Outlook

- Significant growth in premium volume expected for total business
- Investment income to beat anticipated return by a comfortable margin
- Target for Group net income in 2017 now around EUR 800 million

While the strains incurred in the third quarter from the three hurricanes and the earthquakes took a toll on our result as at 30 September 2017, they will have no lasting effect on the profitability or capital position of Hannover Re. On the contrary: market conditions for reinsurers will likely improve again as a consequence of these events. It is our assumption that rates – especially for natural catastrophe risks – will rise sharply and that this positive trend will also make itself felt in other lines of business.

Based on constant exchange rates, we anticipate premium growth of more than 5% for our total business in the current financial year.

Bearing in mind the large loss situation in the third quarter, we expect the underwriting result in property and casualty reinsurance for the full 2017 financial year to come in considerably lower than in the previous year. The targeted level for the combined ratio of less than 96% will therefore likely be exceeded. We should nevertheless achieve an EBIT margin of at least 10% for property and casualty reinsurance, provided large losses in the fourth quarter remain within the anticipated bounds.

Prior to the severe hurricane season it had been our expectation that prices and conditions would remain stable; in view of the heavy losses incurred by the (re)insurance industry, however, we now expect to see rate increases that will not be limited to the loss-impacted regions and programmes. Along with the growing field of cyber risks and activities related to progressive digitalisation, opportunities should open up above all in US property and casualty business. Increases are also expected in the area of non-proportional motor covers in the UK, in the credit and surety lines and in connection with demand for covers offering capital management solutions in response to the implementation of risk-based solvency regimes.

In life and health reinsurance it is our expectation that international reinsurance markets will continue to show a promising development and that potential new business opportunities will open up. Bearing in mind that certain large-volume treaties are scheduled to expire at year-end, the premium volume will likely remain stable overall. Adjusted for exchange rate effects, gross premium for the full 2017 financial year should be on the level of the previous year. The value of new business should be in excess of EUR 220 million. As already reported in connection with our half-yearly results, the overall result will be influenced by strains from our US mortality portfolio.

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 our asset holdings. In the area of fixed-income securities we continue to emphasise the high quality and diversification of our portfolio.

We also intend to further expand our exposure to the real estate sector as attractive openings arise. Overall, the main 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. Primarily due to the considerable gains realised on our equity portfolio, we expect a return on investment of more than 3.0% for the full 2017 financial year. It will thus beat the originally targeted level of 2.7%.

In view of the substantial loss expenditure incurred from the hurricane events and earthquakes in the third quarter, our large loss budget of EUR 825 million for the full financial year has already been exceeded at this point in time. A key condition of our guidance will therefore not be fulfilled, as a consequence of which the targeted Group net income of more than EUR 1 billion is no longer within reach. We now anticipate that Group net income in the order of EUR 800 million can be generated. This is subject to the proviso that there are no unforeseen distortions on capital markets and that major losses in the fourth quarter do not exceed the expected level of EUR 200 million.

Despite the assumption that Group net income will be lower than anticipated owing to large losses overrunning the budgeted amount, Hannover Re envisages a dividend payout on a par with the previous year (including special dividend).

Guidance for 2018

For the 2018 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 2.7%, with Group net income coming in at more than EUR 1 billion. As usual, all statements are subject to the proviso that major loss expenditure remains with 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.