# Outlook

- Stable or slightly reduced premium volume expected in total business
- Targeted return on investment for assets under own management remains at 2.9%
- Group net income still forecast to reach at least EUR 950 million

Despite the challenging business conditions in the international (re)insurance industry and on capital markets, we expect to continue operating with sustained success going forward. Based on constant exchange rates, we anticipate stable or slightly reduced gross premium volume for our total business in the current financial year.

In property and casualty reinsurance we expect to book slightly lower premium income – adjusted for exchange rate effects – in 2016. This assumption is based on our selective underwriting policy, under which we only write business that meets our margin requirements. In view of our financial strength and our very good positioning, we are able to tap into further attractive business opportunities.

For the full 2016 financial year we anticipate a good underwriting result in property and casualty reinsurance that should be roughly on a par with 2015. This is conditional on major loss expenditure remaining within the budgeted level of EUR 825 million. We are aiming for a combined ratio of less than 96%. The targeted EBIT margin for property and casualty reinsurance is at least 10%.

After a hurricane season in North America and the Caribbean that was below average by multi-year standards, Hurricane Matthew caused extensive damage and numerous fatalities – especially in Haiti – at the beginning of October. Expert estimates available to date put the total insured market loss in a range of USD 5 to 10 billion. Given the uncertainties still surrounding the extent of the losses, it is too early to put a reliable figure on the net strain for our account. Bearing in mind that we still have a large loss budget of around EUR 430 million available for the fourth quarter, Hurricane Matthew does not currently pose any threat to our profit targets for 2016.

Looking ahead to the treaty renewals as at 1 January 2017, we anticipate greater stability overall when it comes to prices and conditions – not only due to the increasing pressure on returns but also owing to significantly higher attritional losses. We see scope here for rate increases – for example in Canada and Germany, following in some cases heavy losses incurred from natural catastrophe events. The progressive trend towards digitisation is opening up new opportunities for the insurance industry. In view of the increasing exposure potential, demand for products designed to protect against cyber risks is likely to keep on growing. We also anticipate opportunities in property and casualty business in the United States, in the area of credit and surety and in connection with the implementation of risk-based solvency systems. All in all, Hannover Re will maintain its focus on high-quality existing business, complemented by opportunities that present themselves in niche and speciality segments.

Turning to life and health reinsurance, we continue to take a confident view of international business developments for the remainder of 2016. Even though it must be borne in mind that some large-volume treaties are discontinued as planned over the course of the year, we expect to book a stable premium volume on the basis of positive new business. The value of new business will likely be at least EUR 220 million. The EBIT margin for financial solutions and longevity business should remain above the minimum target of 2%. The target margin for mortality and morbidity business remains unchanged at a minimum 6%.

With regard to our IVC targets – which we use internally to map economic value creation –, we are aiming for returns that exceed the cost of capital both in property and casualty reinsurance and in life and health reinsurance.

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 portfolios. The historically low reinvestment returns in the fixed-income portfolio as a consequence of the Brexit vote have resulted in an even more complex situation than at the beginning of 2016. Despite this, we are still targeting a return on investment of 2.9% for 2016.

Assuming that the burden of major losses does not significantly exceed the expected level and that there are no unforeseen distortions on capital markets, Hannover Re continues to anticipate Group net income of at least EUR 950 million for the current financial year.

Hannover Re envisages a payout ratio for the dividend in the range of 35% to 40% of its IFRS Group net income. If the company's comfortable level of capitalisation remains unchanged, this figure will increase in light of capital management considerations – as in the previous year – through payment of another special dividend.

## Forecast for 2017

For the 2017 financial year Hannover Re anticipates stable or slightly lower gross premium based on constant exchange rates. The return on investment is expected to be around 2.7%. The company assumes Group net income will be in excess of EUR 950 million. 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.