Hannover Rueck SE 2016 19th International Investors' Day

Company Participants

- Andreas Maerkert, Managing Director Group Risk Management
- Juergen Graeber, Member of the Executive Board, Coordination of Worldwide Property and Casual Reinsurance
- Karl Steinle, General Manager Corporate Communications
- Klaus Miller, Member of the Executive Board, Life & Health
- Roland Vogel, CFO
- Ulrich Wallin, CEO
- Unidentified Speaker, Unknown

Other Participants

- Anasuya Iyer, Analyst
- Andreas Schaefer, Analyst
- Andrew Ritchie, Analyst
- Daniel Bischof, Analyst
- Jochen Schmitt, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Olivia Brindle, Analyst
- Paris Hadjiantonis, Analyst
- Rafael Villarreal, Senior Credit Sector Specialist
- Thomas Fossard, Analyst
- Thomas Seidl, Analyst
- Unidentified Participant, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst
- Xinmei Wang, Analyst

Presentation

Karl Steinle {BIO 1986424 <GO>}

Good morning, to all of you. Welcome to Hannover Re's Investors' Day 2016. My name is Karl Steinle. And I'm really delighted that so many of you were able to take up our invitation for our 19th edition of this event.

Since we are keeping the annual rotating schedule of this event, it's my pleasure to see you all here in London today. I was also very pleased that so many of you managed to attend yesterday's dinner at the Museum of London Docklands. Purely by coincidence, of course, there was a certain connection to our own business. Last year, our focus was in motor business. Some of you, doubtless, still remember those wonderful classic cars.

This year we put the emphasis and the spotlight on marine. Yesterday evening was truly unforgettable and a great atmosphere in a marvelous location. Once again, it was Kathleen who devoted so much energy and care in putting everything together.

Despite being sick at home, I know she is with us today via webcast. So Kathleen, many thanks and get well soon.

I hope you enjoyed the dinner as well and were able to engage in some stimulating and inspiring conversation. If so, we have already achieved one of our major goals of this Investors' Day, namely, promoting the dialogue between you and management. In stark contrast to last night's program, there is no policeman, no pub lady or drunken sailor to deliver a performance today. Nevertheless, the program that we have assembled is no less attractive. In doing so, we have been guided by your comments and feedback from past Investors' Day, analyst conferences and by the questions that you have raised throughout the year.

With this in mind, I would like to draw your attention to the feedback questionnaire on your table. It takes just a couple of minutes to increase your ROI, your return on Investors' Day, for next year. I really cannot emphasize enough how highly we value your feedback and appreciate your remarks. Feel free either to leave the feedback form on the table or hand it over to Julia and her team.

I would like to just make a few organizational remarks. Please note that we are webcasting all the presentations and the Q&A today. Some colleagues have already logged in to follow the day's events online. And for the convenience of all, the stream will be available on the Hannover Re's website so that you can review it in the future.

With this mind, during the Q&A session, please wait for the microphone before asking questions. During the breaks, feel free to use the entire space outside of this room. We have also free WiFi for you. The access key is on your desk.

What you will also find on your desk is a small gift. I do hope it will be useful for you. But please do not underestimate the high-tech manipulation that we have put into it. Although it looks entirely normal, we have, in fact, programmed it to write only positive notes about Hannover Re and buy recommendations, of course. Please consider this as a token of our appreciation for your participation today and the support that you have shown to Hannover Re and to our investor relations team.

On that note, I'd like to hand over to our CEO, Ulrich Wallin.

Ulrich, the floor is yours.

Ulrich Wallin {BIO 4863401 <GO>}

Yes. Thank you, Karl.

I'm going to time it today. So I brought my HandyCall; mobile, as you say in English. Yes. Good morning. Welcome to our Investor Day 2016. I will tell you a little bit about our strategic position and what I think everybody regards as a competitive business being the reinsurance business that has been well-commented about.

As I already alluded to yesterday, 2016 marks the 50th anniversary of Hannover Re. Therefore, we put a 50 on all our slides these days. We will not put a 51 next year, I can tell you that. For the time being, we have as the 50. And therefore, I would start my presentation with some remarks on the development of Hannover Re during the first 50 years. And this is, of course, a little bit of history. But it's also relevant for our current positioning because being a reinsurer in business for 50 years, I think it's fair to say that we stood the test of time.

And so, our clients regard us as one of the established larger reinsurers. And this position is actually quite helpful in order to be a preferred partner. Thus, if you remember, we had the casualty crisis in the mid 1980s, which a number of reinsurers fell by the wayside. We were still relatively small at that time. But we managed to come through. And I think, therefore, the first time Hannover Re was able to benefit from a hardening market in a fairly big way, because we increased our US casualty business in 1986 by four times.

And this is a little bit internally, I would say, selection of cycle management. And since then, we believe in cycle management as an important tool to be successful in the reinsurance side. Of course, other major events were of course 9/11, which was initially -- of course, it was a human tragedy. But from a reinsurance point of view, initially it was a huge loss. It was coinciding with some negative reserve development of the market in and large. And also to some extent at Hannover Re. But again, we came through to that relatively well. Then I will not dwell on the more recent events.

So if you can see, Hannover Re started from rather humble beginnings as an in-house reinsurer of; a German mutual insurance company. And initially, the first CEO, Claus Bingemer, he is still alive, actually; when he wanted to have a whole town hall company staff meeting he only needed to meet his accountants and all the other personnel of Hannover Re met.

That over time changed. Today, we employ more than 2,500 people. 50%, half of them, actually in our location in our home office in Hannover and the other half around the world. What may be remarkable for Hannover Re in 1994, Hannover Re had its IPO. and since then we are publicly traded. And you can see that the development since then has been quite remarkable. Premium income continues to grow. And so it is a growing company from all accounts.

Coming to the next slide; this is just the development over the last 50 years of the mix, of geographical mix, of our business. And you can see that we were growing since 2009 quite substantially again. And you will also see that a particular growth driver has been the emerging markets. And here, very remarkably, Asia. So you can see that one of the growth engines of the reinsurance business have actually been the growing insurance market, in particular Asia and also Latin America. And towards a lesser extent, Africa. Africa may be the next emerging market from an insurance point of view.

You can also see that our German domestic business is very important. But is less than 10% of our overall volume. And that is despite the fact that on the P&C side, we are the market leader in Germany. So you can -- that would mean, being a local German reinsurer like we started on, you would never be able to be among the major reinsurers.

What we also managed over the years, to accumulate assets. And that, of course, this shows the development of our assets under management and we also had some assets prior to 1980. But of course, the scale doesn't show them very well. If you would have had the same graph in 1980, you would still have relatively long bars. But we have gone on; we are 2016 now.

Accumulation of assets is not the only parameter of success. But it is an important one because it shows the increasing financial strength of the company. And of course, it's also the base of our investment income and the growth of our capital.

So summing up the current success factors of Hannover Re. We are having two business groups. P&C and Life & Health, which gives us a good diversification, because they have a different risk profile, while as the P&C is driven by the new and renewal business. And so, therefore show some volatility in the results, depending on the -- on the market conditions as they prevail. On the other hand, Life & Health is driven by the in-force business and as such is less -- the results are less reliant on the current development of the business because the in-force written in previous years is dominating the results.

Active cycle management, I told you a little bit about that. It was mid '80s was the US casualty crisis. We continue with that. And we have been relatively successful also in general soft markets finding pockets of hard market like in 2009, the credit and surety business, more lately with the development of PPO's, UK motor insurance on an excess of loss basis or the Australian group business in 2013.

Risk management, our formal risk management department we introduced in 2006, we had risk management before that. But with our 2005 hurricane losses, we felt we should take it a little bit more serious. Meanwhile, we have our internal model being approved by our regulator. So we have gone quite a long way there. Financial strength, we were the first reinsurer in Europe to get an S&P rating.

At that point in time, S&P was so excited about the whole thing that they gave us an AAA rating based on very little capital. And some of our competitors were not very happy with it. But first at that the time it was very important and we never fell below AA; where we currently are as well.

Well the other thing at Hannover Re we always price ourselves to have the lowest expense ratio in the industry, that continues to be true. It's the competitive advantage we feel. And we have been pioneering new business. We were the first company using the capital market to place insurance risks. And there are many other examples, which I won't mention now that would underline that.

So having been 50 years in the reinsurance market, the question, of course, is reinsurance the right business to be in? Is it an attractive business or not? Because at least as long as I'm in the reinsurance business, it was always said that the reinsurance market gradually will demise due to higher retentions of the primary insurance companies which get ever more financially strong. And therefore there will be less reinsurance being needed over time.

We don't believe that's the case. And now, they're trying to demonstrate it in this section of my presentation, we believe that reinsurance is and will continue an attractive business. If you look at the P&C market, you can see first of all that the market has been growing, particular in this timeframe from 2010 to 2012 and to some extent 2013 where the market conditions on the P&C side were quite favorable. And you can see that in the growth of the business. From 2012 onwards, it has been a little bit more flattish. And the reason for that is pretty much the soft market that we have since.

The increase that you see here in 2015 has largely to do that we show this chart in our balance sheet currency euro. And of course, increase in 2015 to a large extent is driven by exchange rates. But you also can see that the larger reinsurers grow faster than the smaller reinsurers. So while the market overall grew a little bit more than 3%, the top 10 reinsurers grew by 6.1%.

So there is a little bit of a flight to the larger insurers emerging. And as we as Hannover Re grew even a little bit more during the timeframe being 8.1%, that also meant that we able to increase our market share from 4% to 5% . And we believe that in the long run, we should be able to continue to grow our market shares based on growth when market conditions are more favorable.

And the reason for that is that the market is extremely fragmented. So you can see that there are quite a lot of players. And it's a little bit of mergers and acquisition activity. But at the same time as the entrance hurdle into the P&C reinsurance is not very high, there are also new reinsurers being set up almost on a monthly basis. Part of them, of course, the ILS backed investment funds. So we feel that there is plenty of room for us to gain market share from the many small to medium-sized players as we have done in the past.

If I then come to the Life & Health reinsurance business, it is a different picture. But it's growing as well. Now, you can also see that the market is significantly smaller than the P&C market. But it's growing here, of course, again, 2015 is largely driven by currencies because the global premium income on the Life & Health business is driven by US dollar-denominated business, particularly from the US, which makes up for more than half of the Life & Health reinsurance business.

But you can also see that the market is very, very concentrated. And the top players being the top 10 basically control the entire market. And you could even say the top seven have the majority of the market. So it is a very concentrated market. So growing by acquisition in this market is becoming increasingly difficult. And it's also contrary to the P&C market, if you want to gain market share, you can only take it from the established large competitors.

At the same time, it's the market where the hurdle to entrance is a lot higher than P&C. So we are not seeing a lot of new reinsurers coming to market that are actually successful. So it is a little bit a closed shop.

And the reason for that is that for new a reinsurer in the Life & Health business, he would have no in-force business. Of course, you can buy in-force business through a transaction. But that normally shows significantly smaller margins than if you write new business.

On the new business, however, in order to get a meaningful portfolio together, it will take you like 5 to 10 years and most investors haven't got that patience, therefore we haven't seen new entrants in this market in the last 10 years to speak of. Quite to the contrary, we have seen quite a lot of M&A activity.

The competition in Life & Health in the reinsurance side is mostly surrounding solutions that we can bring to our clients. And we compete with our competitors, who is able to have the better solution for the client because that will win us the business.

It's closer relationship with the insurance industry, the clients, it is mostly traded on a direct basis rather than through brokers. And in addition there is more of services that we provide our client with to help them in their distribution and underwriting.

But it is still an attractive market to be in if you are one of the established reinsurers because then you have the benefit of the in-force and that is really what, we are one of those reinsurers. So it is a strong position for us to be in.

Then, of course, the next question is, will there be a continued need for reinsurance, or would the value-added that the reinsurance product provides actually vanish. I don't believe that this is the case. And I think there are some underlying drivers of the insurance business that will continue to create reinsurance demand and maybe even increased reinsurance demand. First of all, we have the trends to value concentration, the protection gap as well as the demographic aging of the population.

And all these trends have one thing in common, that they have no diversification within themselves because even the protection gap, if you go to the P&C side, is mostly property catastrophe driven like as the value concentration and also the demographic development is going into the same direction. Therefore, individually on these trends, they are not providing the inherent principle of insurance of the law of large numbers. So they lead to concentrated exposures within the insurance companies and therefore the need to manage those.

And for that, the reinsurance market provides very valuable service because the reinsurance business is a global business. And so, we, as the reinsurer, are able to provide for the exposures from these trends the global diversification that the reinsurance can do, therefore, reinsurers can provide value added here. And that means that the trends are actually playing in the hands of the reinsurance market.

The next thing is new products, like cyber digitalization and emerging risks. Of, course, these products are largely pioneered by the direct insurers first and foremost. But reinsurers with their global relationships and their global reach can provide insight and assistance for the insurance industry in that respect.

And the other important subject here is that on the new risk, of course, quantifying the exposure is always difficult. And, therefore, if you reinsure that risk, it helps you to have a more stable run-up of the business and, therefore, again, the reinsurance can add value here. And again, it can do that mainly on the basis of the global diversification which is, again, as a basis for reinsurance.

Then third, we have, of course, capital requirements, capital management and management of volatility of earnings, very traditional reasons to buy reinsurance. And they continue to prevail, in particular when it comes to capital management with the new capital models that are used like Solvency II, that's a risk-based or the BCAR ratio in the US, all of that actually creates opportunities for reinsurance, because we can help our clients to optimize their capital structures and, therefore, write more profits on the same capital. So use their capital much more efficient and the reason is that when we take concentrated risk from our clients, we reduce their cost of capital. And if we take the risk, the cost capital that it creates for us is less than the cost of capital that we alleviate our client from and this is because we have a different mix of business.

And lastly. But probably the most prominent reason to buy reinsurance, is to manage the volatility of earnings, in particular for companies that are publicly quoted, volatile earnings are not good because it's not good for the share price if you have highly volatile earnings. And of course, reinsurance gives you a much more stable earnings stream. As you can see on the next slide that just demonstrates kind of the reinsurance protection on an aggregate basis where you can see that it really smoothens out the earnings so that the ceeding company can report a rather smooth development of its earnings, which is actually quite helpful.

So what that all means, that we believe that reinsurance creates value for the insurance companies and we will, of course, only be able to sustainably sell reinsurance if we create value with our clients or if it's value adding to our client, or at least that it provides a perceived value added. Of course, the former is better than the latter. And I think the -- which I demonstrated that's actually the case.

So moving on to the question, will the market always be soft like it currently is or can we expect to see better market conditions in future and this is particular, of course, geared to the P&C, it's not driven so much to the Life & Health business.

What you can see here on the light blue line is the average return on equity of the 10 largest insurance companies that drive at least 50% of their premiums in reinsurance ion those years which are depicted here. So you can see that the ROE of the reinsurance market has been quite volatile, right? We had 2005 due to the hurricanes where the ROE was very low, then it increased enormously only to come back down with the financial crisis, going back up again and then being down again in 2011.

Since 2012, you can see no volatility. You can see a gradual slide of the ROE. And that has more to do with the increased capital of the market than with the reduced earnings. But you can also see on the dark blue line which is the Guy Carpenter rate on line index for property catastrophe business as a proxy for the market.

So you can see that each time that the ROE of the market dropped below 5%, they was a reaction of the market. And the reaction that you can see that, of course, after the hurricanes in 2005, of course, this is cap business, the reaction is rather drastic. If you would have the overall market, it would have been less drastic but you would have the same reaction also on other lines of business.

And even the financial crisis which did not result in any underwriting losses, it still resulted in negative earnings quality of the reinsurance market and it responded with a rather broad-based hardening in 2009. And of course, 2009 results were, again, pretty good. So it started to slide again until the earthquakes in Asia and the Thai floods in 2011. And again, you could see the reaction of the market.

And we believe that if we have a similar situation for whatever reasons that the average ROE of the market falls below acceptable levels, that will, again spur a reaction in the market and a positive reaction. And why do we believe that? We believe that because in reinsurance it's actually quite a rational competition that we have, because almost all of the major participants in that market are publicly quoted. And so, they need to make money.

The same is true for the ILS market that has come into our market that's basically investment firms that need to make money for their clients so for their investors as well. And that, of course, means that if your earnings drop below an acceptable level, you need to do something about it as the management of the insurer because you're publicly quoted. And if you are not doing, you will have another management trying instead of you. And therefore in that case then we have to look at your business, what did hurt you, where you see opportunities. But you will have a more risk averse posture at that time and that will create a hardening of the market.

I must admit we quite like hardenings like we have seen in 2009 and 2012 because they provide us with good profitability opportunities but there is no dislocation, therefore, those kinds of hardenings are not driving business out of the market into retention. We have seen that in the more drastic situations like the mid '80s on the US casualty business where the market fiercely reacted and drove a lot of business into retention and we have seen a little bit of that following the World Trade Center disaster in 2001, which also was more a dislocated market.

So of course, you never get what you want. But definitely hardening markets without this dislocation are certainly the best thing for the industry, therefore, the reinsurance industry did quite well I would say since 2002 because, yes, we had volatility. But the volatility led to on average pretty good pricing in the reinsurance market without resulting in dislocations.

So now hopefully having established that the reinsurance business continues to be attractive albeit very competitive, the question, how can we position or how we believe that we have positioned Hannover Re that we should be able to continue to outperform the market.

First of all, a cornerstone of our business model is that we have two business groups. And those business groups are diversifying well. And, again, the main reason for this rather good diversification is also that one of the business is renewal-driven and the other is more driven by the in-force.

As such, I would say between life reinsurance which is largely biometric and not investment risk. So it also diversifies to the asset side of the balance sheet because it's biometric risk-driven and not investment-driven and P&C, we get a better diversification than you would have between P&C reinsurance and P&C primary insurance, in particular if your P&C primary insurance is large commercial and specialty lines because there the cycles follow each quite closely I would say.

So we have a good diversification from that point of view. And that helps us to write a larger profit stream on our capital base than we would have been able to do if we would only be monoline with one or the other and that, of course, you can see that I guess in somewhat more attractive ROEs. I have, of course, to accept that our large peers like Munich Re, Swiss Re, SCOR they have a similar advantage because they, too, have life and non-life business.

If I then come to another important part of our business, as you can see in the first part of this slide, we have a rather positive cash flow. You can see this on the light blue line. And our cash flow is also a little bit more positive as a percentage of premium income than our competitors.

And we feel that this improves our market condition quite significantly. And it also gives you a hint that the underlying result, in particular on the P&C business that we are able to produce, is a little bit better than the result that we actually show in our profit and loss account because the cash flow from operations has always been significantly in excess of the EBIT of the company.

So from that point of view on an otherwise relatively stable book of business, I think it shows you that the underlying quality of the business is pretty good. Of course, this positive cash flow also helps the buildup of the assets under management. Of, course, there are other influences on the assets under management like interest rates and credit spread shifts that have an influence on the valuation which, of course, has nothing to do with the cash flow.

You also have acquisitions where you buy basically a company with a lot of assets and that is also, of course, non-organic and has nothing to do with the underlying cash flow of your business. And also how much capital you repatriate to your shareholders also, of course, reduces your assets under management. But you can see that at Hannover Re we are quite consistent, be able to increase our assets under management purely organically in this timeframe and, of course, that is a basis for increased investment returns even in a low-yield environment or reducing yield environment.

Then, of course, the next question is, with a low yield environment, of course, we have the opportunity to create investment income quite easily by just selling some of the bonds that have appreciated due to the low interest rates and hence, we create profits. However, if it's on the bond business, you create profits, if you take profits that otherwise you would have in future years, you bring that forward.

So if you do a lot of that, it should basically reduce your ability to show attractive returns in future. And you can see of the larger reinsurers we have all done that because we've continued to be in an environment of reducing interest rates rather than low interest rates, even though at times we couldn't believe that interest rates can even drop further. But reality told us they can.

But you can see in comparison to our peers, we have done less than them and that we feel gives us also -- holds us in a good competitive positioning. And the result of all of this is that we are able actually to keep our ROI in absolute terms at quite stable and also comparatively are able to continue to benefit from our increasing assets under management. So that's one of the -- which we feel well-positioning of Hannover Re in relation to the peers and, of course, relation to the peers in a competitive business is always very, very important.

The other thing is where we think we are strongly positioned is on our loss reserves. And of course, I'm stealing a little bit of Andreas' thunder here because I give you the numbers already early on. But what I basically want to show that the fact that we had a positive development of the run-off of our loss reserves does not mean that we have released loss reserves to the detriment of the quality of the overall loss reserves. Quite on the contrary, you can see that the redundancy being the difference between to tell us what's according to our best estimate and our actual reserves, that has actually increased consistently and in particular you saw a sharp increase in 2015.

And if you look at the graph on the lower right side, we had the highest growth of the redundant loss reserves when we had also the highest positive run-off results from our previous loss reserves. And the reason for that is that with our initial loss reserves for the new underwriting years, we apparently are very conservative because we reserve our new business, the newest underwriting years to a combined ratio close to 100. And that is the reason why we see this positive development of the loss reserves. It's not the reason that we actively released loss reserves in order to create profitability, quite to the contrary.

If you go to the individual years, the chart on the upper right side shows you the underwriting year development of the loss reserves from 2009 to 2015. And you can see that even in the older years, we still see a positive development of our loss reserves, that's more from the long-tail lines, of course. The early years that you see a positive development, that is, of course, the short-tail lines really, therefore the 30 up to 36 months, a lot of these short-tail loss reserves have to be released and, therefore, 2012 has shown such a high reserve release in this timeframe.

You can also see the here were some negative developments like 2010 as the development has been a lot less positive. That's due to the fact that the 2010 New Zealand earthquake loss has actually increased quite significantly throughout the year. So there we had actually negative development of our loss reserves but still overall it was positive.

So again, what this slide should tell you, if you see a positive development on our loss reserves that does not meant that the redundancies are being taken down, quite to the contrary. So it would not be right to say, okay, fine, there was a 6% release of loss reserves, the combined ratio was 95. So the corrected combined ratio would be 101. That's actually not quite the case as you can see with the development of the redundancies.

Again, as the expenses, as you can see our expense ratio has come down on the admin expense ratio. The overall expense ratio including the brokerages and commissions have actually slightly increased. We're still a bit below the market average on that front as well. But for us, the reason for the increase is a shift in the portfolio which is following the demand of our clients.

We have seen a larger portion of our business being proportional reinsurance and, of course, on proportional reinsurance you pay higher commissions than you pay on non-proportional reinsurance. That's the reason for that increase. But overall, we continue and we will do everything to defend that competitive advantage, we continue to see attractively low expenses, both admin expenses as well as total expenses.

So we feel that we have a clear competitive advantage here. And all that results in significantly more positive ROEs than our peers show here, you have seen that at the beginning of the graph this is the average ROE of the peer group, the 10 largest reinsurers compared with the ROEs that we were able to achieve. And we were quite happy this development and, of course, we are striving to keep the difference to the extent we can.

So now that I have tried to demonstrate that reinsurance is an attractive business and we are well-positioned in it, now, I'll try to also to tell you that like in the past where we were able to increase our earnings, we believe that we can continue with that trend into the future. So we believe that also in the medium and long term, we will be in the position to increase our earnings.

Let's look at the P&C business first. Yes. We are having a soft market and, of course, whilst we have been able up to now to grow the earnings in the soft market as well, that, of course, becomes more difficult now because, of course, it's an extended soft market which is only just maybe finding the bottom. But it will probably continue to be a more a buyer's market than a seller's market.

But we believe in particular due to our very conservative position on our loss reserves that we will be able to keep the underwriting profits constant. So we don't believe that we will see in the immediate future a drop in the underwriting profitability of our business and I think what we have seen in the first six months of this year have borne that out.

So from that point of view in the soft market we believe that we are able to keep the profitability of our business constant. And like we have shown in the past, when the market changes and I think as I have demonstrated, it's not if the market changes, more like when the market changes, we believe that we can grow our market share again and that we will also see increased earnings again.

Second, on the Life & Health business, we have an underlying trend of growing profitability from our Life & Health business. And one of the aspects is that we have an extremely positive value of new business in recent years, significantly almost EUR2 billion of value of new business since 2011 and that's gradually and I hasten to emphasize, gradually, filter through into IFRS earnings.

So the underlying trend is positive. We have continued to have problems with our ING block that we bought from Scottish Re in 2008. That masks this development to some extent in the immediate future but with the underlying trend of growing our earnings, this doesn't mean that our earnings reduce on a normalized level taking out one-off effects.

So in the immediate future we would see our EBIT of Life & Health to be around EUR300 million to EUR350 million and then it will increase once we have soft and we are in the process of solving the problem is our ING portfolio, also with growing what we call the organic mortality business which is a business that we write new based on the platform we bought from Scottish Re since 2009.

And that business is growing and is becoming more meaningful this year we are writing about EUR300 million annual premium on that with a double digit EBIT margin and that will grow in the next three years to about EUR500 million. So you can see it is growing quite nicely.

And lastly on the investment returns, we believe that we could safeguard in the short, medium and long term, kind of stable, absolute returns on our investments, even assuming that the low interest rate environment is here to stay for a while. And that if you put it all together, we think in the short term we will be able to defend the current earnings power which we see around EUR1 billion after tax. And that in the medium and long term we will be able to move forward from that.

This shows you the development of our capital and the development of our earnings. And you can see that from 2011 onward, the average capital increased every year. But the earnings, after-tax earnings increased every year as well. So the ROE we were able to keep quite constant. Of course, if I just take the actual number from 2011, the earnings have grown a little bit faster than the capital. However, 2011, of course, was a year where we had very high major losses. So we did not reach our planned result. If I adjust it and put the planned result of EUR650 million in 2011 then the earnings and the capital grew in tandem.

So that has been a very good development, in the immediate future for the reasons I just mentioned on the previous slide, that will be more difficult to come by but we still believe that we can keep the ROE well above our minimum requirement of 900 basis points in excess of risk-free, therefore we see no reason to lower this target. So we keep it stable we increased it like two years ago, with the earnings power of our business and the expected development of the capital, there's no reason to believe that we should see a negative development here.

That, of course, leads to the question of capital management. Capital management for Hannover Re so far has been paying extra dividends. And that will continue to be the case. So the basic parameters that as long as the earnings goes sideways, we will pay extra dividend to keep the growth of the capital in line and, therefore, to defend the ROE to the extent we can. If we are able to grow the earnings again, of course, we would stop to pay extra dividends. But then, of course, the regular dividend should gradually increase with the increase of the underlying earnings power.

There are a few other considerations that we have to take into account here, with our 35% to 40% threshold of the IFRS earnings, that continues to determine our regular dividend and that will continue to be the case. We also have, of course, your return on equity which means that we have to balance and have to keep the increase of capital somehow in check. We will not decrease our capital. We don't think there's any need for that.

Then we have the capitalization. Of course, we can only reduce the growth of our capital if we are not running into problems with our capital ratios, in particular also with the rating agencies but as Andreas will present to you, we are at good state there.

And lastly, we also want to have a consistent dividend payout rather than a volatile dividend payout where there are years where we pay low dividend, therefore we have to keep some of our powder dry, that goes to the detriment of the dividend in a given year for the benefit of the consistency of the dividend because you also want to be in the position to pay an attractive dividend even if you have a year, say, like 2005 when due to major catastrophes, the overall earnings are not allowing us on a standalone basis to pay such a dividend. Therefore, we have to keep some of our powder dry. And that's what we are doing.

So summing it up, as a top tier reinsurer we are well-positioned in what we feel in an attractive market and whilst reinsurance is a competitive business, it's rational-competitive and market-driven competitive, earnings-driven competition which we feel is good and therefore we feel that we will be able to grow our earnings in the medium and long term.

That concludes my presentation. Thank you very much for listening. Of course, I'm more than happy to answer your questions and I will join Karl for that.

Questions And Answers

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Well thank you very much.

For the Q&A session, I like to remind you to wait for the microphone before asking a question. I already see the first question at Kamran and we follow by Vinit.

Q - Kamran Hossain {BIO 17666412 <GO>}

Good morning. It's Kamran Hossain from RBC. A couple of questions and one of the two might actually be for a little bit later on this morning. But the first one is just about the; I guess the ROE and thinking about what this might do for changing market conditions in reinsurance. Given where interest rates were I guess the last few times we've seen the market turn, do you think we're going to have to see the top 10 reinsurers produce an absolute loss for a year to change the markets? That's the first question.

And the second question is on the loss reserves, I know we're going to cover this later on. What do you think the optimal range is above actuarial best estimate? So clearly you're over 8% right now. But I imagine that 0% above actuarial best estimate isn't your optimal range. So if you could give some color around that, that'd be really helpful. Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

On the first question, what the ROE will do when the market is changing, I think we will see an increased ROE. We may not see 20% again and the reason for that is that the capital base of the industry is a lot higher than it was in previous hard cycles. And also I guess the reinsurance market is less leveraged than it was in previous cycles.

But I think that the ROEs will, of course, increase. And what will change the market to where do the ROEs need to drop. I think as they drop below 5%, that should be sufficient to change the market. A lot will depend on; for the development of the market is, of course, major events will have an effect like they had in the past. But also the quality of reserving will have an effect because you obviously have the highest effect if you have major, major loss. And at the same time, you realize that your reserves are deficient. And the combination of the two that we had seen in 2001 normally makes a hard market.

And of course, the longer the market stays soft, you would see that the overall sufficiency in the loss reserve in the market will drop because there's pressure on the marketplace to report acceptable results. And if rates are low and acceptable results are not automatically following from the underlying business, of course you resort to loss reserves. That has been the case in the past and that probably still will be the case. So if with combination of those, you see the ROEs drop below 5%, I think you will see a reaction in the market. Of course, the longer the market remains soft the more drastic the reaction will be.

And the second, what is the optimal loss reserves that we want to have, the optimal sufficiency. Of course, I would say we do not want to go negative. But I would say we always want to have some buffers in our loss reserves. We also have that in our limit and threshold system, we have a threshold of I think it's 2% or 3%. Yes. It's 2.5%. So the threshold is 2.5%. So if our loss reserve redundancy falls below 2.5% of the loss reserves, we enter the end of that territory in our limit and threshold system. So that's basically the answer to that.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good morning. Vinit Malhotra. So Ulrich, thanks for the clarity around the ordinary payouts and how you think of the dividends in a flat earnings, et cetera. And do you think of the total payout growth as a variable as well also given the context that the Hannover Re share price total yield is a little below their peer. So the growth should be faster? Do you actually think about the growth aspect as well? So that's my key question on the capital.

I do have questions on the life comment. I can put the question of life and like the answer later in the presentation. But in the life you seem to indicate the EUR300 to EUR350. It seems to suggest that this was sort of the annualized of the Second Quarter level. I knew it was meant to continue one or two quarters. But if you're suggesting it's meant to continue one or two years, then is there something new that has happened in the last few months that has changed your mind on this a little bit? Or maybe just a clarification would help. Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Yes, on the growth of the dividend, I think we have seen some growth in the dividend. Even with our extra dividends in '14 and '15, we have grown that a little bit. I would say based on the current situation, the current dividend of EUR 4.75 is quite an acceptable dividend. And it's a little bit too early because there are almost two and a half months to go to talk about that.

But the regular dividend, that we have an aim to grow that with the growing profitability as I expected. In the short term, it really depends a little bit on the opportunities that we have to grow the business in the short term. And it's not impossible that that will happen, of course. And we need more capital and so the extra dividend may continue to stay.

Whereas if there's really nothing changing and the business is gradually reducing a little bit including the exposure with the soft market, of course, a little bit more drastic reduction of the growth of the capital base could lead to an increased dividend.

But we have no particular growth target for our dividend. It's not that we say we want to grow the dividend for, say, 5% or 10% every year. We have a growth target for the profit and we feel that the growth targets for the profit there should also be a growing dividend. But we are not saying that would have to be every year. I would say if you look at the five-year timeframe we, of course, expect our dividend to increase in the five-year timeframe but not every year.

Q - Unidentified Participant

The life?

A - Ulrich Wallin {BIO 4863401 <GO>}

Oh, on the life, yes. Well on the Life & Health business we have seen that the negative development on the ING portfolio has been a little bit more pronounced than I would say we have thought a year ago and we continue to work on that. But it seems to take us little bit longer than we have expected, therefore it subdues the earnings for longer than we would have liked. But I guess when Klaus gives his presentation, he can give you a little bit more color on it.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. I've seen quite some more hands up for questions. We continue here with Andrew Ritchie, Thomas Fossard and then Vikram.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Is it working? Yes. Uli, in the past you've talked about one thing to exceed your 900 basis points over risk-free target ROE. You even mentioned; I can't remember when it last was, it probably would have been in full year results, loosely and sort of you'd really like to keep it above 12. Is that still a kind of loose unofficial target?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well it's still an internal target I would say. Of course, it's getting more difficult to achieve that with the increased capital. But we still believe that this is a target which we will strive to achieve. We may not achieve it every year. But I think it's still within our underlying business model.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thomas Fossard from HSBC. I've got two questions, first one is on the cash flow metrics. Could you come back on why kind of Hannover Re cash flows are superior to EBIT and what is specificity of the Hannover Re business compared to peers in this respect?

And the second question would be related to the first question is on the mix of your business growth, should we expect any synergies which potentially could have some implication on the AUM growth, strong growth that you posted over the previous years? Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well I guess the more positive cash flow comes back to the reason that we had a higher percentage of non-proportional business than our peers had to some extent. And the non-proportional business normally gives you better cash flows and the proportional business where of course you pay higher commissions and if things go well you also pay a profit commission on those. That's one of the reasons and we continue to emphasize the non-proportional business.

I would say we have a fair amount of our business in the long-tail line which is more cash flow accretive as well. But that, of course, once the long-tail business is going flat in absolute premiums, then, of course, the cash flow would go flat also on the long-tail business. And our growth in recent years has been more on the short-tail than the long; tail business. So I guess it's more the former, higher amount of excess of loss.

Where will the business grow? We continue to defend our non-proportional accounts, in particular in areas like property per risk where we are one of the market leaders. Marine excess of loss, non-proportional, credit and surety in the US, casualty clash and non-proportional casualty business in the US. So that will stay and that will, we believe, continue to provide us with positive cash flows.

On the other hand, the demand is more driving towards proportional business and also a little bit towards Financial Solutions business which on the P&C side we call advanced solutions because we like that name. We have that for quite a while.

And of course, that would mean that those premiums provide you with very stable and secure earnings. But, of course, with less cash flows. So the premium; the cash flow to premium ratio may actually come down a bit in the short term. It should then increase again when the market turns.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. The next question is from Vikram.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi. It's Vikram Gandhi from SocGen. The first question is on P&C. So at an industry level, what would you say should be the biggest worry for the investors? Is it reserving deficiency, inflation shock, maybe an interest rate shock or just the amount of excess capacity or the number of players?

And the second question is on the Life & Health and I'm referring to slide six. It shows the Hannover Re's market share has been pretty much flat over the past six years at 11%. But surely this is on a premium basis I believe where Hannover Re has actually grown a lot on the deposit accounted business which is not reflected here. So any thoughts around that would be helpful.

A - Ulrich Wallin {BIO 4863401 <GO>}

Okay. First of all, on the P&C business, what should be the worry? Of course, if you see a re-emergence of inflation, you will see that the redundancies in the loss reserve will evaporate rather quickly. There, of course, it's still helpful to have more rather than less because it takes a longer time until you get in negative territory. So that would be a concern on the P&C side.

We have looked into that for Hannover Re and continue to protect against that we are inflation linkers. So what we did, we looked at the scenario that you have an increased inflation of 4% for four consecutive years. We calculated our exposure from that. And then we said we would protect half of that by redundant loss reserves and half of that by inflation linkers and we continue with that.

You might remember that we used to have these inflation slots which also make some interesting appearance in the P&L account. With the inflation linkers we are less visible into P&L account because it goes through the OCI because we are able to hedge accounting then.

So this, I think inflation is probably is the biggest problem. The other in the current market where we currently are, there's always the danger of getting things wrong, that you underwrite poisoned opportunities so to say. And of course, that can happen for us as well and it happened to us in the past, probably happens as we speak. But we try to have as little of those mistakes as we can, ideally having some less than our competition.

On the Life & Health side, our premium; the Life & Health premium is quite bulky. And so the main growth that we want to achieve on the Life & Health is the bottom line because our most profitable Life & Health business; and Klaus will give you a presentation of that; is the Financial Solutions business and on that, we are not booking at lot of premium.

If I give you an example, last year admittedly we had some one-off effects. Our US Financial Solutions, the premium was exactly the same as EBIT. And this year even without one-off effects, on that block of business, it's still pretty much the same. So we are not that concerned if we don't grow our market share based on premium. Then, of course, we want to grow our market share is the profit pool that the business presents.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. I see we have already stretched the Q&A a little bit. There's two more questions, one is from Jon Urwin and from Thomas Seidl.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi there. It's Jonny Urwin from UBS. Just thinking about your combined ratio a bit. You mentioned that you'd like to keep the combined ratio down at sort of 96%. If you were to defend at those levels, would you need to relax from, say, conservatism, i.e., lower initial loss base, because I guess given the pricing reductions that we're seeing, if you're keeping them flat then that is a source of relaxation anyway. But do you need to go further than that?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well the answer to your first question is yes, because this is soft market, the quality of the business and the underlying earning parts of business has reduced. That is not so surprising because we are reducing rates for four consecutive years. The entire portfolio probably not that dramatically. But certainly this has an effect.

What it basically means that we will probably not add to the loss reserve redundancies if we take out of the redundancies, it's really a factor of the major losses, all the major losses creeping up to the large loss budget or not? Of course, I'd say below the large loss budget, that helps so you don't need to reduce the sufficiency of the loss reserves.

It also will have a little bit to do with the emergence of inflation because then, of course, the redundancies will automatically reduce regardless of the quality of the business. But it's very clear and we said that all along. We build up those buffers because we had a very comfortable situation with our earnings. So we didn't have the pressure to show more earnings than the underlying business actually created. And therefore we had the luxury of being able to put up buffers on the loss reserves.

But we also stand ready to use the buffers if it's necessary. I think, of course, you know our threshold at 2.5% which would mean that with our risk management limit and threshold systems, then we wouldn't be able to continue any further with that.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Next question please? Please continue.

Q - Thomas Seidl {BIO 17755912 <GO>}

This is Thomas Seidl from Bernstein. Two questions, first on this reserve. So I think like you and your peers are at the peak reserve level. Doesn't that mean we are in a soft market for a couple of years because basically your primary insurers know about that and hence can continue to demand price reductions? First question.

Second question, you showed us that you outperformed in terms of growth not only the market but also the top five peers of your group particularly in short-tail lines where the price softening was stronger. So how does it fit to your statement about cycle management?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well on the first one I agree that the industry is well reserved and that, of course, would prolong the softening market. There's no question because it allows the reinsurers to report acceptable results even if the underlying earnings may not fully be supportive of those results.

But I think in the industry, the level of sufficiency on the loss reserves is probably gradually coming down. So I would still say that a major loss event would create a change in the market like in 2011. But it would be measured hardening of the market, as I said, it would not be a dislocation and one year of good result would basically then create a trend downwards again.

So second question was on the growth on the P&C side which was quite pronounced, particularly in 2015. How does that go together with cycle management? I think we have improved our position with many of our major clients, therefore we have opportunities also on some larger transactions. And in 2015 we just have been quite successful that a few of those did actually, or a comparatively large number of those did actually come to fruition. And we were able to get our necessary margins and our necessary pricing on those.

That masks the underlying reduction in volume on what I would call the flow business. For next year and this year to some extent we are working, we always work large transactions. But you have years where in the end nothing transpires and that's absolutely fine because the basic business is a flow business.

But as we are asked to work on them by our clients, there's, of course, also the opportunity that they may come to fruition and therefore that means that the volume is increasing rather than decreasing than it should. But as long as on those larger transactions we get our rates and our margins, we are happy to entertain those.

What we are not having entertained so far to any large extent is to writing large US casualty treaties on a proportional basis where there is a lot of demand from the reinsurance; from the insurance market in the US.

We are a little bit shying away from those, mainly because of the experience that we had on our US casualty business in the last soft market at the end of the '90s, where we found that despite the fact that the rates were a lot lower than now, that all the many small treaties that we have with a large number of our clients did not hurt us.

What hurt us were the few large proportional treaties that we rolled and therefore our special underwriting guidelines for our US casualty business has a provision in that a single treaty is limited in size as compared to the overall portfolio and we continue to adhere to that.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Well thank you for your questions. We have scheduled now a short break. So you will find coffee, tea and biscuits out of this room. We will resume in around 15 minutes. So 10 minutes later than scheduled at 10:40. Thank you.

Okay. Well thanks for taking your seats again. These days anything that happens more than twice can already be described as a tradition. By that yardstick it has become a longstanding tradition at Hannover Re that we take a close look at the desk of our CFO from quite a few different angles.

Today we are going to compare the measurement approaches on the IFRS and Solvency II and consider the reconciliation from one perspective to the other. Needless to say, we cannot get away without an update on investments either. Given how many important or newsworthy matters pass over Roland's desk, I think we can carry on with that title for the presentation for the years to come.

Don't you agree, Roland?

A - Roland Vogel {BIO 16342285 <GO>}

Yes. Thank you, Karl. Yes, I was going to say the same thing. It is a little bit a tradition every time you think about preparing for the presentation, you look what is on the desk and you ask yourself as to whether it makes more sense for you to go deep into one thing or to cope with one or two different topics.

For this presentation, I have prepared two and a half, I would say, although the half is more a housekeeping issue and I still hope I can enlighten you on something. So we found out that during the speech of the CEO, the share price had outperformed the market by a % so maybe we'll now find out what I can do on top of that all as to whether it disappears in the area and so this is how we measure ourselves.

So Karl has already mentioned and I mentioned there are two and a half topics. First of all, of course, you cannot hide before the low interest rate environment. And I have prepared a little bit deeper look into the most concerning area which would be the euro. And I will be giving you the regular update I could say on reinvestment deals, what does that mean, how do we look into the future.

Then the housekeeping issue would be how do we at Hannover Re calculate the ROIs which are used for all these guidances and reportings we are given or we do give. Then I have this comparison between the two reporting regimes for Solvency II and IFRS. And so we gave a translation for the day one accounting at the beginning of the year. We will do that also for the half year numbers.

This time I will concentrate, as I'm the bookkeeper, only on the owned funds and Andreas will come after me with all the fancy actuarial stuff and ratios and all that and we will also, I will try to give you a little bit of flavor of which were the drivers between the numbers and the comparisons between IFRS and Solvency II. And we can even have a philosophic discussion with that which I will not go too much into detail.

So let's potentially start with the investment update. Of course, the most frequently asked question, FAQ, I'll be getting, how do you cope with the low interest yield environment and in some cases, this is not even a low interest rate environment, it is a negative interest rate environment. On this page, I think there are a lots of ways to display all that. You see the areas of the world, all the currencies, or the countries where we -- with regards to sovereign risk, we still are in positive range and where we are already in negative range. So for instance in Switzerland and Japan up to the 10-year range, you cannot find any positive yielding risk-free securities.

That changes a little bit with Germany. You see that this was as of June, 2016 and we had been in negative range with longer dated maturities as well, as we all know. You can also go down the route a little bit here to other countries like Italy and Spain. And in the short-term durations, we are in negative territory here as well. Which means for the business which generates money for only shorter term durations, we in negative territory. And how do we cope with that and how is this reflected in our internal measures.

We cannot escape that reality. And we have to reflect it in our internal measures. And I had been asked at occasions before, how much are you invested into securities with negative book yields? So nothing, that I had bought with a positive book yield and then went down into negative territory based on a higher valuation. But what is the amount of really securities which you had already bought with negative book yields? And that right now by the end of September, as you can see at the bottom of the line was EUR400 million, that reflects approximately 1% of the overall portfolio. So we are trying to avoid that as much as we can. And will going to see over the course of my presentation where and how we are trying to do that. But it is an unavoidable and I have to live with that world.

So this seems to be a rather heavy page. It's not that complicated. If we look at it, those who follow us a little bit longer are used to us presenting the reinvestment yield for the portfolios. And what I did here is I took out our just the euro portfolio and we will concentrate on just the euro portfolio for quite some time. So what has happened with regards to the reinvestment yield and you also know that we talk about reinvestment yields here. It's more the theoretic reinvestment yield. If I reinvest an additional euro which comes in, exactly how I am invested today, which is not exactly how we invest but it gives you a flavor. And the good thing is it's very easy to measure, because we get all their information out of our system.

So if you look at the book yields of our -- of our euro portfolio, it consists approximately 29% of the overall assets. So the 10.8 billion by the end of August, as you can see in the second column, what was the book yield of these numbers or the yield or the reinvestment yield, how we present it. Usually, that was by the end of 2015, we did reinvest every additional euro when it came in at 96 basis points. So now, after the Brexit came in and the yields and the credit spreads went down even lower by the end of August 2016, that theoretic reinvestment yield went down to 38 basis points. So that in previous times was the range which you had to pay for your asset manager as a fee and not to be the yield you will be getting from such a portfolio.

What is perhaps worth mentioning here a little bit is if you look at the euro portfolio as it stands here, the modified duration of our "govies" as you can see is 6.2. So that's a little bit above average. Right now, the modified duration of the portfolio, the fixed income portfolio would be 4.5. So you can see that especially the government range we are going a little bit longer, that is for instance one area where we are trying to avoid negative yields within the portfolio, that goes down here as well.

So this is reality, over the course of the half year, the reinvestment -- to see erratic investment yield went down by the 58 basis points and we have to reflect that in our business. So what I'm saying here as a consequences of what was happening, the reinvestment yield down to 38% theoretically. Please bear in mind, we do not exactly reinvest as we are invested today. So we are trying to do a little bit better so this is a theoretical. But it gives you the range and the indication where we are.

Of course, theoretically internally, this does not mean that something changes for the existing business which we have. We apply a strict asset liability matching. Uli has demonstrated to you that we are really not realizing that much unrealized gains. We are trying to avoid that as much as possible. We are a fixed income portfolio, a hold to maturity investor. So what happened, we still keep the assets and the single securities so their value goes up.

So within the first half year, our a euro unrealized gains increased by EUR350 million and these EUR350 million are the to the largest extent still there. But of course, we need to bear in mind for the business we write that the yield has gone down drastically. It needs to be reflected in our internal measures. We also had interesting discussions with our underwriters, because of course the quotation tools from the beginning were not prepared to take the minus in as a lot of other, IT tools also had been created without that, having that in mind.

I think the important message still and this turns this a little bit around. I've asked our controllers to calculate a theoretic euro MTCR. And I must admit I was even surprised myself a little bit with the cost of capital which we have today, with the interest rate and the modified durations, we have in the euro which are a little bit longer, the overall euro MTCR as it stands today is still slightly above 95% . And if we make that slightly above 95% , we would still create the 900 basis points over and above risk-free. Not the 12% but the 900 over and above.

So on the one hand, the message is negative. The reinvestment yields go down. Also what I have here said that the impact from positive cash flow is marginal, maybe a little bit too strong. Of course the impact of positive cash flow goes down and also this has to be reflected when we look at our pricing tools and the conditions of our contracts. Still, if we are within the euro at 95% combined ratio, still is sufficient to create the 900 basis points over and above risk-free. So I think this was the euro message based on what we have experienced, especially within the first half of this year.

So now we come to the, I would say, the regular update on the portfolio as it stands today, as well as on the portfolio yield and the reinvestment yields as they are today.

So nothing has really drastically changed within the portfolio. As you can see, 87% in the fixed income part in line with our barbell strategy which we had referred to more than once by a little bit more on the government side and you -- we will see which currencies we do that in a second. Increased also the more risky part which is difficult to be seen. So the non-investment grade portion still the development still is behind the comma or the dot here. So we might have to be a bit more detailed here in the future and also show the percentage points behind the comma.

But what I'm telling you is that we are increasing these parts in line with what we had defined as a barbell strategy. You see that the listed and private equity is still there. So nothing has drastically changed. And I think we can go to the -- to the next page here as well. That is the page you're used to seeing.

We have on the government side, a portfolio yield of still 1.8% across all currencies, across all countries. The market yield. So the yield was which I would invest today is only 75 basis points. On the semi government side, there still is a larger difference on the covered bond portfolio. Well the old -- good old German covered bonds frankly with all that, we are still benefiting from those in our portfolio. We are not reinvesting that drastically because we do compete with Mr. Draghi in that respect and yields have come down. So that portion will go down. But you still see a remarkable difference between the portfolio yield and the reinvestment yield.

Overall, we are at a reinvestment yield today of 1.47%, well, that oscillates you could argue between 1.5 and 1.4 for quite some time. That compares with the 2.7 for the ordinary income within the fixed income portfolio.

While, that then is a consequence, also, this is something we have given you more than once. You see the development of the ordinary returns for quite some years here. You might remember that also for quite some years, we had been giving you the guidance that the ROI, as we measure it, will or should be coming down by 15 basis points per year. So if we go back the seven years which you see here. So we have lost approximately 100 basis points over seven years. And that exactly reflects the guidance which we have been giving you for quite some time. And that is also the range where we are still in. It is also not a miracle how that works, with the modified durations we're working, this is the range. The definition of the range which is indicated here between the 2.5 and the 2.8 is reflected. You see that in the footnote. So every investment yields go 100 basis points up or go 100 basis points down. We would be within that range for the years to come when it comes to our ordinary investment income.

First some just additional information. I've mentioned that before, the currency splits of the investments as they stand today. We should be aware that the portfolio is driven by the euro, by, you could argue, only 30%. That has been decreasing a few years ago. We were approximately 40% euro 40% US dollar, that has shifted. We've been talking about the change in the reporting currencies for Bermudan companies and as well as for our Irish companies, that has shifted to mix a little bit and we do benefit from that right now when it comes to yields.

You also see the development of the modified duration, right now, 4.5 of the fixed income portfolio. This is adjusted rather dogmatically, according to the development of the liability side, the latest indications have been that we should be going a little bit longer and we will do that. But also, these will be changes within perhaps 20 basis points or 30 basis points, no drastic changes to be anticipated. But most likely a little bit longer in the future, because they actually told us that the liabilities have been growing a little bit longer as well. Again, you see that the sterling with 8.2%, on the other hand you also know that we are totally match when it comes to currencies or we try to be totally matched when it comes to currencies. So this should not have a major impact, what had happened to the euro or the sterling over the last -- over the last periods.

So a brief look at the portfolio compositions. Per currency, we do compare here the US dollar as well as the euro. And you see that the portfolios are not exactly the same and we steer that of course, you see that for instance on the euro side, the govie portion is a little bit smaller. You will also remember, it was a little bit longer to get out of the negative range, the govie part in the US dollar is a little bit long, bigger. So it dominates the US dollar portfolio because there we are still in positive range. We try to mitigate the euro yield development by higher real estate or also higher alternative and listed equity as well as private equity investments. So this is not coincidence. So we steer it of course on a portfolio but also on the currency basis and that should give you a little bit of indication how we try to cope with the environment we are operating in.

So what changes do we have on the, well, tactical, not to say a strategic agenda? So we are looking to try to enhance the overall yield of the portfolio with some measures. And I want and I need to emphasize, this is not based on an additional risk appetite. All the changes which we might be seeing in the midterm future are still within the risk appetite. We have not increased the risk appetite. Andreas will show you that the market risk, as part of the overall risk, has increased. But you should bear in mind, that is based on some model changes, that was based on some areas where we did not fully utilize the allocation we had been giving before. So for quite some years, we had not been invested in listed equities at all. So I could kind of give that capacity for the underwriters, now I have it back.

So the overall strategic risk appetite has not changed. And all these changes are kind of covered by the capital which had been allocated to us so we could increase or we will increase the lower than BBB quality of the portfolio, perhaps from 15% to 20%, we will increase the real estate or we will try to increase the real estate portfolio from four to six to seven, private equity from two to three to four and the CLO leveraged loans area also a little bit. So if you add all that together, that reflects approximately 10% of percentage points, of % of the portfolio.

And while it is really difficult and this will happen all the time. So to now to say what impact will that have on your reinvestment yields, it is -- you see that I was not brave enough to write down a number here. But if we, for instance, invest about 250 basis points higher than I'm invested today and that with a 10% leverage on the overall portfolio, that would give me 25 basis points and that would save me two years in our other measure. But this is the environment we are in.

So let's then come to this little housekeeping point. I took it on the agenda because I think it's worth mentioning. So how do we calculate the ROI? And with the ROI, all the yields we have been talking about, the reinvestment yields. So we follow IFRS accounting strictly and we do that to be as transparent as possible, to also show you the credibility which I was trying to show you when it comes to the publications. So we do follow exactly the way how we present the numbers according to IFRS so this is why I have copy pasted here the balance sheet as we had shown it and also the P&L as we have shown it. We take exactly the numbers as they are here.

So if you go to the balance sheet, we take the average amount of the total investments and cash flow on our own management because we feel that also cash flow is part of the asset management. And we take that in the -- I always mix it up. The denominator. Is that right? And of course they may be good reasons to adjust that. There are hundreds of ways to calculate an investment return, time weighted returns, IRRS, whatever. But in our publications here we very strictly adhere to what is on the balance sheet. On the P&L side, IFRS tells us what we have to show, the ordinary investment income, the realizations, the total of the other or investment expenses and exactly how it is demonstrated here.

We then give you the numbers and calculate the ROIs, 2.9 and so you can go into each and every of our IFRS balance sheets and publications, this is how we present it. There are no adjustments. Then maybe good reasons to sometimes adjust and you might have in the back of your mind that we adjust in one area of our presentation which is a target matrix, there we always have adjusted the ROIs when it came to inflation swaps and the ModCo derivative. But in all the other publications, we do it this way. And I just wanted to emphasize that this should increase transparency and it's easy for you to recalculate. And also, that reflects all the expectations which we were giving, you will be following that matrix. That was it, I think, I just wanted to make that clear.

So let us then change gears entirely, I've mentioned to you that I will follow up a little bit on the publication we have been given according to Solvency II here. I mentioned before within a very esteemed cycle in the industry, we had a rather philosophic discussion, how should we be treating the Solvency II to publications which have already been given. And which will of course will be even more extended with SFCR reporting next year.

In May, we have read some articles and also presentations from people here in the audience who tell us that this is a very new measure and we should use it to present our cash flows, whatever. There's the other philosophic. So that is broad range of the other kind of philosophic area, I would say, hey guys, we are internally, we are calculating with discounted values. We give you values of new businesses as part of the MCEV re-reporting. We give you all the information about the redundancies. That all is reflected in our internal measures which we call the intrinsic value creation, our IVC numbers which we also publish, we do all that. So what is so brand new and the important thing is that the regulator gives you your stamp, solvent, that's it. So that will be the one extreme observation. And the other extreme, this is the new reporting universe and who cares about IFRS or German GAAP or whatever, this is the area.

So right now, one has to, we have to admit we are forced to, we are happy of course, also, not only for us but also happy to provide the numbers. But I think we will find out as to whether the solvency reporting develops into this new reporting field or not. Up to now, the numbers you have received from us were not so extensive. We have to admit that. It is a very costly thing. We need to get used it. Last year, at this point in time, Solvency II was still a moving target. We will provide everything we will have to provide. But for instance, up to now Solvency II does not require us to publish a segmented economic P&L. Is that something you need to have? Yes. We have it. Internally, we have it to some extent. Does it come out of our accounting systems? No. It doesn't up to now, just in a fast close manner. So we are in the middle of providing that. And I'm mentioning this, you could even say conflict, a very different opinion which route we were going up to now. I think we have been publishing what we felt was necessary and all the other information should be available.

So let's go into the details a little bit. Here is the translation which you have already been seeing between the beginning of the year and between IFRS and Solvency II at the beginning of the year and the year. So we start on the left-hand with this shareholders' equities. We have the adjustments for assets under own management which do reflect, of course, that under Solvency II, we all have every single at market value. According to IFRS, you still have some parts of the investment at amortized cost. So that is the major value. Of course the adjustments on the liability side are the major points, that is the discounting, that is the more realistic view to it. All that has to be taxed and this follows, I think this is nothing brand new for you. It ends then up in the tier one unrestricted capital. We do have our hybrid capital and Andreas will also give you some numbers with that. And that then ends up in the basic owned funds.

What I have here on the next page would be a little bit a different view to the same numbers, if you look at it as a pie chart. Let's start with asset side first. What you see is that the overall amounts shrink. The total assets shrink by 20%. So from EUR62 to EUR50 million, what is the reason for that? The reason for that is mainly that we balance off, for instance, receivables. And these numbers are just not shown on a gross basis but on a net basis, reinsurance recoverables, receivables, funds withheld.

All these are kind of netted within our balance sheet which is the background for this shrinking process. By that, you also see that for a Solvency II balance sheet, the investments on the asset side make up nearly 78% vis-a-vis the 62% , also that is a result of the netting process. I think this is nothing very complicated. But I just wanted to make you aware of these kind of mechanics. Especially the netting, as you can see, you see it with the reinsurance recoverables which go down, the deposits and receivables go down, that is part of the netting process. So you could argue our asset side on a Solvency II balance sheet are far more geared to the assets under own management.

On the liability side, we have comparable effects. Technical provisions a little bit higher on the IFRS side, that of course is what I mentioned, the discounting and the more realistic valuations. What may be also worth mentioning and we will come back to that is the subordinated liabilities. You see they are increased, in our case, increased from 2% to 3%, which was when I first looked at it, it was a little bit surprising to me. We have a market valuation according to Solvency II and a locked-in valuation according to IFRS. And if interest rates go down, then the value of our subordinates go up, where you can argue how much sense that makes but these are then some difference. You see in, of course, the deferred taxes as we have higher profits or equity stakes, of course, those have to be taxed, which increases the deferred liabilities here in Solvency II area.

But it's also worth mentioning that out of the total assets in our case on the IFRS balance sheet, the excess over liabilities or the equity displays 15% of the overall total assets. And on a Solvency balance sheet, it is 23% . Well this is not a lot of science, you've seen those numbers before. But I felt it may give you a little of bit of range where we stand.

So what happened in the first half year of this year? Let's compare the development between Solvency II and IFRS. So we can see that the economic difference or that the, let's put it the other way around. The IFRS equity had increased by EUR359 million whereas the Solvency II equity position or assets over liabilities have benefitted by only

EUR216 million. So the difference is EUR143 million. How comes that the different balance sheets develop so differently?

We have identified three major items here. So first of all, we had reflected, what we had also mentioned before a little bit the impact which we have been seeing on our US mortality business in -- to reflect that in our Solvency II balance sheet. According to IFRS, we are locked in. So this cannot be reflected on the balance sheet. So the updated expectations for that piece of business are reflected according to IFRS.

They are locked in -- sorry, the other way around, are reflected according to Solvency II. They are locked in or they have been locked in according to IFRS. And you see that a 100 million movement is something. But this is something, of course, which is driven by the long-term expectations of that business, which are then reflected within only one year on the balance sheets.

One other point was the market valuations of the investments. I mentioned that according to IFRS, some of the investments are reflected according to amortized costs. The decreased interest rates had no impact because they are locked in at amortized costs and this is why the Solvency II values increased a bit more and now vice versa, back again to our hybrid capital, the market valuation went down.

So this explains mostly the difference of within the development of the equity values in the two balance sheets. It's really a little bit of a P&L comparison. I think just to be complete, that is the reconciliation as of the end of the first half year of 2016. The numbers have not drastically changed. That really then translates, again, the IFRS equity into the Solvency II basic owned funds. And as I have promised Karl, to save a little bit of time which we overran, which also is a tradition, I will stop here and be open to your questions.

+++qanda

A - Karl Steinle {BIO 1986424 <GO>}

Well thank you, Roland. I already see some hands up. We start with Will Hawkins, followed by Andrew Ritchie. And then we continue with Anasuya Iyer.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you. I'm William Hawkins from KBW. Two things, Roland. On that last slide you showed, I'm sure your disclosures are going to improve in the future but even if we make the adjustment that you spoke about for that 143. Annualizing the first half is talking about Solvency II capital generation of let's say 5 or 600 million, which is much lower than your EUR1 billion IFRS profit target. How can we think about comparing those two numbers? So the Solvency II capital generation looks much lower than the IFRS figure.

A - Roland Vogel {BIO 16342285 <GO>}

Yes. I think -- that, of course, includes the dividend payment of -- so I would say half of the profit generation within the both regimes had been paid out. I think that would as far as I see from you explained most of the difference.

Q - William Hawkins {BIO 1822411 <GO>}

Okay. All right. Maybe I'll comment. A second very small question. The negative-yielding assets that you bought, I appreciate it's a very small number but what are the negative-yielding assets you've bought and why did you buy them rather than just putting your money in the bank?

A - Roland Vogel {BIO 16342285 <GO>}

Well rather than the putting the money on the bank is yielding negatively as well, even more so. So the banks do, of course, charge you for the balances over and above a certain threshold. A lot of them do. And even in there, the negative interest is even higher than those which I bought.

And I have not started any discussion to store the money in our basement. So in that regard, to invest it at lower negative yields in some securities is still cheaper than let it on the bank. Moreover, of course, if I would be talking about hundreds of millions, I don't find enough banks to store it because we have rather strict issuer limitation and even for overnight money, I would bear the credit risk of the single bank.

So what are the securities? This would mostly be government bonds to store money. Well if I get in 100 million today within the euro and I know in three months time, I will have to pay that. So to find then something, it's just nearly impossible. So if these cash flow movements do come in, you have to store the money somewhere. And I cannot just leave 500 million on a bank account of one bank, because that would that be associated with the full credit risk of that bank. Plus, they would charge me, higher than the negative amount.

Q - William Hawkins {BIO 1822411 <GO>}

Just to come back to the first question. Again, I got the answer that you gave but do you think there should be a relationship between your Solvency II capital generation figure in the future and your IFRS earnings, or could that number be significantly different, higher or lower?

A - Roland Vogel {BIO 16342285 <GO>}

Well with all the changes and the differences we will be seeing, you will find a lot of scenarios where it's higher and where it's lower, I'm sure. So I think the translation we will be giving and the various. So if I have rate increases or rate decreases, of course, the impact from my amortized cost portfolio would be this way or this way.

So there are different, this is a different accounting regime and I'm sure I can create situations where it's more positive or more negative, I think we will just have to translate it as we do here.

A - Karl Steinle {BIO 1986424 <GO>}

I think everything that goes through the OCI, of course, on Solvency II is going as capital creation. If you want to have a P&L account, an economic P&L account which we are working on as well.

A - Roland Vogel {BIO 16342285 <GO>}

Yes. Andrew?

Q - Andrew Ritchie {BIO 18731996 <GO>}

Thanks. Similar question. You mentioned that your internal economic hurdle is IVC, intrinsic value creation. Remind me, do you actually have a target for that or how do you measure? Is that truly on your internal model? And if you do, how does that relate? I guess it doesn't really relate to Solvency II. It's a different calibration basis.

A - Roland Vogel {BIO 16342285 <GO>}

Yes. We do have a target. So the IVC at a breakeven point makes sure that we exactly create the 900 basis points over and above risk free. It is kind of cascaded into economic values and it is part of the MBO process. It does, of course, then include discounting. It does include redundant loss reserves. All that. So we have translated that into internal measures and our underwriters and also some of the board members here are incentivized by IVC numbers. So in that regard, we start calculating and I think it has been presented. It was also described in our annual reports how we do that.

We start with the IFRS numbers and then translate. So for instance, up to now, the value of new business which is important for Klaus is part of that calculation. So we took the value of new business out of the MCEV calculation. Only then, well, early last year, we were discussing, "Well does that make sense?"

Solvency II reporting requires us to produce nearly the same numbers with some different discounting, interest curves and all that. So does it make sense to produce that twice? So in that regard, also the IVC numbers of 2016 and '17 will include some of the Solvency II calculations, for instance, for the V&Bs.

So we are in the middle of that process of implementing it. But goes a little back to this philosophic discussion which we have, is it just another hurdle to jump over? Is it a AA; from a rating agency? So I get the stamp from the BaFin, solvent, that is a number. And apart from that, we do provide some additional numbers or will this really replace a lot of our presentations to the market?

So internally, as I mentioned, we have been discounting before. We have been doing this. And to be efficient and to remain very cost-efficient and an expense leader in the industry, yes, we said we will no longer produce MCEV but provide those numbers out of the Solvency II reporting. So if you then ask, well, will that replace where we have. And also you, we'll just have to translate the numbers and to educate people how this compares and what are the effects. This is, for instance, why I tried to display the three differences, the material differences between the development under IFRS and the development under Solvency II.

Q - Andrew Ritchie {BIO 18731996 <GO>}

I guess the fourth difference which I presume is captured in the comment, "other effects" is reserve releases, which are not S2 capital generation but they are IFRS earnings.

A - Roland Vogel {BIO 16342285 <GO>}

They are S2 capital generation.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Well they're not to the extent your S2 starting point liabilities are best estimate. So to the extent your IFRS reserve release is a release of surplus above best estimate, then that's not S2 capital generation.

A - Unidentified Speaker

Well it depends, of course -

Q - Andrew Ritchie {BIO 18731996 <GO>}

That doesn't seem to be in effect in the first half, which is unusual.

A - Roland Vogel {BIO 16342285 <GO>}

Well it would not be because we would -- we would have to do that on a yearly basis anyhow, I would -- I would say but I'm also saying that the -- the redundant reserves. And the difference between redundant reserves and best estimate reserves and the position where we are does create some IFRS capital -- some Solvency II capital.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. I will follow up on that.

A - Roland Vogel {BIO 16342285 <GO>}

Yes, Let's do that.

A - Karl Steinle {BIO 1986424 <GO>}

By the way, the IVC targets you find in the target matrix, it's 3% extra for Life & Health and 2% for P&C.

A - Roland Vogel {BIO 16342285 <GO>}

I forgot that.

Karl Steinle Okay. And we continue with Anasuya Iyer and then afterwards with Vinit Malhotra and Andreas Schaefer.

Q - Anasuya Iyer {BIO 18981555 <GO>}

Hi. It's Anasuya Iyer here from Jefferies. The first one was just on your portfolio optimization plans on the investment portfolio. Are you able to tell us any idea of how much additional capital impact it would have? Either on Solvency II or rating agency capital, if that's significant?

And also just to clarify, on page six, the ordinary yields that you give us, the expected ordinary yield for 2017. Is it fair to say that with the portfolio optimization, now that can stay flat? Is that how I understand it?

And my second question is just a follow-up from the previous one. How do I think about dividend paying capacity in the future? Should I think about it as Solvency II capital generation or is it still IFRS or is it German GAAP? If you could just clarify that please.

A - Roland Vogel {BIO 16342285 <GO>}

I think for the latter question, I would like to refer that a little bit to the presentation of Andreas because he will compare the excess amounts within these various or between the various regimes and this should give you an indication. But I think the lowest excess capital I think is still the rating agency capital.

So this is why I would still be promoting this philosophic discussion about yes, we are solvent. This is Solvency II. We had the measures before. But this does not immediately determine our dividend paying capacity if you look at the redundancy or the excess capital we have from that regime.

So other considerations are still more dominant from my point of view. When it comes to the changes or the potential changes in the portfolio, yes, this will, of course, increase the capital requirements. So if I increase my private equity portfolio, if I have my CLOs and all these securities do require more capital than the "govies" I might sell and buy into.

Still, you have to bear in mind. And it is covered by the risk appetite which we had defined, which may be not utilized today. So yes, it will require more capital in the various regimes we are following, be it Solvency II or the rating agencies. But it is still covered by the risk appetite. So this is why I mentioned that.

So yes, well, it depends on which things I sell and which I buy. So the private equity or the listed equities would then be in the 30% to 40% range of required capital. Our fixed income portfolio right now would be five to six in that area, still, I'm not limited here. And so there are no caps or barriers because everything is defined in the risk appetite already today. Was there something I was missing?

Q - Anasuya Iyer {BIO 18981555 <GO>}

Yes, just the clarification about with the portfolio optimization, your ordinary investment deals, do you mean that you can keep it flat?

A - Roland Vogel {BIO 16342285 <GO>}

Well I did the math and you might remember when I mentioned the 250 basis point that would -- with a 10% leverage, that would translate into two years staying where we are. Still, these are midterm targets. We will not be at 7% in our real estate portfolio next year or not even the year after next year. These are midterm targets. So it will gradually improve, we're sure. But I've -- I would not argue that we will not see the 50 BPS next year here again.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Then the next question from Andreas Schaefer.

Q - Andreas Schaefer {BIO 4667112 <GO>}

Thanks. So you plan to increase you weighting in private equity up to 4%. So could you please explain why you prefer private equity against listed equities? Is it about I think lower balance sheet volatility or higher return assumptions or lower capital requirements?

A - Roland Vogel {BIO 16342285 <GO>}

It's a combination of exactly what you mentioned. Our experience on the private equity side is really good, especially last year we made very good profits. You mentioned that usually the P&L volatility is a little bit lower. There is a time lag between the valuations. It is not as volatile and this is why we have planned to increase that. It doesn't mean that there are no intentions or that we would not also increase the listed equity portfolio. I just haven't. Because we always mentioned that the strategic asset allocation gives us room to 4 to 5% and we would do that kind of opportunistically based on some entry triggers which we have defined that was already existing. This is why I didn't put it up here.

Q - Andreas Schaefer {BIO 4667112 <GO>}

And could you give us some sort of indication what are your return assumptions currently for private equity and listed equities? The rates for bonds are down, I don't know, 50, 60 basis points this year-to-date. So how does it impact your assumptions for other asset classes?

A - Roland Vogel {BIO 16342285 <GO>}

I think the return expectations which we have done on the -- for the listed equities happen between 6% and 8% for quite some time. In our internal calculations for the private equities, they would be still a little bit higher. You're touching a sensitive point as all the alternative yields go down, we would also have to adjust our thinking about adjusting our return expectations or required yield for other investments downwards.

So for instance, for the real estate portfolio, we have been defining that between 5% and 7% . Now, of course, we would think, okay, it would make sense to invest already with 4%

if you look at the alternative yields. So we are looking at that and we have adjusted debt downwards in some cases already.

Q - Andreas Schaefer {BIO 4667112 <GO>}

Thanks.

+++presentation

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Well thank you for your questions. We now continue. The next presentation before we break for lunch is the presentation by Andreas Maerkert. I already introduced him to you last year. And starting this year, he became our group CRO and managing director of Group Risk Management.

In the continuity of which we are so proud of at Hannover Re, Andreas has prepared his presentation in the usual. First, an update on Solvency II, which will include. And this may come to a surprise, a look at sensitivities and followed by a few words on the risk profile and limit system. And as usual, he will finish up with a summary on the reserving position. Andreas.

A - Andreas Maerkert

Thank you, Karl, for this introduction. And hello from my side to everybody, nice to be here. So my points, as already mentioned by Karl, capitalization is an important aspect for Hannover Re. So I'll elaborate on that a little bit. And in the context of capitalization, we are, of course, happy that we got the approval of the internal capital model and that we can present them realistic capital basis under Solvency II, which is in line with our internal measurements.

Given that we are in a challenging market environment, certainly we're talking about soft market, low interest rates all day long in a sense. I thought it was important to discuss our limit system to introduce you a little bit where we have limits and how it works and how it's broken down. So that you see how we accept risk in a very controlled manner. And finally, I will elaborate on some elements of the preserving level. Uli has already provided you of some of the top level numbers. I will dig a little deeper into it and provide you some additional information on the development in 2015.

Hannover Re maintains a controllable capital position. This is our position at midyear, 30th of June 2016. We have our internal target of 100 or limit of 100% of capital above our; so for 99.97 confidence level. So we still meet that and have also a little bit improved here. Also, our internal target, the confidence level 99.5 is still comfortably met. And the Solvency II targets are still met.

We have at midyear Solvency II capitalization ratio of 231%. And if you look at the development over the year, calculating that now on a quarterly basis, we had a slight improvement over the year. But basically stable Solvency II capital position throughout 2016.

If we look -- and we had this slide, we have this in our standard presentation as well. And as I heard it, it was well-appreciated. I put it in here as well to show how our internal targets compare with the Solvency II targets or our internal measurement compares to Solvency II.

On one side, we sort of focus internally also on a higher confidence level, as we think this is reflecting our rating targets much better than the Solvency II. Confidence level of 99.5. So this is the first step which differentiates us from Solvency II. And Solvency II applies some adjustments, one is the haircut for minority interests. So this is a concept of transferability of capital.

Of course, for internal steering, it's a bit -- before and after minority, for internal steering, we require returns on the full capital and not on the deducted capital. So in the internal steering, this haircut has not a strong meaning. But for Solvency II, it's required. Then as you know, we have a partial internal model in place. So adjust for operational risk. And that's EUR216 million at the moment.

This is different between our internal model for operational risk and the Solvency II standard formula. So that explains a little bit these different values and how Solvency II compares for internal measurement. So over most of the cases, these figures will move from one quarter to the next in parallel. So that we think we have a very good alignment between what is measured under Solvency II in terms of capitalization and what is measured internally. And also, this alignment is, of course, much better than it was under Solvency I, where sort of legal entity capitalization was basically sort of volume-driven and was not from our perspective reflecting the real risk profile.

When it comes to comparing different capital regimes, we still have also with Solvency II different side constraints that are there. And the first one is -- actually this is sort of our top levels are defined on these side constraints. This one, the internal model and I have just shown you, this is just repeating the excess capital that we have under our internal target of exceeding the 100% value add risk at 99.97 confidence level.

Then Solvency II, basically, if we look at sort of basic Solvency II requirements that's having a 100% SCR level and there we have, of course, substantial excess capital. Our internal targets on top of that are, of course, higher. And the excess capital with respect to internal targets is then lower. But that's sort of pure excess capital that we have under Solvency II.

And the excess capital with respect to rating agencies in here, this is an average of the major rating agencies, S&P and A.M. Best, it's about EUR1.4 billion. So at the moment, this is still sort of the major side constraint, although we also are working with rating agencies and trying to make them look at our internal model and accept our internal risk assessment. But we are still far behind in comparison to Solvency II there.

So this sort of at the moment our binding side constraints in many cases when it comes to sort of decisions on capital impacts and where we can increase our risks. But still, you see these numbers are quite big. So I would say that we have quite some flexibility here and that we have some excess capital there. And moreover, we have also additional hybrid capital buckets.

This is the figures under Solvency II where you might know that you can implement additional tier one, tier two. And tier three capital instruments. And this sums up to EUR3.4 billion of capital that would be available if we saw the opportunities in the market. So there's some flexibility to implement maybe, also a different asset strategy but at the moment, it's not needed as we have enough excess capital.

So similarly, we have also additional hybrid capital capacities in the rating agency models and there we also benefit from the fact that some of their rules are linked to solvency rules. So our buckets under Solvency I were much smaller than they are under Solvency II. So also here, has Solvency II had a positive impact on our capital flexibility because we have the ability to place additional tier two capital if need may be.

If we look at our risk profile. So I've done this as a table here, we have sort of our high medium and low risk for this purpose here. You see that in particular, there's these blue highlighted buckets, are the underwriting risks and the credit and spread risk. And those risks diversify from all perspective and is also implemented in our internal capital model very well.

Nat Cat reserving risk, mortality trend. And longevity trend are the major risks in our underwriting universe from Life & Health and P&C. And provide for very good diversification and this is definitely also one element in our steering to get this diversification to a high level and to steer this diversification actively.

If we then look at a valuation of this risk, this was more a qualitative assessment on the last slide. If you look at the figures and the value at risk at a confidence level of 99.5 reflects what we view as sort of comprehensive or compound 1-in-200 year scenario for these risks and the value change of our owned funds under such a compound scenario for Property and Casualty or for Life & Health.

You see that about 55% of the risks are composed from P&C and Life & Health, underwriting risks but market risk has become our largest risk over the past years, if sort of underwriting is viewed separately between Life & Health and P&C. And this is just because of the significant growth over the eight years through the positive cash flows and positive business developments of the asset portfolio under management.

And also here, you can see the diversification that we measure in the internal capital model and I should mention, all of these figures are based on assumptions that not only the modeling teams believe in but also the board and the regulator has approved it. So there's some comfort that these compound 1-in-200 year events reflect the risk profile.

If we look one level deeper under the risk profile, there is in P&C reinsurance a good balance between existing business, reserving risk. And new business including natural catastrophe risk as a major component within there. So that's the P&C book and if we look at Life & Health, there's a good balance between mortality and longevity.

We've grown the longevity book over past years significantly such that they are almost from a risk perspective evenly and, of course, this is intended because sort of we expect that negative adverse developments will not hit both portfolios at the same time.

And yes, the market risk, with interest reflects more or less the split of our portfolio, the largest part of fixed income. So credit and spread risks are largest risk driver on the asset side. With this, like, how come, these figures are also a result of our limit and threshold system. That system has several levers, like the global and strategic limits are the sort of capital targets, like enough capitalization for our target ratings in the rating agency models, our target capitalization under Solvency II under internal metrics. So these are top level and strategic limits.

Then we also have limits per risk category, which we reset on an annual basis. So that sort of at a significantly high level, we have a control of the individual risks. So that is a value at risk limit per risk category. Then there are another two limits actually below that, one is exemplary, the limits for catastrophe risk and then I will elaborate a bit on that on the next slide.

Those make a global business process where we break down a global limit for the value at risk of our global portfolio, Nat Cat portfolio down to individual perils and regions and even underwriting standards. So this becomes something that is very actionable in terms of sort of our underwriting departments and that they have a good view on where we stand in risk-taking and, of course, the limits are decided on both level.

Then we have additional limits which then apply per transaction and they are the main sort of guidelines for this, or the investment and underwriting guideline where individual transactions have limits in terms of liabilities, the amount of issuance of an investment in an individual corporate bond at that specific rating. So those types of limits are defined on individual transactions.

These limits are also reflected if you look at our own funds, our available capital sensitivities, individual risks, sort of the impact of individual risks on our own funds is limited, I've here chosen to present of the Nat Cat scenarios, our largest is US tropical cyclone and here, this is the 100-year event sensitivity. So it's a type of stress test that we present here.

And if you look at your -- 100-year US storm, then you can see that in terms of the impact on available capital is really delimited from that, also from individual stresses or sensitivities on interest rates and credit spreads, the impact is limited. Of course, this presentation here impacts in a sense the earnings from other sources, if you have an individual stress test or sensitivity that it can compensate it for from earnings from other sources.

So for comparison, I also wanted to show that our limit for Nat Cat, the global value at risk and your aggregate figures are all risks that we defined to be in Nat Cat. All perils and regions flow into this figure and the value at risk at 99.5% is currently EUR1.5 billion and it's limited by about 1.8, 1.85 and that hasn't changed from last year and is still valid. So we have a sort of restriction here of the -- of the global Nat Cat risk that we are accepting.

And the next two slides, I'm intending to explain a little bit more how we break that down. We have this global limit that's decided by the board on global value at risk and that needs to be broken down in order to make it actionable, that underwriters know whether they can accept an individual transaction or not.

So we are breaking this down to what you call regions and perils or Nat Cat scenarios that can be US tropical cyclone, European earthquake, UK flood. So these are typical things where it is broken down. And it's monitored on a -- on a net basis per region in peril and then on a cross basis per underwriting sender, again, this has been also another measure that we're using. We're using the tail value at risk because this has some nice properties if you add it up between different underwriting centers. And this is just broken down to underwriting center so that they have their measures of steering their portfolios and guarantees that the overall limits are adhered to.

That constrains the target ratings, also they have their Nat Cat limits there and there's also profit protection, an extra limit which tries to limit sort of higher volatility or more often occurring events. So that's 50-year single event. Net loss, that is limited to your extra. And with all of the systems we get good comfort that our Nat Cat risks are under control and are accepted in a controlled manner.

If you look at our current risks on a per region basis. And these are the six largest peril regions combinations that we have on our book. Here's Caribbean tropical cyclones, the largest one that currently has an annual aggregate value of risk of EUR1.3 billion and the limit is at 50 -- 75% of our global budget. So it's here about EUR1.5 million.

And all these risks have the same limit actually and this is to steer toward maximum diversification, because we think we were in the optimal position if all these risks have the same magnitude. But, of course, it's not always possible because either prices are not adequate in certain markets or the capacity is simply not there, not all sort of perils and regions require the same amount of insurance or reinsurance.

You also see on the top of this slide that all these scenarios we could still present a positive EBIT, everything else being equal to our plan, of course. So these risks are additionally protected by the EBIT. We are going to later on elaborate a little bit more on that. But I wanted to give you an overview how we sort of steer with the limit system, the Nat Cat risk and hopefully that is helpful and interesting for you.

So now I'll turn over to the P&C reserves. First, an overview of where they are originated. With our sort of goal for stronger growth in other parts of the world outside Europe and US, also the rest of the world portion has become a significant part over the past years. So there's quite good sort of regional diversification here in this book and, of course, this level of support that if we have adverse developments in some markets that they don't appear in all markets at the same time.

So also, of course, the global book supports diversification here in terms of reserving risk. If as said, we could improve, said by Uli already, we could improve our reserving level and also the redundancy in absolute terms, of course. In 2015 despite a very good result, we have now a redundancy of about EUR1.9 billion and the loss ratio impact in 2015 was 4.2%. So we could say we could maintain through a soft market cycle that we already in our reserving policy and could add further to the limits and to the reserving level. But, of course, as I said before, it's not given that this continues over the next years. And also we are getting at a level where our auditor would sort of ask us to stop the build up of further redundancies.

If you look at the origination of these reserves, there's still a major part originated in Hannover, that's Hannover Re and E+S. But also larger or increasing part originated at subsidiaries and branches. And for this reason, we have also started several projects which are running now for several years to make sure that reserving policy is consistent on a group-wide basis, like we are applying same systems in branches and many subsidiaries and reserve setting and also same methods. And are in the process of further extending that so that we can guarantee that we have the same standards around the group.

If you look at the line of business reserves, here it's only worth it to mention that the strongest or the largest part of the reserves is in the long-tail lines, of course. And sort of a lot of these reserves in the long-tail lines, especially general liability are stemming from hard market years, such that we think they have potential as further improvement is just higher than their potential for adverse developments. So we have a good comfort here that our reserving redundancies can really emerge from those sources.

Also another aspect that confirms the prudent reserving policy is the amount of additional IBR or own IBNR that we are setting up on top of cedant advised. IBNR is going to Re. And E+S, we have 55% . In terms of this -- this is sort of traditionally in this presentation we have the reserve development triangles, I want to skip this and just jump on the next page here where you see that almost all underwriting years have positive developments from this 2009 or initiation to 2015.

So it confirms that our initial setting is prudent and that redundancies really show up and emerge over time. And that it is really a consistent picture if you look at the past six years here. And also the year 2015 sort of fits very well in this picture with the initial loss ratio picks.

So with this, I would like to stop my presentation and I'm happy to take your questions.

+++qanda

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Well quite a few hands up here. So we -- I would suggest we start the right-hand side here with Olivia and continue with Xinmei and Vikram and then go through the rows.

Q - Olivia Brindle {BIO 17273762 <GO>}

Hi there. It's Olivia Brindle from Bank of America. Two questions. The first one from a reserving point of view. Be interested to hear your thoughts on inflation risk at the moment. We're potentially going into a scenario where you have so-called bad inflation in the UK, a bit of a spike, maybe some good inflation in the US

Just wondering how you're thinking about the effect on your sort of claims trends and whether there's anything there that worries you. Then just maybe clarification on the excess capital numbers that you mentioned, the EUR1.4 billion. In the past, you talked about the sort of free excess capital. Is that a corresponding number to that or is this something slightly different?

A - Andreas Maerkert

Maybe excess capital first. Yes. This is capital above the minimum target so to say that we have so it's free excess capital, like so, the Solvency II. The Solvency II, it was the excess capital above 100% , solvency ratio under internal model above our internal target of 100%, above 99.97 level. So it's really free excess capital and the EUR1.4 billion from the rating agencies -

A - Karl Steinle {BIO 1986424 <GO>}

That means this excess capital is the same that we showed in previous years when we had that nice graph where we showed it.

A - Andreas Maerkert

Yes. On inflation, I'll just reconfirm what Roland just said. We have this; also Uli I think elaborated on that. We have -- the inflation lingers in place which we think can compensate for some of the inflation risk and on the other hand, we have the reserves redundancies and both should be measures that sort of can help us to digest increasing inflation.

A - Karl Steinle {BIO 1986424 <GO>}

Xinmei, please.

Q - Xinmei Wang {BIO 17860767 <GO>}

Hi. It's Xinmei Wang from Morgan Stanley. I have two questions on reserving. So the first one is thinking about Nat Cats, which has been very light for the last three, four years. Theoretically for the industry, if there had been low Nat Cats, that would mean there's nothing to conservatively reserve for. So theoretically, you'd think the reserve industry -- excess reserve position would go down.

So could you explain that in context of increased reserve redundancies at Hannover Re? Then my second question is on the runoff table on slide 18, how would that look if we looked pre; 2004 underwriting year and going back before 2009? So how would that table look if we went up to the left?

A - Andreas Maerkert

Maybe on the first question, our main redundant reserves are in the long-tail lines so that they are used for, sort of, very conservatively booked in the initial years so for that reason -- we don't book a lot of the redundant reserves in Property and Casualty. So for that reason it doesn't interfere a lot with low natural catastrophe of events frequency in the past years.

And on the reserving development we had years where the reserves, where we, we also had initial individual years where the reserving development was negative, whereas here maybe in the year 2008 and the year 2010, I think 2010 was then due to the New Zealand earthquakes there. We also had that in previous years, also for Katrina, Rita, Wilma, we had some adverse developments but I would say the general picture would look like this also for the years before.

A - Karl Steinle {BIO 1986424 <GO>}

Okay, Vikram, please.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Yes. It's Vickram Gandhi from SocGen. First question, the numerical aspect. When I look at the slide four from Roland's presentation the total amount of equity is four percentage of EUR40 billion. So that's EUR1.6 billion.

And if I look at the risk capital on slide seven of your presentation for equities it's 1.2 billion re-diversification adjustments. So that's about 75percentage. Is there something I'm missing here because normally in re-diversification one would have expected about 40percentage risk allocation on equities? This was sort of at 75percentage. So that's question one.

The second question, I guess this is the third year we are hearing the auditors are probably not in favor of you putting more reserves, more redundant reserves. And yet every year we see more additional, more and more reserves being added. So how should we interpret that? Those are my two questions. Thanks.

A - Andreas Maerkert

Thank you. I must say I'm not quite which -- is it slide four in Roland's presentation?

Q - Vikram Gandhi {BIO 18019785 <GO>}

Yes. So that's just to calculate the whole amount of equity exposure which is four percentage of 40 billion. So I arrive at a EUR1.6 billion number from there.

A - Unidentified Speaker

The recent numbers we always also include the private equity portion.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Yes, I've included those.

A - Unidentified Speaker

You've included them.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Yes. So that's four percentage put together, private equity and listed equity. So two and two making up four percentage of EUR40 billion?

A - Andreas Maerkert

And you're comparing this to which figure?

Q - Vikram Gandhi {BIO 18019785 <GO>}

Risk capital allocated for equities re-diversification, that's about EUR1.2 billion on slide seven against EUR1.6 of equity portfolio. So maybe I'm missing something but I just wanted to clarify. Yes, 1179 is the number.

A - Andreas Maerkert

1179.

A - Unidentified Speaker

I think one is the capital requirement.

A - Karl Steinle {BIO 1986424 <GO>}

Yes, sorry, I think one is the capital requirement for equities and the other is the overall invested assets and equities. So you can see it's a relatively high percentage of capital allocated to equities.

A - Andreas Maerkert

So private equity has a very high capital charge in our internal model.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Maybe I can just take that offline. Yes.

A - Andreas Maerkert

And on the redundant reserves, yes, I said I don't think it will stay like this in the coming years. We have heard that before, I am sure, we have been discussing that for several years. So in this sense it is also a bit surprising maybe and it reflects that we have not soft markets all over the world. But in some places the markets are not as soft. But this development will not continue forever. We have restrictions in our internal limit system to build up additional reserves. Also from the auditors and also maybe inflation will rise or soft markets are going to continue, these buffers will not stay there forever.

A - Karl Steinle {BIO 1986424 <GO>}

Okay, Vikram, if you could handle the microphone -- Thomas Seidl please, is next. Sorry.

Q - Thomas Seidl {BIO 17755912 <GO>}

Thanks, Thomas Seidl, Bernstein. Two questions first, on this 200th year when you're risking 1.3 billion is it fair to conclude that in such case you would come closer, even breach the A.M. Best S&P capital, just looking at this rather low capital buffer you have in either of the two systems.

The second question is, other companies show pretty high charge for mortality shock from a disease. It's not one of your major risks, what are your risks in such a case?

A - Andreas Maerkert

Yes it's true if this event would emerge. You have seen also that we can compensate for this event also already with the EBIT. So it's not immediately capital impact if all other things emerge like expected. So it's more not a point in time stress test but if you look at it over a one year development.

But of course there's some risk that our capitalization after such a severe event and that's annual aggregate all perils worldwide. The 1.5 are going to tornadoes, to tropical cyclones, we had this one before, that after a severe event that our capitalization in the rating agency models is not sufficient and then this could lead to capital measures that we would need to take. Also considering the market situation afterwards. But we still think that we have almost only eaten up our excess capital in that situation. So we would still think that we are in a strong situation after such an event to then hopefully enter into hardening markets.

Q - Thomas Seidl {BIO 17755912 <GO>}

The shock?

A - Andreas Maerkert

The life cat shock, yes? It's in the life mortality figure there. We don't present it separately so that's one element of life mortality. There's sort of a life cat shock. There's trend risk, sort of volatility as sort of -- these has several elements. And our risk appetite for 1-in-100 is in the; 1-in-200 for global pandemics is in the middle range of Nat Cat risk appetite.

A - Karl Steinle {BIO 1986424 <GO>}

Okay, then, the next question comes from Jochen Schmitt.

Q - Jochen Schmitt {BIO 4227302 <GO>}

Thank you. Jochen Schmitt, Metzler. I have just one question on slide 16. How would the share of IBNR in this chart look if you also included other subsidiaries and branches? And one reason why I am asking that, I assume that your subsidiary located in Bermuda is not included in this chart. But I might be wrong. That's my question.

A - Andreas Maerkert

Yes. Your assumption is right. Bermuda is not included and the percentage would go down a little if you are including all subsidiaries into this.

Q - Jochen Schmitt {BIO 4227302 <GO>}

But not significantly or could you just -

A - Andreas Maerkert

I would probably say roughly it would be 50%. Then all of this would include our primary insurer where we certainly have a different policy there. There's no sort of precedent providing us with IBNR where we book additional IBNR. So yes.

Q - Jochen Schmitt {BIO 4227302 <GO>}

Thank you.

A - Andreas Maerkert

So that then their full group figures may be a bit less meaningful than this figure four.

A - Karl Steinle {BIO 1986424 <GO>}

Okay, then in the last row, Kamran. And Paris. And -

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi.

A - Karl Steinle {BIO 1986424 <GO>}

Yes.

Q - Kamran Hossain {BIO 17666412 <GO>}

Just one question on the, I guess how the reserve redundancy kind of interacts with your capital requirements. Can you just talk about -- so you got a EUR1.9 billion kind of level of redundant reserves. You've EUR1.4 billion surface capital under rating agency models on average, can you talk about how much of the EUR1.9 is included, say, in your S&P available capital, just so we can kind of get an idea of how we should think about that?

A - Andreas Maerkert

Some of it is included. But the different rating agency models have different haircuts for it included. So it's not all included in the rating agency models.

I think, Roland, correct me, 50% is S&P so that's their haircut. So each capital model has its own rule, for accounting for redundancy.

A - Karl Steinle {BIO 1986424 <GO>}

Okay, then, please, Paris?

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Yes. Thank you. Firstly on the partial internal model when you expect to move to an internal model. So when do you expect approval for operational risks basically?

And the other question is basically a clarification, you are showing sensitivity to owned funds rather than sensitivity to the Solvency II ratio. And obviously the capital come moving in different ways, do you think that what you show is representative of what the solvency ratio might be doing or is that something we should expect going forward?

A - Andreas Maerkert

Yes. Sorry, I forgot your first question. I was just thinking about the answer of your second.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Operational risks.

A - Andreas Maerkert

Operational risk, got it. So we are in the process of pre-application for operational risk. Unfortunately, this is a long process of pre-application. Then potentially a six-months application phase but also we think that given the excess capital that we have currently we are not in a hurry.

We are planning for having also an approved operational risk model by the end of next year. So that's our project plan and we see how it goes in discussions with the different regulators. Then on the SCR sensitivities, from my perspective the Solvency II to SCR and owned fund sensitivities provide a very good view on the risk profile of an insurer. And on fund sensitivity, this is something where I think there are -- the SCR sensitivities, they are a lot of baked-in assumptions and it doesn't create additional transparency if I sort of have a risk figure on a risk figure and then of course I can ask what the stress test on my SCR sensitivity is.

So from my perspective we should be trying in the next years to digest the Solvency II figures that are sort of in the scope of the required applications and we are publishing actually the Solvency II figures, SCR figures per risk category already for quite some while. And from next year on we will have this requirement that sort of all European companies subject to Solvency II will have to publish these figures. And that's already quite a comprehensive set from my perspective which provides a lot of information about the risk profile of a company.

And adding on top of that is from my and our prospective not adding a lot of value. And especially as you sort of don't see all the underlying assumptions that are there when you present an SCR volatility. And also if you are then starting to calculate with these SCR sensitivities applying a point in time sort of observation from one due date to the next, say, on FX rates then you would always neglect nonlinear or interfering effects between different sensitivities, also the business development, it would be really difficult to disclose all sensitivities that allow you to calculate a meaningful SCR at a different due date from these sensitivities because this would almost mean that you have to re-implement an internal model. And so, from that perspective I think those figures don't create a lot of additional value.

A - Karl Steinle {BIO 1986424 <GO>}

Okay, I've seen a last question from Rafael?

Q - Rafael Villarreal {BIO 3418632 <GO>}

Yes. Thank you very much. Rafael Villarreal from BNP Paribas. Going back to that slide four -- thank you for the presentation, by the way.

If Solvency II requirements are EUR5.5 billion how can the additional hybrid capacity be EUR3.4 billion? I'm struggling with the calculations there because I understood that these capacities are based on the SCR. And you already have a billion and a half if I remember correctly on hybrids and subordinated. So yes, can you just clarify what do you mean by additional hybrid capacity here and why is it that the number seems to be a bit high?

A - Andreas Maerkert

Yes. This is sort of linked to the SCR. The capacity is limited to certain SCR levels, tier 3, tier 2. And here these are just the calculations where we have all the tiering limits embedded there, especially like our SCR is about EUR6 billion and about EUR3 billion would be the tier 2 capacity that you have available. Also this is not -- tier 1, tier 2, tier 3, not the sum of -- the total is not the sum of this because you have additional restrictions which apply on tier 2 and tier 3 capital altogether.

A - Karl Steinle {BIO 1986424 <GO>}

I think this is not deducting the hybrid we already issued. So if you want to have the additional hybrid capacity over and above that what we can, we already have, you have to deduct EUR1.5 billion. This just shows you the overall absolute bucket.

A - Andreas Maerkert

I think it's additional EUR1.5. So that was -- like I said, Solvency II tiering restrictions are in our case quite flexible. So we would have additional flexibility there.

A - Karl Steinle {BIO 1986424 <GO>}

Okay, hopefully that answers your question. Okay, then we continue here with Thomas Fossard.

Q - Thomas Fossard {BIO 1941215 <GO>}

I've got two questions. The first one would be on the excess capital under the rating agency model. With EUR1.4 billion we mentioned -- you mentioned before. Does that include a kind of, I would say, capital buffers you would like to hold in order to protect your AA; rating. So to avoid any breach in case of major events?

And the second question would be on the redundant reserves, it's probably now three or four years that you are talking of regulatory or auditor constraints and some limits, caps and things like that. So probably since you're above 6% each point of the best estimates level you are talking about potentially some limits. We are not seeing these limits come yet. So what is really -- are you really at some stage the auditor is saying no more. And regulator starting to be a bit more I would say -- to put a bit more constraints on your reserving position?

A - Andreas Maerkert

Yes. I think that EUR1.4 is the pure excess capital above the requirements. So also the Solvency II is the pure excess capital over the 100% so there's no internal targets. And yes, again for the reserve redundancies we have our internal limit is 110%. I guess that would sort of represent, I don't know, what the auditor would say, maybe Roland knows much more. But I guess, one, we are really at a level where much higher is not possible but, yes, that's 1.10 is our current red light in our limit and threshold system.

A - Roland Vogel {BIO 16342285 <GO>}

You are right, we have been referring to some yellow or red lights also from an auditing side for quite some time. So I do understand that this sounds a little bit dubious or that you are skeptical.

On the other hand, please bear in mind, you look at these numbers from an absolute and also a relative level. The overall volume had increased remarkably last year, also in line with the US dollar development. So from a pure relative point of view, the increase is not as high.

You also have to bear in mind that when we discuss that with the auditing firms we then do not have the final numbers available. They only come in later. And insofar this is not a digital situation, this works and this doesn't work, sometimes you have a good argument as to why even on the Nat Cat side a buffer might be necessary or available you then start discussing things individually so there is no actual this is exactly the floor. It is not a digital situation you are in.

And of course if that is possible or if that is really necessary, I should be in a position to also defend even a little bit more, we didn't expect that. We have been given also the auditing firms a little bit of a relief in Q2 when we went down slightly under-reserving. So we do not expect more. But of course, if the volumes go up there would even be a little bit more room for maneuver. But this is not what we expect to happen. So we didn't lie. It was always on the edge but we were moving the edge a little bit.

A - Karl Steinle {BIO 1986424 <GO>}

Roland, if you could hand over the microphone to William, thank you.

Q - William Hawkins {BIO 1822411 <GO>}

Thanks. Just back to the claims inflation question. For your reserves at the end of 2015, what inflation rate was implied if you back-solve the inflation from your reserves and how would that compare to the implied inflation, say, five years ago? Then if you thought about that number, if you were to flex that by, say, 0.5%, how much would this redundancy move by?

A - Andreas Maerkert

In general, sort of the implied inflation in our reserving is sort of the average inflation over the past years that is in the ultimate loss ratios, that's implied in the methods.

And as this went down over the last five years a little bit. So also the implied inflation that we have in our best estimate setting has gone down maybe by 0.5%. It's difficult for me to say what that means in terms of redundant reserves and in million euro, because sort of when we book sort of the reserves in a given year, we take the average implied inflation of the past year. So that's sort of chain letter-type methods which allow for that. And there you already take account of the inflation that has been in your book in the past year's average. So I'm reluctant to give you an absolute number.

Q - William Hawkins {BIO 1822411 <GO>}

I'm massively simplifying and misunderstanding what you just said. But for example inflation went back to where it was in 2010 would your redundancy get back to where it was in 2010?

A - Andreas Maerkert

I guess that's a massive simplification. So. The biggest -- that's difficult given -

A - Roland Vogel {BIO 16342285 <GO>}

Maybe I can. When we did the math a few years ago and Uli mentioned a scenario we had based it on, that was 400 basis points for four years in a row over and above the implied inflation levels. That resulted in an additional burden at that time. So; one might have to index that also but that resulted in a number of EUR1.1 billion. So there was 400% for four consecutive years. Whether that makes sense as a worst case scenario or not it, this is what we determined, debt reflected the EUR1.1 billion. So that should give you at least an indication of what we are talking about.

So I think and our quotation tools would go back at 20 years. So if we had a 2% inflation over the last 20 years and the last five years that goes down to 1%. And that means a 25% leverage of the decrease. So then the applied inflation would be lower. But to then go back to a previous case, that would not make sense from my point of view.

A - Andreas Maerkert

What may be worth to note here is that we have superimposed inflation baked into our rising models. This has not been changed. And also one should be beware that this 400 basis points calculation was a flat calculation assuming that all on superimposed and everything was just going up. And of course there might be also some diversification, different inflation rates that sort of apply to our book.

Q - William Hawkins {BIO 1822411 <GO>}

So I had a separate question on something else. But on this inflation point, surely in your tail factors you assumed some reversion to historic levels of inflation relative to the low levels that you are assuming now. That's another way of putting it as well.

A - Andreas Maerkert

Yes. I think we, in a sense we adjust with every year of inflation, we adjust our historical average. And this is then sort of reflected in the overall reserves. It's already implied that it's adjusted every year.

Q - William Hawkins {BIO 1822411 <GO>}

I have one just simple question on the sensitivities on credit spreads, is that just credit assets is that including sovereign?

A - Andreas Maerkert

Including sovereign.

Q - William Hawkins {BIO 1822411 <GO>}

So it is all?

A - Andreas Maerkert

Yes.

Q - William Hawkins {BIO 1822411 <GO>}

Do you know that it is excluding sovereign.

A - Andreas Maerkert

No, frankly.

Q - William Hawkins {BIO 1822411 <GO>}

Another question I had, I was surprised how close longevity is now to mortality. Are we in a situation given longevity I think is growing faster than mortality because mortality in all that in the US, which is really growing. We can look at a situation where Hannover Re becomes net long -- longevity which should be unique in the insurance world I think? Is that something you want to avoid?

A - Andreas Maerkert

I guess there's the potential that longevity overtakes mortality. Also because the mortality book is shrinking. But the risk appetite currently states that our current limit for longevity is still -- it's actually, the limit, the risk appetite is slightly above mortality.

Q - William Hawkins {BIO 1822411 <GO>}

So you'd be ready to be net long longevity.

A - Andreas Maerkert

That would be the consequence.

Q - William Hawkins {BIO 1822411 <GO>}

Okay.

A - Karl Steinle {BIO 1986424 <GO>}

Okay, further questions. I see one from Vinit Malhotra.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you. I'm Vinit from Mediobanca. Just on the market risk and your slide six and the diversification credits that you take. Could you just help me understand what is the total diversification credit to the market risk module, because it's not very clear, this three, four, five million on that slide?

So it looks like you've first taken the credit -- it looks like you've first taken diversification credit on various assets. Then you again have taken a diversification credit in market risk segment on the two P&C and life segments as well.

Can you help us understand what is the total diversification credit. And why this is also important is because when Roland wants to increase the tactical risk, probably diversification will also help. So it's quite important for us to understand, because at the moment we can't spot what is the diversification credit you are taking for market risk in total?

A - Andreas Maerkert

Diversification exists at several levels, between individual assets, between asset classes, between different portfolios, between life market risk. And the diversification that we show, that we present is always a diversification between sort of the portfolios that we are presenting there like in this example that you were referring on page seven, it's a diversification between, say, the credit and spread risk of the fixed income portfolio, between equity, foreign exchange rate risk, interest rate risk and of course we assume that there is diversification between foreign exchange rate, interest rate and credit and spread risk.

Q - Vinit Malhotra {BIO 16184491 <GO>}

But page seven is not the question.

A - Andreas Maerkert

Okay.

Q - Vinit Malhotra {BIO 16184491 <GO>}

I understand page seven.

A - Andreas Maerkert

Sorry.

Q - Vinit Malhotra {BIO 16184491 <GO>}

The problem is page six and then you start with the diversified market risk and then you again are presumably taking quite a lot on diversification credit when you take this three, four, five, five million on page six.

A - Andreas Maerkert

Yes. So this is presenting diversification at different levels of the portfolio. At each level you have diversification and sort of -- on page seven we are not presenting the market risk, the diversification between risk and life underwriting risk. It's just purely within market risk. So there's additional diversification and that's only presented on page six between market and life underwriting and P&C underwriting.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. So the market diversification is only the number shown on page seven?

A - Andreas Maerkert

Yes. Yes. Within market risk, diversification is only on page seven.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thank you.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. I don't see any further questions. So thank you for your questions. That's the first thing. We will now break for lunch for about an hour. And we will resume here at 1:30. So a little more. And we have then the presentation from Juergen Graeber on the P&C business. Thank you.

+++presentation

Well thank you for being so punctual. I take this as a sign that you are still hungry at least for more food for thought.

And Juergen Graeber has certainly cooked up a special meal for you. This P&C menu features as a main course comprised the challenges and the opportunities of the US market garnished with a dash of our competitive strength. The second course is no less tasty, as it takes us on a tantalizing tour on our registration program. Enjoy it.

A - Juergen Graeber {BIO 20978001 <GO>}

Yes, yes, thank you very much, Karl, I am aware that I am standing between a good lunch and a decent afternoon nap and I hope I can make an appropriate presentation so that you stay awake. And you must decide in the end whether it was vegetarian by the way or some decent beef. So let me know.

I will speak about growth opportunities and also about retrocessions. Last time we reported about retrocessions, that was in 2012. So we want to give you an update here and you will remember that on growth opportunities we have presented to you on many markets, many lines of business, agricultural, China, Asian opportunities. And you saw in all these presentations that of course some of these growth opportunities have actually become true in the last couple of years.

For a moment I was wondering, should I, that we get over the conflict, call my presentation where do we not intend to grow. So that you are not in a conflict, are we still on track with our cycle management. But on the other hand cycle management is by line of business, by market. And of course it depends on the special circumstances of a market partly overshadowed by global developments.

Okay. Let's have a look at how are we actually selecting opportunities in our organization. Of course, we operate with a large amount of owned statistical data and experience. Our underwriters are in the markets 20, 30, 40 years. They know the markets and we have a very good internal statistical data system so that we know the water temperature as far as profitability and growth opportunity is concerned.

We look at market penetrations. Of course they are the markets like Asian markets where there is a guaranteed organic growth because the insurance penetration is low. Then of course, it will fuel, if we select the right partners, also our growth.

We look at types of business and when I say types of business we also have rhythm at which point in time do we like short-tail classes, at which point in time do we like long-tail classes. And as Ulrich mentioned, in the last couple of years there was also some emphasis on the short-tail classes.

Of course we looked at the insurance capital amounts, i.e., how well are they capitalized, are they capital shortages, do they want to optimize their capital situation? We look at the changing risk landscape. We spoke to you about cyber insurance for example. And the demand is up there on the cyber side. And of course the global supply and demand dynamics also prevail, i.e. we have over-serviced and underserviced markets in terms of capital and demand.

And that all brings us to assess where do we want to grow, where do we want to hold our breath. And just to mention again, we're still looking at India, we're looking at China, we're looking at agricultural, we're looking at personal lines. We're still shrinking some of the specialty lines' books.

And today I will speak about North America as an opportunity. And if we look at the North American market, we all know it's the largest market in the world, more than $500 billion in premium. The insurance penetration is very high. It's an innovative market. It's a market that grows at times quickly and stands still at other times and I will explain that in a minute.

The economy is improving. And ever since the Third Quarter 2011 we saw rate increases on the commercial lines business. It's a market that has lots of players and various ways and means of distribution channels. So you have MGAs, you have TPAs, you have insurance companies, you have retention groups, the whole variety of what our markets can offer is all available in the US, in the North American market.

Looking at the growth of various segments in the market you will know that the US market at times is even growing faster than for example some of the markets in the world. This is not in the presentation by the way. I added this. Sorry, you shouldn't try to look out for this page. And in 1985, for example, the US market grew rapidly after there were massive losses from the late '70s to the early '80s. And the market grew rapidly and even outperformed the growth of the worldwide market and the emerging markets.

In the years 2000 to 2015, one knows that of course the emerging markets have an underlying automatic growth. And still the US market at times is cyclical with her particular growth opportunities, post-September 11 the US market was again a growth engine in primary business and reinsurance business. And of course such a market offers opportunities for cycle management, also for growth for insurance and reinsurance companies.

Now where is the Hannover Re in this market? Now I'm back on track. This is in your summary again. When I look at Canada, this is a reinsurance market of a size of 1.4 billion. And Hannover Re's market share is 13%. You heard Ulrich say this morning, worldwide we are 5%. So in Canada we are well above our market share. But more importantly to note is what actually in the US?

And the US reinsurance market is an $80 billion market. And Hannover Re's market share is significantly below the worldwide average, i.e. at 3%. There's a reason for it. Post-September 11 we ramped up our business because the market was very hard. We hold our breath from 2008 to roundabout 2012. And since 2012 we have started again to grow carefully, selectively, solidly and therefore or by means we have started to de-risk the Hannover Re organization as far as where exposures in the States are concerned. So we grew more other lines and we hold our breath in the US to de-risk the organization a little bit. Of course now with hindsight one can argue we left some money on the table. But we knew why we did it and we are able to deliver strong results.

What does that mean? Hannover in the United States is very much in demand for basically two reasons. One is, everybody knows we have a low market share. So they say, okay, let's talk to Hannover, let's see whether they can actually offer us additional reinsurance capacities.

And the second why they are actually doing it is very simple. Most of customers in the US are full up with the credit counterparty risk when it comes to the largest reinsurance companies. So they have a concentration risk problem. But as far as our rating and the size of our company is concerned, they still have unused limit. And that is why many organizations in the States say, well, can you not give us more of your capacity?

So far, we were not really inclined to offer this because we are not interested in the top line, we are interested in the bottom line and only if we are satisfied with the margins, then we would say to such an inquiry. So for example Ulrich mentioned this large casualty quota shares, we were not at a comfort level to say yes to these casualty quota shares. We could have created top line but we didn't want to do this.

So what are the challenges and the opportunities before I go a little bit into the various lines of business? Of course, the last couple of years and that you see on the left hand side, the capitalization of the US market has improved dramatically, good results, good returns, the absence of any major catastrophe fueled the capitalization.

There is tough competition and there's also a large amount of ILS capital flowing into the US market and they are a friend and competitor of ours. And of course we have seen the arrival of these alternative capacities. And of course it is the question of the investment yields, i.e., most of the casualty lines are calculated on a present value basis. But these days the present value basis is almost not dissimilar to no discounting because the returns you're getting are fairly limited. So it makes it harder to write the business.

On the positive side when looking at the US is that of course the GDP growth is back, again, it's meaningful. We have a nice and when I say nice we have a nice increase of weather extremes, there were lots of tornadoes in the US. So there is an awareness of the exposures and exposures does mean people are willing to pay premium.

We have demographic changes in the US. The senior citizen market is getting more and more important and there are opportunities in the accident and health environment.

We have the arrival of new products. The US is always the first, then about three to five years later Europe and then another three to five and the products arrive in Asia.

We have new risks by all means, i.e. autonomous cars. And we have the rating agencies, they are very much helping the demand these days. When we look at the four large rating agencies, their models get tuned every other year and they get better. And of course that forces capital and if the capital isn't available, people look at reinsurance as an alternative capital which fuels the demand.

And the broker market is increasing. I have to mention quickly the US market is divided into the directs and the broker markets. Hanover Re is a player on the broker market, i.e. all our US business is via the brokers and there are other markets who have, all the distribution is directly with the insurance companies. And those who try to play in both markets, that is very difficult. You have to basically give a commitment are you here or there. And Hannover has always been a broker market and this market is growing. So the direct portion of placements in the US is declining year by year.

So we are in a market that actually is increasing, there are estimates between 50% to 70% placed in the broker market but you never get an absolutely exact figure because the direct placements were not recorded in a similar way.

What's our USP, our sales pitch in the US? Hannover Re is somewhat different by all means. We are probably amongst the large players the only one who doesn't have an underwriting team on the ground. The underwriting is done out of Hannover.

We have 70 traveling underwriters that are constantly paying visits to the United States. We have at face, i.e. on the ground in the States, we have an underwriting and claims audit team. And before we actually enter into the business the units with whom we want to do business get audited for their processes, for their pricing tools, for their claims services. And only when we are at comfort we write US business.

And of course our people go back to Germany and talk to the actuaries, they need to get the pricing from the actuaries and only then they write the business. So there is no underwriting power in the US which is our very unique business model and it's there for almost 50 years. It has never been changed. It was always like this. We cover 670 clients and we have 1,800 client meetings. And sometimes our clients tell us, well, we see you more frequently than actually those who are on the ground, because our underwriters are constantly coming. But they go back home and do the underwriting from Germany.

The average experience in our North American team, 17 years, or as we say they eat their own cooking. They write the business, they see their results, they learn and they start all over, they are improving it and that is very important in US casualty.

You see not infrequently underwriters that move around every three years from one company to the next and they never see their results. Hannover is quite proud of having this high staff retention in the US division so that there is knowledge being built up and that goes as far as having superimposed inflation factors by line of business by state in the US. So we don't take just one inflation factor or one superimposed inflation factor. It drills down to individual states, to individual lines of business to get to the most accurate pricing and calculation.

And of course we are a trusted reinsurer in 51 US jurisdictions, that means we have a multi-beneficiary trust fund, we are collateralizing our obligations or as I always say, we are four times A. So it's a double A and a master trust on top. So it's the most secure promise to pay one can probably have in terms of being a customer of the Hannover Re organization.

And we are a certified reinsurer in 25 states. Here we are allowed to post collateral smaller than the liabilities and that has always been our desire, because to the extent that you are posting collateral, you are collateralizing your promise-to-pay, of course you lose some flexibility as far as the investments are concerned.

We are a dedicated broker market. I mentioned that already. And we have an active cycle management. You can't see all the figures here. But you see this little chart there. I have frequently mentioned that. One example, post September 11 our D&O business was $3 million. In 2003 -- no, sorry, pre-September 11, again, our D&O business was $3 million. After September 11 in 2003, we moved it up to $270 million. That's the cycle management we have. And the same we did with general casualty writings in 2003 up and until 2007. We increased it and ever since, we decreased it because we felt that it was less attractive and we want to have a fairly conservative risk profile of our US writings.

How does the book look like? You can't speak about the largest market in the world, $500 billion; plus, without slicing and dicing the market. And we are active in all lines of business. And we have one particular North American division that does the treaty business. Then we have of course US business in all the specialty line departments and they are listed here on the left hand side too.

So we are active on the facultative and direct side, advanced solutions. We do these structured business solutions, surplus relief contracts, capital steering contracts.

We are quite active in the agricultural. This is the MPCI, the Multi-Peril Crop Insurance business. And of course we have some Nat Cat business, some aviation space and also surety business in the States.

If I then drill down a little deeper and go into the treaty, here you see that we are very balanced in terms of Property and Casualty. Post September, that was different. In 2004, 2005 there were three quarters casualty. And we have used the last couple of years to move more into per risk business, more in the standard property business. And to ease our profile on the casualty side in the US.

And when you then go further down to the lower end on the right side you can see that, again, casualty is not just casualty, it's again split into many lines. We have experts from MedMal. We look at standard casualty. We look at workers comp. The head of the management, the director of the Northern American treaty department spent more than

10 years in the US just in charge of workers comp. He's now in Germany to underwrite the business.

And we look at commercial and personal lines umbrella so we have experts for all of these little pockets. So it's not one casualty block. And that probably explains it because we have underwriters for all these segments, why we are so reluctant to actually take lower casualty quota shares. We cannot slice and dice. And analyze them the way we underwrite it when it comes to more individual kind of proposals.

Now, let's have a look at our strategies and what are we doing. The market opportunity on the US property per risk is that it's still a robust and growing market and it has seen a couple of extreme weather events, all these tornadoes that we hear about on a regular basis in the last three or four years.

What does it mean? The per risk accounts get rated to what is the individual performance, i.e. have there been claims or no claims? And that means that this per risk book is not following the global soft or hard market trend, it follows a regional trend, a particular loss experience. And therefore is constantly adjusting its prices according to experience. And that makes it quasi, partly disconnected to the global trends and that's why we are liking it.

We are a large preferred reinsurer. We can quote this business. We take meaningful lines. And when I say meaningful lines we sometimes take 60% of one placement because they're small regionals, they are mutuals, they are not really big. And they are happy. And going back into history of course, in particular in the Midwest, Germans still have a fantastic reputation. Yes. So that helps and fuels also our ability to sell property per risk covers in particular in the Midwest with mutuals over there.

The brokers help us to source the business. They show us almost every placement. They sometimes even show us the entire placement lists and we can cross the ones we like to see at next renewal which is a fantastic, efficient process. And what is most important is the last bullet point, the ability but also the willingness to pay claims.

We treat claims as an accounting matter. If we get shown a claim from a customer in this segment, in the property per risk, we just pay it. We don't argue claims because that's when the help is needed. And the way you react to claims does satisfy a customer or does shy away a customer. And here we have a clear profile; we encourage people to show us claims and we settle them and they gain, over years, positive experience dealing with the Hannover Re organization.

The account is already larger than $500 million, including some of the other property writings. And we are proud of this account. The general manager underwriting this is there for the last 20 years. It's his account. It's his history.

Okay. Then looking at another line, professional liability business excluding medical malpractice; so we talk about lawyer schemes, accountant schemes and the like, D&O, E&O type of lines of business. Again, we write this on a claims made policy form and the demand is still increasing because all those companies that are listed want to protect their directors, their managers by D&O coverage or their employees by E&O. And we have been supporting this line of business for many years. And many to me doesn't 10 years. Yes.

Roland said, well, it becomes a regular rhythm that he presents here. We have a saying at Hannover Re, 10 years of probation, as from 25 years, you have a customer forever. That is the relationship we have with some of these regionals and mutuals and they have this experience also in the professional liability lines with us, completely different to what their experience is with other kind of reinsurers.

We can design the structures for them. We operate with swing rates, with loss sensitive factors. We can excess quota shares. I won't explain all this to you. We can do Cat and collar treaties. We can identify a specific need and identify the solution for the need. We call it a pain-curing concept. And that is what we offer these people also in these lines of business. And we can operate on a primary basis as well as an excess of loss basis. All the D&O policies are usually layered and we operate in those segments.

Okay. Then, let's have a look at the medical malpractice business. This is probably where we have the highest mileage in terms of history in the US market. We have one underwriter, our Mr. claims made. He's there 35 years, about to retire. The person taking over only has 20 years of experience with med mal in the US.

We have seen every single med mal underwriter in the US; be it on the west coast, the Doctor's Company, be it (Skippy Oyezme); they're all known to us and they are our customers for 10, 20, 30 years and it's a very robust book of business. We have the ability to actually write individual hospitals and we would actually review the operation protocol in the emergency rooms to say, "Well is this hospital that we want to write or not to write?"

So we send over our medical doctors. We benchmark all the standards, the professional standards they have and only then we write the business. So we are as close as somebody who manages the risk in a hospital and we have interactive exchanges with those who want to get insurance for hospitals, for example. And we can offer various means of risk transfer. We can have full risk transfer. We can offer structured solutions. We, again, work as a team in this segment.

Facultative business is probably or was a lower light and is a rising star. For historic reasons, Hannover was light was on writing facultative business in the US. And in particular, facultative casualty business, that market was very much in the hands of others in the direct market. And with endeavors of my colleagues on the board, we have started to be more visible and we are actually -- what is it -- we're punching below our weight here in this segment and there's enough headroom to actually get deeper into the facultative business.

Of course, this a little bit more tricky when you're not on the ground, that requires more activity in terms of traveling. But on the other hand, we have this underwriting and claims auditing unit in the US. So we can still do all the pre-checks before actually business is being written. And what is very important is we have automatic tools to calculate the prices for facultative risks and we're also able to offer automatic solutions. So we can frame ideas what business should be written and we can make the accounting automatic on facultative risks.

Because when it comes to single risk reinsurance, administration and the structure and the steering of administration becomes very important. Otherwise, the expenses get very detrimental on facultative risk.

Advanced solutions, this is something I would probably be tempted to say where I just want to say one sentence. We are Spitzer approved. There was a time when financial reinsurance had a very negative image, very negative reputation. We continued the business. We enhanced our processes, the governance, the compliance, the risk transfer tests, everything and continued. And this is now paying off.

We have the most experienced team. It has been there for more than 25 years doing structured solutions. We have actuaries and mathematicians working there. And whilst we are shooting for solid gross on the traditional reinsurance, this eventually could be the rising star. Why am I saying this? We have a pipeline here of special projects and these special projects are three digits in premium each or larger.

So these are the opportunities. I myself will fly out later in November to accompany the teams to say, "Well are these opportunities alive? Do we really want to get our arms around, not casualty quota shares?" And it is a bit difficult to forecast whether that will fuel the gross next year or already this year, later in the fall of this year, simply because when you negotiate large contracts, you do a lot of due diligence work.

You send your actuaries over. You send your modeling people over. The lead time on the wording is between three and nine months. So I don't know will it hit this year or the next year and it becomes breathing volume. They are large, these contracts. They could be $100 million. They could be $500 million in one single piece. We have a nice pipeline here.

That is the one that you will find nowhere in our planning or in our forecasting, because they are always like hero or zero. You never know where you're ending up with the negotiation process. But I've never seen such an attractive pipeline on these special opportunities. The last one I saw was in the mid-90s. So, some 20 years ago, when large contracts were bought by US companies to discount loss reserves.

And now, they are looked at again for capital cost steering and also for earnings protections. So fantastic pipeline and our team here gets best feedbacks when we look at the Flassppoehler report in the States, we're scoring highest amongst all the reinsurance companies as far as this business segment is concerned.

Then, finally. And this is the last line, I want to comment on credit and surety. Hannover Re works with the market leaders in surety business in the US. We have smaller relationships with smaller companies. The surety market in the US is about $5 billion. It's quite a sizable market. It has been very, very profitable the last couple of years and we have -- the head of our US audit team is an ex-surety man.

He's very close to this line of business and gives us fantastic feedback to also write this business. He's conservative. He hasn't written too much. But has also headroom to carefully and selectively grow into the surety business. Our specialty here is that we never compete with the primary carriers. We are a pure play reinsurer and some of our peers, they are in the primary segment and in the reinsurance segment. And some of the customers don't like that too much. So here, the pure play reinsurance concept actually pays off to Hannover Re.

Having said all this, 99% of our business in the US is brokered business. 99% of our business is non-proportional. We had a discussion this morning on cash flow and a question of proportional versus non-proportional, our US business, except for some smaller contracts that we took on last year, is almost exclusively non-proportional and it's unbelievably cash flow rich, that has always been there in all the years. I'm 35 years with the company. I started in the US department. So I have never seen it different to this and that has always been a cornerstone of our activities in the US

So to sum up, a very strong pipeline on the advanced solution, the history and the market knowledge should enable us to carefully write, rewrite for bottom line, not for top line. We have a fantastic reserve position. That's what Andreas indicated. So we are not bleeding from legacy mistakes. And of course, we are preferred business partners. So all of that fuels the positioning and the strategic possibility.

So I would dare to say as far as the traditional, normal, run-of-the-mill growth potential in the US is concerned, 5% to 10%. And then, we have the pipeline of the specialties which could add. That is what we started to realize about one, two years ago and we see this coming in. We're not publishing our individual plans going into the future. But as far as the North American division is concerned, it will be growth accretive in the next two to three years as far as the Hannover Re organization is concerned.

Okay. Now, stop, wakeup call, retrocession, is that okay? Good.

Why do we buy retrocessions? Why are we not using the excess capital that Andreas was pointing at? Why do we not simply deploy that and not pay retrocessionaires? We have various reasons to do so.

We wanted to be a meaningful player in the Cat space. If we would just use our own muscles, we could not write as much Cat business as we can because we have some retrocessions. It's EBIT-accretive. I will give you some numbers in a minute and, of course, it's a flexible source of capital, whereas, our own capital is less flexible. So we use retrocessions as a flexible source. We can expand and shrink them.

And you will recall last year from our presentations on various occasions that we increased these so-called K facility from 30% to 40%. Why? The US dollar got stronger. There was more exposure. We placed more into the K facility and had more capital support. You cannot do that this quickly with your own capital or trying to get in additional capital.

And of course, we are steering our Cat budget. We're steering our EP curves. All, this is being done with this retrocession concept. We have various layers of defense. I'll give you the figures later on. But of course, before we hit the group's capital, we have our strong EBIT, our diversified EBIT as a defense line. We have this K-session, securitization fully collateralized. We buy one huge -- one of the largest retrocession layers in the world to protect our whole account.

We have various swaps with partners. So if we have peaks, we swap the peaks to a partner. And we have also aggregate excess of loss, i.e. if there are various events throughout the year, then, they kick in. And the proof of the concept and it hasn't really been changed. It has been updated, it's slightly amended, was the year 2011 when we had frequency and severity. Then, all of these layers, all these various defense mechanisms were in action and actually defended and protected our earnings and our company.

So now, let's have a look how that would actually work. I assume here and this has been calculated in our modeling departments. We have this one in a 200-year winter storm event in Europe and that's the typical one that hits the southern part of Ireland, the southern part of the UK It goes via Belgium, Germany, northern part of France and Denmark. That's the banana-shaped big event that could create this kind of loss. And we would have a gross loss of roughly EUR1.3 billion.

What happens then? The K-session would use its capital. It's $500 million. It will not be completely used. So the retrocessionaires have to pay us. We have some special protections for our primary insurance company. IICH stands for International Insurance Company of Hannover. This is our primary carrier and they buy reinsurances which would kick in. They buy some reinsurances for the UK, wind exposure in particular.

We have our huge whole account XL that would be completely used. We have some swap arrangements with reinsurance partners and insurance partners in the world. They would give us some support. And we have a special contract for our German subsidiary called ENS Select Cut. And this would bring down our loss already below EUR500 million. All these covers would respond in this extreme single event scenario.

Then, if you continue to do the calculation, we will be paid some inwards reinstatement premiums. We have to pay ourselves some retro reinstatement premiums. This is actually negative for us. So the net loss is a bit bigger than EUR527 million. Then, of course, we have to say, "Well how do we see that loss ripple on as a net after tax loss?" And out of our large loss budget of EUR825 million, for this kind of scenario, EUR56 million is in the modeling. So that could be released because a loss has occurred.

Then, of course, we have an alleviation from the tax authorities, i.e. large portions of the loss are tax deductible. Of course, if they occur in Bermuda, then, there is no tax deduction. If they occur in Germany or other places, then, of course, there's a tax deduction. And we are ending up at EUR342 million. So we get from gross loss of EUR1.3 billion to EUR340 million, i.e. it's one-third.

And I'm not reporting here on under retrocessions that we buy in aviation or marine. But that is not dissimilar, if you have the famous midnight air collision of two jumbos. Sven and his team buys special aviation protections. If the big explosion occurs on a large oil rig, we would have similar protections in place so that the gross loss is mitigated and the volatility is carefully steered for our net account.

And in the end, it would look like this. You have a gross EP curve and a net EP curve -- and if you go to the 10% probability point, i.e. at the 90%, the gross loss -- this is now aggregate, all events that could occur, not a single loss, would reduce from EUR2.2 billion to EUR1.578 billion, i.e. reduced by EUR622 million because of retrocessions. Of course, we have to pay the retrocession, yes. But that's what it does. It reshapes the exceedance probability curve for the company and we measure this before we actually buy or enter into retrocession arrangements and of course because of the change in the EP curve the3re is less capital required. And that is our benefit.

Okay. Now, let's do a different kind of comparison. We start without retrocession. That's on the left-hand side. How much could we write? And we said, "Okay. We could probably write EUR1 billion in Cat premium." And I have to explain this EUR1 billion. This is Nat Cat excess of loss and it is some portions of the property proportional business and some portions of the property per risk business which has to be allocated to Cat. That's how this EUR1 billion is actually calculated.

Then, we would have the modeled losses. We have own expenses, EUR131 million. And we would have an EBIT contribution of EUR241 million. Now, we say, "Let's have a look how much can we write because we have the retros?" And we, in fact, can write EUR1.86 billion. Yes. The Cat excess of loss treaties are only EUR400 million. So please don't misread that. This is large property volumes and risk layers and so on.

Then, of course, the net loss would change and that there is -- and you can see that in the light yellow -- retrocession recovery from these retros. And of course, the expenses are higher, to write a larger book, they are higher expenses. But in the end, the EBIT for us is EUR372 million. And this is the massive contribution that we're getting from the retrocessions, yet, we're paying. Our retrocession has a margin.

If there are no Cat losses; they get a significantly higher margin and our EBIT, that's what you saw last year, actual-to-expected is a positive deviation. 2015 was a good year. As far as Cat loss is concerned, it's even more accretive. So we think with this kind of concept and we're constantly testing this, it does makes sense to buy retros, yes. And to up your Cat capacities because Cat capacities in some markets actually allow you to cross-sell into other lines of business. So if you're short on Cat capacities that don't give you some, I don't know, basic motor treaties or whatever. So you need to offer a decent amount of Cat capacity.

What can we see when we look at Hannover Re yesterday and 10 years ago? I have summarized here two years, 2001 and 2011, both were Cat-loaded years. 2001, September 11 occurred. 2011, we had Thai floods, Japanese quakes, Australian floods and New Zealand. In both years, our gross loss was very similar. It was a difficult year from the size of the gross loss is EUR1.7 billion. The retrocession recoveries are weaker these days.

Yes. In 2011, we could only recover EUR749 million, whereas, in 2001, it was EUR1.1 billion. So our net loss was higher. But now, what happens is the following. The underwriting result is not as bad in 2011 as it was in 2001 because of contributions by other lines of business. So the efforts we undertook the last couple of years for diversification actually helped us to digest it. Then, on top, you can see that, of course, we accumulate cash and Roland invests that carefully and selectively, our investment income is significantly up, that even though the gross loss was the same, the net loss was even higher in 2011, we ended up in a much more healthy EBIT position. And that is what we have been working on in all of these last years. To hold our breath on Cat business, use retrocessions to still be a decent player. But at the same time, we diversified into many, many other lines to make our earnings significantly more robust. And to us, the year 2011 was the proof of concept.

In terms of capital, we spoke about the various capital requirements. And Andreas showed to us the various calculations. I only took the highest required capital which is one rating agency here. And we have the available capital being 100% on the left-hand side. And without retrocessions, our required capital plus the 5% buffer that we put in and without the M factor -- it probably tells you who it is, without the M factor, says we are 89%. So we have an 11% excess capital. That's similar to the figures that Andreas sent to us this morning.

Because we buy retrocessions, this amount goes down further and actually enhances our excess capital which we can deploy for unique opportunities if pipelines realize or there are special activities either on the P&C or on the life side. So also, it helps not to only be EBIT accretive. It could also bring down for the most critical capital calculation. And that is the rating agency here, that the required capital to the available capital is in a better shape.

And finally, when you look at all of these amounts, you can see how big this protection actually is. When you take all these layers, you take into account EBIT -- I took here the 2015 EBIT. Of course, that can be up or down a little bit depending on the year. The K-session is $0.5 billion. The whole account is EUR300 million, or if you include the reinstatement, it's EUR600 million Euro. We have the swaps and the aggregate XL's.

So these lines of defense before we actually hit our capital, are worth EUR2.7 billion and we don't have all the specific protections in here. This is just for the major Cat exposures. We have other protections, as I said for airline, for marine, for other kind of motor insurance products. So it's a very important way for us to protect our capital, steer our capital. And be within the risk tolerance. And before, we, the executive board, decide on the risk appetite, we also say how much of these retrocessions, how many of them do we want to renew and we look at gross and net. That's also part of our risk appetite assessment.

And finally, can we tick all the boxes, what we want to achieve from our retrocessions? We believe we can. We protect our capital. We are within the risk tolerance. We control the Nat Cat budget to only be 50% of the large loss budget. Why are we having this one? If a big event occurs on the 1st of January, we want to be able to tell the market there's another 50% available. We don't want to say after day one when there's a big event in January, we have a partly impaired year. We want to digest the first one and still have enough headroom in our large loss budget.

This is very important, that did not work too well with all reinsurance companies in 2011. Then, the requirements, we have a good balance between in and outbound margins. There is sufficient risk transfer. So it's not funding structures or whatsoever. It's independent enough from a single retrocessionaire. So we have a good balance of retrocession as we don't depend on one.

There's some reinsurers who have just one retrocessionaire. And we could guess who it is. And another way of looking at it, we don't depend on a single retrocession. We have K. We have whole account. We have aggregate. We have swaps. So that we play on the piano with the full amount of the ability that we have at our disposal.

And that concludes my update on the retrocessions and thanks for your attention and thanks for not taking the afternoon nap. And I'm happy to receive your questions.

+++qanda

A - Karl Steinle {BIO 1986424 <GO>}

Well thank you for the presentation. We already have two -- well, some more. We start with Andreas on the left-hand side and continue with Thomas.

Andreas? I'm sorry. Daniel? I'm sorry.

Q - Daniel Bischof {BIO 17407166 <GO>}

Daniel Bischof, Helvea. A question on cycle management related to the North American hurricane peak peril, I think the exposures potential for shareholder's equity increased or more than doubled in the last five, six years, yet, pricing pressure was relatively intense in that line. How do you explain this development? And also related to that do you have appetite toward increasing exposure for -

A - Juergen Graeber {BIO 20978001 <GO>}

Yes.

Maybe I reply to the second part of your question first. We have no intention to increase. So the board has already released the amount of capital available to underwrite us for 2017 and it's unchanged to '16.

Of course, as you saw in Andreas' presentation, they still have a little bit of hedge room as far as the utilization is concerned. You saw it, Andreas' figure a capital utilization of EUR1.5 billion, EUR1.6 billion and we granted EUR1.85 billion. That's what they can still do. But we also said manage your limits. There's a clear guidance that we don't want them to expand into a soft market.

And the second aspect, why did it increase in the last couple of years, it was fueled by the strong US dollar. So that increased the visible exposure there. And the second was our underwriters in the initial part of the soft market, they move more into upper layers. They go away from the working layers, the low end of excess of loss treaties. They remove themselves from the risk. But they have to offer larger limits to do so.

And that is what happens at the beginning when you get into a softer period of the market. And now, they have found their structure for the soft market and they will stay where they are.

Q - Thomas Seidl {BIO 17755912 <GO>}

Thomas Seidl, Bernstein. First, a bit surprised about your bullishness about the US market, commercial lines rates are falling between 2% to 4% in this market and continue to fall from here. So what makes this so positive or is it mainly the financial space where you want to grow and not in the bread and butter business?

Then, on the retro side, what would happen to this retro leverage if there was a large loss? Is there risks that it gets much more expensive or falls away and then, this leverage goes down significantly?

A - Juergen Graeber {BIO 20978001 <GO>}

Yes. No. Thank you very much for your two questions.

First, I would say we are bullish about the US market. We selectively, carefully grow. And we don't go aggressively into it when -- as from the fall of 2011, the rates are going up. Now that they are over the peak and coming down a little bit means that they are at the highest. They, of course, are coming up a little bit. But they are at a very decent level. That's why we're carefully going into it. But we are not just going into commercial lines. We also look selectively at personal lines here and there.

And you're absolutely right with your assumption. We ought to look to grow into some professional liability lines. It's not that we go into property commercial, surely not. That would be a bit risky because as you say, it's above the top already. Yes.

As far as retro is concerned, if there is a market dislocation, that was a question we got from many stakeholders when Katrina, Rita, Wilma occurred, when 2011 occurred. And there are many reinsurers or retrocessionaires who understand that thereafter, the market is better. So they stay with us. And those who leave get replaced by other funds who say "Well now, it's the time to go in." So we never ever, except for only one point in our history, we had an issue to replace and it was not a big.

And I dare to say with the respect we have, with the loyalty, with the positive bank our retrocessionaires have, they would rather increase than decrease after a dislocation event and we would probably say, "No. No. We don't want you to increase. We want to increase our retention post-event". So we actually might use our excess capital to operate with slightly lower retrocessional capacities post-event.

Like what we did now, we increased to 40 because the exposures are getting up and the premium is getting a bit less sound. We might do exactly the opposite and use our excess capital post-event. So if there's some erosion, it's actually nice in terms of cycle management for your net account.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. The next question comes from Andrew Ritchie and then we continue with Jonny Urwin.

Q - Andrew Ritchie {BIO 18731996 <GO>}

One of your friendly competitors said that only they could have done a particularly large casualty quota share which was talked about recently because only they had the knowledge, the long-term relationship, the modeling. I guess I'm interested in your response to that. I think you indicated that you would have been offered it as well even though, I guess, that was a direct deal, not a brokered deal. And you chose to walk away. I guess they have a different version of events.

But what do you think -- would you have the capability to have done it? That's my first question. And secondly, some of those advanced solutions, multiyear, multiline excess of loss, aggregate excess of loss, aggregate covers, they all sound like soft market demands. Typically, at this phase in the market, that's when primaries are trying to protect their reserves because they're looking a bit thin or they're worried about loss aggregation. And all we hear is that is just very much a sign of the underlying soft market. Is that fair or what's your view?

A - Juergen Graeber {BIO 20978001 <GO>}

Yes. Maybe I'll start with the first one with the casualty deal. I would dare to say, yes, they are right. Only maybe three or four big companies could really digest from a technical analytical point of view these big casualty quota shares.

We have doubts that we would get deep enough to give us comfort and we also stayed away for another reason, when a deal looks good for a company buying, we say it maybe does look less good for the company accepting the deal. So we said we are a bit reluctant here. But I would say probably four, at maximum, six, in the reinsurance space would really be able to analyze such a deal.

So that statement is absolutely correct and no me-too reinsurers, smaller reinsurer could ever digest such a deal. In terms of analytical work, that's simply impossible. It's like almost an M&A transaction. You have to go deep and analyze. So that's a very fair statement.

As far as advanced solutions, these larger opportunities, yes, one gets concerned. Even in soft market people ask for multiyear deals. Yes. That's right when it's on the facultative side, on the traditional side. But here, you talk to CFOs. You talk to those who are in charge of the steering and the cost of capital of organizations. You don't talk to the CDAR re manager anymore. Would you talk to the CDAR re manager, I would have exactly that suspicion.

But here, there are very visible, transparent needs for the demand. They get clearly explained. And you see there's one big UK motor insurance company down in Cardiff. They explained in their annual reports why they purchase certain types of reinsurance to steer their capital needs. And that to me is not dissimilar and that has got nothing to do with a soft or a hard market. Of course, the pricing gets compared with what is the spread on corporate bonds, what does the equity cost.

Yes, of course, it compares with other kinds of financing. But it is not really connected to a soft or hard market here.

A - Karl Steinle {BIO 1986424 <GO>}

Yes. Okay. We continue with Jonny Urwin and then with Vinit.

Q - Jonny Urwin {BIO 17445508 <GO>}

Jonny Urwin from UBS. A quick question on agriculture which you mentioned was a growth area. Does recent M&A change that market at all, or has there been a couple of big books that have just gone? And weren't you interested in one of those? I know you want to be careful -- selectively careful in your approach. But interested to hear your comments.

A - Juergen Graeber {BIO 20978001 <GO>}

Yes. While we saw these transactions, Hannover has never been interested. Of course, we get teasers sent on a regular basis. We look at it and say, well, if we can grow organically, why should we actually consider this? And as I said, we want to stay as a pure reinsurance play. So we did not consider.

Does it change? I doubt. There is so much demand. I don't know to what extent you are aware. For example, the Indian government is trying to push hard, as does the Chinese government, to get a better protection for farmers. And the Indian agricultural market will go from $2 billion to $6 billion in the next couple of years. And the Chinese market has grown rapidly. It's simply that it is a protection gap here. That is quite visible and there's enough room for everyone. But it's a line of business where you have to have skills.

So it's not for the average reinsurer to get involved in agricultural business. You have to have your experts. So I think the landscape won't change. There would be a good pipeline of demand in the next couple of years.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Vinit from Mediobanca. Can I just ask about the K-session instrument, please? Because, if you look at last several years of history, there was a time when we were all holding our breath that it would get renewed fully or partially or in more terms. Then, there was a change when it was made a one-third rolling period kind of maturity. And I understand that now it's back to a bullet one year maturity.

Also in the context that we've seen from recent publications in the industry that next year, first half, is a lot of maturity happening. So how is your relationship with the K-sessions? If you could just comment a little bit and educate us, it will be great. Thank you.

A - Juergen Graeber {BIO 20978001 <GO>}

Thanks for your question. Of course, since this is a very important vehicle to us, we don't want to be all of a sudden at a situation where this vehicle doesn't exist anymore. It usually expires on the end of October and who doesn't put in a notice is already bound for next year. So that's a relatively automated mechanism.

And usually, our participants on the K-session, they don't put in a notice of termination. So they're happily bound for the next year. That makes the renewal process relatively easy. Of course, we feed information in transparency already during the months of October so that they do this on a very informed basis. That's the first.

The second is the history of this vehicle is probably extremely long. We placed a traditional quota share at the beginning of '82 and we kept it like this until 1994. In 1994, we modeled it and collateralized it and ever since, it was placed with institutional investors, various new participants and we have a good balance between reinsurance companies. And hedge funds. And ILS funds. And depending on the risk appetite of these various groups, there's always a little bit of a shift between the groups.

But so far, we have a luxury problem. We have to tell them, "Sorry. We can't offer you more." There is almost a pipeline of people who want to get under this facility. So talking about the annual character of this contract, yes, there was a time when we were steering it towards partial placements and run it for three years. But then, we said "Well if there is a big event and the capital is eroded, it doesn't help us."

The replacement issue is then visible. So we changed it to an annual contract. That was the key driver because after a big event, the capital is gone. So that was the change in the strategy of the placement and we feel comfortable that by today, the partners know us. We know their risk appetite and it's a very smooth placement every single year.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. We have another question here from Thomas Fossard.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thanks. Two questions on your US strategy, first one on the advanced solutions, what is a way to access a business? I guess it's not coming through workers. So how can you access business in the US market?

And the second question would be related to your relationship and strategy with MGAs -- risk MGAs in the US market are a significant distribution force. How do you take them into account in your strategy there?

A - Juergen Graeber {BIO 20978001 <GO>}

Yes. If I start with the first one, yes, it is still in the broker market. That may surprise you. But the brokers, or the larger brokers, have specialty teams for exactly this business because they have the actuaries. They have those who can read P&L accounts and balance sheets and they use these specialty teams and in all these years, we're still in contact. So it's not against our strategy being a broker market.

And sometimes, these big pipeline projects are also very traditional. So they sometimes even get dealt with by the traditional brokers.

What was the second -- MGAs, yes. Yes. We deal with lots of MGAs. No. We don't. We happily look at insurance companies who deal with MGAs. So that we know there is this layer of audit, of process quality exercised by the insurance company. So that they really control the agent and not the reinsurer has to control the agent and the insurance company becomes a fronter.

So we have very little direct MGA business. And you know our history as far as Clarendon is concerned and we are not there to all of a sudden go deeply into direct MGA business. Having said that, exception to the rule, yes, of course, we have a few. And we don't mind this. But we have these few with a history of having made a significant mistake in our history and with this knowledge, we can carefully and selectively assume a few. But it's not really meaningful in the total amount of premium that you saw. It's almost hiding in the more than -- close to EUR2.5 billion of premium volume. Yes.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Well thank you for your questions.

It's almost coffee time again. So we break for a short coffee break until three o'clock. And I would also like to remind you on that feedback questionnaire on your table. And as I said at the beginning, we are really highly valuing your comments and remarks and you can then leave the form on the table or hand it over to Julia and her team.

Thank you. See you at three o'clock.

+++presentation

Not only has this business especially in the US developed very favorably and established itself stuff now as a major earnings pillar of our Life & Health portfolio, it also supports our medium and long term profit expectations.

Klaus, please give us more insights.

A - Klaus Miller {BIO 16886879 <GO>}

Thanks, Karl.

Yes. If we compare our Investors' Day here with the standard, traditional action movie, then, now, about 80% into it, you would expect some risk and action and of course, the happy ending. The happy ending is usually with -- for Uli. So he will do that part and I have to disappoint you a little bit. There is not much risk and action with Financial Solutions. It's all about stable profits. It's pretty boring. But you have to put up with that for the next 30 to 35 minutes.

Maybe coming back to one of the things somebody asked me, I guess, it was this morning, "How do you want to grow in life business?" We have heard Uli who said 10 companies, the top 10 have 96% I guess of the market and life business is long-term business. There is no way how you can get this business away. It's not placed each year again, these are block deals, the existing business will stay with the incumbent reinsurer.

And if I read the list correctly Uli put up there, none of the top 10 is currently for sale. I can confirm that I'm not interested in buying any of these 10. But that's my private opinion. But they're definitely also not for sale. So should we fight for the other 4% of the market share? Certainly not. The question is how do we want to grow if we can't this by taking business from our competitors which is difficult on the P&C side. But even more difficult on the life side where you have long term treaties.

So there are two kinds of business we can go for. One is the business I will talk today. This is convincing the client that reinsuring the business he has that he has not yet reinsured with somebody else should fit much better to our balance sheet than to his own. And there are advantages for him and some things he can gain from that.

And the other way to grow our market share in the future or our business. And maybe we should make a mental note, Karl, for next year is we can tell you how we get business the client has not even written yet. So where we help the client to write business that is not on his books in the future, by point of sale support, underwriting support, product innovation. And -- and this is what we might talk about next year, where we enter into cooperation sometimes with distribution networks where we take 100% of the risk.

We need a fronter somewhere, an insurance company, primary company. And I guess we will have something to tell you next year on these things. This year, it's all about Financial Solutions. And the part of the business the client has which he has not reinsured yet. So in terms of EBIT Financial Solutions as -- in terms of EBIT Financial Solutions is it's not short-term business. But it's one of our most profitable lines of business and it's really contributing to the annual results.

What is the difference? I guess Uli mentioned that. We have mortality solutions. We have longevity business which have produced an awful lot of value of new business for the next

20-25 years, maybe even longer. Financial solutions is a little bit more short term.

It's not short-term in the sense that it's annual renewable. But we have treaties there for five years. We have treaties there for 10 years. Also, financing business, cash financing was part of that. In the old days, in the established markets like Germany, we had financing treaties for 15 years. Meanwhile, this is more in the region of five to 10 years.

So why is a client giving us this business and why is he paying for that? And when you look at our results and this is on the next page, not small amounts of money, Financial Solutions contributed over the last five years, more than EUR500 million. And the good news is this was absolutely stable compared to all the other business, on the mortality side, morbidity side where we had some unpleasant surprises in the last couple of years. They still produce the larger share of all profits. But on the Financial Solutions side, we had no downturns. We even had some upturns, upticks from some recaptures where the client had to pay the full fee for the next couple of years just because the company was sold and the new owner didn't want the treaty any longer and paid a breakup fee.

So the EBIT for this business is great and the return on equity is even better. Some of these deals even bring their own equity with them. So, in terms of economic solvency cap report, not in terms of statutory capital. But in terms of economic capital, there's a huge PDFP. So there's a question -- why don't we just concentrate on that? If the risk solutions need capital and Financial Solutions to a large extent don't need capital, why not concentrating just on that?

The problem is that technically, I personally, Klaus Miller Re, could write some of the largest deals we have because they come with their own capital, with PDFP, unfortunately, nobody so far was willing to give the business privately to me, it's a pity. I could be really rich if I found a solution to that problem. But they only trust people who are large in the insurance industry. So we talk about the top five, top six companies. All the others have basically not a real chance to do these deals.

You need a rating. You need a certain size. Otherwise, you don't have access to these deals. And one other thing, you need expertise. You need expertise around the world in all these markets. I don't think that P&C business is easy. But I've seen newly established Cat writers in Bermuda. They just came with $1 billion and 20 people, experienced underwriters from other companies and they could write Cat business from New Zealand to California earthquake.

That's difficult on the Financial Solutions side. You really have to go into the weeds of all solvency regulations in each in every country. There is no way that there is a simple solution for all countries.

Next page -- so, just to gather a clear idea what I want to concentrate today and what not, all our reinsurance treaties transfer biometrical risk, all have a financial impact because people like Roland account for it on the balance sheet. So it has a financial impact. But you can design the treaty so that either the risk transfer or the financial impact is the dominating part.

We have that in Euroland with Solvency II we have PBR in the US, we have C-ROSS in China, we have LICAT in Canada, we have SAM in South Africa and you name it. Each and every country is currently trying to implement a new solvency regime.

We also have different; and Roland alluded a little bit to that, different accounting regimes we have to comply with, we. But to some extent also our clients. There's, of course, local GAAP, for some there's Solvency, there's LCV. Certainly, the ratings. So there's Standard & Poor's and A.M. Best with their accounting or solvency regimes.

So clients have to adapt to that. But the question is, why is this still business which we can continue forever? In my opinion, we can continue that forever. Reason is, even if you assume you have the perfect solvency regime and all the products are fine and all the companies have adapted to that, somebody will come with new products which do not really fit into the existing solvency regime because they try to optimize it one way or the other.

The next thing that could happen is that the financial environment changes. We've seen that with the interest rates being low for quite a while. So low, nobody in the general life insurance in this we could ever have imagined.

I still remember the times when life insurance actuaries told me, first of all, we don't need capital as a life insurance company. Second, we should be allowed to give 6% or 7% guarantees because German 10-year government bonds provide 9% returns. So why not give 6%? It's no risk at all. But then at that time I stopped it at 4% and meanwhile 4% is a problem.

So BaFin reacted to that. Our regulator introduced ZZR, the Zinszusatsreserve, an additional interest reserve they have to put up. And I can't see that this is the end of the story. New things will happen. New products will be created with different solvency requirements and with the changing financial environment, I see that this spiral can keep going on and on and create business for us.

Whenever solvency regimes change, we have an opportunity because we are not linked to just one country. We can go abroad. We don't have to write the business in Germany. We can write it in the US, in Ireland, in Bermuda, in all the countries where we are on the ground with our people.

So this is a permanent fueling of our business opportunities. We have a toolbox. We can do quite a few different things here. And it's all about alternative means to access capital. It's always about capital. It's not so much about risk transfer in the sense that there's volatility in the underlying business. On the life side here, you have some insured from EUR50,000 to EUR1 million; nothing that would really concern our clients. Yes. There is the odd EUR100 million case. But the five I have ever seen in my life would not be sufficient to provide decent returns for life reinsurers.

So volatility is not the issue for the companies, redundant reserves are. The regulator in the US has introduced redundant reserves in 2000 or so. And meanwhile they abandoned with that, principal-based reserving takes a different route. But still if you have issued a policy in December 2015, you have to set up reserves. If you have issued it a month later, January 2016, you might get away without it.

So now the companies look at their old business, their legacy business, try to find solutions to that. And we are certainly able to provide these things. And there is no difference between capital requirements and redundant reserve requirements. In both cases, this is money you don't need if everything works as expected. So this is what we can provide and we can provide it probably cheaper than the insurance company.

Next page. This is just our more or less extensive track record. You'll find an awful lot of countries there you would have expected like the US, UK, Germany, Australia. You'll also find there Algeria. This is the latest addition for I guess a cash or non-cash deal our French colleagues have written. It's really business around the world.

Of course, most of the profits for this type of business come from the more developed countries because you need a certain size. The margins are relatively small. In absolute figures, they are substantial for us. But you don't have 20% of the premium as a margin. You get a certain fraction of the reserve relief you're providing.

There's one point where we'll make it absolutely clear what we're doing here and this is financing business. This is not necessarily financial reinsurance which is more aimed at capital relief and redundant reserve relief. Cash financing, it's well-known to you. It starts with a cash payment and over time we recoup the initial amount. That's pretty simple.

We can do the same with a non-cash financing. What is the reason for that? The client sometimes has an accounting problem. It doesn't want to show losses. He does not necessarily need liquidity. So doing non-cash financing does not mean that we fiddle around with is there really risk transfer? Does the client have to pay it back under all circumstances?

No. This is not the case. The reason for eliminating cash is that if the client has no need for liquidity, then there is no need to discuss the interest rate or the price for liquidity with him because if we provide liquidity we have to charge him a price. Maybe we will charge him a higher price for liquidity because we produce liquidity for something else, then he is willing to pay. If he doesn't meet liquidity, there is no point in selling him liquidity.

A price for a non-cash financing is significantly cheaper than a price for a cash financing. But this does not mean that non-cash financing at the end will always be and remain non-cash. We start with a claim against the reinsurer so there's a seeding commission we pay. And the seeding commission is then back over time if and when profits emerge. And if they do not emerge, then at the end there is a cash payment.

So even a non-cash financing deal could result, hopefully not from our point of view, at the end in a cash payment. We have an agreed term of 10 or 15 years and after that the remaining outstanding balance is settled in cash.

So moving on to the next slide, this is what we have done in terms of cash financing the last couple of years. Hannover Re Life & Health has provided EUR3.5 billion of cash financing the last, whatever, 10 to 20 years. The current outstanding amount is EUR940 million so still something we could draw on if necessary.

This is cash which should come back in the next couple of years. So within 10 years we probably have it all back, probably even much more because this outstanding amount of EUR940 million increases each year by the agreed interest rate. And the current expected interest rate for all our deals in all countries is 7.3%.

We regularly check whether we should do these type of deals with what Roland could do if we just would leave the money with him, which would be much easier for us. The alternative rate of return is 5.3%.

Please don't try to link this to your current bond trades what interest rates what you know. This is over time, different underwriting years from 2006 until today. It's in different countries, it's in different currencies, it's different terms, it's different companies. Some have better lapse rates, others have worse lapse rates. So what we charge to the client is very, very different and adapted to the individual situation. But what we check regularly is whether we make more money with this than Roland is able to do.

Next page. This is just a simple explanation. There's one thing because this is an old slide we use regularly with the new figures. But I forgot what the explanation for the correction is. So please accept that I can't tell you the difference between 965 and 961. Something had to be restated there.

The new business financing was EUR149 million in 2015. The outstanding deficit account, that's how we call it, increased by about 7.3% from the last page. That's EUR72 million and we got a repayment of EUR242. What you'll realize immediately is obviously we do nowadays less cash financing than we did in the past, because the payback is higher than the new financing. So another EUR100 million came in last year.

We also can deduct from this year that if Hannover Re ever has an urgent need of cash, then we could just stop doing new financing and probably get something like EUR240 million cash back into the company in the next two, three, four years each year. Not that I would recommend to do that. But if need be, this is an option to get cash if needed. The absolute cash flow coming back is certainly higher than the outstanding EUR940 because this EUR72 million, the interest will be added on top each and every year.

I decided to give you some insight into what we have done in the last couple of years. And you see some quite interesting rate of returns at the right side. The second last column gives you the actual expected rate of return, what we expect today from these underwriting years. And first impression is, why is that volatile? Reason, as what I said before, it's different countries, different currencies, different terms, different companies so we charge different prices for this. So you cannot really compare it.

If we do financing in Germany in the old days, it would have been a totally different; or nowadays it would be totally different than what we have charged 10 years ago to a US American company.

So these are quite volatile returns. But fortunately always better than just a pure bond investment. But you also see that the difference could be varying quite a lot. Sometimes they are pretty close together, in the years 2015 or 2008, you saw that bond prices there are pretty close, 2008 maybe due to the financial crisis. I have no idea. In 2011, we obviously had a big spread here.

A more realistic comparison usually is the loan to value ratio, that means if a client offers to us certain block of business, we put a value on that using the embedded value, could be traditional or market consistent embedded value. Then we are willing to finance about on average I would say two-thirds of that, because we need a buffer if something goes not exactly as expected that we still get back our money.

That could go down to even less than 50 if we believe that lapse rates could be extremely high, what changes are to be expected. It could be as high as maybe 80%. If it's a solid, let's say, German book with 4% guarantees, we don't take these guarantees. But if on the mortality side there somebody would like to advance the expected profits, we don't expect high lapse rates for 4% guarantee policies these days. So this is a very detailed insight on what we have done in the last couple of years. You see the calculation from the last slide at the bottom of the graph here of the table.

And now back from the cash financing to the financial solution business. As I said earlier, it's all about alternative capital sources. There are different rates to get capital. You can ask for equity, you can ask for debt hybrid. You can do kind of securitization deals. It doesn't have to be with the financial markets. You can do that with the reinsurer as well. But you'll really you're your portfolio. You give away all the upside as well, or you can do financial reinsurance. That is usually a simple quote of share, it could be a stop-loss, it could be any form of reinsurance.

But the advantages here are that if your target is something like improving a ratio, a solvency ratio, then you can work on the numerator and all the denominator. And adding capital like equity debt or hybrid only adds something to the numerator.

Reinsuring business getting front up commission plus getting rid of the risk means that you change the numerator that gets larger because you have a permission and could change the denominator that gets smaller because it get rid of your risk.

In total, the effect is larger than what, for instance, a bank will do. A bank cannot work on the liability side usually unless they have a reinsurance company which some of them had or still have or currently trying to sell. Basel III doesn't seem to be so friendly for non-banking business so that most of the banks meanwhile have abandoned with their reinsurance operations.

The other thing which is the main difference here to debt and equity is we do not expect that the company guarantees a payback. The payback is guaranteed in apostrophes by collateral and this collateral is the underlying block of business. The underlying block of business has the application to pay back our initial advances.

If the underlying block disappears for whatever reason, lapses is one, then there is no payback. So we need a certain confidence that we will have no losses because our margins are also small. So we will never ever finance the full block but only a fraction of that.

Financial reinsurance is much more flexible. It has also an additional advantages and we have put that here on the right-hand side. It even cover losses at vast capital provider because it we'd take the full risk. Usually we have 100% of certain block range to us.

It reduces the risk-based capital that's a denominator which gets smaller so solvency gets higher. We can do these deals pretty fast. The fastest I've ever done was within a day. So the call came in the morning, the treaty was signed in the evening. This is not the usual time we need. These deals often need a couple of weeks, sometimes even two or three months. But it definitely doesn't take as long as many of the other financial instruments you can use.

Because you don't need an awful lot of legal expertise, certainly, reinsurance legal expertise is necessary. But it's a low cost transaction and we don't have any minimum size. So with banks very often they can't raise capital 10 million, 20 million, 30 million. As soon as you need 500 million, it gets interesting for the banks but before that, that's difficult.

This is basically a slide giving you all the reasons why we have been able to write business in the past. In the US just as one example in the last 15 years, the evolution of capital financing took an interesting direction. I believe you know most of the buzzwords there. You certainly know capital -- XXX financing, Captives, you know the financing structures via co-insurance from the very, very early days.

You've heard about the recent transition to PBR, Principal-Based Reserving. Investment banks are trying to support this type as well. In the very early days they provided letters of credit, then companies realized that annual letters of credit might fall away at the end of the year every now and then, that's not acceptable. Then the regulator realized that even letters of credit from a bank could disappear if the banks disappears, which happened in 2008.

So all these changes every three years gave us new opportunities to adapt our solutions and I don't think that AG48, the Actuarial Guideline 48 for Captives or Principal-Based Reserving is the end. There will be something more. I can't see why we won't have Solvency III in a couple of years. I can't see that there are no changes to the solvency regime in the US, trying to be Solvency II-compliant or equivalent -- sorry, not compliant -- equivalent and this will continue and will enable us to write more business.

How much money are we making? Quite a lot. In the year 2015 you have seen a substantial amount of our profits coming from this business. There was a one-off effect in it which is displayed here with EUR44 million. The reduction from 2016 to 2017 is due to two deals which end in 2016. We are currently negotiating whether this will be extended for another five years.

We have these deals for five years. This was the natural end of the deal. But the client is interested to continue with that. This year, it's just the normal run-off. And in case there is no pandemic in the next five years and no other major events so that the world goes under, these are exactly the numbers you will see in our balance sheet. There is no volatility.

If there's a big pandemic and everybody dies, this will not happen and you might not be around to notice it. But other than that, I'm very confident that we will see these results. These are results before internal expenses but the internal expenses for that are not that high.

Who is competing with us? This is from a survey from NMG who do regularly surveys for reinsurers and their performance in various areas. I picked here the financial solution slide and it shows that Hannover Re is considered the most valuable reinsurer in four of these categories with by far the highest percentage numbers of nominations from clients.

We have basically the other three, peer one to peer three, I'm not going to tell you who is who but I can tell you who the three are in alphabetical order, that's Canada Life, RGA and Swiss Re. They are also very active in these areas. All the others show up here and there but not that often yet. We have built this expertise over 10 years now. It takes a while first to really learn about the underlying regulation not so much involved in risk analysis; it's more in regulatory analysis and what is really the intention of the regulation.

So this now takes me to a point on the next slide, why are these companies doing that? Is this all regulatory arbitrage? Are we fiddling around with the balance sheets of our clients? Do they try to hide something by using financial reinsurance? And it turns out this is absolutely not the case. What they try to do and they have been asked, what are the main reasons for using this, they can always argue that they'd tell you the truth. But this was on an anonymous basis. So I would say yes.

And this really replicates what we see in our discussions with the clients. It's all about capital efficiency and redundant reserve financing. That means capital or reserves which have to be hold or it has to be there without any economic need. You can argue with the regulator, is it reasonable to request these things? The regulators adapts to new requirements as well so, some of these redundant reserves have been abandoned. But for the old business, they are still there.

And I had a interesting discussion last night whether we are really contributing something to the industry as such, or are we just making money on the back of somebody else. And I think the interesting part here is and we can do a simple calculation, we are contributing to the industry and even to the countries and economies where we are working.

In the US, we have about $15 billion of capital relief, redundant reserve relief, $15 billion. If this is really needed and from a statutory point of view, it is needed, the regulator asked for that, if the policyholders have to pay for that, to build up this capital with their premiums, nobody would buy life insurance at all.

So the policy holder can't do that. If the shareholder of the life insurance companies have to put in this money, $15 billion, they would expect something between 900 and 1,000 basis points. So 9% to 10%. We provide this capital and these redundant reserves depending company and product and between 1% and 2% so, there is a gap of 8%, 800 basis points which investors or shareholders don't need because they don't have to put up the capital; we do that. They would charge 900 basis points, we charge 100.

So the saving is about 800 basis points; 800 basis points of 1.5 -- sorry -- of $15 billion is $1.2 billion; $1.2 billion expense savings is what Hannover Life Re US contributes to the US policyholders. They don't have to provide these expenses or with their premium.

And the same is true even in other areas. Usually people don't see it like that. You can take P&C, if reinsurance reduces capital requirements, shareholders don't have to put up the capital. So they don't earn their whatever, 900 basis points; we earn something less. This means insurance more affordable for the policyholders.

So this is a contribution of $1.2 billion Hannover Re makes to the United States, the population each year; that's one way of looking at it. You can ask, okay, couldn't the regulator reduce this completely by 900 basis points? Yes. The regulator could make an even bigger impact. But the regulator says, okay, if you do it for 100, we still have this $15 billion of guarantees for the policyholders if anything goes wrong. So even the regulator believes that this is a good way of doing it.

Next page, please. You might have seen that a couple of times and it's called the Maslow's hierarchy of needs. Obviously, at least three of the presenters today liked this thing. You probably know these physiological needs, safety, security, love and belonging, self-esteem and interesting enough, Financial Solutions is exactly the same what you see on the next page.

The bottom part, capital funding requirements, you have to have capital in a life insurance company and for this you have charge your 900 basis points or whatever you think you need.

The economic reserves is something what should be there. If you expect that you have to pay it out, it should be there.

Then there are liability PADs, Provisions for Adverse Deviations, small add-ons to your IFRS reserves or US GAAP reserves needed. They're a little bit more expensive, less expensive than the capital down there.

But then you come to excess statutory reserves. You can put in XXX reserves here and we say we do that for 1% or 1.5%. Then required surplus so, it gets cheaper from the bottom to the top.

And we also charge pretty hefty prices if we are required to take the equity stake. Sometimes there's a start-up company and asks us for unsecured funding and then we might have private equity return expectations for that. That could go beyond the 9%; 900 basis points above risk-free is what we have to earn. But this doesn't mean that we apply that for each and every risk. For the smaller risks like XXX Financing, it's 1% or 2%. For equity stake in a start-up, it could be 15% or even more.

So there was a reason why this is layered and my non-life colleagues do that all the time, they layer the risks and they are cheaper on the top level and more expensive on the bottom part, on the equity stake. And Financial Solutions is not different to that.

I just mentioned that we are working around the world on these different solvency regimes; we try to adapt that. There are certain things which create problems in China with C-ROSS but can be solved in the Bermuda. There are other problems in the US with PBR which could be solved in Ireland or in a Solvency II country.

SAM is about to be -- that is Solvency Assessment and Management, I guess, I have no idea how all the regulators come up with different names for their systems and different short abbreviations here. But this will continue in Japan, Chile, Hong Kong, Israel, Mexico, Brazil and Turkey who all working extensively on the new solvency regime.

Eastern European states try to adapt to Solvency II and Singapore selects, what I've heard they try to become Solvency II equivalent. So there are lots to do for us, lots of business opportunities. The only threat I can see is that what is here on the left hand side becomes reality. If you ever see these headlines in the papers then on the next day you will see Hannover Re fired this 100 Financial Solutions people because they're not needed any longer.

I do not really consider this a big threat to us. But shareholders are happy with lower returns or the financial markets become predictable and stable, might help Roland, I don't know but it's unlikely. We have not even touched FinTechs and competition. This is something that I would leave to my colleague, Claude Chevre, who might be here next year and that regulators relax their requirements significantly is something I've never heard of.

So with that, I look into a very bright future and the success so far was great and I'm happy to answer your questions before Uli concludes with his happy ending. Thank you.

+++qanda

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Well thank you. We have a question right here with Andrew Ritchie, first question.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there. Thanks for that, interesting to get a perspective on that business. PBR in the US I can't decide if that's good or bad for you. And your peers seem equally confused because on one hand it may reduce new business demand but it may also introduce other types of risks what was the answer, is it good or bad?

And the second question I'm only thinking for you business it's not biometric so the Financial Solutions business is lapse, not biometric is the big risk, is that correct?

A - Klaus Miller {BIO 16886879 <GO>}

Yes. The second question is very easy to answer, the answer is yes. Of course, we cover biometric risk as well but to be honest, if we have a pandemic and a biometrical disaster in our Financial Solutions business, we are already dead on or mortality solutions business.

The first question is a little bit -- I can get a very simple answer, each change is good for us because with each change you have winners and losers. And sometimes you're one of the losers. But not really bad but you need some help and this is where we come in.

PBR certainly takes away some of the business we have, let's say, improved in the past. But I'm pretty sure it gives new opportunities; our colleagues and the US are working on that. I cannot really tell you what these new opportunities are. But I've been assured that they are looking forward to that and it's not yet really implemented.

Q - Andrew Ritchie {BIO 18731996 <GO>}

The existing XXX doesn't go away with PBR.

A - Klaus Miller {BIO 16886879 <GO>}

No. It's just a new business which doesn't have to follow XXX. But up to the last day you still have to -- this was my example, you can sell a policy on the 31st of one month and then the first of the next month and you have totally different accounting regimes for that.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Right.

A - Karl Steinle {BIO 1986424 <GO>}

William Hawkins.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you. On slide eight, can you just explain again what the alternative rates of return is including failure because I assume that was some kind of default thing and that the --

A - Klaus Miller {BIO 16886879 <GO>}

Sorry. Say it again.

Q - William Hawkins {BIO 1822411 <GO>}

So on slide eight--

A - Klaus Miller {BIO 16886879 <GO>}

Yes.

Q - William Hawkins {BIO 1822411 <GO>}

-- what is the last column, what does it mean to be including failure because everything you've said implies that the default risk here and everything is negligible but there is 2% between one and the other.

A - Klaus Miller {BIO 16886879 <GO>}

Yes. Okay. I come with a company and say, okay, this is A; rated company and we do cash financing transaction. We expect the recuperation time is eight years, then I go to Roland and he says, okay, it's A-bond, same country, same currency and eight years and then this is the return I could get for that. Including failure means you have certain realistic default scenarios for bonds, that's what we put in there.

Q - William Hawkins {BIO 1822411 <GO>}

So that last column has nothing to do with the Financial Solutions business; it's just comparing what returns-

A - Klaus Miller {BIO 16886879 <GO>}

We tried to compare the right things which honestly, is difficult because I have an awful lot of companies who do not have a rating. They usually use cash financing. But the good thing for us is that a bond depends on the company who issued that.

A reinsurance treaty depends on the underlying portfolio. So I have a collateral for that. And the other thing is even a non-rated company is still a regulated company. It's not as buying a bond from a small car manufacturer, there is still a regulator who makes sure that this life insurance company has the shareholder funds on the left side and the policyholder funds on the right side and there are certain rules for the policyholder funds. They cannot just gamble with the money and buy derivatives and nothing else. There are pretty clear investment restrictions for life insurance companies.

So it's difficult to compare it. But we thought we have to do it. So I did not produce this for exactly this presentation here; we do that for a couple of years since 2000 -- well, help me -- '07 or '08, I guess at least, before my time. And we regularly look into that and our supervisory board is interested in am I using the money wisely or should I leave it to Roland.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you. Then just secondly, I'm still not quite sure how much capital is tied up in this activity. Presumably it's some function of the outstanding financing, that EUR900 to EUR 1billion. But how -

A - Klaus Miller {BIO 16886879 <GO>}

You can ask Andreas here. Capital for financing is tiny because there is not much risk on the biometrical side. And lapse risk -- this is what I call the loan-to-value ratio if we just finance 60% of the value. The value is the embedded value calculated with a certain interest rate of 7% or 8%, then only 60% of that is financed. So even if lapse rates are higher, we would still get back our money and you have a very, very strange effect here if the lapse rates are higher and the payback takes longer, as long as we get back the money. The longer it takes, the better for us because we make -- we agreed, whatever, 5%, 6%, 7%, 8% return on the deficit account each year.

Q - William Hawkins {BIO 1822411 <GO>}

So forgive me there, just lastly. You may have said this and I missed it. But what actually is the hurdle rates that you're looking at to decide, okay, we like this business or not? Is it those two columns that I asked about first or what? Because if in theory this is sucking up negligible amounts of capital then you should just write everything you look at. But presuming it's not easy as that.

A - Klaus Miller {BIO 16886879 <GO>}

We are not using our capital for that. We use the money. We don't have -- Roland has EUR36 billion of assets to invest, only EUR12 billion of it is capital or whatever. Otherwise, it has to be invested one way or the other.

And this is a good way to invest it. Roland has an awful lot of capital he doesn't need tomorrow. But only in the next -- whatever, 10 years. So I can use it in the meantime, give it a client and earn a decent in return, which should be higher than the investment return that we get. That's what we compare it with.

Honestly, it's difficult to do this comparison because the bond risk might be easier to calculate, at least you have a rating there, than a life insurance company. So a default of that is not that likely.

Any other question?

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Another question from Andreas Schaefer.

Q - Andreas Schaefer {BIO 4667112 <GO>}

As far as I understand, competition is fairly similar to the mortality and longevity business. I understand that the volatility of your earnings stream is just much lower. But as far I understand, margins are far higher than in the traditional business. So why is this the case?

A - Klaus Miller {BIO 16886879 <GO>}

It depends on how you define margins. EBIT margin doesn't make any sense. The cash financing is relatively easy. It's return on investment, how much money do we give? How much money do we get back? And we can calculate an interest rate.

And if this is better than what we believe Roland could do, then it's a good deal. On the Financial Solutions business, where we support redundant reserves and capital, we are pretty high in this Maslow pyramid. And the risk is extremely low. The risk capital we calculate for that is extremely low. And as soon as the likelihood of a loss gets very, very tiny, then it's probably the wrong measure, because how would you like to calculate this if it's a one in a thousand years event that this happens.

We don't have thousand years. We will never ever be able to observe thousand years. The return can be measured by the return on equity. And it looks great. But that this is the right thing, it can be debated. Certainly, EBIT margin is wrong because if you get 100 million -- well, we book a 100 million of premium, all these deals are usually booked as deposit accounting. So premium equals profit. Then to say we have a 100% EBIT margin doesn't mean anything.

So this is why you have seen in our reporting structures these, whatever 19%, 20% EBIT margin. There was a little bit of financing business, which had to be booked according to FAS 60. Then there is substantial premium but not much risk. And on the other hand, you have these fee deals, we can call it fee deals. The only way, really, is return on equity and none of these deals should go wrong.

I guess Juergen and Sven expect an earthquake every now and then. We do not expect that we will see any failures under these treaties unless the world really goes under.

Q - Andreas Schaefer {BIO 4667112 <GO>}

But nevertheless, should this fit between the alternative risk on return -- or return rate should be starting to get low? It seems to be in history extremely high.

A - Klaus Miller {BIO 16886879 <GO>}

It depends where you do the business. You might have in mind the US or Euroland or British pound. But we also do financing business in China. We do financing business in South Africa. Everything outside our five major currencies, I guess it's five, Roland, is it? Yes. Everything outside of that will be currency hedged for these filings and deals because it's not a good idea to finance South African rand and then get something back, which is worth much less in the next six, seven years. So this is currency hedged. And this is also included in this. So the hedging costs are deducted.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. We have another question from Thomas Seidl and then -

Q - Thomas Seidl {BIO 17755912 <GO>}

Thanks. Just one question. One of the markets where we see rising regulatory risk is Germany obviously, was the sense of our contributions peaking 2018, 2019. Is there something you can do to help finance this? And this is hence upcoming bonanza for life reinsurers in Germany.

A - Klaus Miller {BIO 16886879 <GO>}

Upcoming bonanza, I don't think so. We can do that. All the reinsurers can do that. What they have to do is we need an underlying portfolio which is profitable. And as long as you talk about biometrical risks, we are very happy to finance against this expected future cash flow or profit stream.

If the underlying profit stream should come from higher interest returns because we are all sure that in five years from now, the interest will be back up at 5%, then we are not so keen to do that.

So there are clients in Germany who have a serious problem and need just capital injections because the underlying collateral we would ask for is not there. There is not enough profit in the underlying block of business for us to finance against that.

Q - Thomas Seidl {BIO 17755912 <GO>}

But on average, Germany has very high mortality margins or whatever, there should be a good opportunity, you know?

A - Klaus Miller {BIO 16886879 <GO>}

Yes. Unfortunately, in most of these endowment polices, there is not that much biometrical risk. It's much out-weighted by the financial risk in there. And we don't take the financial risk. We are very happy to provide even EUR50 or EUR100 million of financing. But the -- you can easily have EUR100 million of required -- that are increases over the next, whatever five years. But only have maybe EUR20 million of expected biometrical profits in this block of business.

In the old days, the calculation was that we guarantee 4%. We make 7%. And we give 90% of that back to the policyholder. So we live from the seven minus four, it's three, 90% of that 2.7. So 0.3 -- 30 basis points of a huge reserve basically provided the profits for the life insurance companies.

But now, the interest rate is not seven any longer. It's below 4%. And so, this is not there any longer. And even if somebody tries to tell us we believe interest rates will rise and IOPA rates are high in the long end, that's not our business. Maybe they are right. But we are not gambling on that one.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Another -- more questions from Xinmei and from Vikram and then we continue with Vinit.

Q - Xinmei Wang {BIO 17860767 <GO>}

Hi. I was just wondering on your expected rate of return. You mentioned that there's volatility to each different countries and companies. And looking at the different years as well. How big a difference do you get in rate of return between different countries? And what is the case for saying -- I just want to focus on somewhere with the highest rate of return? Or do you like the geographic diversification as well?

A - Klaus Miller {BIO 16886879 <GO>}

We do like the geographic diversification as well. But if you finance in South Africa, you have to, I always have to beat Roland's alternative. If I can't do that then it doesn't make any sense. I can't really tell you what is the minimum I ask for and what is the maximum because it really depends on the company, on the expected lapse rate. One of the biggest and most important key ratios is this loan-to-value. So how much value is in there and the best estimate it provides 100 million, then I'm willing to finance maybe 65 of that.

If this is in an environment in Germany and it's these 4% guarantees, which is guaranteed from the life insurance company to us if we take it, then I'm happy to finance maybe 80% of the biometrical profits in this portfolio.

Not the 4% of guarantees, that's with this seeding company. But the biometrical profit from this, I'm very happy to go a little bit higher because I think the lapse risk is pretty low, if somebody has a 4% guarantee he won't lapse unless he really has to because he needs the money.

On the lowest end, if somebody really doesn't need the cash we just talk about very, very small percentages for non-cash financing if the liquidity is not needed. So we have done deals from 2% for non-cash financing to probably 18% in some years, in some countries for some products and some companies.

A - Karl Steinle {BIO 1986424 <GO>}

Would you please hand over the microphone to Vikram. Thanks.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi. This is Vikram Gandhi from SocGen. This is about a news article that I recently came across, which was about BaFin asking some of the American reinsurers for a branch setup in Germany. And the retaliation has come from NAIL saying the German reinsurers might have to post a higher collateral.

A - Klaus Miller {BIO 16886879 <GO>}

Yes.

Q - Vikram Gandhi {BIO 18019785 <GO>}

And given that you are certified reinsurer in many states, not only five and have a AA rating with 10% collateral. So what are your thoughts on that first of all? And second is and just a hypothetical case, let's say the collateral requirements go up from 10 to 20percentage, what does it do to your cost or your Life & Health EBIT?

A - Klaus Miller {BIO 16886879 <GO>}

The first question is something where I would like to pass on to Uli, who is a little bit closer to all these regulatory regulations. Of course, I'm not happy about this because of --Uli do you want to say something about it?

A - Ulrich Wallin {BIO 4863401 <GO>}

Okay. I can certainly do that. First of all, it will not affect Klaus's business because where we have reduced collateral on the Life & Health is from the US to Ireland. And we have the so-called consent order there. So that's not an issue.

On the P&C side, yes, it is an issue because it is our basic business model, writing business out of Hannover. Of course, we have no non-economic reserves there. We have the funds anyhow. It would be a nuisance. But would not be the end of the world.

Nonetheless, we have engaged with conversations both with BaFin as well as the Minister of Finance to convince them that their regulation which is geared to protect the German reinsurers is not needed from their protection point of view and that there is lot more business that is written by German reinsurers from the US than vice versa. And we hope that we can gain some ground from that lobbying initiative.

It's very clear that for us it's not helpful. And it makes the domicile in Germany far less attractive if it's really followed through. So we have basically two things that we have been asking for. One is do away with the requirement to set up a branch for US reinsurers like France is. Secondly, if reinsurance companies are the ones that should be protected, that would certainly not apply to retrocessions that we want to buy. So those are our two points. And we continue working on it.

A - Klaus Miller {BIO 16886879 <GO>}

Does that answer the two questions?

Q - Vikram Gandhi {BIO 18019785 <GO>}

It does. I have a bit of follow-up if I can take it offline. And on the collateral costs, just numerically can you quantify what would it do to your EBIT if the collateral requirements really go up?

A - Unidentified Speaker

That was the -

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay.

A - Unidentified Speaker

It doesn't affect it.

A - Ulrich Wallin {BIO 4863401 <GO>}

Yes, on the Life & Health business the business is seeded from the US to Ireland. And there, of course, the German regulation is not that relevant.

A - Klaus Miller {BIO 16886879 <GO>}

That's one point. And the other even, there is no substance in the structure, or in the deal itself. What you have to post as collateral is 10% of the valuation reserves. But what we would always have is the IFRS reserves. And the IFRS reserves are usually significantly higher than this 10% and they're also higher than 20%.

So we don't put up 10% reserves. We already have maybe 30% or 40% because these are the IFRS reserves. It's a strange regulation. You have to have 10% of the valuation reserve. So this much. But in any case, we need the economic reserves, otherwise, I am heading for trouble with Andreas Maerkert. And we need already 30%, 40%, depending on the -- on the products. Could even be more. Could be 50% of the valuation reserves as IFRS reserves. So we do not put up any collateral for these 10%.

Whether that's 10% or 20%, it really doesn't make any difference, apart from the fact that it's Ireland and not affect us because of that reason. It would also not affect us at all because we already have, really, depending on the type of product between 30% and 50% of the valuation reserves as IFRS reserves there.

And we have to hold that because we know they need it. So the current capital requirement is below what is really needed, which doesn't make any sense either.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Thank you.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Vinit.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Vinit from Mediobanca. So just trying to understand the growth outlook here, because you commented very clearly that change is good for your business. And there are several markets in the world where changes are happening.

Then I see the slide 11 where the US run-off is literally probably halving unless new business comes in. Then I'm just trying to put everything into context. So in the last five years, the profit EBIT was EUR500-odd million, maybe some runoffs there. But is the next five years going to be much different than this just because change is happening?

And I know that you're not trying to give us a specific guidance or target. But how do you feel about the changes you know today versus what happened in these five years? I'm assuming that's the only driver, really. So -

A - Klaus Miller {BIO 16886879 <GO>}

I'm extremely optimistic that we will significantly increase the returns from the Financial Solutions business, especially in the US. But also from some other areas in terms of the number of treaties, US might be one-third. Only in terms of profits, I would expect that they provide two-thirds of the -- of a profit in the future. So this runoff pattern in 2011 is what's going to happen if I file the Financial Solutions team tomorrow.

So this business would still remain there. We only need accountants for that. Sorry, Roland, it was not meant any negative.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Are there any further questions? This seems not to be the case. Well thank you, Klaus, for your presentation and thank you for your questions. Without further ado, Ulrich will now summarize the day and take a brief look forward.

But I have to emphasize a word brief as usual. We do not provide fresh guidance today as you have probably anticipated. This has to wait until the Q3 conference call on November 10th.

After this, I'd like to invite you to join us in the hall outside of this room for snack and drinks. And in doing so, I certainly would like to thank you, on behalf of the management and also on the investor relations team for your participation and your lively interest that you have shown today. Thank you.

+++presentation

A - Ulrich Wallin {BIO 4863401 <GO>}

Okay. So now, the happy ending as Klaus said just before the drinks, which might be even happier, depending how much you have.

First of all, I think Andreas and Roland explained that Hannover Re is well capitalized. And we have flexibility to manage the capital and that's both up and downwards. Of course, downwards with paying extra dividends, which we have done in the past and which we expect to continue until the earnings increase again, which we are expecting in the medium term.

We also can manage the capital up in case they offer an acquisition or something like that because we have significant buckets of unused hybrids. Also in the rating agencies models. But also in Solvency II, I think we have to clarify the numbers there a little bit because they were not completely matching between Andreas and Roland. But there is only one truth in those. But of course, a different truth at different times.

And second, on the dividend, I think we explained to you what our dividend strategy is. With the soft market and the prevailing low interest rates, we will manage the capital down, with not the capital, the capital growth down. I wouldn't say that we will manage the capital down. But the growth of the capital we will manage down with extra dividends. And that is as we have done in the past and if you will, we'll continue to do.

We expect that we will continue growth. And I think Juergen and Klaus have demonstrated that for the respective business groups. And with that, we also believe that we are positioned in the medium term to grow the profitability of the company.

And we have, I think, demonstrated our ability to grow the profitability of the company in the past years. And that's also true in difficult trading environments as well as the few years where you have more favorable trading environments.

Of course, the low yields, we expect them to stay for a while. Of course, we have no crystal ball. And if we have, it's a little bit blurred for the future. It's very clear for the past. But I think Roland demonstrated that we can manage the low yield environment. And also, due to our positive cash flow would be able to keep a meaningful return on investment to safeguard the profitability of our business. We also feel and I think I had that a little bit in my presentation and, of course, Andreas in his, that our profitability on the P&C business is quite safeguarded due to the reserve buffers.

So if the large losses keep this in the large loss budget, we should be able to keep the technical profits on the P&C side on the current level. Of course, if the large losses are significantly above the large loss budget, then, of course, the profits from the P&C technical results will, of course, be less. But we would also assume that in these cases, we will have the reaction in the market and we will see larger profits in the future.

Again, Juergen demonstrated our growth aspects on the P&C side, this time, particularly on North America. But, of course, as mentioned in previous of these kind of events, the emerging markets -- South East Asia in particular. But also Latin America continue to provide us with profitable growth opportunities.

Retrocession is accretive trust, as Juergen pointed out. And here is the only part of the business where the soft market is really giving us a little bit of a helping hand. But I can tell you we could do well without that helping hand of the soft market.

But it's also fair to say that there are more years where the P&C market is soft than there are years where the P&C market is hard. And I think a strategy that is dependent on a hard market is not a sufficient strategy for the P&C business. And it's definitely not one that we follow through.

Regarding Life & Health, I think Klaus has given you a great insight in our Financial Solutions business and financing business. And I think that Klaus has been a little bit modest. But certainly on the US Financial Solutions business, we are the market leader. And we have a clear competitive advantage, particularly as we can provide our clients deal certainty and execution certainty better than our competition. And this is very high in the demands of our client.

So overall, as I said at the beginning, positive conclusion from this Investors' Day and we are confident that the Hannover Re management that there is a positive future for the company.

And with that, I would like to conclude the Investors' Day. I would like you, having been patient enough to listen through our presentations. And have been vivid enough to ask us a lot of questions, which is much appreciated. And that was partly quite eye-opening for us, I would also like to thank our team from corporate communications headed by Karl for their efforts to put this thing together. And particularly, also yesterday evening to, again, have what I thought a very nice evening event and also, make sure today that everything did run quite smoothly.

With that, thank you very much.