Quarterly Statement as at 31 March 2016

Business development

- Group net income of EUR 271 million signals good start to the 2016 financial year
- Sharply improved underwriting result in property and casualty reinsurance
- Life and health reinsurance beats EBIT targets with operating profit of EUR 106 million
- Investment income fully lives up to expectations

Hannover Re's business again developed very favourably in the first quarter of 2016. Factoring out a positive special effect of EUR 39 million in the previous year in life and health reinsurance, a pleasing increase in Group net income was generated.

Both business groups – namely Property & Casualty and Life & Health reinsurance – continued to develop well in spite of the competitive environment. We consistently adhered to our selective underwriting policy in view of the protracted rate erosion in property and casualty reinsurance. Premium income consequently contracted slightly. Gross written premium in total business declined by a modest 3.1% as at 31 March 2016 to EUR 4.3 billion (EUR 4.4 billion). At constant exchange rates the decrease would have been 2.1%. This figure puts us within the range of our forecast for the full financial year. The level of retained premium, on the other hand, climbed slightly relative to the corresponding period of the previous year to reach 89.0% (88.6%). Reflecting this increase and also the change in unearned premium, net premium earned rose by 3.2% to EUR 3.5 billion (EUR 3.4 billion).

Bearing in mind the challenging climate, we are also highly satisfied with the development of our investments. Following the marked increase recorded in 2015, our portfolio of assets under own management remained relatively stable at EUR 39.1 billion (31 December 2015: EUR 39.3 billion). The primary factor here was the slight fall in the value of the US dollar against the euro.

Ordinary investment income amounted to EUR 268.5 million as at 31 March 2016. This figure is EUR 43.8 million lower than the level of the previous year (EUR 312.2 million), principally due to the elimination of the aforementioned special effect recognised in the previous year (roughly EUR 39 million) and the sustained low interest rate environment. Interest on funds withheld and contract deposits decreased slightly to EUR 83.5 million (EUR 99.0 million). Net realised gains were somewhat lower than in the previous year's period at EUR 43.6 million (EUR 45.0 million). Our financial assets measured at fair value through profit or loss gave rise to net gains of EUR 10.5 million (loss of EUR 10.6 million) in the period under review. The impairments taken in the reporting period were once again only very minimal. Income from investments under own management totalled EUR 282.7 million.

The operating profit (EBIT) for the Hannover Re Group contracted slightly to EUR 406.7 million (EUR 429.0 million). Group net income retreated by 3.1% to EUR 271.2 million (EUR 279.7 million). Factoring out the aforementioned special effect recorded in life and health reinsurance in the first quarter of 2015, Group net income would have come in higher as at 31 March 2016. Earnings per share amounted to EUR 2.25 (EUR 2.32).

Shareholders' equity climbed by 3.8% as at 31 March 2016 to reach EUR 8.4 billion (31 December 2015: EUR 8.1 billion). The annualised return on equity remained on an attractive level at 13.2% (31 December 2015: 14.7%). The book value per share stood at EUR 69.42 (EUR 66.90).

The capital adequacy ratio of the Hannover Re Group calculated in accordance with the requirements of Solvency II was published at the same time as the release of the results for the first quarter of 2016. Amounting to 221% as at 31 December 2015, it was exactly on a par with the previous quarter.

Results of operations, financial position and net assets

Property and casualty reinsurance

- Sustained competition in property and casualty reinsurance
- Treaty renewals as at 1 January 2016 produce solid outcome
- Major loss expenditure in first quarter significantly under budget
- Group net income boosted by 19.2%

Property and casualty reinsurance remains intensely competitive in the current financial year. The strong capital position of our ceding companies means that fewer risks overall are being passed on to the reinsurance market. In addition, the inflow of capital from the ILS market – especially in US natural catastrophe business – is leading to appreciable price erosion. These factors were also crucial in shaping the treaty renewals as at 1 January 2016, the date when around 65% of our portfolio was renegotiated. Even though the price decline was considerable in some markets, we still preserved the good profitability of our portfolio thanks to its broad diversification. Our long-standing customer relationships and our very good rating again had a stabilising effect on the treaty renewals.

Early indications of a bottoming out in reinsurance prices could be detected, most notably in the US market. We enlarged our premium volume here. Business with agricultural risks proved to be relatively detached from the rest of the soft property and casualty reinsurance market. Although competition can be felt in some regions, for the most part we achieved stable rates and conditions. Aviation and marine business, on the other hand, experienced sharp rate reductions, prompting us to scale back our premium volume accordingly. The premium volume booked from the treaty renewals as at 1 January 2016 contracted by 1.5% as a consequence of our selective underwriting policy.

In view of these developments, the gross premium booked for our Property & Casualty reinsurance business group fell to EUR 2.5 billion (EUR 2.6 billion); this corresponds to a decrease of 4.4%. It should also be borne in mind here that the comparable period was influenced by a positive special effect in facultative reinsurance in an amount of EUR 93 million. At constant exchange rates the decrease would have been 3.7%. The level of retained premium retreated to 87.9% (88.9%). Net premium earned nevertheless increased on account of the change in unearned premium, rising by 4.2% to EUR 2.0 billion (EUR 1.9 billion); adjusted for exchange rate effects, growth would have amounted to 5.2%.

As in the previous year, net expenditure on major losses came in below the budgeted level at EUR 55.5 million (EUR 62.0 million). The largest single loss event was an earthquake in southern Taiwan, for which we have reserved an amount of EUR 15.6 million. The underwriting result for total property and casualty reinsurance closed at an exceptionally pleasing EUR 100.3 million (EUR 76.6 million). The combined ratio improved again to 94.7% (95.7%) and is well in line with our goal of achieving a combined ratio below 96% for the full year.

The investment income booked for property and casualty reinsurance from assets under own management rose by 6.2% to EUR 203.1 million (EUR 191.2 million).

The operating profit (EBIT) in property and casualty reinsurance increased by a substantial 17.4% to EUR 299.7 million (EUR 255.2 million) as at 31 March 2016. The EBIT margin reached 15.3% (13.6%), thereby surpassing the minimum target of 10%. Group net income increased by 19.2% to EUR 204.3 million (EUR 171.4 million). Earnings per share stood at EUR 1.69 (EUR 1.42).

Key figures for property and casualty reinsurance

in EUR million	2016		2015
	1.1.–31.3.	+/– previous year	1.1.–31.3.
Gross written premium	2,502.1	-4.4%	2,617.1
Net premium earned	1,961.3	+4.2%	1,882.3
Underwriting result	100.3	+31.0%	76.6
Net investment income	207.2	+6.2%	195.1
Operating result (EBIT)	299.7	+17.4%	255.2
Group net income	204.3	+19.2%	171.4
Earnings per share in EUR	1.69	+19.2%	1.42
EBIT margin[1]	15.3%		13.6%
Combined ratio[2]	94.7%		95.7%
Retention	87.9%		88.9%

[1] Operating result (EBIT) / net premium earned
[2] Including funds withheld

Life and health reinsurance

- Solid profit contribution
- Rising demand for health insurance products and protection against the longevity risk

Life and health reinsurance enjoyed a favourable business development in the first quarter of 2016. The situation in the European insurance market has not changed significantly compared to the previous year. Particularly in Germany, the low interest rate environment continues to dominate developments at life and health insurers. The establishment of additional interest rate reserves is especially noteworthy in this regard. This requirement influences the need for reinsurance and should create added business potential.

Developments in northern European markets were pleasingly positive in the first quarter. Particularly in the disability segment, we were able to enlarge existing accounts and generate new business. In eastern European markets we noted increased interest in our automated underwriting system. Health insurance products also experienced stronger demand. Most strikingly, a growing need for protection in the event of illness can be observed among the consistently expanding middle class of some key emerging markets. As a further factor, the implementation of Solvency II in European markets at the start of 2016 prompted interest in reinsurance solutions with an eye to the more rigorous capital requirements.

In longevity business we consider ourselves to be well positioned due to our long-standing customer relationships – especially in the United Kingdom, where the market remains fiercely competitive. On a global level it is increasingly noticeable that the need for protection against the longevity risk is becoming more keenly felt. Drawing on local expertise we have already successfully transferred reinsurance solutions to other markets in the past and hence we believe that we are well placed in this segment as well.

In Asia our efforts are focused on innovative (re)insurance products. Our primary goal is to offer as broad a target group as possible insurance protection that is appropriate to their needs, which includes among other things term life products or riders for individuals with pre-existing conditions. Additionally, initial impetus from the new supervisory regime C-ROSS, which was adopted in China at the beginning of the year, has already made itself felt in the market.

Even though the circumstances and requirements vary – sometimes widely – from market to market, our expectations were fulfilled overall both in the mature insurance markets and in emerging growth markets.

Gross written premium in life and health reinsurance retreated slightly by 1.2% as at 31 March 2016 to EUR 1.8 billion (EUR 1.8 billion). At constant exchange rates modest growth of 0.3% would have been recorded. The retention increased to 90.5% (88.1%). Against this backdrop net premium earned climbed by 2.0% to EUR 1.6 billion (EUR 1.5 billion). Growth would have amounted to 3.6% at unchanged exchange rates.

Investment income from assets under own management contracted by 37.1% in the reporting period just ended to EUR 78.1 million (EUR 124.2 million). The elimination of a special affect amounting to around EUR 39 million in the corresponding period of the previous year was a key factor here. Income from securities deposited with ceding companies amounted to EUR 79.5 million (EUR 95.1 million).

Despite the fact that the operating result (EBIT) as at 31 March 2016 declined to EUR 105.5 million (EUR 173.3 million) in the absence of the corresponding period's positive special effect, we are satisfied with the development of business in the first quarter. In the financial solutions reporting category the EBIT margin of 17.9% comfortably surpassed the 2% target. The EBIT margin of 3.2% in longevity business met the 2% target.

In the reporting categories of mortality and morbidity an EBIT margin of 5.3% was generated, hence falling slightly short of the targeted 6%. Group net income totalled EUR 77.9 million (EUR 127.5 million). Earnings per share amounted to EUR 0.65 (EUR 1.06).

Key figures for life and health reinsurance

in EUR million	2016		2015
	1.1.–31.3.	+/– previous year	1.1.–31.3.
Gross written premium	1,761.4	-1.2%	1,783.3
Net premium earned	1,580.7	+2.0%	1,549.5
Investment income	157.6	-28.2%	219.4
Operating result (EBIT)	105.5	-39.1%	173.3
Net income after tax	77.9	-38.9%	127.5
Earnings per share in EUR	0.65	-38.9%	1.06
Retention	90.5%		88.1%
EBIT margin [1]	6.7%		11.2%

[1] Operating result (EBIT)/net premium earned

Investments

- High-quality diversified investment portfolio to be maintained
- Ordinary investment income in line with expectations
- Return on investment on target at 2.9%

The investment climate was once again volatile in the period under review and notable for a high degree of uncertainty, a low level of interest rates overall and relatively low risk premiums on corporate bonds. Further declines in yields were observed for German, UK and US government bonds across virtually all durations, as a consequence of which German debt is now being sold at a negative return in net terms well into the medium-dated segment.

Credit spreads on European and US corporate bonds initially widened and then bounced back in most rating classes over the course of the first quarter, nevertheless remaining largely stable relative to the 31 December 2015 balance sheet date on a generally low level. In total, the unrealised gains on our fixed-income securities increased to EUR 1,517.0 million (EUR 1,046.7 million). After the significant growth recorded in 2015, our portfolio of assets under own management remained broadly stable at EUR 39.1 billion (31 December 2015: EUR 39.3 billion). We adjusted the allocation of our assets to the individual classes of securities in the first quarter such that we further expanded our holding of fixed-income instruments rated BBB or slightly lower while at the same time enlarging the proportion of government bonds in our portfolio. In this way we are able to increase the liquidity of the portfolio while maintaining the overall risk level of our fixed-income holdings extensively unchanged and continuing to generate stable returns. The modified duration of our portfolio of fixed-income securities was unchanged relative to the previous year at 4.4 (4.4).

Against a backdrop of continued low interest rates, ordinary investment income excluding interest on funds withheld and contract deposits was appreciably lower than in the corresponding period of the previous year at EUR 268.5 million (EUR 312.2 million). This was due principally to a special effect recognised in the previous year in the investments from the area of life and health reinsurance. Interest on funds withheld and contract deposits fell to EUR 83.5 million (EUR 99.0 million).

Impairments of altogether just EUR 13.9 million (EUR 8.2 million) were taken. This includes impairments of only EUR 0.7 million (EUR 2.4 million) on fixed-income securities. Scheduled depreciation on directly held real estate increased modestly to EUR 6.9 million (EUR 5.1 million), a reflection of our growing involvement in this area. The write-downs were opposed by write-ups of EUR 0.1 million (EUR 0.0 million).

The net balance of gains realised on disposals stood at EUR 43.6 million (EUR 45.0 million) and was in large measure attributable to regrouping activities as part of regular portfolio maintenance and to the streamlining of our private equity portfolio through the sale of older exposures.

We recognise a derivative for the credit risk associated with special life reinsurance treaties (ModCo) under which securities deposits are held by cedants for our account; the performance of this derivative in the period under review gave rise to negative fair value changes of EUR 1.4 million (EUR 0.0 million) recognised in investment income. In economic terms we assume a neutral development for this item over time, and hence the volatility that can occur in specific quarters has no bearing on the actual business performance. The positive fair value changes in our assets recognised at fair value through profit or loss amounted to EUR 10.5 million. This contrasted with negative fair value changes of EUR 10.6 million in the corresponding period of the previous year.

Our investment income (incl. interest on funds withheld and contract deposits) fell short of the comparable period at EUR 366.2 million (EUR 415.7 million). In view of the low level of interest rates, the result is nevertheless very pleasing because ordinary investment income merely declined within the anticipated bounds and by far the bulk of the decrease was attributable to special effects recorded in the previous year. Income from assets under own management accounted for an amount of EUR 282.7 million (EUR 316.6 million), producing an annualised average return (excluding effects from ModCo derivatives) of 2.9%. We are thus well on track to achieve our anticipated target for the full financial year, which similarly stands at 2.9%.

Net investment income

in EUR million	2016		2015
	1.1.–31.3.	+/– previous year	1.1.–31.3.
Ordinary investment income [1]	268.5	-14.0%	312.2
Result from participations in associated companies	0.7	-73.4%	2.5
Realised gains/losses	43.6	-3.2%	45.0
Appreciation	0.1		–
Depreciation [2]	13.9	+68.1%	8.2
Change in fair value of financial instruments [3]	10.5		(10.6)
Investment expenses	26.7	+10.1%	24.3
Net investment income from assets under own management	282.7	-10.7%	316.6
Net investment income from funds withheld	83.5	-15.6%	99.0
Total investment income	**366.2**	**-11.9%**	**415.7**

1 Excluding expenses on funds withheld and contract deposits
2 Including depreciation/impairments on real estate
3 Portfolio at fair value through profit or loss and trading

Rating structure of our fixed-income securities [1]

Rating classes	Government bonds		Securities issued by semi-governmental entities [2]		Corporate bonds		Covered bonds/asset-backed securities	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	73.5	7,637.0	65.2	4,245.7	1.3	162.7	69.5	2,597.3
AA	13.2	1,369.7	30.0	1,954.4	13.6	1,701.8	13.2	495.2
A	7.8	807.6	2.6	167.3	38.4	4,792.2	7.3	272.5
BBB	4.6	475.8	1.3	86.3	38.6	4,809.0	6.2	233.1
< BBB	0.9	96.8	0.9	56.1	8.1	1,014.8	3.8	142.9
Total	**100.0**	**10,386.9**	**100.0**	**6,509.7**	**100.0**	**12,480.4**	**100.0**	**3,741.0**

1 Securities held through investment funds are recognised pro rata with their corresponding individual ratings.
2 Including government-guaranteed corporate bonds