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%).