

## Press Release

### Hannover Re makes good start to the 2017 financial year

- **Group net income of EUR 264.8 million (previous year: EUR 271.2 million)**
- **Gross premium rises by 6.6% to EUR 4.5 billion, adjusted for exchange rate effects 5.9%**
- **Property and casualty reinsurance delivers good underwriting result**
- **Combined ratio: 95.6% (94.7%)**
- **Large loss expenditure in the first quarter higher than in the comparable period**
- **Life and health reinsurance: result in line with expectations**
- **Return on investment of 3.1% above target**
- **Increased profit guidance for 2017 confirmed**

Hannover, 10 May 2017: Hannover Re expressed considerable satisfaction with the development of the first quarter. "At the beginning of the year we raised our guidance for 2017 Group net income from more than EUR 950 million to more than EUR 1 billion. With our pleasing quarterly result we have put in place a good basis for achieving our targets. Both business groups, namely Property & Casualty and Life & Health reinsurance, as well as highly satisfactory investment income played a part here", Chief Executive Officer Ulrich Wallin noted.

#### **Gross premium shows modest growth**

Gross written premium for the Hannover Re Group rose by 6.6% as at 31 March 2017 to EUR 4.5 billion. Growth would have come in at 5.9% adjusted for exchange rate effects. The level of retained premium was slightly higher at 89.6% (89.0%). Net premium earned climbed by 5.4% to EUR 3.7 billion (EUR 3.5 billion). At constant exchange rates growth would have amounted to 4.3%.

#### **Pleasing Group net income**

The operating profit (EBIT) totalled EUR 399.9 million (EUR 406.7 million). Group net income contracted by 2.4% to EUR 264.8 million and was thus only marginally lower than the previous year's exceptionally good level of EUR 271.2 million. Earnings per share stood at EUR 2.20 (EUR 2.25).

#### **Contact**

**Corporate Communications:**  
Karl Steinle  
tel. +49 511 5604-1500  
karl.steinle@hannover-re.com

**Media Relations:**  
Gabriele Handrick  
tel. +49 511 5604-1502  
gabriele.handrick@hannover-re.com

**Investor Relations:**  
Julia Hartmann  
tel. +49 511 5604-1529  
julia.hartmann@hannover-re.com

[www.hannover-re.com](http://www.hannover-re.com)

**Property and casualty reinsurance delivers positive profit contribution**

International property and casualty reinsurance markets remain intensely competitive, although the price declines were more muted than in the previous year. The increased major loss expenditure incurred in 2016 had positive implications for reinsurance premiums only on a local level in the treaty renewals as at 1.1.2017. In this challenging climate Hannover Re benefited from its selective and margin-oriented underwriting policy. In the area of structured reinsurance demand for reinsurance solutions providing solvency relief was highly gratifying. Cyber covers, too, offered growth opportunities driven by rising demand. Against this backdrop, gross written premium surged by an appreciable 12.5% to EUR 2.8 billion (EUR 2.5 billion); adjusted for exchange rate effects, growth would have amounted to 11.3%. The level of retained premium increased to 88.6% (87.9%). Net premium earned rose by a pleasing 10.4% to EUR 2.2 billion (EUR 2.0 billion); growth would have reached 8.8% at constant exchange rates.

The net burden of major losses incurred in the first quarter was clearly heavier than in the previous year's period at EUR 133.7 million (EUR 55.5 million), although it still came in below the estimated quarterly budget. The largest single loss – at EUR 50 million – was Cyclone Debbie, which caused significant storm damage and flooding in Australia at the end of March. The insurance industry was also impacted by the UK government's decision to reduce the discount rate for personal injury compensation payments (also known as the "Ogden rate") from 2.5% to -0.75% effective March 2017. This means, for example, that severe personal injuries from a motor vehicle accident can result in higher payments under liability covers. Bearing in mind that the change affects not only future claims but also past claims that have still to be run off, insurers and reinsurers are compelled to substantially strengthen their reserves. In the first quarter Hannover Re booked additional loss reserves of EUR 126 million for this purpose. In view of the very adequate level of the IBNR reserves (for claims that have been incurred but not yet reported), however, this did not result in any run-off losses. It is to be anticipated that the change in the Ogden rate will require further additional reserves to be set aside in the course of the year. Nevertheless, these should also be absorbed by the IBNR reserves that have been constituted.

The underwriting result for property and casualty reinsurance fell short of the previous year's figure (EUR 100.3 million) at EUR 90.7 million. The combined ratio rose from 94.7% to 95.6%. The operating profit (EBIT) in property and casualty reinsurance increased by 3.4% on the back of very healthy investment income to reach EUR 309.8 million (EUR 299.7 million). Group net income went up by 5.4% to EUR 215.4 million (EUR 204.3 million). Earnings per share amounted to EUR 1.79 (EUR 1.69).

### **Life and health reinsurance in line with expectations**

Life and health reinsurance developed in keeping with expectations. Gross written premium as at 31 March 2017 retreated by a modest 1.7% to EUR 1.7 billion (EUR 1.8 billion). The retention increased to 91.3% (90.5%), as a consequence of which net premium earned remained stable at EUR 1.6 billion (EUR 1.6 billion); adjusted for exchange rate effects, this was equivalent to a decline of 1.3%. Results in the first quarter were uneven: financial solutions business delivered a very positive contribution, as primary insurers increasingly sought reinsurance solutions that provide capital relief in response to the implementation of Solvency II. Parts of the US mortality portfolio saw profitability adversely impacted by a higher-than-expected mortality in the period under review. The operating result (EBIT) for life and health reinsurance totalled EUR 89.8 million (EUR 105.5 million). Group net income was lower than the previous year's very good level (EUR 77.9 million) at EUR 60.6 million. Earnings per share amounted to EUR 0.50 (EUR 0.65).

### **Investment income above return expectations**

Our portfolio of assets under own management continued to perform very favourably, growing to EUR 42.0 billion (31 December 2016: EUR 41.8 billion) in the first quarter of 2017. It is highly gratifying to note the increase in our ordinary investment income, which rose by 18.9% to EUR 319.1 million (EUR 268.5 million) despite the diminished return on fixed-income securities. This figure principally reflects what was for a first quarter rather high – and in some cases extraordinary – income from private equity and real estate. Interest on funds withheld and contract deposits fell to EUR 72.9 million (EUR 83.5 million). Net realised gains on disposals were lower than in the previous year at EUR 24.1 million (EUR 43.6 million) and were in large measure due to regrouping activities as part of regular portfolio maintenance. The impairments taken by the company in the period under review were again minimal at EUR 10.9 million (EUR 13.9 million).

Income from assets under own management as at 31 March 2017 climbed by a pleasing 13.2% relative to the previous year's quarter to reach EUR 320.0 million (EUR 282.7 million). The resulting annualised return of 3.1% (including ModCo derivatives) was appreciably higher than the full-year target of 2.7%. Net investment income including interest on funds withheld and contract deposits grew by 7.3% to EUR 392.9 million (EUR 366.2 million).

### **Shareholders' equity continues to be very strong**

Hannover Re's shareholders equity increased by 3.6% as at 31 March 2017 to EUR 9.3 billion (31 December 2016: EUR 9.0 billion). The annualised return on equity nevertheless still stood at an attractive 11.6%. The book value per share rose to EUR 77.26 (31 December 2016: EUR 74.61).

### Outlook for 2017

The successful completion of the first quarter further supports the raising of the target guidance for Group net income and gross premium in February. Although international (re)insurance markets and the protracted low interest rate level present challenges, Hannover Re expects to be able to continue operating profitably on a sustained basis even in this environment.

Based on constant exchange rates, the company anticipates growth in *gross premium* in the low single-digit percentage range as well as *net income after tax* of more than EUR 1 billion for the full financial year. This is conditional on major loss expenditure not significantly exceeding the budgeted level of EUR 825 million and assumes that there are no unforeseen distortions on capital markets.

In *property and casualty reinsurance* Hannover Re expects to generate a good underwriting result for the current financial year that should be roughly on a par with 2016. The company is aiming for a combined ratio of less than 96%. The EBIT margin for property and casualty reinsurance should amount to at least 10%.

The treaty renewals as at 1 April once again reflected the competitive market conditions prevailing in property and casualty reinsurance. Business in Japan is traditionally renewed at this time and treaties also come up for renegotiation – albeit on a lesser scale – in the markets of Australia, New Zealand, Korea and North America. Given the predominantly soft state of the market, Hannover Re largely concentrated on its existing business in order to safeguard the continued good quality of the property and casualty reinsurance portfolio. The premium volume booked from the treaty renewals as at 1 April 2017 contracted by 4.4%.

Having successfully written several financial solutions treaties, the company expects the premium volume in *life and health reinsurance* to trend higher. Opportunities will likely open up in global longevity business, most notably in Canada and Japan but also in the Scandinavian markets, Germany, Israel, Korea and South Africa. Hannover Re anticipates that demand for reinsurance solutions designed to optimise the increased capital requirements associated with supervisory solvency regulations will bring further scope to enlarge the portfolio. Based on new business production with a value in excess of EUR 220 million, the company expects a broadly stable gross premium volume going forward. The targeted EBIT margins remain unchanged at 2% for financial solutions and longevity business and 6% for mortality and morbidity business.

The expected positive cash flow generated from the technical account and the investments should – subject to stable exchange rates and yield levels – lead to further growth in the asset portfolios. The company is targeting a *return on investment* of 2.7% for 2017.

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>