Q4 2017 Earnings Call

Company Participants

- Karl Steinle, General Manager-Corporate Communications
- Roland Vogel, Chief Financial Officer & Member of the Executive Board
- Ulrich Wallin, Chief Executive Officer & Chairman of the Executive Board
- Unverified Participant

Other Participants

- Andreas Schäfer, Analyst
- Andrew J. Ritchie, Analyst
- Frank Kopfinger, Analyst
- Ivan Bokhmat, Analyst
- Jochen Schmitt, Analyst
- Jonathan Denham, Analyst
- Kamran Hossain, Analyst
- Michael Haid, Analyst
- Roland Pfänder, Analyst
- Thomas Fossard, Analyst
- Tim Friebertshäuser, Portfolio Manager
- Vinit Malhotra, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Karl Steinle {BIO 1986424 <GO>}

Good afternoon to everybody here in Frankfurt and good afternoon to all of those joining us via the Internet. Welcome to Hannover Re's Analysts' Conference 2018. Looking at the dialed-in list, it's truly a pleasure to see that so many of you have taken up our invitation and are showing your interest in Hannover Re. As you know, we have the key figures already published four weeks ago together with the 01/01 renewal results. And today, we are delighted to present to you the full set of numbers in greater detail.

Before we get started on them, may I say how impressed I am by your work over the past year. It was particularly striking to see how much effort and time many of you invested in anticipating, not only the large loss numbers from the hurricanes, but also the effect from our retro program. In many cases, your calculations came incredibly close to the actual mark.

Once again, you were instrumental in advising the understanding both of the reinsurance business in general and our positioning in particular. And you delivered a value contribution for the investors. Even though we are now living in the world of MiFID II, I hope that the high regard in which investors hold you has in no way been diminished. For our part, I would certainly like to thank you for your dedication and your work, and to do please keep it up.

Today, we are also offering a dialed-in option for all those who were not able to participate physically here in Frankfurt. As a reminder, the dialed-in participants will be in listen-only mode during the presentations. Please note, this conference will be recorded, and the replay will be available on our website.

I would also like to draw your attention to the feedback questionnaire, which we have distributed in advance and which you will find on your desk. As you know, we greatly appreciate your remarks and as you know, this is the groundwork part for preparing the Investors Day, which will be held in (00:02:59). Feel free to either leave the feedback form at your table or send it in to Julia, Axel (00:03:07).

First of all, Ulrich Wallin, our CEO, will kick things off with a brief overview of 2017 financials and that will be followed by our CFO, Roland Vogel. Then, again, the outlook will be presented by Ulrich again.

Afterwards, we will be happy to respond at length to all your questions. And I would like to point out that we do please ask you to wait for the microphone so that everybody can understand your questions, even those who are not in the room.

On that note, I'm delighted to hand over to Ulrich.

Ulrich Wallin {BIO 4863401 <GO>}

(00:03:53) and welcome. Yeah. Thank you for coming to our investor's presentation for the 2017 result. You can see that we have chosen a smaller room compared to last year. And that, of course, tells you that even if as well as net income is down compared to last year, I'm happy to tell you that the expense ratio is down as well, so the two might go hand in hand. But on that note, I would rather want the expense ratio be higher rather than lower. But that's not an option. I mean, why is the result down? Of course, because of the exceptional hurricanes which dominated the 2017 results. Particular, of course, well-publicized, the so called HIM losses, Harvey, Irma and Maria. And then we also had some wildfires in California which were quite expensive, earthquakes in Mexico and also in Australia. We had Cyclone Debbie, which also did not come entirely for free.

Therefore, insurance - reinsurance industry was heavily impacted by those losses, and that's not a surprise because that's one of the major reasons our insurance company buy reinsurance is because in years where you have exceptionally high net catastrophe losses to other losses, then you have your reinsurer to help you out that you have a more consistent results and less volatile earnings as an insurance company. Of course, the flipside is what the reinsurer have, it takes the volatility from the ceding company, and therefore we have some volatility.

Nevertheless, we feel that at Hannover Re we faired pretty well. I mean, we still were able to record a 10.9% RoE, just still above our hurdle, just 900 basis point above risk-free, and it compares favorably with the average RoE of the 10 launches to reinsurers, which stands at the 3.3%. So, whilst in absolute terms our results are less good than last year; in relative terms, compared to our peers, I think they are probably the best we ever had. The only thing is that they (00:06:44) rather have absolute profits rather than relative profits.

But it still shows you that we have that relatively well in 2017. One of the reasons, of course, was that we sold our listed equities, which boosted our investment results to an all-time high, but that was, of course, also helped by double-digit increase in the ordinary investment income. So, our investment manager, Roland, for (00:07:22) the start of 2017.

The P&C business is all right, considering the circumstances as the large loss budget was succeeded by €302 million. However, we had a pretty good development of our loss reserves from older years where we saw fairly significant positive results without actually compromising on the quality of our loss reserves, which are still at a high level. I mean, we have limited threshold system on the level of our loss reserves because we should, of course, in theory, be at about 100% confidence level being best estimate. So, we have a threshold which is at 106%. If the confidence level is higher than 106% – be in the (00:08:33) area, and I can assure you that we continue in the (00:08:37) area, at least according to our own actuaries and according to a pre-study of our external actuary firms that looks at our reserves every year. So, the quality of the P&C result is not diminished by taking out of the confidence level of the loss reserves.

On the life and health side, the performance has been good except the U.S. mortality business and here in particular and only, I would almost say, is a large block of business of the ING Business that we bought in the first quarter of 2009 from Scottish Re. On this business, we initiated vigorous in-force management action, which already in 2017 has resulted in the recapture, which took off a fair amount of the future liabilities and future expected losses.

But in the 2017 (00:09:51) €45 million of losses. I can already say at this point in time that we expect more of that recaptures in 2018 because our in-force management actions are accelerated quite significantly in 2018.

What does that mean for the dividend? It remains unchanged at €5, including the €1.5 extraordinary or special dividend. The book value per share has come down slightly. This is due to the fact that significant amounts of our capital are being held in U.S. dollars. But in fact, the euro has strengthened against the U.S. dollar. That U.S. dollar capital in euro terms is, of course, less.

There is not too much of a problem for us because also we have – I would say, more than 50% of our exposure that creates a need for capital are also denominated in U.S. dollars. So, at the same time, in euro terms, the capital decreases, also does the capital requirement. And that is reflected in the solvency ratio, which has actually increased significantly from 230% at the end of last year, of 2016, to only 260% at the end of last year. It is also both aided by the fact that we got the approval of our regulator for the Hannover Re Group to use our operational risk model in the official solvency calculation. And that also had boosted the solvency ratio. So, all in all, the financial strength of Hannover Re has actually improved last year. So, I said the results have been great, but in relative terms quite acceptable.

And on this rather general note, I will hand over to Roland who will give you all the finer details.

Roland Vogel {BIO 16342285 <GO>}

Well, thank you, Uli. Haven't been announced as the star, I don't know whether that's really true. It is a pleasure for me to also present a good set of number, although obviously the market reaction today was not that convincing. And I hope we will be able to address at least some of the concerns. And this is also why I think it does make sense to really concentrate and focus my comments on such details, which I find – I was mentioning, and then give you all the opportunities to ask the questions to the largest extent.

Let's start with the operating cash flow, an important number. You see it, nearly €1.7 billion which is, from our point of view, a good cash flow number still. It is lower than it was in the previous years. What is the reason for the decrease? We've seen payouts for the hurricane losses in Q4 already. That amounts to approximately €400 million. So, here, we also see the impact of the hurricanes. Apart from that, one should also bear in mind that with the impressive P&C growth, which we will be discussing in a minute, one should assume or potentially has expected a higher positive cash flow number. But as this growth is driven by the Advanced Solutions business which is not really cash-rich, these are usually quota shares. They are accounted on the quarterly, half, yearly – or even yearly basis, and you would only get a balance from these quarter shares.

It is not a non-proportional business where you get a premium in the beginning and then later on the outflow of the claims. So, in that regard, again, this is not a very cash flow rich business and this is also why the cash flow hasn't been boosted by it as perhaps one would have expected. Still, we mentioned €1.7 billion in positive cash flow in such a year, still very positive.

Why does the asset base on the right-hand side does not increase if there is a positive operating cash flow? Uli has mentioned that, and we will come to that point, more than one story, in the presentation that is a reflection of the currency exchange rate movement. We see a decrease of €1.7 billion of the asset base, €2.5 billion is the impact of the U.S. dollar, €2.9 billion negative is the impact of the currency exchange rates overall as also other currencies have depreciated vis-à-vis the strong euro over the course of 2017. By the way, according to our – the currency exchange rates we've been using, the dollar had lost 14%.

That is also to be seen on the next page when it comes to shareholders' equity, which is the policyholders' surplus which is really reflecting the shareholders' equities here as nothing has really changed on the hybrid or the minority share side. We also see that the shareholders' equity is going down by €500 million from €9 billion to €8.5 billion.

Let's look on the right-hand side. Here, we see the explanations. We have a very positive net income. So, that goes up by the €959 million. Then we have paid out a dividend and we have a change in unrealized gains and losses. So, here the impact of, for instance, the sale of our equity portfolio after minorities after tax, and that reflection here is not that much. But, of course, also here, we have seen some decreases in the OCI, reflecting the market values of our asset.

But also here, you see the currency translation, €740 million. That is exactly – I think Uli mentioned that already, a reflection of all the capital positions which we have invested in the U.S. dollar and which came down. Of course, also our liability side and our exposures came down at the same point, and we will see later on that our solvency ratio has increased from 2,000 – from 230% to 260%. So, the last absorption capacity of the Group or the exposure and absorption capacity of the Group has increased and not decreased. I think that is important to understand. And in that regard, the €9.5 billion has indeed also aided a little bit the RoE position because, of course, that is positive here.

And the RoE is here reflected on the next page. 10.9% vis-à-vis a hurdle of 9.8%, which means an outperformance of 110 basis points in a year with a remarkable exceedance of our large loss budget, which I feel is remarkable. We also see on the right-hand side, on a 5-year or a 10-year or a 15-year average, the RoEs which we have produced are around 14%. Yes, the 2017 year is a little bit lower than that, but with a double-digit RoE, I think we are still in a good position. And that good position also allows us to keep the dividend payments up. Here, we see the dividend or distribution history since 2008. Ever since 2014, we have paid out remarkable bonuses on top of the regular dividend, which reflects our dividend policy of 35% to 40% of Group net income. That also means in a year where we have this after-tax profit position a little bit depressed that our payout ratio has increased from 51% to 63% in the year 2017. And we will hear that we are expecting this to continue going forward, if nothing extraordinary is going to happen. If we take today's price – not yesterday's price, but today's price of €110 per share, that translates into a dividend yield of 4.5%, which I also think should support what we have been saying. We are in a poor position again when it comes to the RoE. Table here was 10.9%.

We are, and Uli mentioned that on average, the rest or the 10 largest reinsurers here have produced 3.3%. That is below 5%. And it was always our prediction that an RoE below 5% for the industry should trigger a reaction. We have seen a little bit of a reaction, not as much as we have anticipated. On the other hand, if you look at the average RoEs on the right-hand side, which have not become so much under pressure already, this perhaps is a little bit of explanation why the reaction has not been as pronounced as we had expected.

Still, if – then you might have the question what happened to peer number three, I think this is a U.S. company and it has benefited from Mr. Trump remarkably so they could decrease their deferred tax liabilities remarkably because they are to be calculated with another tax rate. This is the explanation for the outperformance here. But the rest of the market has performed lower than Hannover Re.

So, now, let's have a look at the Group's result really briefly. We will come to all the different segments. So, there is not a lot worth mentioning on that level. FX-adjusted double-digit growth, I think that is really remarkable here on a Group level. The net retention was stable, and it should be stable also going forward. The tax ratio is down from 24.2% to 19.2%. The background of that is the sale of the equities, which is nearly tax-free. And these tax-free or nearly tax-free profits have benefited the tax ratio. This is obviously not sustainable going forward.

So, in our plan, we assume that the tax rate is going to be 25% around (00:23:00) on a long-term sustainable basis. The details will follow on the next pages. You see that on the P&C side, impressive growth, 19% FX-adjusted driven. We've mentioned that before by the Advanced Solutions structured reinsurance business. Apart from that or if we adjust for that, the growth would still have been more than 4% or is more than 4% from the rest of the business. The net premium income goes up as well.

Where, the growth areas? North America, Europe, credit and surety, and the London indirect market. These were the main contributors to the growth which we have seen. Of course, results driven by the €300 million exceedance of the large loss budget, translates into 3 percentage points above the budget. And that was mitigated to some extent or to quite some extent by a positive runoff. You might have seen the numbers, more than a billion euro in positive runoff. Some explanations here.

I think we have asked our actuaries to come up with a new kind of long-term sustainable number. Some of you might remember that we once mentioned €200 million a year, €50 million per quarter. That is a number with the large increases which we have seen here over the last years in the redundancy numbers. Also, of course, the regular runoff numbers have increased. The latest numbers which we heard and we will confirm and might have a little bit more details in October with that regard is around €400 million. That is what we expect these days as a regular runoff number.

Moreover, we had a very attractive positive runoff in our aviation results. Here, a very large loss event in the past have been settled and that came with a very positive triple-digit million euro amount in the fourth quarter, which was nice. We also had commuted other parts of our U.S. business that was especially still asbestos related, which also had increased the positive runoff.

I did mention last October some systematic things in (00:26:03) one or the other area of the world, we still only have underwriting year numbers which also usually translate in some positive runoff. But I think the important thing is, and Uli had mentioned that before, this positive runoff has not impaired our loss or confidence level.

You might remember, these numbers still include the Ogden rates, €300 million, that was in the second quarter. We mentioned that we had mitigated the impact of the Ogden rate of €300 million by loss reserve releases. That should translate then in the assumption that the loss reserve redundancies should have gone down by €300 million, which is not the case. The Ogden rates are still booked at the €300 million level. But the indications are that at least after also taking into account that, for instance, it was interesting to see this very positive runoff in the aviation space, for instance, had led to the assumptions that no other redundancies would be in the aviation reserves, which is not the case. So, during the reserve assessments over the course of the year, we expect redundancies to be recognized again, and the assumption would be that by October the reserve should be on a level as they had been last year, especially as we have to assume that the Ogden rate will be adjusted, maybe not this year, but then upwards next year; and some of the redundancies which we had released will come back.

So, just to keep the message straight is really the level of reserve redundancies might have also gone down slightly based on the currency exchange rates, which also have an impact here because some of the redundancies are U.S. dollar redundancies and they are also impacted by the currency exchange rates. But if we look at it from a percentage-wise redundancy level, we should be approximately on last year's level.

I think that the rest had been mentioned by Uli already. A very acceptable result for a year where we had such large losses.

Here at the – I think on the next page, you see the large losses gross and net. The interesting thing here is, yes, with €1.79 billion, this gross loss is really the largest we ever had. Still, it gives a little bit or it needs a little bit of an explanation because this now includes ILS losses which we take on and cede on. So, if we adjust for that, I think the gross loss in equal terms to, for instance 2011, which we can see here, has been lower, and the retrocession impact has been lower if we exclude the ILS impact in these numbers.

The single events here on the next page, not that much which is to be said here. We've all seen the numbers, we've all seen the developments. I think it is worth mentioning that the Californian wildfires, the two of the fourth quarter amount to €100 million overall. So we had a budget of €200 million for the fourth quarter, so that was below. But still, with the €100 million, also the wildfires had been a large loss in the year 2017. And without them, the impact of the hurricanes would have been lower.

So a brief look at the MtCR and the business lines, how they performed on the P&C side, I think this is also not really a surprise what we can see here, the hurricanes and the fires hit North America. This is why here, the combined ratios is remarkably over the hurdle. We also see aviation a negative combined ratio, I think not too many instance where I saw a negative combined ratio. This is explained by the positive run-off results, which we have already mentioned. UK and London market, that is impacted by the Ogden rate. You might ask, well, if you had decreased your IBNRs, why is it that this exceeds the MtCR so much. I think the release of the large loss of the redundant reserves came from other segments as well, not only from UK and the London market. This is why Ogden can be seen here so pronounced.

And of course, so the cat lines are impacted by the hurricanes. The structured reinsurance as you see, large, higher combined ratios as expected but still very profitable, so the 97.7% reflects our profit expectations fully. These are risk-limited exposures, where the margin, which we make here, make it really sufficient.

I think that is – now, the one area Uli had mentioned that before, which had not really lived up to our expectation. So the U.S. mortality still underperforms for the legacy block, the ING portfolio. The background profitability of that segment, if we concentrate always on the U.S. mortality, is a little bit ignored. To some extent, here the financial solution (sic) [solutions] business really was exceptionally good. That explains the other income and expense line. Here, the profitability goes up by €100 million. This is really where we reflect the profitability of these deposited accounted contracts. So here you see that we've really had a remarkable increase in profitability from financial solutions business.

Also, the longevity business with a 2% doesn't sound so impressive. You know that we have started that business, we have increased it remarkably over the last years. So we are in early stage. The profitability is reflected in line with the emergence. So the 2.1% which we see here and which is above the target really fulfills our profitability requirements. And also the mortality business around the world, apart from the ING Business is really performing according to our expectations.

Still, with a €245 million EBIT, we are below expectations. And this is also why we really concentrate in last year and even more so in this year on our management actions. We've explained to more than once we will increase rates. There might be more commutations and other things. So this is also why the expectation for the year 2018 is not really brilliant, but that gives us room to implement those changes to really concentrate on the action to then also in the future reflect the real profitability of that segment again.

A brief look at the value creation of new business, so the future profits, those who have been here in October, might remember Claude shared this presentation where he explained how the value of new business then translates into IFRS profits in the future. You see that this is going down. We've really had in 2015 and 2016 remarkably large loss – large transactions which came with really high value of new business.

So on the one hand, this number goes down, yes. But on the other hand, and you see that it is still remarkably above our hurdle. So the target is €220 million. We have achieved €364 million. So this is really an outperformance year even though it looks so decreased. So we are happy with the new business, which was created and produced in 2017 and which will translate into future profits according to the patterns which we tried to explain in October. These came from the U.S., Asia, from Australia, from around the world.

So here now, Uli mentioned before, it is the ordinary – the investment income was exceptionally good in 2017. Unfortunately, I'm afraid I might not make 3.8% in the current year again. Still you might remember we came into the year with 2.7% as a target. We've increased the target to 3%. Now, we came in with 3.8%, of course, aided by the sale of the equities. But also the ordinary investment income is up remarkably, double-digit increase.

Why is that? How could it be? It was helped by private equity fund distributions. Some of them have a little bit an extraordinary touch. They will not reoccur, but the overall level will also be very attractive in the future. Moreover, we have increased our investments in real estate, and also that is performing really well. And that boosts also the ordinary income and that should be sustainable.

Realized gains/losses of course boosted by the sale of the equity portfolio. We've commented more than once on that. Impairments, appreciation, depreciation, that line is, well, nearly in line with the current year, nothing extraordinary, the majority of that is ordinary depreciation on our real estate portfolio, so really nothing extraordinary here. Same goes for the fair value instruments through P&L and the investment expenses.

A brief look at the unrealized gains and losses, you see that – and we've seen them to some extent already in the capital position, here, this goes down slightly. Why doesn't it go down more if you have realized €220 million in listed equities here? One has to bear in mind a lot of that potential of the realizations has been created in 2017. So approximately €100 million had already existed when we entered into 2017. The rest of the appreciation happened in 2017. This is why the hidden reserves are only affected by – or the valuation reserves are only affected by €100 million. Still, we have to bear in mind this number is no longer that high today. We've seen interest rate increases. We've seen that the credit spreads in the U.S. dollar, as well as in the euro, have increased slightly. So this number is still around €1 billion, I would say, but it is decreasing. Is that a problem? Actually, not really. I think the capital position would still be high.

Maybe worth mentioning, the reinvestment yield, also that is something which we explained in a lot of detail in October here, is around 2.05%. On this pro forma basis, if I sell everything today, reinvest the same thing today and have no changes in the composition, the reinvestment yield would be 2.05%. And if we look at the projections which we did and which we gave you there is no reason to think that the projections today would have a different result. So on that regard, at least on the one hand, we are losing some of the valuation reserves. On the other hand, we are investing or reinvesting at higher rates.

On the next page, you see the comparison where we invested on the assets under own management and where does the profits come from. You see real estate and private equity, especially private equity in the year 2017. Extraordinary, 2% on the allocation and 13% of the income, 5% real estate, 13% of the income, so these are the main contributors, we also see that, of course, that the government here, it I with the (00:41:39) portfolios, it's vice versa. But nothing extraordinary that goes, same goes for the composition of the investment portfolio as it stands today.

We have been explaining the Barbell strategy over the last years to some extent. You can see it, at least on the government portfolio, which has increased here, that is the one part of the Barbell, then the non-investment grade assets have also increased, and was also the listed equity – sorry, the private equity and the real estate have been increasing. This has come to an end. Now we will no longer continue with the Barbell strategy. We are where we wanted to be.

In the future, we will invest across the board again. Well, with a little bit of higher quality on the credit side, I think this is what we have decided early this year, and in so far, again, with the Barbell, we are where we wanted to be, and now we might change or decrease spread duration a little bit. Otherwise, no fundamental changes to the portfolio.

Let me comment then on the Solvency II reporting as at December 2017. Please bear in mind, we will publish the full Solvency II reporting in May with – including the FSCR (sic) [SFCR] (00:43:22) and analysis of change. So economic P&L today, we can present some key figures and we should bear in mind that they are not finally audited, I should mention that, so slight changes might be necessary. Still, we don't expect them to happen.

The available capital that we have, these internal metrics where we distinguish today only the minority interests where we feel they are fungible enough to use them as capital in our internal model, the Solvency II BaFin approved numbers exclude them, they force us to apply the haircut, and that is the difference between the two numbers. You see that the available capital eligible on funds have decreased by some €500 million. That is again driven by the currency exchange rates, same effects which we have discussed more than once in that presentation I warned you at the beginning. And here, it is quite obvious that the same happens on the required capital side as well. Here also, the currency exchange rates decreases or increases, the strengthening of the euro has impacted the required capital positions remarkably, so our cat exposures in the U.S. dollar go down and all the others' exposures go down as well.

Moreover, the market risk goes down based on the sale of the listed equities, plus we have the impact was also – Uli mentioned already that the operational risk is also now calculated based on a stochastic approach so we can use it from an internal model point of view and no longer use the standard model. The interesting thing here or the funny thing here is that they do not result in such different numbers. But if we use the stochastic methods, we can use the diversification effect. So they now diversify, which was not allowed according to the standard model. And that also increases the diversification remarkably, and that leads to an increase of the solvency ratio from 230% to 260%.

You see that here on the next page, where the risks come from, the P&C, the Life & Health and the market risk plus the diversification, and then how here the required capital compares to the eligible own funds, which then results in the increased ratio. Again, especially the market risk has come down, and the diversification has improved remarkably.

The next page summarizes that I think nicely over a three-year horizon from 221% to 230% and 260%. You see also here the internal limits and threshold systems, which demonstrates even as the capital position went down slightly, the solvency position here increased remarkably. As well, I think this summarizes the development on the next page. The usual translation from the IFRS shareholders' equity to the basic own funds on the right hand side, we have to add some effects from the asset portfolio, for instance, all those investments which are accounted for at amortized cost hold to maturity bucket. This has to be added. We also see that the technical provisions are adjusted. That is the discounting of loss reserves, the future gains on the Life side.

These are additions then, those additions have to be taxed which goes the other way. Then we have to deduct the foreseeable dividends, which is the increased number now. And I explained to you already the minority haircut. Then we add our hybrid baskets to that, and we have also given you the number of the potential hybrid issuance we could do, which would fully be accepted here and increase our capital position which is nearly €1.3 billion. So if we needed that capital, we could issue it tomorrow, and that then explains how you come from the IFRS shareholders' capital position to the solvency, basic own funds on the right hand side.

I think that then leads us to the target matrix. And usually, Uli, that is something which only a CEO can explain.

Ulrich Wallin {BIO 4863401 <GO>}

Absolutely, Roland. And I will of course do that. Thank you. So, I mean you can see even in a year like 2017, we have more ticks than not (00:48:54), which if you want to put it positively, shows the resilience of our business model situations like we had seen in 2017. That's actually good that we show this resilience, because it's not really a tail event what happened in 2017, but something we have to expect, I would say, every five to seven years from a natural catastrophe point of view. And therefore, you better apply risk management that prepares us to those kind of years.

If you look at two things where we didn't managed tick marks which is the xRoCA, which is the excess return on the capital allocated based on economic valuation, it only takes into account risk-free interest rates, not the nice earnings from sale of the equities. But still, on the P&C side, we managed to have a positive figure there. So that means that we earned more on an economic basis on the P&C side than the cost of capital.

So cost of capital plus expenses plus the admin expenses, we still outperformed. So that's a positive number in the light of the NatCat losses, which exceeded the large loss budget or the expected losses by more than €300 million. Flipside of that, if you look at the Life & Health, you see a negative xRoCA, and that really shows you the additional technical provisions on an economic balance sheet and the Solvency II balance sheet, which reflects the additional expected future losses from the U.S. mortality business. But that also tells you that those developments are included in the solvency ratio of the 260%. So I wanted to mention those which I normally not do because I normally dwell on those where we have tick marks but not today.

That brings us then to the outlook for next year. And I thought with the P&C some weeks ago, we gave you – we had our renewal call, and not only we gave you the preliminary results, we also gave you the results of the renewal season at 1/1/2018, which overall were actually quite positive for us because we could generate higher rates. Also in this environment, due to our competitive position and our low admin expense ratio, we were able to grow both our traditional business, as well as our structured reinsurance business. So overall, the growth of the business being renewed at 1/1/2018 came actually to 21%.

However, as the renewal season did not show the rate increases that many people might have hoped for, including us, I would say, because I mean as Roland already alluded to, we have the theory, every time the average ROE of the reinsurance market falls below 5%, there will be a reaction from the market like we had seen in 2009 and 2012. This was not that remarkable in 2018. Main reason that none of the capacities were withdrawn (00:52:54), which was different in 2009 and 2012, with some capacities were withdrawn (00:53:02), not this time.

Most of the underwriting units on the P&C side were waiting for significant market-changing events, and of course trying to increase their capacities rather than decrease their capacities following the losses. So all we have seen is an increased underwriting discipline of the underwriters and the loss-driven hardening. The shares have not moved a lot even in the Caribbean (00:53:35), which of course have an extremely high loss ratio. None of the capacities were (00:53:40) strong, so the panels of reinsurer (00:53:42) actually remained more or less unchanged admittedly at higher rate. But there was no opportunity for new players coming in or existing players significantly increasing their lines.

So I think what that really shows in years like 2017, we have to expect that we have to continue to deal with a very competitive market, and we have to look for competitive advantages in order to be successful in those market. It's not good enough to say, well, there's a lot of losses in a year like this, but I make it all up by the rate increases in the following year. That, on this kind of loss level, does no longer work.

Then of course, if I go to the individual sub-segments, North America and Continental Europe, both are very broad books that we have serviced very many clients. We were actually pleased with the outcome of the renewal season. We already had a very good profitability of our Continental European business in 2017. We have seen on average rate increases of that business. So we are very positive. Of course, North America was affected by the hurricane losses and got pretty much rate increases across the board but only moderate. On the specialty lines, mixed picture.

Credit and surety, we saw some increase as we increased our market-leading position. UK and Ireland for Ogden-driven increases, even though we feel that the market responded a little less pronounced than we would've liked to see to the Ogden rate changes, because really the current rates that were charged for 2018, according to our assessment, did not reflect the minus 0.75% Ogden rates that is the legal prevailing rate now. Admittedly, it hasn't been used as yet. So there's an argument to use a higher one but we feel that the market should have gone with the official rates. So we're a little bit disappointed with that, which meant that yes, we have more premium, but we are significantly less exposed on that business.

Aviation, very interesting, still very, very competitive, but quite remarkable that 2017 was the first year where we didn't have a single fatality in commercial airline travel, quite remarkable, very good job of the airlines. Worldwide reinsurance and catastrophe excess of losses, we see growth worldwide reinsurance particularly in China that we were able to improve our position on some key clients. We have a strategic important client approach and initiatives that we have for the last few years. And that is actually bearing fruit. This year in particular in China and Australia, but there are also other areas where this approach is actually quite helpful.

Structured reinsurance and ILS, both increased quite significantly, we had more than 50% increase of our structured reinsurance book again at 1/1/2018. And actually, on our largest treaty, we expect per underwriting year a margin, just to give you an idea, of around $45 million, which may be earned over two years.

So this business is not only top line accretive, it's also bottom line accretive. That, to the 2018 year, so we expect that we have – we'll be above the margin requirements. If you put 2018 in perspective, we expect that it will have a better rating quality on a fiscal year compared to 2017, not quite as good as 2016 on a fiscal year on an underwriting year, it is better than 2017 and 2016, but falls short of 2015.

On the Life & Health side, our financial solutions business will see increasing profits. That's almost certain at this point in time because the business is on the books. And the risks (00:58:38), the transactions are risk-removed (00:58:40), so that the probability that we will actually achieve these increased profits is very high. Longevity, I mean, I should also say that the premium volume on the financial solutions is not so important, because a number of the transactional deposit accounted and – are not showing up as top line on the books. Longevity, we see a stable development at profitability that is sufficient to cover the cost of capital. However, there, we have a number of larger transactions in the pipeline, particular also outside the UK. So depending on our success on these transactions, we may even see an increase in premium.

Otherwise, because of the long duration of the underlying business, the same premium volume is pretty much a given, because we have seen some reduction in our enhanced annuity business in the last couple of years due to change in the legal environment, but that has come to an end. I mean, that is – will no longer reduce.

Mortality solutions, we expect further negative results from our U.S. mortality business. This is a little bit difficult to gauge at this point in time because it will depend on the recaptures and will also depend on the additional premiums that we are able to already account in 2018 from the rate increases.

At this point in time, we're not expecting to lose money on mortality because the non-U.S. mortality business as well as the new business in the U.S. continues to perform in line with expectation. Actually on our non-U.S. mortality business, the EBIT margin is around 8%. Morbidity, it's basically critical illness and some health business where we expect some growth because there's additional demand for that business, in particular in Asia and China, and we expect to earn the cost of (01:01:14).

Putting that all together, that brings us to an unchanged guidance. We see single-digit percentage growth of the premium, which currency adjusted will likely be double-digit on the P&C side and quite stable on the life and health side. So it might be the higher end of double-digit.

Return on investment, of course, we are not hitting the benchmark that we have set in 2017 of the 3.8%, but rather expect 2.7% which is based on the current portfolio. It's also based on what Roland mentioned, some derisking on the credit exposure, particularly on the higher yielding bonds where we feel that the pricings are at a level where it's difficult to see that the spreads could tighten even further, and they actually have done the opposite in recent years.

But with the 2.7%, we still should reach an absolute return in the region, say, of €1.1 billion which is in line with the five-year average except if you exclude the effects and the profits from the sale of the quoted equities. We also have to have a policy that might also put us back into quoted equities, but it would need a more significant correction of the market than we currently have seen.

Profitability more than €1 billion will, of course, be driven by an expected increased underwriting result from the P&C side where we feel that we are in a good position. We have better underlying rating quality than we had last year. We continue to have a very good level of redundancies and our loss reserves and we have not increased our risk appetite for cat on a net basis so that also the volatility to both cat losses is pretty much at an unchanged level. So from that point of view, we feel we are (1:03:44) positioned on the P&C side.

Dividend payout ratio, I mean we have shown the 260% Solvency ratio. We have got dividend paying abilities from a German GAAP balance sheet and P&L account, so if everything goes according to plan and say if the first three bullet points are come to reality on this one, it is more likely than not that we will continue to pay a dividend at least on the level of the current year.

I realize that this is an annuity promise, however, I put it to the providers that of course that would meet the other three bullet points to be fulfilled. But I mean, the dividend paying capacity is definitely there. This would allow us to have at least dividend continuity.

If I then go to the individual business groups as well as the investments, property/casualty as I said, we feel well-positioned with our business in 2018. We think that our combined ratio should go back to below or equal to 96%, despite the fact that the portion of the advanced solutions business for the structured reinsurance business is growing, which comes in at combined ratios between 98% and 100%. But still, we feel that the overall underlying profitability of the business should support the 96%, even without reducing the confidence level of our loss reserves significantly.

So we expect that we will stay above our threshold on the upper end of our threshold on the – I mean, sufficiency level of our loss reserves. We also feel that we should gain modestly on our market share, which we have done at 1/1/2018 because we have grown a little bit faster than the market overall.

On life and health, already said that the financial solutions business, particularly from the U.S., has continued to perform excellently. On the U.S. mortality, as I said, we expect further losses. That is also why we were a little bit more cautious on our EBIT expectation.

We are now seeing around €200 million, and the reason for that is the aggressive in-force management actions that we are performing that could lead to recaptures, which could produce losses in 2018. They would not shy away from those because what it really would mean is they would reduce the outstanding liabilities on this rather problematic book that we were buying in the first quarter 2009, which in hindsight did not turn out to be our best decision.

VNB, we have a lot of new business initiatives and therefore we are very confident that the value of new business will be in excess of our target. On the investment income, not a lot to say. I already told you we will be around $1.1 billion, but our expectation is, give or take, maybe we'll see opportunity because we have been used to that to which we outperform that a little bit. So overall, we are looking positive into the current year.

Thank you very much, and I now look forward to your questions.

Q&A

A - Karl Steinle {BIO 1986424 <GO>}

Well, thank you. We will now begin with our question-and-answer session. Just as a reminder, please wait for the microphone so that everybody can hear your question, even those who are not in the room. We shall proceed first with the questions from the attendees in the room and then move on to the questions coming in from the conference call. So I see already some hands up. We start with from Kopfinger and then continue with Andreas Schäfer.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes. Thank you. It's Frank Kopfinger from Deutsche Bank. So my first question is on your guidance or your outlook for 2018, obviously you left your guidance or your outlook unchanged with the over €1 billion profit target and all the other drivers, however, you have this reduction in the life EBIT, can you comment on where the offset is coming from to keep the overall target outlook stable?

And then secondly, on your outlook for the life, re: EBIT of around about €200 billion for 2018, you commented that this is driven by more accelerated in-force management and potentially higher recapturings. At your Investor Day you guided toward – that this recapturing action might take until earlier or mid-2019. Can you comment there also on the timeline if you have now this drag in 2018?

A - Ulrich Wallin {BIO 4863401 <GO>}

Yes. Thank you for those questions. I mean, our guidance on the profit for 2018, of course that's more than €1 billion, and the range of more than €1 billion that we have seen in 2016 can also extend to numbers which are a little bit higher than €1 billion. We see the profitability largely driven by our PNC business. And I mean, we feel – and at least our current expectation which we do on a regular basis suggests that even with the $200 million EBIT, or even if it's a little bit below the remainder of the PNC business and the investment will be able to carry the more than one big enough profitability.

The timeline on the in-force management action, we have brought that forward so we will be acting more swiftly and earlier than originally expected. Therefore, the majority of the effects from the in-force management should actually occur in 2018 and not drag over into 2019. We have brought – we have accelerated our efforts there because as you can probably appreciate, we'd like to solve this problem sooner rather than later, and therefore we have brought it a little bit further.

Why do we have negative effects from these in-force management actions at all? The reason for that is that when we bought the ING portfolio or we took it in our books on purchase GAAP accounting, which means on certain treaties, particularly why our treaties have negative reserves, and if they come out plus some unearned premium, by recapture it has a negative effect.

A - Karl Steinle {BIO 1986424 <GO>}

Can you just hand over the microphone to your colleague behind you? Thank you.

Q - Andreas Schäfer

Thank you. Andreas Schäfer, Bankhaus Lampe. Just two questions. One of the development of your NatCat losses, gross and net. During the first three quarters, the losses on a gross basis went down by €140 million, but on a net basis went up by roughly €70 million which explain the differential between net and gross development. And the follow-up question on life and health, as far as I understand, the guidance for 2019 in terms of EBIT should be now at least unchanged or rather up compared to what you said before, and given the fact that you now accelerated the recapturing program to 2018. Is that the case?

A - Ulrich Wallin {BIO 4863401 <GO>}

Okay. If I get to the first one, the second question first and then go in the opposite direction. Well, it could be if all our clients would simply accept the rate increases that would be exactly the case. But that is not that likely because, I mean, the experience also of other companies on these actions at that certain percentage of the treaties are being recaptured and that would have more likely a negative effect. So the acceleration of the in-force management action is likely to be detrimental to the IFRS earnings in 2018, but is accretive to the IFRS earnings in 2019.

The NatCat losses were coming down on Hurricane Irma which meant that they are no longer in our whole account protection, and therefore the reduction in the reserves exclusively benefited our retrocessionaires. On the other hand, we saw some increases on Hurricane Maria, which however had not reached the whole account protection. So both losses are now in a good position to safeguard future increases because both of them sit right at the attachment point of the whole account protection.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Then we continue with Jochen Schmitt from Bankhaus Metzler and then with Ivan.

Q - Jochen Schmitt {BIO 4227302 <GO>}

Thank you. Jochen Schmitt from Metzler. Just one question on the dividend, the Solvency II position of 260%, what prevented you from opting for, say, somewhat higher dividend payout for last year?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, I guess mainly the growth of our business. So growth of our business and also of course the result was not quite as good as the year before, and therefore we opted to have an unchanged payout. rather than then to increase the payout again because due to the higher percentage of the IFRS profit that we paid out mitigating the growth of our capital base and original currency was fulfilled even this limiting the dividend payment of €5.

Also, of course, two things. I mean, we have to look at the dividend of the current year but we also have to look at the long-term continuity of the dividend. And I mean, we only paid out part of our German GAAP profits that our dividend paying capacity for the coming years is actually a lot better than it used to be, and our dividend continuity that way is more comfortably safeguarded than it was before.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Ivan Bokhmat from Barclays.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

I have a few questions on the life business. So firstly, you mentioned that the financial solutions do contribute the revenues that are booked as other. So the question would be how sustainable are they and how should we think about them going forward?

And secondly, the question also related to life, I think you've given up or you said you're going to give up the target for margins for individual blocks of businesses, longevity, mortality, financial solutions. Maybe you can comment on why you think that's the right approach.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, first on the financial solutions, whilst the treaties are not comparable in the duration to, say, longevity or traditional mortality treaty where the durations can go up to 50, 60 years if it's a permanent business, on the financial solutions business, the majority of our deals are

three to five years, and the longest that we have is 20 years. But we also have continue – we also continuously write new business, and we have a very vivid underwriting practice in our financial solutions, particularly in the U.S. where we are able continually to grow the business. I mean, the business, normally a lot of that comes towards the end of the year. So the production of 2017 to some extent the new production becomes effective only in 2018, and therefore we think that this is quite a sustainable revenue stream. And the goal, of course, is to increase the profits from the financial reinsurance double-digit year-on-year. The last few years we were able to do that.

Why did we not have the EBIT margin by line of business and change that to just an EBIT growth target? The reason for that is that the business is very diverse. If you look at the financial lines, we have deposit accounted business where the EBIT margin is endless because there is no premium. We have like out of the many surplus (01:20:19) business where the EBIT margin is expected to be 100%, and we have cash financing business where the EBIT margin is normally around 2%. Because, I mean, you finance embedded value or acquisition costs, and then of course you get sufficient amount of premium seated that the profit stream from that business is sufficient to pay off the pre-finance amounts which are pre-financed by commission. And then you of course look for kind of what we call a loan-to-value ratio, for lack of a better word, that is normally around 60%, I would say. But then you need quite a lot of premium for that payback depending on the underlying profitability of the business that's ceded to you.

Likewise on mobility, it's really a mixed bag. I mean, some of the less volatile businesses, the margin may only be 2% to 3% of the business where the volatility is higher like in Latin America. We have margins that go up to double digit. So it's a mixed bag and the question whether or not – how it moves really depends on the development of the mix of business, and therefore we thought we might be misguiding to some extent and said, well, we certainly want to have as a growth in the EBIT year-on-year and therefore we changed that. That is the answer to those questions.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Then we have the next question from Roland Pfänder and we continue with Michael Haid.

Q - Roland Pfänder

Good afternoon. Roland Pfänder, ODDO BHF. Coming back to your U.S. recaptures you are planning. Could you talk about the amount of price increases you are trying to put into the market, maybe you could provide also a timeframe when you think that will be handed over to customers and the negotiating timetable? And maybe the question what would be different if clients would not accept any recaptures? How much different would be the running EBIT number for the next years to come? Second question. I saw you are more positive on credit and surety business in terms of profitability compared to last year, what has changed your view on that? Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, firstly on the recaptures, we're not planning for recaptures. I mean we would have no problems if everybody does accepts the rate increases because that would be accretive to the EBIT. And we would have no negative vibes. I mean, if everybody would actually accept our rate increases, we would of course have an EBIT which would certainly be above $350 million. But we are not expecting that. We expect to see recaptures.

On the percentage, I'm not sure if it's the best communication strategy if I announce that here. I think my lawyer's telling me that's not the best idea. So we have, I mean, a communications strategy there does not call for me to announce the rate increases here and now. We are planning to move in the second quarter.

Credit and surety. I mean, we had combined ratio, I think, of 90% last year so we were quite pleased with that. And we have seen some rate increases on our credit and surety business so, I mean, on an apples to apples basis, it should slightly improve. Of course it also depends on, I mean, insolvencies and large losses whether or not we are having them.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you. Michael Haid, Commerzbank. Two questions. Trying to – I'm still trying to understand and I struggle a little bit with the €1.1 billion run-off profits and reserve releases. Obviously, there are some moving parts in there. I understand that some of this €1.1 billion comes from a reserve or our reserve releases from reserve redundancies, and some actually run-off profits. When you settle the claim, and these are probably not – or these were not included in the reserve redundancies at the beginning. So can you say how much of the €1.1 billion was already in the pool of the €1.9 billion reserve redundancies? That's my first question. And the second question, can you provide a quarterly breakdown of this €1.06 billion reserve releases or run-off profits?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, these questions are sufficiently complicated that I will hand over to Roland.

A - Roland Vogel {BIO 16342285 <GO>}

Well, first of all, I think we've mentioned more than once that these – to start with your latter question first, that these detailed analyses really needs a full analysis of the loss reserves, of the ultimate loss ratios which we've booked and all that, and this is done on a yearly basis. What we do give you quarterly is an educated estimate of the development of the runoffs. And the confidence level to give you that breakdown quarterly would not be possible today. Still, there is still the commitment to give you an idea as to whether the confidence level went up or down.

To your first question, yes, you're right. I think we mentioned one big runoff from the aviation event of 2001. That has not been regarded as a redundancy before so that runoff had no impact on the €1.9 billion you've mentioned.

The same would be true I didn't mention that before for approximately €100 million from our Bermudian cap portfolio. Also, here there is a rather straightforward policy which we have agreed upon with our auditors that after we – even if we really reserve conservatively after three years with no loss advice, we release those loss reserves.

That are in the fourth quarter of 2017 was approximately €100 million. And also these event driven reserves beforehand are not treated as being redundant so that gives you some indications. Moreover, especially the Ogden rates releases which we have seen already in the Q2 that had been regarded redundancy before.

In that regard, the €300 million should have in your (01:28:02) if I try to follow that, should have decreased the large loss reserve redundancy. And then there were others. I did mention before some commutations, which included some asbestos reserves. And also, these were not regarded being redundant beforehand.

So there were quite some parts of the positive runoff result did, by nature, not affect the redundancy number. And for those which did affect the redundancy numbers, we have kind of set up the current year's combined ratios and ultimate loss ratios assumptions, again, conservatively enough that we are confident to assume that overall, the additions for the past have been set up again very conservatively so that there is, again, created redundancy for the years to come and that had led us to the effect or to the message that the confidence level, at least percentage-wise, should be the same, again, with the impact of the currencies. In absolute terms it might have come down slightly.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. We have some further questions from the room, but from the conference call, and we start with the first question from Kamran Hossain from RBC.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, everyone. I'm sorry I couldn't be there in the room. Two questions from me. First of all, could you give an indication of what your surplus is on an S&P basis,

like if you have an idea of that? So, I guess that's probably the binding constraint for you on capital.

And secondly, I guess, with a really, really strong capital ratio, would you consider M&A? Any thought from that, I guess, as activity seems to be picking up at the moment. Thanks.

A - Ulrich Wallin {BIO 4863401 <GO>}

Okay. The service on the S&P model has actually come down quite a bit due to a model change. As that S&P is applying, particular on the pension swaps of the longevity business and the asset liability matching, which means that unfortunately, up until that change, the S&P ratio and the Solvency II ratio were actually quite in sync with the Solvency II ratio even a little bit lower than the S&P ratio.

This change, which, in my humble opinion, I would say, was not well-founded, let alone communicated of course, makes S&P more difficult. I mean, we still have higher than the AA rating S&P solvency ratio. But of course, the excess capital on S&P has reduced, remarkable. Still, S&P - I mean, have confirmed our AA- rating, confirms the stable outlook. And actually, our - an analyst on S&P told us not to worry whatever that's good for.

But yeah, I mean, that is the situation on S&P. We don't really see it as much of a binding constraint at this point in time because they also have told us if we fall below AA for a while, it's not a problem. And we still have a lot of dry powder on the hybrid capital. So, it's a manageable problem, and so we would not see that as a binding constraint of our growth.

We will continue to steer the business based on the internal model because, of course, it's not that easy to steer your business on a model that has these rather significant changes on short notice. I have to say that even though we left S&P, as you know, we were the first European company that got rated in Europe from S&P. So, our relationship with them is very good and you might remember that at the beginning, they were so excited about us that they even gave us a AAA but that's a long time ago. On M&A, they have currently nothing we are working at.

Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks very much.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. And then, we have the next question coming from Jonathan Denham from Morgan Stanley.

Q - Jonathan Denham {BIO 19972914 <GO>}

Hi. Thank you for taking my questions. Your commission ratio in P&C seems to have ticked up a bit. What's the cause of this and how should we expect it to develop going forward?

Secondly, as you said, Berlin, your 2017 value of new business was above the €220 million target. They're lower than 2016 and 2015 levels. Do you expect this to continue to fall towards the €220 million unless you enter into a further large transaction? Thanks.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, on the commission ratio, that's due to the growth of the structured reinsurance business. Because on this business, I mean, the risk transfer is slower and that is often buffered by the commission terms of the treaties. Therefore, these treaties tend to have higher commission ratios as a normal, to say, P&C treaty, traditional treaty, or I mean, let alone in excess of lost treaty. So, I think addition to growth of more than 50% of our structured reinsurance business everyone wants commission ratios likely to increase.

As far as the value of new business is concerned, probably not decreased a lot further, but also not increase because it's the experience that we have with our U.S. mortality business on permanent business. And also, luckily, as we are not heavily involved on permanent business, also in other jurisdictions like the UK, our strategy is to reduce the tail of our life and health business.

And that, of course, means that you have less years that we are counting for the value of new business if they only have the five-year transaction, I only have value of new business for five year. While the 50-year transaction, I have value of new business for 50 years. But we are in the process of shortening our debt (01:35:52) then. Therefore, we do not expect that the value of new business to come closer to the hurdle rate. It will also not be as high as it used to be in some of the past years.

Q - Jonathan Denham {BIO 19972914 <GO>}

Very clear. Thank you.

A - Karl Steinle {BIO 1986424 <GO>}

But we still have two more questions. The first one is from Thomas Fossard, HSBC.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good afternoon, everyone. I've got three questions. The first one is on the weakening of the U.S. dollar. Can you remind us what is the potential negative impact on your EBIT line or net profit line and how potentially it could impact your €1 billion net profit guidance in 2018?

The second question is on the life and health re side. Obviously, you have targeted a new structure for your business, which was sitting in Dublin. So, potentially moving some of these business out of Ireland, and now look at it in (01:37:17). So, you see some underlying tax rate changes. Can you help us to understand how this may change the overall taxation rate of the life and health business going forward?

And the last question also related to the life and health fees segment. And just to come back on the financial solutions, so if I'm looking at the EBIT profit line, the financial solutions increased remarkably in 2017 from €64 million to €184 million. I'm then fully taking into consideration that you expect this business to grow further, but if you could help us to better understand how much you would expect this growth to be embedded for 2018 and 2019. So, how should we see – think about the €184 million EBIT profit from the financial solution to move up going forward? Thank you very much.

A - Ulrich Wallin {BIO 4863401 <GO>}

Thank you. I will do the third question and then we'll let Roland to do the easy ones being question one and two. On the financial solutions business, actually the €184 million only as the deposit-accounted businesses. Of course, as a business, there is a reinsurance account that's in there as well. I mean, we expect till this year in U.S. dollar terms profit which should be coming close to $300 million and it should increase next year at least by 10%, that's at least the plan. So, it is good business for us. On the effect of the U.S. dollar, I will hand over to Roland.

A - Roland Vogel {BIO 16342285 <GO>}

Thank you, Ulrich. Thomas, I think we did the exercise in one of the previous years and it will be a very crude one, of course. We try to analyze that a little bit more in detail. But to give you an indication, if we have an EBIT of approximately €1.7 billion and let's assume that a good 40% of that is coming from the U.S. dollar, if we just concentrate on the U.S. dollar when it comes to currencies, that results in approximately a little bit less than €700 million. So, in 2017, we had - I did mention that we had a 14% devaluation of the U.S. dollar. So, if that started in month January and ended in December, the average decrease of the P&L which we - and here we apply monthly rate, would be 7%.

So, if you calculate a 7% on the €680 million or approximately €700 million, this would result in, well, let's say, around €50 million as a really, really broad calculation which was the impact in the year 2017. So, without that, our EBIT should have been a little bit higher. If we then assume that the U.S. dollar stays where it is, we would, following that theory, lose another €50 million in the year 2018 which will be kind of the rest of the remaining 7%.

Again, this is a very theoretic exercise but should give you an indication. Of course, depends on where the U.S. dollar will be moving to. There are very different theories when it comes to inflation or interest rates. We are not currency speculators but that would be included in our estimates.

I think that was one point. And again, it's a broad calculation but should give you an indication. When it comes to the tax rate impact of some changes of the U.S. tax code. In essence, there was business, seeded life business seeded to Germany and to Ireland before. This will be seeded to another jurisdiction where the U.S. tax rate will be applied.

So, some of the business was taxed beforehand was 35% in Germany and was taxed in Ireland, was 12% in Ireland. And for those businesses, the applied tax rate will be 21% in the future, which means that we most likely will have a slight, a really slight negative impact. Again, it applies to the life business. And the portion of the profit seeded, of the €245 million profits of the business group seeded to Ireland and to Germany was not very high. So, in that respect, I do not expect any really remarkable change of the tax rate caused by those changes.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thank you very much.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Then we have another question from Andrew Ritchie from Autonomous.

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

Hi there. Thanks for taking my questions. Could you just clarify a simple question. I'm not sure, maybe you've said this already, what were the actual loss from the Scottish Re portfolio in the 2017 accounts? The actual EBIT loss including the recapture, because obviously, the EBIT levels you're generating are kind of equal to what you said you'd generate from recently written new business implying the overall in-force is kind of breakeven. And also, for 2018 guidance, you had flagged about €100 million impact from recapture. I'm guessing that now is more like €150 million to €200 million of the assumption.

And the final question on the life business, what was the impact on the Solvency II evolution on the new basis of Solvency II from the change in assumptions in the life business? You implied earlier in your comments that there have been some change in the best estimate assumptions, which affected your year-end Solvency II position. Thanks.

A - Ulrich Wallin {BIO 4863401 <GO>}

So, thank you for those questions. The loss from the Scottish Re business was a three-digit million dollar amount. Those $3 million digits, you can see it's quite negative. The overall profit that we had from our U.S. business overall was around in dollar terms around $50 million. It was a very positive financial solutions business and a very negative Scottish ex – Scottish Re acquired business, let's put it that way.

And the impact on the Solvency II (01:45:04) was around, I would say, just in very broad terms, around €500 million from increased technical provisions. So, you can see those quite significant.

And did that answer all the questions or did I forget one?

Q - Thomas Fossard {BIO 1941215 <GO>}

(01:45:29-01:45:34)

A - Ulrich Wallin {BIO 4863401 <GO>}

Oh, yeah. I mean, the recapture numbers that you mentioned are actually embedded in our plan. I would say it's at least €350 million that would then result in the expected EBIT number.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. Thank you.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. We have another question from Vinit Malhotra from Mediobanca.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good afternoon. So, just to follow-up quickly, you know that when equities were sold, that will leave around €400 million of capital, what are the plans for that capital usage in terms of – because the business didn't global or (01:46:15) pricing wasn't as good as you expected but just any idea from the plans?

Second question is that maybe it's very simple but the PML for €100 million U.S. hurricane in euro terms is up 8% or so, maybe dollars term might even be 15% or something. Could you just comment on why this PML is up because obviously, you weren't very impressed with the rates in the renewals.

And just to follow-up on investment income for Roland. You said the real estate is sustainable rate, were you referring to 4Q or full year because 4Q was rather high ordinary income in real estate? Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Yes, the equity free, that was really used to grow the P&C business that we have grown quite significantly at 1/1/18. But of course, I mean, we have the ability with the excess capital that we have to move back into equities if our triggers are met. The PML on the hurricanes increased mainly because – I mean, we had a lot of business opportunities on – in the U.S.

On the property side, some of them were quite promising and that resulted in a higher PML there. The model change, there was no model change to speak of that came into play here. Of course, it didn't increase a large loss budget due to the retrocession of structure that we were able to put in place.

And on the sustainable – the sustainability on the investment income from real estate, I would hand over to Roland.

A - Roland Vogel {BIO 16342285 <GO>}

And my comment, when it was based on – the impact of the private equity as well as the real estate portfolio to the ordinary income was approximately a plus €100 million with two-thirds coming from the private equity portfolio. Here, I did mention that this included some extraordinary items. And if we take the €100 million and the two-third from the private equity, the assumption would be not too far away that the – that one-third was a little bit caused by extraordinary items.

So, two-thirds of that €100 million should be sustainable with the full sustainability of the private equity contribution in that number. I think that was a background. So, again, if you say €33 million is one-third, then this addition from the private eq – from the real estate, will also be sustainable. It should grow when the portfolio grows, and it is growing. And approximately, well, €30 million to €40 million from the private equity portfolio will not be sustainable in the future because it was caused by extraordinary distribution from those funds.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thank you.

A - Karl Steinle {BIO 1986424 <GO>}

We have some more questions. But before we continue with a follow-up question from Thomas Fossard, we have another question from the room from Tim Friebertshauser from Deutsche Investment.

Q - Tim Friebertshäuser

So, I'm looking at – on the life reinsurance business on a normalized, I mean, profits, if I just – let me take on your remarks on the (01:50:19) financial and solutions like $300 million for 2018. And then, I mean, growing into 2019. And if I would add, I mean longevity, I would come to near like €300 million. And then you said no, (01:50:34) track over from I mean, mortality in 2019 because you do that acceleration of – I mean, management actions 2018. And you also said some 8% of the – ex-U.S. mortality I mean, business as a EBIT margin.

So, if I take like 3% of an EBIT margin on that – I mean, €5 billion of premium income, if I add both, I would come to more than €400 million of EBIT into 2019. So, I mean what is wrong with that and why are you so cautiously I mean, guiding only for profit growth into 2019 for the life, for the life and reinsurance business?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, we haven't have yet guided for 2019, I have to say.

Q - Tim Friebertshäuser

Higher profits?

A - Ulrich Wallin {BIO 4863401 <GO>}

Yeah.

Q - Tim Friebertshäuser

But if I would add everything out, I come with double-digit...

A - Ulrich Wallin {BIO 4863401 <GO>}

I mean, your calculation is entirely correct, I would say. The only thing is I'm a little bit cautious there because of the increased claims that we have seen in 2017. So, I'd like to see stabilization of the claims in 2017 to give me better confidence on the prediction for 2019. Therefore, at this point in time, cautious, this is cautious on the U.S. mortality and that in particular on the old block. As far as the remainder of the business is concerned, the development is actually quite positive.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. We have a further question from Thomas Fossard.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yeah. Thanks, Karl. Just wanted to come back to the life business and really focusing on slide, where is the number? Can't see the number. Yeah, 12, sorry. Because if I'm looking at the EBIT reporting in full year 2017, so, €245 million, this include €45 million of negative impact from the recapture.

So, let's say, roughly speaking on a normalized basis, €300 million. Now, if I'm looking at the Q4 standalone, €40 million normalized basis, €160 million plus the €45 million some more reaching something which is around €200 million. So, I've got some difficulties to reconcile what is normalized run rate currently either based on the full year numbers or taking the annualized Q4? Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, I think one has to expect that the development of the EBIT is quite volatile on a quarter by quarter basis. And the reason for that is that we have net retention on the mortality which is particularly relevant for the U.S. business of $20 million.

So, if you have large loss, so to say, on a quarterly basis, can have a rather significant effect and that was actually what was happening in the Q4. But I would say if you look at the normalized EBIT excluding the ING block of business, it's certainly around €400 million to €450 million. And then, of course, the actual results that we are seeing would then depend on how much negative effects both - I mean, actual to expect it, it will always be negative based on the locked-in assumptions that are also prevailing for the ING block and the recaptures. Those two figures would then determine.

The numbers on actual to expect it on the ING block will only improve these rate increases to the - only then the rate increases become effective, you will see an improvement. It's also fair to say that we also improved the still negative results on the ING portfolio already by about a run rate of €80 million per annum. By rate increases as we already have applied and by the reduction of the collateral costs, which we have almost eradicated completely. Thus, you can see it's worked, we have done a lot of work on it. Unfortunately, it's still work in progress.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Then we have another question from Will Hawkins.

Q - William Hawkins {BIO 1822411 <GO>}

Hi. Thank you very much for taking my questions. Roland, you made passing reference to this in the presentation, but what exactly was the HGB revenue reserve and claims equalization reserve at the end of last year? If you can remind me the end of 2016 figuring context, that will be helpful. And then secondly, just a bit of housekeeping. Can you remind me what you expect the other income and expenses line to be in the P&C division when you're thinking about your 2018 budget? Thank you.

A - Roland Vogel {BIO 16342285 <GO>}

Well, we had a - the development of the equalization reserve in the German GAAP accounts was a plus €117 million. We expected a plus €300 million based on our simulations of the fire industrial line - I don't - I hope you do remember what we had discussed here - which was caused by the World Trade Center loss falling out of the overall computation.

Why was it lower? It was lower because the financial solution business added so much premium to the German GAAP accounts which then again increased the maximum losses -- the maximum equalization reserve amount in other lines of business.

Still, the German GAAP business was very positive. We could add more to our profits carried forward, which now amount to more than €600 million. So, in that regard, we have a full year's, today's dividend payments in our profits carried forward according to German GAAP. Moreover, we have retained earnings of more than €600 million. Moreover, we should have a positive profit, of course, in 2018 again. When that was what you were driving at, I think the dividend paying capacity or the flexibility has increased remarkably. Was that your question?

Q - William Hawkins {BIO 1822411 <GO>}

And the other income.

A - Ulrich Wallin {BIO 4863401 <GO>}

So, sorry, the other income on the P&C side that we normally expect that the negative of around €50 million, I would say, and that is because we have the expenses for the company as a whole, and there is also a lot of other things which are more neutral. But on the P&C side, we haven't got any meaningful deposit accounted treaties. So, I think at this point in time, probably, there's none. So, the other income and expenses line is always expected to be negative.

It was a little bit more negative in 2017 because we had to write off some reinsurance recoverables from a captive deal where we felt it prudent to write-off some of sales. We're not, of course, not expecting to that reoccur in 2018. So, the number will be slightly better in 2018 than it was in 2017.

Q - William Hawkins {BIO 1822411 <GO>}

That's helpful. Thank you.

A - Unverified Participant

Okay, it looks like that we have no further questions either from the conference call nor from the room. If that is the case, then I would like to say thank you for your participation and your interest. And this call has been concluded.

You may disconnect and all others here in the room I would like to invite you for a snack and drink outside of this room. Thanks again for being here.