# Press Release

## Hannover Re beats Group net income guidance for 2017 and is highly satisfied with treaty renewals as at 1 January 2018

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Hannover, 7 February 2018: As part of its reporting on the outcome of the treaty renewals in property and casualty reinsurance as at 1 January 2018, Hannover Re also releases an update on its guidance for the 2017 financial year.

All in all, the renewal season passed off successfully for Hannover Re. Against the backdrop of an improved general environment, the premium volume in traditional property and casualty reinsurance, i.e. excluding facultative reinsurance, ILS business and structured reinsurance, was boosted by 12.7%. Based on the current status of year-end closing activities, Hannover Re now anticipates Group net income of around EUR 950 million for the 2017 financial year. "Even though this result falls short of the previous year's figure, it can nevertheless be considered satisfactory if we bear in mind that 2017 was dominated by natural catastrophe events which caused insured losses substantially in excess of USD 100 billion", Ulrich Wallin, Chief Executive Officer of Hannover Re, commented. The company will publish its annual financial statement on 13 March 2018.

The treaty renewals as at 1 January 2018 were shaped by the very substantial natural catastrophe losses of 2017, which took a heavy toll on the results recorded by reinsurers. After several years of declining reinsurance prices, reinsurers consequently aim to push the overall price level higher. On the whole, these efforts proved successful. Even under loss-free reinsurance programmes from scarcely impacted regions, for example, it was generally possible to obtain a premium at least on a par with the previous year. Furthermore, moderate premium increases were booked for a large number of reinsurance treaties that had been spared losses. The rate hikes achieved under loss-impacted programmes sometimes reached double-digit percentages. On the other hand, reinsurers and also the ILS markets did not scale back the available capacity in any area; quite the contrary, in many instances even more capacity was offered. This excess supply relative to demand meant that rate rises generally remained on the moderate side, as a consequence of which it was still not always possible to secure prices that were commensurate with the risks. Despite this, the rate quality in the reinsurance market improved as at 1 January 2018. As a result, significantly more favourable business opportunities presented themselves to Hannover Re – as one of the leading players in the reinsurance market – than had been the case in the previous year.

"The outcome of the treaty renewals puts in place a solid platform for achieving the goals that we have set for 2018", Mr. Wallin emphasised. "In the negotiations we were able to obtain the necessary price increases, expand strategic cooperations and enlarge our shares, thereby generating further growth in many lines of business." Premium growth was particularly marked in Asia and the United Kingdom. Attractive opportunities to expand the portfolio also opened up in North America, the Caribbean and Eastern Europe as well as in the areas of financial solutions and cyber risks. Despite the pleasing development in property and casualty reinsurance, the profitability of the treaties still takes precedence over pure premium growth.

Of the total premium volume booked in the previous year in traditional property and casualty reinsurance (excluding facultative business and structured reinsurance) amounting to EUR 7,130 million, treaties with a volume of altogether EUR 4,654 million were up for renewal as at 1 January 2018. Of this, a premium volume of EUR 4,290 million was renewed, while treaties worth EUR 610 million were either cancelled or renewed in modified form. Including increases of EUR 711 million from new treaties and from changes in prices and treaty shares, the total renewed premium volume thus came in at EUR 5,247 million; at constant exchange rates this is equivalent to an increase of 12.7% in traditional reinsurance. Overall, i.e. including structured reinsurance, growth of 21.8% was booked as at 1 January 2018.

**Target markets**

The renewals in *North American business* passed off thoroughly satisfactorily for Hannover Re. The pressure came off rates, with price increases recorded for covers that had been spared losses as well as for those that had been impacted. The rate increases obtained for loss-affected programmes were, however, more modest than had initially been anticipated. In US property business the company was able to expand its portfolio at commensurate prices; most notably, new customer relationships and hence new business made up for restructuring activities in connection with other programmes. Casualty business fared well, with improvements in terms and conditions seen across a broad front. Rates remained stable or rose slightly. In addition, attractive new business was booked here. Premium growth was generated in both US property and liability business. The treaty renewals also passed off favourably in Canada, where the losses incurred in previous years prompted further rate increases. The Canadian portfolio grew despite certain clients carrying higher retentions, in part because the company was able to renew some accounts with increased treaty shares. The total premium volume for North America rose by 5.9%.

In *Germany,* the largest single market within the segment of *Continental Europe*, Hannover Re maintained its leading position through its subsidiary E+S Rück. There was some slight improvement in terms and conditions overall. In view of the pleasing development in the motor line the company was able to book further premium increases here, while shares were scaled back in other lines. The area of cyber covers benefited from greater risk awareness and a pick-up in demand among customers. Reinsurance protection provided for start-up enterprises also developed favourably. All in all, the premium volume booked in German business remained stable.

The treaty renewals in *Central and Eastern Europe* passed off successfully; loss-affected covers, in particular, saw significant increases. In the markets of *Western Europe* the renewal phase was highly satisfactory and Hannover Re enlarged its market share.

The total premium volume in the Continental Europe segment increased by 8.7%.

**Specialty lines**

After the appreciable rate declines seen in previous rounds of renewals in *marine reinsurance,* premiums recovered somewhat on the back of changed market conditions; this was primarily due to the natural catastrophe losses incurred in this line. In most instances the programmes up for renewal continued unchanged or with slightly increased rates; the premium volume grew by 6.2%. Overall, Hannover Re is satisfied with the renewals in marine reinsurance.

The *aviation line* showed greater stability, but was still intensely competitive. On the whole, the pace of rate erosion here slowed. For the most part programmes were renewed at unchanged treaty terms and conditions. While the premium volume decreased slightly by 3.3%, the profitability of the company's own portfolio is acceptable.

The outcome of the treaty renewals in *credit and surety reinsurance* and in the area of *political risks* was gratifying. As in the previous years, existing customer relationships were expanded and new clients acquired. Prices and conditions in all three lines were stable or slightly improved. The premium volume for this portfolio grew by 4.0%.

The company is highly satisfied with the renewal of business written in the *United Kingdom* and on the *London Market*. The higher liability expenditures for personal injury claims in the UK last year triggered the hikes in motor premiums that were needed to secure the profitability of this business going forward. The increases in non-proportional motor business nevertheless still fell short of Hannover Re's expectations, prompting the company to reduce its shares. Property business impacted by natural catastrophes recorded pleasing rate rises. On the liability side, too, appreciable rate increases were obtained. The company boosted its premium income by altogether 14.4%.

**Global reinsurance**

The competitive climate was broadly unchanged across the markets of the *Asia-Pacific region*. Hannover Re was able to maintain a stable position in the various markets; significant expansion was even possible in China thanks to a large-volume transaction. In addition, Hannover Re wrote a substantial share in a proportional reinsurance programme in Australia, hence resulting in appreciable premium gains in this region. Altogether, the anticipated premium income in the Asia-Pacific region grew by 57%.

The large losses incurred in *natural catastrophe business* gave a corresponding boost to prices: increases were obtained under both loss-impacted and claims-free programmes, although they did not entirely live up to market expectations. Hannover Re enlarged its premium volume in total natural catastrophe business by 7.0%.

In *structured reinsurance* the demand for reinsurance solutions offering solvency relief was once again exceptionally pleasing. Hannover Re booked substantial premium growth of 53% here.

In total, the business line global reinsurance recorded significant premium increases of 35.3 %.

**Updated guidance for 2017**

The company currently expects Group net income of around EUR 950 million for the 2017 financial year; a level of roughly EUR 800 million had been anticipated. The increase in gross premium is in the order of 9% and hence in line with expectations. As regards the return on investment, the company had targeted a figure in excess of

3.0% and now expects 3.8%. The dividend for 2017 should be on a par with the previous year at EUR 5.00 per share.

**Guidance for 2018**

Hannover Re is looking to the 2018 financial year with optimism. The company is very well placed to act on opportunities in the course of the current year. Further price increases should be attainable in subsequent rounds of renewals within the year in view of the elevated claims activity.

The company anticipates currency-adjusted growth in *gross premium* in the single-digit percentage range for 2018 on account of the favourable renewals outcome. The *return on investment* is expected to be around 2.7% and *Group net income* should be in excess of EUR 1 billion. All statements remain subject to the proviso that large loss expenditure does not exceed the budgeted level of EUR 825 million and that there are no unforeseen distortions on capital markets. 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.