hannover re®

Corporate news

Hannover Re increases half-year profit by about 19 percent to EUR 663 million

- **Gross premium up by 14.5% at constant exchange rates**
- **IFRS shareholders' equity rises by around EUR 1 billion**
- **Return on investment beats expectations at 3.5%**
- **Return on equity of 14.3% clearly above minimum target**
- **Profit guidance for 2019 excluding positive one-off Viridium effect confirmed**

Hannover, 8 August 2019: Hannover Re can look back on a successful first half-year both in property and casualty reinsurance and in life and health reinsurance. The investments also continued to develop favourably despite the sustained challenging interest rate environment.

"In the 1 June and 1 July treaty renewals in property and casualty reinsurance we were able to secure long overdue price increases," Chief Executive Officer Jean-Jacques Henchoz noted. "In view of the business development to date we are well on track to achieve Group net income in the order of EUR 1.1 billion for 2019. In addition, the result will be positively influenced by a one-off effect to the tune of EUR 100 million associated with our participation in Viridium Group."

Gross premium sharply higher

Gross written premium for the Hannover Re Group surged by 17.1% to EUR 11.7 billion (previous year: EUR 10.0 billion). Growth would have reached 14.5% at constant exchange rates. Net premium earned climbed by 12.1% (+10.0% adjusted for exchange rate effects) to EUR 9.4 billion (EUR 8.3 billion).

Group profit shows significant increase

The operating profit (EBIT) posted by Hannover Re improved by 3.8% to EUR 942.1 million (EUR 907.3 million). Group net income reached EUR 662.5 million, an increase of 19.3% compared to the previous year's period. Earnings per share amounted to EUR 5.49 (EUR 4.60).

Stable result in property and casualty reinsurance

Hannover Re was able to substantially expand its portfolio in property and casualty reinsurance in the course of the year to date. At the same time, competition remained fierce because many markets and lines continued to see surplus capacities. Conditions were nevertheless stable or slightly improved overall.

Gross written premium rose by 21.3% to EUR 7.8 billion (EUR 6.5 million); adjusted for exchange rate effects, the increase would

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have been 18.4%. Net premium earned climbed by 15.2% (+13.0% at unchanged exchange rates) to EUR 6.0 billion (EUR 5.2 billion).

With net expenditure on large losses coming in at EUR 140.5 million (EUR 93.3 million), the impact on the first half-year was higher than in the comparable period but still well below the budgeted level of EUR 370 million. The largest single loss event was the explosion at a refinery in Philadelphia in June, with an estimated net share for Hannover Re of EUR 45.7 million, followed by floods in the Australian state of Queensland in late January at a cost of EUR 25.9 million. Additional reserves for prior-year losses also took a toll on the result for the second quarter, including those set aside for typhoon Jebi in Japan. These developments ran contrary to what was once again a positive run-off of our loss reserves overall.

The underwriting result for total property and casualty reinsurance including interest on funds withheld and contract deposits amounted to EUR 195.9 million (EUR 220.9 million). The combined ratio of 96.7% (95.7%) was higher than the previous year's figure, but still in line with the strategic target of a maximum 97% combined ratio for the full year. The operating profit (EBIT) in property and casualty reinsurance fell by 4.6% to EUR 656.9 million (EUR 688.8 million). The contribution to Group net income was virtually stable at EUR 431.3 million (EUR 434.4 million).

Considerably improved result in life and health reinsurance
Gross written premium in life and health reinsurance grew by 9.3% to EUR 3.8 billion (EUR 3.5 billion). The increase would have been 7.4% adjusted for exchange rate effects. Net premium earned climbed by 7.0% (5.2% at constant exchange rates) to EUR 3.4 billion (EUR 3.2 billion).

The operating result (EBIT) for life and health reinsurance improved by 30.3% to EUR 286.0 million (EUR 219.4 million). The contribution to Group net income rose to EUR 257.7 million (EUR 146.8 million).

"The stronger profitability of life and health reinsurance can be attributed in large measure to the one-off effect associated with our participation in Viridium Group," Henchoz emphasised. "As a further factor, the termination of loss-making treaties in US mortality business in the previous year – which had given rise to exceptional strains – continues to have a favourable effect on the result."

Return on investment beats guidance
The portfolio of assets under own management grew to EUR 44.8 billion (31 December 2018: EUR 42.2 billion). The main drivers here were a decrease in interest rates compared to the end of the previous year as well as lower credit spreads and a sustained very positive operating cash flow.

The release of hidden reserves in connection with the restructuring of our shareholding in the German run-off specialist Viridium gave rise to extraordinary income of EUR 99.5 million. The share held by Hannover Re in Viridium remained largely unchanged. Net realised gains were consequently sharply higher at EUR 127.5 million (EUR 53.4 million).

Write-downs totalled EUR 41.5 million (EUR 21.1 million). Altogether, income of EUR 771.8 million (EUR 629.8 million) was generated from assets under own management. The resulting annualised return of 3.5% beat the minimum 2.8% target set for the full financial year. Even without the one-off effect from the Viridium participation, the return on investment would have been around 3.0%.

Interest on funds withheld and contract deposits decreased to EUR 93.8 million (EUR 113.8 million). Net investment income including interest on funds withheld and contract deposits improved by 16.4% to EUR 865.6 million (EUR 743.6 million).

Double-digit growth in shareholders' equity
Shareholders equity of Hannover Re increased by 10.9% to EUR 9.7 billion (31 December 2018: EUR 8.8 billion). Despite the sharp rise, the annualised return on equity of 14.3% (31 December 2018: 12.2%) remained comfortably in excess of the minimum target of 900 basis points above the risk-free interest rate, i.e. currently 9.4%. The book value per share amounted to EUR 80.70 (31 December 2018: EUR 72.78).

Outlook for 2019
The treaty renewals as at 1 June and 1 July 2019 passed off favourably for Hannover Re. The price increases obtained were in some cases appreciable. Parts of the North American portfolio are traditionally renewed at this time of year, especially natural catastrophe risks, as well as business from Australia and New Zealand and in the credit and surety lines. The renewals in North America proved to be particularly successful for Hannover Re.

Based on the outcome of this year's various rounds of treaty renewals and assuming constant exchange rates, Hannover Re continues to expect significant premium growth at broadly stable conditions for its total property and casualty reinsurance portfolio. The year-end target for the combined ratio remains unchanged at no more than 97%.

In life and health reinsurance Hannover Re sees further good opportunities to add to the portfolio. The company anticipates moderate growth in gross premium at unchanged exchange rates. Due to the elimination of the previous year's strain from treaty recaptures, the operating result (EBIT) in life and health reinsurance should grow sharply in the 2019 financial year and comfortably exceed the strategic target of at least 5% EBIT growth.

Hannover Re's expectation is that gross premium in total business will grow by a single-digit percentage based on constant exchange rates. The company envisages a return on investment of at least 2.8% for

2019. The targeted Group net income in the order of EUR 1.1 billion – excluding the positive one-off Viridium effect – remains unchanged. This is conditional upon major loss expenditure not significantly exceeding the budgeted level of EUR 875 million and assumes that there are no unforeseen distortions on capital markets.

Hannover Re's anticipated payout ratio for the ordinary dividend continues to be 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 if the comfortable level of capitalisation remains unchanged and Group net income comes in within the bounds of expectations.

Hannover Re, with gross premium of more than EUR 19 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 3,200 staff. Established in 1966, the Hannover Re Group today has a network of more than 100 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".