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# Conference Call on Interim Report 1/2015

Hannover, 6 May 2015

*hannover* **re**<sup>®</sup>

# Excellent start to 2015

## Remarkable increase in premiums and earnings

### Group

▶ Gross written premium: EUR 4,400 m. (+21.4%)	▶ GWP f/x-adjusted growth (+ 10.3%) above expectation
▶ Net premium earned: EUR 3,432 m. (+17.8%)	
▶ EBIT: EUR 429 m.	▶ Strong increase in EBIT (+ 22.7%), driven by excellent result in L&H and favourable underwriting result in P&C reinsurance
▶ Group net income: EUR 280 m.	
▶ RoE: 13.9%	▶ RoE remains well above our minimum target
▶ Book value per share: EUR 70.68	▶ Shareholders' equity up by 12.9%, driven by earnings and increase in OCI
▶ Shareholders' equity: EUR 8,524 m.	

### Property & Casualty R/I

EBIT: EUR 255 m.

- ▶ Good profitability (EBIT margin of 13.6%) driven by favourable underwriting result (C/R of 95.7%)
- ▶ Net major losses of EUR 62 m. (3.3% of NPE) well below budget
- ▶ F/x-adjusted growth of 13.0% driven by Emerging Markets, US and Agro

### Life & Health R/I

EBIT: EUR 173 m.

- ▶ Significantly increased operating profit (+164.4%), driven by improved underlying profitability
- ▶ F/x-adjusted growth of 6.5% in line with expectation

### Investments

NI: EUR 416 m.  
RoI from AuM: 3.3%

- ▶ RoI above full-year target of 3.0%
- ▶ Higher ordinary investment income supported by one-off effect in L&H reinsurance
- ▶ Assets under own management increased by 9.5%

# Strong operating profit fuelled by both business groups

## Bottom line growth outpaces volume increase

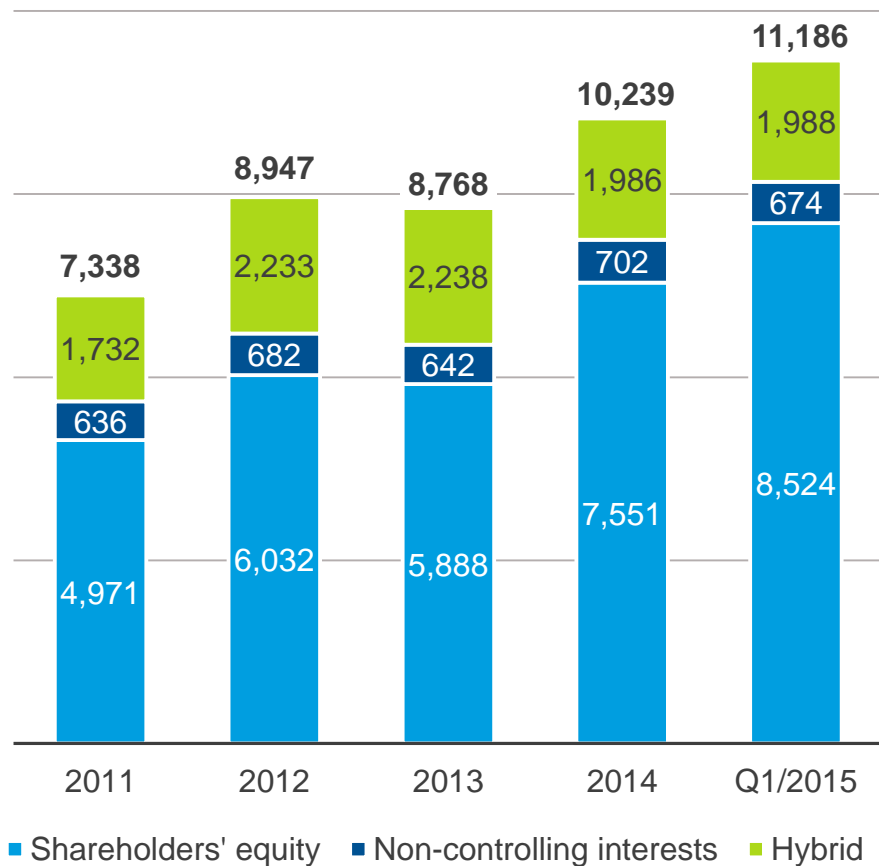
Group figures in m. EUR	Q1/2014	Q1/2015	Δ	YTD
Gross written premium	3,624	4,400	+21.4%	▶ GWP f/x-adjusted growth of 10.3%
Net premium earned	2,913	3,432	+17.8%	▶ NPE f/x-adjusted growth of 6.9%
Net underwriting result	3	(6)	-	▶ Overall EBIT margin reaches a very satisfying level of 12.5%
- Incl. funds withheld	91	93	+1.8%	
Net investment income	361	416	+15.1%	▶ Tax ratio slightly above plan; expected to normalise over the course of the year
- From assets under own mgmt.	273	317	+16.2%	
- From funds withheld	89	99	+11.7%	
Other income and expenses	(14)	20	-	
<b>Operating profit/loss (EBIT)</b>	<b>350</b>	<b>429</b>	<b>+22.7%</b>	
Interest on hybrid capital	(28)	(25)	-10.1%	
<b>Net income before taxes</b>	<b>322</b>	<b>404</b>	<b>+25.5%</b>	
Taxes	(62)	(126)	+101.6%	
<b>Net income</b>	<b>259</b>	<b>278</b>	<b>+7.3%</b>	
- Non-controlling interests	27	(1)	-105.2%	
<b>Group net income</b>	<b>233</b>	<b>280</b>	<b>+20.1%</b>	
Retention	88.4%	88.6%		
EBIT margin (EBIT/Net premium earned)	12.0%	12.5%		
Tax ratio	19.4%	31.1%		
Earnings per share	1.93	2.32		

# Shareholders' equity increased by 12.9%

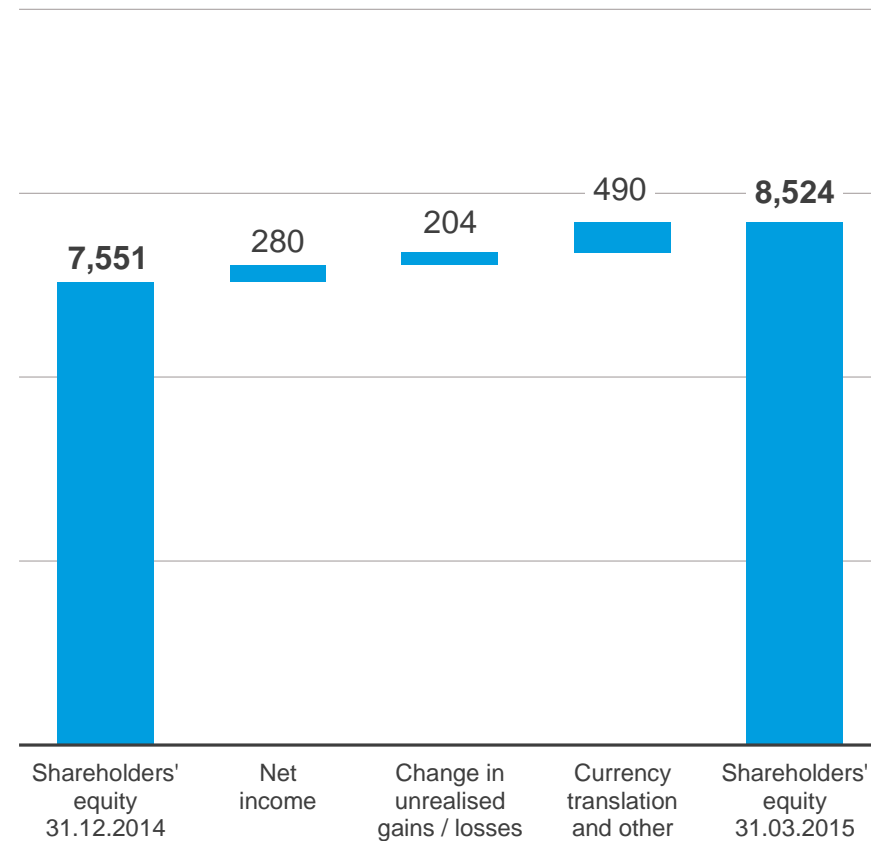
Driven by strong earnings, depreciation of EUR and growing valuation reserves

Policyholders' surplus

in m. EUR



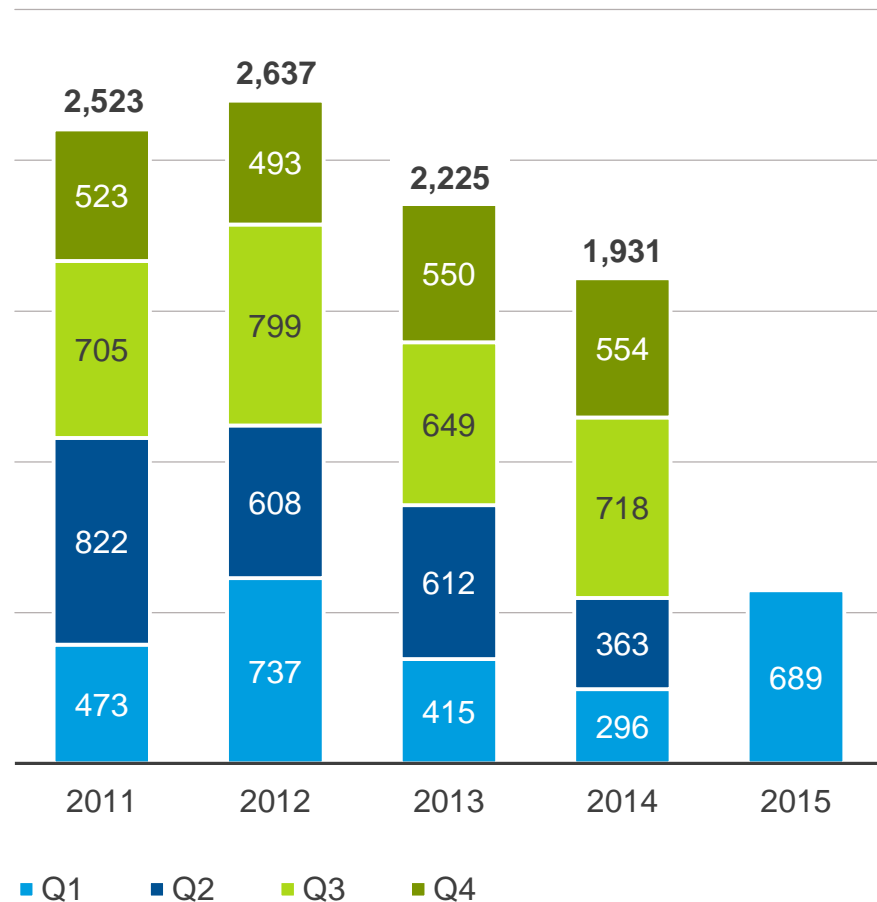
Change in shareholders' equity



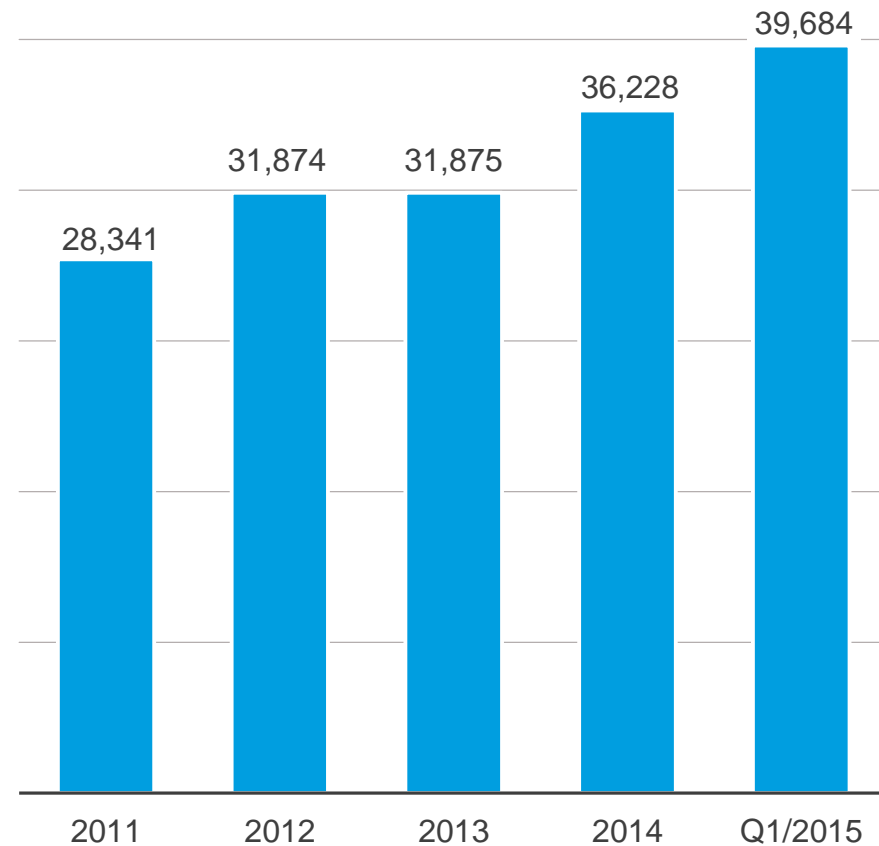
# Very positive cash flow

Increase of 9.5% in AuM helped by strengthening USD

Operating cash flow in m. EUR



Assets under own management (AuM) in m. EUR



# Favourable underwriting result in a competitive environment

## Net investment income lower due to negative impact from inflation swaps

Property & Casualty R/I in m. EUR	Q1/2014	Q1/2015	Δ
Gross written premium	2,108	2,617	+24.2%
Net premium earned	1,632	1,882	+15.4%
Net underwriting result incl. funds withheld	91	80	-12.0%
Combined ratio incl. interest on funds withheld	94.4%	95.7%	1.3%p
Net investment income from assets under own management	201	191	-4.9%
Other income and expenses	(12)	(16)	+37.7%
<b>Operating profit/loss (EBIT)</b>	<b>280</b>	<b>255</b>	<b>-9.0%</b>
Tax ratio	23.3%	32.3%	9.0%p
<b>Group net income</b>	<b>198</b>	<b>171</b>	<b>-13.4%</b>
Earnings per share	1.64	1.42	

### YTD

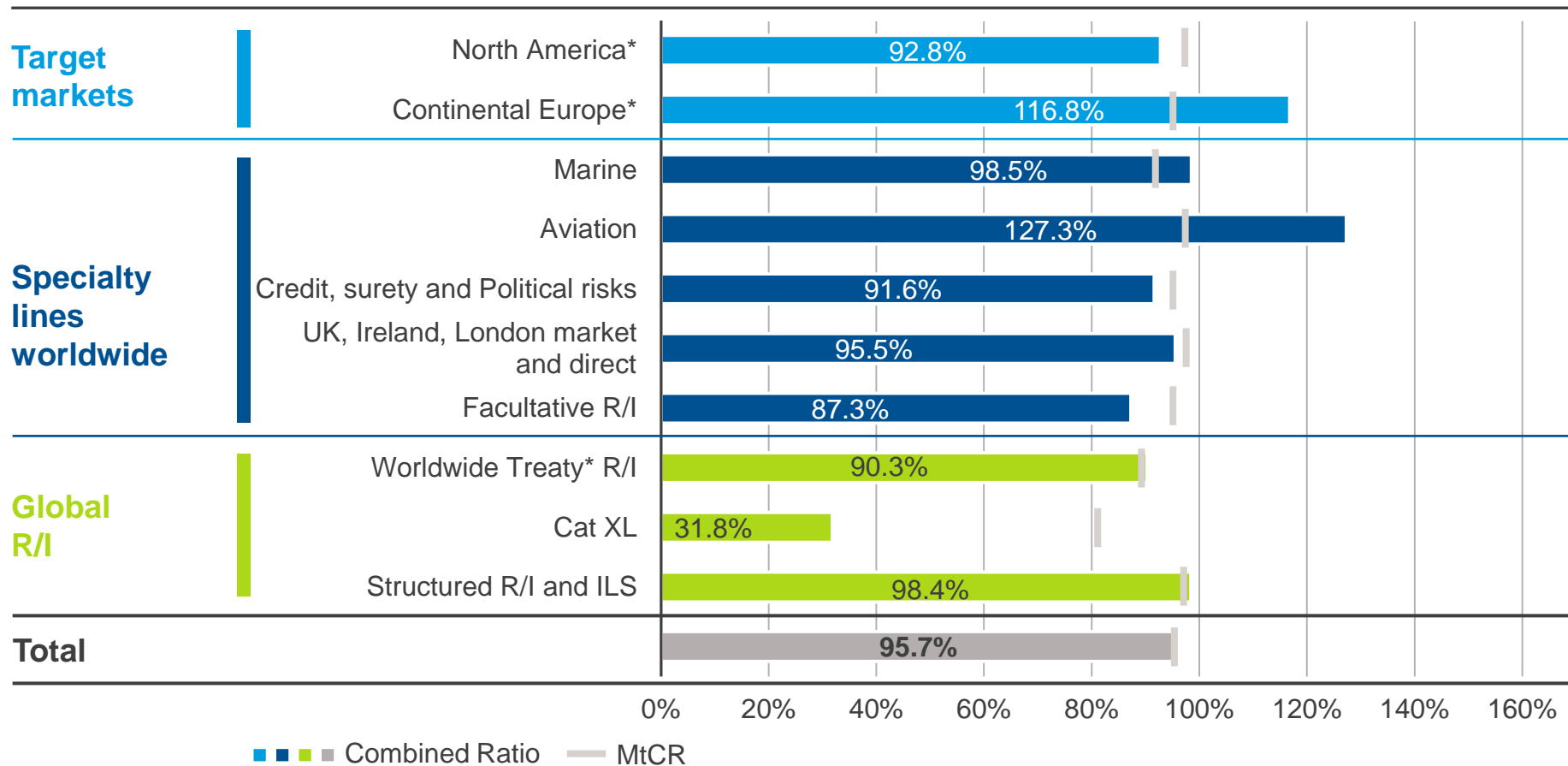
- ▶ GWP f/x-adjusted growth +13.0% mainly from Emerging Markets, US and Agro business
- ▶ Positive one-off effect of EUR 93 m. from more timely recognition of premium for Facultative business
- ▶ Major losses of EUR 62 m. (3.3% of NPE) well below budget of EUR 157 m. for Q1/2015
- ▶ Conservative reserving policy unchanged
- ▶ Ordinary investment income in line with expectation
- ▶ Negative impact from inflation swaps of EUR -15 m. (Q1/2014 EUR -1 m.)
- ▶ EBIT margin of 13.6% (Q1/2014: 17.2%) well above target

# Overall portfolio outperforms the MtCR

## Aviation and Continental Europe hit by large losses

### Combined Ratio Q1/2015 vs. MtCR

in %



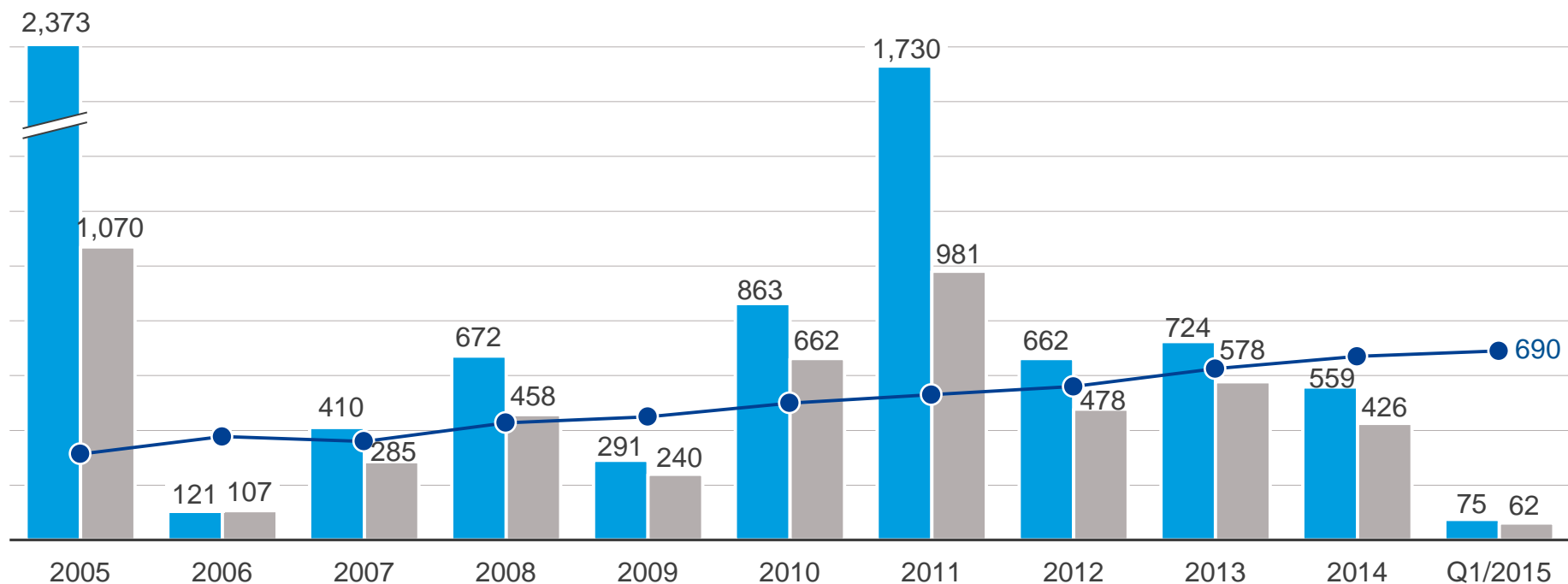
MtCR = Maximum tolerable Combined Ratio

\* All lines of Property & Casualty reinsurance except those stated separately

# Major losses well below budget for Q1/2015

## Natural and man-made catastrophe losses<sup>1)</sup>

in m. EUR



34%	2%	8%	13%	5%	14%	25%	9%	9%	7%	3%
20%	2%	6%	11%	5%	12%	16%	7%	8%	6%	3%

■ Gross   
 ■ Net   
 ● Expected net catastrophe losses

1) Up to 2011 claims over EUR 5 m. gross, from 2012 onwards claims over EUR 10 m. gross

2) 2005 - 2006 adjusted to new segmentation



## Benign large loss experience in Q1/2015

Catastrophe losses* in m. EUR	Date	Gross	Net
Winter storm, USA	16 - 22 Feb	10.3	7.9
Storm "Niklas", Germany, Switzerland, Austria	31 Mar - 1 Apr	48.1	42.0
<b>2 Natural catastrophes</b>		<b>58.4</b>	<b>49.9</b>
Aviation claim		16.8	12.2
<b>3 Major losses</b>		<b>75.2</b>	<b>62.0</b>

\* Natural catastrophes and other major losses in excess of EUR 10 m. gross

# Excellent profitability of our Life & Health business

## Significantly improved earnings compared to previous year

Life and health R/I in m. EUR	Q1/2014	Q1/2015	Δ	YTD
Gross written premium	1,517	1,783	+17.6%	▶ GWP f/x-adjusted growth +6.5%, mainly from Emerging markets, Australia and Longevity BATs
Net premium earned	1,281	1,550	+21.0%	
Net underwriting result incl. funds withheld	(1)	12	-	▶ Technical result in line with expectations
Net investment income from assets under own management	67	124	+84.8%	▶ Ordinary investment income higher due to positive one-off from termination fee for Financial Solutions treaty
Other income and expenses	(1)	37	-	▶ Improved other income and expenses driven by positive currency effects
<b>Operating profit/loss (EBIT)</b>	<b>66</b>	<b>173</b>	<b>+164.4%</b>	▶ EBIT margins pleasing above targets
EBIT margin	5.1%	11.2%	6.1%p	• Financial Solutions business: 32.4% (target 2.0%)
Tax ratio	19.6%	28.0%	8.4%p	• Longevity business: 4.4% (target 2.0%)
				• Mortality and Morbidity business: 8.1% (target 6.0%)
<b>Group net income</b>	<b>43</b>	<b>128</b>	<b>+193.9%</b>	
Earnings per share	0.36	1.06		

# Investment income above expectations

## Rise in ordinary income more than offsets decrease in (un-)realised result

in m. EUR	Q1/2014	Q1/2015	RoI
Ordinary investment income*	244	315	3.3%
Realised gains/losses	54	45	0.5%
Impairments/appreciations & depreciations	(6)	(8)	-0.1%
Change in fair value of financial instruments (through P&L)	7	(11)	-0.1%
Investment expenses	(28)	(24)	-0.3%
<b>NII from assets under own mgmt.</b>	<b>273</b>	<b>317</b>	<b>3.3%</b>
NII from funds withheld	89	99	
<b>Total net investment income</b>	<b>361</b>	<b>416</b>	

<b>Unrealised gains/losses of investments</b>	31 Dec 14	31 Mar 15
On Balance-sheet	1,724	2,126
thereof Fixed income AFS	1,246	1,597
Off Balance-sheet	558	603
thereof Fixed income HTM, L&R	497	536
<b>Total</b>	<b>2,282</b>	<b>2,729</b>

### YTD

- ▶ Significant rise in ordinary income due to higher results from fixed-income securities and real estate and one-off effect from L&H business
- ▶ Decrease in realisations from high level of previous year
- ▶ Change in fair value of financial instruments: gains from life settlement contracts; losses from inflation swaps and f/x derivatives; minor influence of ModCo derivatives
- ▶ Valuation reserves higher than year-end levels due to decreasing yields

\* Incl. results from associated companies

# Target Matrix 2015

All targets achieved

Business group	Key figures	Strategic targets for 2015	Q1/2015
Group	Return on investment <sup>1)</sup>	≥3.0%	3.5 %
	Return on equity <sup>2)</sup>	≥10.2%	13.9%
	Earnings per share growth (y-o-y)	≥6.5%	20.1%
	Value creation per share <sup>3)</sup>	≥7.5%	n.a.
Property & Casualty R/I	Gross premium growth	3% - 5% <sup>4)</sup>	13.0%
	Combined ratio	≤96% <sup>5)</sup>	95.7%
	EBIT margin <sup>6)</sup>	≥10%	13.6%
	xRoCA <sup>7)</sup>	≥2%	n.a.
Life & Health R/I	Gross premium growth	5% - 7% <sup>8)</sup>	6.5%
	Value of New Business (VNB)	≥EUR 180 m.	n.a.
	EBIT margin <sup>6)</sup> Financial Solutions/Longevity	≥2%	16.8%
	EBIT margin <sup>6)</sup> Mortality/Morbidity	≥6%	8.1%
	xRoCA <sup>7)</sup>	≥3%	n.a.

1) Excl. inflation swaps and ModCo

3) Growth of book value + paid dividend

5) Incl. expected net major losses of EUR 690 m.

7) Excess return on the allocated economic capital

2) After tax; target: 900 bps above 5-year rolling average of 10-year German government-bond rate ("risk free")

4) At unchanged f/x rates; multi-year average

6) EBIT/net premium earned

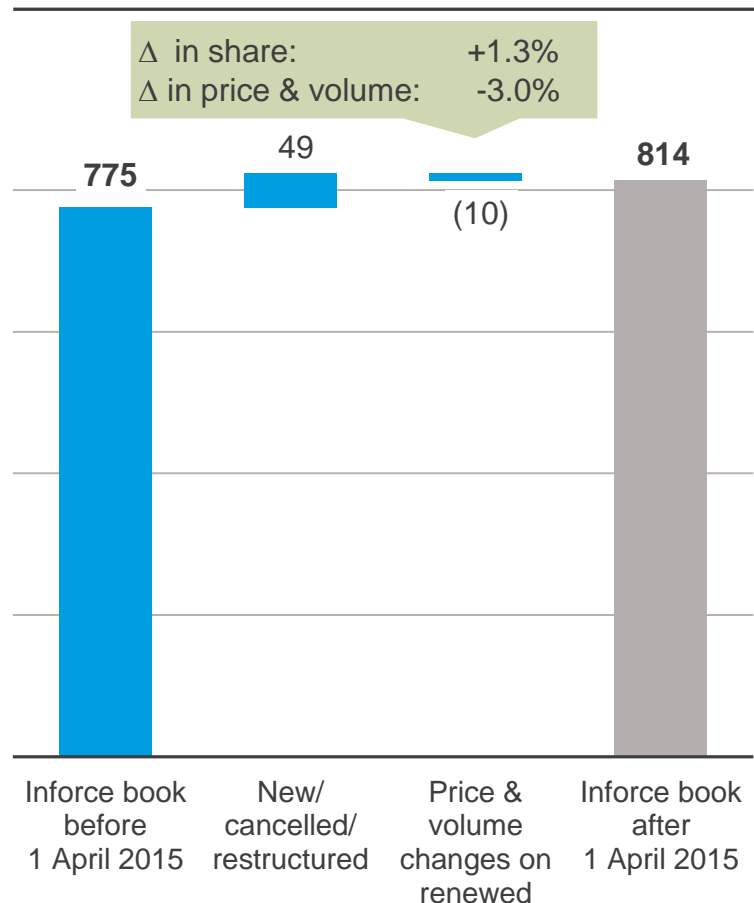
8) At unchanged f/x rates; multi-year average; organic growth only

# Outlook 2015

# 5% increase in premium despite difficult market conditions

Property & Casualty treaty renewals: 2 January 2015 - 1 April 2015

## April renewals in m. EUR



- ▶ Newly written US business adds significant premium volume, otherwise premiums largely unchanged
- ▶ Japan
  - Stable premium despite higher retentions
  - Rate reductions in most areas and partly wider conditions
  - Relationship-driven increase in business with our core clients
- ▶ US
  - Continued pressure on terms and conditions in certain areas
  - Higher lines written in profitable large accounts
- ▶ Global cat
  - Excellent showing of business and selective underwriting allowed us to keep premium stable despite competition driven rate reductions
  - We achieved risk-adequate NatCat prices despite the pressure
- ▶ Continued strict adherence to margin requirements

At unchanged f/x rates (31 December 2014)

## Guidance for 2015

Major loss budget of EUR 690 m.

### Hannover Re Group

- ▶ Gross written premium \_\_\_\_\_ moderate premium growth at unchanged f/x rates
- ▶ Return on investment<sup>1) 2)</sup> \_\_\_\_\_ ~ 3.0%
- ▶ Group net income<sup>1)</sup> \_\_\_\_\_ ~ EUR 875 m.
- ▶ Dividend payout ratio<sup>3)</sup> \_\_\_\_\_ 35% - 40%  
(The ratio may increase in light of capital management considerations)

1) Subject to no major distortions in capital markets and/or major losses in 2015 not exceeding the major loss budget of EUR 690 m.

2) Excluding effects from derivatives (ModCo/inflation swaps)

3) Related to group net income according to IFRS

# Satisfactory profitability expected for Property & Casualty R/I

## FY 2015e

	Lines of business	Volume <sup>1)</sup>	Profitability <sup>2)</sup>
Target markets	North America <sup>3)</sup>	↗	+
	Continental Europe <sup>3)</sup>	→	+/-
Specialty lines worldwide	Marine	→	+
	Aviation	→	+/-
	Credit, surety and Political risks	↗	+
	UK, Ireland, London market and direct	↗	+/-
	Facultative R/I	↗	+
Global R/I	Worldwide Treaty <sup>3)</sup> R/I	↗	+
	Cat XL	↗	+/-
	Structured R/I and ILS	↗	+/-

1) In EUR; premium growth supported by strengthening of foreign currencies

2) ++ = well above CoC; + = above CoC; +/- = CoC earned; - = below Cost of Capital (CoC)

3) All lines of business except those stated separately



# Increased profitability expected for Life & Health R/I

## FY 2015e








	Reporting categories	Volume <sup>1)</sup>	Profitability <sup>2)</sup>
Financial Solutions	Financial Solutions	→	++
	Longevity	↗	+/-
Risk Solutions	Mortality	↗	+
	Morbidity	↗	+/-

1) In EUR; premium growth supported by strengthening of foreign currencies

2) ++ = well above CoC; + = above CoC; +/- = CoC earned; - = below Cost of Capital (CoC)

# Rationale for the 2015 profit guidance

## Long-term success in a competitive business

-  We expect a further increase in profits from our Life & Health business group
-  We expect a largely unchanged technical profit from our Property & Casualty business
  -  Continued high-quality portfolio due to selective underwriting and concentration on renewal business
  -  Due to IFRS accounting constraints it will be difficult to further increase the confidence level of our loss reserves, which may result in a positive effect on our C/R
  -  Improved terms and conditions of our retrocessions should have a positive effect on our net margin
-  We expect to achieve a largely stable absolute NII on the back of an increased investment volume (from a further positive cash flow) despite a deteriorating RoI
-  We expect to maintain our competitive advantage of low admin. expenses

Subject to no major distortions in capital markets and/or major losses in 2015 not exceeding approx. EUR 690 m.

**We are confident of achieving the guidance**



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# Conference Call on Interim Report 1/2015

Questions & Answers

Hannover, 6 May 2015

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# Appendix

# Our strategic business groups at a glance

## Q1/2015 vs. Q1/2014

in m. EUR	Property & Casualty reinsurance		Life & Health reinsurance		Total	
	Q1/2014	Q1/2015	Q1/2014	Q1/2015	Q1/2014	Q1/2015
Gross written premium	2,108	2,617	1,517	1,783	3,624	4,400
Change in GWP	-	+24.2%	-	+17.6%	-	+21.4%
Net premium earned	1,632	1,882	1,281	1,550	2,913	3,432
Net underwriting result	88	77	(85)	(83)	3	(6)
Net underwriting result incl. funds withheld	91	80	(1)	12	91	93
Net investment income	205	195	152	219	361	416
From assets under own management	201	191	67	124	273	317
From funds withheld	4	4	85	95	89	99
Other income and expenses	(12)	(16)	(1)	37	(14)	20
<b>Operating profit/loss (EBIT)</b>	<b>280</b>	<b>255</b>	<b>66</b>	<b>173</b>	<b>350</b>	<b>429</b>
Interest on hybrid capital	(0)	0	0	0	(28)	(25)
<b>Net income before taxes</b>	<b>280</b>	<b>255</b>	<b>66</b>	<b>173</b>	<b>322</b>	<b>404</b>
Taxes	(65)	(82)	(13)	(49)	(62)	(126)
<b>Net income</b>	<b>215</b>	<b>173</b>	<b>53</b>	<b>125</b>	<b>259</b>	<b>278</b>
Non-controlling interest	17	1	9	(3)	27	(1)
<b>Group net income</b>	<b>198</b>	<b>171</b>	<b>43</b>	<b>128</b>	<b>233</b>	<b>280</b>
Retention	91.2%	88.9%	84.5%	88.1%	88.4%	88.6%
Combined ratio (incl. interest on funds withheld)	94.4%	95.7%	100.0%	99.2%	96.9%	97.3%
EBIT margin (EBIT / Net premium earned)	17.2%	13.6%	5.1%	11.2%	12.0%	12.5%
Tax ratio	23.3%	32.3%	19.6%	28.0%	19.4%	31.1%
Earnings per share	1.64	1.42	0.36	1.06	1.93	2.32

# Asset allocation broadly unchanged

## Tactical asset allocation<sup>1)</sup>

Investment category	2011	2012	2013	2014	Q1/2015
<b>Fixed-income securities</b>	<b>89%</b>	<b>91%</b>	<b>89%</b>	<b>89%</b>	<b>87%</b>
- Governments	19%	19%	19%	21%	21%
- Semi-governments	23%	23%	20%	19%	18%
- Corporates	30%	32%	34%	35%	35%
Investment grade	29%	30%	33%	33%	33%
Non-investment grade	1%	2%	2%	2%	2%
- Pfandbriefe, Covered Bonds, ABS	16%	17%	15%	14%	13% <sup>2)</sup>
<b>Equities</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>
- Listed	<1%	<1%	<1%	< 1 %	< 1 %
- Private Equity	2%	2%	2%	2%	2%
<b>Real estate/real estate funds</b>	<b>2%</b>	<b>2%</b>	<b>4%</b>	<b>4%</b>	<b>4%</b>
<b>Others</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>
<b>Short-term investments &amp; cash</b>	<b>5%</b>	<b>3%</b>	<b>4%</b>	<b>4%</b>	<b>5%</b>
<b>Total balance sheet values in bn. EUR</b>	<b>28.3</b>	<b>31.9</b>	<b>31.9</b>	<b>36.2</b>	<b>39.7</b>

1) Economic view based on market values without outstanding commitments for Private Equity and Alternative Real Estate as well as fixed-income investments of EUR 708.4 m. (EUR 716.3 m.) as at 31 March 2015

2) Of which Pfandbriefe and Covered Bonds = 81.9%

## Stress tests on assets under own management. . .

. . .unchanged focus on interest and spread developments

Portfolio	Scenario	Change in market value in m. EUR	Changes in OCI before tax in m. EUR
Equity (listed and private equity)	-10%	-76	-76
	-20%	-153	-153
Yield curves	+50 bps	-822	-706
	+100 bps	-1,605	-1,379
Credit spreads	+50%	-683	-648

As at 31 March 2015

# Fixed-income book well balanced

## Allocation reflects reinsurance liabilities

	Governments	Semi-governments	Corporates	Pfandbriefe, Covered Bonds, ABS	Short-term investments, cash	Total
AAA	69.5%	61.4%	1.6%	63.0%	-	39.5%
AA	15.8%	34.0%	15.4%	16.1%	-	19.4%
A	9.9%	2.7%	44.4%	11.4%	-	22.6%
BBB	3.9%	1.3%	31.7%	5.5%	-	14.8%
<BBB	0.8%	0.5%	7.0%	3.9%	-	3.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-</b>	<b>100.0%</b>
Germany	14.4%	41.4%	4.9%	24.5%	36.0%	18.5%
UK	7.9%	3.2%	7.9%	9.5%	5.3%	7.1%
France	4.0%	3.4%	6.5%	6.5%	0.4%	5.0%
GIIPS	2.3%	1.0%	4.2%	7.9%	0.0%	3.4%
Rest of Europe	8.2%	21.8%	17.5%	27.6%	3.3%	16.7%
USA	47.2%	8.2%	35.9%	4.8%	15.3%	27.9%
Australia	3.7%	6.9%	7.8%	10.8%	9.1%	7.1%
Asia	8.1%	3.1%	5.2%	0.0%	19.6%	5.6%
Rest of World	4.2%	10.9%	10.2%	8.5%	11.0%	8.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Total b/s values in bn. EUR</b>	<b>8,645</b>	<b>6,988</b>	<b>13,901</b>	<b>4,927</b>	<b>2,092</b>	<b>36,552</b>

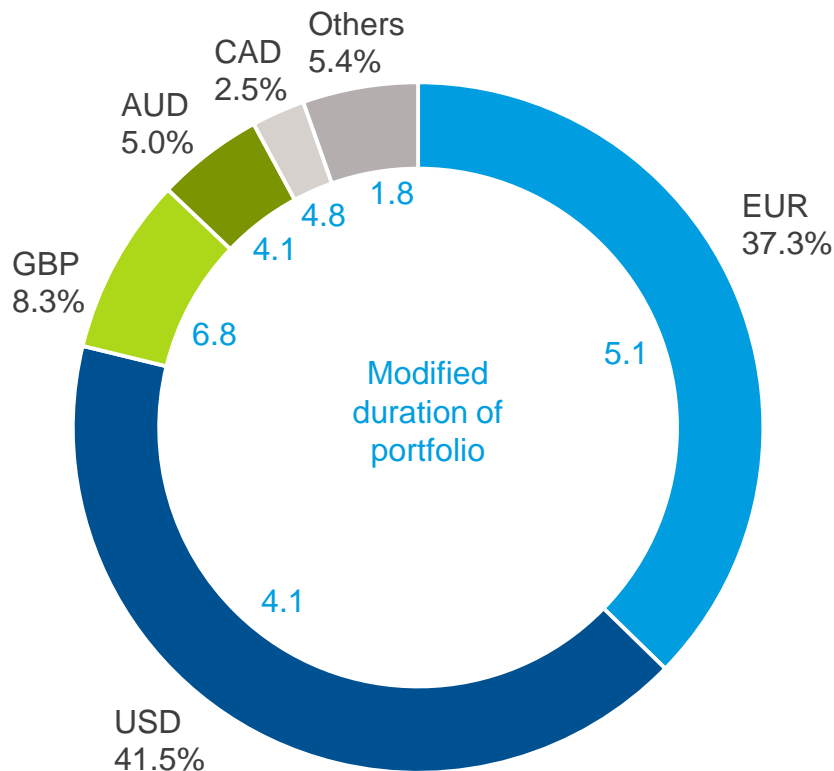
As at 31 March 2015



# Currency allocation matches liability profile of balance sheet

Active asset/liability management ensures durational match to a large extent

## Currency split of investments



- ▶ Modified duration of fixed-income mainly congruent with liabilities
- ▶ GBP's higher modified duration predominantly due to life business

### Modified duration

2014	4.6
2013	4.4
2012	4.5
2011	4.2

**Modified duration as at 31 March 2015: 4.6 (31 December 2014: 4.6)**

## Market sensitivity of inflation hedges

- ▶ Average hedged inflation level of 1.48% EUR and 2.15% USD p.a.
  - P&L effect YTD EUR -15.1 m. (thereof -2.3 m. EUR; -12.8 m. EUR of USD)
  - OCI effect YTD EUR -4.7 m. (thereof +3.6 m. EUR; -8.3 m. EUR of USD)
- ▶ Instruments held as inflation hedges (31 March 2015) with volume of EUR 3,195 m.
  - EUR 1,717 m. swap volume with average duration of 1.0 month
  - EUR 1,478 m. volume of inflation linker with average duration of 5.9 years
- ▶ Sensitivity to inflation risk (inflation-linked bonds only):

in m. EUR	Change in market value through OCI
Inflation expectation*: +100 BP	+90
Inflation expectation*: -100 BP	-85
Inflation expectation*: +400 BP	+392

\* CPI - Consumer Price Index (US inflation index)

HICP - Harmonised Indices of Consumer Prices (EU inflation index; actually traded is the sub-index HICP ex tobacco)

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