

Press Release

Group net income rises to EUR 1.06 billion despite major losses and one-time strain

- **Group net income up by 10.5% to EUR 1.06 billion (previous year: EUR 0.96 billion)**
- **Dividend proposal for 2018: EUR 5.25 (EUR 5.00) per share**
- **Book value per share: EUR 72.78 (EUR 70.72)**
- **Return on equity: 12.2% (10.9%)**
- **Gross premium grows by 7.8% to EUR 19.2 billion; currency-adjusted: 11.6%**
- **Combined ratio: 96.5% (99.8%)**
- **Major loss expenditure of EUR 849.8 million slightly higher than budgeted level of EUR 825 million**
- **Guidance for 2019 confirmed: Group net income in the order of EUR 1.1 billion**

Hannover, 7 March 2019: Hannover Re generated Group net income of EUR 1,059.5 million (EUR 958.6 million) for the past financial year and thus achieved its profit target.

"The 2018 financial year once again bears witness to the profitability of Hannover Re," Ulrich Wallin, Chief Executive Officer of Hannover Re, said. "I am particularly pleased that we achieved a double-digit return on equity for the tenth consecutive year. Despite another significant burden of large losses and a substantial one-time charge in life and health reinsurance, we are again able to hold out the prospect of an attractive dividend for our shareholders."

In view of the good business development, the Executive Board and Supervisory Board will propose to the Annual General Meeting that the dividend should be raised for 2018. A total dividend of EUR 5.25 per share (EUR 5.00 per share) is envisaged. This consists of an increased ordinary dividend of EUR 3.75 (EUR 3.50) per share and an unchanged special dividend of EUR 1.50 per share. The payout ratio for 2018 will thus amount to 59.8% of IFRS Group net income.

Hannover Re achieves growth and profit targets for 2018

In what was still a challenging market environment, attractive business opportunities opened up in the year under review. Against this backdrop, the gross premium volume increased by 7.8% to EUR 19.2 billion (EUR 17.8 billion); adjusted for exchange rate effects, it would have grown by an even more appreciable 11.6%. The level of retained premium was slightly higher at 90.7% (90.5%). Net premium earned climbed 10.6% to EUR 17.3 billion (EUR 15.6 billion). Growth of 14.5% would have been booked at unchanged exchange rates.

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The operating profit (EBIT) improved to EUR 1,596.6 million (EUR 1,364.4 million) after unusually high expenditure on natural catastrophes in the previous financial year. This result was supported by excellent investment income as well as the good underlying quality of the portfolio in both property and casualty and life and health reinsurance. Double-digit increases were recorded in Group net income as well as net premium earned. Hannover Re achieved its targeted year-end result of more than EUR 1 billion, posting a gain of 10.5% to reach EUR 1,059.5 million (EUR 958.6 million). Earnings per share amounted to EUR 8.79 (EUR 7.95).

Property and casualty reinsurance:

Good result despite further substantial large losses

Property and casualty reinsurance was again fiercely competitive in the financial year just ended. Despite a high level of losses, both traditional reinsurers and alternative capital providers in the ILS market continued to make abundant capacities available. Prices and conditions in the property lines, in particular, consequently remained under pressure. Hannover Re was nevertheless able to act on profitable business opportunities in the various rounds of treaty renewals. Demand in structured reinsurance was especially strong among customers seeking reinsurance solutions designed to deliver solvency relief. Business in this line was therefore substantially expanded. All in all, Hannover Re is thoroughly satisfied with the development of its property and casualty reinsurance portfolio.

The gross premium volume in property and casualty reinsurance rose by 11.8% to EUR 12.0 billion (EUR 10.7 billion). At constant exchange rates an increase of 16.2% would have been recorded. This growth comfortably beat expectations. The level of retained premium nudged slightly higher to 90.7% (89.7%). Net premium earned therefore climbed more sharply by 18.0% to EUR 10.8 billion (EUR 9.2 billion); adjusted for exchange rate effects, it would have grown by 22.5%.

Net expenditure on major losses in the 2018 financial year was lower than in the previous year, which had seen the heaviest burden of large losses in Hannover Re's history. After a very moderate loss experience in the first six months, the second half of the year was notable for a sharply higher volume of major losses.

The strain incurred in the third quarter had still been within the range of quarterly expectations: the largest loss event was Typhoon Jebi in Japan with a net cost of EUR 134.7 million. Major losses in the fourth quarter, however, went clearly over budget. This was due primarily to the Camp and Woolsey wildfires in California, for which an amount of roughly EUR 193 million was set aside. Total net major loss expenditure in 2018 came to EUR 849.8 million (EUR 1,127.3 million) and thus slightly exceeded the large loss budget of EUR 825 million. The underwriting result including interest on funds withheld and contract deposits surged appreciably to EUR 372.8 million (EUR 15.5 million).

The combined ratio improved to 96.5% (99.8%) and was thus only marginally higher than the targeted level of 96% or better. The operating profit (EBIT) grew by 18.1% to EUR 1,322.6 million (EUR 1,120.2 million). Group net income increased by 11.0% to EUR 929.1 million (EUR 837.3 million).

Life and health reinsurance:

Good result despite one-time strain in US mortality business

"Thanks to a good underlying business experience we were able to increase the profit in life and health reinsurance, despite having to absorb considerable one-time charges," Ulrich Wallin said. "Given that a comparable strain is not expected in the future, the result in this business group should improve significantly in the coming years."

The gross premium volume in life and health reinsurance was a modest 1.7% higher than in the previous year at EUR 7.2 billion (EUR 7.1 billion). Adjusted for exchange rate effects, the premium would have grown by 4.6%. The retention stood at 90.7% (91.7%). Net premium earned was stable at EUR 6.5 billion (EUR 6.5 billion); an increase of 3.2% would have been recorded at constant exchange rates.

Treaty recaptures prompted by rate increases in the book of legacy US mortality business resulted in a charge to EBIT of EUR 272.6 million. Allowing for the release of an expense reserve that was no longer required, non-recurring pre-tax strains totalling EUR 185.4 million were incurred. Altogether, Hannover Re achieved an operating result (EBIT) of EUR 275.9 million (EUR 245.2 million) in life and health reinsurance. This reflected the good quality and solid profitability of the business outside the US mortality portfolio acquired in 2009.

Group net income in life and health reinsurance improved by 7.7% to reach EUR 185.9 million (EUR 172.6 million).

Investments and shareholders' equity:

Return on investment clearly beats expectations at 3.2%

Capital markets continued to prove challenging in 2018. Against this backdrop, Hannover Re is highly satisfied with the development of its investments. The portfolio of investments under own management grew to EUR 42.2 billion (EUR 40.1 billion). The operating cash flow of more than EUR 2 billion was a crucial driver of the portfolio growth. Furthermore, exchange rate effects and the issuance of a bond in the second quarter more than offset valuation declines in the area of fixed-income securities.

Net realised gains on disposals were sharply lower at EUR 127.7 million (EUR 377.1 million), reflecting the sale of the equity portfolio in the previous year. The impairments taken in the year under review were merely minimal. Income from investments under own management contracted by 14.1% to EUR 1,322.0 million (EUR 1,539.0 million). The resulting return on investment of 3.2% (3.8%) thus clearly outperformed the forecast of at least 2.7%. Investment

income including interest on funds withheld and contract deposits declined by 13.7% to EUR 1,530.0 million (EUR 1,773.9 million).

The shareholders' equity of Hannover Rück SE increased compared to the previous year. It amounted to EUR 8.8 billion (EUR 8.5 billion) as at 31 December 2018. The book value per share rose to EUR 72.78 (EUR 70.72). The return on equity of 12.2% (10.9%) was again well ahead of the minimum target of 9.4%. The total policyholders' surplus (including non-controlling interests and hybrid capital) amounted to EUR 11.0 billion (EUR 10.8 billion).

Outlook for 2019:

Group net income in the order of EUR 1.1 billion

"We enjoyed a very satisfactory round of treaty renewals as at 1 January 2019 in which we continued to focus on profitable growth," Ulrich Wallin said. "In view of Hannover Re's good financial strength and our efficient capital management, I am optimistic that the targets set for the current financial year will be achieved and I have confidence in the company's sustained profitability."

Hannover Re expects gross premium for total business to grow in the current financial year by a single-digit percentage at constant exchange rates. Group net income should reach an amount in the order of EUR 1.1 billion. This is based on the premise that major loss expenditure does not significantly exceed the budgeted level of EUR 875 million and assumes that there are no exceptional distortions on capital markets.

The asset portfolios should grow – assuming constant exchange rates – in view of the anticipated positive cash flow. The return on investment should be at least 2.8%.

In terms of the dividend for the current financial year, Hannover Re envisages an unchanged payout ratio in the range of 35% to 45% of its IFRS Group net income. This ratio will increase further through payment of a special dividend subject to a continued comfortable level of capitalisation and Group net income within the expected bounds.

Hannover Re, with gross premium of more than EUR 19 billion, is the fourth-largest reinsurer in the world. It transacts all lines of property & casualty and life & health reinsurance and is present on all continents with more than 3,300 staff. Established in 1966, the Hannover Re Group today has a network of more than 100 subsidiaries, branches and representative offices worldwide. The Group's German business is written by the subsidiary E+S Rück. The rating agencies most relevant to the insurance industry have awarded both Hannover Re and E+S Rück outstanding financial strength ratings: Standard & Poor's AA- "Very Strong" and A.M. Best A+ "Superior".

Please note the disclaimer:

<https://www.hannover-re.com/535917>

Key figures of the Hannover Re Group (IFRS basis)

in EUR million	2018	+/- previous year	2017
Hannover Re Group			
Gross written premium	19,176.4	+7.8%	17,790.5
Net premium earned	17,289.1	+10.6%	15,631.7
Net underwriting result	(51.1)		(488.5)
Net investment income	1,530.0	-13.7%	1,773.9
Operating profit (EBIT)	1,596.6	+17.0%	1,364.4
Group net income	1,059.5	+10.5%	958.6
Earnings per share in EUR	8.79	+10.5%	7.95
Retention	90.7%		90.5%
Tax ratio	24.6%		19.2%
EBIT margin ¹⁾	9.2%		8.7%
Return on equity	12.2%		10.9%

in EUR million	2018	+/- previous year	2017
Policyholders' surplus	11,035.1	+2.4%	10,778.5
Investments (excl. funds held by ceding companies)	42,197.3	+5.3%	40,057.5
Total assets	64,508.6	+5.4%	61,196.8
Book value per share in EUR	72.78	+2.9%	70.72
Dividend ²⁾	633.1	+5.0%	603.0
Dividend per share in EUR ²⁾	5.25	+5.0%	5.00

Property & Casualty reinsurance

in EUR million	2018	+/- previous year	2017
Gross written premium	11,976.0	+11.8%	10,710.9
Net premium earned	10,804.2	+18.0%	9,158.7
Net underwriting result ³⁾	372.8		15.5
Operating profit (EBIT)	1,322.6	+18.1%	1,120.2
Group net income	929.1	+11.0%	837.3
Retention	90.7%		89.7%
Combined Ratio ³⁾	96.5%		99.8%
EBIT margin ¹⁾	12.2%		12.2%

Life & Health reinsurance

in EUR million	2018	+/- previous year	2017
Gross written premium	7,200.4	+1.7%	7,079.6
Net premium earned	6,484.8	+0.2%	6,472.8
Operating profit (EBIT)	275.9	+12.5%	245.2
Group net income	185.9	+7.7%	172.6
Retention	90.7%		91.7%
EBIT margin ¹⁾	4.3%		3.8%

¹⁾ Operating result (EBIT)/net premium earned

²⁾ Dividend proposal for 2018 (dividend plus special dividend)

³⁾ Including funds withheld

Key figures of the Hannover Re Group (IFRS basis)

in EUR million	Q4/2018	+/- previous year	Q4/2017
Hannover Re Group			
Gross written premium	4,184.0	-2.9%	4,306.9
Net premium earned	4,515.4	+10.4%	4,090.2
Net underwriting result	52.4	-70.9%	180.1
Net investment income	374.7	-4.3%	391.4
Operating profit (EBIT)	439.5	-21.2%	558.0
Group net income	334.2	-18.4%	409.7
Earnings per share in EUR	2.77	-18.4%	3.40
Retention	90.4%		91.6%
Tax ratio	14.9%		19.5%
EBIT margin ¹⁾	9.7%		13.6%
Return on equity	15.6%		19.6%

Property & Casualty reinsurance			
in EUR million	Q4/2018	+/- previous year	Q4/2017
Gross written premium	2,318.5	-7.7%	2,511.6
Net premium earned	2,787.3	+15.8%	2,406.1
Net underwriting result ²⁾	113.6	-63.5%	311.2
Operating profit (EBIT)	319.0	-38.5%	518.5
Group net income	256.7	-33.9%	388.6
Retention	90.0%		91.1%
Combined Ratio ²⁾	95.9%		87.1%
EBIT margin ¹⁾	11.4%		21.5%

Life & Health reinsurance			
in EUR million	Q4/2018	+/- previous year	Q4/2017
Gross written premium	1,865.5	+3.9%	1,795.3
Net premium earned	1,728.0	+2.6%	1,684.1
Operating profit (EBIT)	120.7	+207.3%	39.3
Group net income	92.9	+151.8%	36.9
Retention	91.0%		92.3%
EBIT margin ¹⁾	7.0%		2.3%

¹⁾ Operating result (EBIT)/net premium earned

²⁾ Including funds withheld