Q4 2015 Earnings Call

Company Participants

- Karl Steinle
- Roland Vogel
- Ulrich Wallin

Other Participants

- Anasuya Iyer
- Andreas Schäfer
- Andrew J. Ritchie
- Edward Morris
- Frank Kopfinger
- In-Yong Hwang
- Kamran Hossain
- Michael Haid
- Olivia Brindle
- Philipp Häßler
- Roland Pfänder
- Stefan Scharff
- Thomas Fossard
- Vinit Malhotra
- Xinmei Wang

MANAGEMENT DISCUSSION SECTION

Karl Steinle {BIO 1986424 <GO>}

Good afternoon everybody here in Frankfurt, and good afternoon to all those joining us via the Internet. Welcome to Hannover Re's Analyst Conference. It's a pleasure for me to see that so many have taken up our invitation. And we are very delighted to present you the figures for 2015 in greater detail, which we have published this morning.

I must say I'm impressed to see that you, as our analysts, have proven to be very accurate in estimating our results and being very close to our actual numbers, at least, in most cases. Today, we offer also a dial-in option for all those who are not able to participate here physically in Frankfurt. And as a reminder the dial-in participants will be in a listen mode only during the presentations.

I also like to draw your attention to the feedback questionnaire on your table, or which we have distributed in advance. As you may know, we appreciate your remarks, and it lays the foundation for preparing the upcoming Investors' Day in October. You may either leave that feedback form on the table or send it in to our Investors Relations team.

First of all, Ulrich Wallin, our CEO, will kick things off with a brief overview of the financial year 2015; and Roland Vogel, our CFO, will then move on to present the financials in detail. Afterwards, we will be happy to respond at length to all your questions.

And I also would like to point out that you please wait for the microphone before asking a question, so that everybody is able to hear your question, even those who are not in the room.

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

Ulrich Wallin {BIO 4863401 <GO>}

Yes. Thank you, Karl, and good afternoon. Welcome to Hannover Re's analysts' conference for the year 2015, which has been a good year for Hannover Re. We had the fourth consecutive record year in a row. And for the first time in the history of the company, we reached a net profit in excess of €1 billion, being €1.15 billion, which is an increase of almost 17% compared to the already very good result in 2014.

With this good result, we will also increase our dividend provided that the AGM agrees to that. And we have - we'll be proposing to the AGM to raise both the basic dividend from €3 to €3.25, as well as the special dividend from €1.25 to €1.50. So, all in all, from €4.25 to €4.75.

Not only has the result been good, also, the capital has grown again by 7% despite the fact that we see widening of the credit spreads and the increase in interest rates particular in the U.S dollar. Last year, the OCI effect is negative, and we have paid more than €500 million in dividends last year. However, due to the high profitability, also, the capital has increased. The book value per share stands at around €67.

Also, the return on equity continues to be at acceptable level. We have exactly the same number that we had last year of 14.7%, which, of course, is well above our minimum requirement which is of course 900 base point excess risk free.

You can see here on the slide that we see that 2015 is an excellent foundation for 2016. So, you can see that we are quite bullish for our 2016 results as well. And I'd like to briefly explain why we're saying that the foundation that we have laid in 2015 bodes well for good result in 2016.

First of all, if I look at the P&C business, we have improved the combined ratio slightly compared to last year 2014. However the confidence level has further increased. In other words, the redundancies of our loss reserves according to early calculations by third parties as well as our own actuaries has actually improved quite remarkably compared to 2014. This is very positive for us because due to the soft market in the P&C business, we were expecting actually a stable situation here at best, or even a slight reduction. Now that we have that increase, we feel that it should give us another two years of room to weather the storm of the continued soft market.

Second point, on the Life & Health business. In 2015, we generated a very good result. EBIT €404 million, €290 million after tax profit. However, we also significantly reduced the collateral costs of our U.S. mortality business and also has increased rates on that business in BAT (07:20). So, that means that on a like-for-like basis, we have improved the underlying profitability of our Life & Health business, so we can expect that the trend of continued profitability of Life & Health should continue into 2016 and beyond.

I should, however, mention a word of caution here. The actual 2015 result is above the trend line and the reason for that is that we have the extraordinary profits, also non-recurring profits on our financial solution business, particular, the breakup fee that we were pointing out to you in the first quarter. But there were also more positive effects on the financial solution business. Yes, we had negative effects as well, also negative one-offs, particular, as a result of our French business, which actually is a negative deviation to last year of around €70 million. But the positive effects clearly outweigh the negatives and, therefore, I say that we are a little bit above the trend line on the Life & Health in 2015.

On our investment side of the business, again, 2015, an outstanding result. However, we also managed to further increase the assets under management due to continued very positive cash flow. Actually, Roland would show you that, in that respect, 2015 was a marked improvement compared to the already very good results in 2014.

Of course, the increased assets under management, even with the lower interest rates would allow us to keep the absolute returns of our investment portfolio at – in historic level, in absolute terms that we have seen over the last few years. So, all in all, I would summarize that we had a very good result in 2015, and we also laid the basis in 2015 for good result in 2016 as well.

And on that rather positive note, I will hand over to Roland to give you all the details.

Roland Vogel {BIO 16342285 <GO>}

Thank you, Uli. And I will try to keep it on a positive note. We start with the cash flow, as Uli mentioned. Here, you see that 2015 ended with €2.6 billion. Here, for the first time, we did something, which we usually not do, we adjusted the number. If you look at the cash flow statement of the Annual Report, you will find €3.1 billion. The reason for that inflated number in the cash flow statement was a Chinese financial deal, where we received, just more by coincidence, the money before the balance sheet date.

We will payout that money to reposessionaires in Q1 & Q2, most likely, so we did not feel that this is real operative cash flow. This is why we adjusted the number for 2015. Still with the €2.6 billion, very positive. This is, of course, driven by good results on the underwriting side as well as on the investment side. Still it's also a little bit inflated by the currency exchange rates, which also helped the cash flow number to improve and was - if it wasn't there 2012, this would have been in another record number.

This number directly supports the right-hand side. The assets under our management, by the way, here, we did not adjust for the €500 million. We felt it is not that material for that number. We could have even adjusted the ROI calculation, which would have benefited from that adjustment. This is something we did not do. We only wanted to make you aware that the cash flow would not be sustainable over €3 billion. Here, again, it was also already mentioned, nearly €40 billion to be invested into - also into the future, which should support the net investment income for the future as well.

Then on the next page the policyholders' surplus, which includes the hybrids as well as the minorities and the shareholder's equity, shareholder's equity up by 6%. That is something which improves our balance sheet as the policyholders' surplus only up you could say by a slight €30 million. The reason for that is that we called one of our hybrid bonds in the second quarter last year. And the €1.5 billion here should be the longer run rate. It still leaves us with a lot of additional flexibility to issue more hybrid if we want to. Right now, we don't have any plan to do that, but we would be in a position to do that.

You see the components of the change of the shareholder's equity on the right-hand side of that slide. The net income, of course, a positive, and the dividend payment €513 million last year for the running year based on the announcement of Uli, with the €4.75. This number will increase to €573 million. So, it is an increase over and above that.

You see that the change in unrealized gains and losses went downwards by €460 million that is driven by some rate increases and the increase in credit spreads. You know that we have, in general, a held-to-maturity portfolio that is something, which, of course, brings some volatility to the shareholder's equity number. But on the opposite side, we have the currency exchange rates, so all the equities holdings in our subsidiaries are then translated from U.S. dollar into the euro. And here we had a positive of €333 million, which brought us over and above €8 billion in shareholders' equity by the end of last year.

There is, I think, no need to repeat what Uli already had explained around our dividend policy. It says in place. I might take that opportunity to update you a little bit on my presentation. I think it was in this room or the room next door in - from October, when I referred to our German GAAP results. So, the German GAAP results for the holding company, or the operated holding company, was €900 million. We used to - this opportunity to transfer €250 million to retained earnings. And we have established based on the dividend the proposal - a profit carryforward from - of another €83 million. So, also the strength of the German balance sheet - the German GAAP balance sheet is improved - has improved remarkably.

Why did we increase the basis dividend to €3.25. If you do the math and apply a 40% payout ratio, that would - or approximately 40% payout ratio, that will bring you up to around €1 billion, and I think this the message we have with us here, that the long-term sustainable earnings capability of the company, we feel, should be around $1 billion going forward.

Return on equity, you see that our earnings power has kept up with the increase in capital over time. That leads to the fact that we could maintain the ROE at 14.7%. You see on the right-hand side the on-average numbers for 15 years, for 10 years and for five years. By the way, the 15-year average should improve next year, when we can delete out 2001, with WTC, which, of course, is a little bit - dilutes that number this year. Overall, the message is we have kept the ROE at 14.7%. The hurdle decreased from as you can see 10.7% to 10.2%, so you could argue that the marginal profitability of the company has increased.

ROE in comparison with the friendly competition, you see that in 2015 we are number one again. That is also true for the on-average number, which we usually take as a basis for the ranking here on the right-hand side, by quite some margin, more than 200 basis points margin in front of the number two.

On this slide you can also see that the majority of the peers we are referring to on this slide has decreasing ROEs. And that is, of course, also driven by increasing capital numbers. But this is also the way we try to manage it to have the capital increase in line with the earnings power and the earnings increase, which we have been showing. And so far, we are happy to look at that ranking. And we will do everything to show you a comparable picture next year.

I think on a group level, there is not a lot to add. We will come to some of the details in a second. Perhaps, it should be mentioned that the call of the hybrid has, of course, decreased the interest payment that is only true for a good half year on this page. As far as I remember, the planned number for next year was a little bit more than €70 million. So, at least also the call of the hybrid will also decrease that burden here even a little bit more.

Other expenses are down from last year. Still, we should bear in mind that they are a little bit better, a little bit above the run rate. We are still benefiting from currency exchange rate gains. You know that our strategy would be to have a neutral number here. Already, last year, or the year before last year and in 2015, we had a positive currency exchange rate effect in the other income, so that is something which is not really sustainable.

What is sustainable is the deduction of LoC costs, so we decreased the volumes of LoCs outstanding. And we have also decreased the interest payments on these LoCs, so that is something which is sustainable. And we also have increased fee income of the mostly Life & Health deposited accounting contracts. And also that should be a positive number in the future, in the other income and expenses line.

Moreover, you also might ask as to why the tax ratio has increased. We usually say that 25% is a good run rate for the tax rate. Last year we were below. This year we are a little bit above. All the Germans might have heard that for instance Hanover, as a city, has increased trade tax by only a small – from 460 basis points to 480 basis points. But as you know, we have to calculate deferred taxes, and we have to calculate the deferred taxes.

For instance, on the equalization reserve, volumes this more than €4 billion. And if you only apply a brief increase in trade tax, that results in more than €25 million burden here. This is not cash out, this is future taxes to be paid, but that I think attributed 1.6 percentage points of that. And then also, there is one instance, where we put up some tax provisions to reflect a potential risk from the ruling of the German high tax court. Overall, this does not change the picture. The expected run rate would still be 25%.

Now on the non-life side, I think Uli has already mentioned various points here. We will come to the areas of growth in a second. What happened to reserves, I think that is usually one of the major interest. Here, we had a very positive run-off result. If you open up the Annual Report, we are referring to approximately €500 million in positive run-off. That would lead to the assumption that, potentially, redundancies might have decreased which was not the case, as Uli elaborated on already. So, we had, especially positive run-off effects from property lines. These were the lines where you look at single events, you set up reserves.

Usually, the assumptions are that these are best estimates reserves. Still, these losses ran off very positively. And then so far, we had a positive run-off plus. This did not decrease redundancies. And we looked at the current year last year. Very conservatively, one more time, you will also see that we looked at year 2014 a little bit more conservatively. So, in that regard, we could capitalize on that positive run-off and still increase our redundant loss reserves, remarkably, to say some examples, so for instance, Deepwater Horizon, Air France, these were – Sandy, these were losses where we could release reserves. And we will also see that on the next page here in a second.

I think that should be it. If we look at the lines of business, and the P&C segment, this shows you that the margins between the MtCR, our Maximum tolerable Combined Ratio and the combined ratios, which we have realized are getting narrower. You see that Marine is a little above, driven by some of the run-offs. Same is true for Aviation. Overall, again, it's getting more narrow. And we – to have the redundant reserves especially in that segment gives us some relief. Still, overall, you see that with an EBIT margin of 16.6%, we are still looking at a very profitable diversified business group. And based on the assumption that we should be able to achieve that also next year, we are quite happy with the achievement we see here. And, of course, it was a record result for the P&C segment as such.

Areas of growth, you see North America has been an area of growth. We also see growth opportunities into the future. Continental Europe, very competitive already last year. Marine, Aviation show growth numbers, might be surprising, because we always say that competition is tough. And especially in Aviation, we have decreased our market share. If these numbers are not adjusted for currency exchange rates on the line of business level, this is difficult to do. So in real terms one should assume that Aviation and Marine have been showing in real term, decreasing numbers.

What is also worth mentioning, I think the credit and surety line looks a little bit worst then it was. So, we also here, we have added redundant reserves. So, we see that this line is still profitable into the future. It might not grow that much. It has been growing nicely last year, as for instance, has our structured reinsurance in ILS. This is where we take and money ceded to the markets relatively risk free. So very, very profitable and successful last year.

Large losses, not a lot to say here. We had expected €690 million, €573 million have materialized so approximately €120 million below budget. That is already for quite – for four years now in a row. You see that we are below budget. And this is, of course, the explanation for the competition in the cat business, which we're seeing. And this is also the reason why we do not grow that much and have also increased our repossessions a little bit.

The list of large losses shows a very mix picture, very long for catastrophes as well as for man-made losses, but so high-frequency, low-severity, you could argue. If we add up all the natural catastrophes, we are far below our loss expectations. If we add up all the man-made losses we are far, far robust. Overall, as mentioned, we are below the line.

Tianjin, of course, the most outstanding last year €111 million net for our share. We have to accept that we have nearly paid, we have nearly not paid any losses out. We have received some loss advises, so we will have to find out. We still feel that we are very conservative – that we are conservatively reserved here in the future.

So, maybe the most surprising positive note, the €400 million – or more than €400 million EBIT for our Life & Health. The fourth quarter, as you see, was an underwriting result of €83 million, and especially a positive one. Uli mentioned already one one-off, which was also driven by the financial solutions segment, which has improved not the net investment income, but the underwriting result. We also had some negatives before. We mentioned that U.S. motility running off below expectations, our result from France.

Overall, if you look at the net underwriting result for the full year, there is something which should be achievable also in the future. Here, I would say, it's a little bit an offset between positives and negatives and the run rate. It – we mentioned the €39 million there from the termination fee, which is in the net investment line. That is something which is not sustainable into the future. If we look at the EBIT margins by segment, you see financial solutions, again, very, very profitable. And we also see that profitability into the future.

Longevity, here we had a positive run-off and also positive results from one special relation, and that has improved results here remarkably. Mortality, still a little bit below the run rate. We've discussed that before. We have improved the LOC costs. We have implemented rate increases, so the run rate should be better into the future. Will this be a contributor to outperform into the future? Most likely not. Again, overall, very positive and so far with an EBIT improvement by more than 50%, something which is worth mentioning.

The next page you might have recognized that we have no MCEV numbers with us. We did the math internally and you will remember that the VNB, the value of new business, is the only key figure, which is part of our target matrix. This is why we have implemented or why we reported here. We will, as from this year onwards, no longer report about MCEV. We will substitute that by the numbers and key figures from the economic balance sheet, which will be available even with our auditors approving the math as from next year. This year, we have the VNB with us. As you see – as you can see, very productive last year.

On a like-for-like basis, VNB improved from €448 million to €489 million. Now, as we are preparing a Solvency-based reporting, we have no longer applied the 4.5% capital cost ratio, which is suggested by the CFO Forum, but we've changed that to the 6% cost of capital ratio, which is required by the Solvency II calculation. That decreases that number then to €543 million.

As you can see here, on the right hand side, this number was made up of the lines which have contributed or usually the long tail lines, of course, where you have a long stream of positive cash flows in the future that is true for the longevity business. Here, we have entered into a few new deals, especially from the UK, but also Asia and other countries.

We have been growing nicely in our organic growth business in the U.S. And also, the financial solutions business in the U.S. contributes to this VNB. So, this should be another good basis for future profits. But apart from that, no other MCEV calculations anymore – or publications anymore.

The third business group, as you can see here, the investment income growth, despite lower realizations. I think that is the sweet point for ROI. On an ordinary income side, it's a little bit inflated by the €39 million from that life & health termination fee. But even if you take that out, that reflects 10 basis points, it would be €3.3 million (33;59) so a significant achievement, and this was supported especially by our private equity portfolio, where we had distributions from funds also from our real estate portfolio and, of course, the increased volumes which we had available.

Realized gains-losses (34:22), slightly down, still on a higher level. This – it was not in the intention to harvest gains here, but we have also changed our reporting currency of our Irish company. And with that, associated was a transfer of €1.5 billion from euro into the dollar, so we had to sell, we had to reinvest and that led to realizations and then so far also to realize gains.

Impairments, I think more than half of that is still ordinary depreciation on our investment – on our real estate portfolio. So, in that regard, nothing to write home about with regard to any impairments or depreciations. A neutral change in fair value line, which has also appreciated. This is comprised of a negative ModCo derivative that was mitigated by the positive effect of some other derivatives. Overall, again, a neutral impact.

So, with 3.4% ROI, and here I can only mention one more time, the ROI here for Hannover Re is calculated using balance sheet numbers so you can take the assets under own – on our own management from the balance sheet, incoming period and outgoing period divide them by two, take the investment income and do the math. I think some of other companies do the calculation differently. Here, it is really transparent and, I would say, rather conservative.

The balance sheet, here, we have the decrease of the OCI, which has already been mentioned. Some increases in interest rates and the widening of credit spreads has led to that decrease. Again, it does not really affect us that much. We have this held-to-maturity bucket, and this just is a normal volatility which we usually see.

We have added one slide, and you might tell us if you like it or not. This compares a little bit to where we are invested and where the investment income comes from. So, on the right-hand side you can for instance see that we have €43 million invested in governments and semi-governments and only 25% of the net income stems from that source. You can also see here, of course, the high flier is – in 2015 was a private equity portfolio where we had invested 2% of our invested assets, but we have a contribution of 9% to the ordinary income.

So, this is not the usual run rate, I would say. This is a little bit inflated, but still very positive. The other outstanding factor you see is for real estate you see 4% portion, in the investment portfolio 11%. Here we have to bear in mind that this is before depreciation and the ordinary costs. And so, far it's a little bit inflated, but it's still far above average. If you look at the corporate's 34%, part of the investment is 37% of the ordinary income split.

I think we have already mentioned that the composition of the portfolio didn't change that much. We have explained this barbell strategy, which we are following a little bit to invest more on the safe side to increase liquidity and therefore also take a little bit more risk on the lower quality side. You see that the governments here increased from 21% to 26%, the covered bonds go down from 14% to 10% and the non-investment rate investments do increase slightly. That is a reflection of that strategy.

There's one additional information. It used to be the topic of the last investor conferences and road shows, which we did. This is why we've added this one or these two pictures. Here, you see the sector split of our corporate exposures and on the right-hand side what of this corporate exposure is invested in oil and gas and also the quality of these investments, as you can see here €800 million exposure into oil and gas related issuers, €52 million of that high yield very diversified, €230 million in BBBs.

We are talking about more than 100 names for this portfolio, so the average investment is less than €8 million. And of course, we have higher investments in better qualities and lower investments in lower qualities. So, we do not see that as any remarkable exposure which could materially affect us.

And I think that concludes my portion, and I'll leave the target matrix, as always, to the CEO.

Ulrich Wallin {BIO 4863401 <GO>}

Thank you, Roland. So, the target matrix, as you can see, confirms that 2015 was a good year. We outperformed on almost all of our targets, some very remarkably like the value of new business. Well, I mean, of course, the return on equity and all the other ones. So, target matrix, everything is fine, confirms a good year.

If I then come to what's to be expected for 2016, I also have a chart here, which is not too dissimilar to the one that Roland showed you, and I will try to keep it short and tell you things that are in line with those that Roland told you.

This is the expectation here for 2016. And if you look at North America, we expect premium growth, and we also expect good profitability. And the basis for that is our very broad book of business. We have more than 600 insurance companies that we do business with in the U.S. and our growth is broad based. I mean, we are not, for the most part, writing single large fees in order to stimulate growth and this is particularly true for our casualty business.

The reason for that is that in the last soft market in the late 1990s, we did actually write some large facilities and proportionate casualty treaties, which due to the low rates that we (42:08) have created some problems in the run-off. Therefore, we have rules that none of the casualty treaties that we write should be a significant portion of our overall U.S. casualty book. And that is the reason why we grow our casualty business with many individual (42:31) treaties rather than with a few very big ones. Slightly different on the property side, which is shorter tail, you'll know (42:38) more quickly where you are. So, there, we are more willing to write also single larger treaties, which we actually had done last year and we most likely will continue to do this year.

Continental Europe, different picture. In Germany, we see increased retentions, which put pressure on the income. On the other hand, the rating and environment in Germany is still quite positive. So, from a profitability point of view, we are satisfied with Germany. The rest of Continental Europe, extremely competitive, rates are under pressure and so is the profitability, therefore we reduced our involvement in the rest of Continental Europe.

If you look at the specialty lines, you can see that we are reducing our premium in marine. We also reduced the rates. However, we keep the quality of the business quite high due to selective underwriting. And so, we are very positive from the quality of our marine book, which almost exclusively is in excess of loss book. And we have to make sure that the book is clean. So, if you don't accept non-marine cat exposure into it and therefore our underwriters. And having been underwriting the marine business myself, I'm happy there's a book that we've got there.

It's not the same case with Aviation, where it will be not be long before we pay the airlines for the privilege of insuring them. The rates on aviation continued to slide. And I would say – it's fair to say that at the expected losses with the current rating level and this unfortunately is also true for the aviation excessive loss, we would have to expect a result definitely on the cost of capital.

As a result and we have shown you that in the renewal call, we have reduced our premium volume and market share in that area. While we have on the calamity (44:54) basis, we have the saving of that line of businesses that we have the highest level of redundant reserves on aviation compared to all the other classes in relative terms. So, the calamity year (45:12) results are likely continued to be acceptable.

Credit and surety, with (45:20) our growth of the business in 2009, we have reached the number two number position, so being one of the market leaders in that line. That allows us to keep the book and also to keep good margins for our shares in that business. Therefore, we expect that the volume will be rather stable, but that we will continue to earn margins well in excess of the cost of capital. UK has a little bit of mixed picture on the regional site. (45:55) We are happy with our book, but the market is very competitive and I'm talking non-property catastrophe here.

We think that we have a good quality book, which however is not growing due to the soft market. It's different on our primary business, which is allocated here as well. That book of business is growing, and we also feel it grows profitably, but it is rather in specialty lines book.

Facultative, the same applies, what I have told you, to the marine business. We have been very selective. We will see some decrease in premium in the current year due to selective underwriting, but we feel that the quality of the book is very good and that we will see good profitability of that business. That already has been very evident in 2015, where we managed to improve the combined ratio quite significantly as compared to 2014 despite the reduced rates and pressures from the soft market.

Worldwide treaty, rather a large block of business with differing movements. We continued to grow on our agricultural business. We also have, over the last couple of years, significantly improved the profitability of that business, and we expect that to continue into the current year. We also have grown our business in China, where we have seen good double-digit growth. And also, in Southeast Asia, growth has been quite good. In the more established markets, like Southern Europe, parts of Latin America and also what we expect to see in Japan, it's the other way around as their volume would reduce as the result of competitive market pressures. However, overall, the book is very well diversified, and we are optimistic and quite confident that we will continue to see good results from that book.

Catastrophe excessive loss, which we largely write from Bermuda, again, like aviation, we believe that if we have the losses at the level of the actuality (48:35) calculated expected losses. We see a profit, but not large enough to cover the cost of capital. Therefore, we have reduced our volumes there. The (48:48) business line is that - despite the fact that the rates have come down, the probability set on a 12 months arrive (48:55) and you will make money on it is actually quite good. But this is a little bit, I mean, in a profit that is borrowed from the future, I would say, because, I mean, if the actuaries are right, in the long run, the losses will gravitate back to the expected losses. So there will be years where this line of business will actually reduce or see losses. (49:24)

We have combated that to some extent by what Roland already told you increased retrocession and an enlarged rather conservative loss reserves on the past losses. Structured reinsurance and ILS, I mean, we will see some reductions in the ILS because also our partners find it difficult to generate sufficient amount of business. On the structured reinsurance, of course, it's more bulky business. There are some larger transactions, which are either they are not however low risk – in this area of the business and rather secure profitability.

So, overall, you can see that despite the soft market, despite the fact that retentions are increased in part, we still feel that our very well diversified books gives us good opportunity also in the current year to earn a profit in excess of the cost of capital and naturally the run-off result we expect to continue to be positive as well.

If I come to life & health, as the star (50:46) of the profitability in 2015, it has of course been the financial solutions business and we expect that to continue into the current year even without one-off positive effects. It's a bit of a mixed bag on the one hand. We have the capital relief transactions, which are not very premium heavy so – which are either – the majority of them are actually either there's a premium that we expect a profit or they're deposit accounted or even are accounted as investments, this book of business is actually increasing – continues to increase in size, and we expect the profitability to increase outside the one-off in fact (51:43) as well.

The other part of that business is cash financing. For a different business, here, we finance the acquisition costs or embedded value. This business would normally show quite a lot of premium, hence the margin on the premium would not be very large for the most part. However, the margin on the amount of finance is quite attractive. This business is currently growing, therefore you can see the volume arrows pointing upwards here. This is on some special relationships, where we develop business with partners and where we also finance the protection costs.

Overall, we see the profitability very positive with that business. Longevity is another area, where we see growth. Demand for longevity transactions, largely in the UK, but increasingly also outside the UK is increasing, but so is the competition. I mean, that business has become quite competitive. We write it for many years now. We do not compete on price in this business. We compete on deal certainty and the speed of transactions because we have quite some respect towards this business due to the long run-off of that business. But with our market position, we still expect growth from that business.

Mortality and morbidity, we expect reduced volume. This is due to the fact that some large transactions will discontinue, and this is both on some Australian group business as well as some business out of China, where we expect that's also will not be renewed, but we expect at the same time that the results will be improving and this is of course on the U.S. mortality because of reduced collateral cost rate increases and also in the rest of the world, particularly on the – on those two classes, we see increase of simple profitable business where we will see improved profitability. That's the expectation more in detail for 2016.

If we then put it into the guidance 2016, bottom line is more important than top line. therefore we expect premium income stable or even a modest reduction. Return on investment, 2.9%, as Roland already pointed out, is expected for the current year, so that should allow us to keep the absolute return on investment at an acceptable level. We have changed the guidance a little bit for the group net income because we were saying when we first guided the third quarter figures, that should be around €250 million.

Now, we're a little bit more optimistic and this on the basis of what we have seen on the full year results for 2015. We say that we should see at least €250 million always provided that the large losses and the increased large loss budget of €825 million and there's no dislocation in the capital markets, but we see that €950 million should be the floor and the analyst consensus on this year we don't think is too far off of what we can achieve. And then, the dividend payment I should probably tell you a little bit on that as well. Of course, we had a base dividend of €3.25 for the current year.

There's no particularly good reason that the very same goes according to plan that we should not have the same base dividend for 2016. When it comes to special dividend, of course, it will pretty much depend what happens throughout the year. If the market continues to be soft because we have no volatility then of course the probability that we will see a special dividend again is very high. If we have large volatility and, as a result, significant opportunities to grow the business exponentially which of course is a less likely scenario, then we may not pay a special dividend but rather use that money to produce additional profits, the less likely scenario I have to say.

With that, briefly, why are we confident with the profitability of Hannover Re 2016 and beyond? On the life & health business, we feel that the trend to increase profitability where we see the base here in 2013 is fully intact even though 2015 significantly (57:34) trend line.

Secondly, on the P&C, we feel that we'll continue to have a quality portfolio. We feel that as one of the top three reinsurer we are in a position that we have sought-after capacity by our clients and the situation regarding the conservatism on the loss reserves and the buffers in the loss reserves has actually further improved in 2015.

So, we are confident that we will continue to show acceptable underwriting profits also in the coming years, again the provider on the large losses. Retrocession is the only area, where the soft market really benefits us, so we bought a little bit more. We, still, on the expected losses pay a margin (58:32) on our retrocession. We should make that clear in case some of our retrocession fully comes in (58:38) don't worry, you are right.

On the investment income, our business continues to have positive cash flows. We feel that our investment strategies that Roland explained in detail is valid, so we expect that the absolute returns will continue to be at the level that we have seen in the past years in absolute terms not narrative terms.

Lastly, as far as the admin expenses is concerned, actually, we managed to reduce our admin expense ratio in 2015. That, of course, also had to do with the increased premium volume.

With that, I would like to close off with our presentation, and Roland and I will be more than happy to answer your questions. Thank you very much.

Q&A

Operator

Well thank you. We will now begin with our question and answer session.

We proceed with the questions from the attendances in the room and switch then to the questions coming from the conference call. I already see some questions here. First was Andrew Ritchie.

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

Andrew Ritchie from Autonomous. Three quick questions. When I look at your - delve into the Annual Report, there are three measures of capital. I think it's one ranging from 131% coverage to 246%, there's 131% on your internal model, 246% one version Solvency II, 221% another version Solvency II, it's not to (1:00:52) have a choice. Which one really matters just remind us and if you have any kind of reasonable sort of target range around which one should we look at, which one should we care about? That will be the first question.

Second question, is there any measure of how much of your buffer has gone up on the non-life reserves? When I look at the combined ratio and back out large losses, back out prior year development, it hasn't changed much year-on-year, so I'm finding it hard to see how there's a lot of additional conservatism the last peak, (1:01:25) maybe help me there.

And the third question, when I look in the Annual Report, it says that there's already a small benefit, I think you used the language pro rata on lower collateral costs in the life business. What is the benefit already, how much more benefit is there to come through in 2016?

A - Karl Steinle {BIO 1986424 <GO>}

Yeah, would you like to (1:01:45)?

A - Ulrich Wallin {BIO 4863401 <GO>}

Yeah, I have to. I can understand that the solvency numbers become a little bit more profit (1:01:51) and you have different numbers. And the 131% is just internal model number based on one in 3,333 years (1:02:04) the return period or ruin probability. That is only a proxy for what we expect as an S&P rating because it's a AA quality.

If you look at the 246% and 221%, so 246% is the full internal model. And the 221% is the internal model as it's approved by BaFin. Therefore, from legal (1:02:42) solvencies, the

221% is the important number and that is also the number where we have a limit and threshold in our risk management system where the limit is 180% and the threshold is 200%. And the reason that we are so far away here from 100% is that we believe that we are AA credit and limit and threshold should reflect that AA credit.

What is the difference between the 246% and the 221%? The main difference is that, on our full model, we use our own model also for calculating the operational risk. However, our operational risk model has not found the blessing of the BaFin, our regulator. So, in Solvency II, relevant model for our legal solvency, we use our internal model for the quantitative risk, and for the operational risk, we use the standard model.

The standard model comes out with higher number for operational risk than our internal model. We are currently working and BaFin expects that from us to work on our internal model for operational risk to get that approved as well. I think we are on a good path there.

The other difference is that in our internal model the capital of the minority shareholders, in particular, of ENS3 (1:04:25), we calculate them as available funds for 100%. Under Solvency II rules and regulations, it's the haircut (1:04:33) on minorities. And this is the other admittedly much smaller difference. That brings the 246% to the 221%, so that is what I can tell you there.

The second question...

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

I'm sorry to be a bit detailed (1:04:51) on this. The one I see 100% (1:04:52) is the sort of softest (1:04:55) binding constraint that you had done (1:04:55)?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, yeah, I mean, on the legal solvency...

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

On legal measures (1:05:01).

A - Ulrich Wallin {BIO 4863401 <GO>}

...the constraint would be based on the 221%. And I mean, it's a self-imposed constraint to the extent that we have the limit and the threshold at 180% and 200%, respectively. There is of course also a threshold on the S&P and A.M. Best models even though that looks quite comfortable at this point in time.

Then you wonder how the confidence level could have gone up when you see that the underlying combined ratio is presumably quite similar to what it was last year. First of all, the absolute loss reserves have increased. So the contribution to our IBNR reserve what we can segment with called (1:05:59) segment reserves is significantly higher this year than it was last year. This year, I think it was, from memory, 236 million (1:06:08).

And also, the development of the past losses in 2015 was very favorable. Therefore, if you look at the calculation at the end of 2014, of course, it had an expectation for the paid losses and the advice losses in 2015 and the actual paid and advised in 2015 were below the expectation at the end of 2014. Therefore, in the extrapolation of the triangulations into the future, that way we saw increased redundancies. That is the reason.

So loss reserves in absolute terms increased and actual loss emergence in 2015, below what we expected in the actual calculation at the end of 2014, that's the reason for that. And then the last question I would hand over to Roland, I guess. That is on the percentage of the collateral costs that we already saved in the current year compared to what we save next year.

A - Roland Vogel {BIO 16342285 <GO>}

What we are referring to here is a larger transaction which we have implemented late third quarter last year, which should save us a little bit more than €20 million per year, and insofar, we have a pro rata benefit from that. This one transaction, I already before that we were also able to decrease the overall volume and that we were able to decrease the cost of the LOC capacity which we use. In that regard, there should be a – but this is something I cannot quantify right now. It will also benefit us next year, so I think the first step here should be something between €5 million and €10 million in absolute terms.

A - Ulrich Wallin {BIO 4863401 <GO>}

Okay. And then, of course, there was one other transaction that we closed at the end of last year which would also reduce the collateral costs by about €6 million per year. So, if you look at it all in all, saved collateral costs for 2016 should be around 34 million. Of that, what we had already achieved in last year in 2015 would be around €6 million.

Operator

Hey, well, the next question comes from Frank Kopfinger.

Q - Frank Kopfinger {BIO 16342277 <GO>}

It's Frank Kopfinger from Deutsche Bank. I would also like to come back to the Solvency II number, to the 221%. Unfortunately, you only provided as of the end of September within your Annual Report. Can you then provide some sort of guidance there? Are we – as of the end of 2015 and maybe also as of today as we had some volatility also in credit spreads last (1:09:39) recently?

And secondly, my question would be on negative interest rates. Do you have a number that you can share? How much of your – or what's the share of your portfolio of assets that are affected already by negative interest rates? And more important, what do you see as an consequence for you as an investor? Are you going to lengthen the duration to avoid negative interest rates? Are you climbing up the risk curve or what is your strategy?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, I would leave the question on negative interest rates to Roland because far too complicated for me. But on the Solvency II number, yes, it's a number at the end of the third quarter that is in the Annual Report. And the reason for that is that the full calculation of the economic balance sheet, but of course, the basis for that which is a Pillar 3 of Solvency II efforts that we are doing this year is still a little bit late, but that will change in future.

I would say that we already calculated the capital required and that has stayed stable from the third quarter to year-end. The funds available, so we expect those that they will be increasing to some extent because if you look at IFRS capital, it has increased by around €400 million from the third quarter to year-end. That increase of course will also flow through to the economic balance sheet. Then of course we have developments of the embedded value and the redundant loss reserves which also play a role there.

I would say, on average, that should be rather neutral. So I expect that, at the end of the fourth quarter, the Solvency II ratio is actually increasing, but we will let you know the exact number in due course. What we've seen so far in 2016, that's a bit early to say. I mean, I think we have seen some further widening of spread that will, of course, I mean, reduce the valuation reserves, but there are of course other movements as well. I mean, there is some new business being written on the Life business so far. And I mean the quarter is not over yet. I mean, losses have been rather benign I mean around the world.

So we have to see what that does, but we will certainly bit by bit, I mean, improve the speed of our reporting here because, from 2017 onwards, we have to report quarterly on our economic balance sheet and the deadlines are getting closer and closer as well. We are in the process of using our accounting system that we also use to come up with the HDB and (1:13:10) IFRS numbers also for the Solvency reporting. That is not an easy task and it's not per se (1:13:14) a simple project, but it would allow us to more efficiently come up with those numbers and also more reliable.

A - Roland Vogel {BIO 16342285 <GO>}

If I may add, I think we are fully aware that Solvency II is on everybody's minds, but on the other hand, we've never been reporting about Solvency II numbers because we really didn't have a real restriction here. We do follow this model far more closely. It is based on our internal model where we also build decisions on so on, so forth, it is far more important that we should bear in mind it is not a real restriction in our strategies today. We are fully aware that other companies in the insurance world are far more restricted for those it might be far more important. But for us right now, it is another hurdle we have to jump over. This is also why you don't see it as so pronounced and with a lot of focus in our presentation.

A - Ulrich Wallin {BIO 4863401 <GO>}

(1:14:29)

A - Roland Vogel {BIO 16342285 <GO>}

Yes, I have the negative interests or the negative things for me here. I don't have the exact number with me how much of my portfolio bears negative interest rates. I think we can do the math a little bit together. We are talking about, if that is a euro government problem, then we have approximately 30% of – 31% in the euro right now, we have 26% in (1:15:01). If that is approximately the way where we are, we might be a little bit more in the euro here. So we're talking perhaps a 10% potential where this dependent on the maturity in the country I'm investing in, this might be the case.

Your question was as to whether this really affects our investment strategy, and the answer to that is no. We have to invest. We have monies and sometimes we have to invest monies and also euros short term safely. And we will also have securities in our portfolio which do bear negative interest. The important thing for me is the risk appetite and the reinvestment yields that we always publish the reinvestment yields. They have been below on a theoretic basis. So if I invest everything exactly how I have invested today, that was between 1.7, 1.8 (1:16:07) over the last years, in fact, I have a math (1:16:10) with me now because we do not exactly reinvest where we are and had been invested few years ago that the achievements for last year was above 2 (1:16:23).

In that regard, that is the important thing to me where the whole strategy ends up. So also your suggestion that we might increase maturities would not be, from my point of view, an advisable strategy. If the marginal spread I can make is better on a long-term corporate part (1:16:50), than I would rather accept negative interest rates in a government bond. And the higher marginal spread on a long-term corporate or vice versa. This has to be decided. We look at the options which we have and that includes also most naturally – securities was negative, spreads and to increase maturity for the portfolio as such is not a solution. Anyway, you know that we match currencies and we match maturities rather dogmatically.

Operator

Okay. Well then I have another question from Stefan Scharff.

Q - Stefan Scharff {BIO 3964918 <GO>}

Yes, Stefan Scharff, SRC Research. One quick question about your guidance. It's about the premium volume more or less unchanged, and I would assume after the good picture in Life & Health business in 2015 that this good picture will continue in 2016 and also the premium volume in Life & Health should increase at least a little bit. That would mean that in the non-life business, you expect a slightly decreasing volume of premiums. Is this a good assumption from my side?

A - Ulrich Wallin {BIO 4863401 <GO>}

Yeah. We expect slight decrease in premiums on non-life at this point in time. We made the calculation after the one, one (1:18:23) renewal season and looked – made an assumption what will happen on the midyear renewals, looked at the unearned premium from previous years coming in. And so we came to the conclusion that we would be around 2% to 2.5% below what we had last year based on unchanged exchange rates. Of course, the exchange rate can bring things a little bit in out of order, I would say.

If I look at the Life & Health, I mean, we have a number of large fees which are discontinued which we have to make up for. I mean, I think that we might end up similar, maybe slightly up, maybe slightly down. That's not so important for me. The most important thing is the bottom line on the Life & Health. Because if I write deposit accounted treaties, I'm equally happy with the profits then if they come with a lot of premium. That is less of an issue as far as I am concerned, at least for the current year. Important is that we increase the value of new business and that we increase the underlying profitability.

We have a lot of growth initiatives, so I'm fully expecting that, in the medium term, also the premium volume on our Life & Health business will continue to grow. I mean, one thing on the Life & Health which I would like to remind you is that it's not a terribly large business. I mean, Life & Health reinsurance is only about 50 billion of worldwide premium volume, and it's very concentrated. I mean, the top seven reinsurers have about 97% of those 50 billion. So where we grow we have to create new business which up to now has not been reinsured.

Q - Stefan Scharff {BIO 3964918 <GO>}

One quick follow-up question about the EBIT margin and mortality and morbidity business. As we can on see on slide 18, you achieved 3.6% in 2015 and the target is to come near to 6%. What is your assumption for the current year?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, I would be disappointed if we are again below 6%. I mean, 6% is what we need to get and our colleagues are working on it.

Operator

Okay. Well, the next question is coming from Mr. Schäfer.

Q - Andreas Schäfer

Andreas Schäfer, Bankhaus Lampe. Just one question on your guidance with respect to the investment income. I mean, you're targeting more or less a stable investment income, but your target yield is some 50 basis points below what you have achieved in the last year. So how does it fit together? I can't believe that your assets under management will grow some 15% this year.

A - Roland Vogel {BIO 16342285 <GO>}

I think what we mentioned is that we will keep the volumes - or that we will keep the net investment income stable with regard to the expectations. We had an expectation for 2015 of approximately 3%. We have some extraordinaries up and down. We have - that also includes a negative ModCo, we didn't embark on that too much.

So what we usually said is that we should be able to mitigate the 15 basis points which - or around 15 basis points ROI which I lose approximately year-by-year by increased volumes.

I think that is the assumption behind the plan right now. The plan right now does not include realizations to a large extent or to an extent where – which we had seen over the last two years. This is how you – this, of course, includes no currency exchange effects in it.

So, right now, it might not – the plan today is obviously a little bit lower than what we have achieved in 2015. But this still leaves us the room up – but it's a more or less theoretical bottom approach. You look at the maturities you have at your current portfolio, then the majorities, that is assumption of positive cash flows. We do apply our re-investment yields. Now a little bit better than we had calculated and that comes up then with an investment gain which, right now, in the plan as it is set up early this year is a little bit lower than what we have achieved last year.

A - Ulrich Wallin {BIO 4863401 <GO>}

But, of course, it also helps us that we have increased our investment in U.S. dollars and reduced our investments in euro. U.S. dollars, you get higher interest rates, and we did that of course by converting the functional currency of our RS (1:24:04) subsidiary from euros to U.S. dollars. We did that not in order to earn higher investment income, but largely in order to help our subsidiary with their capital requirements which are almost exclusively in U.S dollar and on a group basis to mirror the currencies of our capital that seek currencies of our capital requirement.

Operator

Okay. Well, the next question comes from Roland Pfänder.

Q - Roland Pfänder

Roland Pfänder, ODDO BANK (1:24:43). Coming back to your Life business, could you please provide us an EBIT split regarding financial solutions, longevity, morbidity and mortality? And maybe you could have some words on the financial solutions business. Why is it this profitable? Is there not competition coming in and normalizing the margins, so to say, or what's your take on this? Maybe you have a hard number on your reserve redundancies. How much did they go up in 2015? Thank you?

A - Ulrich Wallin {BIO 4863401 <GO>}

Firstly, regards (1:25:18) to the financial solutions business so profitable. I mean, the profitable part of that is largely business that we have started to generate following the financial crisis. And it revolves around redundant reserves of so-called Triple-X and AXXX reserves in the States which up until then largely had to be financed by LOCs. Then in 2008, the LOC costs increased dramatically. We offered structures to our clients that they could deal with those statutory capital requirement without the use of LOCs but without – with the use of other structures.

That business has the average duration of those facilities is like 10 years and it has relatively high margins at that time. All of those transactions have to be approved by the regulators and the respective states and what is most important and we have seen that in recent survey for the clients there is a deal (1:26:46) of certainty. As we have done some

(1:26:52) largest number of deals, it helps us to acquire new ones because we can offer better deal with certainty. It's fair to say that on a like-for-like basis, the margins on that business have come down. But as the business is covering redundant reserve, the expected loss ratio on it is actually zero, because they are far out of the money stop losses basically, that's what in essence is. (1:27:16) That creates a profitability. The other part of that business, as I explained, is cash financing.

Profit margins, I mean, EBIT margins on cash finance are not that attractive, but in a mix, I mean, the profit margin comes up pretty high. Of course, in 2015, it was aided by one-off effect that we generated profits particularly with that one transaction that was mentioned, which otherwise we would (1:27:52) have received. In the coming years, we front-loaded them upwards, but the underlying business is still growing, that's a good thing. We continue to have new transactions on that side, both financing as well as these, I mean, financing of redundant reserves.

Then the split, I mean, if you split the longevity where we have 4.5% margin, and then that leaves 18.1% for financial solutions, that is a little bit inflated on the longevity business because there was one transaction which was over-reserved last year out of a actuarial arrow. That arrow had to be corrected this year, and that created some €20 million additional earnings on that business.

Overall, our reserving on longevity business is conservative because, I mean, you have of course locked in assumptions as you have on Life & Health. On longevity, we impair them on a by treaty basis. So if you have actually to expect it, that is positive and we have better view on the mortality for the future. We will not unlock, we are not allowed to unlock, and so the reserves they remain unchanged. If we have a negative deviation on our future expectations, we unlock and book that has a loss. We had part of that in 2015 admittedly smaller numbers, single-digit numbers because it was smaller transaction, but that's how we look at that.

The split between mortality and morbidity, Roland has right in front of him.

A - Roland Vogel {BIO 16342285 <GO>}

Positive. Mortality written margin was 4.1% and the morbidity was 2.3%. And I think you were also referring to the absolute number of reserve redundancy increases. We are still waiting for the final reports to come in, this is why it is always a bit difficult, but my CEO this morning at the occasion of a press conference did mention the number of above €200 million. Uli.

A - Ulrich Wallin {BIO 4863401 <GO>}

Okay, any further questions from this room? If this is not the case, we have already some questions received and we would start with Edward Morris from JPMorgan.

Q - Edward Morris {BIO 16274236 <GO>}

Hi, there. Few questions from me, please. First is on the growth in value of new business. I'm just trying to sort of reconcile this by which product category it's in and also, if you could give an indication of over what kind of periods you expect this to translate into IFRS profit. Just some sort of indication of how much is longevity and how much is the sort of shorter return stuff?

And the second question is on the payout ratio going forward. So you seem to be suggesting quite heavily that special dividends are – they're more likely now come in future years. I'm just trying to understand in a environment where you're not particularly expecting much premium growth, how much capital do you still use and that you retain? And is there any benefit really to continue to build capital?

And then another quick question, if I may. I noticed in your presentation when you're going through on slide five, you seemed quite happy about the fact that you would be dropping 12.8% from your five-year average ROE and sort of suggesting that your rolling average might improve. And if I take your guidance of €950 million, that would you put you below 12.8% ROE. So should I then assume your guidance is very conservative? Thanks.

A - Ulrich Wallin {BIO 4863401 <GO>}

Thank you for that question on – those questions. On the value of new business, the largest components (01:32:35) over €100 million is the U.S. mortality business which is a new business and the facilities that are open for new business. That, of course, is emerging over the next 30 years or even 35 years. As all of these treaties or most of these treaties are so-called YRT treaties where the rates are increasing over time, we expect that value of new business emerges very slowly.

The next part where we have over €100 million is longevity. I think it's a precise number, it's €139 million or something like that. Again very slow emergence of that value of new business, particularly the way how we book it because in the first five to seven years, we only book a small fee on that and that's where most of that business is, but long emergence.

Then another block where we have more than €100 million is the so-called financial solutions fee deals. Those will emerge rather quickly in the next five years because that's the way we are setting up the value of new business there. And then we have a whole array of business written from Asia, Paris, Stockholm, and other areas all in the region between, I would say, €10 million and €40 million and those are largely – it's largely mortality business. Emergence again long tail, so I mean the value of new business translation into IFRS profit is rather gradual with the exception of the financial solutions fee deals.

And then the next question was on the dividend policy. Well, I mean for 2016, of course, we are not showing much growth, if any, and therefore contrary to 2015, of course, the capital requirement increased with the growth of the premium quite significantly. We are not expecting that to happen in 2016 and that is why the special dividend is quite likely. I mean, do we expect that this situation of low growth will continue in the medium term? And the answer to that is no. I mean, we are not expecting that that will continue to happen because we're expecting that eventually we will see volatility again. And with our market position, we expect that in the medium term. We will see growth in the business, which we need to finance through the retained earnings.

Then on the ROE, of course – I mean that's why we changed the guidance from around €950 million to at least €950 million because we will be watching the development of the ROE very closely and that will, of course, determine our strategy with regards to the possible return of capital. But at this point in time, I guess it's a little bit premature.

Q - Edward Morris {BIO 16274236 <GO>}

That's great. That's very helpful. Thank you.

A - Karl Steinle {BIO 1986424 <GO>}

Okay, that also answers all your questions, right?

Q - Edward Morris {BIO 16274236 <GO>}

Thanks.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Well, the next question is coming from In-Yong.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Hello. Three questions from me. Firstly, on the German GAAP equalization reserves, there seem to be quite substantial addition in 2015 I think about €140 million, which is slightly different from the guidance that we had at Investor Day. Is that just a function of a very good underwriting result this year? Was there anything else that play and does that affect the guidance you gave then of €140 million to €145 million of reduction in the equalization reserve going forward in 2016, 2017? That's one question.

And the next one is just on when we look at the investment income from funds withheld for fourth quarter, there was an increase in income despite the funds held and the balance sheet declined quite substantially. And I think in the Annual Report, you referred to withdrawal of specific underwriting just regarding UK single premium business. So, is there elemental one-off in the income on funds withheld for the fourth quarter? Thank you.

A - Roland Vogel {BIO 16342285 <GO>}

Maybe I take the Germany GAAP number. I tried my very best last October to familiarize you with the complexity of that calculation. And you're right, the expectation that we would not add to the equalization reserve. We're a little bit affected by the unexpected growth, a very good underwriting year and especially the growth rates, which do affect the maximum amount per line of business have then let to additional contributions. What does that mean for the future? It does mean that we will see kind of a regular, potentially increased contribution to the fluctuation reserve as compared to €138 million, which we had in 2015 because this steering of internal retrocessions will – had a one-off effect.

It does not impair or affect our expectations for 2017 where, as we try to explain the WTC standard deviation, this appears from especially one line of business which will have a very positive effect. So the next two years to come will have a very different development, of course, based on the assumptions that we will not have another WTC, which we all hope that this won't be happening.

Again as I mentioned before, the German GAAP result was very positive and gave us the chance to increase retained earnings as well as profits carried forward.

A - Ulrich Wallin {BIO 4863401 <GO>}

Yeah. I mean, the reduction in the funds withheld, I mean, that was from recapture of financing treaty on the longevity side which also generated some profit. That was down because we were at our counterparty limit with that particular client, but freed-up counterparty was actually used for new transaction.

So whilst there's a little bit of a one-off here that we had to hide in profitability to do that recapture, we have continued profitability due to the new transaction that we have entered into.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Okay. Uli, thank you.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Well, thank you. The next question is coming from Anasuya Iyer from Jefferies.

Q - Anasuya Iyer {BIO 18981555 <GO>}

Oh, hi. It's Anasuya Iyer from Jefferies. I had two questions. My first one is on the runoff profits. If I'm not wrong of if I'm missing an update, I assume the guidance you gave us in the past is maybe €50 million in a quarter. And just working through your combined ratio, if I just back out the man-made and if I back out whatever release I have, it seems like the €50 million would need to be a lot higher for you to reach – to match your 96% target. So just wondering if you could give us an update on that.

And my second question was on Solvency II. I think at the Investor Day, you gave us a notional 2014 number of 253% for the partial internal model and since then, that's come down to 221%. Can I just check if that move is simply growth or is there something else that I'm missing? Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

I'll take the second one and leave the first one to Ronald. I mean, the reduction from 253% to 221% is basically the growth of the business and the commensurate increase of the capital requirement. It shows that we have actually been in 2015, to quite some extent, able to actually utilize our capital.

I would also say that this was not only driven by new business, but unfortunately also by the currency development. I mean, of course, we had the strengthening of the U.S. dollar to quite some extent and a lot of our exposures that we write are in U.S. dollars. So, whilst the capital – we were still overweight to some extent in euro and that is the result and the fact, that is one of the reasons that I explained that we increased the part of our capital in U.S. dollars to better match it with the exposure. But I think the numbers that you cite are correct.

Q - Anasuya Iyer {BIO 18981555 <GO>}

So can I just ask a follow-up on that? Is there any intention to provide specificities on these ratios like some of your peers do just so we're comfortable with these movements in the future?

A - Ulrich Wallin {BIO 4863401 <GO>}

I didn't quite catch that, but I mean, of course, we have a limit in threshold as I said. We say we have a limit of €180 million, a threshold of €200 million and we will manage accordingly. Of course, I mean, we have lot of opportunities to improve that ratio if necessary which just hasn't been now one of many, but of course we're to issue more hybrid. But we have to watch it and that's why we have the limit in threshold on it. But I mean, of course, ideally, we would like to be well above €200 million but not too much because that would mean that we are not able to fully utilize our capital.

A - Roland Vogel {BIO 16342285 <GO>}

With regards to the runoff, the result, I hope I got your math right. If we assume that we have a run rate of around €50 million or a little bit more than that per quarter, then for the full year, that would mean that this results in €200 million, €250 million. We, on top of that, have added to the loss reserve redundancies this year a number which we mentioned before, which would be over €200 million.

I think if we have the same run rate and – which we had before, the €200 million to €250 million in a year plus we do not add €200 million to €250 million to the reserve redundancies, this would then already result as far as I can calculate here in approximately the same combined ratio where we were.

Q - Anasuya Iyer {BIO 18981555 <GO>}

Okay. Thank you.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Well, the next question is coming from Xinmei Wang from Morgan Stanley.

Q - Xinmei Wang {BIO 17860767 <GO>}

Hi, good afternoon. It's Xinmei Wang. I have two questions, please. So the first one is a follow-up on capital. I think sometime towards the later part last year, you said that the hybrid that is accepted under Solvency II, but that the full amount was not accepted under

S&P capital until Solvency II goes live. So in the Solvency II world, can you give us an indication of how that has changed to the excess capital over rating agency requirements, please and whether that would be - how that's impacted by the potential to increase the amount of hybrid debt that you have?

The second is some reserve redundancies and apologies if I missed this before. You talked a lot about reserve release. Reserve release is coming from shorter tail lines. I'm wondering how you're seeing longer tail lines, Casualty lines which are in the 10 - several years ago (01:46:28) developing? Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Sorry.

A - Roland Vogel {BIO 16342285 <GO>}

Let's start with the hybrid. Well, I think that the restriction we have from S&P was that they have the rule or implemented the rule that they would only accept hybrids which are actually accepted by the Solvency I requirement and this is not a theoretical, but an actual acceptance. So that had limited our credit which we got for issued hybrid in the past.

As Solvency I is no longer there and Solvency II accepts far more, that restriction of S&P is just gone. I think that has nothing to do with overcapitalization or anything, just the restriction is gone. And we would be in a position to issue I think the last number which I knew that was by the end of last year was €1.3 billion, €1.4 billion of hybrid which we could issue to date and this would be fully accepted by Standard & Poor's on the basis of the missing restriction from Solvency I.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, if I may add just a little bit of additional S&P capital from 01/01/2016 because the current hybrid that we have was not fully recognized by S&P up until 01/01/2016. Only around €800 million of that was recognized and now, the entire hybrid that we have of - I think it's €1.5 billion is recognized.

On the loss reserve releases, I mean they largely come from Property, some aviation and marine business. Property purely because it's short-tail business and the reserve - the initial reserves that we do on the short-tail lines are apparently very conservative. And that means that after 36 months, you normally see those releases. And if you look at the tables that we have somewhere in the Annual Report, you can see that the reserve releases are from years - accident years 2013 and before.

And on the aviation side, I mean we still have a very comfortable position on the aviation side. But some of the losses have like Air France have just been be settled. I mean, the loss is finished and settled and therefore, we have the double-digit number of loss reserves still on it, which then there was no reason to keep it any longer. So we had to release it.

On Casualty, it's different. We actually strengthened our loss reserve in the newer underwriting in particular 2014 on Casualty in order to put additional improvements then.

Q - Xinmei Wang {BIO 17860767 <GO>}

Okay. Great. Thanks very much.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Well, thank you. The next question is coming from Kamran Hossain of RBC.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, everyone. I've got two questions. The first one is kind of philosophical question. So the growth outlook isn't that strong at the moment. You're not paying out - you're still paying out relatively low percentage of earnings back to shareholders like dividends and special dividends. Normally, companies kind of - they hate this kind of behavior when you're going too pretty close to market corrections. So I guess part one of this question is, do you expect a market correction in reinsurance any time soon?

And the second part of that is, if you do see the market turn, what do you expect to do to the cognizance level that you hold in your reserves? Do you think you'd bring that down or kind of directioning - what would you expect to happen to that?

And the second question is just on the ROE target, can I just double check that the soft ROE target that you have is still 12%? And you kind of from there, it kind of feels like you're running very hard to be pretty conservative on your guidance. Could you just remind us on why the large loss to man-made budget has gone up to €825 million versus €690 million? Appreciate some of the effects, but any other moves would be helpful. Thanks.

A - Ulrich Wallin {BIO 4863401 <GO>}

Yeah. I mean, on the philosophical question on the turn of the market and the commensurate dividend policy, I would say that the probability of turning market has increased this year compared to last year. And the only reason for that is that's a soft market that is continuing for one further year. And so that for the market, as a whole, we'll put pressure on earnings.

And as I pointed out I think at the investment day, our belief is that the market participants are - have a necessity to produce a profit and of course, there's a soft market lasting for longer. I mean, of course, volatility from the loss side or from the investment side will have a more pronounced effect on the profitability of the market participant and that would, of course, then change the market and make - you will have more attractive trading positions.

Then, of course, for us, it's important that we are prepared for that also by holding some excess capital because opportunities arise in those cases, both growing the business and maybe through acquisitions. And as long as we can keep acceptable ROEs and an acceptable dividend yield on our shared price, we would I mean keep capital in the company because we feel that in the long run, that is for the better of the company, but whether (01:53:08) provide those on the ROE and on the dividend yield.

That is said. And the other question was are we too conservative on our guidance and is the12% soft target still valid. Yes, it is still valid. I mean, are we conservative or not? A lot can happen in a year if you are reinsurer because, I mean, we're in a volatile business. You can have losses.

We might revisit the guidance – we have revisited a little bit already just to see (01:53:47) at least €950 million and not in the region of €950 million. Normally, we look these things after the third quarter when the hurricane season, which this year is actually expected to be above average, is finished and you go to it this year as well and then we see where we go. But overall, I mean we are, as you probably will have guessed from our call so far, we're quite bullish for our 2016 results.

Q - Kamran Hossain {BIO 17666412 <GO>}

Can I just follow-up on the market? So, I guess one-half question – sorry, it's a very long-winded question. Just on the confidence level in reserves and if there was a market turn, what you might expect to do that confidence level in your reserves?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, I mean, I would say the most likely, I mean, reason for a market turn is a major cat loss. And major cat loss, I mean well above the expected losses and I mean certainly loss which should at least rival any losses we have seen so far in dollar terms.

That would, of course, have an impact on our results and that would and most likely mean that we would, where we can, reduce the confidence level and keep the results at an acceptable level. We, at the same time, feel that that will only be a short drop in the confidence level because should we in fact then get better rates like we have seen in 2009 and 2012, we will, of course, then try to rebuild the confidence level back up rather quickly.

Q - Kamran Hossain {BIO 17666412 <GO>}

Okay. Appreciate the answer.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Well, the next question is coming from Thomas Fossard from HSBC.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good evening. Two questions. The first question would be on the French Life business. I think that you mentioned during the presentation a €70 million of negative earnings impact in 2015. If this number is correct, can we have some confidence that obviously the negative drag on earnings has been ring-fenced and that we should not expect any spillover effect in 2016?

And second question would be relative to slide number two on the operating cash flow. With the book not expected to grow in 2015, could Roland guide us a bit on what would be the level of operating cash flow we should expect in 2016? Would that be, I would say, a level more in line with the 2014 level? Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, firstly, on the French branch, I mean the €70 million is a difference to the results in 2014. 2014, of course, we had a profit I think from memory of a little bit more than €50 million. So we were negative this year, but not that negative. And we expect for the current year that the profit will return to around the level that we had in previous years because the problems we feel are soft. So, I mean that is our expectation there.

Expectation on cash flow is a little bit more difficult and already can see that Roland that he wants to answer that. So I leave it you, Roland.

A - Roland Vogel {BIO 16342285 <GO>}

I think it is difficult to do that, and the assumption which you put into is that this would be more in line with 2014. If the growth rates which we have indicated were stable to slightly negative, it should really materialize. I think it does make a lot of sense. It will, of course, be lower and then something which is then below - between €1.5 billion and €2 billion should be a feasible number.

A - Ulrich Wallin {BIO 4863401 <GO>}

Don't forget that from the earnings from our investment portfolio, we would expect around €1 billion and a bit anyhow. So, I mean that - we are pretty certain that that will come and we are expecting the technical cash flow that's on the non-Life side that that will be positive.

Life & Health is always a little bit a difficult one because, I mean, we have an increased demand for financing transactions. Financing transactions, of course, I mean dampens the cash flow for - you buy future cash flow with that. In the last year, the overall amount of outstanding financing has been rather stable. But I would say for this year, we expect that that outstanding amount will actually increase rather decrease considering the number of transactions we are currently working on.

A - Karl Steinle {BIO 1986424 <GO>}

But we have first still two other questions. One is coming from Olivia Brindle from Bank of America.

Q - Olivia Brindle {BIO 17273762 <GO>}

Hi, there. Just a couple of short questions left; mostly follow-up, actually. The first one just on the earnings outlook to to further your thoughts (01:59:48) on that a little bit further. I mean in – I think it was late 2014, you introduced this notion of at least 6.5% earnings growth, which I got the sense was a more multi-year target than a single-year target. So obviously, you've been quite a lot above that in the last two years. Just wanted to see what your thinking is on that, is that broad target still relevant at all? And sort of more generally do you think you can actually grow your earnings in absolute terms from here on? You sort of seem to suggest about a €1 billion level was appropriate and various parts of the 2015 numbers are maybe a bit inflated. So, just to get your thoughts around the medium-term earnings outlook would be helpful.

And then on the Solvency, coming back to the S&P position. You've previously given us estimates for the sort of the genuine excess capital that you have on that basis, which I think the last number you gave was around €1 billion, could you sort of provide the latest on that? And the final sort of point also on Solvency, the move from the 253 to the 221, how much of that was FX-related and should we expect that that sensitivity would be lower given that as you said you're not better matched on FX, so from here on, movements related to currencies should be less drastic. Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, the first question, yes the 6.5% is still very relevant and we have achieved it in the past, and of course it's the target to achieve it also in the future. Clearly, I mean, for 2016 on a single year it will not be an easy task to achieve that and we have of course some of the years where we don't achieve it partly because of major losses or something like that and partly because the reference year is a particularly good year, which is the case for 2016. But if you look at it five years forward, I mean, clearly the goal is to increase the profitability and the earnings per share by 6.5% per year on average and that's not changing. I mean, it's not an easy task but – not an easy target but it's not our job to put out easy targets. At least I can say in the past few (02:02:16) we managed to deal with that and actually achieve it. On the (02:02:22), S&P released it – now the thing on S&P I would say it's probably still around €1 billion, but we will have do the exact calculation, not to adjust (02:02:34) the future because I think they'll visit us again, so if it works we'll be able to let you know. On the Solvency II 253%, yes the majority of it, I would say more than half of that was currency and the rest was gross and of course the resilience to currency movements will be less because we better aligned the group capital by currency versus (02:03:00) the capital requirements by currency. Safe answer. Thank you.

A - Karl Steinle {BIO 1986424 <GO>}

Okay, well. The next question is coming from Vinit Malhotra from Mediobanca.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hey, thank you. Just (02:03:20), one is on the reserving. I remember that the last two years now the conversations are always that external entities were motivating you to reduce your redundancies be it auditors or tax people or – what has changed now that they are letting you or you think they will let you increase this redundancy and how you would convince them if anything. The other thing is just to understand the one-offs in the ordinary income in the fourth quarter of €351 million investment income. There is another high contribution from real estate. I think I can see €54 million, I can also see from your slides that private equity is very – much more important. How much of the €351 million do you think is sort of affected by one-offs and if I can ask the same question also for Life because I am a little confused. The guidance is – from what I understood from – of these comments, were that the – 2016 was a little above the run rate of where would you expect. So, is that a clear understanding or is there more subtractions and additions in the one-offs to make, to get at a normalized Life level number of these (02:04:50)? Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

If I take the first one, I mean, on the level of redundancies, that we were able to increase that, I can tell you that for the first time our auditors were not terribly happy with that. So they gave us a little bit of a warning sign here. So that would mean that we would probably not be in the position to increase redundancies much further in 2016. The problem with that is that you only know it after the calculation has been done and therefore when you go into the preparation for the profit and loss (02:05:42) account and the balance sheet, it's – an unknown area. I mean, we have two things for year-end. I mean, we have our outside actuary giving his first opinion on the redundancies. We have our own actuary giving his opinion on the redundancies and we have our auditor giving the opinion of the redundancies. And the auditor is finding the highest numbers, I can tell you that. He wasn't that happy with it so we have to see what we do but I think this is a soft market, we may not have that problem but I thought the same a year ago, so we see how it goes. On the one-off side I will hand over to Ronald.

A - Roland Vogel {BIO 16342285 <GO>}

Vinit, it was not easy to understand you just vocally, but as far as I understood you were referring to the ordinary investment income of our Life and associating that with private equity or others. So first of all we had in the first quarter of last year €39 million as a one-off that was a termination fee which was booked as investment income and as ordinary investment income. I think that is the only extraordinary item in this line and this should be adjusted to – if you want to know run rate going forward. We have not allocated too many risk-bearing assets to the Life business. Here it was always a question of risk appetite and of course also of available funds overall. A lot of the premium is deposited with our ascendants (02:07:30) and the cash flow which belongs to the Life side based on also the financing deals which Uli mentioned before, so the free cash flow which is ready to be invested on the Life side is limited. Anyway, this is why we only have the less risky asset on the Life side. So the €351 million is not associated with any extraordinary items from real estate or from private equity if that was your question.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thank you for – sorry I wasn't clear. €351 million has no one-off, okay. And my question on Life was on the Life EBIT as a whole, not just Life investment income.

A - Roland Vogel {BIO 16342285 <GO>}

Okay, sorry.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Is that the correct understanding that 2016 is high but not very high from what you would think is normalized or, because there are too many one-offs in Life in this year, so just curious if I understood correctly.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, Vinit, if I take that, I can say the first and the fourth quarter we're barely above the run rate but the second and the third were well below the run rate. Different reasons, first quarter of course the one-off termination fee. Second and third quarter, adverse experience from the French branch and U.S., I mean, our nice ING book of business that we have and some additional mortality, this one very large claims which I think is known to the reinsurance community by now quite well. And the fourth was again as I said above the run rate, here again from financial solutions we had an extraordinary high underwriting income. Again, coming back to those fee deals that we had a very positive result. I mean, we expect positive results from that in the future but maybe not quite as positive as we have seen in the fourth quarter. But, I mean, if you look at the entire year I would say yes overall, I mean, we are – had an uplift of the results of about €50 million EBIT. If you take that out you're basically at the underlying I would say.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you. Thank you, Uli. Thanks for it.

A - Karl Steinle {BIO 1986424 <GO>}

Okay, well. It looks that we do not have any further question coming from the conference call. If we do not have any further questions – another one from Philipp Häßler.

Q - Philipp Häßler

Philipp Häßler, equinet. Just two very short questions. Firstly, coming back to your ordinary investment income, could you perhaps tells us how much came from real estate and from private equity in Q4 and then on the oil and gas exposure could you perhaps give us some geographic split not by country but only how much is Europe, how much is North America?

A - Roland Vogel {BIO 16342285 <GO>}

Well, two numbers I must admit I have not available here on my desk. Before, I think, it was with regard to the oil and gas, this should follow the currency split and where we have 50% or nearly 50% in the U.S. dollar and a little bit more than 20% in the euro. The first question, please remind me of what that was.

Q - Philipp Häßler

The ordinary investment income in Q4, how much came from the private equity and the real estate contributions?

A - Roland Vogel {BIO 16342285 <GO>}

I would have to look that up, it would be a rough guess, and I don't want to show in numbers which I'm not really certain of.

A - Ulrich Wallin {BIO 4863401 <GO>}

But I think we had this slide in the presentation that showed you where the investment income is coming from?

A - Roland Vogel {BIO 16342285 <GO>}

Yeah, but not per quarter.

Q - Philipp Häßler

Not per quarter. I know, that's - and I'm not too sure if the fourth quarter was particularly high but if that it would be private equity, I would say.

A - Roland Vogel {BIO 16342285 <GO>}

It is. That was exactly that - we had a contribution from the private equity side where we had distribution from funds that were - these were in Q3, but we had solid sums, so we had to reflect that. So there might and there was an uplift in private equity, the distribution of some €30 million and most of that was Q4 from the real estate portfolio. I would assume that these are really periodical, rather stable numbers.

Q - Philipp Häßler

Thank you.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. And we have another question from Michael Haid.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you. Michael Haid from MainFirst Bank. Just one question. Can you say how much premiums you had from your deposit accounting

business and how profitable in absolute terms this is and how it developed over the past couple of years?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well for IFRS the first part of that question is, I can answer very easily. None. It is - I mean the profit offset is within the other income line and it is a double-digit number. I think we have the exact number. Roland is just looking for it.

A - Roland Vogel {BIO 16342285 <GO>}

Sorry, that is, for - on the Life side, we have profits from deposit accounting contracts is €88 million. We will have to deduct some of that as we proceeded as well and we have some retrocession and you should deduct another nearly €20 million so it is around €60 million I would say.

Q - Michael Haid {BIO 1971310 <GO>}

And what kind of premium volume, I know it's not premium it's under IFRS but how....

A - Roland Vogel {BIO 16342285 <GO>}

On the German GAAP you mean because under IFRS – so the question would be how much premium would you show if you would not account them as deposit accounting. I can't answer that question.

But on the German GAAP it's a lot because we have a lot of growth on the German GAAP because of deposit account treaty in particular one it's certainly above €2 billion.

A - Ulrich Wallin {BIO 4863401 <GO>}

Yes.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

But there's also one-off in that premium because we had one treaty which was only running for nine months and inflated the numbers in the German GAAP balance sheet provided better our profit and loss account.

Q - Michael Haid {BIO 1971310 <GO>}

But how did that €2 billion, how did that develop over the past couple of years?

A - Ulrich Wallin {BIO 4863401 <GO>}

We haven't got that number, I mean we have to look that up.

A - Roland Vogel {BIO 16342285 <GO>}

Plus it goes up and down. You saw mostly financial risk limited contracts, the premium which is associated with it goes up and down. This is very often driven by one-offs so also the number will be very volatile.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. If there are no further questions, which seems to be the case then I would like to thank you for your attendance. And this call will now be concluded and you may disconnect. For all others here in the room I would like to invite you on behalf of Hannover Re to join us for a drink outside of this room. And thanks for coming.

FINAL

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