Press Release

Hannover Re posts satisfactory half-yearly result

- **Net income for first half-year rises by 9.6% to EUR 535.0 million (previous year: EUR 488.0 million)**
- **Income from assets under own management grows by 15.3%**
- **Gross premium up by 8.6% to EUR 9.0 billion**
- **Property & casualty reinsurance generates good operating profit with moderate major loss expenditure in the first six months**
- **Combined ratio: 96.5% (95.4%)**
- **Life & health reinsurance adversely impacted by part of the US mortality portfolio**
- **Return on equity beats target at 12.2%**
- **Return on investment 3.2%**

Hannover, 10 August 2017: Hannover Re is satisfied with the development of the first half of 2017 and well on track to achieve Group net income for the full year of more than EUR 1 billion. "Once again, both of our business groups, namely property & casualty and life & health reinsurance, as well as exceptionally good investment income all contributed to our pleasing half-yearly result", affirmed Chief Executive Officer Ulrich Wallin. "We are nevertheless faced with a market situation that remains challenging going forward."

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

Gross premium shows good growth

The gross written premium for the Hannover Re Group increased by 8.6% as at 30 June 2017 to EUR 9.0 billion (EUR 8.3 billion); growth would have come in at 8.7% adjusted for exchange rate effects. The retention moved slightly higher to 90.3% (89.8%). Net premium earned climbed by 5.0% to EUR 7.5 billion (EUR 7.2 billion). At unchanged exchange rates growth would have amounted to 4.9%.

Pleasing rise in the half-yearly result

The operating profit (EBIT) as at 30 June 2017 totalled EUR 799.4 million (EUR 747.2 million) and was thus 7.0% higher than in the previous year. The key factors here were, above all, the good results posted in property & casualty reinsurance and on the investments side. Group net income increased by 9.6% to EUR 535.0 million (EUR 488.0 million). Earnings per share stood at EUR 4.44 (EUR 4.05).

Property & casualty reinsurance delivers solid profit contribution

Market conditions in property and casualty reinsurance remain intensely competitive: an excess supply of reinsurance and additional providers from the insurance-linked securities (ILS) market, along with the absence of large losses, combined to put prices and conditions under pressure. Nevertheless, Hannover Re again benefited from its selective and margin-driven underwriting policy. Gross written premium grew by a substantial 17.3% as at 30 June 2017 to reach EUR 5.4 billion (EUR 4.6 billion); the increase would have been 16.9% after factoring out exchange rate effects. The main driver was once again the rise in demand for structured reinsurance solutions in Europe and North America, which more than made up for premium declines in other areas. The retention was slightly higher than in the previous year's period at 89.4% (88.2%). Net premium earned climbed by a thoroughly gratifying 12.4% to EUR 4.3 billion (EUR 3.8 billion); at constant exchange rates growth would have amounted to 11.8%.

While major loss expenditure in the first quarter had come in slightly under budget, the second quarter passed off entirely without large losses. In keeping with past practice, the unused part of the budget was not released to income but was instead allocated to the reserves for claims that have been incurred but not yet reported, hence boosting the large loss budget for potential loss events that may occur in the second half of the year. Altogether, the total expenditure from large loss events as at 30 June 2017 amounted to just EUR 122.9 million, a figure well below the level of the comparable period (EUR 352.7 million).

Effects of the change in the discount rate for compensation payments associated with personal injury claims in the United Kingdom ("Ogden rate") again made themselves felt in the second quarter of 2017. Hannover Re has booked loss reserves of altogether EUR 291 million for the first half-year. In view of the very adequate, prudent level of its reserves, the company was able overall to offset the establishment of these additional reserves.

Against a backdrop of slightly above-average frequency losses, the underwriting result for property & casualty reinsurance decreased by 10.5% to EUR 149.0 million (EUR 166.4 million), but it nevertheless remains on an adequate level. The combined ratio is still positive at 96.5% (95.4%); the modest increase can be attributed to the vigorous growth in structured reinsurance. The operating profit (EBIT) rose 12.7% on the back of further very good investment income to EUR 634.3 million (EUR 562.9 million). Group net income increased by a substantial 17.4% to EUR 444.0 million (EUR 378.1 million). Earnings per share amounted to EUR 3.68 (EUR 3.14).

Expectations in life & health reinsurance partially fulfilled

Developments in life & health reinsurance were not entirely satisfactory: following on from an adequate first quarter, the second quarter fell short of expectations. Gross written premium showed a modest decline of 2.4% as at 30 June 2017 to EUR 3.6 billion (EUR 3.7 billion); the decrease would have been 1.5% adjusted for exchange rate effects. The retention remained virtually stable at 91.6% (91.8%). Net premium earned contracted by 3.6% to EUR 3.2 billion (EUR 3.3 billion). At constant exchange rates it would have fallen by 3.1%.

Market conditions in life and health reinsurance remain challenging, although attractive business opportunities opened up in some regions and new product segments. Demand among life and annuity insurers for reinsurance solutions offering capital relief has surged sharply, as a consequence of which financial solutions business again fared very well.

In US mortality business, on the other hand, the picture was a mixed one because positive profit contributions were again overshadowed by a higher-then-expected mortality for older underwriting years. The operating result (EBIT) for life & health reinsurance declined by 7.8% as at 30 June 2017 to EUR 165.2 million (EUR 179.1 million). Group net income contracted by 12.6% to EUR 114.2 million (EUR 130.6 million). Earnings per share amounted to EUR 0.95 (EUR 1.08).

Investment income beats target despite challenging climate

Capital market conditions remain difficult on account of the protracted low level of interest rates. Principally reflecting the increased strength of the euro against the US dollar, the portfolio of assets under own management contracted in the first half of 2017 to EUR 40.4 billion (31 December 2016: EUR 41.8 billion). Ordinary investment income recorded significant growth of 11.8% to reach EUR 635.1 million (EUR 568.0 million). The key driver here was income – in some cases non-recurring – booked from private equity and real estate investments. Interest on funds withheld and contract deposits decreased to EUR 123.4 million (EUR 175.6 million). Realised gains were roughly on the level of the previous year's period at EUR 83.4 million (EUR 79.5 million). The impairments taken in the period under review were once again very minimal at EUR 23.1 million (EUR 48.1 million).

Altogether, income from assets under own management increased by a very pleasing 15.3% as at 30 June 2017 to EUR 656.0 million (EUR 569.2 million), equivalent to an annualised return of 3.2%. Net investment income including interest on funds withheld and contract deposits increased by 4.6% to EUR 779.4 million (EUR 744.8 million).

Shareholders' equity remains on a robust level

The shareholders' equity of Hannover Re showed a modest decrease to EUR 8.6 billion as at 30 June 2017 (31 December 2016: EUR 9.0 billion). The principal reasons here were the dividend payment of around EUR 600 million and exchange rate effects. The annualised return on equity came in above target at 12.2% (31 December 2016:

13.7%). The book value per share closed at EUR 71.00 (31 December 2016: EUR 74.61).

Capital adequacy ratio significantly above requirements
The capital adequacy ratio for the Hannover Re Group calculated in accordance with the standards of Solvency II amounted to 243% as at 31 March 2017 and was thus higher than the level as at 31 December 2016 (230%).

Outlook for 2017
Despite the challenging environment in international (re)insurance business and on the capital market, Hannover Re expects to continue operating with sustained success going forward. The half-yearly result reinforces this assumption and confirms the profit guidance for 2017.

In *property & casualty reinsurance* Hannover Re expects the underwriting result for the full 2017 financial year to come in on a level that will still be good despite the protracted soft market. The company continues to target a combined ratio of less than 96%. The EBIT margin for property & casualty reinsurance should again be at least 10%.

As had been anticipated, the renewals in property & casualty reinsurance as at 1 June and 1 July 2017 were highly competitive. The bulk of business in Australia and New Zealand, part of the North American portfolio, natural catastrophe risks and some areas of credit and surety business are traditionally renewed at this time of year. In Australia and New Zealand appreciable premium erosion was observed under programmes that had been spared losses, although significant price increases were booked for loss-impacted treaties. This was especially true in Australia as a consequence of cyclone "Debbie" and in New Zealand following the earthquake in Christchurch. In North America, despite the pressure on rates, the outcome of the renewals was satisfactory overall with a premium increase of around 15%. All in all, the total portfolio up for renewal showed pleasing premium growth of roughly 10%.

In *life & health reinsurance* Hannover Re anticipates further demand for reinsurance solutions providing solvency relief. Not only that, the longevity sector continues to develop briskly around the world, offering very attractive growth potential for the company. In Asia, too, a diverse range of business opportunities are emerging that the company is cultivating in a dialogue with its customers. Hannover Re continues to aim for a value of new business in excess of EUR 220 million. The targeted EBIT margins remain unchanged at 2% for financial solutions and longevity business and 6% for mortality and morbidity business. As early as the third quarter, however, Hannover Re will take a charge to income of roughly USD 50 million from the commutation of US mortality treaties as part of its portfolio management activities: while this will ease the strain accordingly on subsequent years, the 2017 financial year will be adversely impacted.

It is to be assumed that EBIT in life & health reinsurance will drop from the anticipated EUR 350 million to around EUR 300 million.

The company targets a *return on investment* of more than 2.7% for 2017. In view of the anticipated positive cash flow from the technical account and the investments, the asset portfolio should continue to grow – subject to stable exchange rates and yield levels.

Based on constant exchange rates, Hannover Re expects an increase of more than 5% in *gross premium* and *Group net income* in excess of EUR 1 billion for the current financial year. This is conditional upon major loss expenditure not significantly exceeding the budgeted level of EUR 825 million and assumes that there are no unforeseen distortions on the capital markets.

Hannover Re envisages a payout ratio for the *dividend* in the range of 35% to 40% of its IFRS Group net income. If the comfortable level of capitalisation remains unchanged, this figure will increase in light of capital management considerations through payment of a special dividend.

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".