hannover re®

Corporate news

Hannover Re expects Group net income of more than EUR 800 million for the 2020 financial year

- **Gross premium up by 12.3% in the first nine months adjusted for exchange rate effects**
- **Shareholders' equity rises by 2.8% to EUR 10.8 billion**
- **Return on equity reaches 8.3%**
- **Additional reserves for Covid-19 in the third quarter in line with expectations**
- **Group net income of EUR 667.8 million lower than the previous year due to Covid-19 reserves**
- **Group earnings guidance of more than EUR 800 million for 2020**
- **Outlook for 2021: Group net income in the range of EUR 1.15 billion to EUR 1.25 billion**

Hannover, 4 November 2020: Hannover Re expects Group net income of more than EUR 800 million for the 2020 financial year. The company increased its reserves for Covid-19-related losses in property and casualty reinsurance by EUR 100 million to a total amount of EUR 700 million as at the end of September. In life and health reinsurance the burden from Covid-19 currently stands at EUR 160 million.

"The impacts associated with the Covid-19 pandemic can be better estimated following the close of the third quarter, and we therefore believe that we are now in a position again to provide profit guidance for 2020 and 2021," Jean-Jacques Henchoz, Chief Executive Officer of Hannover Re, said. "While we feel very comfortable with our 2020 guidance based on our prudent reserving, the outlook for the coming year is dependent on the further course of the pandemic. Movements in reinsurance prices nevertheless give us grounds for optimism."

Group net income after nine months reaches EUR 667.8 million
The gross written premium for the Group increased by 10.9% as at 30 September 2020 to EUR 19.3 billion (EUR 17.4 billion). Growth would have come in at 12.3% at constant exchange rates. Net premium earned climbed by 9.6% to EUR 15.8 billion (EUR 14.4 billion), equivalent to 11.1% adjusted for exchange rate effects.

The operating profit (EBIT) was down 35.3% from the previous year's level at EUR 902.9 million (EUR 1,395.4 million). Group net income contracted by 33.4% to EUR 667.8 million (EUR 1,003.2 million). Earnings per share reached EUR 5.54 (EUR 8.32).

The capital adequacy ratio, which measures Hannover Re's risk-carrying capacity, stood at 222% as at the end of September. This level

Contact

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

Media Relations:
Oliver Suess
tel. +49 511 5604-1502
oliver.suess@hannover-re.com

Investor Relations:
Axel Bock
tel. +49 511 5604-1736
axel.bock@hannover-re.com

www.hannover-re.com

is comfortably above the internal limit of 180% and the threshold of 200%.

Property and casualty reinsurance:
Major loss expenditure exceeds budgeted amount

In property and casualty reinsurance the impacts of the Covid-19 pandemic can now be considerably better estimated – at least as far as the current year is concerned. Furthermore, an increasing and sustained improvement in prices and conditions for insurers and reinsurers alike was evident in the various rounds of renewals held during the year on account of the strains associated with the pandemic, large losses and the low interest rate environment.

Gross written premium in property and casualty reinsurance grew by 14.5% to EUR 13.3 billion (EUR 11.7 billion). At constant exchange rates, the increase would have been 15.9%. Net premium earned climbed by 13.2% to EUR 10.5 billion (EUR 9.3 billion); growth would have reached 14.7% adjusted for exchange rates.

Net major loss expenditure in the first nine months came to EUR 1.1 billion. Of this total amount, EUR 700 million was attributable to Covid-19-related impacts. The largest net losses in the third quarter – aside from the pandemic – included a derecho storm in the United States costing EUR 83.9 million, Hurricane Laura in the US at EUR 64.4 million and the explosion at the Port of Beirut in an amount of EUR 67.4 million.

The combined ratio in property and casualty reinsurance consequently came in at 101.4% (98.6%). Stripping out the loss reserves relating to Covid-19 and making allowance for large loss expenditure in line with expectations, the combined ratio would have amounted to 97.6%.

The operating profit (EBIT) in property and casualty reinsurance declined by 36.0% to EUR 588.5 million (EUR 919.0 million). The contribution made by property and casualty reinsurance to Group net income fell by 34.7% to EUR 418.2 million (EUR 640.1 million).

Life and health reinsurance:
Strains from Covid-19 totalling EUR 160 million

In life and health reinsurance the total burden associated with the Covid-19 pandemic as at the end of September came to EUR 160 million, with concrete loss advices amounting to EUR 91 million. The bulk of this was attributable to payments for illnesses and deaths in the United States.

"The increase in the reserves set aside for Covid-19 in life and health reinsurance reflects our conservative reserving policy in response to the global spread of infection," explained Jean-Jacques Henchoz. "Thanks to the successful remediation of our legacy US mortality book in the previous year, we can be highly satisfied with the performance of the business group despite the sharply increased risk provision."

Gross written premium in life and health reinsurance rose by 3.6% as at the end of September to EUR 5.9 billion (EUR 5.7 billion); growth would have reached 5.0% adjusted for exchange rate effects. The main driver here was sustained vigorous growth in Asia and Australia. Net premium earned climbed to EUR 5.3 billion (EUR 5.1 billion). Growth of 4.4% would have been recorded at constant exchange rates.

After the previous year's result in life and health reinsurance had also been significantly boosted by one-time income on the investment side, the operating result (EBIT) retreated by 34.0% as at the end of September to EUR 315.5 million (EUR 477.7 million). The contribution made by life and health reinsurance to Group net income contracted by 26.4% to EUR 296.6 million (EUR 402.9 million).

Investments:
Return on investment reaches 2.8%
The portfolio of assets under own management increased to EUR 49.0 billion (31 December 2019: EUR 47.6 billion). Ordinary investment income excluding interest on funds withheld and contract deposits fell by 11.5% to EUR 919.4 million (EUR 1,039.3 million). Altogether, Hannover Re generated investment income of EUR 1,185.0 million (EUR 1,331.9 million). The annualised average return reached 2.8%.

Shareholders' equity:
Shareholders' equity rises by 2.8% to EUR 10.8 billion
The shareholders' equity of Hannover Re increased by 2.8% as at 30 September 2020 to EUR 10.8 billion (31 December 2019: EUR 10.5 billion). The book value per share thus reached EUR 89.74 (31 December 2019: EUR 87.30). The annualised return on equity amounted to 8.3% as at 30 September 2020 (31 December 2019: 13.3%).

Guidance 2020:
New guidance for Group net income of more than EUR 800 million
Based on available loss estimates for Covid-19, Hannover Re expects Group net income of more than EUR 800 million for the current year. The return on investment should be around 2.7% and gross written premium for the Group should show growth in the high single-digit percentage range adjusted for exchange rate effects.

In recent rounds of renewals held in property and casualty reinsurance Hannover Re was able to benefit from stronger demand for high-quality reinsurance protection at improved prices and conditions. Coming on the back of a protracted soft market phase, this trend reversal is likely to continue both in primary business and on the reinsurance side.

For the renewals as at 1 January 2021 in property and casualty reinsurance Hannover Re therefore expects to book increased premium income and higher prices.

Regarding the dividend for the 2020 financial year, Hannover Re anticipates an ordinary dividend on the previous year's level of EUR

4.00 per share. Payment of a special dividend is dependent on the business opportunities emerging in the short-term and corresponding capital requirements, especially those arising out of the expected improvements in rates and conditions in the property and casualty reinsurance renewals as at 1 January 2021.

Outlook for 2021:
Group net income of EUR 1.15 billion to EUR 1.25 billion

"The Covid-19 pandemic will continue to be a concern for us in the year ahead", said Jean-Jacques Henchoz. "That said, we already have a clearer picture of the situation now and we feel conservatively enough positioned in our assessment that we can anticipate Group net income in the range of EUR 1.15 billion to EUR 1.25 billion in the coming year. That also puts the good result of 2019 back in reach."

In addition, Hannover Re expects to generate a return on investment of roughly 2.4% and growth in Group gross premium – adjusted for exchange rate effects – of around 5% in the coming year.

The expectations for 2021 also reflect an increased net major loss budget of EUR 1.1 billion (EUR 975 million). The adjustment is prompted first and foremost by further growth in the underlying business. As usual, all statements regarding future targets are subject to the premise that major loss expenditure remains within the budgeted level and that there are no unforeseen distortions on capital markets.

Hannover Re's dividend policy remains unchanged for the coming financial year. The company 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 subject to a comfortable level of capitalisation and Group net income in line with expectations.