somewhat different

Quarterly Statement as at 30 September 2018

hannover re®

Key figures

in EUR million	2018					2017		
	1.1. – 30.6.	1.7. – 30.9.	+/– previous year	1.1. – 30.9.	+/– previous year	1.7. – 30.9.[1]	1.1. – 30.9.[1]	31.12.
Results								
Gross written premium	9,985.3	5,007.1	+11.6%	14,992.4	+11.2%	4,486.0	13,483.6	
Net premium earned	8,345.6	4,428.1	+10.5%	12,773.8	+10.7%	4,008.3	11,541.5	
Net underwriting result	100.6	(204.1)		(103.5)		(589.8)	(668.6)	
Net investment income	743.6	411.8	-31.7%	1,155.4	-16.4%	603.1	1,382.5	
Operating profit (EBIT)	907.3	249.8		1,157.1	+43.5%	6.9	806.4	
Group net income	555.3	170.0		725.3	+32.1%	13.9	548.9	
Balance sheet								
Policyholders´ surplus	10,547.4			10,591.3	-1.7%			10,778.5
Equity attributable to shareholders of Hannover Rück SE	8,321.7			8,353.5	-2.1%			8,528.5
Non-controlling interests	732.9			744.8	-1.7%			758.1
Hybrid capital	1,492.8			1,493.0	+0.1%			1,492.0
Investments (excl. funds withheld by ceding companies)	40,891.7			41,468.2	+3.5%			40,057.5
Total assets	63,950.1			64,803.9	+5.9%			61,196.8
Share								
Earnings per share (basic and diluted) in EUR	4.60	1.41		6.01	+32.1%	0.11	4.55	
Book value per share in EUR	69.00			69.27	-2.1%		68.00	70.72
Share price at the end of the period in EUR	106.80			121.70	+16.0%		101.95	104.90
Market capitalisation at the end of the period	12,879.8			14,676.7	+16.0%		12,294.9	12,650.6
Ratios								
Combined ratio (property and casualty reinsurance)[2]	95.7%	98.7%		96.8%		118.3%	104.4%	
Large losses as percentage of net premium earned (property and casualty reinsurance)[3]	1.8%	9.5%		4.5%		31.6%	13.2%	
Retention	91.3%	89.7%		90.8%		89.7%	90.1%	
Return on investment (excl. funds withheld by ceding companies)[4]	3.1%	3.5%		3.3%		5.4%	3.9%	
EBIT margin[5]	10.9%	5.6%		9.1%		0.2%	7.0%	
Return on equity (after tax)	13.2%	8.2%		11.5%		0.7%	8.5%	

1 Restated pursuant to IAS 8
2 Including funds withheld
3 Hannover Re Group´s net share for natural catastrophes and other major losses in excess of EUR 10 million gross as a percentage of net premium earned
4 Excluding effects from ModCo derivatives
5 Operating result (EBIT)/net premium earned

Contents

The present document is a quarterly statement pursuant to Section 51a of the Exchange Rules for the Frankfurter Wertpapierbörse. For further information please see the section “Other information” on page 19 of this document.

Quarterly Statement as at 30 September 2018

Business development

- Group net income after nine months rises by 32% to EUR 725 million
- Group net income in the third quarter reaches EUR 170 million despite one-time charge from life and health reinsurance of EUR 218 million
- Guided Group net income for 2018 of more than EUR 1 billion confirmed, making allowance for the anticipated one-time charge from life and health reinsurance for the full financial year
- Currency-adjusted growth of 16.5% in Group gross premium income ahead of expectation
- Return on investment clearly above the targeted level at 3.3%
- Large loss expenditure in the third quarter within the expected bounds

Hannover Re improved its nine-month Group net income as at 30 September 2018 by 32.1% compared to the previous year – which had been impacted by exceptionally heavy loss expenditure – to reach a level of EUR 725.3 million; the company also confirmed its full-year profit guidance.

In property and casualty reinsurance the picture in the third quarter was once again dominated by large losses, although they did not even come close to the scale of the previous year. Typhoons Jebi, Prapiroon and Trami in Japan and Hurricane Florence in the United States, among other natural catastrophe events, caused considerable devastation. These losses almost entirely used up our major loss budget for the third quarter, although the expenditure is still within the bounds of our expectations. This can be attributed not least to the protective effect of our own reinsurance cessions – especially for natural catastrophe losses –, through which we obtain coverage against our risks from other reinsurers or via the capital markets. In view of the fact that we are also seeing an increasing frequency of smaller and mid-sized losses – in addition to the aforementioned large losses –, the market environment in property and casualty reinsurance nevertheless remains challenging.

In life and health reinsurance the measures to improve our US mortality business took a toll on earnings. This is something that we are willing to accept and in so doing we are avoiding strains down the road. Overall, we continue to see promising opportunities for life and health reinsurance on the international markets, for example in the area of individual longevity products.

On the Group level gross written premium increased by 11.2% in the first nine months to EUR 15.0 billion (previous year: EUR 13.5 billion). Growth would have come in at 16.5% at constant exchange rates. We are thus ahead of our targeted currency-adjusted growth of more than 10%. Our retention rose to 90.8% (90.1%). Net premium earned climbed 10.7% to EUR 12.8 billion (EUR 11.5 billion), equivalent to growth of 15.9% adjusted for exchange-rate effects.

Bearing in mind the difficult general climate, we are thoroughly satisfied with the development of our investments in the first nine months. The portfolio of assets under own management grew to EUR 41.5 billion (31 December 2017: EUR 40.1 billion). Ordinary investment income came in slightly above the previous year's level at EUR 991.4 million (EUR 942.6 million). This reflects, most notably, increased ordinary income from fixed-income securities as well as higher earnings booked from private equity and real estate. In view of the considerable positive effect associated with disposal of the portfolio of listed equities in the previous year, net investment income retreated as expected to EUR 1,155.4 million (EUR 1,382.5 million). Of this amount, EUR 992.1 million (EUR 1,202.4 million) was attributable to income from investments under own management. This produces a very pleasing annualised average return (excluding the effects of ModCo derivatives) of 3.3% – a figure well in excess of the minimum 2.7% mark targeted for the full financial year.

The operating profit (EBIT) for the Hannover Re Group as at 30 September 2018 surged by 43.5% to EUR 1,157.1 million (EUR 806.4 million). Group net income in the first nine months improved by an appreciable 32.1% to EUR 725.3 million (EUR 548.9 million). Earnings per share amounted to EUR 6.01 (EUR 4.55).

The shareholders' equity of Hannover Re as at 30 September 2018 decreased 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%).

In the reporting period just ended we also finalised the succession arrangements at the helm of our company. The Supervisory Board of Hannover Rück SE has appointed Jean-Jacques Henchoz as a member of the Executive Board effective 1 April 2019. He has most recently been in charge of property and casualty as well as life and health reinsurance in the region Europe, Middle East and Africa at Swiss Reinsurance Company. Jean-Jacques Henchoz will succeed Ulrich Wallin as Chief Executive Officer of Hannover Re upon conclusion of the Annual General Meeting on 8 May 2019. At the same time, Ulrich Wallin is retiring in accordance with the company statutes following his extremely successful service to Hannover Re.

Results of operations, financial position and net assets

Property and casualty reinsurance

- Market for property and casualty reinsurance remains challenging as losses rise
- Large loss budget almost entirely exhausted in the third quarter
- Segment result improves on the first nine months of the previous year by 49.8%

Property and casualty reinsurance markets around the world continue to see an oversupply of capital for the coverage of risks. The heavy windstorm losses of the past year did little to change this situation. At the same time, the additional capacities originating from the ILS market are putting prices and conditions under sustained pressure. The environment in which Hannover Re is operating thus remains challenging.

Increased demand can nevertheless still be observed in certain regions of Asia and North America as well as in areas such as the reinsurance of cyber risks, parts of specialty business and for covers in the area of structured reinsurance designed to optimise capital management.

The treaty renewals in property and casualty reinsurance as at 1 June and 1 July 2018 saw undiminished fierce competition. This is the time of year when parts of the North American portfolio, natural catastrophe risks and some areas of credit and surety business are renegotiated. The main renewals also took place for business in Australia and New Zealand: during the 1 July renewal season here we were able to prevent further price erosion and secured significant rate increases in some instances under loss-impacted programmes. This should boost the profitability of the business written. Broadly speaking, we are satisfied with the treaty renewals for the North American market; we boosted our premium volume by roughly another 15% compared to the previous year. In so doing, we were able to grow our business with certain selected clients. We maintained our profit-oriented underwriting approach to catastrophe covers, as a consequence of which our exposure remained comfortably within our risk appetite – which was unchanged from the previous year. We significantly improved our position in relation to a number of sizeable customer accounts, especially in North America and Europe. Altogether, the premium volume booked for the portfolio up for renewal on 1 June and 1 July rose by 16%.

The gross written premium for our total portfolio as at 30 September 2018 surged by an appreciable 17.8% to EUR 9.7 billion (EUR 8.2 billion). At constant exchange rates growth would have reached 24.0%. The level of retained premium was higher than in the previous year's corresponding period at 90.9% (89.2%). Net premium earned improved 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 major loss experience seen in the first half of the year, the loss incidence recorded in the third quarter was largely in line with quarterly expectations. The largest losses incurred in the third quarter included Typhoon Jebi in Japan, for which we anticipate net expenditure of EUR 103 million, as well as Typhoons Prapiroon and Trami with loss expenditure of EUR 54 million and EUR 22 million respectively. As far as Hurricane Florence is concerned, we expect a net strain in the order of EUR 40 million. Man-made large losses in the third quarter amounted to just under EUR 30 million. Our net expenditure on major losses for the first nine months thus totalled EUR 364.6 million (EUR 894.3 million). The net burden of major losses incurred in the first nine months thus remained comfortably within our envisaged large loss budget of EUR 630 million.

The underwriting result for total property and casualty reinsurance improved to EUR 232.6 million (-EUR 309.1 million) on the back of the reduced strain from large losses. The combined ratio consequently improved to 96.8% (104.4%), although it is still slightly above our full-year target of 96% or better. This can be attributed not only to the robust growth in structured reinsurance business, which operates with slimmer margins, but also to an increasing frequency of smaller and mid-sized losses. Viewed in isolation, the combined ratio for the third quarter stood at 98.7% (118.3%).

The investment income booked for property and casualty reinsurance from assets under own management contracted to EUR 757.3 million (EUR 933.3 million). The decline was due primarily to the non-recurrence of the positive effect associated with disposal of the portfolio of listed equities in the previous year.

The operating profit (EBIT) for the Property & Casualty reinsurance business group came in at EUR 1,003.6 million (EUR 601.7 million), equivalent to an increase of 66.8%. The EBIT margin of 12.5% (8.9%) surpassed our minimum target of 10%. Group net income for property and casualty reinsurance increased by 49.8% to EUR 672.4 million (EUR 448.7 million).

Key figures for property and casualty reinsurance

in EUR million	2018					2017	
	1.1. – 30.6.	1.7. – 30.9.	+/– previous year	1.1. – 30.9.	+/– previous year	1.7. – 30.9.	1.1. – 30.9.
Gross written premium	6,467.1	3,190.4	+15.1%	9,657.5	+17.8%	2,771.9	8,199.3
Net premium earned	5,174.8	2,842.0	+16.5%	8,016.8	+18.7%	2,439.9	6,752.6
Underwriting result	204.7	27.9	-106.1%	232.6		(458.1)	(309.1)
Net investment income	503.0	281.0	-40.4%	783.9	-17.2%	471.2	946.7
Operating result (EBIT)	688.8	314.8		1,003.6	+66.8%	(32.6)	601.7
Group net income	434.4	237.9		672.4	+49.8%	4.8	448.7
Earnings per share in EUR	3.60	1.97		5.58	+49.8%	0.04	3.72
EBIT margin [1]	13.3%	11.1%		12.5%		-1.3%	8.9%
Combined ratio [2]	95.7%	98.7%		96.8%		118.3%	104.4%
Retention	91.4%	89.9%		90.9%		88.8%	89.2%

1 Operating result (EBIT) / net premium earned
2 Including funds withheld

Life and health reinsurance

- Nine-month EBIT of EUR 155 million despite one-time charge of EUR 218 million from treaty recaptures in US mortality business
- Very good development of worldwide business as well as better-than-expected risk experience in the US mortality portfolio
- Growing international interest in innovative, integrated life and longevity insurance concepts

The development of our life and health reinsurance business in the third quarter was in line with our expectations. Treaty recaptures prompted by our announced rate increases in US mortality business resulted in considerable one-time charges in the period under review. This was mitigated by the fact that mortality rates for this business in 2018 are proving to be better than expected. Developments elsewhere in international life and health reinsurance were favourable, driven among other things by sustained strong interest in protection against longevity risks.

In Germany, too, we are seeing continuing interest in reinsurance solutions that address the additional statutory reserve requirement for the interest rate risk (“Zinszusatzreserve”) or deliver solvency relief. The number of contracts actually taken out is, however, still small.

When it comes to the coverage of longevity risks, our business in most European markets fared as anticipated. In the United Kingdom reinsurers are faced with increasing price pressure in annuity transactions involving closed blocks of business. In the area of enhanced annuities interest in tailor-made longevity products is growing not only in the rest of Europe but also in countries such as China, Japan, South Africa and Australia. Most notably, Australia is currently seeing lively interest in longevity solutions for retirees on account of changes in the general regulatory framework. In this connection we are working to partner with numerous primary insurers and pension funds.

In Asia health insurance products that offer guaranteed benefits over time are attracting growing attention. In Korea, for example, an innovative concept launched for critical illness coverage is enjoying brisk demand among customers. Our branch in Korea successfully secured the reinsurance of this new business with a number of large insurers.

In the United States the measures to optimise US mortality business are bearing fruit, but they also continue to take a toll on the result in life and health reinsurance. The background here is the negative performance overall of a large block of business acquired at the beginning of 2009 and about which we have already reported regularly in the past. After we notified the customers of rate increases in the second quarter, more of them than anticipated availed themselves of their resulting right to treaty recaptures. In the third quarter we absorbed associated pre-tax charges of USD 260 million, equivalent to EUR 218 million. It is to be expected that this figure will increase even further in the course of the fourth quarter. At the present point in time it is our assumption that the strain for the full year will be in the order of USD 350 million to USD 400 million.

While the treaty recaptures are currently a drag on the profitability of US mortality business, the losses associated with these treaties will be largely eliminated in subsequent years and we therefore anticipate a substantial increase in earnings. A better-than-expected mortality in our US mortality solutions portfolio over the past three quarters also continues to alleviate the strains. Furthermore, our financial solutions business in the United States is developing well and hence living up to our expectations. Our health and special risks portfolio similarly performed as anticipated.

The gross premium income generated for life and health reinsurance business as at 30 September 2018 was stable at EUR 5.3 billion (EUR 5.3 billion). Adjusted for exchange rate effects, growth would have reached 4.8%. Net premium earned was unchanged at EUR 4.8 billion (EUR 4.8 billion). An increase of 3.2% would have been booked at constant exchange rates. The level of retained premium was slightly lower than in the previous year at 90.6% (91.5%).

The investment income amounted to EUR 369.1 million (EUR 432.7 million). The main driver of the decrease in investment income in life and health reinsurance was the realised gains booked in the previous year, which derived largely from fixed-income securities.

The operating result (EBIT) for our life and health reinsurance business contracted to EUR 155.2 million (EUR 205.9 million). Reflecting the strains discussed above, the contribution to Group net income amounted to EUR 93.0 million (EUR 135.7 million).

Key figures for life and health reinsurance

in EUR million	2018					2017[1]	
	1.1. – 30.6.	1.7. – 30.9.	+/− previous year	1.1. – 30.9.	+/− previous year	1.7. – 30.9.	1.1. – 30.9.
Gross written premium	3,518.2	1,816.7	+6.0%	5,334.9	+1.0%	1,714.1	5,284.2
Net premium earned	3,170.7	1,586.1	+1.1%	4,756.8	-0.7%	1,568.4	4,788.7
Investment income	239.1	130.0	-0.7%	369.1	-14.7%	131.0	432.7
Operating result (EBIT)	219.4	(64.2)		155.2	-24.6%	40.7	205.9
Net income after tax	146.8	(53.8)		93.0	-31.5%	21.5	135.7
Earnings per share in EUR	1.22	(0.45)		0.77	-31.5%	0.18	1.13
Retention	91.2%	89.4%		90.6%		91.2%	91.5%
EBIT margin[2]	6.9%	-4.0%		3.3%		2.6%	4.3%

1 Restated pursuant to IAS 8
2 Operating result (EBIT)/net premium earned

Investments

- High-quality diversified investment portfolio maintained
- Ordinary investment income virtually on the level of the previous year
- Return on investment ahead of expectations at 3.3%

The investment climate was rather volatile in the period under review in the face of numerous geopolitical and economic policy issues. In February, for example, the expectation of higher interest rates as a consequence of an anticipated rise in inflation was reflected around the world in stock market corrections and sharply increased volatility. Our company remained unaffected, however, thanks to the liquidation of our equity portfolio in the previous year.

The turbulence on the stock market had scarcely any effect on other markets. In the area of fixed-income securities, however, the dominant factor was still the generally low level of interest rates. The US dollar segment, which saw further significant interest rate increases at a pace not anticipated by the market, was once again the exception here. Appreciable rate increases were also observed across all maturities in the sterling bond market, whereas euro-denominated bonds have seen scarcely any changes since the beginning of the year and are still being sold at negative returns well into the medium maturities. It was only the repeated flare-up of anxieties surrounding instability in Italy that triggered disquiet in this sector. The threat of tariff and trade wars as well as the continuing lack of clarity around the outcome of Brexit negotiations have exacerbated the uncertainty among market actors. Our company has so far not been affected by the crises in Turkey and Argentina since we do not directly hold any investments in the currencies of either country.

Credit spreads on European and US corporate bonds recorded sometimes significant increases in the period under review across almost all rating classes, although in some instances these had softened again by the closing date. On the whole, risk premiums remain at historic lows owing to the declines of recent years. In this respect it is important to monitor the levels at which the potential for funding companies starts to become restricted. Overall, while the unrealised gains on our fixed-income securities fell to EUR 304.1 million (EUR 1,021.5 million) as at 30 September 2018, we benefit from higher interest rates and credit spreads when it comes to new investments and the reinvestment of assets.

Our portfolio of assets under own management grew to EUR 41.5 billion (31 December 2017: EUR 40.1 billion). Along with the positive operating cash flow, this also reflects the fact that the issuance of a senior bond in the second quarter and currency effects more than offset the aforementioned valuation declines. We adjusted the allocation of our investments to the individual classes of securities in the reporting period in that we expanded our portfolio of instruments with inflation-linked coupons and redemption amounts. By taking this step we are counteracting inflation risks, particularly in property and casualty reinsurance. Through the reduction of certain positions in the area of high-yield bonds we also smoothed the risk profile of our investments and generated liquidity for future opportunities in the capital and reinsurance markets. The modified duration of our portfolio of fixed-income securities was left unchanged year-on-year at 4.8 (4.8).

Ordinary investment income excluding interest on funds withheld and contract deposits amounted to EUR 991.4 million as at 30 September 2018, a figure slightly in excess of the comparable period (EUR 942.6 million). Particularly bearing in mind the continued low interest rates, it is highly gratifying that we were able to appreciably increase the ordinary income from fixed-income securities year-on-year while also booking stronger earnings from real estate and private equity than in the previous year. We were thus very successful in offsetting the loss of dividend income from the equity portfolio that we had liquidated in the previous year. Interest on funds withheld and contract deposits retreated to EUR 163.3 million (EUR 180.1 million).

Impairments of altogether just EUR 36.9 million (EUR 34.0 million) were taken. Of this amount, EUR 9.1 million (EUR 5.5 million) was attributable to alternative investments and EUR 2.3 million (EUR 2.1 million) to real estate funds. Scheduled depreciation on directly held real estate increased marginally to EUR 25.3 million (EUR 22.6 million), a reflection of our growing ongoing involvement in this area. The impairments were not opposed by any write-ups (EUR 0.0 million). The net balance of gains realised on disposals stood at EUR 100.8 million (EUR 343.3 million). This sharp decrease compared to the previous year reflects the extraordinarily high gains realised in the previous year from the liquidation of our portfolio of listed equities. A further factor is that as part of portfolio restructuring activities owing to the steeper US yield curve we realised not inconsiderable hidden losses. These were, however, more than offset by attractive realisations from the sale of high-yield bonds. In addition, we benefit from the rising interest rate level in our reinvestments.

We recognise a derivative for the credit risk associated with special life reinsurance treaties (ModCo) under which securities deposits are held by cedants for our account; the performance of this derivative in the period under review gave rise to unrealised losses of EUR 3.9 million (gain of EUR 3.2 million) recognised in income. In economic terms we assume a neutral development for this item over time, and hence the volatility that can occur in specific quarters provides no insight into the actual business development.

Altogether, the unrealised gains in our assets recognised at fair value through profit or loss amounted to EUR 19.9 million. This compares with unrealised gains of EUR 22.1 million in the corresponding period of the previous year. Despite diminished returns from funds withheld and contract deposits we thus generated very healthy investment income. The key drivers were slightly higher ordinary income from fixed-income securities as well as very good earnings from real estate and private equity. The net investment income of EUR 1,155.4 million was below the level of the comparable period (EUR 1,382.5 million), which had been boosted by extraordinary income of EUR 223.3 million from the disposal of the equity portfolio. Income from assets under own management accounted for an amount of EUR 992.1 million (EUR 1,202.4 million), producing a very pleasing annualised average return (excluding effects from ModCo derivatives) of 3.3%. We are thus well on track to achieve our expected minimum target of 2.7% for the full year.

Net investment income

in EUR million	2018					2017	
	1.1. – 30.6.	1.7. – 30.9.	+/– previous year	1.1. – 30.9.	+/– previous year	1.7. – 30.9.	1.1. – 30.9.
Ordinary investment income[1]	632.5	358.9	+16.7%	991.4	+5.2%	307.5	942.6
Result from participations in associated companies	1.8	0.8	-84.1%	2.5	-75.5%	4.7	10.4
Realised gains/losses	53.4	47.5	-81.7%	100.8	-70.6%	259.9	343.3
Appreciation[2]	21.1	15.9	+45.5%	36.9	+8.8%	10.9	34.0
Change in fair value of financial instruments[3]	19.6	0.3	-97.2%	19.9	-10.1%	11.5	22.1
Investment expenses	56.3	29.3	+11.2%	85.6	+4.5%	26.3	82.0
Net investment income from assets under own management	629.8	362.3	-33.7%	992.1	-17.5%	546.4	1,202.4
Net investment income from funds withheld	113.8	49.5	-12.8%	163.3	-9.4%	56.8	180.1
Total investment income	**743.6**	**411.8**	**-31.7%**	**1,155.4**	**-16.4%**	**603.1**	**1,382.5**

1 Excluding expenses on funds withheld and contract deposits
2 Including depreciation/impairments on real estate
3 Portfolio at fair value through profit or loss and trading

Rating structure of our fixed-income securities[1]

Rating classes	Government bonds		Securities issued by semi-governmental entities[2]		Corporate bonds		Covered bonds/asset-backed securities	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	78.8	11,726.1	59.0	3,777.4	1.8	207.2	60.5	1,836.7
AA	12.1	1,805.5	27.2	1,744.7	14.3	1,672.9	22.7	687.5
A	5.0	740.2	5.7	365.0	31.9	3,716.4	10.9	329.8
BBB	2.2	323.6	1.4	91.8	43.9	5,119.3	4.5	136.3
< BBB	1.9	278.1	6.7	430.4	8.1	947.7	1.4	43.3
Total	**100.0**	**14,873.4**	**100.0**	**6,409.4**	**100.0**	**11,663.5**	**100.0**	**3,033.6**

1 Securities held through investment funds are recognised pro rata with their corresponding individual ratings.
2 Including government-guaranteed corporate bonds

Outlook

- Double-digit growth expected in the premium volume for total business
- Targeted return on investment of at least 2.7% for assets under own management
- Group net income target for 2018 of more than EUR 1 billion confirmed
- Guidance for 2019: Group net income in the order of EUR 1.1 billion

Hannover Re is confirming its targets for the current financial year. In view of the good results in the first half-year and a third quarter in line with our expectations, the previously discussed strains on our result – most notably from our US mortality portfolio – should be manageable.

It remains our expectation that we will increase the gross premium booked for the Group in the current financial year – based on constant exchange rates – by significantly more than 10% and hence more than the roughly 5% indicated in our guidance going into the year. A large part of the growth in excess of our original expectations derives from property and casualty reinsurance, specifically from structured reinsurance solutions.

In property and casualty reinsurance we expect to see a positive trend in growth and earnings figures for the full year and a healthy contribution to our Group net income. Making allowance for loss expectations, especially in relation to large losses, we anticipate a combined ratio of 96% or better. We also expect to beat our minimum target of 10% for the EBIT margin in property and casualty reinsurance.

The state of global reinsurance markets remains intensely competitive. The pricing negotiations during the year have produced only moderate rate increases so far. Natural catastrophe business, on the other hand, which was heavily impacted last year, has seen more appreciable mark-ups for loss-affected programmes. All in all, the rate quality in the reinsurance market is slightly better than in the previous year, but it remains on a low – albeit adequate – level. The price trend will be crucially shaped by the further development of loss amounts from the previous year's windstorm events as well as the large loss figures for the current year.

In life and health reinsurance we anticipate an additional strain on our result in the fourth quarter from further treaty recaptures in US mortality business. As already mentioned, the charges to income taken now have favourable implications for future results because corresponding strains in subsequent years will be largely eliminated. We therefore expect to book substantially improved earnings for our mortality solutions business from 2019 onwards.

As far as our life and health reinsurance portfolio excluding US mortality business is concerned, we are looking for the positive trend of the first nine months to be sustained in the fourth quarter, especially in relation to the earnings figures.

In life and health reinsurance we therefore still anticipate currency-adjusted growth in our gross premium income year-on-year, although large-volume treaties can have significant effects – both positive and negative – on the business volume. It remains our expectation that the value of new business will exceed our targeted level of EUR 220 million.

The expected positive cash flow that we generate from the technical account and our investments should – subject to stable exchange rates and yield levels – lead to further growth in the asset portfolio. In the area of fixed-income securities we continue to emphasise the high quality and diversification of our portfolio. Overall, the primary focus will remain on stability while maintaining an adequate risk/return ratio that will enable us to respond flexibly to general developments and emerging opportunities. Our targeted return on investment for 2018 of at least 2.7% is unchanged.

In view of the favourable business development and allowing for the potential strains associated with treaty recaptures in US mortality business, it remains our assumption that we will generate Group net income of more than EUR 1 billion for 2018. This is subject to the premise that the burden of major losses does not significantly exceed the budgeted level of EUR 825 million and that there are no exceptional distortions on capital markets. In light of these considerations, our expectation that we should be able to distribute a total dividend at least on a par with the previous year remains unchanged.

Guidance for 2019

For the 2019 financial year Hannover Re expects single-digit percentage growth in gross premium based on constant exchange rates. The return on investment is forecast to be around 2.8%. We anticipate Group net income in the order of EUR 1.1 billion.

We are raising our net major loss budget to EUR 875 million for the 2019 financial year. We had set aside an amount of EUR 825 million for this purpose in each of the past three years. The increase in the budget is motivated primarily by the growth in the underlying business and the associated rise in the annual aggregate loss expectancy. As usual, all statements are conditional upon the burden of large losses remaining within the adjusted budget of EUR 875 million for 2019 and assume that there are no exceptional distortions on capital markets.

Hannover Re envisages 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.

Consolidated balance sheet as at 30 September 2018

Assets in EUR thousand	30.9.2018	31.12.2017
Fixed-income securities – held to maturity	291,054	336,182
Fixed-income securities – loans and receivables	2,454,179	2,455,164
Fixed-income securities – available for sale	32,687,209	31,281,908
Fixed-income securities – at fair value through profit or loss	547,597	212,042
Equity securities – available for sale	34,579	37,520
Other financial assets – at fair value through profit or loss	124,474	88,832
Real estate and real estate funds	2,023,040	1,968,702
Investments in associated companies	112,107	121,075
Other invested assets	1,762,580	1,761,678
Short-term investments	612,738	958,669
Cash and cash equivalents	818,676	835,706
Total investments and cash under own management	**41,468,233**	**40,057,478**
Funds withheld	11,204,668	10,735,012
Contract deposits	160,184	167,854
Total investments	**52,833,085**	**50,960,344**
Reinsurance recoverables on unpaid claims	1,623,147	1,651,335
Reinsurance recoverables on benefit reserve	899,549	959,533
Prepaid reinsurance premium	161,062	96,402
Reinsurance recoverables on other technical reserves	3,323	7,301
Deferred acquisition costs	2,363,745	2,228,246
Accounts receivable	4,484,210	3,821,124
Goodwill	94,661	91,692
Deferred tax assets	444,222	466,564
Other assets	872,137	904,253
Accrued interest and rent	13,065	10,052
Assets held for sale	1,011,699	–
Total assets	**64,803,905**	**61,196,846**

Liabilities in EUR thousand	30.9.2018	31.12.2017
Loss and loss adjustment expense reserve	28,195,833	28,378,545
Benefit reserve	9,237,122	8,977,946
Unearned premium reserve	3,968,378	3,541,194
Other technical provisions	497,348	394,460
Funds withheld	956,597	974,786
Contract deposits	3,796,508	3,949,207
Reinsurance payable	1,363,057	980,241
Provisions for pensions	177,103	177,786
Taxes	214,842	319,845
Deferred tax liabilities	1,734,493	1,819,867
Other liabilities	770,171	654,338
Long-term debt and notes payable	2,556,459	1,742,073
Liabilities related to assets held for sale	2,237,720	–
Total liabilities	**55,705,631**	**51,910,288**
Shareholders' equity		
Common shares	120,597	120,597
Nominal value: 120,597 Conditional capital: 60,299		
Additional paid-in capital	724,562	724,562
Common shares and additional paid-in capital	**845,159**	**845,159**
Cumulative other comprehensive income		
Unrealised gains and losses on investments	318,051	818,350
Cumulative foreign currency translation adjustment	139,801	(62,548)
Changes from hedging instruments	(5,331)	(6,292)
Other changes in cumulative other comprehensive income	(50,726)	(50,598)
Total other comprehensive income	**401,795**	**698,912**
Retained earnings	7,106,506	6,984,407
Equity attributable to shareholders of Hannover Rück SE	**8,353,460**	**8,528,478**
Non-controlling interests	744,814	758,080
Total shareholders' equity	**9,098,274**	**9,286,558**
Total liabilities and shareholders´ equity	**64,803,905**	**61,196,846**

Consolidated statement of income as at 30 September 2018

in EUR thousand	1.7. – 30.9.2018	1.1. – 30.9.2018	1.7. – 30.9.2017 [1]	1.1. – 30.9.2017 [1]
Gross written premium	5,007,103	14,992,395	4,485,970	13,483,568
Ceded written premium	515,060	1,379,169	460,086	1,334,589
Change in gross unearned premium	(89,045)	(927,424)	(30,947)	(665,881)
Change in ceded unearned premium	25,127	87,965	13,392	58,356
Net premium earned	**4,428,125**	**12,773,767**	**4,008,329**	**11,541,454**
Ordinary investment income	358,944	991,420	307,451	942,558
Profit/loss from investments in associated companies	752	2,544	4,740	10,393
Realised gains and losses on investments	47,455	100,835	259,895	343,256
Change in fair value of financial instruments	329	19,890	11,528	22,114
Total depreciation, impairments and appreciation of investments	15,888	36,948	10,919	33,975
Other investment expenses	29,290	85,637	26,335	81,959
Net income from investments under own management	**362,302**	**992,104**	**546,360**	**1,202,387**
Income/expense on funds withheld and contract deposits	49,471	163,267	56,764	180,144
Net investment income	**411,773**	**1,155,371**	**603,124**	**1,382,531**
Other technical income	–	76	38	846
Total revenues	**4,839,898**	**13,929,214**	**4,611,491**	**12,924,831**
Claims and claims expenses	3,347,619	9,366,815	3,634,808	9,436,174
Change in benefit reserves	133,653	74,850	11,035	(59,851)
Commission and brokerage, change in deferred acquisition costs	1,042,609	3,095,542	845,691	2,495,130
Other acquisition costs	5,392	15,970	4,862	19,437
Other technical expenses	976	2,886	1,529	3,413
Administrative expenses	101,973	321,305	100,250	316,614
Total technical expenses	**4,632,222**	**12,877,368**	**4,598,175**	**12,210,917**
Other income and expenses	42,154	105,265	(6,373)	92,455
Operating profit (EBIT)	**249,830**	**1,157,111**	**6,943**	**806,369**
Financing costs	20,344	58,028	18,007	53,832
Net income before taxes	**229,486**	**1,099,083**	**(11,064)**	**752,537**
Taxes	36,867	310,240	(46,947)	142,838
Net income	**192,619**	**788,843**	**35,883**	**609,699**
thereof				
Non-controlling interest in profit and loss	22,589	63,508	22,020	60,822
Group net income	**170,030**	**725,335**	**13,863**	**548,877**
Earnings per share (in EUR)				
Basic earnings per share	1.41	6.01	0.11	4.55
Diluted earnings per share	1.41	6.01	0.11	4.55

[1] Restated pursuant to IAS 8

Consolidated statement of comprehensive income as at 30 September 2018

in EUR thousand	1.7. – 30.9.2018	1.1. – 30.9.2018	1.7. – 30.9.2017	1.1. – 30.9.2017
Net income	**192,619**	**788,843**	**35,883**	**609,699**
Not reclassifiable to the consolidated statement of income				
Actuarial gains and losses				
Gains (losses) recognised directly in equity	696	(232)	4,113	7,229
Tax income (expense)	(225)	82	(1,339)	(2,353)
	471	**(150)**	**2,774**	**4,876**
Income and expense recognised directly in equity that cannot be reclassified				
Gains (losses) recognised directly in equity	696	(232)	4,113	7,229
Tax income (expense)	(225)	82	(1,339)	(2,353)
	471	**(150)**	**2,774**	**4,876**
Reclassifiable to the consolidated statement of income				
Unrealised gains and losses on investments				
Gains (losses) recognised directly in equity	(202,168)	(631,356)	24,545	224,312
Transferred to the consolidated statement of income	(20,197)	(69,085)	(257,220)	(328,138)
Tax income (expense)	58,879	176,434	7,670	(3,581)
	(163,486)	**(524,007)**	**(225,005)**	**(107,407)**
Currency translation				
Gains (losses) recognised directly in equity	18,645	205,780	(183,728)	(708,794)
Tax income (expense)	86	(825)	11,036	43,858
	18,731	**204,955**	**(172,692)**	**(664,936)**
Changes from the measurement of associated companies				
Gains (losses) recognised directly in equity	(3)	(10)	(6)	(9)
	(3)	**(10)**	**(6)**	**(9)**
Changes from hedging instruments				
Gains (losses) recognised directly in equity	(3,255)	676	(2,556)	(1,007)
Tax income (expense)	820	286	493	911
	(2,435)	**962**	**(2,063)**	**(96)**
Reclassifiable income and expense recognised directly in equity				
Gains (losses) recognised directly in equity	(186,781)	(424,910)	(161,745)	(485,498)
Transferred to the consolidated statement of income	(20,197)	(69,085)	(257,220)	(328,138)
Tax income (expense)	59,785	175,895	19,199	41,188
	(147,193)	**(318,100)**	**(399,766)**	**(772,448)**
Total income and expense recognised directly in equity				
Gains (losses) recognised directly in equity	(186,085)	(425,142)	(157,632)	(478,269)
Transferred to the consolidated statement of income	(20,197)	(69,085)	(257,220)	(328,138)
Tax income (expense)	59,560	175,977	17,860	38,835
	(146,722)	**(318,250)**	**(396,992)**	**(767,572)**
Total recognised income and expense	**45,897**	**470,593**	**(361,109)**	**(157,873)**
thereof				
Attributable to non-controlling interests	12,673	41,204	1,593	36,796
Attributable to shareholders of Hannover Rück SE	33,224	429,389	(362,702)	(194,669)

Group segment report

Segmentation of assets

	Property and casualty reinsurance	
in EUR thousand	30.9.2018	31.12.2017
Assets		
Fixed-income securities – held to maturity	229,407	259,284
Fixed-income securities – loans and receivables	2,419,484	2,417,894
Fixed-income securities – available for sale	24,025,420	23,662,710
Equity securities – available for sale	34,579	37,520
Financial assets at fair value through profit or loss	74,745	56,652
Other invested assets	3,601,571	3,612,795
Short-term investments	310,879	342,744
Cash and cash equivalents	585,810	610,585
Total investments and cash under own management	**31,281,895**	**31,000,184**
Funds withheld	2,192,628	1,636,993
Contract deposits	1,367	(121)
Total investments	**33,475,890**	**32,637,056**
Reinsurance recoverables on unpaid claims	1,439,530	1,443,869
Reinsurance recoverables on benefit reserve	–	–
Prepaid reinsurance premium	160,518	96,383
Reinsurance recoverables on other reserves	510	1,269
Deferred acquisition costs	972,559	841,911
Accounts receivable	2,912,779	2,458,038
Other assets in the segment	2,606,134	1,351,426
Assets held for sale	1,013,204	–
Total assets	**42,581,124**	**38,829,952**

Segmentation of liabilities

in EUR thousand		
Liabilities		
Loss and loss adjustment expense reserve	23,926,337	24,130,443
Benefit reserve	–	–
Unearned premium reserve	3,686,379	3,332,083
Provisions for contingent commissions	251,779	162,620
Funds withheld	388,395	400,290
Contract deposits	69,541	72,056
Reinsurance payable	782,657	512,372
Long-term liabilities	321,115	250,122
Other liabilities in the segment	1,745,747	1,948,148
Liabilities related to assets held for sale	2,237,720	–
Total liabilities	**33,409,670**	**30,808,134**

Life and health reinsurance		Consolidation		Total	
30.9.2018	31.12.2017	30.9.2018	31.12.2017	30.9.2018	31.12.2017
61,647	71,898	–	5,000	291,054	336,182
34,695	37,270	–	–	2,454,179	2,455,164
8,642,560	7,617,113	19,229	2,085	32,687,209	31,281,908
–	–	–	–	34,579	37,520
597,326	244,222	–	–	672,071	300,874
257,071	189,441	39,085	49,219	3,897,727	3,851,455
301,859	615,925	–	–	612,738	958,669
222,089	213,065	10,777	12,056	818,676	835,706
10,117,247	**8,988,934**	**69,091**	**68,360**	**41,468,233**	**40,057,478**
9,012,040	9,098,019	–	–	11,204,668	10,735,012
158,817	167,975	–	–	160,184	167,854
19,288,104	**18,254,928**	**69,091**	**68,360**	**52,833,085**	**50,960,344**
183,617	207,660	–	(194)	1,623,147	1,651,335
899,549	959,533	–	–	899,549	959,533
583	19	(39)	–	161,062	96,402
2,813	6,032	–	–	3,323	7,301
1,391,186	1,386,335	–	–	2,363,745	2,228,246
1,571,847	1,363,610	(416)	(524)	4,484,210	3,821,124
824,856	792,297	(2,006,905)	(671,162)	1,424,085	1,472,561
–	–	(1,505)	–	1,011,699	–
24,162,555	22,970,414	(1,939,774)	(603,520)	64,803,905	61,196,846

4,269,496	4,248,296	–	(194)	28,195,833	28,378,545
9,237,122	8,977,946	–	–	9,237,122	8,977,946
281,999	209,111	–	–	3,968,378	3,541,194
245,569	231,840	–	–	497,348	394,460
568,202	574,496	–	–	956,597	974,786
3,726,967	3,877,151	–	–	3,796,508	3,949,207
580,471	467,869	(71)	–	1,363,057	980,241
–	–	2,235,344	1,491,951	2,556,459	1,742,073
3,177,064	1,705,864	(2,026,202)	(682,176)	2,896,609	2,971,836
–	–	–	–	2,237,720	–
22,086,890	20,292,573	209,071	809,581	55,705,631	51,910,288

Segment statement of income

in EUR thousand	Property and casualty reinsurance 1.1. – 30.9.2018	Property and casualty reinsurance 1.1. – 30.9.2017
Gross written premium	9,657,530	8,199,345
thereof		
From insurance business with other segments	–	–
From insurance business with external third parties	9,657,530	8,199,345
Net premium earned	8,016,834	6,752,623
Net investment income	783,931	946,721
thereof		
Change in fair value of financial instruments	1,438	1,201
Total depreciation, impairments and appreciation of investments	36,925	33,938
Income/expense on funds withheld and contract deposits	26,594	13,437
Claims and claims expenses	5,333,793	5,164,008
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	2,287,821	1,739,940
Administrative expenses	162,609	157,788
Other income and expenses	(12,923)	(35,922)
Operating profit/loss (EBIT)	**1,003,619**	**601,686**
Financing costs	–	–
Net income before taxes	**1,003,619**	**601,686**
Taxes	268,891	96,618
Net income	**734,728**	**505,068**
thereof		
Non-controlling interest in profit or loss	62,356	56,319
Group net income	**672,372**	**448,749**

[1] Restated pursuant to IAS 8

Life and health reinsurance		Consolidation		Total	
1.1. – 30.9.2018	1.1. – 30.9.2017[1]	**1.1. – 30.9.2018**	1.1. – 30.9.2017	**1.1. – 30.9.2018**	1.1. – 30.9.2017[1]
5,334,865	5,284,223	–	–	14,992,395	13,483,568
–	–	–	–	–	–
5,334,865	5,284,223	–	–	14,992,395	13,483,568
4,756,819	4,788,710	114	121	12,773,767	11,541,454
369,108	432,695	2,332	3,115	1,155,371	1,382,531
18,452	20,913	–	–	19,890	22,114
23	37	–	–	36,948	33,975
136,673	166,707	–	–	163,267	180,144
4,033,022	4,272,166	–	–	9,366,815	9,436,174
74,850	(59,851)	–	–	74,850	(59,851)
826,501	777,194	–	–	3,114,322	2,517,134
158,495	158,722	201	104	321,305	316,614
122,161	132,762	(3,973)	(4,385)	105,265	92,455
155,220	**205,936**	**(1,728)**	**(1,253)**	**1,157,111**	**806,369**
–	–	58,028	53,832	58,028	53,832
155,220	**205,936**	**(59,756)**	**(55,085)**	**1,099,083**	**752,537**
61,067	65,706	(19,718)	(19,486)	310,240	142,838
94,153	**140,230**	**(40,038)**	**(35,599)**	**788,843**	**609,699**
1,152	4,503	–	–	63,508	60,822
93,001	135,727	(40,038)	(35,599)	725,335	548,877

Consolidated cash flow statement as at 30 September 2018

in EUR thousand	1.1. – 30.9.2018	1.1. – 30.9.2017[1]
I. Cash flow from operating activities		
Net income	788,843	609,699
Appreciation/depreciation	59,548	29,234
Net realised gains and losses on investments	(100,835)	(343,256)
Change in fair value of financial instruments (through profit or loss)	(19,890)	(22,114)
Realised gains and losses on deconsolidation	(2,492)	–
Amortisation of investments	5,208	42,807
Changes in funds withheld	(363,424)	77,834
Net changes in contract deposits	(219,515)	58,625
Changes in prepaid reinsurance premium (net)	839,459	607,406
Changes in tax assets/provisions for taxes	(16,074)	(107,555)
Changes in benefit reserve (net)	249,842	(543,961)
Changes in claims reserves (net)	1,155,527	1,783,412
Changes in deferred acquisition costs	(258,147)	(138,395)
Changes in other technical provisions	114,273	35,207
Changes in clearing balances	(746,539)	(608,716)
Changes in other assets and liabilities (net)	223,382	(11,493)
Cash flow from operating activities	**1,709,166**	**1,468,734**
II. Cash flow from investing activities	**(1,824,437)**	**(682,501)**
III. Cash flow from financing activities	**150,382**	**(686,791)**
IV. Exchange rate differences on cash	**14,131**	**(55,843)**
Cash and cash equivalents at the beginning of the period	**835,706**	**848,667**
Change in cash and cash equivalents (I. + II. + III. + IV.)	**49,242**	**43,599**
Cash and cash equivalents at the end of the period	**884,948**	**892,266**
thereof cash and cash equivalents from IFRS 5	66,272	–
Cash and cash equivalents at the end of the period excluding the disposal group	**818,676**	**892,266**
Supplementary information on the cash flow statement[2]		
Income taxes paid (on balance)	(317,401)	(264,597)
Dividend receipts[3]	166,892	180,062
Interest received	1,164,056	1,198,566
Interest paid	(249,940)	(225,413)

[1] Restated pursuant to IAS 8

[2] The income taxes paid, dividend receipts as well as interest received and paid are included entirely in the cash flow from operating activities.

[3] Including dividend-like profit participations from investment funds

Other information

The present document is a quarterly statement pursuant to Section 51a of the Exchange Rules for the Frankfurter Wertpapierbörse (BörsO FWB). It was drawn up according to International Financial Reporting Standards (IFRS), but does not constitute an interim financial report as defined by IAS 34 "Interim Financial Reporting" or a financial statement as defined by IAS 1 "Presentation of Financial Statements". Figures for the previous year were restated in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

The accounting policies are essentially the same as those applied in the consolidated annual financial statement as at 31 December 2017. New accounting standards or amendments to existing standards that were applied for the first time in the 2018 financial year are discussed below:

IFRS 15 "Revenue from Contracts with Customers" specifies when and in what amount such revenue is to be recognised and which disclosures are required for this purpose. The standard and the published clarifications are not applicable to financial instruments and other contractual rights and obligations, which are to be recognised according to separate standards, or to (re)insurance contracts within the scope of IFRS 4 "Insurance Contracts". Application of the standard is therefore of minor relevance to the Hannover Re Group.

The Hannover Re Group meets the qualifying criteria that give certain insurance entities the option to defer mandatory application of IFRS 9 "Financial Instruments" to 2021 and is exercising this deferral option.

Furthermore, a number of other amendments to existing standards and interpretations were issued with no significant implications for the consolidated financial statement:

- IFRS 2 "Share-based Payment": "Classification and Measurement of Share-based Payment Transactions"
- Amendments to IAS 40 "Investment Property": "Transfers of Investment Property"
- Amendments as part of the "Annual Improvements to IFRS Standards 2014 – 2016 Cycle" with respect to IAS 28 "Investments in Associates and Joint Ventures" and IFRS 1 "First-time Adoption of International Financial Reporting Standards"
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration".

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