Hannover Rueck SE 18th International Investors' Day

Company Participants

- Andreas Maerkert, GM, Group Risk Management
- Claude Chevre, Member of the Executive Board, Life & Health
- Eberhard Mueller, MD, Group Risk Management, CRO
- Juergen Graeber, Member of the Executive Board, Coordination of Worldwide Property & Casualty Reinsurance
- Karl Steinle, GM, Corporate Communications
- Klaus Miller, Member of the Executive Board, Life & Health
- Roland Vogel, CFO
- Ulrich Wallin, CEO

Other Participants

- Andreas Schaefer, Analyst
- Andrew Broadfield, Analyst
- Andrew Ritchie, Analyst
- Frank Kopfinger, Analyst
- Guilhem Horvath, Analyst
- In-Yong Hwang, Analyst
- Kamran Hossain, Analyst
- Michael Haid, Analyst
- Michael Huttner, Analyst
- Olivia Brindle, Analyst
- Roland Pfaender, Analyst
- Unidentified Participant, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst
- Xinmei Wang, Analyst

Presentation

Karl Steinle {BIO 1986424 <GO>}

Good morning, to all of you. Welcome to Hannover Re's Investors Day 2015. It's the 18th edition of this event. My name is Karl Steinle. And I'm really delighted that so many of you were able to take up the invitation.

Since we continue to follow our annual rotation of this event, it's my pleasure to see you all here in Frankfurt today. I was also very glad that so many of you managed to attend the dinner last night. I think the atmosphere was slightly different to last year when we ate in the Crypt of St. Paul's Cathedral. It was certainly a good deal less more of it thinking back on how everyone's eyes lit up at the sight of this beautiful classic cars. And secondly, the rather lively intense competition we got into over the car racing.

I don't know how you felt about it. But I instantly felt 30 years younger. I must say that I am also more than a little relieved that they were only model cars and, hence, the numerous mishaps and rollovers didn't do any damage to our combined ratio of our motor re-entrance portfolio.

I would like to express my gratitude to Kathleen who tracked down this marvelous location and ensure that we all could enjoy such an unforgettable atmosphere.

Kathleen, many thanks.

I would just like to make a few organizational remarks. Please note that we are webcasting the presentation and the Q&As. Some colleagues have already locked in to follow the day's event online.

For your convenience, the stream will be available on the Hannover RE's website so you can review at any time in the future.

With this in mind, during the Q&A, please wait for the microphones before asking questions.

As always, we have Wi-Fi access available free of charge for you. Please find on your desk the required password to access the network.

I also like to draw your attention to the feedback questionnaire on your desk. I cannot emphasize enough how highly we value your feedback into your remarks. We use it extensively, A, for conveying your comments to management and, B, preparing next year's Investors Day. You may even leave the questionnaire on your desk or hand it over to Julia and her team.

You will also find a modest gift on your desk that picks up on the theme of last night's gathering. It's a model of a classic car, a Volkswagen Beetle. And it's also a special edition produced for the 1974 Football World Cup. I just know why someone have this particular one especially because we also have some friends from England around.

But to bridge that gap, in 1974, Hannover Re was only in the ninth year of existence and managed to write a premium in today's currency of EUR129 million and had a net income of EUR1.3 million. I think that shows a quite impressive growth. The EBIT margin nevertheless was already at 17%.

Please take that as a token of our appreciation of your participation today and the support that you have show Hannover Re over the years.

On that note, I'd like to hand over to our CEO Ulrich Wallin. He will give us some insights into Hannover Re's strategy in this competitive environment.

Ulrich Wallin {BIO 4863401 <GO>}

Thanks, Karl. Good morning. Thanks for coming and hope you enjoyed yesterday evening. It's actually quite interesting that the slowest car on the race track was actually winning all the time.

You still feel that at Hannover Re we are fast and flexible. Hopefully, we don't roll over all too often. But so far so good.

I mean, what I'd like to try to explain to you why we feel that as a somewhat different reinsurer that has reinsurance as its core business, we still feel that we have a very good opportunity to be long-term successful in that business because the pure, almost pure reinsurer; I mean as a species that is not actually increasing the numbers because many of our peers have decided that insurance is more attractive than reinsurance so they are, I mean, more going into the insurance field. And some of them actually almost leaving the reinsurance completely, which we always think is a very good idea. The only thing that some of them to do that sets not actually a good idea that they don't reinsure the primary business that they're on.

But be it as it may, we still feel that our business model where we clearly say that reinsurance is our core business. We write some insurance. But it's complementary to the reinsurance. So that is a business. It's a competitive business. But we feel that this business has the opportunity to be successful in the long-term.

So look at the landscape and I was telling Karl he don't have to do the switching for me and, of course, (technical difficulty) to the first slide.

Here we are. This gives you the landscape we are operating in. This is a nonlife reinsurance market. And first of all, as you can see from 2010 to 2014, a time when we already talked a lot about increased retentions, the market was actually growing. I mean, it grew from -- I mean, EUR160 million to about EUR190 million. So there was growth in the market.

It also, I mean, the EUR190 million still is small compared to the insurance market. I mean, on the P&C side, the insurance market is about 20 times that. So I mean, that means that reinsurance, in the overall scheme of insurance and reinsurance, you can probably say it's still kind of a niche market. And -- but we still like it.

You can also see that the nonlife reinsurance market is enormously fragmented. I mean, if you look at the top 10 reinsurers, the average market share is only 4%. And if you look at the top 50, the average market share is below 1.5%. So we have a huge number of entities that are involved in the reinsurance business, which shows you that the entrance hurdle to this market cannot be very high.

If you look at the tiering, which is, of course, very passionate to talk about tiering of the business, you can see that the top 10 reinsurers for growing a little bit faster than the market as a whole. And this, of course, because, I mean, the ceding companies have a tendency to work these large diversified reinsurers. So the medium-term reinsurers actually shrank, which you might say you shouldn't be in the middle, you should be either small and specialized, a large and diversified.

It's not entirely true because in that group of 11 to 50 you have all those companies or many of those companies are writing reinsurance and insurance. And many of those, when the market started to soften put more emphasis on the insurance side. But you can also see that is combined entities where you have many in Bermuda, for us, are good competition because we are not that aggressive on the reinsurance side.

But what you also can see is the fastest-growing group were the others. So 50 to several hundred. And that just show that you have, of course, all the ILS markets coming in there because none of them is large enough to hit the larger ones. And you have, I mean, a small reinsurer setting up, local reinsurers, which all gather some business.

What is our strategy in this field? First of all, you can see that we have grown a little bit faster than the market. You can also see that we have grown slightly faster than our peers in the -- peer group off the top 10. But we feel that when the time is right, we should be able to grow in that business by gaining market share. And we have done this all along in the existence of Hannover Re. But only when the time is right.

I mean, yes, we grew our market share in 2009 and 2012 but, of course, we didn't grow our market share in 2013 and '14 when the market was more competitive. But we feel. And this is important for us, that in this market, we can grow in the long-term by gaining market share because there are so many small reinsurer that would allow us to do that because, I mean, we are relationship reinsurer and many of our clients want to do more business with us rather than less. And this is an opportunity that we have, one of the reasons what we like to be in this rather fragmented market.

The other thing on the P&C reinsurance, the business is rather instant. I mean, the business results that we have this year is depending, for the most part, on the business we write this year and last year. As long as we are there reserved for the past, I mean, the business changes quickly. Look, in 2001, the business changed due to 9/11. And you could benefit from it rather immediately. There is a different situation in the Life & Health side where the business is much more driven by the in-force book.

So I mean, as you can see in Life & Health, smaller market, only $57 billion, which, of course, is a fraction of the insurance market because the Life and Health insurance market is, of course, larger than the P&C insurance market. But the reinsurance is largely only the biometric risk that the reinsurers are taking on. They are normally not involved in the savings part of the business. That is why the percentage of the premium that is needed to the reinsurance market is even smaller than it is on the P&C market.

You can see that the market, however, is growing. And it has grown a bit faster than the P&C market. You can also see that here the larger reinsurers grow fast. And really the market is dominated by seven players, I mean, they have basically that business is dominated by very few players.

They are not the many small reinsurers that are involved in that business and that shows you that the entrance hurdle to the Life and Health market is a lot higher, is actually very high. So for new reinsurers, getting into this field and, I mean, gaining reasonable ties is very difficult. I mean, you basically can only do it by buying in-force business.

If you are dependent on developing new business, that's a long haul because if you look at the new business, new business premium that is placed any one year it shouldn't be significantly less than 10% of your volume. And of course, as a newcomer, you cannot hope that immediately you get, say, a 10% and 15% share of the new business. That's just not happening. That's why the entrance hurdle is so high here.

Of course, with such a concentrated market, growing back position is not exactly easy because the targets are few and far between. I mean, for us, it's basically six targets. And I think the majority of them out of reach or we don't really want them. So where we see our position, as we grew with the market here, our position is that we try to enlarge the universe of the life reinsurance market by creating solutions with our insurance partners that create reinsurance business that is currently not reinsured. And we do that both on our financial solutions business as well as our growth initiatives, which Klaus will give you the details in his presentation.

So a very different approach, very different market, life and nonlife reinsurance. But of course, you can see that, I mean, the Life & Health market, if it's dominated by the results from the results from the in-force business is a lot less cyclical because if you look at the results, say for 2015, to the smallest part will depend on the business that you write in 2015. But so the fiscal year result depends on all the back years not on the current year.

So if the current market suddenly because somebody new comes in would be very competitive, it would not have a major influence on this year's and next year's fiscal year results that we are able to show. And that's why Life & Health stabilizes our results and reduces the volatility. That's why we like that business.

We believe that in the current market picture, certainly on the P&C side, is a soft market and it much reminds us for those that have the gray hair like me on the late 90's. So many of the dynamics in the markets are very similar. But we believe that if you are very diversified and have a broad-based account, you have a better chance to be successful in this difficult market.

And as an example, I show you this slide. This one, the light blue line, shows you the development of the rating of the property catastrophe business. So it's just the Guy

Carpenter Property Catastrophe Rate-on-Line Index.

And you can see that the last two years in 2014 and '15, we have seen a sharp decline of the business. You can also see that 2013 was still rather flat because we only really started to reduce the rates mid-year. But the (1.1 and 1.4), we were able to keep rather stable.

But then you see that the German motor business is actually not following the same cycle. Actually, since 2010, we see great increases. And this is business that we, as Hannover Re, through our German subsidiary, E+S Re, have access, too. But many of the players in the market haven't got the same access. So there you can see that if you brought this, you can shift more towards those lines that are still attractive and German motors, just used as an example here, which shows that our positioning is actually favorable even if the market is declining like it currently does. And on the property catastrophe, it may actually continue to do into 2016 at least early renewers are not all that encouraging in that respect.

So worldwide diversified reinsurer has an opportunity to be successful even in the difficult market. We are, as you know, the third largest reinsurer. We have a very broadly diversified book of business. And what really helps us that we are involved in so many classes. So with many of our clients on the P&C side, we have not the largest share of the business. But we have the largest number of treaties. And that gives us a very broad relationship with our clients, which means that even if you get off of some of their treaties, we still keep the relationship, which is very important because that's the only way we still can be opportunistic in this market.

I mean, it's not really feasible at our size to desert our clients completely and hope that when the market changes, we would be able to come back. We need to keep the relationship because we are a relationship-driven market.

But as we have set a broad base with our clients, on individual treaties and individual lines, we can be selective. And we are selective because we also see a lot more business than we write. And this is quite a comfortable situation particularly on the current market, which is characterized by the huge overcapacity that doesn't hurt us with access to the business of course it does hurt us when we want to get the prices and conditions that we need because what our clients left us is they left us reduced if they have to pay 20% more to us and then to our peers simply not doing that.

I mean, on the ILS market we were talking about that, I mean, new entrants into our markets that has actually put additional pressure on the market. However, I mean, the ILS market only is involved in rather small part of the market. It's really only the short-term property catastrophe market or if they are involved in longer-term business, not on a like-for-like basis only if the business is commuted early on. So only if the client that feeds business to them is prepared to take basis risk. So it's a narrow focus.

And of course, the results of the ILS market in the long run as they are so heavily concentrated on property catastrophe in the US will be more volatile than the diversified reinsurer and, therefore, their reactions on major claims will most likely be harsher than from the traditional reinsurer. So from that point of view, I would say they would probably amplify the cycle certainly on the cat side not mitigated as many people think.

For us, I mean, we started to work as the capital markets in the mid-90's. Actually, Eberhard who is our chief risk officer, he was involved in the first ever transaction that reinsurance risk was transformed into the capital market, our Kcover transaction. And we have continued to work with the capital markets. So I mean, we partner with many of them. So for us, yes, they are threat on one hand. But they are friends on the other as well. And they are also a source of a profit for us, actually quite attractive profit. And they're also a source of retrocessional capacity for us because, I mean, more than 50% of our retrocessions will reduce the volatility of our earnings are actually provided by capital markets and not by traditional reinsurance capacity.

And if we will show you and this is one of the themes of this Investor Day this year, we continue to have ample opportunities to write new business. And we continue to have a lot of initiatives to get involved in new business, to have specific solutions for our clients. And I have to say that 2015 so far in that respect was quite successful, more successful than we normally expected to be. And that's the reason why, in the first half, etc, probably continues throughout the entire year.

We grew our Property and Casualty business a bit faster than we expected because we had a gross of 10% on a currency-adjusted basis, which is counterintuitive if you think that we are really in a soft market.

Diversification, you can see that on the left side you see the geographical diversification. And you see that in the last 10 years we improved that diversification quite remarkable. You can see that the US portion reduced or the North American portion from 50% to 27%. That also has to do this effect that in 2004 we still have the Clarendon Insurance Group, our somewhat less successful endeavor into the primary MGA market in the US

But you can also see that our fastest-growing areas were actually Asia and Latin America. And we write an excess of EUR2 billion of business from Asia. And Latin America is coming close to EUR800 million. And you can also see that Asia, for us, is more important now than our home market, Germany, where we only have 9%, also a percentage that have come down. So that really shows you that geographically, we are -- we are broad-based. And we grow in those markets that grow because our growth in Asia and Latin America also has been with the underlying reinsurance and insurance business in those market has been growing quite nicely.

On the right side of the chart, you see the diversification by line of business. And this is, of course, important for us to be in all those lines of business. But because as I showed you, there's the example of the German motor business that -- I mean, not all classes move in sync. I mean, there's different movements in the different lines.

You can also see that the property cat business of our overall business, including the Life and Health, is only 2% of our overall income, which mitigates, of course, the effect that the continued reductions of the rate have on our results and also volatility of our book of business.

A little bit of account arguments, yes, while it is only 2%, of course, it's a much larger percentage of our profits in a good year. And of course, it's a much larger source of volatility, negative volatility in a bad year. So despite the fact that's only 2%, I would say, of the EBIT in a normal year then nothing happened, it would still be around 15%. So it is important. But it is very diversified with other business as it produces the majority of our profit.

And you can also see that the diversification also within the business group is group, particularly also in the Life & Health side where we have both a growing part of our longevity business that is uncorrelated to the mortality and the morbidity business. So again, we feel having this diversification is important to be successful in the current market.

This page shows you the various segments of our business and how they have performed in the various calendar years. And I would tell just take 2011 that, of course, was the year where we have the catastrophe losses in Asia, the earthquake in Japan, flood in Thailand. You also had the earthquakes in New Zealand. And as a result, of course, many of the smaller, more specialized reinsurers in that year actually had a bottom line loss. But we still have the ROE of 12.8%, mediated a little bit by a positive tax effect.

But you can see this is the result of the diversification because, yes, the headlines in 2011, where we were losing money. But as headlines such as for example, in that year aviation and some other classes performed extremely well. And so that shows here that diversification actually has a positive effect on the reduction of the volatility of the results. And that, of course, since 2009, that's what we are striving to do to reduce the volatility of our earnings.

This gives you the results from our economic capital model and, I mean, without stealing Eberhard's thunder, I would say that Hannover Re's group model was the first model that has actually been approved by any regulator in Europe. But Eberhard will give you all the details. But he also has this line, therefore, I will not dwell a lot on this but for it just shows you that diversification within the risk groups as well as for the company as a whole is a very important part because it allows us to write larger profit streams on our capital base saying we would be able to do if we would only be involved in a smaller segment of classes.

I was telling you that we have business opportunities and initiatives at all times. And if you -- if I go under Life & Health on the P&C business, this gives you our initiatives from the last 20 years just a few of those to illustrate that we're always involved in new business.

In the mid-90's we started the structured reinsurance. But actually we had it as a separate business group at one point in time. But this business is basically allows our cedants to manage the volatility of the earnings and the capital requirement on a structured basis, meaning this reduced risk transfer, not without risk transfer but reduced risk transfer. And we have written this business for the last 20 years.

Right now it's actually a growing part of our business because due to the increased retention of many of our clients, they are looking to buy facilities to reduce the capital on their retention and the earnings volatility that they have created by those larger retention. They are seeking the respective solutions from us. And therefore, at this point in time, this is a growing part of our business.

Facultative reinsurance close to my heart because I got the responsibility for facultative in 2000. Then we had the loss-making facultative book of EUR70 million.

Meanwhile, of course, with the help of Andre Arrago, who retired last year, we have increased that to more than EUR1 billion. And it's a major pillar of the profitability of our non-life business now, our P&C business.

Retakaful, another of our initiatives, we were the first of the traditional reinsurers setting up an Islamic-compliant reinsurer. This business has grown nicely and is particularly profitable for us on the Life and Health side, which is really -- I mean, the roots really of the Islamic compliance insurance.

Then your Credit and Surety 2009, when everybody else got out of that market, we increased. That actually has until today a very positive effect because we moved from the following market with some lead business to be one of the two main leaders in this business.

This business, of course, now has become very competitive. But our market position has been strengthened enormously so we continue to see very good profits from that business more than we would have seen if we would have this drawn in 2009 as well.

UK motor excess as of losses fell out of fashion with most of reinsurers when the PPOs of the periodic payment orders came into effect in the UK we gave full cover.

Now, we can say that was the right move because the number of PPOs in the markets are few and far between so that's a much higher rates that we get on that business we can now see, that we have a better deal than for those reinsurers that were writing the business only on capitalizing on the PPOs early on.

Then most recently, personal lines initiative in Asia, where we get in touch this group bias of insurance, provides them those fronting companies that also normally takes retention so we create business for the reinsurance market that wasn't there before. That's a very successful initiative of our office in Kuala Lumpur. So as you can see, as a result of that, the business over the time has grown nicely on the P&C side.

Of course, 2000 and 2008, following the World Trade Center, we grew very rapidly. Then we had a time of that development mainly when we got out of the Clarendon business and when we started only to write business from our parent companies, the Talanx Primary Group HDI that we keep not write all of their business and retroceded into the market.

But I would say since 2009, we have grown the business again and since then the compound growth of 9% is actually quite attractive. But you can see that in recent years we are not growing homogenously in all years to the same extent. But 2012 when the market conditions were good, our growth was more pronounced. The same is true, of course, in 2009 and the market hardened after the financial crisis. Same was true in 2006 and 2001. So we feel on the P&C side it's important to grow at the right time and not the same every year.

You can see that we have continued growth not only on the top line but also on the bottom line. We were growing and this slide just to show that it's good quality results that we achieved on the business because we achieved it not at the expense of reducing the confidence level of our loss reserves but quite to the contrary, we increased the profitability with increasing the confidence level of our reserves. So it was not the case that we were showing profits at the expense of the future profits. I feel that that shows there's a quality of the results if you were able to achieve on the P&C side.

On the Life and Health side, similar, also there we always have growth initiatives. These are only very few examples. And Klaus and Claude could show you a lot more and we have actually a lot more on the go. But I will not steal Klaus' thunder here.

Just to mention here the US financial solutions in 2009, this is where we have a little bit of the first move advantage because on the so-called non-economic XXX and AXXX reserves. They were supported all along by LOC capacity that was provided by the banks.

In 2008, due to the financial crisis, the cost of LOCs increased dramatically so we were able to provide our US clients with structures and solutions that they could see the non-economic reserves to optimize their capital on a statutory basis and a lower expense than the increased LOC cost, a letter of credit cost would dictate. This has been a very positive movement for us, a very profitable business.

And you can see as a result, the value of new business that we are creating continues to increase. And you see this is a very nice graph. But Klaus would tell you more about it.

I would say the value of new business is expected discounted future positive cash flows from the business. And it also deduct the future cost of capital. This means that if everything goes according to plan and your assumptions are proven to be right by reality, the IFRS profit over time will actually be about twice as much as a value of new business.

If you then go just a brief look at the makeup of the value of new business, you can see that financial solutions has been the largest contributor. And this, to a large extent, from the US business I was just telling you this is just an example of the years 2013 and '14.

I would also say the future cat flows that are shown here in the value of new business have a very different duration. Whilst the financial solutions is relatively short duration that, on average, I would say is around five years, which means that this value of new business is transformed into IFRS profit rather rapidly.

For example, the US mortality, much longer duration, I would say around 20 to 25 years, expected future cash flows so you will have, of course, see that, I mean, the IFRS result on that business is really created by the back years, not by the newly created value of new business. But it is, of course, constant expected profitability for the future. And on the longevity business, it's even longer term. I mean, this is 30 plus years. So we can see the makeup is very different and, therefore, also the transformation from value of new business into IFRS profit is very different as well.

That is just what I wanted to tell you about that.

So that, I mean, that positive value of new business and our gross initiatives. And our growth initiatives, we feel that we have outplaced to see continued growth of the profitability of our Life & Health business.

An important component of our earnings is, of course, the investment income that we are achieving on our business. On the investment income, of course, we are negatively impacted by the continued low interest rate environment. I mean, reducing interest rate environment normally is not much of a problem because you have the investments from the previous years and just the unrealized gains are just increasing.

But once the bottom is reached and the interest rates continue to be low, of course, it has the results that the yield on the investment is increasing, in particular, if you leave -- if you keep the risk profile unchanged. And that is the reason why since 2012 you see the R/I as a percentage of the overall invested assets coming down. This is just the ordinary investment income so it's outside, I mean, realizations and things like that.

But you can see that still we were able to keep the level in absolute terms constant. And the reason for that is that we have an increase in the assets and their own management. So the invested assets increase so we hide lower interest rates that's higher volumes. And of course, part of the increase in the assets is just the increase in market value. But the much larger part is the continued very positive cash flow that we have on our business. Therefore, we feel that we should be able despite reducing yields also in the future that this would keep the absolute level of our investment earnings rather constant.

This slide sums it all up and this slide really is the essence why we feel that we are confident for our 2015 profit guidance. And we feel that those bullet points and parameters that are shown here will also put us in good state to continue to be successful in the medium-term even. And that's not entirely unlikely even if the soft market continues and even if it softens a bit further.

One bullet point I would like to mention here, which is, on the P&C side, where we say we will have difficulty to further increase the confidence level of our IFRS loss reserves. And you have seen the first part of that in 2014 that we increased the redundancies further in absolute terms but not in relative terms. And it's really because we hit the boundaries of what is possible on the IFRS accounting. But we are still in a very comfortable position there to weather the storm of the soft market.

Important, of course, that we continue to have an attractive admin expense ratio compared to our peers.

Coming then to the profitability of the business, you can see that our capital base has continued to increase. And actually throughout this period, the average -- the overall increase was about 41%. The good thing is that from 2011 to 2014, the profit actually increased by 62%. So as long as this is the development, we don't mind the increase and the capital because then the ROE would continue to increase.

Of course, I mean, I took 2011 as a starting point here because it makes a nicer graph because due to the capital losses 2011 was, of course, not the most profitable year.

But if you look at the same from 2012 to 2014, I mean, the capital grew by 22%. But the profit only by 15%. And now, of course, that's where capital management comes into play. Therefore, if you see that in the excess capital then, of course, we have to, I mean, dampen the capital growth. And we have done that in 2014 with the extra dividends that we take, the extraordinary dividend of EUR1.25. And I said all along, we likely continue to do that in the coming years.

That brings me to this slide, which is probably one of the most important one of my presentation because the big question, of course, is will the market stay soft indefinitely or will the market continue to be cyclical.

What this slide shows you is the average RoE of the top reinsurers, which is the light blue line. And you can see in the dark blue line again the Guy Carpenter Rate-on-Line Index for the property cat business as a proxy for the market development that we have seen.

And you can see that in the years 2008, 2005. And 2011, the average RoE of the reinsurance market dropped below 5%. And each time that was happening you can see that there was a reaction in the market. Each time that was happening actually the market hardened and gave us an opportunity to grow our business organically.

You can see why the market continues to be soft because in 2014 and so far first half of 2015, the RoE stayed at double-digits. And as long as that remains, the pressure on the management of reinsurance companies is not there to do something about it, about the profitability of their business. And therefore we are seeing a continued soft market.

But I am convinced that should either through continued erosion of the quality of the business all through a major loss, the RoE again falls below 5%. We were still against the reaction. And of course, the reaction there would be more pronounced if it falls lower and it will be less pronounced if it's just like, say, 2011 where it was, by no means, a dislocation in the market but it was just, I mean, a frequency of medium-sized cat losses.

So from this point of view, I would say if you are able and this is our strategy to be more profitable than our peers is downturn of the market, we should be able to benefit, I mean, better than RPS from an upturn when the average market player has an RoE below 5%. That is how we try to position Hannover Re. And only time will tell if we are successful in that. But that is why we have the low expense ratio that is why we have a stable Life & Health business. That is why we have the buffers on our reserves exactly in order to achieve that.

So to sum it all up, reinsurance is a competitive but growing business. Reinsurance offers us the ability to grow in excess of the market. And reinsurance, particularly on the P&C side is continued to be a cyclical. Reinsurance is a good tool for insurance companies to manage that capital and earnings, also if they go into new businesses like cybersecurity. We'll tell you the details about it's an opportunity for reinsurers to support the insurance industry. And therefore, we feel that doing a business that our core business is reinsurance, we can be successful in the long-term.

Thank you very much.

Now I'm happy to answer your questions even though I have run a little bit over the time.

Questions And Answers

A - Karl Steinle {BIO 1986424 <GO>}

okay. We already have some questions. First, we start with Vinit. And please, Vinit, wait for the microphone so that all the participants following us through the webcast can hear your question as well.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure. Thanks, Ulrich. So Vinit from Mediobanca. Just one question really. This 5% trigger that you seem to suggest Hannover is waiting for again grow, what if it really doesn't happen. So what is the strategy or idea if this is not really the case?

A - Ulrich Wallin {BIO 4863401 <GO>}

If the average RoE of the reinsurance market always take double-digit, we will continue to be profitable and be happy with that as well. So we are not waiting for the RoE of the reinsurance market fall to below 5% because if it stays high, we have the opportunity to continue to be profitable.

However, with the current trend of the rate, which, of course, also as a result of the absence of major cat, it would be an optimistic view that we can continue to reduce the rate. But never fall our RoE below 5%. So I mean, of course, if the market continues to have double-digit RoE, our low expense ratio market position is a very diversified reinsurer, we feel that we will just continue to grow our profitability.

But if gravity comes to reality, then, of course, the market will drop and therefore our game plan is to be prepared for that drop and to be less affected the said drops and the average market player to benefit from the uptake after that.

A - Karl Steinle {BIO 1986424 <GO>}

okay. Any further questions? Okay, we continue with Michael Huttner and then with Frank Kopfinger.

Q - Michael Huttner {BIO 1556863 <GO>}

Just on the Life, I just came in so I'm really sorry I'm late. But the EUR750 million new profit and you say the IFRS profit did twice that. Given that you're getting new business profit every year at that level, should we expect therefore your Life profit be EUR1,500?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well as I said, I mean, the value of new business is the expected future cash flows discounted to present value and taking off the future cost of capital. But as I explained, I mean, the duration is rather long. I mean, if you look at the longevity business, this will evolve into IFRS profits over the next 30 years. So it's not eminent other than maybe the financial solutions, which is short as I explained. And I mean, we will only have those profits if our assumptions that of the basis for the calculations of the future cash flow are holding through on the test of time.

Of course, I mean, say on the mortality business, if the mortality reduces more than we expect, our profits will be higher. But you see, mortality is higher than expected. Of course, our profits will be lower and, of course, on the longevity is exactly the other way round, therefore, we like that diversification between the longevity and the mortality. But yes, I mean, that's not imminent. But we are confident that, as a result of that, we will be able to gradually increase the profitability of our Life & Health business.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Next question comes from Frank Kopfinger.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes, I have a question on your reserve redundancies to 7.4%. What would you say is the comfort level that you will be comfortable going forward to keep.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well based on our limit and threshold system, we are in the amber area because, I mean, we are still based on, I mean, on the IFRS best estimate requirements that you have for accounting. We still have a very conservative best estimate. So I mean, if that would drop in a soft market, say, to 4%, 5%, we were still in the green and in a comfortable area. So I mean, it definitely need to stay there.

It was very helpful, I mean, to grow it to that level in the really very favorable trading conditions that we had from 2009 to 2013.

A - Karl Steinle {BIO 1986424 <GO>}

Any further questions? From Roland Pfaender on this side.

Q - Roland Pfaender {BIO 3189513 <GO>}

Good morning. Could you provide us maybe with your view on the current growth of the P&C reinsurance industry? According to the figures we presented, it was growing by a little bit more than 4%. Do you think that might be materially lower than next year's? And do you see any disconnect in relation to the primary insurance outlook? Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well I would say if you just look at premium growth, I mean, currently this year you will probably see a continued growth of the reinsurance market and you might also see that next year. That is the result that, on the one hand, yes, you have a lot of the larger groups taking higher retentions. But we still see business growth in the emerging markets just Asia and, to some extent, Latin America.

And also in the established market, the primary insurance rates coming under pressure as well, I mean, there is more proportional reinsurance board in the market. So from that point of view, I think the volume that the major reinsurers write in the next few years would probably continue to rise. The quality of the business will presumably reduce due to the soft market because, I mean, up until recently I would say maybe outside a few line of business like aviation, the primary market rates were holding up better than the reinsurance market rates. But it seems that particularly in the US now also the primary market rates come more under pressure.

So I can't see any other questions right now. So if that is the case, I would like to thank you for the questions. And we will now break for a coffee to get refilled.

The next presentation will be from Eberhard. And he is presenting the reserving position. And we also will hear from Andreas Maerkert about the capital position.

So this will be feelingly interesting. But we have to contain our excitement until 10:30 when we continue.

Q - Unidentified Participant

Yes, yes.

+++presentation

A - Karl Steinle {BIO 1986424 <GO>}

Well thank you for taking your seats again. The next highlight that awaits us is the presentation of Eberhard Mueller on the reserving position.

I have to tell you that we have celebrated Eberhard's 61st birthday just a few weeks ago, which means that this will be the final occasion on which he addresses you all at the Investors Day. His presence here is something, which I personally will really miss.

Fortunately though, his presentation will be recorded so we can look back whenever we wish. With Eberhard sadly leaving us soon, you may ask yourself how is Hannover Re going to manage without him. Well you can see the answer already on the slide.

It's my pleasure to introduce Dr. Andreas Maerkert. He has been with Hannover Re since 2004. And he is, by nature a mathematician and actuary. Andreas heads the department for capital modeling. And in this role, he is responsible for the maintenance of our internal capital model and the associated applications including the risk capital allocation, also the definition of the limit system and the solvency to internal model application.

Andreas will not only be taking charge of group risk management. But also will assume the role of the group's CRO.

Eberhard, would you like to start the ball rolling?

A - Eberhard Mueller {BIO 1511045 <GO>}

Definitely. Good morning, ladies and gentlemen. And thank you for this nearly perfect introduction, Karl. We will do today the same procedure as every year. But with two voices. I will start from the actuarial side with a more boring stuff. The update on the P&C claims. But you know when an actuary tells you he is boring is the best he can tell you, it means stability.

From the more exciting stuff, I have only one piece here. That's the letter from the BaFin telling us that our internal model is approved dated 30th of July this year. I think it's the first of its kind in Europe. But all the details will be brought with them on the risk governance capital monitor and capitalization update internal model approval for Solvency II and sources of risk and exchanges in 2014 by Andreas, the final five minutes after I am closed.

Okay. Andreas is, as Karl mentioned, running our internal model since a couple of years. And he was doing all the hard work through our entire pre-application process that started in September 2008. And now with this letter, now we both earn something from our efforts.

I will start on the reserves with the usual picture, the makeup of the overall reserves, which meanwhile is EUR35.8 billion, another EUR3.2 billion more than last year.

Left-hand side, you will see the 58% property and casualty reserves being EUR20.8 billion, increase of EUR2 billion compared to last year. And the details are EUR12.8 billion from Hannover Re, EUR3.5 billion from other subsidiaries, EUR2.7 billion from our German subsidiary E+S Re. And the branches are contributing EUR1.8 billion.

On the right-hand side, we have the 42% being EUR15 billion, which is EUR1 billion more than last year, EUR1.6 billion split up EUR11.7 billion for benefit reserves and EUR3.3 billion for loss reserves.

I will concentrate in the next couple of slides as usual on the P&C loss reserves, which are very similar to what I presented you last year.

The US is now EUR5.5 billion being 27%, slight increase. It used to be 25% last year.

In Germany, a slight drop of two percentage points to EUR2.9 billion, used to be 16% last year, now it's 14%.

The remaining Europe EUR3.8 billion, a drop of 1%.

Rest of the world being stable, 18%, now EUR3.8 billion.

UK/Ireland, slight increase, 1%, to EUR4.7 billion.

And on the right-hand side, you'll see how we check those reserves and how we make those reserves.

From our home office reserve unit, the reserves are more or less controlled for Hannover Re, E+S Re in Germany. For our Canadian and France branches, for the Bahrain/Takaful, for Sweden. And from two years ago for Bermuda.

We have external appointed actuaries covering 4% that's less than EUR1 billion in Australia, Malaysia. And Shanghai driven by local requirements. And we are doing with our own stuff. But at the local level the reserving for Ireland and South Africa. As you know, IICH meanwhile has been relocated to Germany from 1/1/15 onwards. And they are also doing their own reserve analysis. But with -- having impact from Group Risk Management.

This slide you are all looking for comes now. All those reserves are going into the peer review by Towers Watson. And those peer reviews show the difference in the best estimate Towers Watson is assuming, the best estimate we are assuming for saving our reserves.

The figure I presented to you last year is EUR1.5 billion. I have the pleasure to show you it's still EUR1.5 million slight increase by EUR29 million to 1.546. But as we already indicated and as Ulrich mentioned, we are at the ceiling. We are at the upper end of our yellow range and our internal (dividend) threshold system. So we caught not again increased with the same speed when we did in the past.

In the past, we contributed always around 3percentage points of our combined ratio to the reserve buffer. This is -- this year it's only 0.4%. So it kept the level of reserve redundancy stable. But it not increased it any further. And that's, as I mentioned, already last year and the year before partially driven also by our auditors because that's the upper end an auditor is going to accept.

These reserves are analyzed in different segments. And what we will give you the same procedure as in the past, what we will give you is the full triangles of nine segments. It starts with general liability non-proportional. Second is motor non-proportional. Third, general liability proportional, then motor proportional, property proportional, property non-proportional, marine, aviation. And last but not least credit and surety.

We will give you the triangle. And thus on the right-hand side of this slide, we will give you the triangles for the underwriting years 2003 to 2014 that makes up EUR13.4 billion of reserves. That doesn't mean that for the older underwriting years there are no reserves. The opposite is true.

For the old underwriting years, that's the first column, 1979 to 2002, we have still EUR1.8 billion in reserves, EUR600 million coming from general liability non-proportional mainly from the US casualty business. But here the reserves are more or less mature.

We know that we have long-lasting losses in the US casualty area, medical; med practice professional liability are the staff, which take decades to be paid out in full. But here, the volatility contributing to the ultimate expected loss ratio estimate is hollower than for the more recent underwriting years that's 2003 to 2014. So we start.

In the triangles, we are delivering to you with 2003 going up to 2014. And this will then cover 64.5%, two-thirds of our entire reserves.

The segments including the older underwriting years all together represent about three-quarters of our gross carried reserves and that's exactly the figures thrown from our database we are also using for our internal purposes. But as you may know it on a more granular level.

Before now coming to the very detail aggregated slide as an example and as you know would, I have to touch again on the data description and information. We are usually telling you, which describes also the differences in our triangles to other peers.

Our data. And that the second bullet from the bottom, our data are on underwriting year basis. That means the underwriting year has the same premium quality. So here, on an underwriting year basis, we definitely know good years and bad years. And we have no mixture in between.

If you do, as some peers are doing accident year estimates, you have one beauty. The beauty is on an accident year triangle, the premium is fixed. The premium doesn't move. But you have different premium parts. We have incoming premium parts from previous years, which may have a different premium quality than the current year. And you have outgoing parts, which are not contributing to the accident year but to the next accident year where another premium quality also may dilute the full picture.

So here, we again have to state that we are convinced underwriting year triangles are showing you that two are truth of the quality of the respective years. But the disadvantage is that especially for the more recent years and for the most recent year you are lacking the premium, which will then come in the next calendar year to complete the underwriting years premium volume.

The data, the statistical gross reported loss triangles are based on cedants' original advices that's mainly the paid and case reserve information in some cases will be increasingly also getting IBNR estimates from cedants. But that's mainly on the proportional side. On the non-proportional, it's still some sort of unusual that we get IBNR estimates.

The figures in the triangles do not include business written at branch office and subsidiaries because they have a different data level. Those branches and subsidiaries then are reflected in the overall Towers Watson peer review. And the data; this also what I should mention are combined triangles for the companies Hannover Re and E+S Re.

So -- and here we go. That's a nice slide, explaining the world on one slide.

On the left-hand side, you'll see the aggregated loss ratio development of the incurred losses by underwriting year starting with underwriting year 2003 up to underwriting year 2014. The first column is the expected or current status of the IFRS and premium, which underlines my remark I made earlier on 2014. You will see only EUR2.8 billion whereas 2013 already is EUR4.6 billion. That's due to the fact that a large portion of the premium will be accounted for 2015.

On the right-hand side, the most interesting column is the first column. The first column is the ultimate loss ratio as some sort of best estimate we are using for reserving purposes. This ultimate expected loss ratio is drawn for the older underwriting years more or less from actuarial assessments for the more recent underwriting years more as a mixture between actuarial assessments and taking into account feedback from underwriters regarding the quality of an underwriting year.

To say it very simple, if we have a loss ratio of 80%, which is our best estimate for the underwriting year 2013. And we get messages from underwriters that the premiums are dropping for the same exposure by 25%. So we have to reflect this in our reserving by adjusting the loss ratio of 2014 to 100. That was just an example that did not happen. We got the message from underwriters funny enough, that the quality of the 2014 year is nearly the same for reserving purposes than the one-year developed 2013 year. You will see it in the next slide.

But let's stay a couple of seconds on this slide. The second column, that's the paid losses out of the premium. You'll see on the first column the paid losses so far for more mature years like 2003 you'll see 42% of the premium was already paid. For the most recent underwriting year 2013, only 12% out of the EUR2.8 billion premium is paid.

The second column from the right, the case reserve, that's what we get from our cedants, the advices from cedants especially on case losses.

For the old underwriting year 2003, it's just 4.5percentage points. For the more recent underwriting year 2014, it's 13.5%. It's not too much actually. So if we would not care about IBNR at all, then our loss ratio would be 25%. But that's, of course, not the (juices), we have to apply techniques and methods to find out a best estimate of our ultimate loss ratio for 2014. That's currently 79percentage points.

So when deducting from the 79percentage points, the 12percentage points already paid and the 13percentage points notified by cedants, then you get this quite sizable amount of more than a half, 53%, of the premium you have to set-up as IBNR. Then you have to pray that this will last. In the past, it did.

On the bottom of this slide, we have shown this as figures. The left hand-side is simply the development of the incurred loss percentages as graphs. On the right-hand side, you'll see how the respective loss ratios are made up that the line on the right-hand side, the gray line, is indicating the premium. And here you see the sharp drop from 2013 to 2014 is nothing you have to be worried about. That's again the fact that the major part of the premium will be accounted for next year.

On the other hand, on 2014, the green bar, you'll see the tremendous percentage, which is set-up as IBNR.

Coming to my last slide, to leave Andreas and have room for his words, the last slide is exactly touching on what I got as feedback from you a couple of times. What did I tell you? Last year, what did I tell you? Five years ago, how does it compare over time?

For the underwriting years 2003 to 2014, you will see here what did I tell you 2008 as being our best estimate of ultimate loss ratio. What did I tell you 2009 up to 2013?

And usually, usually it's dropping over time because we've started with a certain conservatism of these 3percentage points in the reserves. And then it's released over time.

Typical year for this is 2004 where we started with 66.9%, then we had a slight drop to 65.8%, 65.1% , 63.8%, 62.8%, 62.6%. And now 61.1%. So that's a release meanwhile of 5.8percentage points.

We have different developments. One of the examples, 2010, where it increased from 81.2% to 84.1%. One of the reasons is very simple. This is an underwriting year triangle.

And for the Japanese earthquake, with the renewal season in Japan starting from first of April and the Japanese earthquake being an event in March, it contributes to underwriting year 2010 because it was not already renewed for 2011.

So here, we got as a first indication that we should increase our loss estimate a little bit. So our initial expected loss ratio for 2010, underwriting year 2010 increased by 3percentage points from 81% to 84%.

Fortunately enough, meanwhile we found out the Japanese earthquake was very conservatively reserved after our first indications. So the loss ratio dropped again to 81.4%, 78.9%. And now it's again at 80%. I think that's Newcastle, isn't it a little bit?

But you'll see here you have some volatility. It's not just going straight down, it's going up and down.

The beauty is -- and that's now my last remark, the beauty is when looking at our current ultimate expected loss ratios for the underwriting years 2010, 2011, 2012, '13. And '14, it's within one percentage point range of 80%. That's exactly how I started 23 years ago when we did our first late loss estimation systems. Our default value was a loss ratio of 80%. Isn't this amazing? So let's keep fingers crossed that this will last when Andreas will give the presentation on this next year.

So I stop it here. Thank you for this so far. And I will hand over to Andreas for the capital model presentation.

A - Andreas Maerkert

So thank you, Eberhard, for handing over.

Thank you, Karl, for the nice introduction. And hello from my side to this audience. It's a pleasure for me to be here for the first time.

And I think Eberhard mentioned it is not the exciting part that he has had to present. But the building can be something that is quite exciting as well.

For me, one of the exciting elements working for Hannover Re is that we have to adopt the changing environments in the market. This is a regulatory environment on a continuous basis. So it's quite an exciting place. And we try to do that by maintaining a flexible organization structure that can respond to these changes that we observe every year in a flexible way and in a concise way. And this slide shows you our risk management organization and how it's embedded in our true line of defense model.

We put the chance of Solvency II to restructure some elements over the past years and also, of course, have to fulfill Solvency II two requirements. So those were Solvency II has been a big topic for us in the past year.

As an example, we combined all the existent tasks, the actuarial tasks under the roof of an actuarial function in our Group Risk Management department, which is of the quantitative controlling department of the Hannover Re group, responsible for all the models that we're are looking at in net cap pricing and also the internal model and, of course, the reserving metrics.

Hannover Re maintains a comfortable capital position over the years. So this is also nothing new from last year. We have relative to our internal target of Value at Risk 99.97% capitalization. So what can be seen as a 3,000-year event at the Q4 2014, 160% overcapitalization at that level so quite comfortable level. Also, sort of all of our peers that rate us in some way or assess our capital position provided a consistent view on the capitalization of Hannover Re.

Like the Solvency II notional capital requirements are fulfilled in a comfortable way for us and also our ratings maintain or confirm the stable outlooks this year.

Apart from our capital level, which is, at the moment, probably hit higher than the long-term average or at the end of Q4 since renewing a period for hybrid capital has had a very significant hybrid level at the end of Q4. But apart from the capital level, we also control the operational volatility or the earning volatility and it is reflected by our wish to maintain them.

A probability of negative earnings of less than 10%, currently the probability is 4.1% or 4.6% depending on we look at before or after tax figures. And this also reflects our reserving confidence level that can be used to steer this other earnings volatility.

Even the Solvency II coming into place, it's still the rating agency capital requirements that are the driving force. Our capital level is geared to the maximum of all the requirements that we face. So there's other requirements from rating agencies, from the regulators. And Solvency II is one of this. And also relative to our internal targets.

And this illustrative picture shows the current situations a rating capital maintains to be the maximum. And so this is even if Solvency II comes into force, no charge from sort of previous situations. And it's also a result of getting the internal model approved under Solvency II. Solvency II will not form a strong capital constraint to our business.

We have; I will come to that a bit later some benefits from approving an internal model under Solvency II, which are quite significant compared to the standard formula. And we have also some recognition of the internal model by rating agencies. So there is a willingness of external parties to look at our internal risk assessment. And when we provide enough reasoning, those external parties are accepting our internal risk assessment and include this in their assessment.

However, you see that under S&P, that's -- or under the rating agencies I just can -- from our perspective the only starting point and we hope that because of Solvency II, we'll be driving forward for bringing interim models in a more permanent role because they provide the real risk figures and not sort of a standardized template which wouldn't fit the reinsurance business model.

As Eberhard mentioned and also Ulrich Wallin, we will see the required surprise. I'm happy that we have reached the internal model approval so early this year although we entered this Solvency II application process quite early in 2008. We still thought that the regulators would use their full time scope but we were quite happy to received the letter in summer this year.

And the consequence really is threefold. Of course, it's nice to have it approved but that only means we have -- first thing is that we have consistent measurement under regulatory -- under regulatory perspective as we have it internally which means that any action that we take will change our risk profile and consistency under a regulatory view and under an internal view which has not been the case for Solvency II.

Of course, we lower our capital requirements, Solvency II doesn't become any driving force for our capitalization. And of course, we think that now we can present a real comparable risk figure risk assessment to the outside world once we have this internal model approved and once we start reporting the internal model figure which, we, by the way, do already for quite some time in our annual reports.

Apart from this pure capital situation, there have been a number of improvements or many improvements in this long period since 2008 actually of internal model applications. They extend to risk governance and the set of our risk management organization because actually a Solvency II compliance risk management organization is a prerequisite for internal model approval under Solvency II. So we had the chance to also improve in this regard. And also in terms of the model because there have been very intense discussions with their regulator and some of the arguments we took up and improved our model.

In terms of overall Solvency II preparation, we feel that we are ready to go for Solvency II. Hannover Re has always followed a risk-based management approach so from our perspective, Solvency II is something that now introduces something that we have internally also in the regulatory system.

So we are more positive to Solvency II although we, of course, also see that there is quite a significant compliance cost attached to Solvency II in terms of reporting and internal governance structure documentation elements.

We also think that there are market perspectives coming out to Solvency II. Many of our clients approached us with questions arising from Solvency II or from similar regulatory systems that are introduced all over the world.

We have in many countries attempts to introduce Solvency II systems which are risk-based and which would change the perception of our clients also on their risk position.

In terms of the figures, Hannover Re's risk profile has undergone some changes in 2015 -- 2014 and the most interesting aspects probably that market risk has not reached a level which is similar to P&C underwriting risk. It's still below the overall underwriting risk, which reflects that our main business is obviously the underwriting. So that's our business model.

But the sheer volume that we have and the economic changes in 2014 with the euro weakening and interest rates declining sort of made the investment volume even more growing. So the sheer volume growth together, we have a number of model adjustments that we also did in 2014 made the market risk grow quite substantially. And which is now one of our -- or has always been one of our focus also for our risk management and investment management.

We maintain. And this is also one element where we have a focus on, we maintain a high level of diversification between the business groups and also within the business groups. So that's important, that's a steering element in all levels of the organization. So between lines of business, between regions and between business groups. So we don't want to sort of enter into risk concentrations in any area.

In terms of some more elements of the changes, we have business growth in the P&C and Life & Health side which were the main drivers for capital increase there. So business grows available resources and own funds grow in the same speed as our capital requirements growth, also the economic environment decreasing interest rates and increasing euro -- decreasing euro at the consequence that the capital requirements or the risks denominated in euro then increased.

We did the mentioned model strengthening on the market risks side but we do positive cash flow economic environment as the volume increased also substantially over EUR4 billion and counterparty risk and operational risk stayed roughly stable or grow in line with the overall business growth.

If you look the one level deeper, we also see on this slide which is saying that, which Wallin presented earlier, that we have diversification in our areas, maybe remarkable is that in our longevity book has grown substantially over the past two years such that the risk associated with this book is almost getting in a similar level than the mortality book there.

So of course, that's not ensuring the same person with longevity and mortality risk but still we think that provides for some additional diversification in our book and it's something that is used for steering this information.

In the market risk area, our investment portfolio is dominated by fixed income securities. So credit and spread risk is the driving factor of the market risk and especially also for the credit risk assessment or internal validation and with respect to the risk assessment, it showed that we want to do some model strengthening in 2014.

With this slide, I'm closing and we're happy, Eberhard and myself, to take your questions.

A - Karl Steinle {BIO 1986424 <GO>}

If there are any. Okay, we start on the left-hand side with Andrew Ritchie and continue with Andrew Broadfield and go along the row.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there. Andrew Ritchie from Autonomous. A couple of questions, could you just clarify what you think your deployable access capital is then versus the binding constraint which is the rating agency requirement? I mean you gave that number last year, I recall, around the EUR1 billion. Maybe just tell us what that number is today.

Also, on your -- what is the sensitivity of your 253% coverage to the changing credit spreads because the credit spread component has gone up quite a lot and it's quite high. So maybe just give us a sense of what's the effect of that.

And finally, if you add more longevity business, is that still diversifying or is it now incrementally additive? Thanks.

A - Andreas Maerkert

The rating agencies including the internal model recognition that we get. So we -- so we maintain this excess capital there in Q4 2014.

Second question, how sensitive is the capitalization ratio to credit and spread risks or do spread level increased, its spread levels would rise. The market value of our assets would be impacted so we would have decreasing own funds. On the other hand, we would have decreasing SCR level as well because the volume that is the subject to the spread level shock, the additional spread level shock is then just lower.

It depends also on the spread level increase that is there. We have done some model adjustments where we think we have now quite a prudent level adjustment by the -- if there was a huge shock, you would also think about recalibrating your SCR to that.

Overall, we think that we have not a huge solvency sensitivity to spread levels but it's more related to the own fund's sensitivity that is obviously substantial as we have a huge fixed income book so spread shock will impact our own funds, our available own funds.

Q - Andrew Ritchie {BIO 18731996 <GO>}

So coming to the credit spreads on corporate blow out 100 basis points, what is the effect in your SCR coverage, the 253% coverage?

A - Andreas Maerkert

I don't know that figure here.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay.

A - Andreas Maerkert

It depends a lot of what assumptions you take on how your SCR model would change under that.

And longevity, I think we can't grow the longevity book quite substantially still. And still have a lot of additional diversification. It's still lower than mortality but longevity provides diversification within the other business groups as it's sort of almost a unique risk driver that is there which isn't sort of a risk driver which is very strongly related to risk drivers that we have in the P&C book.

So from the pure capital perspective there, I would say there is more benefit, of course, the question is, is the business that we are seeing, the business opportunity, are they profitable. So that's where we're looking.

Q - Andrew Broadfield {BIO 7273415 <GO>}

Hi. It's Andrew Broadfield from Barclays. Two questions. And one maybe for later, I don't know. But the -- when you're looking, you said the market risk component of your capital framework is growing a little bit over the last littler while relative to the rest of the risk categories.

And I guess if we look prospectively, I suspect that the conversation we had last night. But the P&C Re risk category probably wouldn't grow hugely because of the nature of the market at the moment. And but market risk will.

What's your top-down steering on how much market risk you're prepared to tolerate within a business which is really valued for its underwriting exposures rather than its market risk management, if you like. So just for that top-down steering is?

The second question, just on that market risk, maybe it's (maintenance), I'm a little surprised at the level of diversification benefit you get on market risk. So I wonder whether you can articulate a little bit about how you get nearly 2/5 of your market risk removed because of diversification as well. Thank you.

A - Andreas Maerkert

You know, the -- our risk budget for investment risk to your first question is allocated relative to risk-neutral investment portfolio. So we allocate a risk budget to that. And we -- at the moment, the allocation is about 50% of our overall risk budget to market risk. So which is also reflected.

But maybe Roland, you want to add to that?

A - Roland Vogel {BIO 16342285 <GO>}

Maybe I can add to that. As Andreas demonstrated to you, the increase has not been the result of a reshuffling of our investment policy. It had been driven by sheer volumes by the US dollar and by some model changes.

And so we do see optimization positive portfolio as we did before. And in that case, we have to look at the changing consequences of the portfolio as it is today. And I will refer to that in my next session.

So was it acceptable? So we didn't have any limitations in that regard. We didn't change the asset management policy. We had to look at the consequences of the changes of the market and there was no reason to change it.

So there are no limitations but there are also, from an asset management policy perspective, we didn't increase our risk appetite, although the consumption of the capital has increased by the factors that Andreas have mentioned.

Q - Andrew Broadfield {BIO 7273415 <GO>}

I guess my question is, there's a -- and maybe among -- but it feels to me that was a sort of passive consequences the way the business is evolving over the last four to five years, which has meant that despite the asset management strategy not changing, asset management is becoming a more important part of the overall business and therefore the profile is changing at the business a little bit towards market risk. So as it's a consequence as opposed to an active decision that you're making and how should we think about them?

A - Ulrich Wallin {BIO 4863401 <GO>}

I think it's largely the result of a model change. I mean it all really depends what is the real occurrence probability of a situation like in 2008. And we just increased the calibration on that one. So we are quite conservative there.

Which means the capital consumption, obviously, a market risk does actually increase quite substantially without changing the portfolio. And only minor involvement we see increased volumes.

A - Andreas Maerkert

Your second question relates to diversification within market risk, I mean the driving factor is obviously credit and spread risk. And we think that there is substantial -- we are exposed to increasing interest rates and we think there is diversification between interest rate risk and spread risk exposed to increasing spread -- increasing interest rate level.

And also, there is a substantial diversification between foreign exchange rate risk like foreign exchange rate risk means we are exposed to exchange rate changes, currency rate changes relative to the euro. So all of these elements we think are perfectly correlated to credit and spread risks. So for that reason, it's quite a substantial diversification also in the market risk model.

A - Karl Steinle {BIO 1986424 <GO>}

okay. We'll continue with Michael. All right, Andy, if you hand over the microphone. Thank you.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you. Michael Haid, MainFirst Bank. On the EUR1.5 billion reserve redundancies, if I understand correctly, 2/3 of this was created over the past six years. And I would like to get a better feeling of how this was created in theory or in practice as well. It could come from good luck, lower claims or it could come from low inflation and also it could have come from a structural over reserving.

And if everything had developed as expected, the normalized large losses and all this, how much would the reserve redundancy then be, or is it possible to say how much goes back to the lower inflation?

I ask this because maybe the hard market -- maybe the last five years is just an overly hard market and we are now in a normal non-life reinsurance market.

A - Eberhard Mueller {BIO 1511045 <GO>}

Yes. That's brilliant question for me. And what I showed in my last slide, five consecutive years currently reserved at a level of 80% loss ratio seems to be indicating we are not in a soft market, we are in a regular market currently.

Coming back to your first -- very first question, where did we build the cushion, more or less, this cushion was established over the years in the more recent underwriting years. You'll see it when looking in the triangle that -- look at the starting point. So the starting points, we are far north of 80%. And then they have come down.

Some business segments like German motor business are traditional reserves. German motor proportion is traditionally reserved in this manner. So there is a structural relief over time. Others, there, you have some sort of freedom in setting your bets estimate.

For example, non-proportional US casualty business where as you know it from the presentations over the past, we always started north of what Towers Watson found to be the best estimate.

This is still kept for a certain degree. You will find in the appendix, my usual slide on the underwriting years, the mid-2000s comparing where we are standing there and what might come in the future as further releases.

However, when going to the more recent underwriting year 2014, you will definitely note that we did not add our usual 3percentage points starting with 82, we just added 0.4percentage points starting with 79.9. So here, the expectation will be, it is sufficient, it is a conservative best estimate that will not create the same releases than you have observed in the past number of years.

Q - Michael Haid {BIO 1971310 <GO>}

So if I just take the last five underwriting years and I take 3% of the combined ratio, would that get me to kind of a normal level of reserve redundancies creation?

A - Eberhard Mueller {BIO 1511045 <GO>}

I have to be careful to give you a quick and dirty answer to this because we have several lines of business contributing to this overall triangle. So you have to be very careful in drawing conclusions from the overall to the single line of business view.

The positive developments of the past, partly, they're also driven by random -- by random events under property catastrophe side. So what I mentioned earlier, the positive development on the Japanese earthquake of 2011 could not be anticipated. So when we set up these reserves, it was not purposely overestimated. It was our best estimate at this time and this simply developed over time.

We had other segments where we even had to add something. Newcastle Earthquake on the property side where we underestimated. So it's balancing each other. The structural component is on reliability side and the structural component, the major part of this is in the US casualty business. And here, you go find. And this is again, what I can recommend to you, in the appendix, my rough guesstimate was still in there.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

I think it's fair to say that on the initial loss ratio takes on the overall book, we are normally close to 100 combined. So we start relatively conservative. And in the past years, that has proven to be higher, I would say, than our peers. But also to be quite conservative.

A - Karl Steinle {BIO 1986424 <GO>}

okay. I see further more questions. We start in the last row with Guilhem and then continue with Vinit.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Yes, sir. Guilhem, Exane BNP. I have a question regarding the press release we received last week on the EIOPA, potentially reviewing the methodology that we use to calculate the UFR.

Now, I recognize that you must be less sensitive to UFR than many other insurance in Europe. But can you provide us with some color on what's your benefit from UFR and then what's your view on the current level of UFR or do you think that the 4.2% is something fair or do you think that the review is something necessary going forward? Thanks.

A - Andreas Maerkert

First of all, the review is necessary. I mean the -- as long as the two framework comes -- goes into force (without) a method of reviewing the UFR. So that's one central parameter.

So it needed to come at some point in time and I think ECB created some pressure to make our EIOPA initiating this earlier, that's my impression. So I think it's good that they come out of this. I also think from what I hear from EIOPA representatives that they don't -- will sort of suddenly change the UFR in a dramatic way. So it's -- they'll probably provide for smooth process.

In terms of sort of our book, we are -- I would say we almost have no benefit from the UFR as such but we have some impact from the -- especially in the Euro area but also the start of 20 years to the UFR.

I would probably say that as we are quite for sometime in a low interest rate environment that the UFR is at the higher end as they should be. But it's also a bit judgmental, of course, because we are talking about a rate in 120 years time. So this rate shouldn't be changed from one year to the next a lot.

So it's an expert setting in the Solvency II framework which needs, of course, some review process but which also needed to be set at some point in time to make Solvency II work.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Good.

A - Karl Steinle {BIO 1986424 <GO>}

okay, the next question from Vinit Malhotra.

Q - Vinit Malhotra {BIO 16184491 <GO>}

okay, thank you. So two question please, one is on the operational risk which I saw a very small, 85 million increase, whereas my understanding from the latest quarterly conference call was operational risk was the key reason why you had to reduce your 285 99.5% to 265. Now, it's 253. So that's partly the question that how did the 265 go to 253, or maybe that is a rough guess.

And second question is just curiosity. You mentioned Inter Hannover is now risk-managed out of the home office in Germany. Was there a particular reason or is it just because the business mix is more commodity kind of exposure. So -- or what drove that decision please?

A - Andreas Maerkert

Yes. I'll answer the first question first. Operational risk is one of our lower risk categories but the standard formula provides for a higher capital requirement. There are two steps from the 285 to 253. The other step apart from operational risk which is the last step is that Solvency II has a sort of calculation mechanism which adjusts the own funds for minority interests.

The reasoning is transferability constraints that the Solvency II framework assumes here. So we have a cutoff of own funds and we go to Solvency II reporting own fund, on an own fund basis. But these are the two steps and the latest step is the large one.

Q - Vinit Malhotra {BIO 16184491 <GO>}

And the 265 to 253, is there something there, it's very low?

A - Andreas Maerkert

That's operational risk.

A - Eberhard Mueller {BIO 1511045 <GO>}

Yes, I think we can clearly state about 5percentage points are coming when going from our internal model which includes our operational risk assessment to the partial internal model that we have to replace the operational risk assessment by the standard model.

The difference is about 5percentage points in solvency ratio. So it's not the 20 points which were mentioned a couple of times or in this range. It's simply 5percentage points, what caused us in solvency ratio where we've been switching from our internal -- full internal model to the partial internal model replacing the operational risk component by the standard model.

Q - Vinit Malhotra {BIO 16184491 <GO>}

And can you just remind us, the 160% on the 99.97, that hasn't...

A - Andreas Maerkert

I think it's 285 on the 99.5.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sorry. This 99.97 at yearend disclosure was 185 range or could you remind us what it was compared to 160% now? It's from your slide, sorry.

A - Andreas Maerkert

Yes, I know what you're talking but what's the exact question?

Q - Vinit Malhotra {BIO 16184491 <GO>}

The question is how much has the changed been because of the Solvency II agreement with BaFin, of how much have you changed anything?

A - Andreas Maerkert

Pure internal targets, the value at risk, 99.97, it doesn't -- it's not affected by the Solvency II.

Q - Vinit Malhotra {BIO 16184491 <GO>}

So you haven't changed anything there?

A - Andreas Maerkert

Yes.

Q - Vinit Malhotra {BIO 16184491 <GO>}

okay. And the second question was?

A - Eberhard Mueller {BIO 1511045 <GO>}

Only the 99.5% that matters because that's the solvency ratio level agreed with the regulator. On the 99.97, we simply lose our internal approach as usual.

A - Karl Steinle {BIO 1986424 <GO>}

And Inter Hannover, Juergen, you can make a comment or -- if you like?

A - Roland Vogel {BIO 16342285 <GO>}

okay. And the reason why thought about transferring in Hannover to Germany was actually that it got far more complicated to cope with two regulators within one company because we had -- we had the PRA in the U.K., we had the BaFin here that was one driver, then also the business is far more internationalized and we felt we could also capitalize on some other synergies' internal administration if we have it nearer to our heart.

A - Ulrich Wallin {BIO 4863401 <GO>}

If I may add, of course, the advantage that we have in Germany is that we can, in behalf, enter into a contract within the Hannover which is profit and loss distribution contract Gewinnabfuehrungsvertrag.

And that means if we couldn't do that when Inter Hannover was a U.K. company, which, of course, means that the risk of Inter Hannover is really the risk of Hannover Re now. And that's also why the risk management is more tightly controlled from Hannover Re's risk management department because I mean it's really our risk through that contract.

A - Karl Steinle {BIO 1986424 <GO>}

okay. We have another question from Michael Huttner.

Q - Michael Huttner {BIO 1556863 <GO>}

On the 80%, I was looking at slide 8. And I calculated the years 2003 through 2007, the average of those seven years, the -- yes. And the average of those seven years for the ultimate loss ratio for that column is more like 66%. It's not a precise figure. It's not 80%. So I'm just wondering whether the 80% really should be 66% where there is an excess of 14 points of redundant reserves in there.

A - Eberhard Mueller {BIO 1511045 <GO>}

You are optimistic. We have -- as I mentioned, we have a certain realization, loss ratio realizations, which were random events on the positive side. So 2003 contributing here with a loss ratio of 51.3. It's the same random event on the positive side than it used to be in 2009 with the missing catastrophes ending up at 70.1.

So you are right, the average of 80% of the more recent underwriting just 2000 and 2014 which is potential for positive development but definitely up to the final ultimate loss ratio being 66%. So forgive me for this.

A - Karl Steinle {BIO 1986424 <GO>}

okay, do we have -- another question from Andrew Broadfield here.

Q - Andrew Broadfield {BIO 7273415 <GO>}

Thank you. It's Andy from Barclays again. Thank you for taking another question. You've talked a little bit about potential harmonization on the S&P or the rating agency model to your internal model in terms of the diversification benefit or -- yes, I think it was that.

I'm just thinking you've got a 160% coverage on your 99.97% You've got a fairly comfortable buff on your S&P rating at the moment. Solvency II is obviously very comfortable, it's not an issue for you.

And what are you targeting in terms of your -- or what is that capital ratio that you're targeting? Is the S&P this north of a billion that you want to target and therefore the S&P requirements come down? We see more capital come back. What is that steering number and how you're trying to manage it and how do you expect it to evolve? I'm not -- just in terms of that reconciliation to -- or harmonization process?

A - Andreas Maerkert

We have an internal target of maintaining 105% capital level of S&P requirements. That's our sort of target that we maintain internally. I mean we entered with S&P into discussions about -- they have a framework also for recognizing internal models. But up to now, their framework allows to only a small percentage.

We have 15% recognition of the internal model relative to their capital calculation. But there is still a long way to go until we -- the full internal model approved on the also S&P and then -- and that would be the next step.

So I guess we will still need to convince over time that the internal model risk assessment is more suitable and then we will decide how we can potentially relieve or use capital on that basis. But that's not something that's going to happen next year. There's not a lot of hope on my side that the rating agencies will approve internal models next year.

A - Karl Steinle {BIO 1986424 <GO>}

okay. I don't see any further questions on this topic. Oh, Michael Huttner, another one.

Q - Michael Huttner {BIO 1556863 <GO>}

Yes, very quickly. So the -- how much business are you getting from Solvency II later this year?

A - Andreas Maerkert

That's very difficult. We haven't carved out a number. We see a number of opportunities, we also see a number of threats that come along like larger groups maintaining more, doing more centralized retrocession, on the other hand, we had this structured deals that are becoming more prominent.

We have monoliners that have requested that -- have requested and may request more. So it's a very mixed picture and I don't have a premium figure for you, that's because of Solvency II.

I think on a worldwide basis, as I mentioned, we have the Solvency II-like systems implemented in China, in Australia for a long time, in South Africa, in Bermuda, Mexico, you name it, all is going towards a risk-based systems.

And there, I see more chances than threats from this risk basis and because all of these systems, they really recognize reinsurance and -- I mean all the Solvency I, you have these cutoffs on the use of reinsurance, these haircuts.

And now, the Solvency II is a regulatory framework which actually recognizes reinsurance both on the SCR side but also on the own fund side where the so-called risk margin. So we have a strong benefit from using reinsurance under risk-based framework.

A - Juergen Graeber {BIO 20978001 <GO>}

And maybe I can add a little bit here. We've seen indeed more demand as far as Solvency II trigger covers are concerned. There was a period when we had hoped for demand and there was very little in the early days.

And it has picked up a little bit what kind of covers are we seeing that is mostly quota to share so people really reduce their premium volume and also the reserves they are holding on their balance sheet.

And we're seeing more demand for so-called aggregate covers where people are protecting the tail end of the distribution curve. So mostly for TVAR between 100 and 200 years. And they do this to get capital relief not infrequently on multi-line. And multi-year basis.

Now. So our structured reinsurance team, they work on these solutions, they see significantly more demand in Europe. And as Andreas has highlighted, we also have it in other parts of the world where capital-based systems are following one way or the other at the Solvency II regulation. So it's picking up.

A - Claude Chevre {BIO 17369098 <GO>}

And so I mean, of course, we see demand increasing but we see also certain solutions that we have been providing for many, many years which are going to disappear.

Let's take a typical solution where you have typical kind of treaties where you're charged -- you have 100 expected claims, you're charged 200 premium. And at the end of the year, you say, after 10% of expenses, we provide with profit sharing.

So if the result is good, you get the profit share back. So you understand immediately that in this kind of solutions, there is no risk contrary. So the client keeps the whole volatility on this book.

And this is the kind of solution which under Solvency II, under SAM, under C-ROSS, under all those risk-based capital regimes are not efficient anyway anymore which means that we're going to lose this kind of business but we're going to replace it with reasonable risk-based business. So that's just from my side, maybe.

A - Karl Steinle {BIO 1986424 <GO>}

okay. Well thank you very much for your questions. Before we break for lunch, we -- I'd like to hand over to Klaus Miller, who is responsible for the Life & Health business in Northern, Eastern and Central Europe, which includes also U.K. and Ireland. And his responsibility also extends to the Northern America. He will give us some more details about the medium profitability outlook of the Life & Health business.

A - Klaus Miller {BIO 16886879 <GO>}

Yes. Welcome to the bright side of life. You might have locked out (inaudible) because the lunch break will be shortened by 12 minutes.

Some presentations usually start with something like the evening news. The evening news is where somebody says good evening and then proceeds for 15 minutes telling you why it isn't. That's different here. I really have some good news for you.

And it all starts even with the title, the -- when Ulrich asked me what you want to present on, I know exactly what is caught to his heart and so he would accept any title as long as the words growth and profitability are in it.

So I've just added Life & Health and then I guess it was Karl Steinle who told me, "You have to talk about the medium term because short term would be Q3. And Roland has not yet finished the Q3 numbers. So anyhow it would be Ulrich job to talk about that." So Q3 is out of the scope. And long term, we all know that we are all that. So that's not very interesting either.

So I would like to tell you a little bit about the growth and profitability targets we have on the life side. And there was one question in Ulrich's presentation which I would like to pick up at the very beginning. It was from Michael Huttner I guess.

He asked Ulrich what about this huge value of new business, when does it turn into IFRS profit just to make that deal. Ulrich said, it might be even more than this huge figure, it might be twice as that. Usually, he's quite good at estimating that. I think twice as much is the right figure. But it spreads a little bit.

We have basically three contributors to the value of new business. We have more. Everybody contributes to that, otherwise, we would not like the business. But the three largest ones are mortality solutions in the US, financial solutions in the US and longevity.

And as Ulrich pointed out, yes, the capital costs are included in the value of new business. So when you go down in the P&L, you see first, we have three mouths to feed here, first are the employees, we call that salaries and expenses and administration expenses.

So what is left is called IFRS EBIT. Then we have to feed the taxman. What is left is called net income. Then we have shareholders and the feed there is dividends. And what is left is then the value of new business, which increases the value of the company.

Ulrich mentioned these three pockets. And he was absolutely right to say in average, maybe it could double the IFRS or the value of new business could double when it comes as IFRS earnings later on.

But this value is very much from these three different pockets. US mortality, the organic business is extremely profitable but it's a long term because of capitals are significant and earning these costs of capital, if everything works as expected then we don't need these expenses. But highly we have to pay this dividend. So you will see that part before in the EBIT.

Longevity, even more so, even longer term and we do not earn much more than the cost of capital in the longevity business, something in that value of new business is significant contributor but it's really, really long term. So for longevity and mortality solutions, the EBIT coming out of this value of new business would be substantially higher than the value of new business we have shown.

Slightly different situation with the financial solutions business, Ulrich mentioned about five years, that is why for financing business, cash financing of acquisition costs, this is somewhere between three and 10 years usually for our business. And average duration, probably five years, fine.

But then there is financial solutions business from the US And this also is long term. But the financial solutions business is usually booked as FAS 113. It's deposit accounting, basically fee income, extremely profitable, more than USD100 million each year. But carries more or less no capital cost. According to our internal model, we have to book it as deficit accounting. It carries no -- or yielding no additional capital cost. So there is not more than what could come out of this.

Going on with answering a few questions, one of the questions in the last couple of years was, from this audience, we have concerns about US mortality especially the so-called Brock portfolio and Australian disability. And you have to listen today because it might be the last time we'll talk about that. We think we have solved the problem now.

VNB, I talked about it. And I know we'll give you a few more information about the new business initiatives we have. But let's start with these three ingredients for the increasing profit we expect from the Life & Health business.

One is in-force management. And you might be a little bit surprised because many people say it's very difficult to do in-force management on the life side because you have long term treaties, premium is fixed. Yes. And no, first of all, you can do something on the claim side, not necessarily in mortality.

So the last time that somebody was revived, that's about 2000 years old. But on the disability side, things can be done. And we have started doing a few things in Australia, for instance.

But even on the premium side, in the US, YRT premiums can change. You cannot just change the premium because you want so, like we have made an awful lot of money, now, we want to make more money and tell the client we increased the premium. This doesn't work.

But if we can show that and you know in the years 2000 to 2005, underwriting discipline in the US was not really great. If we can show that, the client does not fully stick to what was agreed to in terms of underwriting standards and the treaty then it is possible to change treaty terms.

Of course, the client has the right to cancel the treaty and recapture it if we increase rates. And we will never ever be able to recoup the profits or the money we have lost in the last couple of years. But going forward, we can get to at least the breakeven.

So we have increased rates in the US, the YRT business. And we expect next year about USD15 -- 1-5 -- million more premium for the same business. So this is down adjusted. We are still working on that, that might be more in the future. But what I am telling you about today is just what we have already achieved.

The other thing I will elaborate a little bit more on is letters of credit. We have found ways to optimize that and (again, at the rate) of, I would say nearly all our LOC costs in the future. And we have already closed a deal structure on the 24th of September. So quite recently this year, which will save us USD28 million in LOC fees as of now per annum.

That means about USD7 million as of October this year and USD28 million next year. And about the same for the next couple of years of costs going down over the next 30 years. But the total savings in present value terms is a medium term three-digit number.

We also talked to clients about optimizing post-level term rates that after the level term in the US, the rates go significantly up. You have very high lapses. And by optimizing these rates, we can optimize the net income for the company and also for the reinsurance.

This is early days because what we have just seen is the first post-level term of the 10-year term. The portfolio we bought was written in 2000 to 2005. So from 2010 to 2015, all the 10-year terms matured and entered into the post-level term with all these high PLT rates. And this is something what you will see again for the 20-year term and the years, whatever, up to 2025.

We have seen rate increases in Australian group business. Claude was able to -- well, his colleagues in the Australia were able to increase premiums by about 100% for some group business.

We have also terminated some business in the US like a 300-million health contract where we have not been able to agree new rates for the client, reported underperforming and decided to give that up.

So you'll see an awful lot of volatility in our top-line in the future that could happen but Ulrich doesn't care as long as the bottom-line is fine. So I take that as a guidance to act accordingly.

About the value of new business, we have already talked a little bit. I will elaborate a little bit more on that. Then growth strategies, there are quite a few things going on and I will tell you more about that, unfortunately, only about the things which are known in public already.

There are a lot things going on which I don't want to be, let's say, placed on our website and I can't give you all the secrets here. But there are lots of things you might not know but they are basically publicly known and I can talk about that.

What I will do -- but back to the Scottish Re acquisition. And what I have shown here is the EBIT of the Scottish Re portfolio that includes (Brock) and the two other smaller blocks we have acquired, (Big Mac) and Clearwater. So it's a total Scottish Re portfolio.

And you see that in 2009, we have shown a significant value of business acquired, USD143 million. The next two years, '10 and '11, basically performed as expected. We knew from a technical side it was thinly priced.

Then we saw significant deterioration, significant reserving from our side in 2012. 2013 seemed to be more or less back to normal. That is not correct. We had a significant recapture on, not one, many different clients in 2013, which had a substantial positive impact on the result of (Brock) of about 16 million. And we saw that result in 2014 as well.

Overall still without going into difficulties and trouble with discounting the values, adjust. And added it up, we are still USD42 million positive. The question is, what can you do when you see a situation like this?

Of course, you can increase YRT rates, you can work on letters of credit, I will talk about that. But the other thing you can do is you can try to look -- make this look smaller than it really is by adding profitable business.

And that's basically what we have done as of 2010. You see on the left bottom side, the bottom left side, the USD42 million again and you see the new business, the organic business we have written in that time. And this add up basically 20, 22, 23 million each year to the bottom-lin.

Over this timeline, it was USD69 million. So in total at the end of last year, it was a profit of USD111 million over the lifetime of this portfolio.

So what we expect to do is, of course, to grow this number. This should increase. We do not expect that this stays at USD42 million if we have losses in 2015 and we have some in the first half year.

You have seen the accounts. Then the USD42 million will become smaller. The USD69 million should become bigger. But over time, this problem should disappear. And this is something what I would like to show you on the next slide.

Please note that this is the net amount at risk. This is the risk measure. This is the portfolio we have in-force. And in 2009, the Scottish Re portfolio was 95% of the total portfolio in the US mortality solutions. And only 5% was with other business, organic business.

The premium, if it's YRT premium, it increases. So over a long time, you might see stable premiums. But the risk behind this premium decreases because the net amount at risk is something that should go down. And they have gone down significantly.

Today, although the net amount at risk might still be, I can say, broadly the same as before but now, 29% of that is very profitable organic business and only 71% is the old Scottish Re business.

So this has improved significantly over the last five years and it will continue to go like that. So in 20 years, the blue part of the bar will be nearly gone and it will all be the great part which we believe is very profitable organic business, what we are writing.

Then I also mentioned letters of credit costs. Starting in 2009, we have letter credit cost slightly increasing up to 2011 then we bought another block, Clearwater, which was profitable. We already knew that the (Brock) portfolio was thinly priced. So the pricing for Clearwater was better.

Also, there were some changes in the LOC structures, what we brought from banks. So the prices went up. This was planned. In 2012, we had nearly USD50 million of LOC costs. That would all include annual LOC costs. And we started thinking about getting rid of that, not getting cheaper letters of credit but really trying to avoid this. And something really had changed in, let's say, the mindset of the regulators.

Initially, they asked for Triple-X reserves and said "You deposit cash," then everybody found out cash is very expensive. So LOCs will do. LOCs were accepted as long as they came from accredited German -- oh, not German, a US bank or some German bank, whatever you need a kind of license in the US to provide these LOCs.

At the regulator front, if you have an LOC from a bank, everything is fine. For many banks, that might be true, for some, it wasn't. In the financial crisis, they learned that there are some banks -- nothing happened to the business. But the letters of credit disappeared. Whatever Lehman Brothers has issued was suddenly not worth much. And the regulator realized that maybe they should also accept other sources of guarantees.

So the business. So far, flew just from the US to the Irish subsidiary. All of this US business is in the Irish subsidiary or most of it.

Theoretically, Hannover Re Germany could say, if the business really trend sour, we have USD50 million losses each year. We could say, "okay, we don't pay that. And if Ireland cannot pay any longer then therefore we let them default and let them go under, we don't pay the claims as Hannover Re Group." This doesn't work.

As long as the problem is solvable from a Hannover Re Germany point of view, we would always pay the clinks. All our business would be over if we let our Irish subsidiary go under. If we have to do that because there's a pandemic and we have 5 billion claims, that might happen.

But as long as we've talked about 50 million or even more, even 100 million, Ulrich would not be happy, I would not be happy and my supervisory board would tell me a few not that nice things," but we could still pay that. And as long as we can pay it, it's not an option to that Ireland go under.

So what we did was we basically provided a kind of guarantee to Ireland that we would pay the claims and the regulator accepts that. So before that, it was a deal between the US and Ireland and Hannover Re Group have for -- have the theoretical. And I would like to stress that, only theoretical option to let Ireland go under if it happens.

Now, instead of using LOCs, Hannover will step in if necessary. We doubt that this will ever be necessary, first of all, because we don't believe that the business would be that problematic, in any case, we could increase capital if necessary, or pay the claims one way or the other.

But we did not really change the risk for the group. It was not an option to let the Irish company go under and now, it's legally not even an option. But it doesn't change anything for us other than we don't pay the LOC fees any longer. We save USD28 million each and every year.

You can look at it as we have printed our own LOCs, sort of explanation. The technical details are a little bit more difficult but basically, Hannover Re in Germany is now also liable for the US business up to the Triple-X reserves, not beyond that. But up to the Triple-X reserves, if at any point in time, Ireland is not able to pay that.

So this is one of the problems we believe we have solved and we have USD28 million less LOC costs with USD15 million higher YRT premiums for the same business. We know that next year, the result will be 43 million better than it otherwise would be.

Other tricky question, is that now close to zero, is it about zero, are we rich, are we still making losses? This has to be seen. There is some more business where we can increase premiums. There is some more letters of credit where we can save the LOC costs. At the end, we believe that we will end up with a zero or small profit in the midterm future. But as of now, we are saving already USD43 million each and every year, okay, decreasing over time.

Next page is the disability income insurance business in Australia. And what you see here is probably worse result of the last years then remember, what we have put here are the technical results.

Net for our own account, we retrocede a lot of this business. But what we have not included here -- because it's just technical result and IFRS EBIT, we have not included the tax effect we have from this double taxing agreement with Australia.

In Australia, you could have chosen and we have done that a couple of years ago that you get taxed for 100% of the business in Australia and then, of course, if 90% of the business goes to Germany, they are taxed on the profit here as well.

So we have paid double taxes or what is the case here in case of losses, we can deduct taxes twice. So the IFRS profits or losses you have seen in our results are significantly lower than these technical results.

And what is also not included here is that we retrocede a lot of business. These are net technical results for us but we get an over writer for the (session) to our (Retrocessions there). And this is also included in the IFRS results but not in our technical results here. So this looks much worse than what you have seen in the last couple of years in our balance sheet.

Why I'm showing this to you, we have increased reserved significantly in the year 2013 with an extra AUD100 million going into that. And in 2014 and now, '15, we expect this to be broadly even, plus/minus a couple of million cannot always happen with changing interest rates, with introduction of new mortality tables and disability tables.

There will always be a little bit of volatility but we have no reason to believe that we will see anything similar to what we have seen in 2011 or '13.

This is the disability income individual business which we have already canceled in 2009 which is now in runoff.

The group business also had its ups and downs and was quite profitable till 2011 than we had three years of negative results basically because some lawyers started developing new business model trying to convince people that they should go to courts and not back to work.

And so the group business which is only up to three years rate guarantees sometimes even just one-year rate guarantees, this is back into profitable areas already by now, even that profitable that we have not been able to renew one treaty where the client expected after pretty good year, significant rate decreases, we don't agree to that. And have given up more than 300, was it 360, AUD360 million in premium just because we couldn't get the rates we wanted.

Question is what do we do with these reserves here, this 100 million? This is basically over this business which is we knew to much better terms. But the result here is these are negative results, we would expect if we have not increased the reserves significantly.

So this means there are 18 million taken from the reserves we have set up additionally and flow to the bottom-line result so that we get to zero. So this is a decrease of the additional claims reserves we have set up as a cautious method. So the TPD business should be already back in line with our profit expectations.

One thing we have not discussed so far is every now and then, we have questions about longevity, do you really believe in that, are you making money of that? Ulrich mentioned profits come much, much later.

Reason is that you can't make much of a mistake in the very beginning because in these longevity swaps, the swap current, pension payments, again, the expected pension payments and the expectations today is exactly the pension you have to pay out today. So they can't get at times zero.

After a year, if we expect 1% of the people should have passes away and it's only 0.8% of the people then it's tiny. But this gap could widen and we have designed the profit structure in a way that we earn the money according to the risk we are running. So after five, 10, 15 years, when the risk is the highest that this has widened, if it's not -- if it has not widened then the profits will come through.

You can't make a loss in the very first year because you know there are 1,000 people next year, that should be 990. And maybe it's 992. And the two more doesn't create a huge loss.

So from all the -- and this year is the enhanced annuities business. What we have written in 2009, we expect today according to our analysis that mortality is about 100%, which is good for longevity. It wasn't that much business. So all the confidence interval is quite large.

In 2010, when we look at that now, it's a little bit below 100%, that's bad. But the confidence interval is wide enough to cover even up to I would say 112%. So it could well -- very well be profitable.

At the same then, we have changed our pricing a little bit. It was possibly on the market to charge a little bit more. So now, in '11, '12, '13 '14, this went up. And the total on average we believe that we have a very healthy profit margin in the longevity business. But you will only see it in the next five, 10, 15 years, most of that.

This is enhanced annuities. This is immediate annuities individually underwritten. Now, block transactions, in a way, you have to -- this graph is in terms of the data points and confidence intervals exactly the same as before.

But here, it means we have written three treaties in the year 2008, Company A, B. And C. Somebody told me there is a typo I guess. 2012 is K and not H. So it's not the same one as in 2010.

These are large portfolios. That's what you can see especially when the confidence interval is very small. In total, we are above 300%. That's where we should be, where we want to be. You cannot expect to get the same levels as with enhanced annuities where you're underwriting individual policies.

Here, the mortality is pretty clear. If you get a huge block of business, pension fund with 100,000 people then mortality is clear. You can't price for 20% return. That doesn't make -- it would make sense but you can't get it. So we are very happy with these block deals. Again, most of the profits will come in the years five to 15.

Are we still writing new business? Yes. We do on the pension fund side. This is the quoting activities in the last years. So in 2009, we've quoted for 23 blocks and we won I guess, it's three blocks. Then it went up, down.

Most of this in the U.K. This is the dark blue and the lighter blue is quotes outside of the U.K. what you see is that this goes down a little bit here in the last years. It goes down in total because we have decided not to quote on some blocks.

We see basically everything in the market. I don't think that there is any deal that we have not been asked to participate in. But we have rejected to do that in some cases just because too much work and we have to pick the ones we think we have a bigger chance to win. And in some areas, we just believe that whatever we quote will finally not be the winning quote anyhow and then we say just the work to participate in them.

So we pick and choose more than we did in the past. And we also tried to shift a little bit away from the U.K. and to quotes also in the US and Canada and Australia and South Africa and some European countries. So although probably for a while, the U.K. will still be the biggest producer of these pension blocks. We shift that to the rest of the world.

I guess this is something what you had seen before and I don't want to dive too deep into that. This is our reinsurance universe and I guess Claude Chevre explained that in one of his sessions earlier.

I would just recollect this in a sense that I'll give you a counter example, what is not within the white triangle what we look for. Not in the white triangle is, for instance, high quota shares in U.K. mortality.

In the U.K., they have a 100% quota share. The reinsurers take 100% of the risk. The insurance companies still do the underwriting on their own. Maybe the claims management on their own, they just pass on the risk to the reinsurers.

Some reinsurance -- reinsurers are happy to write this business. We are not. And why do we believe we should not participate on that, it's not part of these five categories we have defined. High growth markets, U.K. might be a growth market. Some people will grow in the U.K. but I doubt that the traditional players will be that. Other people will take market share from them.

These large players are not companies in transition. They still do the same thing as they always did in the last years. These are not alternative distribution channels. They just sell these via the independent financial advisers.

This is not directed to underserved consumers. It's just the traditional policyholder. And it's not hard to quantify risk. And this is the main point here. You get an awful lot of data from the big players and they'd tell you exactly they will go for the cheapest.

And because you really can't analyze the portfolio, the margins are extremely thin, rates are thin or even from my point of view, sometimes negative. So if these are not hard to quantify risks and the client knows more about the risk than we do then that's not a good starting point for a corporation.

So we concentrate on things like the vitality concept. I will talk about digitalization and micro insurance and some other things we have already mentioned. Claude mentioned even Solvency II-like. In China, they call it C-ROSS deals for financial solutions.

We concentrate on Australian group business. We have some direct to consumer activities. We have recently started an Internet platform to sell policies in Malaysia, an insurance company but the risk is mostly passed onto us.

It's cooperation with an I.T. company, extremely easy to sell policies within 7 minutes, very few questions, you get that. I'm not talking about EUR20 million cover and maybe ringgit in this area. But certainly not large (sums insured).

And I have talked about things like runoff management, (Hailubaga Lim) we are active in Germany with (Hailubaga). And in Australia as well. We are also active with somebody else in Lichtenstein and Switzerland. So we have now two runoff platforms. We are managing both as minority partner for the time being. And I will talk a little bit about our point-of-sale systems and where I think this will go.

But first, vitality, this is lifestyle underwriting. And in contradiction to what most of the people believe, lifestyle underwriting is not about giving you additional credits or reductions in premium for improving your health. You might want to do that.

And for health business, it might work. So if you start exercising and start with a healthy lifestyle, that might have some effect or will have some effect on your health insurance. And you might feel just better, go less often to the doctor.

But it will not change your mortality in the next five years. Claude Chevre is running marathon, I'm playing chess. If I would join in on his morning runs and training sessions, I don't think that would improve my mortality, probably quite to the contrary. On the other hand, if he starts playing chess, I don't think he gets any brighter.

Vitality, the concept, helps you to select people. These are affinity groups. And we are the main supporter of this worldwide. We have developed that with Discovery in South Africa that is well known. We are their reinsurer for many, many years. We have helped them to transport back to Australia. We have helped them to find a license provider, an insurance company in Asia.

So are participating via reinsurance and that, we have helped them to find somebody in the US We are reinsuring that. We are talking together with them to people in Canada, to the -- in the U.K. and Continental Europe. So we are promoting that together with Discovery. And we expect an awful lot of business from that and the reason is why should that profitable business.

And these are figures from Discovery, vitality figures and the impact on mortality, critical illness and lapses. Just to explain that a little bit, 100% is the people who are not participating in vitality. So this is the market average.

Then just the people who have signed up for vitality that could have various different meanings like you go to a gym regularly and you agree that whenever you swipe your card in the gym, somebody tracks that you go that twice a week for two hours.

They don't check what you do there. You can just sit there or like me, go to sauna, which is quite healthy as well because we relax. But nobody tracks how much weight you lifted or whatever you did there. But at least you have been there twice a week for two hours.

You have bought very healthy food. You have done other things which are good for your health. And if you are willing to accept that, could go as far as using one of these wearable devices which then sends regularly information to somebody.

But that's not even necessary. Just for signing up for that shows that the people who sign up for vitality concept have on average better mortality than the people who don't.

It's not really surprising because these people obviously care for their health. They might not have the willpower to exercise like me but at least they take care of their health, they go to the doctor regularly. Then, of course, it gets better when you get moderately engaged or highly engaged, that's fine.

Where it doesn't have an effect is on CV illnesses. If you talk about cancer, heart attack and stroke, even the people who care for their health cannot really predict that -- these three things. And these are the main diseases covered by critical illness cover.

And what is also interesting is lapses, when you start -- when you enlist for the program, your lapses go down a little bit because you wanted to do this and you stick to it even if you don't engage. But at least you had a certain commitment to stay with the policy and do something.

But if you start exercising then, of course, you would lose all the benefits you get from that. Maybe these three vouchers from Starbucks or whatever, it's an offer, you would lose that if you -- if you lapse your policy. So there's a significant impact on lapses.

And now, just think about this just for signing up at 20% of your premium as additional profit. So what Discovery could do is offer the same policy for 90% and still make a 10% profit or maybe 95% is enough. So make 15% profit.

Whereas the market trade is probably 105, very thinly priced, on average, 100 is the claims you have to pay and you're charged 105. So the difference for vitality is from 105 to the real mortality. That's what they make and that could double, triple or quadruple your profits.

These are the things we try to support. On the lower left, you'll see vitality, that's what I've just explained. The Internet platform in Asia, that's Malaysia, what I've just mentioned. We also cooperate with distribution network in the U.K.

We want to build a brand name, maybe even establish a life insurance company, getting a license. Apparently, we have designed all the products for them. We reinsure them 100%. We do that. 20 minutes ago, I said we don't do it, we do it. But we do the full medical underwriting for that with our systems. We also do it with the latest version of our in-house plug and underwrite point-of-sale system, reflex.

Vitality is basically all of that one way or the other. Digitalization can have an awful lot of meanings. But that basically means reducing expenses for the sales force. That's what you have to achieve.

Reflex is something what we have developed and this is -- you can say just another point-of-sale system, everybody has one. But the focus here for us is the process analysis. It's not that we want to add another 500 diseases which then can be automatically underwritten.

This would cover about 1/2% of all the policies, all the applications. What we want to do here is add third party data like the drug register in the US They have other, what's it, the car register where you -- I guess in Germany, it's called Flensburg, where you collect your points for speeding. They have something similar in the US and you can link that through the underwriting process.

It's a very easy to modify route sets so we want the client to be able to change routes themselves. So it's not that they have to ask an I.T. company to change the route. They can do it on their own.

And it's not -- I'd say it again, everybody does basically the same quality of underwriting decisions. I don't see that we can market this system by saying that it's the best underwriting system. It's as good as all the others but it's more flexible and provides you with much more information about what you have done.

Last month, you underwrote 2,000 cases and you can drill into that and analyze that most of them were accepted, about 150 were rejected, 60% of that due to heart diseases, 20% due to something else. And you can fine-tune the underwriting for that.

And the last one which I will mention only briefly is micro insurance mainly in Asia would make sense in some other part of the world as well, could be Africa, could be Latin America. It's huge potential but also digitalization plays a role here.

You cannot ensure a few 100 people without the help of digital devices. This doesn't make any sense. You can send people there, agents, independent agents, brokers, that doesn't work.

You also have to make sure that fraud protection is in place. You have to find ways to collect premium. You could do that via mobile phones. And in many cases, these are state-owned schemes where we cooperate with the state who provide that.

Will this make us rich in the short term, midterm? No, you will see a meaningful effect on the P&L at some point in time. But it will not be overwhelming in the sense that this is another 200 million profit, I doubt that, this will happen in the next five to 10 years. But at the end when this -- these countries improve, their quality of life, suddenly (inaudible) will get higher.

And the last slide basically goes back to what Ulrich already said and that's what he basically requested growth both on the top-line as well as bottom-line. These are the numbers. You had seen the value of new business and this will turn into IFRS profits including the capital costs at some point in time.

So far in the last five years, we have delivered on the growth. Every now and then, it's a little bit stable, just 200 million but (inaudible) 800 million more. I just mentioned that we have given up already 600 million this year.

Nevertheless, we hope that 2015 will follow this blue line there. We're quite confident that it will, a little bit above, a little bit below. We will see if the IFRS profits will show up in the midterm future.

Thanks for that. And now, you have to decide whether you want to ask questions or you want dessert.

A - Karl Steinle {BIO 1986424 <GO>}

So some -- some colleagues have already made their decision. We start with Will Hawkins here and then continue with Kamran.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you. William Hawkins from KBW. Just briefly, when you were talking about the LOC change for US mortality, you gave us the figure of $28 million for the expected improvement to profits.

I'm surprised you've not said there are some compensating spike in capital intensity because presumably, Hannover Re is putting up more guarantees. But that wasn't referred to during the presentation that was talking about the -- you know, why the required capital for underwriting Life & Health changed. So is there a -- there should be a compensating capital cost, I would have thought.

A - Klaus Miller {BIO 16886879 <GO>}

No. Why should it?

Q - William Hawkins {BIO 1822411 <GO>}

Because --

A - Klaus Miller {BIO 16886879 <GO>}

We have this business --

Q - William Hawkins {BIO 1822411 <GO>}

-- we have more guarantees taken before.

A - Klaus Miller {BIO 16886879 <GO>}

-- business. Nothing has changed. So far, Ireland had the business and the whole risk but we don't care where it is in the group. Andreas Maerkert calculates the capital requirement for the group. And whether it comes all from Ireland or all from Hannover, it doesn't matter.

There is no trigger in the internal model that said, "okay, we could let them bust." That doesn't -- that's not part of that.

A - Ulrich Wallin {BIO 4863401 <GO>}

And I think the other thing is the risk that is guaranteed here is, I mean, triple X reserves which are very remote. So an actuarial in calculation would associate no probability to the tail end of this risk and therefore, I mean, that part of the risk according to the internal model and according to the rating agency models, you need hardly any capital.

That's the same tail end of risk we are accepting in our financial solutions business. They're also the capital requirements are close to zero.

A - Klaus Miller {BIO 16886879 <GO>}

Explanation is correct, Ulrich. But still if there was capital requirements and it was all in Ireland, it was all in the group before and now we have shifted a little bit.

Yes, (inaudible) here. You're correct. Because we cannot provide a guarantee for free. Ireland has to pay Hannover for that and the small chart of the $28 million do not end up in Ireland but they end up in Germany. You cannot argue that there is a higher tax rate and there are little bit of costs to the profit which ends up in Hannover and less cost to the profit in Ireland at this time.

A - Karl Steinle {BIO 1986424 <GO>}

Kamran?

Q - Kamran Hossain {BIO 17666412 <GO>}

All right. It's Kamran Hossain from RBC. I just have one question about your comments from the bulk market. You mentioned that you spot the UK market still be the biggest market going forward. What are the obstacles --

A - Klaus Miller {BIO 16886879 <GO>}

Longevity.

Q - Kamran Hossain {BIO 17666412 <GO>}

Yes. Longevity. What are the obstacles getting the US market tightening up?

A - Klaus Miller {BIO 16886879 <GO>}

Not really obstacles. We are currently quoting for US business. It just happened a little bit later. There was an awful lot of presence onto the UK pension funds and they were just early on the game and try to derisk and then we went there.

Remember in the 90s, in end of 90s, we were the only ones who wrote these deals. All the other -- when I grew up in the Swiss Re company, I was told you can't write longevity business, you should never ever touch that. Market has changed. Everybody is writing it and for good reasons I think it's a good business.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Another question from Andrew Ritchie and then from Olivia.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Just a question, when I look at the Australian life insurers, primary Australian life insurers' result, you can get them actually on a quarterly basis from the regulator website, they're continuing to make quite significant losses in disability both individual and group and it just dictates that the primary market is just going to continue to reflect the problems in the reinsurers that you're reserving.

You've kind of said, well, this is going to carry on under the present valuing of the losses upfront. So is it the case that we could see the reinsurers doing okay and then you dealt with the problem but the primary market continues to make losses? So I just ignore the primary results than trying to -- the future risks?

A - Klaus Miller {BIO 16886879 <GO>}

I don't know what the reinsurance do. We have stopped writing disability income insurance in 2009 and we have to deal with the problem we have but we're not adding to that any longer and we believe we have dealt with the problem.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Is the claims environment still -- they're very dynamic in terms of frequency and severity of losses?

A - Klaus Miller {BIO 16886879 <GO>}

According to my knowledge, I don't know whether Claude can be a little bit more precise. The claims levels are sufficient according to our reserve and that means they're significantly worse than they were five years ago. So we have now reserve up to that level. They have not come back to what they once were. Anything you would like to add?

A - Claude Chevre {BIO 17369098 <GO>}

...observant, that's also what we did to our reserving. You see that determination rates become even worse than what was anticipated a few years ago.

So you see the people will get into disability. They will hardly never return back to work and this is what you kind of observe in Australia. But on our book, we have reserved that. That's what I explained also a year or two years ago.

Q - Andrew Ritchie {BIO 18731996 <GO>}

So the primary industry could still be getting worse for a bit basically?

A - Claude Chevre {BIO 17369098 <GO>}

Absolutely.

Q - Andrew Ritchie {BIO 18731996 <GO>}

And second question, on the longevity in the UK, how often you get information from the savings and the schemes, I mean, because I think there was some, in the years gone by, there was a delay not just for Hannover industry in terms of how quickly you got information on how much you got updated mortality days. What is that -- how quickly do you get it?

A - Klaus Miller {BIO 16886879 <GO>}

Usually we get annual portfolio information and, of course, we get quarterly accounts but that's just the accounting portfolio information once a year. When you look at the slides, you'll see that for the block assumptions we have not put in 2013 and '14 and the reason is that the full information for 2013 is probably only available in 2015, early 2015.

Q - Andrew Ritchie {BIO 18731996 <GO>}

So it's a two-year kind of -- right?

A - Klaus Miller {BIO 16886879 <GO>}

Two years, yes.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thanks.

A - Klaus Miller {BIO 16886879 <GO>}

To be precise, we get it annually but not for last year but for the year before. Pension funds and administration are two things which do not well fit together. Olivia?

Q - Olivia Brindle {BIO 17273762 <GO>}

Hi, there, it's Olivia from Bank of America. I have two questions on the longevity side again. So firstly, you comment that you went one out of seven deals and that's largely around pricing. How big does this spread tend to be on the price ranges and I'm just wondering why you would come out just one out of seven, is it because you think other are being too aggressive, is that because they applied different capital, charge?

I mean, your diversification benefit seems to be quite high already on the life side. So are these applying even more? You know, just your thoughts on why it's only one out of seven.

Then secondly, a more general question I guess from the market, if we think about the balance of supply and demand, there's obviously quite a lot of latent demand from the UK pension funds but it seems like the sort of supply from the reinsurance industries still a little bit on the cautious side. Do you think at that time pricing has to go up or actually maybe it doesn't necessarily move quite as much as the industry would like?

A - Klaus Miller {BIO 16886879 <GO>}

First question, one out of seven, we have probably half of that. So out of seven, three are what I would call early failures, first round and we are not in it because obviously the client has very strange ideas sometimes by their actual HRO advisers.

Then some of these deals never get done so there are quite a few deals where the pension fund goes out and says, I would like to do a deal and then they get five quotes and don't accept any of them. Then on the other three or four, we might win 24%, 25%, 33% whatever.

Every now and then, people have different ideas probably not on the real claims. Experience is an all actuary thing. They calculate the same things. So the pricing difference might only be 4% margin, 4.5% margin that makes different.

But we also have seen that one huge deal we saw a couple months ago, somebody wants to place 16 billion of liabilities and I thought we should be very bullish. I asked my colleagues whether they would support that and I went in and said, okay, we take half of that, 8 billion. That would have been the largest deal we would have ever done.

And I was surprised to learn that the whole deal went to one party which was a US life insurance company who believed that the diversification effect with UK longevity is so great that they also priced we would never ever have been able to meet.

You can argue and this is what I do and Andreas Maerkert agrees, S&P does not fully agree to that. It's uncorrelated. If I back solve the pricing for this special deal, there must be a highly negative correlation being assumed by this party and we would never ever do that.

So you could theoretically argue that the pension fund was paid to give the business to somebody else. We don't do that. We still want to make money. And the other question, sorry, I lost that, market and supply?

Q - Olivia Brindle {BIO 17273762 <GO>}

So the -- yes, the balance of supply and demand on the UK longevity side and what that means for the pricing.

A - Klaus Miller {BIO 16886879 <GO>}

They've gone a little bit more crowded in the last couple of years and this is why you have seen that we did not even quote on these deals. We see in general that the pricing is better than the rest of the world but that's natural.

Where it is crowded, it gets competitive. The UK is quite easy. Everybody speaks the language. When you go -- okay, the US is well but in some other markets, when you go to France, we have done the first deal in France. You need a good client relationship. You have to speak French and we believe the margins are for the time being larger in other markets.

Q - Olivia Brindle {BIO 17273762 <GO>}

Do you think in UK that pushes after the time because there is so much more than on relative to the current supply or?

A - Klaus Miller {BIO 16886879 <GO>}

I have to give you the theoretical answer. It should but I'm really convinced that this will work without any let's say interim period where we might decide not to participate in any quotes for three or four years, I don't know, it could happen. The pricing discipline is core to our -- to our business model.

Q - Olivia Brindle {BIO 17273762 <GO>}

Okay.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Are there any further questions? We will take another one and then I think we break for lunch and keep the other questions for later. So Vinit, please.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. I have two quick questions, Vinit here. Just from the the collateral cost, is it such an easy win and is the rest of the market also doing this already or because it looks like why it wasn't done earlier or, of course, maybe the regulators have changed the view or something.

A - Klaus Miller {BIO 16886879 <GO>}

It's -- technically it's not that easy because what the regulators want is something which is similar to a letter of credit. Letter of credit, you can sell, you get cash immediately.

Then, of course, the bank turns around and asks for the money back and maybe you have cash in the LOC without any good reason then you are liable for that so the whole documentation for this is significantly. It's not like a promise to pay. It's something what you theoretically could cash in but it would really hurt you if you do that without Hannover Re Ireland failing on claims payments before.

If that happens, okay, then you can cash it in and that's fine. But if you do that or if they do that, that would really hurt them. They have to sell these guarantees back to us first. It's a contractual obligation to do that so we have the first right if they want to cash it in.

It's a lot of cycles. I can probably tell you a little bit more about how this works but probably it takes 15 minutes so we should have dessert together.

Q - Vinit Malhotra {BIO 16184491 <GO>}

And just quickly, these enhanced annuities, you have walked -- you have withdrawn from this market two years ago or one year ago are reduced exposure, no?

A - Klaus Miller {BIO 16886879 <GO>}

No. Not really.

Q - Vinit Malhotra {BIO 16184491 <GO>}

(inaudible).

A - Klaus Miller {BIO 16886879 <GO>}

The market reduced significantly because the UK government decided that you don't have to take your company pension money and buy a pension but you can get one-off payment.

So instead of using GBP30,000, GBP40,000, GBP50,000 and buy a life-long pension which only might be whatever GBP200 a month, you can just take a one-off payment and live happily ever after or not ever after, perhaps a year and then the money is spent.

And so there was a change in the law and this basically crashed the market so it's something that we withdraw but somebody in the government said it's a good idea that the people have a choice to buy that instead of having to buy it. Probably, they were fishing for complements or votes in the election by doing so.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Well thank you. We will now break for lunch for about 45 minutes and, well, please enjoy the meal and hopefully you have also some aspiring conversation in the dessert of course and please be back at 1:30 as not to miss Roland Vogel's presentation. Thank you.

Welcome back, everyone. As a gesture of our transparency, we would like to invite you to take a brief glance at Roland's desk. What you will see is the calculation of the equalisation reserve. It's development over the time and the implication for the German GAAP profit needless to say that we can by -- get by without an update on the investments either.

But I'm sure I'm not giving away too much of it to reveal that he has got a good deal more besides this on his desk. So Roland, over to you.

A - Roland Vogel {BIO 16342285 <GO>}

One or two other issues on top of that. Yes. So this year I have the pleasure to execute the after lunch session. I think Claude was complaining to be in charge of doing that in the previous years so I will try to do my very best to keep you awake with three topics.

First of all, also a tradition like Eberhard redundant reserve numbers, I look at the current investment portfolio as well as the reinvestment yields in the current and also where it's been with its point of maturities and the forecast of the amount of money which will mature and how we will invest and today, we're trying to give you an idea as to -- at which ROIs we will invest our money.

And if you had already a glance at the numbers, not very surprising, nothing really brand new. We're getting used to interest rates being solo as they are. On top of that, I have included a little bit of investment special which is real estate. We intent to increase the quarter offer real estate in our portfolio.

Quite remarkably, we will have to ask our supervisory board to confirm and approve that so I don't have the real plan numbers. But as we plan to grow that portfolio and experience has been very good, it was my idea to give you a little bit of insight where we are invested today and what the returns of that portfolio are today.

Then I gave myself a challenge to talk about German GAAP or Germans (here) will be used to that at least to a certain extent and as the German GAAP numbers are so really driven by the equalisation reserve. I even have included some very technical slides about the calculation of the equalisation reserve which I would argue is obviously the Solvency II version 1.0 and it's just to demonstrate that volatility-based and risk-based capital requirements are not invented by today's actual risk but have already been invented by German civil servants 80 years ago.

But we also have -- this has a meaning for our dividend potential for that it might still be interesting. I don't expect you to memorialize all the technicalities of that.

But first of all, I think a quick look at our investment portfolio as it stands today. Nothing really material had happened. The fixed income portfolio has gone down from 90% to 89% and really nothing to write home about you.

What maybe is already recognizable is something which we internally have called a little bit of our barbell strategy to get rid of the belly and invest a little bit more on the very high quality side and more also on the low quality side.

You see that here that the government quarter has increased from 21% to 23%. That is already a reflection of increasing the liquidity of the overall portfolio to a certain extent. That here on that slide is that the expense of the covered bond portfolio. Here, a new market participant moved a lot and we will see the market interest rates as well as the portfolio interest rates for the covered bond portfolio in a second and that gives you also an idea as to why we have decreased that portion a little bit.

Listed equity is here, a little bit below so nothing had happened by the end of the first half year. We have taken the opportunity or one opportunity in the Third Quarter so will see a little bit but only a slight movement in that quarter by the end of the Third Quarter. Nothing really which changes the portfolio.

As such, moreover, you see the real estate portfolio was 4%, EUR1.7 billion and as I mentioned, this should increase over time over the next years. Here I think a slide which you are used to for quite some time, it compares the market yield with the portfolio yield and you see that the portfolio on an ordinary income basis yields as approximately 3%.

Today, we reinvest the money if we reinvest each and every dollar or you will get exactly at the composition of the portfolio as it stands today. The reinvestment yield is 1.8%. It's around that number for quite a while. Nothing really crucial has happened so this should not be a surprise.

So the difference between the portfolio yield and the market yield is 120 basis points, modified duration five years. So if -- that would be a real proportional basis that would mean these fixed income securities would run off over the next 10 years.

We have a difference of 120 basis points which indicate that we would be losing 12 basis points a year and I think that is also which you have been experiencing for quite some time.

Here you can -- I was referring to the covered bonds, here is the biggest difference between the market yield and the portfolio yield, 3.3% as the market yield. So the elder longer data and securities are still earning much more than the reinvestment yield today with 1.4 and this is why.

Obviously, it's recognizable that these securities are both by again one big new market participant driving the prices down and this is why we feel it's no longer that attractive to be there. On a quality basis which you can also see that down there, one shoot on the basis of this barbell strategy by more at the end of that barbell and get rid of the belly a little bit.

We would expect to see the AA and AAA bucket increasing as well as the BBB and BB and below and in the middle, we should get a little bit lighter in the future. The overall risk appetite has not changed.

Here is also the usual slide which we showed to you at that occasion. It shows you that during the second half of 2015, we do expect to see mature -- more maturities of EUR1.4 billion and the maturing yield is to 3.2%.

For the next year, we expect to mature EUR3.3 billion and the maturing yield is 2.8%. If I take the next year on that basis, we lose 2.8% and we reinvest at 1.8% so we lose 100 basis points for those EUR3.3 billion that translates into EUR35 million around this -- EUR35 million in net investment income.

If I try to compensate that was additional cash flow and higher assets under own management, I would need EUR19 billion at a rate of 1.8% to make up for that money. Up to now, we have -- we had a positive cash flow of around EUR2 billion is that a little bit lower.

Again, that all depends on the assumption that we do reinvest exactly where we are invested today and we will see some shifts and if these shifts have positive effect, we should also longer term be in a position to compensate the decreasing yield with additional volumes and keep the net investment income at least stable.

This is then a projection of the ordinary return exactly on that basis so nothing brand new and this gives you the expectations that next year we will if everything else is equal 2.9% ordinary. If interest rates go up by 100 basis points, this will be 3%. If interest rates go down by 100 basis points, this will be 2.8%.

Again, I think you've seen that before, nothing really extraordinary but as an update also to confirm to you what we are doing, here I think the last slide for this update on reinvestment yields, you see the expectations on an asset class basis.

Here you also can see that for instance for the real estate portfolio, the returns are quite attractive. The expectation is 5.3% and that was also the reason why I thought I might give you a little bit of an overview of the real estate portfolio as it is today.

So that is now my second topic. We have a real estate quota of around 4%. There are in our investment guideline, we have 5% as the target today. As you have always deals in the pipe and once in a while you sell something, if you have a target of 5%, it's always a bit difficult to achieve it and this is where we are around 4% right now, a little bit over that.

And as I mentioned, we intend to increase that medium term. We could really foresee that we double that quarter because we feel this is really where the illiquidity is paid well and with the barbell strategy increasing the liquidity on the higher quality side, we feel that we can afford it.

And where we are invested today is shown, first of all, on this slide. You see that we have around 77% of our real estate portfolio, the EUR1.7 billion. We have invested today our health as within direct portfolios.

Direct means we have internal structures where we have gathered them but we know each and every investment, each and every real estate object individually. We see it individually. We decide as to whether we want to buy it or not.

We work together with three portfolio managers. So first of all, it's USA. direct portfolio 32%. We have in Germany 22%. We will see some details about it on the next slide. And we have an Eastern Europe portfolio around 23%.

The rest of the 23% is invested in funds where we do not know all the individual holdings where we also take a little bit more in opportunistic approach and where also the risk profile is a little bit higher.

As reinsurers, we always concentrate on a broad diversification. We also do that in our real estate portfolio against three different managers. We have our regional focus on very mature and transparent markets especially for the direct holdings.

The direct, as I mentioned, dominates with around 3/4 of a total portfolio and that quarter also reflects the quality profile, very high quality in all the direct portfolios that is always premier locations and we take a little bit more risks via the funds.

And we also do observe and concentrate also on the diversification of the various sectors. You see the managers are diversified. The geographic diversification is there plus the sector diversification. Here we have a focus on office space where also we have the best experience and the best knowledge with our managers as well as internally.

Direct holdings in Germany, you see while we have holdings in the major cities in -- here in Germany with a little bit of focus in Munich, this is more or less coincidence has nothing to do with reinsurance.

But here for instance in Munich is a good example. We have here invested in office as well as in retail as well as in the logistic sector. So although the 42% seemed to be associated with some concentration risk, here internally we have then allocated that Munich risk in our portfolio to the various sectors so this is why we feel still comfortable with that.

Otherwise, we would really have clear diversification guidelines to make sure that if one city has a big problem or one area has a big issue, this will only hit a part of the portfolio.

Again, current market value is EUR312 million. We, right now, feel that the German market is not very attractive so we don't expect that to increase. Although as you can see the budget is remarkably higher but right now the returns we get here in Germany are not so attractive so we don't expect to grow that portfolio here.

That is a bit different in the US Also here same approach, the major and very attractive cities in the USA. where we have individual holdings. So for instance in Washington, we have to buildings, for most of the others it's only one.

And we invest up to an amount of around $100 million. We could do more but that would be already a high amount for one single object. Also here you see office, retail and parking with a focus on the office building.

Next direct portfolio is Eastern Europe which might surprise you. So years ago, we had the opportunity to look at the existing portfolio and to certain extent which had suffered quite remarkably so values had gone down and we had the opportunity to kind of pick and choose and we then looked at the portfolio.

It was quite attractive. It is worth mentioning that everything here is dealt within euro so there is no foreign currency risk associated with that. We have the good tenants. All the contracts are based in euro terms and the return expectations are remarkably higher.

Again, this portfolio is rather new so the valuations have not picked up that much. But I can say and I'm proud to say that not a single investment which we have here has a negative valuation development. All of them are positive. Here we also expect to do more so we will broaden the scope, Eastern Europe to Southern Europe and increase our investments in that area.

So then that leaves me with some indications of the performance. The IRRs which we have been able to produce here are 5% and around 10% for the real estate portfolio as such for the fund investments. Between also 4.5% and 14% for the direct investments which I think is really very attractive and this is also why we feel we should do more in that space.

If we look at our year-end results 2014, the real estate had contributed to that performance with IRRs also between 6% and 15% for the funds and 5% and 11% for the direct portfolio.

On an IFRS spaces, we had a contribution of EUR100 million. It was net investment income which means that 4% of the portfolio has contributed 9% of the ordinary investment yield. I think I mentioned that before we have to -- this does not include the ordinary depreciation because they are not part of the ordinary investment income so this is a little bit inflated but still it is very attractive and we will try to capitalize on that in the future.

So the prospects are we intent to broaden that on the same basis direct holdings, some funds in, as I mentioned, Eastern Europe and Southern Europe although that has turned out to be a bit more difficult. We will broaden the US portfolio a little bit South either. So we have some markets in North and South America on the table where we will look at.

Asia is something we did look at but still -- and we might see something but we will have to decide of that whether we go there or not. This is seems the intention and I hope that some years down the road we'll have a bigger portfolio with the same attractive returns contributing also and supporting our ROIs in the future.

So that's it for the investment side and now I still have a little bit of time to talk to about German GAAP and the equalisation reserve. And I have I think various messages from that chapter which I'm trying to convey.

Well first of all, a German GAAP balance sheet does not look so different from other balance sheets. It includes some complicated components. Based on very conservative approach, it offers also opportunities and options to steer but it has to be managed.

As the basis for our dividend payment and also the dividend potential in the future, it is to be managed. But I will also try to convey that we don't have any limitations with regard to dividend continuity as well as capital management measures in case they are necessary or they do make sense.

The equalisation reserve is expected or the contribution to the equalisation reserve is expected to decrease remarkably over the next years. There are two extraordinary items which I will explain a little bit later which lead to the fact that we expect no longer contributions to but to withdraw out of the equalisation fund in the future and that should increase our flexibility or financial flexibility remarkably over the next years.

And as side note and this is why I hope I don't bother you too much for the technicalities, it is interesting to see how or again already on the first indications or the first calculation I found internally at Hannover Re was the calculation of the equalisation reserve of E+S Re in 1956. So already back then, some people felt that insurance and reinsurance companies should have additional funds or capital based on the volatility of their business segments.

And this is again why I -- I will lead you through the calculation and also demonstrate a little bit as to why it's not that easy to steer and control that going forward on a very detailed basis. So here's a balance sheet that is, well, obviously only the short version of the balance sheet on the asset side.

No surprises whatsoever. What you see here is only the SE so that is not a group. But on the other hand, everything that was on the asset side is valued according to the lowest principal values and the usual German GAAP conservative things.

But we should look at the liability side and you see if we add together the subscribed capital and the capital reserve plus the retained earnings plus the disposal profits of the year, we still end up at an amount below EUR2 billion.

So if I ask Andreas and did ask not too long ago others out here now compared to the Hannover Re SE company according to Solvency II and as also the SE includes all the values within all our holdings we have, the corresponding Solvency II and the capital number for the Hannover Re SE is $12 billion. So there is quite a difference between German GAAP and the Solvency II numbers.

And if you go a little bit lower down to the equalisation reserve EU2.8 billion, that number is already higher than what you see as hard capital a little bit over and above that number.

By the way, which is important and has always been a component of attractiveness, the equalisation reserve and contributions to the equalisation reserves are taxable. So that -- these amounts have not been taxed have reduced the taxable profits of the Hannover Re SE here internally.

So that I think is enough of the balance sheet. Here you see five-year comparison some balance sheet numbers. The retained earnings as you see is a balance sheet number. The allocation to the equalisation reserve over the last five years shows you that at least for the last four years approximately EUR300 million on average have been contributed to the equalisation reserve every year and have decreased the German GAAP profits accordingly.

So the EUR421 million in 2014 as a profit for the financial year would have been far higher without the contribution to or to the allocation to equalisation reserve. Then we have used a little bit of profit carried forward. You can kind of compare that to retained earnings.

This is tax -- these are tax amounts. These are also a balance sheet number so these are cumulative numbers so we have increased the profit carried forward and again this -- you can treat them as retained earnings and they would be available for allocation as dividends.

So there is -- most of our profits are that so for instance for 2014 was EUR515 million if we add the retained earnings to our dividend potential according to German GAAP would have been approximately EUR900 million last year and again the equalisation reserve contribution had been deducted beforehand.

You see the dividend payments so we paid out nearly the whole disposable profits. So the profit carried forward had increased on the basis and you see that the payout ratio according to the German GAAP basis was always very high in 2014 even 100% and that then translate into the IFRS number which you know very well.

So now this graphs shows you one more time the development of the equalisation reserve over the last year so from EUR1.5 million to nearly EUR3 (million) since 2005 until 2014.

Let us look at the technicalities I already warned you. It gets a bit complicated now but still I think it's an interesting exercise to go through the different steps when we had our strategic retreat early this year. I invited my finance director to explain that to the board and he translated his slide named the 12 Steps to Heaven and here I have decreased to 12 steps -- to six steps so we already had deleted one of the other complications of the full calculation.

So what do you do and I do now something which you shouldn't do. First of all, you shouldn't have a slide or you do that step by step. Okay. So first of all, you shouldn't have a slide with so much text on it and the next thing you should never do is to read it to your audience and this is now exactly what I'm going to do because it's necessary to do it this way.

So based on the observation of the loss rations over15 or 30-year period, depends on the line of business and the volatility, a standard deviation for that line of business is determined. So again, already the civil servants of 1930 knew about standard deviations.

That standard deviation is then multiplied by 4.5. We can find the sophisticated explanation as to why that is 4.5. It obviously is a factor which means is a waiting for the standard deviation and it is multiplied by the earned premium which is important and this is, of course, you also can steer that.

So if you manage on premium, you would be in the position to steer your contribution or withdrawal from the equalisation reserve. Then you multiply that to that standard variation times 4.5 times the earned premium for line of business to establish the provisional target amount.

That is also important because that defines the maximum amount for line of business which is then is to be filled up over time if the results are positive. If the targets -- so the provisional target amount is reduced, there is another complication if you had based on the experience of the last three years.

So also in here the regulator has seen that the last three years might be more important that the first three years of the 30-year period and this is why you have this rate of the last three years on top of that, if the target amount is not yet reached 3.5% thereof is to be allocated to the reserve irrespective of the performance of the business. You can interpret that a little bit as a inflation factor.

If the loss experience in the financial year was better than in the observation period, then the difference between the two ratios is to be multiplied by the earning, we do the math together. By the earned premium in the financial year, the product of this calculation is to be allocated.

If the loss ratio is higher than the loss ratio in the observation period ten you can withdraw and again, this withdrawal is reduced if based on the waiting of the last three years.

Let's do the math together. I hope I don't -- do not confused you too much. We have a simplified example here. On the upper left-hand side, you see we look at a 15-year period and we assume that the loss ratios which we have seen vary between 85% and 96% with an average of 90.2% which is seen in the middle of that page.

If we do the math and we arrive at the standard deviation for the first year of 5.2 -- at a deviation of 5.2 and minus 5.8 and the average then is multiplied or squared to the squared deviation. We see that the average squared deviation would be 30 in that example and the standard deviation square root of -- of the squared deviation would be 5.5.

So very actuarial thing and then I think Andreas in your internal model you don't do anything else. You look at the past experience, you look at the volatility and then you do your math with the standard deviations. Maybe we are not forced to do Monte Carlo simulation here, I agree with that.

But principally, you could argue. It does make sense to a certain extent and only to a certain extent. So then we do the math. We take the standard deviation, multiply it by 4.5 and arrive at 24.7.

We assume that we have in that line of business EUR100 million in premium so we calculate the provisional target amount with the multiplication and we end up at nearly EUR25 million as a provisional target amount for that line of business.

Now we have a little mistake on your handouts. So the 94.4 is, that was a typo, is 86 on your presentation. If you don't mind, please change it to the 94 because otherwise the math didn't work -- wouldn't work.

And again to really also finalize that math, we do all calculations. We assume that the last three years had a positive impact here and that reduces our provisional target amount from EUR24 million to EUR12 million.

So now we look at the loss ratio of the last year which would in our example be 94%. We look at the loss ratio of the observation period. We are obviously higher by 3.8 as a factor in that case.

Then we do it again if we reduce the provisional target amount, there's also another provision which caused for a reduction of a potential withdrawal from the equalisation reserve in the same proportion and this is why in that case based on that math for this line of business, we would base on a higher combined loss ratio as compared to the observation period. We would withdraw EUR1.3 billion out of the equalisation reserve.

So you do that for the various lines of business. There is some optionality around how many lines of business you do the math for. And so on the one hand, this is a very strict rule based things. You cannot argue about the 4.5. You cannot argue about the three-year or the 15-year observation period, very fixed thing but, of course, you can do things like (seeding) of premium and if you reduce your net premium, your provisional target amount would decrease.

And if your equalisation reserve is higher today then your reduced provisional target amounts by reducing your net earned premium, you would take out. It also works the other way around. And this gives you and again I would like to remind you about the EUR2.8 billion which we have in there. So we are talking big numbers in that regard.

Still to steer all that on a line of business basis over the course of the year is not very easy but on the other hand, you have the optionality, you can combine lines of business to a certain extent and you can manage that by reducing or increasing your premiums for instance by internal retrocession and we did that to also increase our flexibility here a little bit.

We have especially one line of business and see this business internally to Ireland where German GAAP is not known and thereby reducing the provisional target amount and we will mostly likely take out of that line of business a remarkable amount of the equalisation reserve.

So the next slide shows you the expectations on everything equal basis for the next years to come and please bear in mind that the last four years, we had contributed to the equalisation reserve approximately EUR300 million. For the next years, we expect reductions and the two things which are already mentioned is the internal retrocession in one line of business where we manage with the equalisation reserve down.

And the next issue is in 2017 and this will most likely go on also for the next years is that in 2017, the 15-year observation period for our fire industrial line of business will end. The fire industrial line was hit by the WTC event in 2001 remarkably.

It has pushed up the standard deviation remarkably and I did the math together with you. So the standard deviation for that one line of business will decrease remarkably. In the fire industrial line of business, we have approximately a billion. And based on the very decreasing volatility as from 2017 onwards, the contribution to the equalisation reserve will go down also for the next years.

So the message here is and if you remember the EUR900 million we had last year which we most likely will also have available this year, if everything else stays equal, we would not have an additional EUR300 million contribution to the equalisation reserve but a reduction of EUR68 million for the next years to come that will even be higher.

So that money will get free and we will have the ability to strengthen retained earnings, to strengthen the losses carried forward and is thereby to increase our financial flexibility and also the dividend potential for the next years to come. So we do not foresee any limitations in that regard on the basis of these assumptions. So I hope I did not confuse and bother you too much with that but this is what I had to say today.

A - Karl Steinle {BIO 1986424 <GO>}

Well thank you, Roland. I'm not sure if there are any questions. Well we start on the right-hand side with Mike Huttner.

Q - Michael Huttner {BIO 1556863 <GO>}

Hi. On the real estate in Solvency II , how expensive is it in terms of --

A - Roland Vogel {BIO 16342285 <GO>}

It's approximately 20% before and around 11% after diversification, capital requirement for the portfolio.

Q - Michael Huttner {BIO 1556863 <GO>}

So the return equity then is 40%?

A - Roland Vogel {BIO 16342285 <GO>}

On that basis?

Q - Michael Huttner {BIO 1556863 <GO>}

Pre-tax.

A - Roland Vogel {BIO 16342285 <GO>}

Yes, on that basis.

Q - Michael Huttner {BIO 1556863 <GO>}

Okay. Okay. Okay. It makes sense. Then the other question is what's -- I keep forgetting what tax should we use for the group that was prompted by equalisation number

A - Roland Vogel {BIO 16342285 <GO>}

Well the equalisation number is only valid obviously in Germany and here approximately, well, 35-ish.

Q - Michael Huttner {BIO 1556863 <GO>}

Then the last question and I guess is this swings from EUR300 million contribution to release between EUR60 million and EUR140 million? Is that the amount of the increased dividend?

A - Roland Vogel {BIO 16342285 <GO>}

I think I mentioned the word financial flexibility, Michael. What we want to demonstrate here and this is why we put that on the agenda is that we heard various times because obviously also our friendly competitors did these presentations and showed their numbers to the community.

And also we mentioned before that you should never forget every time we hear about criticism about 35% to 40% couldn't it be more and then we say, guys, please bear in mind this is the accounting standard we have to base our dividend payments on.

So this is on the one hand to demonstrate we are flexible and the flexibility will increase and it can also be managed. That is a one point. And on the other hand and we mentioned before, as long as ROEs are in a very acceptable range, we still see opportunities in the markets.

There is not a real pressure to start capital management methods. But if that changes, it gives us the opportunity. I think my CEO early this morning mentioned something about the dividend policy that we might maintain the higher payout ratio which we have seen if the world doesn't go under and doesn't change. I think that is the message. Yes. We have not limitations to do that if the circumstances provide for it.

A - Ulrich Wallin {BIO 4863401 <GO>}

And Michael, if I may add, this is all pre-tax. So I mean, the difference will be taxed. Naturally, on IFRS, this is not a factor because if they've just been reduced to differ tax liabilities.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. We continue with In-Yong on the right-hand side.

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

In-Yong Hwang from Goldman Sachs. Just on the last slide there, can you give us what the trends in the equalisation reserve level would be like if you didn't have any internal retrocession to fill in and try to manage the reserve there?

A - Roland Vogel {BIO 16342285 <GO>}

Well we wouldn't have started to manage that, In-Yong, it is -- and I'll try to explain that. If I do that without anything, it will be difficult to really see and you never exactly know which line of business is it where so the expectations are difficult to calculate.

We did that here for one clear standard. So if I let everything else equal, we were also in the equalisation reserve hitting the provisional target amounts so the maximum amount per line of business in more and more lines of business.

So on the other hand -- so that reduces a little bit or dampens or gives a cap to the contribution. On the other hand, we see a lot of growths. For instance, just from the US dollar basing this because the US dollar had hardened so much then your premium goes up then your provisional target amount goes up. So we would have seen a remarkable contribution.

A - Karl Steinle {BIO 1986424 <GO>}

Then we continue with Vinit.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Vinit Malhotra from Mediobanca. So Roland, my favorite question again, in the maturity patterns, does a significant change between what do you expected for '15 last year and what are you predicting now for '15, is there a change -- so just to give a number here, I think it was in the plus EUR 4 billion range presented in last year's back and this year, you're talking about EUR2 billion to EUR2.2 billion range so the actual amount of maturities in 2015.

Is there any change that would have triggered this in your view? So that's the first question and I can ask the second one later.

A - Roland Vogel {BIO 16342285 <GO>}

You have to bear in mind that we look at not only at one single portfolio. If you look at the Hannover Re balance sheet, you see EUR37 billion, one portfolio, easy to steer.

That is not the case. We have lots of portfolios with lots of different modified duration. I think I'd mentioned that more than once before, Bermuda P&C portfolio 1.7, UK Life portfolio 11 point something. So we steer the maturities for these single portfolios and what we see on a group basis is to a certain extent the result of all that.

So everybody investment committee of this group starts with a question, any changes to the duration of your liabilities and then we steer the ranges for the modified durations for the asset managers according to that. Moreover, we had realized based on these considerations and to go a little bit away from just steering interest risk to cash flow, pattern risk.

So where we had heterogeneous expectations, we did manage that to a certain extent. So with every new dollar I invest, I can then or it was every turnover in the portfolio which we have seen, I can then steer the single portfolios on another basis.

So what I'm trying to say that there has not been the very top-down approach to steer that but we had looked at the various portfolios and see that as a result. I'm still thinking about whether this comparison which I really don't have so in my mind because the passes are passed for me whether there is systemic thing in there and we might have to come back to you on that because some of the -- the assumptions which we have here to do the math is for instance, if I have a three-month duration, how often do I reinvest that within a single year.

So we might have to look if we do the comparison to last year as to whether we are comparing apples to oranges on that basis, I could well be -- I would not be in the position to address that immediately. But I'm a bit suspicious that there is a little bit of systemic approach that -- because I would always look into the future, not into the past.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thank you. And I'm just thinking because you mentioned that number of -- from the Germany GAAP balance sheet a number closer to EUR2 billion and in this regard, I mean, if I look at the -- again, sorry for repeating this but I need the clarity here, the 99.97 solvency -- internal model excess solvency was quoted on Second Quarter as 135 where it says 160 in the slide here which is roughly EUR2 billion reduction in the excess over your 100%.

I'm sure there's not much of a marriage between German GAAP and internal model but if you could just comment that is it all market-risks driven and this is why I asked this question also about what's changing the asset because if you lose 25 points from internal model due to market risk in six months then is there something happened? So this is just why --

A - Roland Vogel {BIO 16342285 <GO>}

As we mentioned before and also I think Ulrich alluded to, the most material part of that is assumption changes especially for the market risk where we had rather low contribution to the overall risk before and we had to, as we said, adjust some of the scenario generators to a little bit higher risk that was once significant contributor and more over the shared volumes especially driven by the US dollar came on top of that.

It was not driven by the investment considerations to take more risks. So for instance, what I refer to as the barbell strategy is explicitly based on the assumption that the overall risk at least from our standpoint outside the internal model would not increase.

If then by model changes, the capital consumption increases, we would then look at it and decide as to whether we are willing to digest it or not and the answer was yes, we are willing. For instance, to the highest hurdle which we have also discussed beforehand which would still be the rating agencies, that model change had no impact at all. So in that regard the excess -- you say the tangible excess capital which we have outside that calculation didn't change at all.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

I would say -- I would add sense, the drop on the 99.7 from 160 to 130 in very rough terms to the largest part was actually currency driven because, I mean, our capital, why we have increased the US dollar capital business changing the financial currency of our Bermuda companies to US dollars from euro, we are still euro heavy on the capital.

So that manned this US dollars exposures driving the SCR, the SCR increased more significant than the capital. The capital, of course, increased as well because the currency OCI increased but it was most significant on the SCR.

And the exact details actually Andreas know because he explained that in great detail in the executive board because you had exactly the same question and he said, well, if it turns up and down like this, what's the value? So we got that explanation.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you.

A - Karl Steinle {BIO 1986424 <GO>}

I have seen multiple indications from Will Hawkins -- so, that's your -- your question there.

Q - William Hawkins {BIO 1822411 <GO>}

Thanks. Just on the claims equalization reserve. I'm confused on the points of principle. I can see the claims equalization reserve in German GAAP is still important for how work and how much tax you pay. Surely, once next BaFin has adopted Solvency II, isn't this calculation completely irrelevant to your financial flexibility and your capital position?

A - Roland Vogel {BIO 16342285 <GO>}

No, you should bear in mind the German GAAP is the basis for the regulation. It is also the basis for the taxes. But the main addressee still, according to the German accounting rules are the public, the datas. And all that. So the reason why we account and publish account according to German GAAP is not regulation while the regulator uses the German GAAP results for Solvency II. It no longer use it as next year. But that is just a regulation.

Moreover, you have the reason to publish accounts and that law, HGB law, is still in existence. So we are still -- we are still forced to publish these accounts and according to the German -- to the German GAAP law that the HGB, that calculation is still the basis for any dividend payment and so that stays in place. And again, has nothing to do with regulation, first of all.

So regulators use these accounts. And based on the Solvency II, the regulator doesn't need it anymore but the rest of the reasons to produce these accounts and especially the law is still in existence.

A - Ulrich Wallin {BIO 4863401 <GO>}

The only way we're getting away from German GAAP would be moving the domicile of the company to another country.

A - Roland Vogel {BIO 16342285 <GO>}

Or if the German lawmakers says, hey, let us talk about IFRS equivalence acceptance. So we would be allowed to move as other jurisdiction did like Island or Bermuda. They still have their local accounting rules but they have accepted -- well, if you reduce audited financials according to IFRS, you are no longer forced to do the local thing. So that would be an approach. But I think we are far away from that in Germany.

A - Ulrich Wallin {BIO 4863401 <GO>}

But I mean I should add that law is not just for insurance companies. I mean, it's for all operations on any company in Germany.

A - Roland Vogel {BIO 16342285 <GO>}

It has to be audited and all -- so, if you have a corporation -- you have all these laws to follow and that it go -- doesn't go away because one industry regulator has a new -- has a new jurisdiction or has a new framework.

A - Karl Steinle {BIO 1986424 <GO>}

It looks to me we have a few more questions. We start with Andrew Broadfield and continue with Frank Kopfinger. And then (Olivia), please.

Q - Andrew Broadfield {BIO 7273415 <GO>}

Thanks. Andrew Broadfield from Barclays. Just on the -- again, on the equalization provision, the static assumptions that you put in to show that fade down, just wondering -- I guess our expectations are that it might just get a little bit tougher the next couple of years and I'm just wondering is that deterioration in underwriting profit? Would that be absorbed as well by the profit -- by the broad equalization provision, i.e. we don't have to really put an assumption around deteriorating underwriting results when we think about the close in the distributable capital out of German GAAP unless because -- how much deteriorates by equalization provision to some extent will upset that?

A - Roland Vogel {BIO 16342285 <GO>}

First -- one problem and I give trace equalization reserve as a solvency to 1.0 which, of course, was a little bit of the financing. Because you feel something. One issue always had been a systematic issue with the equalization reserve was that with interest rates going down, combined ratios have to become better.

Still, your profitability hasn't changed at all. That is these communicating things because that -- with regards to the equalization reserve, that only concentrates on the underwriting results is always better underwriting results, you have to contrarily read more and more and more and more but you don't have the relief on the asset side which we usually would have.

So there was a systematic condition that's just 300 based on that even if it the net income is still the same because the net investment income goes down, the underwriter profit gear goes up, it's a systematic transfer to the equalization reserve because that only considers the better underwriting result and compares it with the 30 years that was worse when the interest rates was still far higher so that was a little bit the reason why the contributions were so high. And that, of course, has nothing to do with the comprehensive and good risk base management system.

So I'm not quite sure whether I understood your question correctly if we now see deteriorating underwriting results. Is that what you suggested?

Q - Andrew Broadfield {BIO 7273415 <GO>}

Yes. So --

A - Roland Vogel {BIO 16342285 <GO>}

One would use it well -- there would be a tendency that you withdraw, that your -- that your German GAAP results got better by that. That had not been included in that. So that was really based on an everything equal we achieve our 96 -- below 96% combined ratio assumption.

A - Ulrich Wallin {BIO 4863401 <GO>}

I think there's one thing to add as far as the underwriting result is concerned, whilst Eberhard has demonstrated redundancies on the IFRS accounting, our lot reserves we are holding on -- on German GAAP are still significantly higher than what we are holding on IFRS because German GAAP principle is prudent rather than best estimate.

Q - Andrew Broadfield {BIO 7273415 <GO>}

So if I to square that away this EUR2.8 billion of equalization reserves is the billion on IFRS reserves plus another number on German GAAP reserves --

A - Roland Vogel {BIO 16342285 <GO>}

On top of that.

Q - Andrew Broadfield {BIO 7273415 <GO>}

On top of that. Okay. Then -- and then you mentioned something -- I just -- you made a partial comment about for a tax liabilities, not that -- not necessarily is it good for IFRS, I'm must wondering whether you could --

A - Roland Vogel {BIO 16342285 <GO>}

No. It's -- I think it does -- the comment was that it doesn't have any impact on the IFRS results because all the tax effects are already deferred -- in the deferred taxes on IFRS balance sheet.

Q - Andrew Broadfield {BIO 7273415 <GO>}

And just finally, on that tax issue, is there an issue in Germany about -- is there a time value to deferring your tax payments but -- by reserving -- in deferring your reserves? Do you have to -- when you release your reserves just to pay tax --

A - Roland Vogel {BIO 16342285 <GO>}

Well yes, I could have done that as well. You have a nearly as formulaic) -- is that an english word? I hope so -- assumptions to discount your last reserves according to -- for tax reasons. So there is a mechanism to have -- to have lost reserves discounted but only for the tax balance sheet and to value them more realistically.

Also, that is very formula driven so it doesn't reflect your individual situation. So in that regard, principally, the answer would be no, it doesn't make sense because if you increase your last reserves, your discounting values would also increase and to a certain extent, this will already be taxed beforehand. Still, I think, if you add a hundred to last reserves, that is totally fully tax deductible and only part of that addition would then be discounted. So it would have, in essence a positive impact on my tax payments.

Because if I -- if I now decrease my equalization reserve, no impact on the IFRS balance sheet because it's -- the deferred taxes will decrease then in parallel and show no problem for the result but I'll lose some cash which if I pay that to the German taxman which are no longer able to invest.

A - Ulrich Wallin {BIO 4863401 <GO>}

The steps from the German GAAP results to the results of the tax balance sheet is, I guess, another six steps --

A - Roland Vogel {BIO 16342285 <GO>}

Yes. That will be that. That will be it.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Frank Kopfinger, Commerzbank. I've also a question to the equalization reserve on the figures that you showed the reduction, EUR68,145,140, can you break it down what the contribution is from the -- an industrial line since this is probably the driving force?

A - Roland Vogel {BIO 16342285 <GO>}

That is the driving force. That is -- you could argue -- via this internal retrocession which we have done outside Germany which reduces the provisional target amount, we, to a certain extent, smooth a little bit what is to be expected from the WTC standard variation trigger in 2017 already today.

So that amount -- if you -- if we would have done anything, the one-off in 2017 would have been far higher than the amount which we see here. So we see that. And as we have concentrated on that one line of business, the contribution, to that withdrawal comes from that one line of business.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Then my second question is on your retained earnings. Obviously, this is to precondition to any potential buybacks in the future. Do you have any target level that you want to reach? Because, currently, with 380, this is probably at a very low level to have some buybacks.

A - Roland Vogel {BIO 16342285 <GO>}

Well we -- we have not defined a real target level up to now. I mentioned before that according to German GAAP you can also do other things. You have four parts of your investments. You have really the lowest value of principle which I realized those hidden reserves I could increase.

We have -- if you have holdings in other subsidiaries, you can kind of write them up if you want to because, also they would be valued at the lowest principle, lowest value principle. So you can manage your German GAAP result which is very conservative.

And as it is so conservative, your various options to manage that. So and we have also started doing some measures in that regard which I have mentioned here. But the contribution to the -- to the retained earnings should or to profits carried forward which is essentially the same thing.

I would say we would at least to double them and longer term, it will just be unavoidable to increase them even more other than to pay them out.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Well Olivia, please.

Q - Olivia Brindle {BIO 17273762 <GO>}

Just one very quick one I have left. You mentioned the acceptable ROE and the context of the dividend. So I just wanted to confirm is that still the 12th to 13% level that you've talked about before?

A - Roland Vogel {BIO 16342285 <GO>}

With a -- with a little side view to my CEO, I would say yes. I did -- this is -- we are still comfortably above the hurdle and that all also depends on the development of the denominator of that equation that is a capital. We have seen spread levels going out. So our corporate portfolio might have lost something in value. The US dollar has weakened. So we see that coming back as well.

But if now the hurdle is around the 10% area and we are still comfortably above 250 basis points over and above that hurdle, I would still see that as a comfortable situation if we go under that level, we might reconsider and look at capital management options.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Two last questions. One from Andreas Schaefer and from Guilhem.

Q - Andreas Schaefer {BIO 4667112 <GO>}

Okay. Thanks. Just two little questions. One on the dividend payment last year or for this year. It is 100% payout ratio on the German GAAP distributable earnings. So is that just coincidence or was it just to have the maximum payout ratio this year? And the second question, do you have any sort of calculation? What are your unrealized capital gains on your real estate portfolio?

A - Roland Vogel {BIO 16342285 <GO>}

Well we'd have to look at the your seconds. It is remarkable. We do value with outside valuators every second year and do an internal valuation every year, of course, we are in the triple digit million range. Everything else, I would have to look it up. I don't exactly know.

So as I mentioned, for instance, for the -- for the eastern European portfolio, we have values. They are also a little bit higher. But as we own them only for two years or so, we still carry them at the face value.

So here, formally, I don't have today no valuation reserves but the values would already be higher. So again, I would -- I would have to come back to you. The first thing was the --

Q - Andreas Schaefer {BIO 4667112 <GO>}

The dividend paid out this year --

A - Roland Vogel {BIO 16342285 <GO>}

Well it was a coincidence -- well, there are some options. Again, as it is so conservative, there's also some optionality to steer that. As a good old German GAAP chief accountant to pay out of retained earnings something which you -- and, of course, we are -- we are willing to do that and it is part of our options but if you can avoid it, maybe that this is as you were talking to such an accounting dinosaur like myself, you would still try to avoid it.

Well if we then say look, this is capital management, we have retained earnings, we have increased retained earnings, we don't need the money anymore, then I wouldn't -- I would avoid that. But if that is avoidable and maybe it was due to a certain extent.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Just a quick question on -- I read an article on some local rules in Germany which limit the freedom -- which could decide on what you want to invest. I don't exactly know this kind of local rules but does it ring a bell?

And second, this -- didn't insurers were apparently thinking that these -- these rules would not be enforced with Solvency II but does it chance that they will be? What's your view on that and what (inaudible)?

A - Roland Vogel {BIO 16342285 <GO>}

Not exactly if I -- if I understand you correctly. If you talked about the capital and Kapitalanlageverordnung which is the rule for German insurers where they can invest and what they have to -- that is not valid for reinsurers. That is just for insurers.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Okay. Then --

A - Roland Vogel {BIO 16342285 <GO>}

So we don't have those limitations.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Okay. Good. Thanks.

A - Roland Vogel {BIO 16342285 <GO>}

Okay?

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Well thank you Roland. I think you just picked the right theme when I look at those number -- large number of questions which we have received. Well thank you for that.

Well it's almost time for another coffee. But before we go there, I would like to remind you of the questionnaire for the feedback. So thank you for that. And well, we should be back at 3 o'clock. Thank you.

Welcome back everybody. We now can dive straight into the presentation -- in the last presentation of today and it's about property and casualty and --and this year's annual -- annual executive meeting, we have explored in great deepness the question how we can explore business opportunities and so Juergen Graeber will dive into that issue now. Thank you.

+++presentation

A - Juergen Graeber {BIO 20978001 <GO>}

Before I get started, I would make one or two remarks. First, on the title of my presentation, A Dip into Newer P&C Opportunities. Why new or why not new? What I present to you this afternoon is not completely new. It is newer in a sense that the evolution of products has started in a sense that there is more speed. There is an acceleration of premium development. And therefore, we call it newer. And no, it's not entirely new.

And the second is that one part of my presentation is cyber liability and cyber insurance and I don't know whether you know what my recommendation at Hannover Re is, I'm the man who still has a office full of paper. My office is without smartphones and tablets and anything modern equipment. In my office, people just talk and listen. So I'm probably the least equipped person to speak about this subject.

Okay. But before we go into the details, let me just connect my presentation to Ulrich's this morning. I have been here and spoke about growth opportunities, probably some 15 times in the last couple of years and they were always different. And overtimes, we tried to explain that our policy of trying to grow is not just one cycle, it's per lines of business, it's divided opportunities, they are short term, they are midterm, they are long term.

And a couple of years, I spoke about the opportunities in China and they materialized. But what you have seen in the last couple of years when you look at the compound annual growth rate of more than 9% is a combination of various factors.

They were long-term factors of decisions we took in 2006. For example, Ulrich highlighted this morning ILS, insurance link securities. In 2006, we had a retreat. In 2008, we established a department. We needed another two years to ramp it up and the full flow started in 2010.

And today, we are in full swing of our ILS department, fantastic top line contribution, fantastic bottom line contribution. So quite some lead time of almost four years.

The same, for example, (Bahrain), when we set up our company in (Bahrain), to be established, we had to get all the approvals, lead time, two years. But also, what we saw the last year in particular 2015, you -- and I may dare to say us -- we were bit surprised about the growth we had in the First Quarters of 2015.

Why do I say that? We were negotiating contracts with the customers and some succeeded. So we got all of a sudden very attractive, one-off opportunities and we were able to bring them into our top and bottom line. And so, for example, the growth in 2015 as a combination of things that were started quite a while before and other things that were more a kind of one-offs on very short term basis.

The more midterm ones were the (inaudible), the ILS, the personal accident initiatives. But also the private lines initiatives and also, for example, initiatives we had in China, in the primary business segments. So multiple factors that all lead to growth in the last couple of years.

What I want to talk about today are two segments which is a primary -- sorry, which is cyber insurance and agricultural. And to give you a ballpark figure, just that you know where we are standing here, the volume we have in cyber insurance is still double digit top line and the volume we have is in agriculture is three digits. So it's already grown up. It's a teenager. So to say, the agricultural business where as the cyber insurance is a young girl or boy in terms of development. So less mature at this point in time.

I purposefully selected two segments. They're not the only ones that we developed in terms of sourcing our business but I wanted to do two deeper dives just to go into the details and I will give you more precise numbers later on.

But let's look at some trends. For us, trends are friends. If we select the trends in the right way, we generate organic growth and all we have to do is then retain relationships, stabilize the relationships and hopefully harvest the trends, top and bottom line.

One trend is the development of the internet society. When you look at the internet penetration, it grew from 8% in 2001 to 40% in 2015 and is still increasing and you all can observe that. People cross pedestrian areas. They don't look at cars. They look at their smartphone, they drive cars and they look at their smartphone. They don't look at the street.

You see it everywhere. The internet penetration is there. It's visible in our day-to-day life.

But even more impressive is the sold smartphones. From 2011, the worldwide population of smartphones was 270 million. In these days, it's 1.2 billion. If you compare that with the population of 7.4 billion, that tells you something. That means in the developed market, everyone except me has a smartphone. And in the less developed markets, there is a huge potential to further increase.

And the same in terms of Internet of Things, i.e. the developments that one has to expect are also quite severe. Also, the trend is our friend here.

What do we like in terms of these trends? We like the risks. Insurance is all about risk and I remember discussions I had once with a journalist who said, well, how can you be successful as an insurance industry or as a reinsurance industry if you don't accompany your customers with the risks they have. So if all these companies have risks through cyber kind of exposures, then we must find ways and means to insure.

First, the primary insurance company and then, of course, the reinsurers. How do these risks look like? Well in terms of cyber insurance, we have data breaches, business interruption because of discontinuation of IT services. You have hacker attacks.

For example, to make this a bit more plastic, hacker attacks, we invited a speaker on one of our conferences and whilst he gave his speech, he dialed into all the smartphones of the people in the audience. He sent fake messages and he also gave us a live presentation how we could stop a factory in Korea by dialing in to the computer equipment because the firewalls were inactive or not secure enough.

So hacker attacks are an exposure and need to be dealt with. Privacy breaches, i.e. data supply that goes in to the public environment. Trojan attacks, your private computer, each of you, probably have had Trojans. I don't know how frequently you update your firewalls, the recommendations of these professional hackers is about every hour. So you should update your firewall.

And still the they get through by the way, viruses, property rights infringements, yu have all kinds of exposures here. And who is affected? It is not just commercial operations. It's also private people. It's everywhere because the date exchange, the data flow in our community has changed significantly in the last decade.

What types of cyber insurance are there and where are gaps? We differentiate between first party losses, i.e. own losses. I will describe that in a minute a little bit more in detail.

And third party losses, i.e. one is your own equipment, your own data and you have an impact to cyber attacks or what so ever or certain kinds of breakdowns. And are called third party losses because you don't, as a businessman, protect your business environment, somebody else suffers because there is a data release. Then a third party is affected and you should consider or should consider developing products on liability insurance.

So if I go into the first party type of coverage and try to explain that a little bit, what is covered or when there is a loss of data and information in your system, well a cyber insurance policy could actually secure the -- or cover the costs for securing the data, for replacing, restoring and recollecting the data. So that they're after your business operation continues.

Usually, you have time deductibles on this policies, a very basic kind of coverage because data is property. So to say. Then another kind of first party losses network interruption, it covers the loss of income because your business is interrupted, that's like a property policy when a fire burns down your factory and you can't produce the goods anymore if you don't have the data to start your business process. Then also you can't produce the goods or whatever your production is about.

Then, of course, you have the issue around, for example, notification expenses and I will later on explain to you how much that can be but if, for example, there is a privacy breach in your data system and as data leakage and you have to notify your customer, it's not one customer, it could be 40 million customers that you have to notify.

And if you assume $0.50 per notification, that's a $20 million loss, just for notifying customers about data breach in your organization. So there are various kinds of cost surrounding cyber exposures and, for example, setting up a hotline, having call centers.

Imagine if those organizations who deal with millions, not to say billions of data sets, have a data leakage and they all of a sudden need to inform their customer, they get lots of inquiries. The costs are huge.

And of course, for example, the legal defense costs. All of a sudden, you get sued and you need to defend your organization. You want to, yes, deal adequately with a case like this then, of course, a cyber policy would cover the legal defense cost.

Then, of course, there are extortion payments or could be extortion payments, penalties, whatever have you and that would also be to be covered.

If I move on to the third party coverage, this is when because of your actions, a third party is affected. The protection would be from losses arising out of the failure to protect sensitive personal information, for example. So somebody sues you as an organization as an individual and you would buy coverage here. Or you would actually be sued for an adequate protection of your network and your data, again, a liability case.

And the last one, media liability. If somebody uses that information that has leakage into the public domain, then of course, you also want to protect your organization.

There is type of coverages and I will show you what is covered and not covered today. If we look at this somewhat in transparent page but I will guide you through this particular page.

Today, you have many sorts of policies, say property, BI, general liability policies and to some extent, you have already cyber coverage included here. Cyber is not a well defined kind of insurance product in the first place.

So for example, if an insured object, i.e. a property is destroyed by a fire and because of the fire, there is a loss of data. Then to the costs following the lost of data are covered already by the property policy. So there is a coverage but it requires a kind of a traditional trigger event, yes?

And the same is on the BI or for example, if you go to the almost right inside D&O, if organizations buy D&O coverage and because of a breach of duty, there is -- let me choose one, again, a loss of data because of a breach of duty which is covered under D&O policy, you also get a kind of a cyber coverage under your D&O policy.

So now -- if you look at cross, all the exposure types that you have and you look at the green ticks here, you will see that there are lots of gaps where there is no coverage and no policy today.

And the demand is driven very much by the fact that people want full coverage on cyber. So you add all the other kind of circumstances to make sure that this coverage becomes more comprehensive, that there are no gaps that do exist by partial protection within existing insurance policies.

And this is very difficult because the cyber policy should not be a catch-all policy. It should also be a name policy so it should define the events and the amount of cyber insurance policies that are floating around go from extremely wide coverage to very narrow, almost like a named peril coverage and you find different types of cyber insurance policies all around the globe.

Yes. But the key idea is that's covered the gaps that are not covered by today's existing policies a very brave target of the insurance community but a very rewarding one too.

You all have seen what is the main risk on cyber insurance. It is not the tiny little attack to a computer. It is this scalability of the events. If somebody has developed a Trojan that gets to a particular type of firewall, they can get to all firewalls in the world where these firewalls are used.

So it's million times that this event can occur and whatever is positive when you have a good business idea, for example, like Google and it's scalable, it becomes a very interesting idea. Here, we see the flipside of the coin. If somebody gets through a firewall, they can do it a thousand million times.

And so it's the amount of scalability that is the concern, that is the higher risk in the segment and it's also very difficult to define when it comes to RDS type, realistic design set type of scenario assessments. But this is what we are talking about and you know that -- you know the size of the organizations and the data sets. I don't need to go deeper here into what has been in the public domain already.

What kind of loss potentials do we see? Well we have clearly defined guidance in some markets, in particular in the US Where the regulatory environment clearly says, well, if you don't protect the data, we will, for example, give you certain amount of penalties.

It's your duty so we should actually provide you with penalties because you're not doing a proper business here. You should protect the data. You have that in many markets in the U.K., the protection of private data is very tied, very important to the customer groups. So this is one segment.

Then, you have in the first party area the main exposure is I have noted a few here, notification. To notify your customers, the amount of work is between $0.50 and $5. Imagine there is a leakage on data for 100 million people and you need $5 to notify them. You have $500 million loss to your P&L as an organization. It's a huge amount that you have to deploy and you cannot say, I don't care, I don't notify them. It is an obligation to notify your customers about data breaches the minute it occurs.

Identity theft. When we employed this -- this hacker to show us the exposure -- and by the way, he was a white sheep, not a black sheep -- so, he did that to demonstrate the case. He said, well, I can steal your electronic signature anytime you want. You want me to order something on your behalf? I do it.

They can easily access your ID. They have systems when you key in your password and your name, they will identify and then they will use it. But they're not interesting in doing it for a single person. They want to do it for a million people.

Then they would order a bank to pay $2 to a single person and they do it a million times. And to restore impaired electronic signatures is also quite costly.

Defene costs are also high and of course, well, if there is lost income, if you lose customers because of data leakages, the amount of loss to your business is quite significant. You remember from D&O policies that there's a saying, well, if there is leakage on bad news, the impact on the stock price is tenfold. Yes?

I would assume something can also be calculated for cyber insurance. So if there is bad news leakage because you couldn't protect your data, you will immediately have an impact on your entire customer base.

Then the third party environment, the class actions. You know, the minute something happens, there will be lawyers all over potential customers and recommend that you should sue the leaders and the organization to get compensation. And of course, they try to achieve a settlement, the average settlement these days is already a $1 million but they're shooting for higher amounts like they do in the D&O environment. Then you have to either protect yourself with a legal cost to defend the settlement or to structure a settlement or you right away have a policy loss.

This is the last scenario and there are figures quoted that the annual loss to the global economy from cyber attacks is already well above $400 billion. Very difficult to define, to quantify but the ballpark figures are just very sizeable.

Where are we these days with the development of the markets? The most advanced market is surely the US They were the pioneers in the cyber security. Since 2003, there is an increased regulatory activity in relation to data protection which has fueled the demand for cyber insurance and estimation suggests that the cyber insurance premium in the US is already one and a half billion gross.

This very much reminds us of the establishment of the D&O coverage some 30 years ago when this business started to protect corporations and individuals and there's quite some -- there are quite some parallels as far as the development is concerned.

The expected growth rate is 38%, penetration rate in US is already 34%. If you look to Germany, to Asia, other parts, people start thinking about it. But there is no awareness process yet.

In Europe, first guidelines are there. Data privacy protection directive in 1995 and the volume is already increasing. We're looking at around about $900 million expected for 2018. Expected growth rate is 50%. Our penetration at this point in time, very, very low.

And all other countries are watching us. It's the kind of the usual situation. US first, Europe five years later and then all the other countries in the world between 10 to 15 years.

So we have the assumption that from the US into Europe and because of the global exposure framework of cyber insurance, the move from the US into other parts of the world will be much faster.

So if I conclude on this segment. And so what -- what can we assess from this kind of scenario? Surely positive on the development side, the demand will increase. The insurance penetration will increase. The exposure is partly known and unknown to both primary insurers and reinsurers.

But one should not be afraid of risk. One should manager risk and ensure the risks. So we are in here as reinsurance companies with the primary writers to assess potential and start to walk then eventually to run and hopefully into a successful business model.

On the flip side, there's enough capacity and you may say, well, how can there be enough capacity if we have to assume it's not (actually sound), it's not concise enough, there are still question marks on the coverage, how wide or how narrow it should be. But the way the market approaches cyber insurance is so called short limits.

So when policies are issued even to large organizations, they offer very small limits relative to the size of the organizations. It's maybe $10 million, $15 million, $ 25, million US which relative to the exposure isn't inappropriate insurance limit.

But the only way to actually enter into unknown territories where it's not yet actuary sound is by managing the limits and even offer sublimits and keep the overall limits short so that if there are systemic risks, for example, one particular cause triggers many cyber insurance policies to a loss that you control it by having short limits on each. That's the only way an insurance industry in the early years can respond before we provide full coverage.

And of course, the premium adequacy is not yet actually solid. With every year, there are new claim circumstances, there are new kind of assessments. With every year, you add one more year of experience and overtime and, of course, the population of risks, it becomes more solid from an actuary point of view in terms of the premium adequacy.

At this point in time, all the insurance community -- community can say is is there enough danger money for the risks, not knowing exactly what the premium should be. So it's a very difficult situation. So it's a high risk area in that respect with some first mover advantages and the outcomes is a bit unknown.

So how do we approach it? And I will spend a few more minutes on this particular page

So first, what you want to do is you want to have a group-wide strategy because otherwise, you have in all your branches and subsidiaries and all your underwriting centers individual attempts to define cyber. And one would offer a broad coverage, the other one would define it more narrow, one would go for first party, one would go for third party. There's a kind of an in homogenous approach. So first is a cyber strategy.

So we have grown into the cyber strategy at Hannover Re and said, well, do we like or dislike? And when you go into the strategy, you start exactly where this question, the dos and don'ts the likes and the dislikes. So what kind of name perils within a cyber policy.

Do we think we can ensure or primary companies can ensure and we can reassure them and which are the coverage forms that are too broad where you don't want to touch the risk because you can't really quantify the exposure nor can you measure the premium adequacy.

Then the evolution starts and you start to fine tune the process and you need to differentiate, what kind of price will I need for a financial institution, what do I need for a protection line of a car manufacturer and how much do I link that to the risk management process within the company so that pricing tool process starts and we at Hannover Re and the evolution of broadening the pricing tools from a very basic model into segments specific models into excess layers into primary policies so that we can quote individual cyber risks.

Then you have to define the target markets. We have clearly started at Hannover with the US and the London market, i.e. lights of London, they are very much in the forefront and we work with all the key players in this markets.

So it's not that you select just one or two, you go into a very broad approach if you're satisfied about their underwriting approach and you quote a share with these experts on the cyber insurance products. And they are the usual names both in the US as well as in

London. There's very little yet in Europe on the continental Europe, be inside or in Asia or in Latin America.

Now, you start to think, well, what beyond the quota share can you do and whilst I'm standing here, we are preparing a cyber cat product which will be reviewed tomorrow for the first time by wider team. And this is a delicate one because how can you define cyber catastrophe. Is that an aggregation of losses that have a common cost? Or is that a common computer equipment?

How do you want to define that? Do you want to do it loss occurring or risk attaching policy? What kind of notice period do you want to add?

Do you want to make it a short term product and say, well, if you don't notify us of a loss within the term period, next year no coverage. Or do you say you have to notify us within the next 36 months of an event that could give rise to a claim under a cap policy.

We're in the midst of developing this but where we have to be mindful is that now Hannover doesn't take in a systemic risk so we have to control our limits right away and we have to start working on a realistic disaster scenario. Is this a EUR2 billion type of loss or is this an EUR80 billion type of loss? What kind of RDS scenarios can we imagine off and we have commenced the work to?

So before we actually release too many limits on the cap product, we will, on a parallel basis develop this realistic disaster scenario to make sure that we are not overloading the company relative to the capital that is at our disposal. Then you start all over again. It's a kind of an evolution and then hopefully spiral upwards into a meaningful market.

Hannover these days run about EUR60 million in premium and I hope that 2016, we will have three digits and it's growing nicely and if we are successful, many companies will partner with Hannover and will enjoy our expertise. It's all built around the center of competence. We cannot set up a particular department or a particular company because we try to tried to mirror the distribution channel.

And the cyber business in the broker community, for example, sits everywhere.

They have small little kind of cyber experts in areas, departments -- various departments. So to be able to mirror their distribution network, we have to have it in all our departments but we have to make sure that we built some competency somewhere and that's why we choose the center of competency concept here that feeds all the underwriters around the globe as far as our universe is concerned.

Okay. That's about cyber. Now, second stop, we move on to the next part which is agricultural business. And I would do it in similar way. I would look at the risks first and then the opportunities and then a little bit of evolution.

What are the risks that we do see in agricultural business? They are the usual ones. We have droughts, we have frost, we have heavy rainfall. We could have wind. We could have all kind of heat waves.

Whatever destroys the result of an agriculture product is part of the risk driver. Most of the risk drivers are uncorrelated to cat exposure. By the way, that's the same with the cyber business. So it's nicely diversifying development that we are seeing here.

Insurance products in agricultural are already quite developed. We have the single risk insurance is one peril or risk. For example, you ensure against hale. You insure the crop against hale and that's a very basic product. Very clearly defined, very simple.

Then you have two more risks. It could be hale and it could be drought in one product. You could have farm package policies that goes far beyond already. It could include farmhouses coverage for the crop and everything.

The most development and very wide coverage is the MPCI, the multi peril crop insurance. Quite frequently also including cats supported by governments and getting a wider coverage all around the globe.

You have revenue insurance plans and also the index products are getting more spread, i.e. you measure certain kind of rainfall and you say if the rain fall is above X, then the insurance product would respond.

And of course, here, we are touching on insurance products that are almost at the borderline to become a derivative, a financial derivative. All these products are there but they are much more frequently deployed these days and let's have a look at the demand structure (wider).

Well when you look into the year 2050, if we take a little bit of a strategic view, the world's population will probably be around 9 billion. The population increases these days by round about 200,000 people per day. Yes?

So the population increases rapidly all around the globe. The arable land is dropping. And to be able to feed the increasing population, you need at least a thousand calories per day.

And because of deficiencies in distribution, you actually need to produce 2,000 to bring a 1,000 calories to every person in the world because we over produce in our western world when we can't ship it over, we destroy to keep the prices up. So there are distribution deficiencies.

So we believe that much more agricultural products have to be developed and the world has to do it quickly because otherwise, we cannot take control of the poverty all around the globe.

And already, in 2013, the expected population is likely to be 8.4 billion and it needs a massive increase in food supply to actually bring the thousand calories per day to people in the world.

So what are the trends? Population is growing by 2010,000 per day. The strongest growth is in Asia and people leave more and more in urban cities and they leave the rural areas. So less people in the rural areas to produce agricultural goods and to actually keep the people in the urban areas.

When you look at China, just one example, in 1985, the average Chinese person consumed 20 case of meet per year. By 2000, it was 50K. Now multiply that by a billion people know how much more you have to produce. Yes. It's a huge amount that is being needed.

The economic growth actually takes people out of poverty. They can afford to buy food. This is something we see in countries like Mexico, Brazil, China, India. So that will also lead to demand. It will lead to different types of demand.

Then, of course, on the flipside, the natural resources get more and more limited. The water is more polluted. The arable land is declining. Desserts are expanding on a worldwide basis and that will lead to rising prices. At the same time, there is more demand.

We believe that here, the mega trend is, again, our friend. And that's why we started a number of years ago to employ expertise in our company and I will tell you later on what we did with this expertise.

When we look at the figures a bit more detail, some of them are showed, I think, last year or the year before, today, all countries, the agriculture insurance premium is below 1% of GDP. The forecast is eventually, it will be 2%. Less of a development in the high income countries but severe developments and massive growth in the middle income and low income countries simply because the food needs to be produced and therefore insurance is needed to actually make sure that it's productive.

So if you do the number crunching, emerging markets are expected from 2009 to 2025 that the insurance premium will increase to $15 billion to $20 billion and the large part will be China. I'm not sure whether I should call China as an emerging market these days any more. But China has released a 10 points program late last year or early this year that agricultural insurance should be in the forefront of insurance companies to make sure that Chinese people get food also in the rural areas and when Chinese government releases a recommendation, it's a must to the insurance industry. So they will enhance the insurance penetration rapidly and the same will happen in India and Brazil in some of these countries.

When we then look at the ratio of insured versus cultivated areas, you can clearly see in the US most of the cultivated areas are insured, 88%. When you look at China, the cultivated area has a similar size but the insurance penetration is only 45%.

So much higher risk in case of unusual weather events. That's why, clearly, the Chinese government is pushing the insurance of agricultural exposures. So when you go to India, it's even more extreme. Same size, again. But insurance penetration only 15% and Latin America a similar picture. So clearly, an area where insurance penetration and the trends from the insurance penetration will give us tailwinds in terms of business production.

So how big are these markets today? you remember the figures I showed you on cyber insurance? When we look at the US, there was a rapid growth period between 2005 to 2009 and since these times, the market is round about $9 billion in premium. So quite a sizeable market and not insignificant amount of these is offered to reinsurers.

Because in the US, the lion share of this business is MPCI business, it's with a few players only and they're top heavy. The top heavy on MPCI business so they're branching out for diversification reasons and by huge quarter share through the stop loss treaties on their MPCI on their MPCI accounts from the reinsurance community.

China, you can see the trend here. It's an unbelievable trend. And now, you imagine for a minute, that it's most that this amount of volume is mostly with reinsurance companies, PICC, China United. And Ping An. They ensure the lion share of this agricultural business and just look at the CAGR here, 54%, a huge development patter and with the 10-point program just released by the Chinese government is going to last.

Because they will clearly force the insurance companies to ensure next to 100% of the cultivated areas in the agricultural business. So one should expect a further continued growth in the Chinese market too.

When we look at India, again, a large market. The compound annual gross rate of 28% of cost on the lower volume, insurance penetration, much lower but the trend clearly is different here too and we have signals that the insurance penetration in agricultural business in India is going to continue. So again, a market for high growth opportunities.

Latin America, a similar picture even though on a -- on a somewhat smaller scale 23%. But again, if (I think) for a minute, I would have a 23% annual growth rate in any other line of business and it's profitable, I would thankfully offer my capacity, our company's capacity to have this automatic growth in this market.

Okay. Now, let's look at Hannover Re and where we see our opportunities. The way we are segmenting these markets are basically -- it's basically done by three main criteria. One is where are the big markets of this world that have more than 25 million acres of agricultural area --that's one block -- the big markets of this world.

Then we say where is the population very big, i.e. where is food needed. That's the second criteria. And the last one is where is already a very sizeable GDP where you have just the financial strengths that the government and the strengths of the GDP can support subsidies into the development of agricultural business.

When you cross these there, let me talk about not the pattern in middle but the other ones. The other ones we do business to. But in terms of developed and in size, the ones in the middle have the power to develop huge premium and also opportunities. And we have clearly earmarked our strategy, the markets, US, Russia, Brazil, China, India, Mexico as the key markets.

Now, you can say you're copying brick type of considerations even though the Mexico doesn't sit too well with a -- with a brick kind of definition. But it's coming from a different kind of consideration. GDP to do the subsidies population big enough and, of course, it must be a production country so that there is a need to ensure.

And this is really where we are targeting -- where we try to make our in roads and develop successful premium in the agricultural area.

But that said, of course, we do business in Turkey, in Argentina, in the Philippines, in Korea, in the U.K. and in Germany too. But in terms of the growth potential, I'm not exclusively talking about growth potential. These are the key markets for us where you can easily add multimillion per year, increases in your premium volume and hopefully also in the bottom line.

So how have we done? We started to set up a small department. We try to employ various skill sets. They're all from the industry, from the agriculture industry and we started to develop our business.

There wasn't a historic connection to our Latin American business. We were first strong in Latin America and it's due today when you look at our 2014 distribution, the south American or Latin American business is 32%. That's for historic reasons. That's where it all started in our company.

But ever since and with this change in strategy approach, we have started to branch out. And these days, North America is 27%. We are in contact with except for one, all the key underwriters in MPCI business in the states. We have decent stop loss portfolio on hale and MPCI business in the states and it's in 2014, already 27% of business.

And in Asia, it's 17% and our teams have quite ambitious growth targets in China and India which the board didn't suggest to them but they volunteered to set that as their own targets because they wanted to make the strategic inroads into these two markets.

In Africa, Australia, a little bit on the lower side. Europe also, not insignificant. We have a strong position in Poland, for example, that we operate with a market leader in Poland. So Europe, also for us is not a bad market as far as agricultural business is concerned. For us, the average annual compound ratio, 26% and you can see here, even though I don't know what the final figure will be in 2015, we might actually get close to EUR500 million. That's quite a ballpark figure.

Its top line, of course, agricultural business doesn't have right away double digit margins. They're more in the single digit margins, they have some volatility but it's uncorrelated volatility with stress tested our agricultural portfolio against the cat portfolio. There are some correlations. It's not minus but it's also not plus one. It's probably plus 0.1 on the positive correlation. So it's weakly positively correlated to that nat cat exposure.

What kind of products do we have in agricultural? Well I mentioned already, the lion share is multi peril crop insurance. Hale is the oldest form. It's also a decent block but it's shrinking in terms of size.

But what is actually growing is also livestock and aquaculture to a lesser extent, bloodstock, bloodstock is basically insurance of horses where we are really cutting back a little bit but livestock and aquaculture is developing nicely because many of the oceans in the worlds are overfished. And aquaculture is a growing business worldwide and needs insurance too so we're growing nicely here.

And forestry is also quite nice. We're strong in Scandinavia. We're strong in Indonesia. So those markets that have big forests or big rain forests which are used for production purposes and provided that everything is fine with the governance on these projects, we ensure quite a lot on the forestry side and it's decent, double digit margin on the forestry business as is on the aquaculture business, for example. But this will most likely not shape up in a different way but it's likely to stand like this.

So what is our approach to future agricultural business? We believe that we have a dedicated international team and they are very well connected with many government organizations. You won't believe how much of these business is actually dealt with government organizations.

So they go to the source of the origin, where the subsidies are. And then the insurer is found locally but the product invention actually takes place between specialized teams and governments. That's where the origin of the business is and then insurance companies are selected to administer in many markets.

So we believe in our specialized team, their reputation is already very high. They get invited to Congress as they speak to governments and their advice is very much liked these days.

We work with strategic partners, World Bank, IFC, many other strategic partners and also non-government organizations. We're branching out into something you wouldn't think of right away, aquaculture, forestry, business. And in the end, we're also developing micro insurance on the agricultural side.

So if you think of India for a minute, all these small farms, they need tailored products to protect their little kind of farm land so that has also developed in a nice product development.

And we tried to be innovative. So we entered into corporation with satellite companies so that we, from satellites, can measure the loss significance. For example, there is a freeze loss in Mexico like it occurred a couple of years ago that we can measure from the satellites how big the area is that is affected.

You can see that from satellites and you can do advanced claims management via satellites. We have teamed up with companies to make sure that we have these abilities.

Okay. Conclusion. Well we believe that our growth is to, some extent, safeguarded by expert knowledge. We don't show this specialty line business. It's embedded into our traditional business. Agricultural is not part of our specialty business that we show to the outside. It sits everywhere in the Chinese department in the Latin American department.

Of course they are teams, they are pockets of experts but it's not separately shown why. Again, we mirrored the distribution channel and there are no specialized brokers for agriculture business. So why should we set up special agricultural teams.

We believe that this business has nice entry barriers. Like, for example, credit and surety business. The community of reinsurers dealing meaningfully with credit and surety business is a handful.

And we see a similar kind of pattern here without expertise. Ulrich highlighted this morning how the reinsurance cake is distributed amongst hundreds of reinsurance companies only those who have the expert knowledge can actually make the inroads into cyber or agricultural because if they don't have the expertise, what can they bring to the table and the discussions with the customers.

And there is still evolution of product and innovation so these products change constantly and they are not as solid as a motor insurance liability policy or a property policy. We are still in an evolution process which is a challenge and also in that respect just attractive and last but not least, what you see on the top line, there's more than just nat cat.

So to the extent that nat cat is declining, that aviation is climbing, that marine is getting into a soft market environment as Ulrich explained, we are involved in various initiatives to grow here and there but what we can tell you is will that fuel the growth in 2016 or 2017 or 2018. Some move faster, others need a little bit more lead time until the relationships are established or until governments buy into it.

So it sometimes like sitting on a stone to heat a stone. So it takes a little bit of lead time to get this business into our staple of attractive business opportunities.

Well and then I'm ready to listen to your questions.

+++qanda

A - Karl Steinle {BIO 1986424 <GO>}

Well thank you. We already have some questions here from Xinmei and Michael Huttner.

Q - Xinmei Wang {BIO 17860767 <GO>}

Thank you. Xinmei Wang from Morgan Stanley. So on the cyber, you talked about cyber cat cover. So what do you think about the possibility of alternative capital coming in to fill that coverage gap instead? And my second question is when you think about cyber, do you -- do you have that thing about target or an ambition of how much the P&C booked you would like to be cyber over the next couple of years?

A - Juergen Graeber {BIO 20978001 <GO>}

Yes. Maybe I'll start -- thanks for your questions -- with the second question. We would never have kind of strategic targets how much it would have to be. We hope it can be a similar take -- can take a similar pattern like the D&O business, grow to three digits. But if, for example, we have massive increases in Chinese anota share treaties then the percentage may drop again. So I hope that underwriters and opportunities are taken up but it's not -- it must be X % of our P&C business. We don't have this kind of target.

The first question is this kept product -- a product for alternative capital? I would say yes, maybe. Why? It's very much short tail in nature and that reminds me of something that we should structure it a bit more tailish but they can't get in.

Yes. It could be a source where these markets could come in. But at this point in time, alternative markets like to follow established routines at the primary level as long as we don't have them and we don't have them on our side. I doubt that the alternative capital markets will step in right away.

They will probably give us a lead time of three to five years and then they follow suit. It would be my assumption.

So I hope that we have a little bit of first mover advantage here as a community. And the minute we offer it to the broker distribution channels, all other reinsurance companies will pick up within three to six months.

Q - Michael Huttner {BIO 1556863 <GO>}

My question were directly related, I'm sorry. But on the -- is there any benefit of Tianjin in terms of pricing and maybe you can talk more broadly about pricing of the account renewal. Then -- and this is not related to you -- I'm really sorry -- but during lunch, I picked up a comment that as much as your reserves in nonlife are huge and the life, a little bit light. And I didn't understand why. But maybe that's not quite appropriate.

A - Juergen Graeber {BIO 20978001 <GO>}

Well if I may. I wouldn't comment on the first part. I would give this to, maybe Andreas or Ulrich. The second part on the -- on the light reserves. Tianjin and pricing, well, whenever there is a larger claim with cat or man-made, the question arises, was this expected? If it was expected, there's very little reaction of the market. If it wasn't, there is some reaction.

And I would dare to say this claims somewhere in between because actuaries will say, well, at the very tail end of my TBA calculation, yes, an event like this is included. But underwriters would say, no, I didn't expect this. I want some price increases.

I believe the amount of increases will be limited and I tell you why. Markets that have strong underlying growths will trade the opportunity or the responsibility to pay back a market for an unexpected loss by a growth. So I would have the expectation that, in particular, Chinese customers would say, well, if you stay with us, the future growth will pay you back. But don't force us next year to give us a meaningfully higher margin.

But at the same time, we would say, well, maybe halfway through. So one would end up in some trading and try to find a win-win balance which will not be as strong as it would be if a loss like this would have occurred in -- in our western world, there would be much more technical reaction to this. But they will trade the gross opportunity against the payback responsibility. That's my assumption. Haven't started the negotiations yet, though.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well if I may answer on the life side fee reserve level, I mean, the half significant surplus can be life reserves as well. What that, however, refers to is on the benefit reserves the future positive cash flows, I mean, this is, I think -- Klaus, correct me if I'm wrong -- probably in the region of 1.6 billion, this is just the runoff positive results that we are expecting.

The different -- really different to the nonlife reserves. So nonlife reserves is future negative cash flows. And so redundancies on the -- on the sufficiency, I think, in life you call it sufficiency. The sufficiency on the Life & Health reserves is a positive cash flow.

When it comes to -- and therefore, of course, it's -- you cannot really, I mean, utilize and to buffer results unless you sell them. Of course, if you sell them, then you get the money for it, maybe just a haircut. But you cannot just like you do this a big -- but theoretically, you can do this with nonlife reserves and to release part of that.

So these reserves releases without selling the reserves, we haven't got that on the life and (health). It's a major difference.

The other different is that one Life & Health, it's a discounted reserves which is quite appropriate because you have positive and negative cash flows in the future and, yes, we have provisions for actuaries development. But again, as they are -- I mean, part of the best estimate reserves and are -- in excess of this trick actuarial calculation, I would say.

I mean, there's a difference. So there are two very different beasts. If you look at the runoff there, you -- what we are expecting if you just stop now, what will happen to the reserves, both will generate profits.

Did I explain that correctly? Okay. Thank you.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. We have another question from Andrew Ritchie.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Thanks. Just two quick questions. First of all, have there been an insurance claims in cyber? Not specific to how to you but for the market and maybe just give us a sense as to whether small market as it is and has it been profitable so far.

And second question is related on agriculture. I guess, when we look at the MPCI results of US primaries, they seem very volatile and it's very hard to figure out how profitable that business really is. It doesn't look that profitable overtime but maybe just give us some premises as to is there a pricing cycle in agriculture? I appreciate -- there's a lot of state involvement with the caps. Do you have any, sort of, sense of how profitable it is?

A - Juergen Graeber {BIO 20978001 <GO>}

Yes. Well maybe on the first one, have there been claims on cyber? Yes. There have been claims. But so far, it's a profitable line of business. So they have not been very sizeable as an insured claim. Why? Just simply because of insurance density at this point in time.

On the agriculture side, I would probably partly disagree on the volatility of the BCI business. As you know, this business in the states has certain kinds of bells and whistles and adjustment features and caps.

So it does not go to very extreme limits because then certain kind of caps come in. And secondly, most of the primary companies buy quite comprehensive stop loss protections. So they manage their volatility down to acceptable levels.

Now, if I take the flipside, as a reinsurer, you get a combination of proportion participation. Here, you assume volatility and then you provide coverage, i.e. stop loss coverage and you assume even more volatility. So our results should have more volatility than the primary companies.

And we indeed have seen that in the early years of ramping it up. We got a large loss from Mexico. We also, many years ago, had a company on the West Coast in the states of the name of ICH, Insurance Company of Hannover. And they were involved in MPCI business and that was not as attractive in those days as we had hoped.

But ever since we found a proper balance between proportional and stop loss, we found a balance between auto generating cash flow, managing volatility a bit better and what actually helps in terms of the total portfolio is that you may have losses in the states but maybe your Polish business is fine or your Chinese business is fine.

So we've seen diversification now in our portfolio just simply because of size. Yes. But will it, in the end, not be business with a double digit EBIT margin. The answer can only be yes. Because to the extent that it is sometimes subsidized business, you cannot subsidize business with a -- for, let's say, 18% EBIT margin. No government would ever do this and would accept that as a kind of situation.

Maybe in the early years it might occur from time to time but the longer the business is in the market, the margins are more like short limit property margins, maybe 6%, 7% on proportional business.

Q - Andrew Ritchie {BIO 18731996 <GO>}

And just for another -- you commented that you thought cyber was similar to development of D&O, the D&O market. I mean, maybe this is about a kind of rumors as to what happened to the D&O market. It developed. There was a period of losses. People worked out kind of what the right limits were and then it's now a mature-ish market. I mean, how would -- what are the similarities for early D&O.

A - Juergen Graeber {BIO 20978001 <GO>}

Well what other similarities, the protection is more or less a protection for the management in a sense that in company can't operate because of certain kind of mistakes. So you want to protect your own company against your volatility from certain kind of actions where they are external or internal influence.

What they have in common is that both classes tend to have huge potential for class actions, D&O and cyber. And that's why we believe because of this class action potential, yes, that your share price drops different through the market development, yes?

Say, the market stays solid and your share price drops right away that will be class action started. And this can happen on the cyber exposure like it can happen on the D&O side.

Q - Andrew Ritchie {BIO 18731996 <GO>}

So the D&O to WorldCom, Enron, the financial crisis to kind of mature. So I guess, it does have the same thing.

A - Juergen Graeber {BIO 20978001 <GO>}

Yes.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay.

A - Karl Steinle {BIO 1986424 <GO>}

Okay. Well thank you, Juergen for your presentation and the questions.

We -- without further ado, Ulrich will now summarize the day and take a brief look forward and but I'd like to emphasize the world brief. We will not providing a new -- fresh guidance for the day. The initial guidance for 2016 then have to wait for the conference call on November fourth.

After this, I'd like to invite you to join us in the hall for snacks and drinks. In doing so, I certainly would like to thank you for your participation today, also on behalf of the management and the entire investor relations team.

A - Ulrich Wallin {BIO 4863401 <GO>}

So thank you, Karl.

Briefly, briefly on the wrap up and the concluding remarks, well, the guidance remains unchanged as Karl already mentioned. I mean, the growth, 5% to 10% currency adjusted, that's pretty certain by now because majority of the business has been written and -- of course in newer terms, it will look solidly double digit, also that is quite certain.

Return on investment around 3%. That is pretty certain as well. It looks up to know unless there's major turmoil in the market and provided that there are no major losses ate push the aggregate losses significantly.

Above the large loss budget between now and here and we should end up this net profit for the group of around EUR950 million and I have to add. So this is not a point estimate. So this is an estimate in the -- in the area as we normally do these things.

Dividend. Our strategic ratio is 35% to 40%. However, I mean, the capital increase, as I showed in my presentation this morning. If all thinks the equal, we will probably be able to act similarly than we did for 2014.

Key takeaways, we feel that we underwrite place being in the reinsurance business. We feel the business is growing. There's demand for the business because we are offering growth -- I mean, hedging tools and good products for our clients and therefore we feel that we will be able in the medium term to achieve our bottom and top line growth targets, bottom line is more important than top line.

Capital management, we manage towards attractive ROEs as long as we have attractive ROEs. Any additional capital is welcome because it gives us additional flexibility and safeguards, the longevity of the company. However, if the ROE drops below certain levels and the minimum is, of course, 900 base points, accessory free, then we will manage the capital growth downwards.

Andreas told you that we are well ahead with our Solvency II internal capital model actually being the first internal capital model that has been approved. And Eberhard in his last presentation on these kind of occasions actually showed you the usual development of our non-life loss reserves and, in particular, the sufficiency levels and the excess reserves that we are having at least according to Towers Watson. Still a very healthy buffers.

Then Klaus gave you the reasons why we can believe and that we are confident that in the medium terms, the profitability of our Life & Health business will continue to grow and this is actually regardless the market cycles that we see on the P&C business.

Roland explained to you how we tackle the low yield environment and that we can even in the current low yield environment maintain the level of our -- of our investment earnings in absolute terms. Then Juergen just explained to you that we still have areas of profitable growth in the P&C business even in the current soft market.

And with that, we feel that the continued positive development of Hannover Re is safeguarded for the benefit of all stakeholders in particular of our shareholders.

With that, thank you very much for listening and thanks for joining us at this year's investor day.