

Corporate news

Hannover Re considers 2022 earnings guidance still achievable despite substantial major loss expenditure

- **Gross premium grows by 21%**
- **Combined ratio rises to 99.2% after extraordinary major loss expenditure**
- **Pandemic-related losses in life and health reinsurance sharply lower**
- **Return on investment ahead of target at 2.9%**
- **Group net income slightly higher than previous year**
- **Return on equity of 11.5% remains above minimum target**
- **Earnings guidance for 2022 financial year still achievable**

Hannover, 3 November 2022: Hannover Re considers its earnings guidance for the 2022 financial year to be still achievable after the extraordinary major loss expenditure incurred in the first nine months.

"Even before the extensive devastation caused by Hurricane 'Ian', 2022 was a year of above-average large loss expenditure," said Jean-Jacques Henchoz, Chief Executive Officer of Hannover Re. "What is more, high inflation rates are only adding to the costs of rebuilding. Our full-year earnings guidance nevertheless remains achievable. Among other things, this is possible thanks to healthy profit contributions from the investments as well as life and health reinsurance and it shows how important the interplay of diversification and risk management is."

Group net income of EUR 871 million after nine months on the level of the previous year

Gross written premium for the Group increased by 21% to EUR 26.3 billion (EUR 21.6 billion). At constant exchange rates growth would have come in at 13.5%. Net premium earned rose by 22% to EUR 21.6 billion (EUR 17.6 billion), corresponding to growth of 14.6% adjusted for exchange rate effects.

The operating profit (EBIT) on the Group level increased by 3.7% to EUR 1,328 million (EUR 1,281 million). Group net income grew by a modest 1.7% to EUR 871 million (EUR 856 million). Earnings per share thus amounted to EUR 7.22 (EUR 7.10).

Return on equity stays above minimum target at 11.5%; capital adequacy ratio under Solvency II remains robust

The shareholders' equity of Hannover Re amounted to EUR 8.3 billion as at 30 September (31 December 2021: EUR 11.9 billion). The decline

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was due to the higher interest rate level, which significantly reduced the prices of fixed-income securities in the investment portfolio.

The annualised return on equity stood at 11.5% (31 December 2021: 10.8%) and surpassed the minimum target of 900 basis points above the risk-free interest rate. The book value per share amounted to EUR 68.42 (31 December 2021: EUR 98.55).

The capital adequacy ratio under Solvency II, which measures Hannover Re's risk-carrying capacity, amounted to 231.8% at the end of September and thus remained comfortably above the limit of 180% and the internal threshold of 200%.

"Our good and stable earnings performance in an environment shaped by considerable natural catastrophe losses as well as our continued very robust capital adequacy ratio underscore Hannover Re's risk-carrying capacity," Chief Financial Officer Clemens Jungsthöfel said. "This establishes the foundation for our positioning as a particularly reliable and financially sound reinsurer for our clients and shareholders."

Property and casualty reinsurance: Hurricane "Ian" significantly adds to expenditure for major losses

In property and casualty reinsurance Hurricane "Ian" caused severe devastation in Cuba as well as, most notably, the US states of Florida and South Carolina at the end of September, putting it at the top of the current year's costliest insured natural catastrophe events by a wide margin. Natural disasters such as floods in Australia and winter storms in Europe had already caused substantial insured losses in the first half of the year.

Along with the resulting large loss expenditure well in excess of expectations, high rates of inflation, the protracted war in Ukraine and the still ongoing pandemic are confronting insurers and reinsurers alike with major challenges. Against this backdrop, the brisk demand for covers from financially robust reinsurers is likely to further intensify. Hannover Re was already able to secure improved prices and conditions in many areas in the current financial year's various rounds of treaty renewals, a trend that it expects will gain added impetus in the year ahead.

Gross written premium in property and casualty reinsurance grew by 28% to EUR 19.5 billion (EUR 15.3 billion). The increase would have been 18.6% adjusted for exchange rate effects. Net premium earned was up 29% at EUR 15.6 billion (EUR 12.1 billion). Growth of 20.2% would have been booked at constant exchange rates.

In view of the significant natural catastrophe expenditures, the net burden of large losses rose to EUR 1,484 million as at the end of September (previous year: EUR 1,070 million) and was thus clearly

higher than the expected level of EUR 1,079 million budgeted for the first nine months.

The largest individual losses for net account in the first nine months of the year were Hurricane “Ian” with a net strain of EUR 276 million, the severe floods in Australia at a cost of EUR 211 million and winter storm “Ylenia” in central Europe in an amount of EUR 115 million. In addition, Hannover Re set aside an IBNR reserve of EUR 331 million for possible losses from the war in Ukraine.

Furthermore, additional reserves were established in the first nine months for sizeable losses from the past year based on corresponding loss advices, including an amount of EUR 130 million for the drought in Brazil.

The underwriting result in property and casualty reinsurance including interest on funds withheld and contract deposits declined by 52% to EUR 121 million (EUR 253 million). The combined ratio stood at 99.2% (97.9%) and was thus higher than the medium-term expectation of no more than 96%.

The operating profit (EBIT) in property and casualty reinsurance fell by 16.4% to EUR 887 million (EUR 1,061 million). Net income contracted by 26% to EUR 545 million (EUR 739 million).

Life and health reinsurance: Losses from the Covid-19 pandemic sharply lower

Gross written premium in life and health reinsurance climbed by 6.6% to EUR 6.8 billion (EUR 6.4 billion). The increase would have been 1.1% adjusted for exchange rate effects. Net premium earned was 8.4% higher at EUR 6.0 billion (EUR 5.6 billion). Growth would have reached 2.5% at constant exchange rates.

Losses relating to Covid-19 – especially from mortality covers – totalled EUR 227.8 million (EUR 404 million) in life and health reinsurance in the first nine months. Of this, EUR 33.6 million was attributable to the third quarter and hence a significantly smaller amount than in the two previous quarters. It is Hannover Re's expectation that these expenditures will progressively diminish.

Hannover Re's extreme mortality cover, layers of which the company has transferred to the capital market regularly since 2013, produced positive income of EUR 97 million. In addition, positive one-time income of EUR 40 million was booked in the second quarter from the restructuring of a treaty with a cedant. This contrasted with a negative effect on income amounting to EUR 144 million from a derivative associated with a reinsurance treaty in the United Kingdom.

The operating result (EBIT) in life and health reinsurance doubled to EUR 441 million (EUR 220 million). Net income improved even more appreciably to EUR 369 million (EUR 150 million).

Investments under own management reach EUR 58 billion; return on investment outperforms target at 2.9%

The portfolio of assets under own management amounted to EUR 58.0 billion as at the end of September (31 December 2021: EUR 56.2 billion).

Central banks are responding to surging inflation with sometimes steep interest rate hikes, the positive effects of which on investment income will only be felt after a time lag. As a hedge against inflation risks Hannover Re has built up a portfolio of inflation-linked bonds in recent years. This delivered a positive profit contribution of EUR 301 million as at the end of September.

Global political and economic tensions caused equity prices to pull back, with significant drops seen in some markets. Having disposed of part of its portfolio at the beginning of the year, Hannover Re sold off its remaining equity holdings as the second quarter got underway and thereby generated a positive profit contribution of altogether EUR 94 million.

Income from assets under own management improved by 7.1% to EUR 1,223 million (EUR 1,142 million). The resulting annualised return on investment stood at 2.9% and thus outperformed the full-year target of more than 2.5%. Net investment income increased by 1.7% to EUR 1,380 million (EUR 1,357 million).

Earnings guidance for 2022 still achievable despite considerable major loss expenditure

Hannover Re is still keeping to its targets for the current financial year and expects gross premium on the Group level to grow by more than 7.5% adjusted for exchange rate effects as well as a return on investment in excess of 2.5%. Following the extraordinary burden of large losses in the first nine months the Group net income is expected to be at the lower end of the EUR 1.4 billion to EUR 1.5 billion range.

Attainment of these targets is conditional on large loss expenditure not significantly exceeding the budgeted level in the fourth quarter and assumes that the Covid-19 pandemic does not have a major unexpected influence on the result in life and health reinsurance and that there are no unforeseen distortions on capital markets.

The anticipated significant overshoot of the large loss budget will be offset in the current financial year by, in particular, investment income from inflation-linked bonds that is above the expected level and a good underlying result in life and health reinsurance. In the fourth quarter, too, Hannover Re expects to book a positive profit contribution from its holding of inflation-linked bonds.

Hannover Re continues to aim for an ordinary dividend at least on the level of the previous year. This will be supplemented by a special dividend provided the capitalisation exceeds the capital required for future growth and the profit target is achieved.

"Despite all the challenges facing insurers and reinsurers, significant price increases across the various lines of business are absolutely essential. Only in this way can we respond to the changed risk landscape," said Jean-Jacques Henchoz. "Over the coming months it is more important than ever to safeguard the profitability of our business. We are well positioned to do this thanks to our vast expertise and discipline in underwriting."

Hannover Re, with gross premium of more than EUR 27 billion, is the third-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 3,000 staff. Established in 1966, the Hannover Re Group today has a network of more than 170 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".

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