# Q4 2014 Earnings Call

## Company Participants

- Roland Vogel
- Ulrich Wallin
- Unidentified Participant
- Unverified Participant

## Other Participants

- Andrew J. Ritchie
- Ben Cohen
- Frank Kopfinger
- Janet Van den Berg
- Kamran Hossain
- Michael Haid
- Olivia S. Brindle
- Peter Casanova
- Rötger Franz
- Thomas Fossard
- Vikram Gandhi



## MANAGEMENT DISCUSSION SECTION

### Unidentified Participant

Well, good afternoon to everybody here in London, and good afternoon depending on your time of day to all those who are joining us via the Internet. I wasn't going to give you a reminder about turning off the mobile phones, but it's easy to forget. So please do check if they are off.

That said, welcome to Hannover Re's Analyst Conference. It's a pleasure to see that so many of you have taken up the invitation. And we are very delighted to present to you the numbers for the financial year 2014 in greater details, the numbers which we have published already this morning.

Today, we have a new feature compared to previous Analyst conferences. We are offering additional dial-in option for all those who were not able to participate here physically here at the London Stock Exchange. As a reminder, the dialed-in participants will be in listen-only mode.

First of all, Ulrich Wallin will kick things off with a brief overview of the 2014 financial year. Roland Vogel, our CFO will then move on to present the financials in detail. Afterwards, we will be happy to respond at lengths to all of your questions you might have. And I would like to point out that you are kindly asked to wait for the microphone, so that everybody can understand your question even those who are not in the room.

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



## Ulrich Wallin {BIO 4863401 <GO>}

Yes, good afternoon, and welcome to our presentation of our 2014 results. I will kick it off. I will also finish it off as the outlook for the coming year.

Well 2014 for us was quite a good year, I would say. As you can see, we managed to increase the after-tax earnings of the group by more than 10%, and as this has been driven by strong underlying earnings from all segments, so that we could continue with our rather conservative policy when it comes to the reserves, be it on the P&C side or be it on the Life & Health side. So from that point of view, we didn't need to be aggressive on any of the various items of the profit and loss account and the balance sheet in order to generate this increased profitability.

We also decided to increase the dividend by a special dividend of €1.25 together with the ordinary dividend of €3 to €4.25. This is due to the fact that our capital grew rather remarkably by 28.2% and that of course would mean that the excess capital also has increased. And of course, the ROE for the current year would be under a little bit more stress so that it was the right time to start with the capital management for Hannover Re, which we already announced at our last Investor Day.

You can see that the business continues to grow even though at lower pace, due to the rather challenging market on the P&C side where, as well publicized, the competition has increased quite significantly, but nonetheless, the business continues the growth both the P&C business as well as the Life & Health business.

As already mentioned, the bottom line drew more pronounced as compared to the top line, with almost 20% growth of the EBIT compared to last year and, as already mentioned, 10.1% of the after-tax earnings. Despite the significant growth of the capital, the ROE is still at a quite acceptable level with 14.7%. So we continue to enjoy attractive ROEs.

If you then look at the individual business groups, overall with the property casualty business, we are happy we think development has been positive. EBIT grew by 12.2%. Admittedly, one might say that the combined ratio, particularly in the fourth quarter, some of you might have expected a slightly lower combined ratio.

On the other hand, we are quite happy with the after tax result of the P&C business group, and we were also quite pleased that we could keep with our conservative loss reserving policy, which is the result of course of the quality of the underlying business. But also – and that shouldn't be forgotten of the fact that the large losses came in well within budget. And this of course means there was no pressure or alleviation of pressure to the combined ratio from the large loss side, which really pretty much offset the pressure that the combined ratio of course have from the reduced rates, which we see as the result of the current soft market. So therefore, we could keep the loss reserving policy rather unchanged, a little bit better than we actually had expected.

With the Life & Health business, I'm quite pleased that the earnings have actually increased. The EBITDA increased by 75%, and also we had a 25% increase of the post tax earnings. This is in line, which what we are trying to tell you since quite some while; certainly since the third quarter and fourth quarter of 2013. This year this was still an easy target to have because our 2013 numbers, of course, were depressed due to the additional reserves that we put on the DII business, which we luckily can say now seemed to be a conservative.

So what really happened in 2014 that the results normalized. They're not terribly exciting, but they are more to the normal level that we expect from our Life & Health business. I would say the technical result particular in the fourth quarter, little bit below what we're expecting. Again, partly conservative reserving on the enhanced annuities, partly negative deviation of the actual-to-expected on the ING portfolio.

So – but overall pretty much in line with expectation for 2014 as a whole year. But everything has a positive as well. If you look forward to 2015, we feel that there is room for further improvement of the results of Life & Health.

We are very happy altogether with the investment results. Ordinary income up, which is quite remarkable considering the rather low interest rates environment that we are wrestling with. Here again the increase in volume helped significantly. Also, it turned out to be quite favorable for us that we changed the functional currency of Bermuda subsidiaries at the end of 2013 from euros to U.S. dollar because in restructuring the portfolio of around €1.4 billion at the time into U.S. dollars, of course, that we had meant that we have to sell euro securities, which resulted in realized gains.

And at the same time, the new investment in U.S. dollars were done at a time when the interest rates in U.S. dollars had a little spike, so even on those investments we already have realized gains. And also the running yield in U.S. dollars is slightly higher than in euros, particular since recently the EZB started some new experiments with the euro currency. So overall, we were very pleased with our investment income.

This is a broad overview of what we see for 2014. The finer details, Roland will explain to you in great detail. Thank you very much.



## Roland Vogel {BIO 16342285 <GO>}

Yes, thank you, Uli. The good thing is that I have an interface to my surrounding again, so my reading glasses broke 15 minutes before this meeting, but Axel was kind of enough to get this quality UK product from the drugstore next corner, so I'm online again. Thank you.

Thank you, Uli. I think you mentioned already some parts of – or the major parts of our key figures and results. But I think we should start with – before we get into the detailed P&L, we should look at some key metrics or remarkable developments of key metrics which were not only driven by us, but also by the markets or the EZB or whomsoever.

First of all, the strong cash flow for 2014 nearly reached the €2 billion mark again. We started a little bit slow into the year. I think we mentioned at previous occasions there was one U.S. mobility contract, and we might come to that contract again a little bit later, which was cash negative in the first two quarters. This will turnaround – has already and it will turnaround in 2015, so we will get that money back. But the second half year with very strong cash flow, which I think supports the positive message and the quality of the results, even with a little bit of a more depressed overall growth, the cash flow stays very positive.

On the right hand side, the assets under own management up by 14% or €4.5 billion. I can tell you with the development of the U.S. dollar and the yields, especially the yields of the government bonds, this today is approaching €39 billion. So the increase is really remarkable. And again, this is not only driven by a very good result, but also the yields and especially the currency exchange rates.

The same goes for the capital position on the next slide. Equity increased by nearly €1.7 billion or 28%; the policyholder surplus by €1.5 billion. Why is that a little bit different? Because we paid back €750 million in February, and we issued the subordinated bond, and we issued a new-subordinated bond in September with another €500 million, which then again was the reason why the policyholder surplus decreased or their subordinated bonds here decreased a little bit.

You might remember there is another call date coming up in June for €500 million. Up to now, we indicated that the last €500 million was already in early refinancing. This is not an announcement that we will call that. But up to now, we have called every subordinated bond at its first call date, so one might expect that this green part of the bar might go down in June.

On the other side of that slide, you see the increase in the shareholders equity. And I think that demonstrates very clearly where this increase – this strong increase is coming from. First of all, of course, €986 million of result, the dividend we paid last year was the €362 million. And that demonstrates that the increase coming from the valuation reserves on our invested assets, as well as the currency exchanges rates this is more than a billion euros, and is even higher than what we had produced as profits.

Now, you might want to distinguish these two components for the increase or the increased assets from the currency exchange rates. I think, this is also reflected on the earnings side by higher U.S. dollar, Aussie dollar, whatever earnings. So we earned also higher euro values on these amounts. When you look at the valuation reserves, the more than €630 million in the middle, that is an increase which is really an increase in our capital base, which also will have an impact on the future ROIs.

The overall number of OCI or capital driven by the valuation reserves in our asset portfolio is €1.2 billion nearly. And with a modified duration of five years, one could expect, everything equal, we might lose €120 million per year because this will run off. This will be capital components, which will disappear in the future, but it's only €120 million per year.

I think this leads us directly into the capital management actions, which Uli had already mentioned. Here you see a, from my point of view, impressive picture, if you look at the last six years, six years ago, we came here and mentioned that is our intention to decrease the volatility in our earnings, to decrease the volatility in our dividend payments. And if you look at that picture here, you see that we're rather successful, of course helped by the markets and also the catastrophe components in our business. But even if in 2011, which was the second highest natural catastrophe burden in the history of reinsurance, we managed to provide a good dividend.

The €3 plus the bonus do represent €150 million, so that is what we kind of give back to our shareholders as a start of potential capital management action. The dividend yield today or a few days ago, 5%. If you go back to the beginning of the year, 6%. If you go back one year and you had invested into the Hannover Re share one year ago, the dividend yield would even be above 7%.

One other perspective at the capital development and the ROEs we have provided and do provide, I think the chart demonstrates clearly the achievement. The average capital position has been increasing remarkably from the €4 billion to the €6.7 billion this year. Still, we managed to keep the ROE on a very, very high level.

On the right-hand side, you see the average achievements, on the left-hand side the last five years. The margins over above the hurdle and we have shown here the old hurdle is 750 basis points, as well as the new hurdle the 900 basis points has even increased over the last year's. But we have to bear in mind that this has got to be more challenging in the future. With the high capital position, and with also the higher volatile capital components, I have tried to explain to you with the OCI positions, which might be volatile in the future. So this is going to be more challenging into the future, and this is why we also look at managing the capital position as well as the income position up there.

I think that then leads us directly into the peer comparison, which we always do. I think we are still the number one on the four-year horizon. This year two Bermudian companies are in front of us, so I think that is not very surprising because of the very low cap burden which the industry has been seeing. So in that regard, we are still happy, and we are still committed to stay one of the most profitable reinsurers in the industry, also in the future.

So let's then have a brief look at the P&L in more detail. On the group level, I think it's not necessary to repeat the growth in the turnover of the premium. The first component I think which needs some explanation is the other income and expense line here. We have been long in the U.S. dollar and other non-euro currencies already over the course of the year. And in so far, the majority of that swing from minus €100 million to plus €18 million in the other expense line is based on the currency result. That should be zero, if I manage my portfolio on a very highly matched basis. So on the one hand, this is a little bit of one off.

On the other hand, I think where we were in doubt, we stayed little bit longer in the foreign currencies as we saw the euro weakening, especially against the U.S. dollar. This is why this line has improved so remarkably.

Moreover, I think the other components here is the fee income on those contracts on the Life side, which are deposit accounted, where the risk component is so low that there is no reinsurance treatment justified and the fee income is reflected in that line and that has been increasing as well. Moreover, we have been rather successful in managing our LOC costs down. Also, that is mainly on the Life side, where it was possible to decrease the costs of the LOCs, which we, in the majority, need to backup our U.S. business.

The tax rate is back to normal. You might remember that last year we had a special effect on the non-Life, on the P&C side, where the deferred taxes on equalization reserves could be calculated a little bit more realistically based on a decision for the German tax man that had produced a €90 million extraordinary effect. That, of course, was not repeated this year. We are still a little bit on the low side based on a very positive result in Bermuda where the tax rate is zero and where our cat business is written mainly, so the contribution from the low tax environments had been a little bit over proportional; same goes for the Life business, which we write in Bermuda. So this is why the overall tax rate is a little bit lower than what we would expect for a normalized tax ratio, which should be around 25% on a group level.

A brief look at the P&C side. We see a slight growth. The 1.2% on a currency adjusted basis, which is nice and which follows our guidance. Would this number have been negative that would not have been a problem at all. It is positively influenced by some low risk, low margin Chinese surplus relief contracts which we sometimes write, sometimes the margins are not sufficient. So again, it's nice to see it growing. But if that would have been a negative number, we would not be concerned at all.

The burden or the net retention has increased slightly, so we pay a little bit less for our repossessions, which makes itself felt here that the net premium income is growing a little bit more than the gross.

Major losses. I think Uli has already mentioned the large loss budget was €670 million; €244 million of that budget was unused. And in that regard, it was the third very large - low large loss number in a row, which of course also as its impact on the competition on the market. Perhaps - and also that was mentioned by Uli.

Let's discuss a little bit our reserving policy. If you look at the annual result and the run-off triangles, you will see a positive run-off of €270 million. I think that is really fully in line with what I was trying to explain at the occasion of the Investors Day, an approximately €50 million positive run-off would be expected per quarter, a little bit more than that for the year.

So there are no extraordinary unusual effects of run-off result. I would refer to my presentation at the same place a few months ago where I was trying to explain the impacts which could be there on the confidence level as well as the run-off result, nothing extraordinary here. In that regards, the combined ratio for the fourth quarter were – when we read your first comments, seems to be a little bit disappointing.

As Uli already mentioned, stuck to our reserving policy. We have most likely added and we're waiting on the final results of the reserve studies. But we will most likely have edit to the reserve redundancies, which our COO always presents to you at the occasion of the Investors Day. We have to bear in mind that also the volume of the reserves has increased based on the currency exchange rate. So percentage-wise, we might have keep or kept the overall confidence level flat. But in absolute terms, we will have increased within the reserves numbers, which you might remember was €1.5 billion based on the last study. And that then also explains a little bit why the fourth quarter effect, which you had expected in the combined ratio has not taken place to such an extent.

I think that's it. Let's look at the MtCR and the achievements of the year per market on the P&C side. The margins are getting a little bit narrower. Still, even if you back out the very positive cat result, we would still have made it and the overall result of the business would have been still profitable. We shouldn't fool ourselves, a combined ratio of 39.3% is nothing which we could really see also in the future. And it's so far a large cat year might make the overall P&C result getting nearer to the breakeven point and it's good to have buffers, if that happens.

Apart from that, again, we can briefly look at the North America business, still profitable, below the hurdle – or over and above the hurdle. The Continental Europe positive with Germany also better than it used to be. The marine business, after the big losses, Sandy, of course, the Concordia. Very profitable aviation, we know what happened there, the Tripoli airport as well as the Malaysian airline disasters, of course, hit that. Credit, surety profitable. UK, London market and direct, we still had a little bit of problem on some casualty accounts where we were looked at conservatively. We expect that to be far better in the future. The worldwide treaty on the edge. Cat, of course, I mentioned that very profitable and, of course, the basis for also the overachievement. Structured reinsurance very positive and making the margin by far,

The major losses, I mentioned, you can see that here very clearly three years in a row. And if you add all the under or those amounts for the last three years where we were under the budgeted loss large numbers, that accounts for €400 million.

So the €426 million which you see here as compared to the €670 million; the €578 million as compared to €625 million, but if you then go back to the year 2011, you see that all this what we have saved within over the last three years can be gone within one year. And in that regard, we should always bear that in mind and not fool ourselves that the very positive results in this segment might go on forever.

You see the large losses, the single ones, not a real single one was a very major loss. On the cat side, clearly, below the budget with the storm Ela in Germany, Belgium and in the

Netherlands with the highest large loss burden of around €50 million for our account, the aviation claims with Tripoli and the Malaysian Airline loses, as I already mentioned. Overall, as I mentioned, €244 million below our budget. So another friendly pack picture, although not a glamorous picture.

If we look at the Life & Health reinsurance, we did various longevity deals. We took benefit from the improved and the hardening rates in Australia and these were the major profit drivers. We did retrocede some of - especially the longevity deals. This is why the net retention goes down on the technical side. Uli mentioned that the Australian DII business did really well, fully in line with our expectations, even slightly better. So that explains the improvement here. The U.S. mortality still slightly below our expectations, but no bad surprises here as well. And this is then the basis for the remarkable improvement.

The other income here also is usually better than on the P&C side. It did benefit also from currency exchange rates. But here even also from the fee income of our deposited accounting, especially the financial reinsurance contracts which have improved as I mentioned before.

Margin-wise, I think we are rather happy financial solutions, impressive margins, that is the business we especially write in the U.S., where our colleagues do provide coverage for the balance sheet or for the local balance sheet especially. And that is improving and growing nicely. The longevity also over and above the target.

The mortality and morbidity business, as I mentioned, the U.S. mortality business, some of that business still not fully in line with our expectations. And here we can come back to that one U.S. house contract, mobility contract, which we no longer write, where we looked at reserves and increased the reserves or incurred some losses, especially in the fourth quarter. Again, we no longer write that business, so this will not reoccur.

And this is also the reason as to why we look very positive into the future, even better news, if we turn the page and have a very, very brief look at the MCEV. That is hot off press. For the first time, we managed to present the market consistent embedded value numbers, together with our year-end results. And we have demonstrated - or in our presentation only the major numbers. You will find the details if you're interested, if you believe in MCEVs, then you will find the numbers in the appendix and on the website, especially the very brand new website of Hannover Re, which I think is worth visiting anyway.

The MCEV has increased by 16% and is now nearly €4.3 billion. I think even more importantly the value of new business is for three or even four years in a row now have very high level, over and above our threshold of the target metrics with €448 million, again, another new record. Again, this is profit which we will earn, also, long-term up until 20 years, 30 years. Still with more than a billion euros of new business value over the last three years, we are very confident that also the IFRS result will improve remarkably in next years to come.

Perhaps not mentioned on this page, but still important is the MCEV or market consistent embedded value not recognized on the balance sheet. That increased from €1.10 billion to €1.12 billion, which is also an increase of more than €100 million. And again, if you believe in MCEV numbers, that is another off-balance sheet value which Hannover Re carries.

So to come to the investment side. The ROE target, from my point of view, as I'm responsible for that segment, of course, I look at that even a little bit closer. It is a little bit underrepresented or underestimated when we show it here. It includes the technical derivatives, which you see as the change in fair value of financial instruments. That is the ModCo derivatives as well as the inflation swaps. If we back that out, what we do in our target metrics, so always the positives and the negatives, we end up at 3.3% ROI, which is a little bit over and above our target.

If I come back very briefly to the impact of our subordinated bond redemption and reinvestment, so here we do calculate with the assets beginning of the year, assets end of the year, divide that by two. Of course, the seven months where I didn't have that money are not included in that, so also that is a little bit of reason why the numbers here are a little bit underrepresented. The realized gains and losses, again, Uli mentioned that already, we had some turnover in the portfolio which created these losses. Apart from that, there were no real surprises, impairments and appreciations driven by regular depreciations on the real estate portfolio. So again, nothing extraordinary to write-off. And with nearly $1.1 billion net investment income, we are happy. And again, it is a little bit more than we had expected.

It is interesting to look at the bottom of that page what happened to our valuation reserves. I had addressed that already various times. We have now here the on-balance sheet valuation reserves. Those are the investments we account for at available-for-sale. The off-balance sheet values that is what we have as hold-to-maturity or what (40:49) or others which we do account at amortized costs. Altogether, that number has doubled from €1.1 billion to more than – or nearly $2.3 billion, and we have not taken advantage of that by realizing more. That is a buffer for potential yield increases in the future.

A brief look and final look – before I ask Uli to present to you then the outlook, at the asset allocation. That is rather stable. The corporate portfolio has increased to 35%, a little bit more. There is nothing more to be expected. The covered bonds have gone down a little bit here. A competitive investor, especially by the end of last year, was there with ease at peak. Also, competing to buy these issues, so that has come down a little bit as also the prices went down remarkably.

The real estate is developing as well as the private equity. So we keep these portions stable. And we will hear in a second that with the reinvestment yields we do invest today, are amounts of around 1.7, 1.8. The expectations for the next year is around 3.15 ROI. With increased assets under our own management, we estimate the return from the – or the net investment income, again in the range of the previous year.

I think with that I conclude my details and Uli, the floor is yours with the target metrics.

## Ulrich Wallin {BIO 4863401 <GO>}

Thank you, Roland. Okay, target metrics. This year, I'm happy to show it to you because it looks nicer than most years. You can see that we have achieved all group targets, including the earnings per share target with 10.1% is client reinsuring. Then I maybe mention the EBIT margin on the P&C side to 17% shows that this business continues to be rather profitable. And you can also see that the economic targets, which are the ex-Rück targets, we have achieved comfortably on both of our business groups.

With that, enough about 2014, let's look into 2015. First of all, P&C business, we have come off a pretty good start into 2015. The 01/01/2015 renewal was a little bit more favorable than we expected. We could keep the rates pretty well and, in many cases, and we also manage to slightly increase the volume. I can also say that the business opportunities for new business are actually quite good, so we have a good deal flow of new business coming in. I would however say that this is almost exclusively from existing clients, where we have a good position as a go-to reinsurer.

If I then look at the three segments, target markets, specialty lines and worldwide reinsurance. On the target markets, we see good growth in North America at a good margin, particularly in the U.S. where we have more than 600 clients. So writing larger shares with these clients and being involved in their new reinsurance purchasing, which they occasionally do, we see good prospects here.

Continental Europe is a little bit of mixed picture. Parts like France and some other Continental European countries like Spain, for example, rather competitive and, of course, volume trending downwards due to selective underwriting. On the other hand, if you look at Germany, for example, still the underlying profitability trend is very positive. And being one of the larger markets in Germany, we benefit from that, particular when it comes to the bottom line.

On the specialty lines, all the business at this point in time is very competitive. So for us, the emphasis is entirely and only on the bottom line. We feel that we have significant businesses there. We are particular on the non-proportionate side. It still offers us good opportunity for profit, but discipline is extremely important here.

On the marine side. Rates have come down a bit, but overall there's still profitable business. And same is true for credit, surety where we achieved the number two position in the market in 2010. And this of course helps us now that the business have become a lot more profitable - sorry, a lot more competitive after good profitability in previous years.

Of course business close to my heart is aviation. Unfortunately, I can't share a lot of good things about it because despite the losses, the market continues to be actually quite competitive. On the UK and Ireland business as well as on the facultative business, we see some growth again after having retrenched on the UK business last year, and we also see improved profitability there.

Worldwide treaty. Yes. We see reduced premium on the cat side, which is not fully showing here. However, the exposure is still unchanged or even slightly up, but the rates are coming down. So again, conservative underwriting is important. On the Worldwide treaty, we see plenty of opportunities in the emerging markets, particular India. India and China to be mentioned, but also on the agricultural business, which with what we have written recently, we can clearly see that we will have further double-digit growth on the agricultural business.

Also, on the structured insurance and the ILS business we see good growth opportunities, partly already materialized in the first two-and-a-half months of the year. So all-in-all, we are relatively cautiously optimistic on our P&C business for the current year, even a little bit more positive than I would have been standing here say three months ago.

On the Life & Health side. Again, the emphasis is clearly on the profitability, which we expect that we could further improve. Particular positive is the financial lines business, where we have already a quite positive trend, and you will see that when we report our first quarter results. We already have said early on, longevity – while this is – we haven't got a new transaction so far this year, well, maybe one slightly larger one. But we are working on few others. Market has become a little bit more competitive because most of the reinsurers are competing for that business now. So again, we take a rather conservative stance, looking for the right deals and not for the volume.

On the mortality we have actually seen good profitability also in 2014 and that is also including the ING portfolio that put the whole thing together. We expect continued rise of profitability in that market. I think we will be able to further improve, which means not make it profitable, but make it less negative, our ING book. And of course, the new business that we produce in the U.S. still shows a positive (50:38) actual-to-expected, so overall that should be fine.

On the mobility, where we have seen negative results, we believe that we also should see an improvement in Australia, where on the group business we have very, very significant increases on the TBD exposure from that business. So all-in-all, we are quite positive on the prospects for our Life & Health business in 2015.

That brings me to the guidance, which we left unchanged. We believe that our volume will be at stable interest rates, I hasten to add, stable to low-single-digit growth, a little bit like we have seen in 2014. Of course, if you look at that in euro terms, you see current interest rates prevail. You will see some more meaningful growth in euro terms on that business.

Return investment 3%, Roland already mentioned that, however, on a higher volume of investments. And €875 million group net income guidance, we left that unchanged compared to what we told you when we reported our third quarter numbers of 2014. We believe that on stable interest rates that's pretty much the underlying profitability that our business currently shows, projected with a degree of caution and, therefore, we left it unchanged.

If we look at the dividend guidance, this is really our standard dividend guidance which we developed many years ago, where we said yes want to pay out a fair amount of our IFRS profit. But we also want to keep sufficient profits in the company to self-finance our growth. With the recent development of the capital, of course, we have deviated from that remarkably in 2014. Of course, if everything stays equal and the excess capital position remains equal or even slightly increases, the business opportunities stay equal, meaning that we still have a soft market and a competitive market and there has been no major turmoil in the financial markets, then of course the situation is exactly what we have seen for 2014. And it is probably fair to assume that we will act similarly than we have done in 2014.

But that of course is only if the situation in 12-months time looks similar to what it currently looks. And we haven't got a crystal ball and a lot can happen between now and year-end.

With that I would conclude the presentation. I almost forgot the most important slide of the entire presentation. But of course, by switching the slides that Karl reminded me rather swiftly, these are still pretty much unchanged. The reasons why we are quite bullish for our profit guidance and the prospects for 2015, first, we believe, as I explained, further improvement and increase of the bottom line of our Life & Health business. Secondly, despite the soft market and the structural soft market from a supply and demand point of view, on the P&C side, we believe that we can keep our underwriting profit pretty stable. That also goes for the combined ratio, provided that the large losses stay within the budget.

A reason we feel that the quality of the business that we have remains good. Secondly, the buffers on the sufficiency level of the loss reserves remain intact or even slightly better than 12 months ago. And the retrocessional program has seen more favorable terms than 12 months ago. And that, if you put it all together, should result into a continued favorable underwriting results from our P&C side.

I would, however, say that on the retrocessions, I say terms have improved. That does not mean that we seek negative margins. If we have the expected loss level, we still see demands (56:01) into our retrocession mass (56:04).

Then on the investment side, in absolute terms, we feel that the earnings from asset under management should be quite stable and derivative terms, of course, coming down. And then we will keep our competitive advantage due to our low admin expense ratio, which we work hard that we'll continue to see that.

With that however, that concludes our presentations, and we are more than happy to answer your questions.



## Unverified Participant

Well, thank you very much. We will now begin with our question-and-answer session. As a reminder, please wait for the microphone so that everybody can hear your question, especially those participating via the conference call. We will proceed to take the questions from the participants here in the room first and then switch to the questions coming from the conference call. I already see some hands up and we start with the right-hand side with Ben.

## Q&A

### Q - Ben Cohen {BIO 1541726 <GO>}

Thanks very much. Ben Cohen at Canaccord Genuity. Two questions please, firstly, in terms of the special dividend that you're paying, could you just say a bit more as to how you arrived at the size of that special? It seems to me that you actually could have done more to help support the ROE if you still have that 13% target into 2015.

My second question, you share price is up, I think, 50% since we last saw you here in October or whenever it was. In terms of that re-rating is there anything strategically that you think that gives you more firepower to do? Would you feel that there could be some benefits to use that multiple maybe in terms of M&A or anything else strategically? That'd be helpful. Thanks.

### A - Ulrich Wallin {BIO 4863401 <GO>}

Yes, thank you very much Ben for those questions. I should press the button, yeah. Okay. But I am mic'd on anyhow, so I think it's not so much of the problem.

On the dividend, the €4.25 was really driven by our German GAAP earnings, which we of course steered towards that level. We felt that this is a good dividend. It's about 50%, a little bit more than 50% of our IFRS earnings. And we saw that that would reflect the underlying strengthening of the capital relatively well. Could we have done more? Sure you always can do more. However, we felt that that was a good level. Of course, I mean that would still make it rather challenging to keep the ROE at the level you mentioned for 2015. But we have to see what else we can do there.

On the share price using it for M&A, while it's of course quite tempting I would say because the value is pretty good, it's a bit difficult to do that with our anchor shareholder Talanx with 50.2%, on the basis that they strategically want to keep the majority in Hannover Re.

### A - Unidentified Participant

We continue with Kamran and switch then to Rötger.

### Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, it's Kamran Hossain from RBC. Two questions. The first one is just I guess it's coming back to M&A. So we've seen a recently announced merger in Bermuda where we're going to get the fourth, fifth or sixth largest reinsurance player in the market being created, depending on whose numbers you use. Do you expect to see any disruption from this merger? I mean, I guess given their distribution using brokers pretty heavily versus your distribution? And the second question is just on your current study, the improved retrocession program. So you've improved the program year-on-year, should we expect the accessory loss ratio, as a proportion of your less earned (1:01:19) premium to actually come down in the future as a result of this?

## A - Ulrich Wallin {BIO 4863401 <GO>}

The loss ratio – which loss ratio?

## Q - Kamran Hossain {BIO 17666412 <GO>}

The catastrophe.

## A - Ulrich Wallin {BIO 4863401 <GO>}

Oh, yeah. Okay. Okay, if I first come to the question on M&A, that we have seen in Bermuda. To the extent that that is reinsurance driven, we see that marginally positive for us because it means that there is one competitor less. And on the latest one, both are very respectable reinsurance players. So, you just have in a quoting (1:01:57) panel there, there's just one left, which it's marginally, not – it's not overly positive, but it's marginally positive. We do normally appreciate mergers of reinsurers.

Of course, there's another aspect to it. All these merged companies they also have a primary insurance activities where we are normally a reinsurer of. And then of course there is an expectation that they would increase their retentions for reinsuring their primary business. That of course means that in order to keep our volumes there, we would have to increase our lines to the extent that's possible. So as you can see, it has some positive and some negative aspects. In general, I would say, we prefer reinsurers to merger than primary insurers to merge.

And succession on the catastrophe loss ratio. No, that will probably stay reasonably unchanged because we did not change in absolute terms our risk appetite for cat. And if you buy a little bit more retro that means that we write a little bit more gross business, because I mean our risk appetite that we give us for ourselves still limits our cat writing significantly below what we would have been able to write if would stipulate a higher risk appetite. We see that very clearly currently, for example, in the Japanese renewals.

## A - Unidentified Participant

Okay. The next question comes from Rötger Franz.

## Q - Rötger Franz

Yes. Thank you very much. A couple of questions about your economic solvency ratio. That was done quite considerably from 330% to 286%. And I understand that the decline was almost entirely due to model changes. Can you please elaborate a little bit on what kind of model changes these were? And also what the key drivers for the decline was? And whether you expect further model changes? And what impact they could have until you get the approval. And finally, once the model is improved can we expect a very explicit target or target range for the economic solvency?

## A - Ulrich Wallin {BIO 4863401 <GO>}

Yeah. That's actually correct. We did do some model changes. That was, of course, after discussions with our regulator where we will actually hand in our application for the subgroup model for Hannover Re at the beginning of April. And I happen to have a meeting with BaFin tomorrow. These model changes were largely on the market risk, basically, on the spread and credit risk where until now as a model had tried a lot of diversification between the credits and issues.

And in the dialogue with the BaFin it was felt that we should group certain business segments closer together, which then reduces the diversification and that increased the capital requirements on that business. That really was the major change that we had. We believe that with the changes that we have done now that would lead us through the application process for the subgroup model of Hannover Re. Of course, there will be future model changes because you have to really look at the model on a constant basis and see if the parameters that you have put in are still plausible and relevant. And there is of course a model change policy that we have.

I would not expect that they will be similarly drastic. At the same time, of course, we will be looking for target solvency once the model has been approved. That's the answer to that question really.

## A - Unidentified Participant

Okay. We continue with Andrew.

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

Three quick questions. One is just a follow-up on your last answer. I don't understand then why the diversification benefit on page 84 has gone up 51%, if you reduced the diversification to how come the overall, and as a proportion of the gross capital requirement gone up, I think from 32% to 36%, so?

## A - Ulrich Wallin {BIO 4863401 <GO>}

Yeah, the diversification within the credit and spread risk was reduced. Therefore, the number – I think the capital requirement for the credit and spread risk and market risk widened. But that, of course, meant that if you then look at the diversification with the underwriting risk, life and non-life, and the interest rate risk, then as the overall risk have increased, the diversification has increased as well. That is the diversification on the entire bottom-line capital requirement.

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

And the growth, there was a significant growth in Life & Health underwriting department, is that purely volume of business driving that?

## A - Ulrich Wallin {BIO 4863401 <GO>}

Yeah, that's mostly volume actually.

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

Okay. And the two other quick questions. If I look at your life reinsurance business and your MCEV disclosure over the last five years, there's been just short of €800 million of negative operating variances or assumption changes related to U.S., UK, longevity, Australian DII. You continue to express a lot of confidence in the Life result improving, and also in your EV translating to IFRS profits. It's a bit hard for us to kind of see that, given the amount of sort of assumption changes and variances that have been going through. So maybe do you think you need to do a more thorough kind of ground-up review again of assumptions? Or we've really passed the worst on particularly the U.S.? I still find it hard to get comfortable with the outlook there.

The only other question I have, I think the implication is that you booked the unused budget on large losses. Is that how you want us to think about, Roland, as in the €200-roughly-million of unused? And hence that's what's driving the sort of slight increase in reserve buffer again? Thanks.

## A - Ulrich Wallin {BIO 4863401 <GO>}

Well, I'll the budget to Roland and we'll try to give you an answer on the Life & Health side. Clearly, there were negative developments on the DII, the group business and the U.S. mortality business. We feel that we take these model changes early on to be on the conservative side there. Of course, in the sooner rather than later, we should come to a situation about the actual-to-expected and model changes are closer to the zero line rather than being negative.

I would expect that for the Australian business and the longevity business, we would not see major changes here. On the U.S. mortality business, I haven't got the same confidence as yet, so we will have observe that. But as far as the value of new business is concerned that has not been the, at least the value of new business as we have created in recent years has not been the source of negative variances or negative model changes. This has been more business that has been written quite a long time ago or has been acquired with the ING transaction. So I would say with the underwriting changes that we've made in 2009, at least we haven't dug us new holes, let's put it that way. And on the...

## Q - Roland Vogel {BIO 16342285 <GO>}

Yes, I can come back and maybe perhaps a short comment on the MCEV. We, I think, for a few years already mentioned that very openly that we really follow the guidance of the CFO Forum, which I'm member of, very, very strictly. So also, when other company maybe adjusted their way of calculating financial options and guarantees or whatsoever, we really stuck to the methodology. So there is no smoothing (1:12:12), no addressing, so - but we follow these things. And as the overall numbers are really positive, we look also, I would say, conservatively or very strictly on the guidance, which led to what you felt is in cumulated terms an amount of adjustment which affects credibility a little bit, I think. But it is also a reflection of us really following the rules very strictly.

Coming back on the unused budgets. If we look really at the numbers and the mass €244 million have not been used. We, I think, addressed already over the course of the last three quarters that some of that falls down a little bit in what is written in Bermuda and in other areas. So, my guidance would not be that €250 million were strictly added to the redundancies. But what we see is that the – what I mention is that 93% combined ratio in Q4 was better than before, so you see something. But if you do the math, while one percentage point combined ratio translate into what was the net premiums? €70 million, €80 million, and I would not be surprised if – while we come with the (1:13:49) million increase in the reserve redundancies. But again, the numbers are not final, but the message I gave it, it may be not the full amount, but it's a part of that.

## A - Ulrich Wallin {BIO 4863401 <GO>}

And I think it's also important to understand that a redundant loss reserve or difference to best estimate is not sitting there like an asset. It's recalculated every year. And of course, part of the calculation is when you calculate for use of (1:14:20) redundancies because it's easier for this point, even it's not entirely correctly because of the IFRS accounting.

But you calculate the redundancies at the end of 2013, which means that you do the triangles and stuff like that. And then, of course, you have an expectation how the loss payments will evolve over the coming year. If I'm now one year down the line, at the end of 2014, I look at the same thing. And of course, it's a crazy level of redundancies determined by the new loss reserves I put up during the year. But also as far as the existing loss reserves, I then have to look how did the actual payment and advised losses of 2014 compare with up what I'd assumed at the end of 2013? And then I make the new calculation, where I then have a new expected cash flow that I assume from 2014 onwards for the underwriting years in 2013 and prior and new order for 2014. So this can change.

In recent years, it always has improved because partly of the very low inflation. Clearly, for example, inflation would suddenly increase remarkable. Yes, we would have our inflation hedge, but outside that, you would see that then certainly also on the loss reserves, say up until 2014, you would certainly see a higher paid losses and higher advised losses. So that would then also go against the buffer. And that is also the reasons why we keep that buffer. It's nice to have it, but it's not like a fixed asset which you can take and, say, take home.

## A - Unidentified Participant

Okay, that answers your question. So the next question comes from Thomas Fossard and we continue with Olivia.

## Q - Thomas Fossard {BIO 1941215 <GO>}

Yeah. Good afternoon. I've got three questions. The first one will be again on the capital position. Back in October 2014, you indicated free excess capital estimates of around €1 billion. That was a year, last Investor Day. Could you update us on the year-end capital position adjusted for the €500 million you're going to distribute in terms of cash return to shareholders?

The second question will be to better understand your sensitivity to a strengthening of the U.S. dollar compared to the euro. Could you provide sensitivity of your net income to

10% strengthening of the U.S.

And the third question will be related to your German GAAP results. Your equalization reserves are now reaching €3 billion, so starting to be pretty high level. Could you provide a kind of – or could you provide better understanding of where your standing compared to kind of ceiling when potentially the reserves, equalization reserve addition will start to be a bit smaller than they are currently? Thank you.



## A - Ulrich Wallin {BIO 4863401 <GO>}

Starting with the last question because it's the easiest. If you do nothing about it the equalization reserves will reduce most likely significantly in 2017 because of our trade center loss drops out of the 15-year average. It reduces the volatility very, very significantly. And that then also reduces the maximum amount that can be – or has to be put into the equalization reserve.

There is, of course, options by intra-group reinsurance to deal with issue a little bit before that. That depends how much capital management we need to do. Of course, for us is the best opportunity is always that we don't need to any capital management because we can write such nice new profit streams that we can utilize the capital that way. But as we are not prepared to increase the volatility of our earnings with the current environment, that's not that likely.

Excess capital position. We haven't calculated end of 2014 as yet, but it's probably fair to assume that there has been further increase, so the of course retained profitability, but also the increased economic reserves, so to say from currencies, but more particular of course also the gains on the fixed income.

And the U.S. dollar sensitivity I would leave that to my CFO.



## A - Roland Vogel {BIO 16342285 <GO>}

Yeah. Thank you, Uli. Well, first of all, if we look at the impact on the other expense line or income and expense line, which we have seen this should be zero, that is the translation of the balance sheet from one balance sheet date to the other. So we had been long, as I mentioned in the U.S. and other currencies a little bit. Theoretically, of course, that should be zero.

So I don't really have a sensitivity here prepared for you, but let's do the math together. If our EBIT is around €1.4 billion, it was nearly €1.5 billion, but let's take the €1.4 billion, and 40% of our business and net investment income as well as net technical income comes from the U.S. dollar. So now I, of course, don't know where the next catastrophe or where the large loss will happen, but everything else equal 40% of the €1.4 billion EBIT should be U.S. dollar-driven. And if that is, let's assume €600 million, and then you apply your 10% on €600 million you arrive at a number which gives you a sensitivity.

## A - Unidentified Participant

Okay. The next question comes from Olivia, and then we continue with Janet.

## Q - Olivia S. Brindle {BIO 17273762 <GO>}

Yes, hi there. And the first question is going back to your capital return. And so, I'll take the point about managing the capital base and €4.25 being quite a nice number. But I just wanted to get your thoughts on the split between the basic dividend and the special and especially given you've sort of guided that earnings should trend upwards in the next couple of years. So why keep the basic dividend flat? And what sort of message does that send? Could you not have made that €3.60, €3.80 and paid the balance as a special? And so, just your thoughts on that please?

And then the second question on the Life & Health business, and particularly given the various issues that you're seeing in parts of the portfolio, I guess you're more aligned than ever at the moment on financial solutions and delivering very good margins and very good performance. So just wondering if you could comment on, whether you've seen any changes there in competitive pressure? And we've seen some peers stepping up their presence in that area of the business. I think 4Q profit standalone was a bit weaker than the rest of the year as well. Is there any sort of market changes that you're seeing at all? So just maybe some thoughts on that business would be great. Thank you.

## A - Ulrich Wallin {BIO 4863401 <GO>}

Okay. On the split of the dividend. The main reason is that if you look at our guidance for 2015 and you take 40% of that, that is just shy of €3 per share. So, the ordinary or the normal dividend is somewhat aligned with our guidance. I mean, even the €3 would be slightly more than 40%. That's why we left it there. That's the first reason. And the second reason, the €1.25 looks a little bit more meaningful than if you would have only done €1. So that's a split, but the first reason is the more serious one.

If I look at the financial solutions on the Life & Health side, we were very successful in the U.S. where we enhanced the statutory balance sheets. So, I guess we have a little bit of a first-mover advantage there. Competition has not really increased significantly there. We have the advantage that if the clients do the deals with us, we have proven that we can do them. We have proven that the regulators would approve them and, therefore, actually the pipeline of business is actually increasing rather than decreasing. So that's a very positive part of the Life & Health business.

Of course if you look at our business that we write in Stockholm and Paris, for example, that is continuously showing very good profitability. So it's the basket on the Life & Health, a bit more mix than I would like to see it, but it also has some very positive elements in it.

## A - Unidentified Participant

Okay. The next question comes from Janet.

## Q - Janet Van den Berg

Hi. I have two questions. Just a quick question on the dividends. I know that your GAAP earnings limit your dividend payout to some extent. Does that include the specials as well? And then further on the EV, I notice that it was driven quite a bit by – the increase in EV was driven by the German new business. Could you just explain a bit what's happening there? And also what you expect from margin going forward because I noticed it dropped a bit? So should we expect a return to mid-teens there? Or will that be a bit lower going forward? Thanks.

## A - Ulrich Wallin {BIO 4863401 <GO>}

Okay. Yeah. I mean, the – or the entire dividend has to come from the German GAAP earnings. We call it a special dividend, an ordinary dividend, of course, in the end it's one number that has to come out the German GAAP profitability. And I didn't EV, you mean embedded value from German business, new business in Germany. I have – in fairness a difficulty to follow that because certainly our German Life business we see limited new business. The German life business at this point in time is quite profitable. But it's largely financing business that is in runoff. There has been if you look at the P&L account on the Hannover Re SE or the E&S Re, we have changed our business relationship with E&S Re and Hannover Re, where in previous years also on the Life side, E&S Re ceded the German business, part of the German business to Hannover Re and Hannover Re ceded international business to Germany. We discontinued that.

And that, of course, meant that in the current year the embedded value that was due to, of course, we discontinued that and paid out the embedded value of the future earnings, which was positive for E&S Re because the business that they had assumed from Hannover Re had a higher embedded value than the business that Hannover Re had assumed from E&S Re. Otherwise on the Life & Health side, the German market is one where we put great emphasis on, but the actual new business production in Germany is quite low.

## A - Unidentified Participant

Okay. We have another question from (1:27:57).

Thank you. So we see that in the mortality and morbidity business the EBIT margin is still below the 6% target. And you're talking about the U.S. mortality, morbidity impact. Is it possible for you to quantify that and whether without those impacts you get to the 6% target for 2014? Thank you.

## A - Ulrich Wallin {BIO 4863401 <GO>}

Well the morbidity is negative, I think by 1.7%. And so mortality is actually quite positive, from memory at 7%. So the mortality is less of a problem, despite the ING portfolio because there's a lot of other mortality business in the mix that is actually a lot better. Not least the new business that we have written in the U.S. since 2009. Mobility it's a difficult class, but I still think that we should see an improvement due to the very high rate increases that we are getting on the Australian group business. And of course, we have discontinued that one U.S. health scheme. And I mean that, this year, will help the cash flow quite a bit because I mean it's a little bit of pre-financing of rebates that our clients get from the U.S. government. And so we had a negative cash flow last year and part of that will come back this year, unfortunately, not all of it. So I mean that's why I think we should reach the hurdle on the combined mortality and mobility in the current year, and I hope I will not regret that statement.

## Q - Unidentified Participant

Okay.

Okay. Well, I think now, we switch to questions coming from the conference call. And I see that Vikram Gandhi has a question.

## Operator

Vikram, go ahead with your question. Your line is now open.

## Q - Vikram Gandhi {BIO 6133175 <GO>}

Okay. Thanks for taking my questions. I've got two of them. One is on the E&C. It's remarkable that you've been able to improve the attritional loss ratio in this tough environment. Perhaps you can explain how were you able to achieve that? And more importantly, how should we think about the FY15 attritional loss ratio.

And the second is I remember you flagged during the Investor Day last year that you're close to maxing out the redundant reserves. But you seem more confident today about it. Then if that is something imminent, I wonder why you chose not to increase your FY15 net income guidance? Thanks.

## A - Ulrich Wallin {BIO 4863401 <GO>}

On the attritional loss ratio on P&C in some areas, we are really benefiting from the low - really the low inflation rate. And if I look, for example, on the German motor business, which is sizeable part the frequency of losses continues to come down. We also had some areas where we had increased attritional loss ratios on some of our facultative liability business and some of our agency business. I expect that not to reoccur in 2015, so I don't think we would see an increased attritional loss ratio in 2015. It will not be improved a lot either because the rates are clearly on average down, so I proudly expect a few less losses, attritional losses, but also less premium.

And on the second question why did we not increase the guidance? Well it's early days and it's long, long time for the year. We still believe that the conservative underlying profitability of our current business fully supports our current guidance. We haven't taken into account an additional tailwind we may or may not get from the currency movement. But whilst one might think that the current currency movement may prevail throughout the entire year, we have no crystal ball, so we just work with stable currencies there.

## A - Roland Vogel {BIO 16342285 <GO>}

And if I may add to that, if we just look at the numbers and we've mentioned them before, we have €244 million unused budget. We had a positive impact from the currency translation. And if you just take that together, which of course, we cannot assume for the current year, you could say that the €875 million already include some improvements elsewhere, if you just take the numbers as they are because, again, we of course for the current year have to assume that we use the budget to the full extent.



## Q - Vikram Gandhi {BIO 6133175 <GO>}

Okay. Thanks. If I can just add one more that's on the economic solid ratios on the two different bases, the 99.5% and 99.97%. Of course, the modeling changes, as I understand, related entirely to the 99.5 percentage basis. I mean, would that be a fair assumption because the one the 99.97% doesn't seem to have moved at all. So any comments around that would be helpful.

## A - Ulrich Wallin {BIO 4863401 <GO>}

I think the 99.97% has actually moved a little bit more even, even if I recall the numbers correctly. That is because of the tail value. So the individual components of 99.7% have moved; however, so has the diversification. So, the overall number probably not so much. That's the only explanation I can give there.

## A - Roland Vogel {BIO 16342285 <GO>}

Yep.

## Q - Vikram Gandhi {BIO 6133175 <GO>}

Okay. Thank you.

## A - Unidentified Participant

Okay. The next question comes from Frank Kopfinger.

## Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes, good evening, everybody. I have two questions. My first question is on your guidance. In your guidance on slide 20, you said that it will be difficult to further increase the confidence level of loss reserves and that this may result in a positive effect on your combined ratio. I think this is something that you already said for quite some while in the past. Nevertheless, you kept on buffering to your resource. So when should we expect now that you stop this pattern and that you show a more clear combined ratio?

And my second question is on your runoff triangle in the Annual Report. You show for the years 2012 and 2013, you show a combined reserve strengthening of €230 million for both years. Can you comment on the drivers behind it? Please.



## A - Ulrich Wallin {BIO 4863401 <GO>}

Yeah, on the later on of course on the newer years as we reserve from an underwriting year basis, there's of course the loss ratio picks on 2013 in particular that that come through. On the buffers, as I said, it's a new calculation every year. This year, we were still in a rather comfortable situation because if you look at the underlying reported profitability, we were in a rather comfortable situation and, therefore, we remained cautious on the combined ratios because we expect that the market will continue to softening as long as we're not seeing any major volatility or deteriorating underwriting results in the reinsurance market. And therefore, of course we are more comfortable if we have conservative reserves than having less conservative reserves. So we will keep them conservative as long as we can. However, I suspect that will not last for much longer.



## A - Unidentified Participant

Okay. In the meantime, we have two more questions, one from Peter Casanova and the next one from Thomas Fossard.

## Q - Peter Casanova {BIO 2168233 <GO>}

Yeah, this was just, Peter Casanova, Kepler Cheuvreux. This was just a follow-up on the mass and the guidance from Roland. You told us that you had currency headwind last year. We know that we had lower budget cat expense. Now, we've heard that there were some reserve additions. So what I would like to understand, do you believe that underlying business has grown this year? Or are we going for a decline, which the pure numbers would imply? A very simple question.

## A - Ulrich Wallin {BIO 4863401 <GO>}

Well the top-line will I think grow slightly. And of course, last year we had currency tailwind not headwind. So, we of course in the guidance are not expecting any currency gains in the current year because we just assume that we are currency matched and, therefore, we expect the current result to be entirely neutral.

## A - Roland Vogel {BIO 16342285 <GO>}

I think that is the basis for also our guidance with the flat and slightly increased turnover. That is the assumption that the currency exchange rates will keep flat. If you compare as to when we put up that estimation, which was early February, what happened since then, you could argue, it's already to be adjusted upwards. But again, it doesn't make sense to do that on a daily basis. The assumption overall is that we are matched and that the currency exchange rates stay where they are all over the year. And then we would update these numbers over the course of the years, so as soon as we have the first quarter results in. Then three quarters of the year will be calculated on the basis of matched and flat currency exchange rates, and we would then already include the experience of the first quarter, and so on and so on.

## A - Ulrich Wallin {BIO 4863401 <GO>}

I would also say that this is not meant to be a point guidance. We should say it should be in the region of €875 million. And of course that leaves room both sides. It's not that we say it's exactly €875 million.

## Q - Peter Casanova {BIO 2168233 <GO>}

How you would like us to understand is that you make an underlying improvement 2014 to 2015, if they're no big swings outside of what you can influence? Is this how we should understand the guidance?

## A - Ulrich Wallin {BIO 4863401 <GO>}

Well, the guidance is basically on a like-for-like basis. We just looked because the guidance was really we did that in the fourth quarter and the end of third quarter last year. We do that without planning. So, the basis for the guidance is a bottom-up planning of our business groups. And of course, they plan the results for the coming year. Then we have a plausibility check and that is then the basis for the guidance. Then after 01/01, we do the first expectation and this is of course again done bottom-up, see if there are major changes in what our underwriters believed, say, prior to the beginning of the year. And other than currency, which we take neutral the changes were really not that dramatic that we would change the guidance up or down.

## Q - Peter Casanova {BIO 2168233 <GO>}

Perfect. Thank you very much.

## A - Unidentified Participant

Okay. The next question comes from Thomas Fossard.

## Q - Thomas Fossard {BIO 1941215 <GO>}

One question on the underwriting environment. If you could comment a bit more what you're expecting for April 1 and July 1 because looking at slide number six of your pack it seems to be that more and more reinsurers are posting double-digit return on equities? So it seems to be that the industry is far from showing any pain from the current environment, though I know that the eclipse (1:42:29) environment has been pretty low the past years. But still, I mean, how would you expect this to have some impact on the underwriting environment?

## A - Ulrich Wallin {BIO 4863401 <GO>}

Well, I would assume that we would see pretty much more of the same than we saw at 01/01, being an overall soft market with the individual marketplace trying to show discipline, partly successful I would say. I don't think that that will change a great deal.

I would say, from the opportunities to write business, for us, that should continue to be quite favorable, as we currently see. We can't just adjust (1:43:16) the price because we cannot unfortunately isolate ourselves from the market and charge a lot more than our competition and still get the business. So we have to be careful and have to be selective in what we do.

The good thing is that we can be selective because the business that we get offered is significantly more than what we write. So, there is this beyond the provision to have said ability of selectivity. What so I feel it will probably be a diverse market again because if you go outside the cat space the market has not been entirely loss free. So if you go to some of the some of the casualty lines, some of the property press (1:44:09) business you also have just loss driven price increases. So you have to put that in the overall mix. But there's no question the market will continue to be difficult.

## A - Roland Vogel {BIO 16342285 <GO>}

Maybe I could add, I was intending to mention that during my presentation, but tried to kept it short. I think your observation is right. There are more competitors in the double-digit ROE space than in the year before. I think this is of course also driven by large losses, especially if you look at some. But these are usually listed companies and they have achieved attractive or more attractive ROEs, they do come narrower. So as soon as there will be the large losses again and the burden or the various budgets will no longer be so loss-free as they had been before, there will immediately be pressure on those ROEs, which also keeps us a bit comfortable that these positive developments here are to be defended and will create a floor.

This is not to say that there will be no competition and everything is going to be great. But I think these more positive developments ROE wise do also have a little bit of healthy development for the industry.

## A - Unidentified Participant

Okay. We have another question coming from the conference call, which is coming from Michael Haid.

## Q - Michael Haid {BIO 1971310 <GO>}

Hi, good afternoon to everyone. Michael Haid, MainFirst Bank. Just one question, in the current low interest rate environment, many fixed income securities stayed at a negative yield and, obviously, this makes a sense to sell them immediately rather than holding them to maturity. My question, how much or fraction of your fixed income portfolio currently trades at a negative yield? And more important, how much unrealized capital gains do you have on them roughly?

## A - Roland Vogel {BIO 16342285 <GO>}

Michael, I don't think that you indicated that there should be a lot of them trading at a negative yield. I'm not exactly sure why that is true, but to be frank, I don't have that number with me.

## Q - Michael Haid {BIO 1971310 <GO>}

Okay...

## A - Roland Vogel {BIO 16342285 <GO>}

We can follow up on that, but I don't have that perspective available in front of me.

## Q - Michael Haid {BIO 1971310 <GO>}

Okay. And thank you.

## A - Roland Vogel {BIO 16342285 <GO>}

Sorry.

## A - Unverified Participant

Okay. I do not have any further questions from the conference call. If we do not have any other questions coming from this room, then we'd like to thank you for your attendance, and we'd like to conclude this call. And you may disconnect it.

For all of those others here in the room, we would like to cordially invite you on behalf of Hannover Re for a snack and a refreshment outside of this room. And thank you for attending. Thank you for coming.

## A - Ulrich Wallin {BIO 4863401 <GO>}

Thank you very much.