hannover re®

Press Release

Hannover Re generates highly satisfactory Group net income for 2017 despite large losses

- **Group net income of EUR 958.6 million (previous year: EUR 1.17 billion) beats EUR 800 million guidance**
- **Dividend proposal for 2017: EUR 5.00 per share (EUR 5.00 per share)**
- **Book value per share: EUR 70.72 (EUR 74.61)**
- **Return on equity: 10.9% (13.7%)**
- **Gross premium rises by 8.8% to EUR 17.8 billion; currency-adjusted: 11.2%**
- **Combined ratio: 99.8% (93.7%)**
- **Major loss expenditure of EUR 1,127.3 million substantially higher than budgeted level**
- **Expectation of Group net income in excess of EUR 1 billion for 2018 confirmed**

Hannover, 13 March 2018: The 2017 financial year for the (re)insurance industry was dominated by an exceptionally large volume of natural catastrophe losses. Hurricanes Harvey, Irma and Maria as well as numerous other natural disasters led to a historically high level of insured losses well in excess of USD 100 billion, with corresponding strains for Hannover Re. "The 2017 financial year was a challenging one; it was the year with the heaviest burden of large losses in our company's history. While the generated Group profit fell short of the previous year's good result, it is still pleasing at EUR 959 million", Chief Executive Officer Ulrich Wallin stated. "Protecting our clients against catastrophic events is the core of our business model. The fact that we achieved such a good performance despite the large number of losses shows that we have adequately mapped our exposures in our risk management system and the losses fit with the expected values calculated for our risk appetite."

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In view of the good business development, the Executive Board and Supervisory Board will propose to the Annual General Meeting that a dividend on the level of the previous year should be paid. This amounts to altogether EUR 5.00 per share (EUR 5.00 per share) and – as in 2016 – takes the form of an ordinary dividend of EUR 3.50 per share plus a special dividend of EUR 1.50 per share. The payout ratio for 2017 will then amount to 62.9% of IFRS Group net income.

Hannover Re with good business opportunities in 2017

In what was still a challenging market environment, the company enjoyed good business opportunities in the year under review. Against this backdrop, the gross premium volume increased by 8.8%

to EUR 17.8 billion (EUR 16.4 billion); adjusted for exchange rate effects, it has grown by an even more appreciable 11.2%. The level of retained premium rose slightly to 90.5% (89.3%). Net premium earned climbed 8.5% to EUR 15.6 billion (EUR 14.4 billion). At unchanged exchange rates growth of 10.8% would have been booked.

The operating profit (EBIT) contracted to EUR 1,364.4 million (EUR 1,689.3 million). In view of unusually high expenditure from natural catastrophes, which was well above the calculated large loss budget, this is a pleasing performance. The result was helped by exceptionally good investment income and the release of reserves constituted for loss events of prior years that were no longer required. Group net income came in at EUR 958.6 million (EUR 1,171.2 million) and thus comfortably surpassed the guidance, which had been revised to around EUR 800 million in the third quarter of 2017. Earnings per share amounted to EUR 7.95 (EUR 9.71).

Property and casualty reinsurance posts good result despite large losses

The situation in property and casualty reinsurance initially showed little change in the 2017 financial year. The state of the market remained intensely competitive; what is more, the market for catastrophe bonds continued to make capacity available. Hannover Re was nevertheless able to act on profitable business opportunities in the treaty renewals. All in all, the company is satisfied with the development of its property and casualty reinsurance portfolio, especially because early tendencies towards an increase in prices could be discerned in the second half of the year following the major loss events.

The gross premium volume in property and casualty reinsurance rose by 16.4% to EUR 10.7 billion (EUR 9.2 billion). At constant exchange rates the increase would have been 18.7%. This growth is significantly above expectations. The level of retained premium moved slightly higher to 89.7% (88.5%). Net premium earned climbed 14.7% to EUR 9.2 billion (EUR 8.0 billion); at constant exchange rates growth would have reached 17.0%.

Unlike in the previous years, multiple serious natural disasters caused the large loss budget to be clearly exceeded. After a benign major loss experience in the first six months of 2017, the second half of the year was dominated by severe natural catastrophe events. Hurricanes Harvey, Irma and Maria alone resulted in net catastrophe loss expenditure of EUR 749.4 million for Hannover Re in the third quarter. The wildfires in California caused considerable losses of EUR 101.1 million in the fourth quarter. These and other events added up to total major loss expenditure of EUR 1,127.3 million, thereby clearly exceeding the large loss budget of EUR 825 million. The underwriting result (including interest on funds withheld and contract deposits) consequently declined from EUR 503.1 million to EUR 15.5 million. The combined ratio for the year under review deteriorated from 93.7% to 99.8% and was thus higher than the targeted level of 96%. The operating profit (EBIT) fell to EUR 1,120.2 million (EUR 1,340.3 million) owing to the heavy burden of large losses. Group net income decreased by 11.8% to EUR 837.3 million (EUR 949.9 million). Earnings per share amounted to EUR 6.94 (EUR 7.88).

Life and health reinsurance falls short of expectations

The gross premium volume in life and health reinsurance remained roughly on a par with the previous year at EUR 7.1 billion (EUR 7.1 billion). This reflects a modest decline of 1.0%, or growth of 1.4% adjusted for exchange rate effects. The retention stood at 91.7% (90.4%). Net premium earned nudged higher by 0.7% to EUR 6.5 billion (EUR 6.4 billion); at constant exchange rates growth reached 3.0%.

The profit contribution in life and health reinsurance was less satisfactory. The operating profit (EBIT) reached EUR 245.2 million (EUR 343.3 million), declining by 28.6% to fall well short of the previous year's figure. While financial solutions business continued to perform favourably, the result came under strain from some blocks of business in older underwriting years of the US mortality portfolio owing to a higher-than-expected mortality. In addition, Hannover Re took one-time charges of around EUR 45 million from the commutation of loss-making treaties in the context of its portfolio management activities. Group net income in life and health reinsurance declined accordingly to EUR 172.6 million (EUR 252.9 million). Earnings per share stood at EUR 1.43 (EUR 2.10).

Exceptionally good investment income

Even though the portfolio of assets under own management contracted to EUR 40.1 billion (EU 41.8 billion), Hannover Re is very satisfied with the performance of its investments in light of the continued low level of interest rates. Key drivers were negative exchange rate effects – primarily due to a weaker US dollar – as well as slightly lower hidden reserves and the dividend distribution.

Ordinary investment income excluding interest on funds withheld and contract deposits increased by a very pleasing 10.9% to EUR 1,289.0 million (EUR 1,162.0 million) on the back of stronger income from real estate and private equity.

Net realised gains on disposals rose to EUR 377.1 million (EUR 206.3 million) as at 31 December 2017. This was due in large measure to the sale of the equity portfolio in the third quarter. The impairments taken in the year under review were merely minimal. Income from investments under own management increased by a substantial 26.3% to reach EUR 1,539.0 million (EUR 1,218.3 million) as at 31 December 2017. The resulting return on investment amounted to 3.8% (3.0%), clearly in excess of the forecast level of more than 3.0%. Investment income including interest on funds withheld and contract deposits closed at EUR 1,773.9 million (EUR 1,550.4 million).

Equity position remains good

The shareholders' equity of Hannover Rück SE was slightly lower than in the previous year. It amounted to EUR 8.5 billion as at 31 December 2017 (EUR 9.0 billion). This decrease can be attributed principally to exchange rate movements and thus has no influence whatsoever on the company's risk-carrying capacity. The book value per share reached EUR 70.72 (EUR 74.61). The return on equity was positive at 10.9% (13.7%) and hence beat the stated minimum target. The total policyholders' surplus (including non-controlling interests and hybrid capital) amounted to EUR 10.8 billion (EUR 11.2 billion).

Outlook for 2018

Hannover Re expects *gross premium* for total business to grow in the current financial year by a single-digit percentage at constant exchange rates. The company anticipates *Group net income* of more than EUR 1 billion. This is based on the premise that major loss expenditure does not significantly exceed the budgeted level of EUR 825 million and that there are no exceptional distortions on capital markets.

The asset portfolios should grow – assuming constant exchange rates – in view of the anticipated positive cash flow. The company is aiming for a *return on investment* of 2.7%.

In terms of the *dividend* for the current financial year, Hannover Re envisages a payout ratio in the range of 35% to 40% of its IFRS Group net income. This ratio may increase in light of capital management considerations if the present comfortable level of capitalisation remains unchanged.