# Outlook

- Double-digit growth expected in the premium volume for total business
- Targeted return on investment of at least 2.7% for assets under own management
- Group net income target for 2018 of more than EUR 1 billion confirmed
- Guidance for 2019: Group net income in the order of EUR 1.1 billion

Hannover Re is confirming its targets for the current financial year. In view of the good results in the first half-year and a third quarter in line with our expectations, the previously discussed strains on our result – most notably from our US mortality portfolio – should be manageable.

It remains our expectation that we will increase the gross premium booked for the Group in the current financial year – based on constant exchange rates – by significantly more than 10% and hence more than the roughly 5% indicated in our guidance going into the year. A large part of the growth in excess of our original expectations derives from property and casualty reinsurance, specifically from structured reinsurance solutions.

In property and casualty reinsurance we expect to see a positive trend in growth and earnings figures for the full year and a healthy contribution to our Group net income. Making allowance for loss expectations, especially in relation to large losses, we anticipate a combined ratio of 96% or better. We also expect to beat our minimum target of 10% for the EBIT margin in property and casualty reinsurance.

The state of global reinsurance markets remains intensely competitive. The pricing negotiations during the year have produced only moderate rate increases so far. Natural catastrophe business, on the other hand, which was heavily impacted last year, has seen more appreciable mark-ups for loss-affected programmes. All in all, the rate quality in the reinsurance market is slightly better than in the previous year, but it remains on a low – albeit adequate – level. The price trend will be crucially shaped by the further development of loss amounts from the previous year's windstorm events as well as the large loss figures for the current year.

In life and health reinsurance we anticipate an additional strain on our result in the fourth quarter from further treaty recaptures in US mortality business. As already mentioned, the charges to income taken now have favourable implications for future results because corresponding strains in subsequent years will be largely eliminated. We therefore expect to book substantially improved earnings for our mortality solutions business from 2019 onwards.

As far as our life and health reinsurance portfolio excluding US mortality business is concerned, we are looking for the positive trend of the first nine months to be sustained in the fourth quarter, especially in relation to the earnings figures.

In life and health reinsurance we therefore still anticipate currency-adjusted growth in our gross premium income year-on-year, although large-volume treaties can have significant effects – both positive and negative – on the business volume. It remains our expectation that the value of new business will exceed our targeted level of EUR 220 million.

The expected positive cash flow that we generate from the technical account and our investments should – subject to stable exchange rates and yield levels – lead to further growth in the asset portfolio. In the area of fixed-income securities we continue to emphasise the high quality and diversification of our portfolio. Overall, the primary focus will remain on stability while maintaining an adequate risk/return ratio that will enable us to respond flexibly to general developments and emerging opportunities. Our targeted return on investment for 2018 of at least 2.7% is unchanged.

In view of the favourable business development and allowing for the potential strains associated with treaty recaptures in US mortality business, it remains our assumption that we will generate Group net income of more than EUR 1 billion for 2018. This is subject to the premise that the burden of major losses does not significantly exceed the budgeted level of EUR 825 million and that there are no exceptional distortions on capital markets. In light of these considerations, our expectation that we should be able to distribute a total dividend at least on a par with the previous year remains unchanged.

## Guidance for 2019

For the 2019 financial year Hannover Re expects single-digit percentage growth in gross premium based on constant exchange rates. The return on investment is forecast to be around 2.8%. We anticipate Group net income in the order of EUR 1.1 billion.

We are raising our net major loss budget to EUR 875 million for the 2019 financial year. We had set aside an amount of EUR 825 million for this purpose in each of the past three years. The increase in the budget is motivated primarily by the growth in the underlying business and the associated rise in the annual aggregate loss expectancy. As usual, all statements are conditional upon the burden of large losses remaining within the adjusted budget of EUR 875 million for 2019 and assume that there are no exceptional distortions on capital markets.

Hannover Re 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 in light of capital management considerations if the comfortable level of capitalisation remains unchanged.