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Press Release

Hannover Re generates double-digit growth in premium and operating profit in the first six months

- **Gross premium rises by 11.0% to EUR 10.0 billion**
- **EBIT grows by 13.5% to EUR 907.3 million**
- **Return on investment of 3.1% beats expectation of at least 2.7%**
- **Combined ratio in property and casualty reinsurance improves to 95.7% (96.5%)**
- **Half-year net income increases by 3.8% to EUR 555.3 million**
- **Return on equity at 13.2% clearly ahead of minimum target of 9.5%**
- **Profit guidance for 2018 of more than EUR 1 billion confirmed**
- **Payout ratio for the ordinary dividend expanded to a range of 35% to 45%**

Hannover, 9 August 2018: Hannover Re is highly satisfied with the development of business in the first half of the year and confirms its 2018 profit guidance with expected net income of more than EUR 1 billion.

"Once again, both business groups, namely property and casualty as well as life and health reinsurance, plus a stable investment income shaped the positive result", Chief Executive Officer Ulrich Wallin said. "Bearing in mind the business development to date, we confirm our net income target of more than EUR 1 billion for 2018, although strains will be incurred in the second half of the year from portfolio management actions in connection with our US mortality business. This is something that we are willing to accept because we are thereby avoiding higher losses in subsequent years."

Gross premium grows by 11%

Gross written premiums rose by 11.0% as at 30 June 2018 to EUR 10.0 billion (EUR 9.0 billion). Adjusted for exchange rate effects, growth would have reached 18.1% and is thus comfortably within the full-year guidance – revised higher in the first quarter – for currency-adjusted gross premium growth of more than 10%. The retention increased slightly to 91.3% (90.3%). Net premium earned climbed to EUR 8.3 billion (EUR 7.5 billion), equivalent to growth of 10.8%. At constant exchange rates, the increase would have been 17.9%.

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Well on track for full-year target following first six months

The operating profit (EBIT) totalled EUR 907.3 million (EUR 799.4 million) and thus improved on the previous year's figure by 13.5%. Particularly notable drivers here were the good results in property and casualty reinsurance as well as EBIT in life and health reinsurance that came in significantly ahead of expectations. Group net income climbed by 3.8% to EUR 555.3 million (EUR 535.0 million). Earnings per share stood at EUR 4.60 (EUR 4.44).

Property and casualty reinsurance gains amid fierce competition

In property and casualty reinsurance, Hannover Re was able to push through higher reinsurance rates on average. In general terms, though, rate movements in the industry failed to live up to the expectations of many market players. US catastrophe business saw a continued abundant supply of additional capacity from alternative capital markets, which prevented a stronger response on the pricing side in traditional reinsurance.

Gross written premium surged by a vigorous 19.2% to EUR 6.5 billion (EUR 5.4 billion). The figure would have been as high as 27.6% adjusted for exchange rate effects. The main factors here were the continued rise in demand for structured reinsurance solutions in Europe and North America as well as rate increases in traditional reinsurance. The level of retained premium moved slightly higher relative to the previous year's period to reach 91.4% (89.4%). Net premium earned increased by 20.0% to EUR 5.2 billion (EUR 4.3 billion); growth would have reached 28.4% at constant exchange rates.

The underwriting result in property and casualty reinsurance soared by 37.4% to EUR 204.7 million (EUR 149.0 million). Expenditure on large losses was again very moderate. The burden of major losses in the first half-year was attributable principally to events such as winter storm Friederike and an earthquake in Papua New Guinea. Amounting to EUR 93.3 million (EUR 122.9 million), the figure came in EUR 258 million below expectations. As in previous years, we stuck to our reserving practice and kept the large loss expectation as part of our IBNR reserves.

The combined ratio stood at 95.7% (96.5%). The operating profit (EBIT) climbed by 8.6% to EUR 688.8 million (EUR 634.3 million). Net income in property and casualty reinsurance fell by 2.1% to EUR 434.4 million (EUR 444.0 million) owing to higher tax charges.

Life and health reinsurance beats expectations

Life and health reinsurance developed favourably and surpassed expectations in the first half of the year. Profitable business opportunities opened up, particularly on international markets. The brisk demand for reinsurance solutions offering solvency relief shows no signs of easing, because of which the US financial solutions business delivered a particularly notable profit contribution in excess of expectations.

US mortality business fared better than expected thanks to an improved claims experience in the first six months. The negative impact on earnings from this business was therefore significantly reduced year-on-year. The result does not yet reflect, however, any appreciable effects of the initiated portfolio management actions, including for example rate increases.

Gross written premium in life and health reinsurance remained almost on the level of the previous year at EUR 3.5 billion (EUR 3.6 billion), a minimal decline of 1.5%; adjusted for exchange rate effects, this is equivalent to growth of 3.7%. The retention stood at 91.2% (91.6%). Net premium earned was similarly stable, recording a modest decrease of 1.5% to EUR 3.2 billion (EUR 3.2 billion). Growth would have amounted to 3.8% at constant exchange rates.

The operating result (EBIT) in life and health reinsurance surged by a very pleasing 32.8% as at 30 June 2018 to reach EUR 219.4 million (EUR 165.2 million). Net income for life and health reinsurance increased by 28.5% to EUR 146.8 million (EUR 114.2 million).

Investments support earnings in volatile markets

The portfolio of assets under own management grew to EUR 40.9 billion in the first half of 2018 (31 December 2017: EUR 40.1 billion). This was driven by the sustained positive cash flow and movements in exchange rates.

Characterised by volatility and – especially in Europe – the protracted low level of interest rates, conditions on the capital market remained challenging. The stable profit contribution from ordinary investment income in an amount of EUR 632.5 million (EUR 635.1 million) is therefore all the more gratifying.

A notable factor here was the earnings booked from private equity and real estate, which in some instances were higher than in the previous year. This also offset the loss of dividend income owing to liquidation of the equity portfolio in the previous year. Interest on funds withheld and contract deposits fell to EUR 113.8 million (EUR 123.4 million). Realised gains retreated by 36.0% to EUR 53.4 million (EUR 83.4 million). The impairments taken in the period under review were again only very minimal at EUR 21.1 million (EUR 23.1 million).

Total investment income generated from assets under own management contracted by 4.0% to EUR 629.8 million (EUR 656.0 million), equivalent to an annualised return of 3.1%. Net investment income including funds withheld and contract deposits declined by 4.6% to EUR 743.6 million (EUR 779.4 million).

Equity base remains robust

Shareholders' equity showed a modest decrease as at 30 June 2018 to EUR 8.3 billion (31 December 2017: EUR 8.5 billion). The primary reasons here were the dividend payment of around EUR 600 million as well as lower valuation reserves due to higher interest rates on US Treasuries and corporate bonds. The annualised return on equity stood at 13.2% (31 December 2017: 10.9%) and was thus comfortably ahead of the targeted figure of 9.5%. The book value per share closed at EUR 69.00 (31 December 2017: EUR 70.72).

Capital adequacy ratio clearly higher than requirements
The capital adequacy ratio for the group calculated in accordance with the requirements of Solvency II amounted to 256.0% as at 31 March 2018, a level slightly below that of 31 December 2017 (260.3%).

Outlook for 2018
Based on constant exchange rates, Hannover Re expects an increase of more than 10% in gross premium for 2018.

In view of the development of business to date, Hannover Re continues to anticipate net income of more than EUR 1 billion for the current year. This is conditional upon large loss expenditure not significantly exceeding the budgeted level of EUR 825 million and assumes that there are no unforeseen distortions on capital markets. It should also be borne in mind that this target will be more difficult to achieve if a very high strain were to be incurred from treaty recaptures in US mortality business.

In property and casualty reinsurance Hannover Re expects to build on the good results in the first half-year with a positive trend in the growth and earnings figures. Making allowance for the loss expectancies, especially in relation to large losses, the combined ratio should remain under 96%. The minimum target of 10% for the EBIT margin should be exceeded.

The treaty renewals in property and casualty reinsurance as at 1 June and 1 July 2018 passed off successfully for Hannover Re. This is all the more gratifying given that market conditions continue to be intensely competitive. This was especially true of the 1 June renewals in relation to natural catastrophe business in Florida. On the other hand, Hannover Re was able to significantly improve its position with a number of sizeable customer accounts, particularly in North America and Europe. All in all, therefore, the premium volume booked for the portfolio up for renewal grew by 16%.

"When it came to the renewal of reinsurance treaties in Florida, some of which had suffered considerable losses in the previous year, we continued to pursue our profit-oriented underwriting policy", Mr. Wallin commented. "Our exposure to natural catastrophe risks therefore remains comfortably within our risk appetite, which is unchanged from the previous year."

In life and health reinsurance Hannover Re expects to see continued growth in demand for reinsurance solutions offering solvency relief. Furthermore, international markets are showing increasing interest in tailored longevity and annuity products. The value of new business should remain unchanged at more than EUR 220 million.

Substantial strains are, however, likely to be incurred in US mortality business. With a view to improving the legacy portfolio from older underwriting years, Hannover Re has passed on price adjustments to customers. Some ceding companies have terminated treaties early in response to these price increases, as a consequence of which charges will be taken against earnings recognised under IFRS accounting in the second half of the year. Since these treaty terminations will also result in the avoidance of higher losses in the future, this will have positive effects on income and on the solvency balance sheet over the long term.

So far, recaptures have been announced that will result in pretax charges of USD 264 million in the second half of the year. It is to be expected that this amount will rise further by the end of the year.

The return on investment for 2018 should reach a level of at least 2.7%. Bearing in mind the positive cash flow anticipated from the technical account and the investments, further growth in the investment portfolio should be generated – subject to stable exchange rates and yield levels.

In view of its good capital position, Hannover Re has expanded the payout ratio for its ordinary dividend to a range of 35% to 45% of IFRS net income. Of late this had been set at 35% to 40%. If the comfortable level of capitalisation remains unchanged the ratio will probably increase through payment of a special dividend, and the company is therefore aiming for a total distribution at least on a par with the previous year.