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Press Release

Hannover Re significantly increases nine-month result and confirms profit target for the full year

- **Group net income rises by 32.1% to EUR 725.3 million**
- **Large losses in the third quarter within expectations**
- **Life and health reinsurance: EBIT after nine months at EUR 155.2 million despite one-time charge of EUR 218 million due to treaty recaptures in US mortality business**
- **Return on investment of 3.3% clearly above minimum target of 2.7%**
- **Profit guidance for 2018 of more than EUR 1 billion confirmed, making allowance for anticipated one-time charge from life and health reinsurance**
- **Outlook for 2019: Group net income target in the order of EUR 1.1 billion**

Hannover, 8 November 2018: Hannover Re increased Group net income by a significant 32.1% as at 30 September 2018 to EUR 725.3 million (EUR 548.9 million) and confirms the profit guidance of more than EUR 1 billion for 2018.

"In property and casualty reinsurance developments in the third quarter were dominated by large losses from typhoons in Japan and hurricanes in the United States", Ulrich Wallin, Chief Executive Officer of Hannover Re, noted. "The resulting strains for Hannover Re were, however, in line with our expectations. For this reason, and thanks to the good income from our investments, we are well on track to achieve our profit target for 2018."

Group net income and premium income sharply higher

Gross written premium for the Group increased by 11.2% from a nine-month perspective to EUR 15.0 billion (EUR 13.5 billion). This was driven primarily by substantial expansion of structured reinsurance solutions in property and casualty reinsurance business. At constant exchange rates the increase would have been 16.5%, comfortably beating the growth target of more than 10%. The retention rose to 90.8% (90.1%). Net premium earned was up by 10.7% to EUR 12.8 billion (EUR 11.5 billion), or 15.9% adjusted for exchange rate effects.

The operating profit (EBIT) improved by 43.5% to EUR 1,157.1 million (EUR 806.4 million). Group net income rose by a significant 32.1% to EUR 725.3 million (EUR 548.9 million). Earnings per share amounted to EUR 6.01 (EUR 4.55).

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Property and casualty reinsurance:
Major loss budget in the third quarter fully utilised

The treaty renewals in property and casualty reinsurance as at 1 June and 1 July 2018 saw sustained intense competition. Traditionally, parts of the North American portfolio, natural catastrophe risks as well as business from Australia and New Zealand are renegotiated at this time of year. Rate increases – in some instances on a significant level – were obtained under programmes that had suffered losses in the previous year. Even while enlarging the premium volume Hannover Re maintained its profit-oriented underwriting policy and the exposure in natural catastrophe business consequently remained within the risk appetite, which was unchanged from the previous year.

Gross written premium in property and casualty reinsurance climbed by 17.8% to EUR 9.7 billion (EUR 8.2 billion) thanks to the aforementioned rate increases and the substantial growth in structured reinsurance. At constant exchange rates growth would have come in at 24.0%. Net premium earned rose by 18.7% to EUR 8.0 billion (EUR 6.8 billion); adjusted for exchange rate effects, growth would have been as high as 24.9%.

After the very moderate large loss experience recorded in the first half-year, the third quarter was dominated by typhoons in Japan and hurricanes in the United States. The quarterly budget of EUR 279 million set aside for major losses was opposed by net expenditure on large losses of EUR 271 million. The most significant losses incurred in the third quarter included Typhoon Jebi in Japan with an anticipated net strain of EUR 103 million and Typhoon Prapiroon costing EUR 54 million. Hurricane Florence took a toll of EUR 40 million on the result. The burden of man-made large losses amounted to just under EUR 30 million. Net expenditure on major losses since the beginning of the year stands at EUR 364.6 million (EUR 894.3 million) and is thus still well below the envisaged pro-rata budget of EUR 630 million.

The combined ratio improved to 96.8% (104.4%), but was still slightly higher than the full-year target of 96% or better. This was due not only to the vigorous growth in structured reinsurance business, which operates with slimmer margins, but also an increasing frequency of smaller and mid-sized losses. The combined ratio for the third quarter in isolation was 98.7% (118.3%).

The operating profit (EBIT) in property and casualty reinsurance grew by 66.8% to EUR 1,003.6 million (EUR 601.7 million), with the EBIT margin coming in above the 10% minimum target at 12.5% (8.9%). Group net income for property and casualty reinsurance improved by 49.8% to EUR 672.4 million (EUR 448.7 million).

Life and health reinsurance:
Measures in US mortality business having an effect
"In life and health reinsurance the steps taken to improve US mortality business are weighing on profitability", Mr. Wallin explained. "These strains will be largely eliminated for the relevant treaties in subsequent years, and we therefore anticipate substantially improved earnings going forward."

In US mortality business clients exercised their right to recapture treaties. In the third quarter this gave rise to pre-tax charges of EUR 218 million or USD 260 million. This amount is expected to increase further in the course of the fourth quarter. At the current point in time a strain of USD 350 million to USD 400 million is to be anticipated for the full year. This has been mitigated by an improved risk experience in US mortality business over the past three quarters.

Gross written premium was stable at EUR 5.3 billion; adjusted for exchange rate effects, it would have risen by 4.8%. Net premium earned remained on the level of the previous year at EUR 4.8 billion and would have grown by 3.2% at constant exchange rates.

The operating result (EBIT) in life and health reinsurance contracted by 24.6% to EUR 155.2 million (EUR 205.9 million). Group net income reached EUR 93.0 million (EUR 135.7 million).

Investments and shareholders' equity:
Return on investment beats expectations at 3.3%
The portfolio of assets under own management increased to EUR 41.5 billion (31 December 2017: EUR 40.1 billion). Ordinary investment income rose by 5.2% to EUR 991.4 million (EUR 942.6 million), reflecting above all higher ordinary income from fixed-income securities as well as stronger earnings from private equity and real estate. In view of the considerable positive effect from the sale of the listed equity portfolio in the previous year, net investment income contracted as anticipated to EUR 1,155.4 million (EUR 1,382.5 million). Of this, an amount of EUR 992.1 million (EUR 1,202.4 million) was attributable to assets under own management. This produces a very pleasing annualised average return (excluding effects from ModCo derivatives) of 3.3%, clearly above the minimum target of 2.7% set for the full year.

Shareholders' equity as at 30 September 2018 fell slightly to EUR 8.4 billion (31 December 2017: EUR 8.5 billion). The book value per share thus stood at EUR 69.27 (31 December 2017: EUR 70.72). The annualised return on equity as at 30 September 2018 amounted to 11.5% (31 December 2017: 10.9%).

Outlook for 2018:
Profit target of more than EUR 1 billion confirmed
"Hannover Re is confirming its targets for the current financial year", Mr. Wallin stated. "The good results for the first half-year and a successful third quarter with large losses in line with our expectations should enable us to absorb the aforementioned strains from our US mortality business."

Based on constant exchange rates, gross premium should grow by significantly more than 10% as anticipated; a major part of the growth is likely to derive from property and casualty reinsurance, most notably the area of structured reinsurance.

If expenditure on large losses remains within the expected bounds, the anticipated combined ratio of 96% or better should be achievable. The minimum EBIT margin of 10% targeted in property and casualty reinsurance should be exceeded in light of the business development to date.

As things currently stand and allowing for possible strains in US mortality business, the dividend should at least reach the level of the previous year.

Guidance for 2019:
Group net income in the order of EUR 1.1 billion
"In the coming year the result from US mortality business should improve substantially", Mr. Wallin noted. "We also anticipate a stable profit contribution from property and casualty reinsurance and therefore expect Group net income in the order of EUR 1.1 billion."

For the 2019 financial year Hannover Re anticipates gross premium growth – based on constant exchange rates – in the single-digit percentage range and a return on investment of 2.8%.

Reflecting the growth in the underlying business, Hannover Re is also raising its net major loss budget for the first time in three years from EUR 825 million to EUR 875 million for 2019. The risk appetite remains unchanged. As usual, all statements regarding future targets are conditional upon the burden of large losses remaining within expectations and assume that there are no exceptional distortions on capital markets.

Hannover Re continues to envisage a payout ratio for the ordinary dividend in the range of 35% to 45% of its IFRS Group net income. The ordinary dividend will be supplemented by payment of a special dividend in light of capital management considerations if the comfortable level of capitalisation remains unchanged.

Hannover Re, with gross premium of EUR 17.8 billion, is the fourth-largest reinsurer in the world. It transacts all lines of property & casualty and life & health reinsurance and is present on all continents with around 3,300 staff. Established in 1966, the Hannover Re Group today has a network of more than 140 subsidiaries, branches and representative offices worldwide. The Group's German business is written by the subsidiary E+S Rück. The rating agencies most relevant to the insurance industry have awarded both Hannover Re and E+S Rück outstanding financial strength ratings: Standard & Poor's AA- "Very Strong" and A.M. Best A+ "Superior".