

Press Release

Hannover Re records solid Group net income despite substantial natural catastrophe losses

- **Group net income: EUR 548.9 million (EUR 791.9 million)**
- **Gross premium growth of 9.5% adjusted for exchange rate effects**
- **Income from assets under own management: EUR 1,202.4 million (EUR 896.5 million)**
- **Combined ratio in property and casualty reinsurance: 104.4% (95.0%)**
- **Net expenditure on large losses of EUR 894.3 million (EUR 393.2 million) already above annual budget**
- **Return on equity: 8.5%**
- **Outlook for 2017: New Group net income guidance of around EUR 800 million**

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Hannover, 8 November 2017: The Group net income recorded by Hannover Re as at 30 September 2017 is marked by an above-average burden of catastrophe losses. The business result of EUR 548.9 million (EUR 791.9 million) fell short of the comparable period, above all due to heavy loss expenditure from hurricane and earthquake events. "After years of moderate losses we saw an accumulation of severe natural disasters in the third quarter. Protecting against the consequences of such events is an absolutely central goal of reinsurance. For us, as a reinsurer, the top priority is efficiently settling the incurred losses and supporting our clients. In so doing, we hope that we can also play a part in alleviating the humanitarian and economic impacts of natural disasters. Even – and indeed especially – after the considerable losses that we have shouldered following the natural catastrophe events in the third quarter, we stand ready to partner with insurers by providing tailor-made reinsurance solutions going forward, as we have in the past", Chief Executive Officer Ulrich Wallin commented. Group net income in the third quarter was positively influenced by the liquidation of the portfolio of listed equities. The company can use the capital thereby released to act on emerging business opportunities.

Gross premium growth slightly higher than planned

The gross written premium for the Hannover Re Group increased by 8.3% to EUR 13.5 billion (EUR 12.5 billion). At constant exchange rates growth would have reached 9.5%. The company is thus slightly ahead of its expectations for the full year. The retention climbed to 90.1% (89.6%). Net premium earned rose by 7.2% to EUR

11.5 billion (EUR 10.8 billion). Adjusted for exchange rate effects, an increase of 8.4% would have been booked.

Group net income below the level of the previous year

The operating profit (EBIT) as at 30 September 2017 totalled EUR 806.4 million (EUR 1,191.1 million) on account of the heavy burden of large losses. Group net income came in at EUR 548.9 million (EUR 791.9 million). Earnings per share amounted to EUR 4.55 (EUR 6.57).

Property and casualty reinsurance grows despite the challenges

The supply of reinsurance coverage continued to exceed demand in the third quarter, leaving prices and conditions under sustained pressure. Hannover Re was nevertheless successful in writing profitable business and thus generating further growth in all the rounds of renewals during the year. This was similarly evident in the treaty negotiations as at 1 June/1 July 2017, when parts of the North American portfolio, natural catastrophe risks, a large portion of agricultural risks as well as business from Latin America and Australia came up for renewal. Despite our margin-oriented underwriting approach, we generated good growth for the entire renewed property and casualty reinsurance portfolio.

Gross written premium in property and casualty reinsurance increased by a pleasing 15.2% as at 30 September 2017. At constant exchange rates the growth would have been as much as 16.1%. The retention stood at 89.2% (88.3%). Net premium earned reached EUR 6.8 billion (EUR 5.9 billion); adjusted for exchange rate effects, an increase of 14.9% would have been recorded.

After the first six months had passed off with a very moderate large loss experience, the third quarter was dominated by an exceptionally high burden of losses from three hurricanes and two earthquakes. Hurricane Harvey was followed by Irma and lastly Maria, which caused particularly heavy devastation in Puerto Rico. Two serious earthquakes also occurred in Mexico. The total expenditure incurred by the company from large losses as at 30 September 2017 added up to EUR 894.3 million (EUR 393.2 million). The large loss budget of EUR 623 million envisaged for the first nine months was thus exceeded by around EUR 270 million. The underwriting result consequently deteriorated to EUR -309.1 million (EUR 275.5 million). The combined ratio amounted to 104.4% (95.0%), hence falling short of the target level of 96%. The operating profit (EBIT) as at 30 September 2017 came in at EUR 601.7 million after EUR 894.9 million in the previous year's period. Group net income closed at EUR 448.7 million (EUR 615.4 million). Earnings per share totalled EUR 3.72 (EUR 5.10).

Reduced profit contribution in life and health reinsurance

Compared to the previous quarters of 2017, the picture in life and health reinsurance business was a mixed one in the third quarter. Developments were influenced by positive and negative effects,

which also shaped the result accordingly. While financial solutions business continued to develop favourably, certain blocks of US mortality business from older underwriting years adversely impacted profitability. In the third quarter Hannover Re realised non-recurring losses of around USD 50 million (around EUR 45 million) from the commutation of loss-making treaties as part of its portfolio management activities.

Gross written premium contracted slightly by 0.9% to EUR 5.3 billion (EUR 5.3 billion); adjusted for exchange rate effects, modest growth of 0.7% would have been booked. The retention remained unchanged at 91.5%. Net premium earned declined to EUR 4.8 billion (EUR 4.8 billion). At constant exchange rates an increase of 0.3% would have been recorded.

The operating result (EBIT) in life and health reinsurance amounted to EUR 205.9 million (EUR 290.4 million) as at 30 September 2017. Group net income therefore also closed lower at EUR 135.7 million (EUR 208.9 million). Earnings per share stood at EUR 1.13 (EUR 1.73).

Highly satisfactory investment income

The portfolio of assets under own management contracted as at 30 September 2017 to EUR 40.2 billion (31 December 2016: EUR 41.8 billion) on account of exchange rate effects and the dividend distribution. Ordinary investment income excluding interest on funds withheld and contract deposits nevertheless showed pleasing growth to reach a good EUR 942.6 million (EUR 852.0 million). Interest on funds withheld and contract deposits fell to EUR 180.1 million (EUR 249.9 million). Extraordinary impairments recognised in the period under review were once again very low. Partly in response to the large loss expenditure but also prompted by tactical considerations, the portfolio of listed equities in an amount of EUR 953.2 million was liquidated, thereby realising extraordinary income of EUR 223.3 million. Net realised gains consequently surged to altogether EUR 343.3 million (EUR 153.6 million). Income from assets under own management therefore climbed to EUR 1,202.4 million (EUR 896.5 million) after nine months. The resulting annualised return reached 3.9% and is thus higher than the full-year target of at least 2.7%. Even excluding the disposal of the equity portfolio, the return on investment would have been an impressive 3.2%. Net investment income including interest on funds withheld and contract deposits came in at EUR 1,382.5 million (EUR 1,146.4 million).

Robust equity base

The shareholders' equity of Hannover Re remained on a good level as at 30 September 2017. It amounted to EUR 8.2 billion (31 December 2016: EUR 9.0 billion). The modest decrease can be attributed principally to exchange rate effects. The annualised return on equity stood at 8.5% (31 December 2016: 13.7%). The book value per share reached EUR 68.00 (31 December 2016: EUR 74.61).

Outlook for 2017

While Hannover Re's result has been adversely impacted by the losses from natural disasters in the third quarter, they will not have any lasting effect on the company's profitability or capital position. On the contrary: the recent loss events should cause market conditions to improve again for reinsurers. Rates for catastrophe risks, in particular, are now likely to move higher and should generally prompt positive movements in other lines as well.

Based on constant exchange rates the company expects total *gross premium* for 2017 to grow by more than 5%. Bearing in mind the developments in the third quarter, Hannover Re now anticipates *Group net income* of around EUR 800 million for the full financial year. This is conditional upon major loss expenditure in the fourth quarter not significantly exceeding the budgeted amount of EUR 200 million and assumes that there are no unforeseen distortions on the capital markets.

In view of the realised gains booked in the third quarter, Hannover Re is now looking to generate a *return on investment* of more than 3.0%, thereby beating the original target of 2.7%. The company plans to pay a *dividend* on the level of the previous year (including special dividend).

Guidance for 2018

For the 2018 financial year Hannover Re expects single-digit growth in *gross premium* based on constant exchange rates. The *return on investment* is forecast to be around 2.7%, with *Group net income* coming in at more than EUR 1 billion. All statements are subject to the proviso that major loss expenditure remains with the budgeted level of EUR 825 million and that there are no unforeseen distortions on capital markets. Hannover Re envisages a payout ratio for the dividend in the range of 35% to 40% of its IFRS Group net income. This figure will increase in light of capital management considerations if the company's comfortable level of capitalisation remains unchanged.

Hannover Re, with gross premium of EUR 16.4 billion, is the third-largest reinsurer in the world. It transacts all lines of property & casualty and life & health reinsurance and is present on all continents with around 2,900 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 very strong insurer financial strength ratings: Standard & Poor's AA- "Very Strong" and A.M. Best A+ "Superior".

Please note the disclaimer:

<https://www.hannover-re.com/535917>

Key figures of the Hannover Re Group (IFRS basis)

in EUR million	Q1-3/2017	+/- previous year	Q1-3/2016 ¹⁾	2016
Hannover Re Group				
Gross written premium	13,483.6	+8.3%	12,454.0	
Net premium earned	11,540.6	+7.2%	10,766.6	
Net underwriting result	(668.6)		44.5	
Net investment income	1,382.5	+20.6%	1,146.4	
Operating profit (EBIT)	806.4	-32.3%	1,191.1	
Group net income	548.9	-30.7%	791.9	
Earnings per share in EUR	4.55	-30.7%	6.57	
Retention	90.1%		89.6%	
Tax ratio	19.0%		27.0%	
EBIT margin ²⁾	7.0%		11.1%	
Return on equity	8.5%		12.5%	

in EUR million	Q1-3/2017	+/- previous year	Q1-3/2016	2016 ¹⁾
Policyholders' surplus	10,428.6	-7.1%		11,231.4
Investments (excl. funds held by ceding companies)	40,196.7	-3.8%		41,793.5
Total assets	61,881.6	-2.7%		63,594.5
Book value per share in EUR	68.00	-8.9%		74.61

Property & Casualty reinsurance

in EUR million	Q1-3/2017	+/- previous year	Q1-3/2016 ¹⁾	2016
Gross written premium	8,199.3	+15.2%	7,120.5	
Net premium earned	6,752.6	+14.0%	5,925.3	
Net underwriting result	(309.1)	-212.2%	275.5	
Operating profit (EBIT)	601.7	-32.8%	894.9	
Group net income	448.7	-27.1%	615.4	
Retention	89.2%		88.3%	
Combined Ratio ³⁾	104.4%		95.0%	
EBIT margin ²⁾	8.9%		15.1%	

Life & Health reinsurance

in EUR million	Q1-3/2017	+/- previous year	Q1-3/2016	2016
Gross written premium	5,284.2	-0.9%	5,333.5	
Net premium earned	4,787.9	-1.1%	4,841.1	
Operating profit (EBIT)	205.9	-29.1%	290.4	
Group net income	135.7	-35.0%	208.9	
Retention	91.5%		91.5%	
EBIT margin ²⁾	4.3%		6.0%	

¹⁾ Adjusted pursuant to IAS 8 respectively IFRS 3

²⁾ Operating result (EBIT)/net premium earned

³⁾ Including funds withheld

Key figures of the Hannover Re Group (IFRS basis)

in EUR million	Q3/2017	+/- previous year	Q3/2016 ¹⁾
Hannover Re Group			
Gross written premium	4,486.0	+7.6%	4,170.2
Net premium earned	4,017.9	+11.6%	3,599.9
Net underwriting result	(589.8)		47.2
Net investment income	603.1	+50.2%	401.6
Operating profit (EBIT)	6.9	-98.4%	443.9
Group net income	13.9	-95.4%	303.9
Earnings per share in EUR	0.11	-95.4%	2.52
Retention	89.7%		89.4%
EBIT margin ²⁾	0.2%		12.3%
Return on equity	0.7%		14.1%
Property & Casualty reinsurance			
in EUR million	Q3/2017	+/- previous year	Q3/2016 ¹⁾
Gross written premium	2,771.9	+11.2%	2,493.1
Net premium earned	2,439.9	+16.9%	2,086.8
Net underwriting result	(458.1)		109.1
Operating profit (EBIT)	(32.6)	-109.8%	332.0
Group net income	4.8	-98.0%	237.3
Retention	88.8%		88.5%
Combined Ratio ³⁾	118.3%		94.4%
EBIT margin ²⁾	(1.3%)		15.9%
Life & Health reinsurance			
in EUR million	Q3/2017	+/- previous year	Q3/2016
Gross written premium	1,714.1	+2.2%	1,677.1
Net premium earned	1,578.0	+4.3%	1,513.0
Operating profit (EBIT)	40.7	-63.4%	111.3
Group net income	21.5	-72.5%	78.3
Retention	91.2%		90.8%
EBIT margin ²⁾	2.6%		7.4%

¹⁾ Adjusted pursuant to IAS 8 respectively IFRS 3

²⁾ Operating result (EBIT)/net premium earned

³⁾ Including funds withheld