel insurance growth has to do with geographical expansion, so can you talk a little bit about what are the things like global automotive or other factors could drive above average growth in AWP. Or do you think this is really a kind of a one-off step function in growth. Secondly, on Turkey, what countermeasures are you going to take to maintain a sub-100% combined ratio? And at what point do you start to give up on that market? And lastly, there was a put option that LV has, could you just go through very quickly what the fair value option is on that? Just the kind of details about how that's going to work? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

AWP has, in almost every quarter, a double-digit growth. The travel insurance will be one of the growing segments of our global insurance industry and we will always try to build-up more market share in this one, because we offer really – a really high quality global service network and there we will continue to expand.

On the put option LV at fair market value, I think there is not more details to disclose at the moment, and that it is also a couple of years out. And we will see how the whole thing develops over time and how fast – what options is being triggered or not.

On Turkey, as I said before, we certainly also try to grow our business outside the motor line, and I'm not believing that we would give up in this market. We have worked hard to achieve market leadership, that is, operationally, and from the core management team, one of our best subsidiaries. And I do not believe that the government or his (70:37) regulator will ruin the industry completely. There was, certainly, a reason why they wanted for that people – general people had more cash to spend and not – and therefore reduced motor premiums. But I think that is not holding up forever. And I think you have, clearly, the energy and also the financial stability to stand a softer period in this market that is not a drama for our segment or group. And it is a good opportunity actually to bolster a (71:24) marketing leading position mid-term.

Q - Farooq Hanif {BIO 4780978 <GO>}

Can I just very quickly ask, if you didn't write (71:31) the Motor TPL business, what was the combined ratio roughly be in Turkey?

A - Dieter Wemmer {BIO 4755450 <GO>}

I think, Michael Huttner asked, why is the combined ratio not reversed, because the combined ratio lives (71:48) on the profitable business written in the last 12 months. The change of the system, I think, it started in March or April. So, we are three months, four months into this restricted tariff, we will have further increases in the average combined ratio, but it is MTPL.

So, that means, actually full coverage is actually not limited by this tariff. So, we will also clearly look that we could get more comprehensive coverage business and other lines. So, what will be the total combined ratio impact? Yeah, it will be some points and it – I think the best thing is we discuss it in the third quarter because then we have another three months of evolvement of the number and see where it is.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very, very much. Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

And when it is lifted then it will turn quickly in the other direction and then it was maybe a period of a year where the numbers were more suppressed.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, thank you.

Operator

We will take our next question from William Hawkins with KBW.

Q - William Hawkins {BIO 1822411 <GO>}

Hi, Dieter. First of all, on Liverpool Victoria, I am sorry if I am being slow. But can you just help me understand the comments you made about the consideration? Normally, I would have thought if you're paying €500 million, that would be a consideration to Liverpool Victoria and it would be irrelevant for the capital position of the subsidiary. But you are implying that this transaction is also a part of the recap of the subsidiary, and so presumably some of the money is going to Victoria and some of the money is going into the subsidiary? But I'm a bit confused on that. Also given that, I'm a bit confused that how the goodwill can be so high if some of what you're paying is effectively a recap of some? Sorry, if I am missing something, but could you explain that? And then...

A - Dieter Wemmer {BIO 4755450 <GO>}

No, Will. We pay only to the shareholder, and we pay €500 million for 50%, a rounded number. And the deal says, they have to deliver to us the balance sheet at capitalized at 130% Solvency II ratio.

Q - William Hawkins {BIO 1822411 <GO>}

Right. What was it at the end of last year, if you know (74:32)?

A - Dieter Wemmer {BIO 4755450 <GO>}

No, not really.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you. Then, so hopefully...

A - Dieter Wemmer {BIO 4755450 <GO>}

I must say, for me, that is a – you get a determined of fixed quality of balance sheet and that is what the price is fixed at.

Q - William Hawkins {BIO 1822411 <GO>}

Yeah, I agree. From a business point of view, once this transaction close at the end of the year, how would you agree that you're going to be underwriting retail motor business, is it then all going to be written immediately by Liverpool Victoria's system and people, or are you going to be, in some way, very quickly sharing the underwriting process? Can you just explain how the underwriting works in the new joint venture from close? And then lastly, when you were giving your formal remarks in the Life business, you've made another passing reference to if we normalize the Life results, it's down to €1 billion. It's very hard to see, why we should be doing that normalization, so can you just try and be clearer about where there is some exceptionally good stuff occurring? The only thing you mentioned was Popular and that was actually a negative?

A - Dieter Wemmer {BIO 4755450 <GO>}

Well, I think there were some smaller one-offs in the deck and I'm also maybe a bit less bullish on the investment income and we had also some positives from the U.S. basis risk. And when you add up all categories, you end up with €100 billion (76:05). And look, I am more like to be a bit more conservative on this calculation than telling you that €1,100 is already (76:15) the worst outcome of a quarter.

I think, it still gives a very good track record for our business and when we have around 4% growth rate on our reserve base with the current inflows of new business, that gives I think a good growth perspective on this profit, plus when we stick to current new business margin and volume levels, then I would say that probably the number – the profit growth numbers needs some little upwards correction, but I think we can talk about it when the numbers are expressing itself stronger. I don't need to now start to up-sell the business which has already such a strong performance.

Q - William Hawkins {BIO 1822411 <GO>}

Fair enough. And on the underwriting?

A - Dieter Wemmer {BIO 4755450 <GO>}

The underwriting process, yeah, I think that will be switched between P&C and commercial whether it will exactly happen with the closing of whether you need a few month transition period that has to be figured out from now on with the regulatory filing process, let's see when we get the approval, and when – then really operationally the teams have moved from one end to the other. Actually, maybe for everybody's benefit, it was not the risk question (77:57). When we exclude from our Turkey combined ratio, MTPL, we have a 96% combined ratio in the second quarter. So did I answer your questions or did I forget any?

Q - William Hawkins {BIO 1822411 <GO>}

I guess, Dieter (78:23).

A - Oliver Schmidt {BIO 2473131 <GO>}

Okay. Next question, then.

Operator

We will take our next question from Johnny Vo with Goldman Sachs.

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah. Good afternoon. Thanks. A lot of my questions have been answered already, but I had just a couple of more questions. Just given the new business margin is above target and you had significant growth in V&V (78:43). Are you able to revise your Solvency II capital generation going forward? And then, lastly, obviously, there is chat that the Ogden discount rate maybe positively restated, does that have any influence or impact on the purchase process of LV given I think they took a charge of £139 million? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yeah. The Solvency II operating production every quarter might slope up a little bit. But I'm not sure that we are now down to this decimal point. We use for a lot of our Solvency II breakdowns still categories in €100 million or €0.75 million (79:35). So, therefore, I am not sure that we can do already this very refined calculation with small decimal points. LV might have an indirect benefit of it. We don't have a price adjustment clause. However, the capital requirement is 130% Solvency II. When you can release the Ogden reserve, you have a higher net asset value and that might certainly help in the Solvency II capitalization, so there is maybe some small effect coming out of it.

Q - Johnny Vo {BIO 5509843 <GO>}

Okay. Thank you.

Operator

We will take our next question from Nick Holmes with Société Générale.

Q - Nick Holmes {BIO 3387435 <GO>}

Hello, hi there. Thank you very much. Just a couple of fairly quick questions. First one on the U.S. Life. Could you elaborate, Dieter, a little bit more on your thoughts about the DOL and the latest developments there? And also, I mean, clearly, there has been a big slowdown in fixed index annuities, the comparative was very difficult. If you could elaborate a little bit more on the growth outlook for the rest of the year?

And then the second question is on German Life – and there seem to be more companies talking about disposing of back books at the moment, and my question is certainly not whether you would dispose of your back book but just the opposite, whether you might be interested as a consolidator in the industry, is there a scope for you to actually participate in that way? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Thank you very much, Nick. Maybe we should also have a chat whether you like to – what your view is now of the European SFCR reporting procedures, whether it's really delivering what we all were hoping for. So, but let's first go to U.S. Life, UL. I think – yes, the large warehouses and the large distribution channels, of course, have the company view on DOL and an interpretation and they have rolled out procedures, but a lot of smaller producers are probably still struggling with the interpretation and are not yet sure what products with what presentation can be sold to customers, what is the best advice under it. But we would actually assume that our fixed index annuity business stays at second quarter level, and maybe, I'll give you a few numbers. We had last quarter, in 2016, we had €1.9 billion volume, in the first quarter €1.7 billion volume and now in the second quarter €2.2 billion volume. So, it is actually not that the DOL has destroyed our distribution.

The comparison looks so tough for us because we had a year ago, a really fantastic quarter where we sold €3.1 billion new business volume. So, the like-on-like comparison looks set. But when I look at the development quarter-over-quarter that we are again above €2.2 billion, I think that is a good starting point when people get better accustomed to DOL that we can catch-up with something between €2 billion and €2.5 billion quarter-over-quarter.

The German Life back book disposal, that is a completely different line of business. I am – personally, I think more interesting for us, our businesses which have fast cash flows. And when you invest in a back book, you have first priority (84:24) to inject capital and before you can take any dividend out of this back book, you need a young management team and a lot of patience. And I am not sure that for a cash return oriented company like Allianz, where we are working a lot to accelerate cash returns and not to slow it down that back book acquisition would be the right business line. And also, you are better off when you can use a leverage balance sheet. And so, I think, private equity houses are probably the better place and are certainly, some of them who have consideration around this business model and that is a good solution for the German market. I'm really appreciating this.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Thank you, Dieter. That's very clear. Thank you.

Operator

We will take our next question from Andy Hughes with Macquarie.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. Thanks so much. Thanks for the slide showing the German Life insurance industry is well-capitalized and deciding (85:39) to bailout U.K. insurance industry. So on the LV deal, the bid I don't understand is the kind of €500 million acquisition price, because, in the call this morning, when I asked LV about the put option, and the reason they have a put option is that they can assume the value of the put option in their capital and in their Solvency. So in their Solvency, they are assuming the put option is exercised and, therefore, has a capital benefit for LV. And the way you're describing the transaction is you're only assuming, you're assuming basically no capital for the put option. I would have thought Allianz would want to assume 100% of the proceeds are paid out for this deal on announcement, i.e., €1 billion acquisition from a capital standpoint, rather than the kind of €500 million you're talking about.

And the second question was on the 130% to over 200% after diversification of Allianz. And Allianz is obviously a very big group with lots of risks, lots of diversification. But the fundamental problem to me is that the capital ratio doesn't mean very much if you can have subsidiaries on a standard model 130%, which are bridging the ability to pay dividends and yet at the group level you are still reporting over 200%. Is it a better way to look at dividend capacity within the group in future rather than focus on the Solvency ratio, which may not be relevant for dividend paying ability of Allianz Group? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Thank you. Certainly, the €500 million is being paid for the first 50%. The €200 million – next €200 million – and that is the put option you are talking about, that is for the increase from 50% to 70% that's not being paid in...

Q - Andy Hughes {BIO 15036395 <GO>}

Sorry, I misunderstood. The put option is on top of the 20% for consideration. Is that not right?

A - Dieter Wemmer {BIO 4755450 <GO>}

No, no.

Q - Andy Hughes {BIO 15036395 <GO>}

The put option is for the remaining 30%?

A - Dieter Wemmer {BIO 4755450 <GO>}

The put option is for the 20%. That is the – yeah, well it is – actually, the put option is for the 20% is the forward and yes, we have promptly to set aside also for this option some capital, but that is not a big amount. So now with your Solvency ratio for the subsidiaries, sure, the dividend paying capability of a subsidiary is based on its solvency position. So when the starting point is 130% and that is for a P&C business with a low volatility actually a reasonable starting point, in particular when you have an Allianz guarantee on top, that means the earnings of the year can completely paid out.

And when we collect our dividends from our subsidiaries, we start with a reasonable solvency ratio and, you are right, most of our subsidiaries are higher capitalized than the 130%. But for a retail business, 130% is absolutely sufficient from a solvency point of view, that means the earnings they produce in 2018, 2019 or going forward can be then dividended out. And in our cash flow assumption for the group, we assume that our P&C businesses payout some 85% of the earnings and our asset management businesses, because they don't have a Solvency ratio, are more between 95% and 100%. And on the Life businesses, we have a lower assumption that is 70%.

On top to this assumption on the dividend paying capability of our subsidiaries, we have still subsidiaries as you can easily follow through from the SFCR report, which are too highly capitalized, and centralization of this capitalization of the subsidiaries to the center is for us an additional source of cash flow. All together, I think we have really a very good cash flow collection, in particular, the share buyback we are at the moment financing is paid out of cash reserves collected in previous years and has nothing to do with running cash collection from the profits in 2016 and 2017.

Q - Andy Hughes {BIO 15036395 <GO>}

Can I just – so you're very confident that you won't have to book any capital for the put option and the capital cost won't be much bigger than the €500 million?

A - Dieter Wemmer {BIO 4755450 <GO>}

I said we will book, clearly it's a put option in the beginning of year, hence it is more than the €500 million. But I made this €500 million more as the calculation of the goodwill assumption because that was I think the question I tried to answer.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. Sorry, I was just confused, I'm struggling to see how the capital would not be much bigger than €500 million, if you see what I mean with the, i.e., you'll have to assume 100%, but maybe I can - we'll have a chat (91:22) afterwards. Thank you very much.

A - Oliver Schmidt {BIO 2473131 <GO>}

All right. It's half past, so we have time for one last question, please, if there's any.

Operator

We will take our next question from Andrew Ritchie with Autonomous.

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

Hi, there, very quickly, I just want to quickly visit the three operational targets, new business margin, cost income ratio, PIMCO, and combined ratio for non-Life. I guess a simple question. I mean you're running above the new business margin target. Is that still the right target, is there - or do you think you'll trend back to sort of roughly 3% mid-term target? On PIMCO, cost income, it was below 60% already, I don't know if there's obviously some potentially expenses as you expand the business, but do you think you can stay below 60% now.

And finally on combined ratio, I just want to clarify, it's a confused message. But I think what you're saying is you're running at 93.7%, if you normalize for normal catastrophe, maybe you're closer to 95%, but the expense ratio will compensate - the expense ratio work will compensate for that. Hence, the 94% is eminently achievable. Is that the message? Thanks.

A - Dieter Wemmer {BIO 4755450 <GO>}

Thank you very much for the question, Andrew. I think that is - for the last question, a really good summary of our strategic outlook. Yes, I think that combined ratio, we have made steps forward to our 94% target, mainly on the loss ratio, on the expense ratio that is certainly the missing part, but we will certainly also hear and there still improve our loss ratio that is certainly, still Latin America and also some small portfolios in individual countries.

The cost income ration, it was our strategic target to go below 60%. I think that was a target. Some of you question, whether it is realistic. Certainly, we will try to stay where we are and not going backward, but we will not update our target and our new business margin. I think that the current level is with current interest rate levels defendable, but we will not, in particular, fight for keeping it at 3.4% because when we get more volume, 3% as the average is a very good number than I actually think we should do more volume because 3% is a pretty strong return on equity, or IRR, whatever you use as a long-term measurement in your new business calculation. So, therefore, I think 3% is absolutely a great number to write business.

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

Okay. Great. Thank you very much.

A - Dieter Wemmer {BIO 4755450 <GO>}

But I - I would more look that we should focus on keeping the new business value strong and try to increase it.

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

Thanks.

A - Oliver Schmidt {BIO 2473131 <GO>}

All right, that closes our call. Thank you very much for joining. We say, goodbye. Wish you a very pleasant weekend.

A - Dieter Wemmer {BIO 4755450 <GO>}

Thank you. Goodbye.

Operator

Ladies and gentlemen, once again, this concludes today's call and we thank you for your participation. You may now disconnect.