Y 2018 Earnings Call

Company Participants

- Roland Vogel, Chief Financial Officer
- Ulrich Wallin, Chairman of the Executive Board, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Andrew Ritchie, Analyst
- Bill Hawkins, Analyst
- Edward Morris, Analyst
- Kamran Hossain, Analyst
- Michael Haid, Analyst
- Paris Hadjiantonis, Analyst
- Thomas Fossard, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst

Presentation

Operator

Well, good afternoon to everybody here in London and to all those joining us via the Internet. Welcome to Hannover Re's Analyst Conference. Looking at the dialed-in list, it's truly a pleasure to see so many of you taking up our invitation and are showing your interest in Hannover Re. As you know, the key figures for the year 2018 have already been released some four weeks ago, together with the outcome of the 1/1 renewal.

Today, we are delighted to present to you the full set of numbers in great detail. At first, our CEO, Ulrich Wallin, will kick things off with a brief overview of the quite favorable development in the year 2018, perhaps he will classify Hannover Re success over the time as this is the 10th consecutive Analyst Meeting which he chairs. Roland Vogel, our CFO, will then move on and dive into the business group performance, the investment result and last but not least, the Group's strong capital position. This will be followed by the outlook presented by Ulrich again. Afterwards, we will be happy to respond to all your questions at length.

Today, we are also offering a dialed-in option for all those who are not able to be here is London. As a reminder, the dialed-in participants will be in listen-only mode during the presentations. (Operator Instructions) Please note, this conference will be recorded and a replay will be provided on our website.

As always, I would like to draw your attention to the feedback form, which you will find on your desk or you will receive via email. As you know, that we greatly appreciate your remarks and ideas and they form part of the groundwork for our next Investors Day, which will be held in October. Feel free to either leave the feedback form at the table or send it into Julia, Axel or myself.

On that note, I am delighted to hand over to you, Ulrich.

Ulrich Wallin {BIO 4863401 <GO>}

Yes. Thank you, [ph]Carl . Good afternoon, everybody. Yes, I mean one of the remarkable things in 2018 for us was that we reduced our expense ratio again, but that's not the reason that we changed venue, even though it may look like that. That was more a question of logistics, I guess. So there will be change, not the expense ratio, but the venue, you might be able to change that again.

Yes, 2018 was the second consecutive year of large losses for the industry, above expected level and it was also the second consecutive year whereas the market results have somewhat below expectations as a result of those losses and considering that we are reasonably content with the results that achieved in 2018, our guidance that we had given you for the first time in the fourth quarter of 2017 was that the profitability should be more than EUR1 billion for the net profit and we kept that guidance all along unchanged and actually delivered a EUR1.60 billion, which I think is a pretty good result for Hannover Re. We also had good growth in our business, we currency adjusted double-digit, also this was very much in line with our guidance all along.

The highlight, of course, this year was again the return on investments, which again with the ROI of 3.2% gave us the extra lift that Roland has helped us with and many of the previous years, he always delivers a little bit more than we ask him to (inaudible) continue as well.

On the P&C side, the growth is clearly driven by increased demand for reinsurance and the reason for that demand is besides capital management, also quite a lot of volatility management, because also on the large commercial business, 2017 and '18, years that showed quite challenging results and a lot of action has been taken by our clients in order to improve the results and in situations like that, of course, you do not want to be derailed by one big loss, which can be unfortunate and of course, yes, reinsurance, happy to help our clients with that. That's the reason why on most of the major reinsurers, when you look at their reporting on the P&C side, they report increased volumes. So everybody reports increased volumes probably, the market has grown. I think that's a relatively fair assumption.

You can see that the ROE remained positive in double-digit territory, 12.2%, that's well above the minimum target of 900 basis points (inaudible) and it's particularly gratifying if you compare to the average of our ROE of the, say, the 10 largest reinsurers. So it continues to be the case that in years with many cat losses, we outperformed the market to a larger degree than in years with very low cat losses.

You can see that both the EBIT as well as the net income was rising over and above 2017 levels, while that was to be expected because in 2017, we had even more losses. Also, as we have publicized rather frequently or we had continued problems with our U.S. mortality business on the life and health side. In the end, we had positive development there as well, because I mean some of the reserves we're covering, as we said, Triple-X and AXXX reserves, which are then ceded outside the U.S. The U.S. statutory reserving requires those into other jurisdictions, but you would then have to collateralize those reserves in order for the ceding companies to get reserve credit for the reinsurance. And of course, as this is long-term business, the collateral has to be there for decades, and you have to reserve first, because you know I have to pay collateral cost, say, for the next 30 years or 20 years as the case may be.

We have many arrangements that brought down that collateral costs and we were also quite successful in doing that in 2018 in relation to all the change of our business in relation to the beat, so the Base Erosion and Anti-Abuse Tax where we have to reshuffle our U.S. business and (inaudible) that some of those reserves (inaudible), still quite a bit of those on the books, and so we had to release it. Nonetheless, the one-off negative effect from recaptures offset partly by this release of expense reserves is still EUR185 million negative. So we were relatively happy that we could absorb that pretty much as expected. We also saw an increase in the book value per share that, which basically tells you that last year we paid the dividend out of profits and not out of the capital base.

P&C briefly, I mean we had a nice outperformance compared to the market and this is pretty much in line with our strategy that we believe that P&C is a competitive business and you can only be a meaningful, successful in the long-term of that business if you outperform the average peer and we were quite happy to do that. Life & Health, I think the business has developed a little bit better than many surveys had expected, of course, nobody had expected the release of the expense reserves, but also the underlying mortality in particular on our problem U.S. mortality accounts that we bought from Scottish Re at the beginning of 2009 was also giving us quite a nice lift because we had much better claims experience on that business in 2018 as compared to 2017 and even a little bit better than 2016. That was actually quite reassuring that the claims trend on that business (inaudible) a trend to the downwards, and not only trend to the upwards. That doesn't mean that the business is profitable, it's still negative.

Also, I mean our financial solutions business had a record year. And then also all our non-U.S. business had performing according to plan or in some cases, even better than plan. On the investments, I was already telling you that this was again a very good year for Hannover Re ROI, driven to a large extend also by good returns from our private equity portfolio and our real estate portfolio was quite good.

I put this slide in just because it's the 10th year where I give you the report on the annual results and when I started to do that for 2009 and -- in 2009, first time in 2010 for 2009, I of course, gave the commitment that we will reduce the volatility of our earnings and we'll be stable from a tenancy rising dividends, and if you look at this chart, that has actually worked out quite nicely, particular, you can see that the earnings per share were quite solid, and basically have a positive trend. And also we paid a dividend every year between each of those years based on the share price at the time, with return on the market cap of more than 4%. You can also see that in the last five years, we managed the growth of the capital downwards. But we didn't manage the capital downwards, just the growth of the capital.

And with that rather nice slide for myself, I would think we should become a little bit more professional again. And for that, I hand over to Roland.

Roland Vogel {BIO 16342285 <GO>}

Thank you, Ulrich. I will try to continue to show impressive numbers myself as well. I think if you are -- and if you might be, as you mentioned, be more professional.

On the first slide we see here the cash flow numbers, again a very strong cash flow of EUR2.2 billion, which we very much appreciate and you might remember that at the occasion of the Investors Day, I was talking a little bit about the positive cash flow and the influence on especially our investment income. Because we talk a lot about ROI and also Ulrich mentioned that, we are happy with the ROI but the investment income is a computation between the volumes and an ROI. So in that regard, the increasing volumes driven by the cash flow are important also for the investment income numbers. In the future, we can see that cash flow seems to arrive at the assets under own management on the right hand side, it's more a coincidence that we have the EUR2 billion coming in, and a EUR2 billion increase of the assets on our management, because here of course, we have currency valuation, we have the valuation reserves, we have issued a senior bond early in the year and here, of course, all these different impacts are to be felt like, for instance, a stronger U.S. dollar, but weaker valuation reserves based on higher spreads and increasing yields, especially in the U.S. dollar.

Some of these impacts also have affected the shareholders' equity development Ulrich already mentioned. We do show an increase in shareholders' equity also in 2018, if you compare that to the competition, I don't know how many you find who did that. If we look at the right hand side, you see that, of course, we have a positive impact from the good EUR1 billion of profits. We paid out a dividend, the valuation reserves got cut down, as I mentioned, based on increasing spreads and increasing yields, especially from the U.S. dollar. The currency translation brings it up again. And overall, we have nearly 3% decrease or EUR250 million increase in shareholders' equity for the year to come.

On the left hand side, what we here call or define as policyholders' surplus hasn't changed drastically, we will come back to the EUR1.4 billion of hybrid, which are outstanding. There is room for more and we will see that later on as part of our solvency reporting. But again, nothing has changed here and these are still outstanding. But there is room for more if need be.

Now, perhaps one of the more impressive charts and Ulrich had already addressed some of the items here. We do see that the shareholders' equity has been increasing over the last five years, quite remarkably from EUR6.7 billion to EUR8.6 billion, but we were able to produce attractive returns in 2018 to 12.2% is a outperformance of our internal target of 270 basis points. If we look at the five-year average, we even have a higher performance, we ended in 30 basis points, Ulrich mentioned that within the last 10 years, every single year showed a double-digit return, and also on the right hand side, you can take the five-year average or the 10-year average or the 15-year average, and we have outperformed our internal targets by quite a margin.

That is the usual ranking, which we show as the ROE is our main profitability indicator or measure. If you -- if we look at the 2017 years, we see that Hannover Re was only Number 2. Last year with double-digit returns, here the number one was a U.S. life insurer, who was very much helped by the US tax reform to produce the 24% ROE. Here, if we take that out to some extent and I'm not saying that to disqualify that, but if we take that out, then also the 5.7% industry ROE last year would have already been lower. And if we see the development of the ROEs of the industry over the course of the years, they go down. If we take out Hannover Re out of 2018 and take the average of the seven companies, who have already published numbers, we arrive at 4.2% industry ROE. That, from our point of view, is not sufficient. It should have an impact on the pricing going forward. But of course it also demonstrates a little bit that especially in the years when we have high losses, Hannover Re usually outperforms and you know, that this is one of the key drivers, is our (inaudible) strategy, but also here again the 13.3%, I think is an impressive number. And we feel very comfortable where we are here in the pool position.

Now to the Group's figures, we -- you've seen them earlier this morning, the main measures have had already been published. So in that regard, we will come to the details on a segmental basis. Only here, I might mention is the tax ratio, which is, from our point of view, back to normal. It had been helped by the sale of the equities portfolio last year. These profits were tax free, as you might remember, EUR224 million as kind of an extraordinary tax -- nearly tax-free profit last year had decreased the tax ratio and the EUR225 million, around 25-ish range I think that is something which we would expect as a normalized tax rate. Ulrich had already mentioned, EBIT grew by 17%, also the net income, double-digit growth, but also here we have to take into account and to admit that last year was a year where we did not fully achieve our EUR1 billion target. So it was a little bit easier to achieve these double-digit increases in 2018.

Let's come to the property and casualty reinsurance, where, well, things might not become complicated, but where a few more comments might be valuable. The P&C premium grew by 16% currency adjusted, that was helped by the structured reinsurance was 16.7% and the surprising portion was -- is obviously not that the structured reinsurance business was increasing or could be increased by 17% -- by 16%, but that also that what we call here as the traditional and that might be a little bit misleading, it includes the ILS business as well. That also, this has been growing by 16%. Also that has been driven by a lot of -- or a good handful of larger contracts around the world. So for instance, the U.S. was increasing by EUR200 million by EUR100 million worldwide treaty was increasing by EUR450 million and the structured reinsurance by more than EUR300 million. So it was really an around the world gross also outside the structured reinsurance segment where we all had expected that gross already and where we had announced it. Structured would have been even a little bit higher. You can see that on the net number, here we changed accounting for one large contract, which then turned to kind of premium reserves into an entry-out and an entry-in, so in that regard, the net premium here with more than 20% indicates that change. So here, the net premium even increased by 22.5%.

So we will come to the large losses on the usual pages and slides in a minute. Let me comment on the run-off result and the initial reserving and the confidence level. You -- or most of you have seen that the table in our Annual Report shows the run-off result of nearly a EUR1 billion, a little bit down from last year. The initial reserves, as we usually set them up, we stuck to our usual policy. We will also see in a second that two lines of business were affected by a positive run-off that was marine and credit and surety. Marine, it is really quite obviously on one of the slides, because the combined ratio there was only a 9% combined ratio.

So overall, one could see that -- so something of between EUR100 million and EUR200 million, one could define this extraordinary positive run-off. The issue here is that these were, in most cases, case reserves. That was not driven by an ultimate loss ratio setting by our Chief Actuary, but they were single case reserves, which we could no longer keep up because it was quite clear that we wouldn't have to pay out on those and the impact of the positive run-off of such case reserves to the large -- to the loss reserve redundancies, this is where we really need the final study from Towers Watson. But again, the guidance here would be EUR100 million to EUR200 million positive run-off, EUR100 million to EUR200 million decrease of confidence level possible. You know that we have various parties and stakeholders looking at our reserve portfolio, that is our own actuary, that is the auditors, that is Willis Towers Watson. We have indications that at least one says that level should be stable. Some also indicates that the EUR100 million to EUR200 million loss of reserve redundancy could be the result of the final study, so we will have to wait. Still, if you remember the presentation at the occasion of the Investors Day, the reserve level is still on a very comfortable level in any case.

Here are the large losses, we've commented on that more than once, EUR825 million was the budget for the year. We had EUR850 million. It's interesting to see that last year we had gross losses of EUR1.8 billion. this year, or in 2018, we had gross losses of EUR1.7 billion. If we assume that in both years, the impact of the ILS segment is around EUR400 million, a little bit less than that, if we deduct that, because that is in and out in any case that with debt and would result in 2017 around EUR1.4 billion and in 2018, EUR1.3 billion, but the difference between gross and net is remarkably higher in 2018. So the retro program, which we had outstanding and the additional capacity, which we bought for 2018, really did help the difference between gross and net in that case and of course, it is also one of the drivers for the good result, especially as compared to the competition.

So usually, we come with one page of large losses. That was not sufficient this year, we have brought with us two pages, one for the natural catastrophes and one for the man made losses. Here you see the natural catastrophes. It started in Europe with (inaudible) but of course, over the course of the year, it ended with a very, very busy Q4, which started with Michael, had the (inaudible) wildfire as the nearly largest loss. It turned out that JV also developed a little bit over the course of the fourth quarter into the real largest loss, you see that EUR135 million on a net basis, followed by (inaudible) the wildfire in the U.S. by EUR130 million followed by the other. So a lot of frequency again, the the retro structure, which we have in place, the (inaudible) the whole account protection plus the aggregate large loss cover was very sufficient and that should also be the reason as to why future development is potentially really limited. Also the retro structure did prevent us from having a lot of negative run-off from the last year. Also here, we had some development, of course, also from (inaudible) developed more positively, also they are protected by both the retro structure, which we have in place. Overall, the development also of the last year's losses were stable.

You see it on the next page, then the man made losses with accumulation of credit claims, it was interesting, I think we never had four credit claims, which made it on the large losses, still it is interesting to see that credits was seeing a positive run off. It saw the credit claims, but even without the positive run off, it would have been still be possible, so it was -- it is still a very attractive returns in that line of business. But you'll see that as we are protected for natural catastrophes, here the numbers between gross and net are (inaudible) each other.

That brings us to the -- of the various lines of business, and of course one could see the impact of the large losses here in North America was affected also the Facultative business, the worldwide treaty would have served, from our point of view, remarkable is that our -- the Bermudian cat business, we're still within the target combined ratios with 88%. But of course, this is where the natural catastrophes landed, and this is where also the good protection of the retro program had its impact.

I had already mentioned the very, very positive result in Marine here. We didn't have a lot of losses. So it would have been good anyway, and we had the positive run off. It looks very impressive, we should be aware that marine these days for us accounts for a good EUR200 million in premium, so we shouldn't overestimate the impact from such --- from such a combined ratio. Also aviation, which had benefited from the reserve releases from the WTC disaster last year, premium in that in that line of business also a little bit more than EUR200 million only, that is different in -- for credit and surety, here we are talking about EUR750 million, also as I mentioned, a very positive result and even without the positive run-off and including the large losses, we would have seen a good result here as well.

Premium wise, it may be worth mentioning the structured reinsurance, EUR2.9 billion, 24% of the overall premium income, the largest segment with regards to gross premium these days, again as I mentioned, the quarter of the overall premium. If you see that this comes with a combined ratio of around 98%. You see, if you do the rough math, the impact of the excess combined ratio quarter times 2% is 0.5%, we ended up at 96.5%. So in that regard, of course, to be fair also in the previous years, we had some of the structured reinsurance, but that might explain as to why we did not achieve the 96% target and as to why we increased it to 97% in the coming years.

Coming to Life & Health. Ulrich had already mentioned, it was a positive surprise, we had announced that the extraordinary burden from the potential recaptures based on our price increases could be between EUR300 million to EUR350 million. That is what we indicated with the maximum of EUR500 million in to EUR600 million. Now it turned out to be EUR272 million, mitigated by the collateral reserve releases and ended up at EUR185 million. That, of course, is one of the drivers as to why we did outperform the reduced expectations. Also the underlying business was very positive. Ulrich mentioned also the U.S. Financial business was an all time high. So in that regard, we are really happy that also this segment can come up with positive surprises, at least once in a while. We are still careful going forward with our assumptions. If you ask us, is there more to be expected? We might see EUR20 million to EUR50 million recapture impact in the first half year 2019. Why is it EUR20 million to EUR50 million? I think EUR20 million is quite clear, this should come, because the increases come with the renewal date of the policies, some of these renewal dates are still up for -- they will come over the next few weeks and months. So in that regard, that is a EUR20 million, which we will most likely see and the rest is to be seen as to whether we're talking about one client here, they are thinking about going into arbitration or not, if they choose not to, then we --- then they might recapture and we might see the other EUR30 million, if not, then we won't see that and we will have to find later on -- find that out later on.

I think gross, you can see, it was currency adjusted, 4.6%, not overwhelming but fully in line with our expectations, that one of the main drivers, China and UK, longevity, as you can see here. What else, I think as mentioned before, the EUR121 million EBIT for the last quarter and the EUR276 million is still not living up to our expectations and profitability targets we have defined. But I think, it's a very good basis for what we have to expect into the future.

New business production goes down, is that disappointing? No, it's not, it is comfortably over the hurdle of EUR220 million. Why is it going down? I think there was the one contract in 2017, we cannot take that as a guidance at all. We have not been writing as much permanent business in the U.S. anymore with a very, very long tail. This is where we are a little bit more cautious, that of course, this business was a very, very long tail, where the new business production is then very high, as we are a little bit cautious in that segment as (inaudible) this is the reason why the production has come down a little bit. Again, we are comfortably over our level. And I would also say that the likelihood of then future adjustments by not writing that business anymore has also come down together with the new business value. Again, we are significantly above the hurdle and we are not disappointed at all.

So now the investments, Ulrich mentioned that we have increased our ordinary result again, that was driven by increased volumes, also increasing reinvestment yields in the U.S. dollar. You will remember the presentations which I usually give. So in the U.S. dollar, the reinvestment yield was higher than the maturing yield, that has helped as well. The private equity distributions as well as the real estate ordinary income was very positive again. So these are sustainable supporters of the ordinary investment income. Realized gains came down remarkably, of course driven by not being in a position to sell the listed equities portfolio anymore, still it was EUR128 million. Also that line contributed, that was driven a little bit by the derisking strategy. So we sold some of the really lower quality, some of the lower quality funds with good capital gains by selling those. So we were derisking a little bit. It was also our assumption that and -- in that regard, the timing was lucky. I'm not telling you that I have that crystal ball, but when we were selling these funds over the course of the summer, and then we saw the the spread widening at in the second half year, I think that was good timing. We were expecting the spread widening to go on. And we are also prepared to reinvest into the lower quality spectrum of the credit curve now, since the beginning of the year, that trend reversed itself. We still see opportunities and the -- and again the reinvestment yields have come down, again a little bit. But with these communicating numbers also, the reserve numbers, valuation reserves on the bottom of the page, which was coming down from, you might remember, we had numbers of EUR2.2 billion just three 3 years ago, EUR1 billion, I think the last number I saw last week or so was EUR1.3 billion, again. So the rate decreases in the euro, as well as in the U.S. and the spread tightening led to higher valuation reserves. Again, which you can see as the Germans saying, would be with a laughing and a crying eye. On the one hand, we were appreciating the increasing reinvestment yields, on the other hand, it's good to have reserves.

Here is the usual slide, you can see that if you look at the governments line that we have increased from 30% to 35%, that was also to some extent driven by an increase of our inflation protection, which we do with inflation-linked bonds. These are usually government bonds and we had increased our inflation protection one more time, that has also increased the government portion to some extent. You also see that the non-investment grade number goes down a little bit, the real estate goes up. These are not not drastic changes, but they contribute. You also see where the ordinary income comes from. So we have allocated 35% to govies, but only 25% of the net income comes from the govies, if you look at the real estate portfolio, 6% allocation but 13% of the net income. So very profitable, although, and I've mentioned that before, it's a little bit inflated, because the cost is deducted elsewhere.

I think that then leads us to the first and preliminary number of our solvency reporting. You might have to be a little bit patient to see the full reporting, which we will publish in April. These are numbers, which we have produced today, the audit is not final. So this is why I would call them draft. We don't expect changes here. The capital adequacy ratio comes down, we still provide, by the way the internal metrics, the difference between the internal and the formal metrics in the middle of that table here is the treatment of minorities, because we still feel that the minorities is something which we have and which we can work with (inaudible) or the regulators. Don't see it like this, and this is why we provide the two numbers.

It has been coming down. We will see the history of that number, the increase or the decrease of the number, sorry, is driven by the increase of required capital. You can -- the own funds are increasing as well, but they would have to increase by the 2.6 times as much to keep that stable, which they don't. So we have an increase in the own funds. But the required capital goes up even more. The main drivers are the growth of the business, which we like, so, some of you were complaining why we would have 260%, what would we do with all of that excess capital? I do hear you complaining, also, some of you complaining about that last year. Now we found ways and means to employ that -- at least parts of that capital. One other contributor was the increasing spreads. With the increasing spreads, we have increasing volatility assumptions and they also require more capital. So, yes, it's a decrease, but we are still happy and we will see with the history where we come from as to why we just only see that positive.

On the next page, you see the composition of the capital requirements. Not a lot of change, Property & Casualty has of course increased, or the portion has increased based on the growth, which we have been seeing the market value or the market risk still, the most prominent risk here but only by a very, very slight margin anymore and within the market risk is spread risk is the main contributor, 34% diversification effect. So in that regard, the numbers haven't changed drastically.

Here, the history of this is, I want to remind you where we are coming from. We felt very happy with the 220% in 2015. Already, we have defined our threshold at 200% and our limit at 180%. This went up to 230% in 2016, it had a peak in 2017 with a 270%, now with the growth we are slightly down again. But I think also, this graph should show you that we are at a a very comfortable situation today as well. Here is the translation between IFRS and Solvency II, if we go, you know the criteria or the aspects, which changes here. We have some adjustments of the assets where we, of course, according to Solvency II, don't have any hold to maturity or amortized cost assets. I think there is no need to go through that.

Here, the second column on the right hand side shows you that there is room for EUR1.4 billion in hybrid capital, that would also count as Standard and Poor's or AM Best capital. So in that regard, if we ever come under pressure from the solvency ratio where we are far away from, we had -- we would have ways and means to get that even more comfortable, again.

I think with that slide, as always, leaves the target metrics to Ulrich.

Ulrich Wallin {BIO 4863401 <GO>}

Thank you, Roland. Yeah, that brings us to the target metrics and you can see we have mostly takes that reflects very good 2018 result. To take the missing, one is the EBIT, sorry -- EBIT, all the Group targets have been met, but the combined ratio is slightly above our target, well, that has to do of course, with the losses, it also has to do with the component of the advanced solutions business, so the structured business where we increased the target to 97%, not because of this, but because of the composition of the business.

The other one is the IVC, on the Life & Health side, and this still has to do with the U.S. mortality business because whilst we were happy with most of the business that was recaptured, we weren't happy with all of that business because also some actually quite profitable business was recaptured. That was included in the technical provisions as reducing the technical provisions because we were expecting future positive cash flows. So they came out and had a negative effect on the economic earnings, so to say and that also had negative effect on the solvency ratio. But the good thing, nothing offset has to be expected for the current year.

Then coming to next year, or this year, again the quite positive look at 2019 and that's not only myself, but the entire Executive Board and management of Hannover Re. On the P&C side, we see some momentum building for higher rates. That of course, is the reason for that is the rather disappointing returns of some of the market players. It's not an outright hard market, I would say, but we see a gradual increase in the momentum for rate increases. I would say, that the quality of the 2019 fiscal year from a rating perspective is slightly better than 2018 and '17, maybe on the level I would say of 2016. It's still, I would say, soft market pricing but slightly improving.

Overall as a result, we expect on the combined ratio, at least in our planning, slight improvement in 2019 compared to 2018, but from a basic quality of the business, certainly that we see in the market and Board assumes that on the P&C side, the business should pretty much track what we had seen in 2018. You can see that in this market environment, we're able to continue to to grow profitably, particular growth in North America and Continental Europe, both -- particularly in the North America we see rate increases also on the primary insurance side. So on both of those segments, we expect good profitability. We also grew in the wide reinsurance and this is largely growth from Asia and to some extent, Latin America and from Asia and particular China, where we have seen very, very significant growth.

Specialty lines, mixed picture, I mean Marine Credit and Surety, we expect continued good profitability, Aviation, we always put us negative because the rates are so low that you can hardly see them, development is positive I mean we see increases there. But as I still remember, a lot higher rates (inaudible) negative. But you might say it's not very well borne out by the combined ratios we are seeing in that business. But as Roland rightly said, it's a relatively small part of the business.

If you go to the Life & Health, that's where we expect the growth and profitability coming from is this year. Main reason is the U.S. mortality business, though the impact on the results will be significantly below what we have seen in 2018 and 2017 where in each of those years, the result of our business that we acquired from from Scottish Re in beginning of 2009 was -- had losses of more than $250 million in each of those years, that for the current year, we come down significantly because lot of the business has gone through recaptures. We are expecting to see here result which is say, middle double digit US dollar negative result. But still a little bit up and downs, the mortality is still somewhat somewhat volatile, but the impact will be a lot less.

The mortality business outside that block is actually performing quite well. That's particularly true outside the U.S., but also our U.S. what we call the organic, our new business, provides us with increasing and good profitability. So overall, we expect the mortality solutions business on a whole to get back into into profitable territory.

On the morbidity business, we have significant growth, in particular in Asia, it's a lot of critical illness business. The business is not quite as profitable in and large as the mortality business when it worked as expected, but it is shorter term and is actually I mean, more than sufficient to cover the cost of capital.

Longevity, due to very conservative reserving the overall profits, the next few years will not be that exciting, but say four years to five years from now, we should see increasing profitability because, then the blocks are aging to a level in particular in the U.S., the -- I mean, mortality improvement that we calculated in may not materialize to the full extent, which would then give us positive extra to expected results. The star will again be the financial solutions business. We expect growing profitability there, very profitable book in the U.S., but we grow that business also in Asia to quite some extent now. And we will see that the profitability from that business grow client remarkably in 2019.

If you sum that all up, come to the guidance of 2019, we haven't changed that at all, I mean the premium target growth, we are relatively confident that that should be achievable. We had rather good on the P&C side, rather good 1/1 renewal. We grew 15.4% the renewed business. (inaudible) is shaping up quite nicely as well. So the growth should be fine, Life & Health grows a little bit less, but also there, we see increases in premium, particularly in Asia. We see some, of course decreases in premium, continued decreases in premium in the U.S., due to the recapture, of course, all the recaptured future premiums. Nonetheless, we see that positive and we grow on the financials solutions side in the U.S., but most of that is deposit accounted. I mean, you have seen on the numbers that Roland showed you that the other income and expense line on the Life & Health business has become is a really significant profit contributor. But it's a little bit unusual, because normally you have the expenses for the company as a whole in there, back to due to the deposit accounted business, that has become really a profit engine for our Life & Health business.

For our investment, we expect a solid result, we haven't planned any extra lift, but the 2 -- more than 2.0% or at least 2.8% should be achievable provided that the capital markets do not see any dislocation beyond what we had seen in the last few years. And then of course, the net income, we expect in the region of EUR1.1 billion. I mean, I would see it should be around EUR1.1 billion, but provided that the loss --- large losses status in the budget are not much more than the budget and we see no dislocation of the of the capital market, this region should not be symmetric, so it should be a little bit -- have more leeway to the ups to the down, I would say. But what it should really show you that we expect the growth in the profitability in 2019 as compared to 2018.

Dividend, provided that we get the results that we are guiding for and provided that the capital ratio, the solvency ratio stays above the -- I would say, 210% to 220% level, clearly the dividend that the Supervisory Board and the Executive Board of Hannover Re will suggest or they recommend to the AGM of Hannover Re for 2018 of EUR5.25 per share, it is clearly the benchmark for the dividend in 2019.

With that, summing it up, we believe that we, on the P&C side, are in the position to continuously outperform the market. We feel that we have a strong competitive position and have a clearly low expense ratio than our competition. On the life and health side, we are seeing growing profitability, as I explained and expect a solid result on the investments, that is for 2019 and should also give the trend for the medium term.

With that, thank you very much for listening. And we will be more than happy to answer your questions.

Questions And Answers

A - Unidentified Speaker

Well, thank you. We will now begin with our question-and-answer session. (Operator Instructions)

We shall proceed first with the questions from attendees in this room and then move on to the questions coming from the conference call. On the right hand side, I already see some hands up, we start with Kamran and continue with Andrew Ritchie.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, it's Kamran Hossain from RBC. Two questions. The first one is coming back to the 15-year ROE track record, clearly you're fantastic, exceeding your own targets. Can I ask a little bit about, do you think your own targets are too conservative? So when we look at EUR1.1 billion or around EUR1.1 billion for this year, this feels conservative, so that's the first question.

And the second question is, coming back to something that was at the beginning of the presentation, you talked about undefendable reserves where you've been forced to release them. Could you maybe talk a little bit about two pockets; one is, I guess in the UK, again the continuous mortality improvement group today has reduced life expectancy assumptions six months (inaudible) and the second pocket is (inaudible) we've seen a couple of the big (inaudible) hold that assumption to zero. So what is the trigger points for saying this coming through into earnings? Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, thank you for those questions. Well, I mean you might say that the forecast is conservative, but I think it's not much more conservative than we had in previous years. And yes, I mean, it should basically, I mean the main things that we want to say is that we see profits rising. I mean, there's always so many things happening throughout the year that, I mean we're never overly bullish with these numbers, I would say.

Undefendable reserves, I mean, on the UK motility improvements, on our pension blocks, they're clearly defendable, because we have the lock in principle. So any improvements will only show when there is positive development extra to expect it, we cannot use that in -- I mean, letting it go through IFRS earnings. If you change the technical provisions on the Solvency II in that respect, we can of course do that if it's well-founded as that would then increase the solvency ratio. It will also increases the IVC, then of course. Then the (inaudible) that could become undefendable, because all the case reserves we currently reserve at the minus 0.75% and that's a pretty large number, by now from some of our clients, we get, I mean loss advises although alternatively with zero or even 1%, but we are not using these on -- for case reserving purposes. So should we really see an increase in the (inaudible) raise is then of course these case reserves will come down and we will just have to release them, I mean it's not a lot we can do there.

A - Roland Vogel {BIO 16342285 <GO>}

Kamran, if I may add to this, too conservative, I'm not sure as to whether you were referring to the 900 basis points in the ROE achievements or the absolute guidance, which we gave. To the first point, and we have heard that question before. So if your outperformance, your hurdle all the time, why don't you just increase it and make your company even more profitable? The one thing you should really bear in mind is that these targets are really cascaded down to each and every -- to a contract pricing level. And if we, for instance, would say, we increased our hurdle from 900 basis points to 1200 basis points, that would mean that we no longer write the business, which provides 1000 basis points.

So now it comes back to the investors and your requirements, how much do you require of us? Do you want us to write that business? Because we are not paying dividends out of percentages in ROI -- ROEs, ee are paying that from euros. So in that regard, you might be happy to receive the euros, which we make from all these contracts which only, in quotes, provides 950 basis points. So this is really a sophisticated system. And if we take decisions here, they have impacts which might sound great to present it to you, but it really has an internal meaning also for the pricing.

A - Unidentified Speaker

Okay, Andrew?

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi. So, Andrew Ritchie from Autonomous. For Roland, first of all, looking at the ROI, for the last couple of years, the returns on private equity have been seemingly exceptional, I mean, at nearly 20%, if I just look at the income compared to the private equity asset base. I think real estate is 8% or 9% for the last couple of years, I appreciate those growth of expenses. Those just seem unsustainably high. But why are they so strong? And I mean presumably, it's part of your guidance that we shouldn't extrapolate those.

And I guess a question, it's early, I mean you changed your chart record, what have you left for the -- your successor to address? Is there -- are you leaving any notes in the desk drawer of things to look at? Is there any, again, one maybe one or two items that you felt you maybe you'd like to have done better more? I'm not sure, something like that?

A - Roland Vogel {BIO 16342285 <GO>}

Should I start? ROIs, with regard to the real estate portfolio, here I am really convinced that this is sustainable. We always mentioned and indicated, look this gross number in the ordinary income is to some extent it inflated. So -- and the expenses go down, so here, a 6% for the portfolio, which we have on a net basis, which we had in the previous years as well. I think we see that as sustainable. We -- that portfolio developed really well. My colleagues very often asked me, so if that is so profitable, why don't you buy more of that? That is exactly the thing, it is a high quality, single-building policy, we look at every building, as such, we've increased the universe to also include Asia now. So in that regard, I'm really comfortable.

Bit more complicated on the private equity side, you mentioned the kind of excessive margins which we made, they were driven in the last years and years '16 and '17 in particular, where some of the funds did extra distributions, plus our IFRS accounting, where we did not fully account for those profits, which were retained at some funds, there was an argument as to whether according to IFRS you look into that or not, there were some extraordinary items. 2018 was rather free. There were some smaller distributions, but that was not in a real major extraordinary level of private equity. We are in the double-digits and we feel comfortable that we stay there. Also there, there might be a market development, but what we have seen, it's very mature, we are a portfolio which of course renews once in a while, 2%, that means nearly EUR1 billion, which we have there and continue to have there. So also here of course this is private equity, you don't get double-digit returns risk-free, there is no free lunch but there's no reason to really assume that apart from major capital market developments, that this should not continue.

A - Ulrich Wallin {BIO 4863401 <GO>}

And I mean for my successor, there is lots of things to do, I mean we have of course our digitalization initiatives, which is of course improving internal processes, improving underwriting by better use of data, and I would say, I mean there is quite a lot of developments that we can do in the future. And I'm sure we will and at the leadership of Jean-Jacques.

There's also of course some business relationships with clients around the world, it's definitely room for improvement, It's also of course readjusting the level of service we are providing our clients in order to produce business. So there's a lot of things to do, I mean, and it's of course always challenging and it's a lot easier to say well, that's a piece of cake when you're not having to do it. Looks a lot more challenging when you have to do it, as I know. But there's lots of things, and one thing is of course the most important, not doing too expensive mistakes. I mean, making small mistakes, that's fine because you have to do it, if you make no mistakes, you're not doing anything, but mistakes like buying a clearing or buying a Scottish re portfolio, if you can, avoid do it, because It has two negative effects on it. I mean, of course, it takes out some of the financial strength of the of the Company, but it also, I mean, takes a lot of management attention. I can tell you, I know a lot more about the U.S. mortality business than I ever wanted to know.

A - Unidentified Speaker

We continue to stay on the site with Vinit.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you, Vinit from Mediobanca. So three, if I may for now. Just on the reserving, first point. So, I noticed that you said that there is $100 million to $200 million extraordinary reserve releases in '18, there were case reserves, which you said you just could not release. So that should, in theory, not damage or not reduce the confidence interval at all, because they're not needed. So if you could clarify that aspect of reserving? And should I go to second question, now?

Second question is just on the SCR increase and I have tried in my head some rough attempts at figuring out how the EUR1.2 billion of premiums increase led to such a big EUR400 million odd increase, there must have been diversification, and secondly, structured solutions, by definition, as we understand is a low capital requirement business. So those concepts are not adding up at all. Maybe you could help us in breaking up the growth versus investment risk or any other risks? And there is one-third diversification as a sort of standard also, so it's not adding up.

Sorry, just last question, sorry. So the new business value of life. So also, Ulrich, I noticed that you said China, critical illness is not that profitable. Maybe this is dragging this down a bit. What is the 220% is supposed to achieve because the way we understood always from the outside is that new business is fantastic. That will override the problems of the back book of U.S. mortality et cetera, et cetera. So what if you did achieve 220%, is that level at which it offsets any back book or what -- how should we interpret because you said, the only thing good about that chart was it was better than 220%, otherwise it was very low. So, thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

I mean, first of all, you understood me wrong on the critical illness business from China, we actually think that is actually quite profitable. However, what we have on that is what we called soft guarantees. So we are not guarantee the rates for the lifetime of the policy, but only for five for 10 years. That means that for us, for calculating the value of new business, it take only the guarantee, again, the guarantee period into account. So we only guarantee the rates for five years, we only calculate the expected profit for the next five years, we're not going up going beyond that despite the fact that these treaties would normally -- because of policies, would continue beyond that. That of course reduces the value of new business.

The other thing is on the U.S., the UK and Canada, we have increased following the experience with the (inaudible) portfolio, we have increased our rates on the permanent business, not that significant but sufficiently significant to become uncompetitive, so we are not having that business. Of course, if you have the permanent business, which is like whole of life business sold at the age of say, 35. I mean, you have a tail on that business is easily six years. So if you just calculate that with the assumption at the time of underwriting, you expect positive contributions for the next 60 years, which of course makes relatively large value of new business. It's also of course subject to a lot of risk because of the mortality assumptions have to be changed downwards and of course that value of new business can evaporate rather quickly.

The 220%, I mean if you make the 220% and have a neutral development of the technical provisions of the back years, due to the roll forward, that would means that we achieve -- certainly -- that we certainly outperform our level of IVC, of the xRoCA, I mean, we are then significantly over and above the 2% xRoCA level. That's why we have it, I mean what that does then on IFRS is a little bit more difficult to say because that really depends how you account the future profits in IFRS and how the profits emerge, I mean, as they're normally a little bit back loaded. So that's a little bit more difficult to tell. Also, of course on the IFRS profitability, not an insignificant part of that also comes from kind of short-tailed health business, which of course has no value of new business, because a lot of that is actually single-year business.

I mean on the SCR, of course, we have an increase due to the spread increase because that's the year end, we had a significant increase in the credit spread. that means that we assume a higher volatility. So that increases, that spread increase increases the SCR. Of course, the growth in the business, including some growth also in the cap business increased the SCR as well. And then, one has to say that the internal model is not static. I mean it has model changes all the time, minor model changes, but they also have an effect. So it's not that easy to calculate the effects from, say 31st of December '17 to 31st of December, it's not such a simple calculation, I have to say, but I guess my colleagues may be more than happy to explain that maybe, our Chief Risk Officer to give you that maybe at the next Investor Day, I think it's -- because it takes a little bit longer time and deliver more data I have available here. But at least, I mean in general, one can say that the increase in business and the increase in spread has driven that of growth of the SCR.

Then on the reserving role, and I hand that over to you.

A - Roland Vogel {BIO 16342285 <GO>}

Yeah, Vinit, as I think you have a right point, this is why I indicated that there is some uncertainty and also that three different actuarial parties did not really come to the same result. It is well, if we, for a special segment, calculate with actuarial models that the best estimate point for the ultimate loss ratio is 90%, we reserve it at 96%, then we have a 6% redundancy level, if then we decide, over -- maybe we have a little bit of a pressure, let's go down to 94%, then the math is easy to tell, look as this was an extraordinary downward take of the large -- of the reserve redundancies, easy to say that or to calculate it. It's a bit more complicated that you have, in a line of business, a certain redundancy level and then case reserves, which you are totally right. If that is a pure case reserve, one should assume, if we take it out, nothing happens to redundancy because it's just in and out. Still, the ultimate loss ratio calculation depends on the incurred case reserves for the actuarial model lying beneath that.

So in that regard, and this is why I was a little bit hesitant and I was mentioning the uncertainty for the EUR100 million to EUR200 million because exactly that what you mentioned is right, it is not too easy to now determine the exact decrease. And as we would then say look, EUR100 million to EUR200 million, that is what we expect the reserve redundancy to go down, that exactly that point defines the uncertainty, which I was trying to indicate also with a wide range.

A - Ulrich Wallin {BIO 4863401 <GO>}

I'd be getting a little bit of comfort by the fact that the overall level of reserves have actually increased in line with the increasing premiums. So we have about too big and more reserves at the end of 2018 than we had at the end of 2017.

A - Unidentified Speaker

Okay. We continue on the site with Thomas Fossard.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, good afternoon. I've got two questions. The first one would be on the '19 full-year guidance. I think that couple of months ago -- weeks ago, you indicated that is in the region of EUR1.1 billion, was based on the assumption that the life business in '19 will be around EUR400 million of EBIT. Now looking at the numbers and adjusted for the specific item of the (inaudible) process, we're starting with EUR460 million in '18. So why the EUR460 million will not be the right base to think about the '19 EBIT contribution on the life side, even if you got EUR20 million to EUR50 million of additional recapture, we should expect some of growth in the business, and obviously you've got some relatively positive outlook. So, why EUR400 million is the right number?

And the second question would be really to P&C. And just to share, if you got some, I would say, a better news on how the 1\4 renewals could evolve for your business in terms of volumes and in terms of pricing you're expecting? Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Yeah, of course on Life & Health side, I mean you missed a prediction because I said at the end of 2016 that we would have more than EUR350 million of EBIT in 2017, which then didn't come through, so -- because of unexpected spike in mortality. So we are a little bit cautious on those predictions and therefore, I mean, we are happy with the EUR400 million for the time being. I mean, we would not be unhappy if it's more, but I think I was hesitant to predict that.

On the P&C 1/4, of course we will report in detail with the first quarter. So far it's shaping up quite well, but it's relatively late renewal, because I mean, reinsurers try to get higher prices and ceding companies look at their options and of course, see if they can come to terms with that. But overall, I mean, so far, it looks, I mean, moderately good, I would say.

A - Unidentified Speaker

So I think we move to the other side, to Bill Hawkins.

Q - Bill Hawkins {BIO 1822411 <GO>}

Thank you. Bill Hawkins from KBW. Three questions. I hope they're all quick. You touched on this briefly, I think with Vinit, but on Slide 25, could you try and give us an indication of what you think is the operating change of own funds in SCL and also Solvency II ratio, so if we (inaudible) market movements and model noise and other stuff?

And then secondly, again I appreciate you touched on this in other quarters, but now that we've seen the full year, can you just remind us about why there is a widening gap between your gross and net losses in terms of large losses. So the gross figure is down EUR100 million, the net figure is down EUR300 million. And I guess more importantly, you've already spoken in the past comfortably about this, but are you not concerned that at some point there is going to be some reasonable payback hits that you're going to have to take even if that doesn't come in 2019, because you've already done a lot of renewals.

And then lastly, given that you now have seven years of special dividend, is there ever going to come a point when you should just rebase the ordinary dividend and on the one hand, I appreciate that is just kind of noise we know what the total number is, but on the other hand, maintaining the special does kind of communicate some level of uncertainty about capital flexibility or growth or sustainability of profits, none of which appear to be concerns when you're talking, so why don't just have a higher ordinary dividend?

A - Ulrich Wallin {BIO 4863401 <GO>}

Yeah. Starting from the back, because if I may, I mean we already have increased the ordinary dividend and of course, we will continue to do that, not the 35% to 45%, which we already had increased to 45% and we'd probably be closer to the 45% that will come, I'm pretty sure. We would still then, for capital management, maybe at extraordinary, at least in the immediate future. Then on the -- why is the difference between gross and net increasing? Well, I mean our -- the losses that we had in 2018 fitted our retro program a little bit better than what we had seen in 2017. Also we had changed the aggregate, the retro program to buy more aggregate cover, which of course in a year like 2018, where you had so many medium-size large losses, which are adding up was quite helpful also, I mean, the (inaudible) transaction of course has a quota share in a year where you have a lot of frequency is actually quite helpful.

Pricing, well payback, yeah, I mean we understand the concept of payback, I mean there is of course, on our main whole account cover, there's still a very healthy credit balance for our retrocession, hence for 2019, we didn't get much of an increase actually, our department buying the cover would argue risk adjusted, maybe, they even got a decrease, but I mean, then of course they want to be successful. I would say in general, I mean, if we see significant reduction in retro cover and significant higher prices there, we think that that would filter through to the reinsurance pricing, which would then allow us to increase our retention of the business at better prices. We would of course always offer our retrocession as renewal, that's why we decided to do so, but of course only at a reasonable price.

And then of course also -- we also have the ability -- P&C business is largely annual business that coincides with the renewal dates of our protections. We of course also have the opportunity, I mean, to reduce our growth lines, if that is necessary to be in line with our risk appetite. But I mean, with that -- we are not so concerned. I mean, if you get more -- better rate then on the reinsurance side, we don't mind, I mean, increasing, say, as a deductible of our retrocessions and even pay a bit more. As long as we get more through the front doors, that's not too much of a problem.

Then on the SCR, how much is operational, how much is extraordinary through spreads? I would like to say that we would have to, I mean, give you that later in writing, because I'd rather not want to speculate on that one.

A - Roland Vogel {BIO 16342285 <GO>}

Okay. I -- please -- please, apologize or understand that we gave also our team more time to provide the Solvency II reporting. This will change next year. We have outside requirements to provide even before that. The SCR the SFCR will be produced, we will publish those numbers. We came with preliminary numbers, so we just ask you for a little bit of patience, we will provide all that information in April.

A - Unidentified Speaker

Well, then we'll just continue with Paris.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Yes, thank you. Paris Hadjiantonis from Credit Suisse. So, my first question would be on German GAAP earnings. If I look at the retained profits, plus the profit you have achieved in 2018, your German GAAP is position currently covers more than 2 times your annual dividends, which has been the case for last year as well. Is this a level that we should think that you'll consider to be reasonable, or is it too high, is it too low, so a comment on that?

Second question would be on German government bonds. I think that over 2018, you have more than doubled your positioning in German government bonds in your investment portfolio, so that's substantially up. So, yes, could you please explain that?

And lastly, on financial leverage, you have talked about the EUR1.4 billion of unused hybrid capacity that you have on your solvency position. Would you only increase your financial leverage or would you only go out to the market and get an issue hybrid debt in the case of your solvency ratio coming under strain or would you consider that for business growth as well?

A - Ulrich Wallin {BIO 4863401 <GO>}

Yeah, I mean if I may take the first question and I ask Roland to answer the other two. I mean, directionally, I would say retained earnings, and I mean retained profits on German GAAP, I would say it's still here more is better than less, so we would always want to have more there. At the same time, I would say we are much more comfortable position than we've 10 years ago. We didn't have any or hardly any, we had some retained earnings, but we had no profit carry forward at all. So we're in a much better position now, but of course it could always be more. I mean, that's very clear because it gives us financial financial flexibility.

Then with the other two questions, I would hand those to Roland.

A - Roland Vogel {BIO 16342285 <GO>}

Yeah, if I may add to what you said to the German GAAP positioning, I -- you might remember that there was a year when all of a sudden the German GAAP capital position was discussed, the next year I took that up and provided some information about equalization reserve and how it functions. We never had really such big constraints because the German GAAP is very conservative and being very conservative, you can steer it.

So we took that up. We built up some retained earnings and some profits carried forward. But, as Ulrich mentioned, I think it is something which can be managed, and it is not a decisive point for us.

Then the German government bonds, the doubling, I don't exactly know where that information comes from, and I wouldn't confirm it, I think if we had a lot of turnover in the portfolio, we were trying to decrease it, but first of all, we had to move various billions from Ireland to the U.S. as we had to move the business based on the U.S. tax reform. So there were things going back and forth. We, as I also mentioned, we have refueled our inflation protection, that also increased the government portion. The overall Group wide govie portion, went up from 30% to 35%. The majority, and this is now from the top of my head, should be U.S. dollar, USA (inaudible) so from -- at least, the movements which I, know about, again based on the issuance of the senior bond, which we have, where we also have some liquidity still available for financial reinsurance deals being available, that some of that money is to be parked and of course as it is -- some of that is euro, we kind of park it into government bonds because we would have to pay it out. So if that is the case, which I'm not fully aware of now, that is really driven by some liquidity management. It is not a strategic move to go more into German government funds.

The hybrid position, I think you mentioned two options. From my point of view, this is not -- these are not two options, you were talking about the same thing because you mentioned if we would take that opportunity to write more business or if we would take it to defend our capital position. From my and our point of view, that is the same thing. If the current capital position provides enough capacity to support the growth, which it does, which it did and that was a driver of from EUR262 million to EUR246 million and even downwards, again we felt very comfortable with EUR230 million in 2016. So in that regard, that would not put pressure on us to issuing hybrid bond.

Still also we would have to consider our positions with rating agencies, but also here luckily, we had in the past situations, where we would -- it could add some hybrid in that model and it wouldn't count in the other. Here we are in a position that every additional hybrid, up to the EUR1.4 billion would count in each and every model, but we would just not to do it, if there was no pressure from the growth side. This is why, for instance, we issued a senior bond early last year, because there was no need to issue some (inaudible) which we also could have done and use the liquidity for the same purpose.

Q - Edward Morris {BIO 16274236 <GO>}

Hi, Ed Morris, JP Morgan. Just a couple of quick questions, please. First earlier on, you were talking about the strong growth that you and your peers showed in January. I wonder if you could just talk a little bit more about the sort of main drivers of that? It seems that primary players who appear to be ceding more, I don't know what that was, there was some market share gains for traditional reinsurers versus our less -- presumably there some underlying growth and also pricing. So if you could just talk about which areas it was coming from and which of them you think are repeatable going forward?

And then the second question, I appreciate you may not want it give the exact number, but volatility adjust, which you applied for the first time in Q4, can you just give an indication of how significant that was to the solvency ratio? Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Yeah, I mean, according to the preliminary figures, it's 7.8% improvement of the solvency ratio due to the volatility adjustment. The -- where the growth is coming from, quota share buying on commercial books of business in order to manage the volatility, also some further buying of aggregate excess of losses both close or in the money and for managing the volatility of the earnings and out of the money in order to manage the capital. So we have seen quite a bit of that.

But still, I mean I would say we had a higher growth and the proportionate and on the non-proportionate that grew as well, but there is really more appetite for -- I mean, ceding volatile business to reinsurers and that was before. And of course one area, which has grown quite significantly has also been the cyber business. This also I think not only for us, but also, I mean trend in the reinsurance business. It's not huge, I mean, we're at EUR350 million of cyber business around that. So it's not that much, but last year was around EUR200 million, so you can can see it grows a bit.

A - Unidentified Speaker

So any further questions? (Operator Instructions) Before we take the question from Michael Haid from the conference call, we have a question from Vinit.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yeah, thanks for this opportunity. Just so Ulrich, you talked about your successes, digitalization initiatives. I mean one of the reasons Hannover -- one of the competitive advantages you cited to us over the last 10 years is the fact that expense ratio is cheap -- is low, sorry. It's probably because you're in Hannover and also probably because you don't hire too many large specialist researchers and those kind of things. But now that you've got cyber, you got so many others volatile businesses from ceding companies, I mean is it time do you think that this expense advantage should be a bit downplayed and then some more investments made? And maybe this is more for successor, but just where you think that is the situation?

And just secondly, just a quick numbers check as well, please. The -- I mean, if I look at the 2018 nat cat, for example, they were below your budget, man-made was at EUR42 million not far from five-year average. Could you just remind us the need to actually increase the budget. I mean, presumably, I know there's been business growth, but if 2018 didn't shake the budget much, then I don't know what you're assuming for, just some ideas? Thanks.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, the increase in the budget is largely driven by the actuaries, because they just calculate the expected loss, and the expected loss is of course on the nat cat side, the large loss budget, I mean, of course, we have, I mean capacities that we are providing ,they are never fully utilized. So the large loss budget also takes into account the expected utilization obviously of the aggregates that are available to the underwriters. So it's really -- it's a pure calculation. On the man-made, it will be more difficult, I mean I guess it's more an art than a science because calculated precise, I mean expected loss number for the man-made losses in all the different lines of business, with a franchise of

$10 million, it's not that easy to do, I would say. So that's more long-term average, there, I would say. Well, I mean on the expenses, of course, I mean, there will be a spotlight when Jean-Jacques comes on the expenses, because, I mean he comes from treasury, and people will think, well, does it mean that we drive the expense ratio in future, that will definitely not happen, I'm pretty sure, but of course I mean readjusting the level of services that we do, I mean we do a fair amount, already particularly in Germany, question as to what extent should we duplicate what the brokers do, to what extent we shouldn't do that, but that is an area, where I think a constant refinement of our policy is definitely, always has to happen. And -- but I would say, I mean (inaudible) my colleague and Jean-Jacques may be hard-pressed to easily give up the expense advantage.

A - Unidentified Speaker

Okay. Well, the next question is coming from Michael Haid.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good evening to everyone. One question on reserving in P&C reinsurance. Your run-off result has been elevated now for three consecutive years at the level of around about EUR800 million in 2016, EUR1.1 billion 2017, now EUR1 billion in 2018. I understand that part of this is driven by some one-off items like the WTC reserve release. And also another part maybe driven by some assumption changes, for instance, lower claims inflation. Obviously, this run-off results did not reduce that much the comfort level or at all the comfort level of reserving. So I'm interested in your view on what would be a normal level of run-off result in kind of a normal environment.

A - Roland Vogel {BIO 16342285 <GO>}

Micheal, thank you for the questions. And I think we've discussed it before, I don't have -- there were years, when we said look, if EUR50 million, the regular roll forward was EUR50 million then a EUR100 million. I also used occasions like the Investors Day to at least address a little bit of the potential complexities in that calculation. I think this is also why we feel it is really important not to just look at the technical result of the runoff computation, because it is so important to consider the development of the confidence level. We have always on top of that promised to indicate any extraordinary levels of run-off.

So in that regard, we, last year had the WTC, we indicated that this year, we had some potential positive extraordinary run-off in marine and some in credit and here we don't exactly know the impact on the confidence level. Moreover, of course, it is also sometimes a reflection of the business, which we write newly, when we expanded our writings in the UK motor business for instance, where initial reserve incomes was 120%, 130% sometimes one 150%. it also depends, of course, on the initial reserving, which then depends to some extend, on the business for you, right, but admittedly the changes are usually not drastic, so I don't have the number, but the one thing we could say or the one number, which is sustainable to be expected roll forward, Hannover Re absolute run-off result, but what we can see here is that again with the remarkable business growth, with very conservative initial reserving, we see that even such a result does not impact the confidence level of loss reserves, which then, indicates that we have at least added as much as the positive run off took out.

A - Ulrich Wallin {BIO 4863401 <GO>}

Yeah, I mean, as an example, for example, if you look at U.S. casualty reserving, I mean CES 2002 to 2006 right now stand at ultimate loss ratio projections just below 60%, then we reserved at, initially it was reserved with loss reserves over and above a EUR100 million and all the underwriting years from 2007 onward, at this point in time (inaudible) ultimate loss reserves of around EUR100 million, which means and a combined ratio of say, 125%. So I'm not saying that we will move back to (inaudible) because the market was clearly better 2002 through 2006, but we have clear indications that they are quite comfortable, I would say.

Q - Michael Haid {BIO 1971310 <GO>}

Okay. Thank you very much.

A - Unidentified Speaker

And the next question is coming from Vikram Gandhi from Societe Generale.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hello, hi there, it's Vikram, Soc Gen. Thank you for taking my questions. First of all, looking at your Annual Report, the 250 P&Ls have grown massively across all barrels and correspondingly the 200 your actual utilization is virtually unchanged. And then the third element, which is the increase in SCR for P&C re, that doesn't seem to have increased much, when I consider what the P&Ls are doing. So, can you explain what's the right way to triangulate these figures?

Secondly, I see a much increased credit spread sensitivity on Slide 39. What is the one disclosed at the nine-month stage, which was minus 725 versus minus 833 disclosed here. I just wonder, is it just because of the spread level that existed at the end of third and the fourth quarter respectively, on which the 50% stress being applied applied or is there something else? Thank you.

A - Roland Vogel {BIO 16342285 <GO>}

Yeah, I mean it is true that the P&Ls on the cat side has grown, we also increased our risk appetite on the cat to some extent at 01, 01, '19, this comes with an initiatives that we have, we increase our cooperation, there's a number of larger clients and that also means that they expect us to write higher levels of catastrophe on their programs, this to some extent mitigated by the use of ILS, but also nonetheless, our net, net P&Ls have increased, of course, I mean the premium has grown quite a bit as well. And you're right, that had an effect on the SCR as well, of course, the effect on the SCR is not as big as you might think, which is due to the diversification that comes into play there.

A - Ulrich Wallin {BIO 4863401 <GO>}

And with regards to the credit spread, sensibility. I think we mentioned it before, the credit spread have been increasing, that increases the assumed volatility and that at least from what I know today, and from the top of my head, is and can only -- can be the only reason for that, because of course we had some volume increases, but we did not increase our risk appetite when it came to credit risk. The spread risk is the most prominent risk within our portfolio. But again, we did not increase the appetite or the writings. We'd rather, as we indicated before, went out a little bit of the very low quality, but also we opened up the spectrum for the middle quality again. So I would say overall, our risk appetite hasn't changed. So in that regard, the impact, which you see here is to be driven by the highest spreads as such.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Roland, if I can just come back very quickly on the second point, I appreciate what you mentioned as regards to the increased volatility and that increasing the SCR, but the Slide 39 is really referring to the market value change. And so essentially, the increased volatility should not be playing a role here, Isn't that true?

A - Roland Vogel {BIO 16342285 <GO>}

I don't have now it's a page in front of me. And well, if you allow, we'd be happy to come back to that, but I have to admit, I'm not in a position to really address it right now.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Sure, we can take it offline. Thank you.

A - Unidentified Speaker

So are there any further questions? There are no further questions from the conference call and it looks like that we also have answered all your questions. So thank you very much, ladies and gentlemen for your participation and your interest. This call has been concluded and you may disconnect. For all others in the room, I'd like to invite you to join us outside of this room for snack and a drink. Thanks for coming.