Press release

Hannover Re largely satisfied with outcome of 1 January treaty renewals in property and casualty reinsurance

- **Markets remain highly competitive, but rate quality for the most part still acceptable**
- **Pleasing outcomes in US business and in the German market**
- **Appreciable rate declines in some specialty lines and in natural catastrophe business**
- **Modest decrease of 1.5% in premium volume reflects rigorously selective underwriting policy**
- **Rate erosion has no implications for 2016 profit targets**

Hannover, 3 February 2016: Despite sustained significant competition in most areas of property and casualty reinsurance, Hannover Re was nevertheless largely satisfied with the outcome of its treaty renewals as at 1 January 2016. "Even though the price decline in some markets was considerable, our broad diversification enabled us to secure a level of profitability for our portfolio that can still be described as good. We do not therefore anticipate any negative impacts on our profit targets for 2016. Once again, our long-standing customer relationships and very good ratings had a stabilising effect on the treaty renewals", Ulrich Wallin, Chief Executive Officer of Hannover Re, explained. In keeping with its systematic policy of selective underwriting, the company reduced its premium volume by a modest 1.5% in this round of treaty renewals.

The situation on worldwide property and casualty reinsurance markets was essentially unchanged year-on-year. With market-changing large losses again absent in 2015 and clients carrying more risks in their retention, the supply of reinsurance coverage continues to exceed demand. There are, however, indications that the decline in rates is bottoming out. Signs of this trend had already begun to emerge last year for the US market.

Of the total premium volume booked in the previous year in property and casualty reinsurance (excluding facultative business and structured reinsurance) amounting to EUR 6,777 million, nearly two-thirds of the treaties with a volume of altogether EUR 4,422 million were up for renewal as at 1 January 2016. Of this, a premium volume of EUR 4,003 million was renewed, while treaties worth EUR 419 million were either cancelled or renewed in modified form. Including increases of EUR 318 million from new treaties and – to a more limited extent – from changes in prices and treaty shares, the total renewed premium volume came in at EUR 4,355 million; this is equivalent to a modest decrease of 1.5% at unchanged exchange rates.

Target markets

Hannover Re is satisfied with the treaty renewals in *North American business*. The pressure driving rate reductions has eased somewhat. In property business as a whole modest rate decreases were booked for profitable loss-free treaties, while slight rate improvements were obtained for loss-affected non-proportional covers. It was also pleasing to note that conditions for proportional treaties remained stable. In casualty business the anticipated pressure on prices failed to materialise; the rate level proved to be broadly stable. Hannover Re wrote a number of new programmes and was able to grow its premium volume for North America by 8.5%.

In *Germany,* the largest single market within the segment of *Continental Europe*, Hannover Re further consolidated its leading position through its subsidiary E+S Rück. The situation in motor business, in which stable to slightly higher rates were achieved, was thoroughly satisfactory. Moderate improvements were also possible in homeowners' comprehensive insurance. Given the unchanged strained state of industrial fire insurance, the company was extremely selective in writing this business. The premium volume for the total portfolio in the German market contracted slightly. In France Hannover Re was able to expand its existing business relationships. A pleasing development was also recorded in the Netherlands, where premium increases were booked. Competition remains fierce in the markets of Eastern Europe, with rates subject to intense pressure. The exception here was motor business in Poland and Hungary, where rates had moved higher on the back of increased claims expectations.

The premium volume for the Continental Europe segment contracted by 3%.

Specialty lines

Despite substantial large losses, the most costly of which was the series of explosions at the Port of Tianjin, rates in *marine reinsurance* declined across virtually all lines and regions. Significant rate reductions were also recorded in the energy sector on account of abundant surplus capacities, even though claims activity in 2015 had been lively. The low price of oil also led to diminished demand for insurance protection, with corresponding implications for reinsurance cessions. Hannover Re scaled back its acceptances in marine business, as a consequence of which the premium volume for renewed business retreated by 8.9%.

The *aviation line* was also extremely competitive. Given the unchanged ample supply of insurance capacity, rates fell by between 10% and 15%. We responded by cutting back our exposure to aviation business and reduced our market share. The premium volume contracted sharply by 17.8%.

The treaty renewals in *credit and surety reinsurance* gave greater grounds for satisfaction. Despite an intensely competitive environment we were able to defend our market share without giving up on our profitability requirements. Cessions in the credit line were stable after years of rising retentions. In surety business only about 50% of the portfolio was up for renewal on 1 January 2016. It is to be anticipated that the premium volume in this line will be somewhat lower in 2016. Competition in the area of political risk business prompted Hannover Re to focus on its existing customer relationships. The premium income for the portfolio that was up for renegotiation in these specialty lines contracted only marginally.

Global reinsurance

The picture in Hannover Re's *worldwide treaty reinsurance* segment was a mixed one:

Business with *agricultural risks* proved to be relatively isolated from the otherwise soft market prevailing in property and casualty reinsurance. Although competition is making itself felt here too in certain regions or lines, for the most part stable rates and conditions were booked.

The markets of the *Asia-Pacific region* continue to be growth markets. In China, for example, Hannover Re was able to selectively increase its shares despite the competitive climate. Hannover Re's local presence and its established customer relationships made substantial premium growth possible. Despite this, the premium volume booked for worldwide treaty reinsurance contracted by 3.5%

Natural catastrophe business remained fiercely competitive. An inflow of additional capacities – such as from the ILS market – was, however, observed only to a limited extent in the 1 January treaty renewals. As anticipated, rates continued to decline in the absence of market-changing large losses. In the United States, for example, rates for loss-free programmes fell by around 6%. The declines were more marked in Latin America and Europe. The severe flooding in the United Kingdom in December 2015 had no effect on the January renewals because the scale of the losses is still not entirely clear; it should have implications for the renewal dates during the year. The premium volume booked for total natural catastrophe business retreated by 5.5%.

Outlook for 2016

Despite the soft market conditions overall in property and casualty reinsurance, Hannover Re expects to achieve its profit targets for the current year: based on its very good positioning in the reinsurance market and the high quality of its loss reserves, the company should be able – depending on the major loss expenditure in property and casualty reinsurance – to generate another good underwriting result in 2016, irrespective of the fact that the rate quality in the reinsurance market has deteriorated in some areas. Hannover Re continues to target a combined ratio of less than 96%. In view of its selective underwriting policy, the company expects the premium volume in property and casualty reinsurance to come in slightly lower.

For its total portfolio – i.e. including life and health reinsurance – the company expects to book a stable or slightly reduced gross premium volume. In life and health reinsurance Hannover Re anticipates a further rise in profitability. The return on investment is likely to be around 2.9%, with Group net income anticipated in the order of EUR 950 million. As usual, all statements are subject to the proviso that major loss expenditure does not exceed the budgeted level of EUR 825 million and that there are no unforeseen distortions on capital markets.

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