



somewhat
different

Growth and profit opportunities in P&C R/I

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Did you know that ...



Volume & profitability expectation out of our regular reporting

	Lines of business	Volume ¹⁾	Profitability ²⁾
Target markets	North America ³⁾	↗	+/-
	Continental Europe ³⁾	↘	+
Specialty lines worldwide	Marine	↘	+
	Aviation	↘	-
	Credit, surety and political risks	↗	+/-
	UK, Ireland, London market and direct	↗	-
	Facultative reinsurance	↘	+
Global reinsurance	Worldwide treaty ³⁾ reinsurance	→	+/-
	Cat XL	→	-
	Structured reinsurance and ILS	↑	+/-

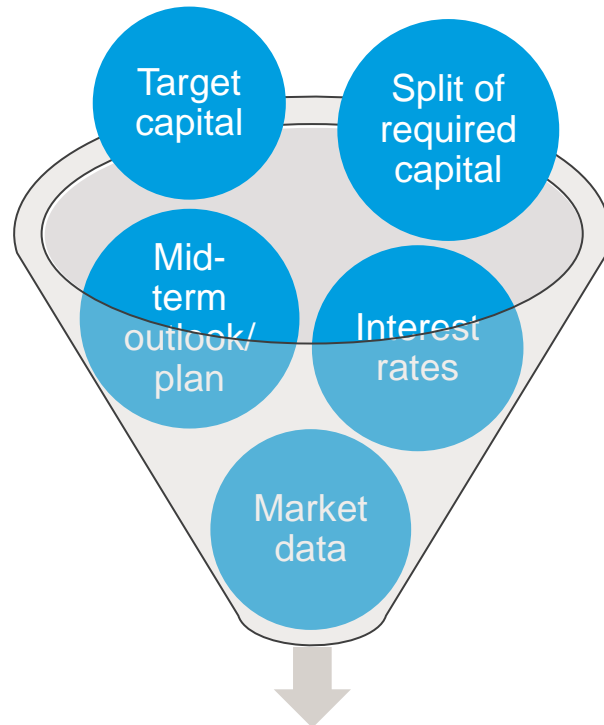
1) In EUR, development in original currencies can be different

2) ++ = well above CoC; + = above CoC; +/- = CoC earned; - = below Cost of Capital (CoC)

3) All lines of business except those stated separately

2) ++ = well above CoC; + = above CoC; +/- = CoC earned; - = below Cost of Capital (CoC)

Our approach to the calculation of expected return of capital



Input parameters

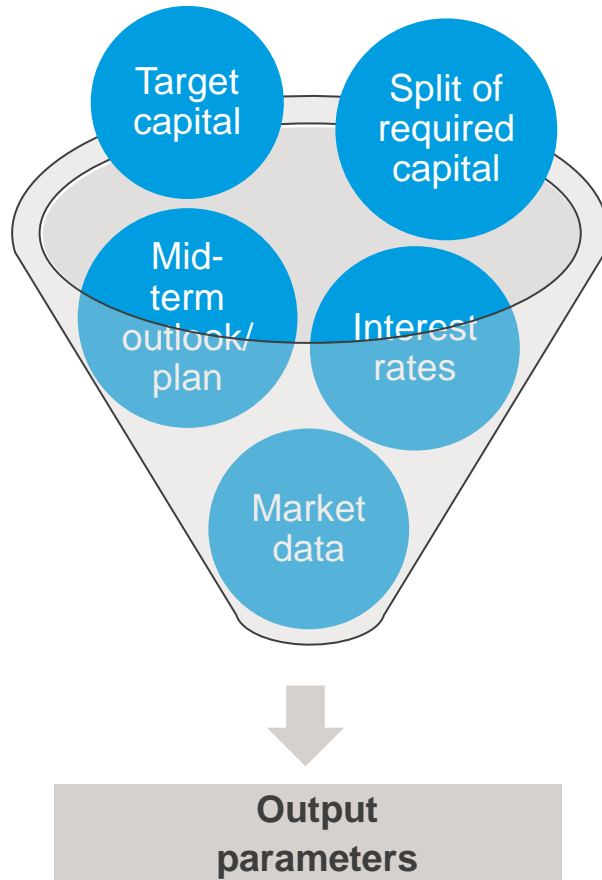
- ▶ Target capital:
IFRS equity, hybrid capital, valuation reserves
- ▶ Split of required capital:
P&C, L&H, Asset Management
- ▶ Mid-term outlook/plan P&C
- ▶ Interest rates:
5y average of 10y EUR gov., hybrid capital costs, target RoE
- ▶ Market data:
Capital Asset Pricing Model

Output parameters

- ▶ Calculation of
 - ▶ WACC (weighted average CoC)
 - ▶ Minimum return on capital according to RoEC target
 - ▶ Minimum margins based on capital allocation and MRC
- ▶ Bottom-up cross check of minimum margins

Our approach to the calculation of expected return of capital

Input parameter using examples



Input parameters

- ▶ Target capital: EUR 15 bn.
- ▶ Split of required capital:

P&C	35%
L&H	25%
Asset Management	40%
- ▶ Mid-term outlook/plan P&C:

GWP	EUR 10 bn.
NEP	EUR 9 bn.
internal costs	EUR 0,25 bn.
retro costs	EUR 0,1 bn.
- ▶ Interest rates:

5y average of 10y EUR gov.,	0.5%
hybrid capital costs,	4.5%
target RoE (target RoEC)	9% (6%)
- ▶ Market data: Capital Asset Pricing Model

Unlevered beta	0.8%
Levered beta	0.9%
Market risk premium	4%

Our approach to the calculation of expected return of capital

Output parameter using examples

Output parameters

- ▶ WACC (weighted average CoC) 4.6%
- ▶ Minimum return on capital according to RoEC target
 - MRC spread over risk free 7.5%
 - WACC spread (before tax) 4.7%
- ▶ Minimum margins based on capital allocation and MRC
 - P&C: capital + cost + retro cost margin 7.5%
- ▶ Bottom-up cross check of minimum margins

Segment	Premium in m. EUR	2017		2018		Retro	Exp	Margin	Margin in m. EUR
		MRC in %	as if MRC in m. EUR	MRC in %	MRC in m. EUR				
Non-prop. Property Category 1	175	21.3%	37.5	19.6%	34.4	12.2%	3.2%	35.0%	61.6
Motor Germany prop.	270	0.7%	1.9	0.7%	1.9	0.0%	0.8%	1.5%	4.1
Structured (Advanced Solutions)	2,190	1.5%	33.2	1.4%	30.7	0.0%	1.0%	2.4%	53.6

Reality check of our predictions

2011 - 2014

Lines of business	Volume				Profitability			
	01.01.2011	01.01.2012	01.01.2013	01.01.2014	01.01.2011	01.01.2012	01.01.2013	01.01.2014
North America ³⁾	→	→	↗	↗	+/-	+/-	+	+
Germany	→	→	↘	→	+/-	+/-	+/-	+/-
Marine (incl. energy)	↗	↗	↗	↗	+	+	+	++
Aviation	↗	↗	↗	↘	+	+	+	+/-
Credit, surety and political risks	↘	↗	→	↘	+	+	+	+
Structured R/I and ILS	→	↗	→	↗	+/-	+	+/-	+/-
UK, Ireland, London market and direct	↗	↗	↘	↘	+	+	+/-	+/-
Global treaty	→	→	→	→	+/-	+	+/-	+
Global Cat XL	↘	↗	↗	↘	+	++	+	+
Global facultative	↗	↗	↗	↗	+	+	+	+
	2011	2012	2013	2014	2011	2012	2013	2014
Guided P&C growth	↗	↑	→	→				
Reality check growth: P&C GWP	+8.4%	+12.3%	+1.2%	+2.3%				
Reality check profitability: P&C xRoCA					3.0%	6.0%	4.7%	10.7%

Reality check of our predictions

2015 - 2017

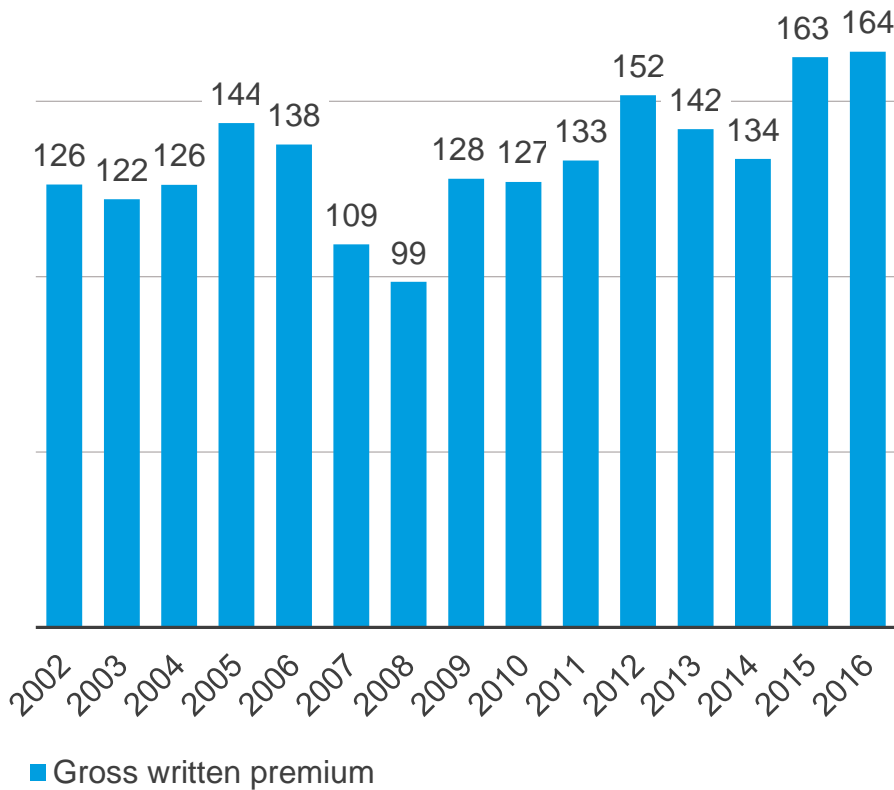
Lines of business	Volume			Profitability		
	01.01.2015	01.01.2016	01.01.2017	01.01.2015	01.01.2016	01.01.2017
North America ³⁾	↗	↗	↗	+	+	+
Continental Europe ³⁾	→	↘	↘	+/-	+/-	+/-
Marine	↘	↘	↘	+	+	+/-
Aviation	↘	↘	↘	+/-	-	-
Credit, surety and political risks	→	↗	↗	+	+	+/-
UK, Ireland, London market and direct	↗	↗	↗	+/-	+/-	+/-
Facultative R/I	→	↘	↘	+	+	+
Worldwide treaty ³⁾ R/I	→	→	↘	+	+	+/-
Cat XL	→	↘	→	+/-	-	-
Structured R/I / Advanced Sol. and ILS	↗	↘	↗	+/-	+/-	+/-
	2015	2016	2017	2015	2016	2017
Guided P&C growth	↗	→	n.a.			
Reality check growth: P&C GWP	+18.2%	-1.4%	n.a.			
Reality check profitability: P&C xRoCA				7.4%	7.1%	n.a.

Successful management of premium volume and profitability

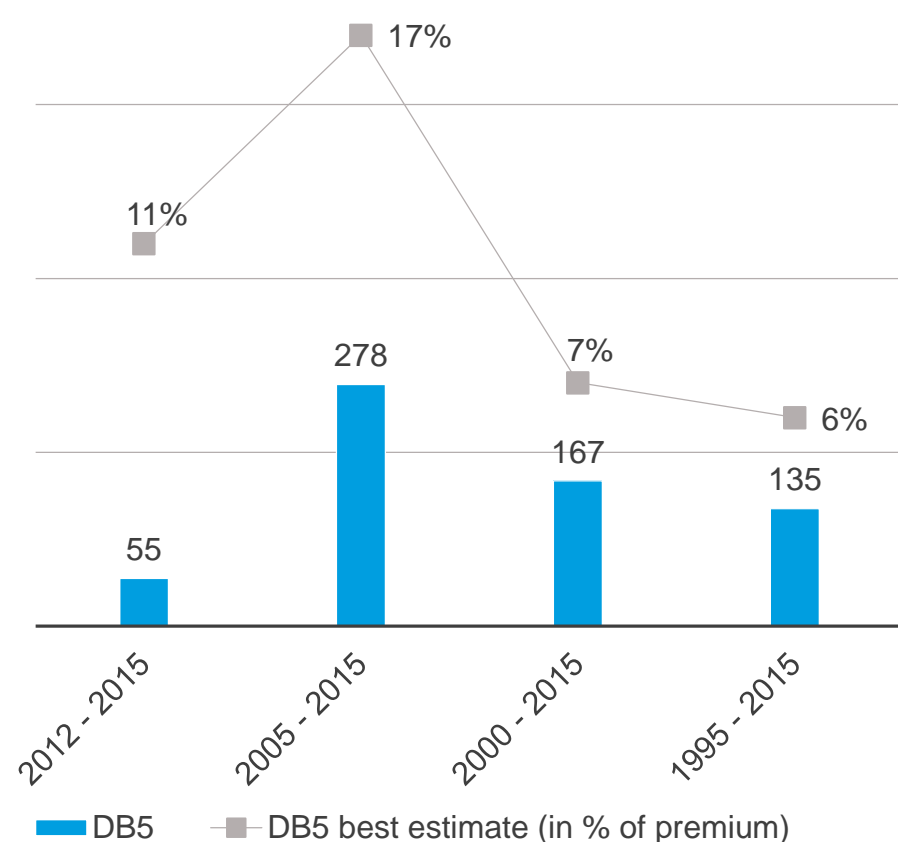
Sample 1: US per risk

US per risk premium volume vs. profitability

in m. EUR



DB5 = Discounted balance level 5

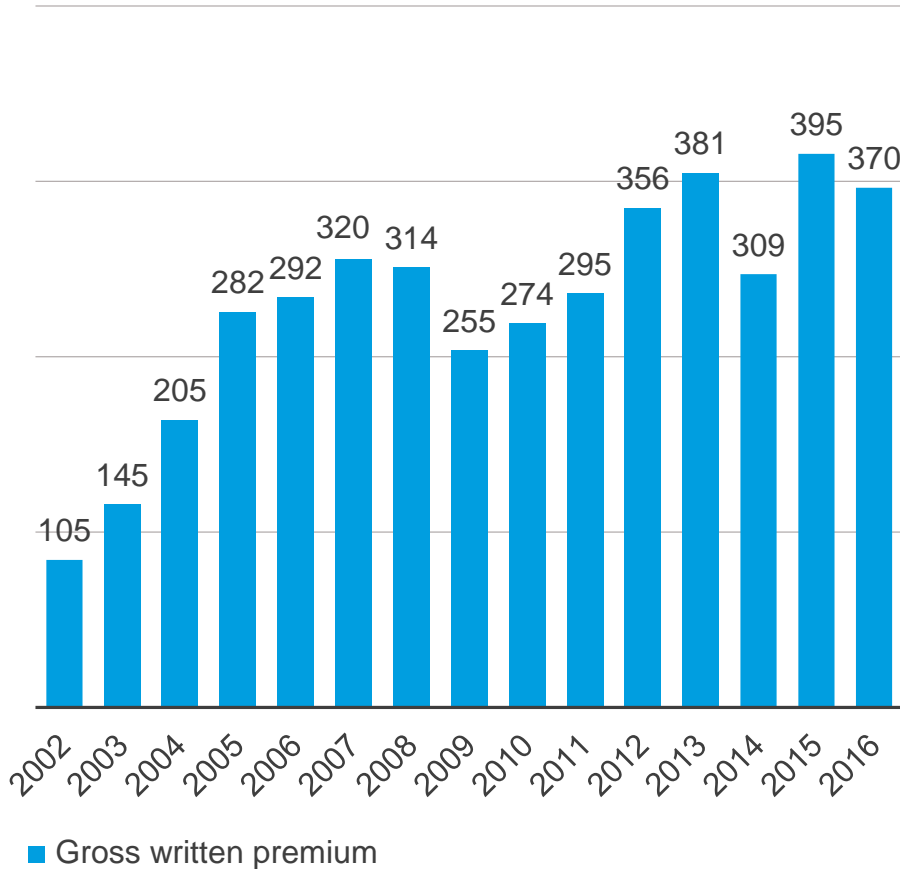


Successful management of premium volume and profitability

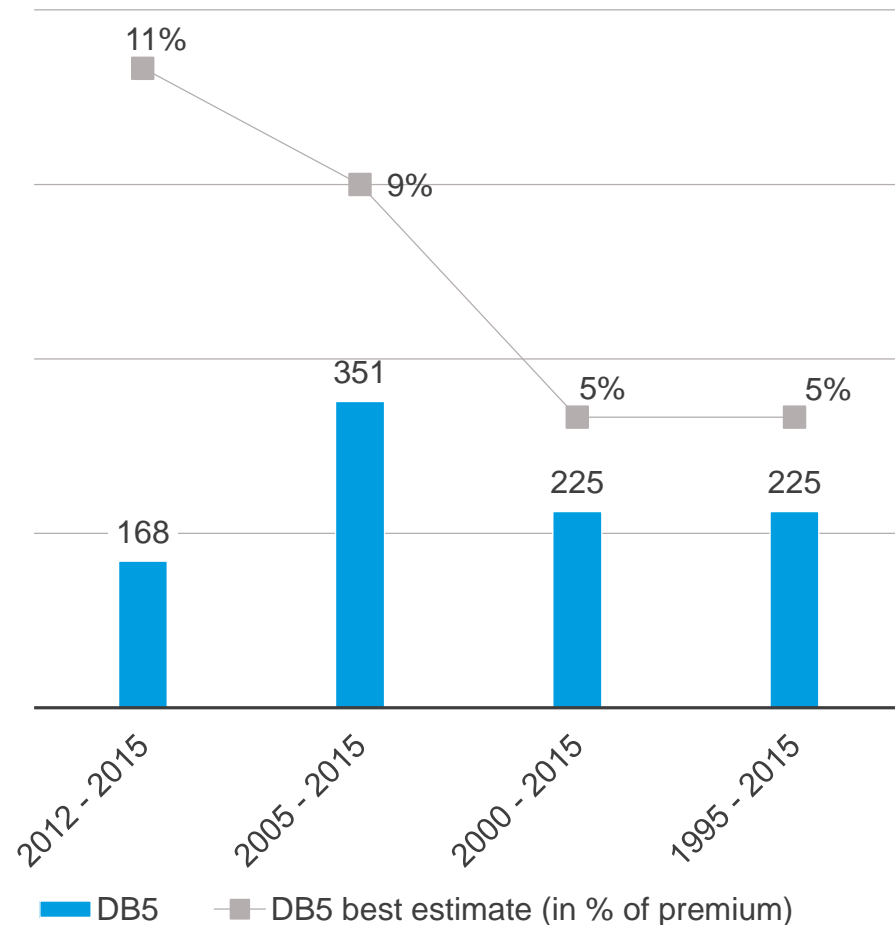
Sample 2: Global Cat XL

Global Cat XL premium volume vs. profitability

in m. EUR



DB5 = Discounted balance level 5

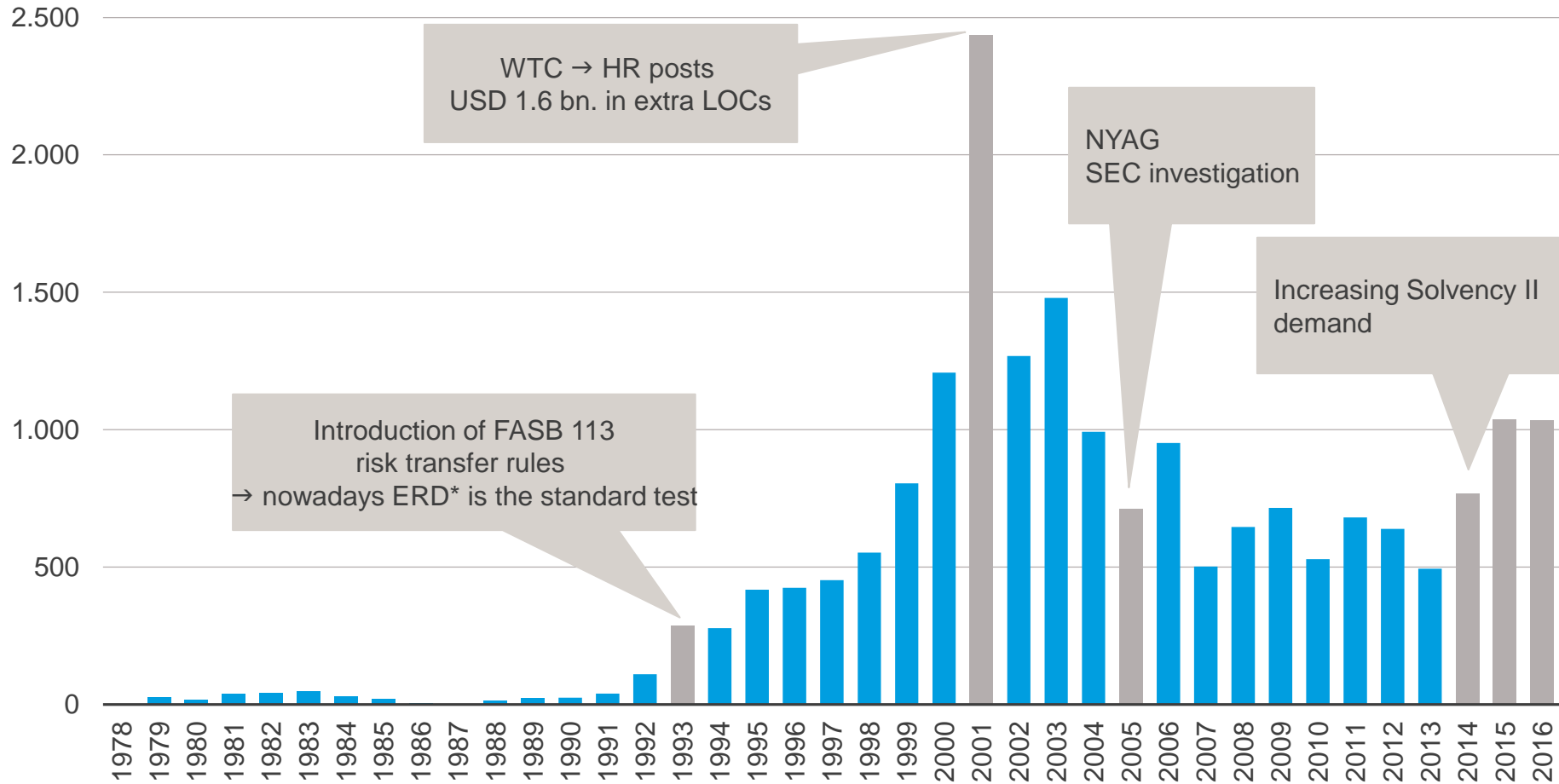


Advanced Solutions

Generation of business strongly opportunity-driven

Gross written premium

in m. EUR

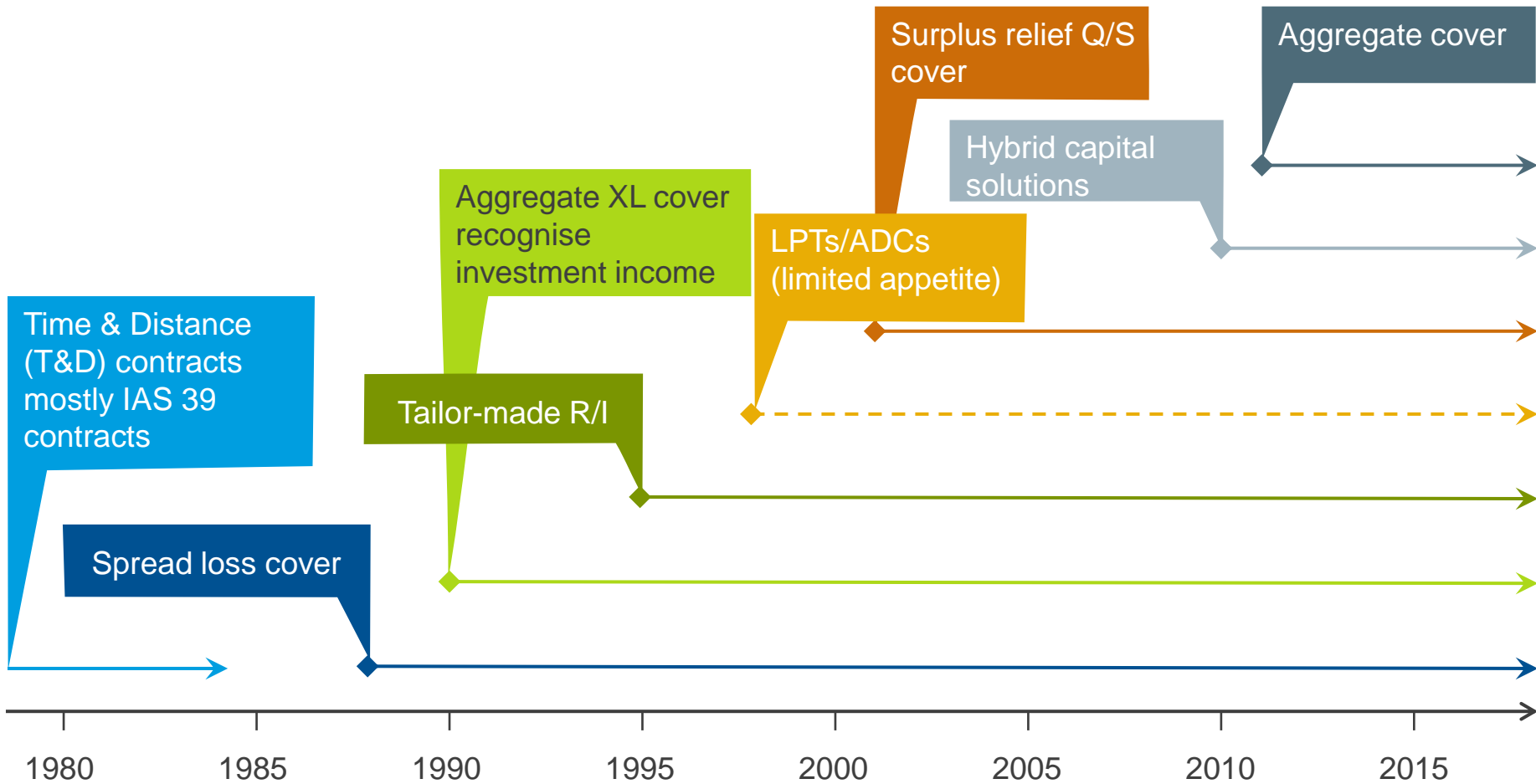


* Expected Reinsurer Deficit

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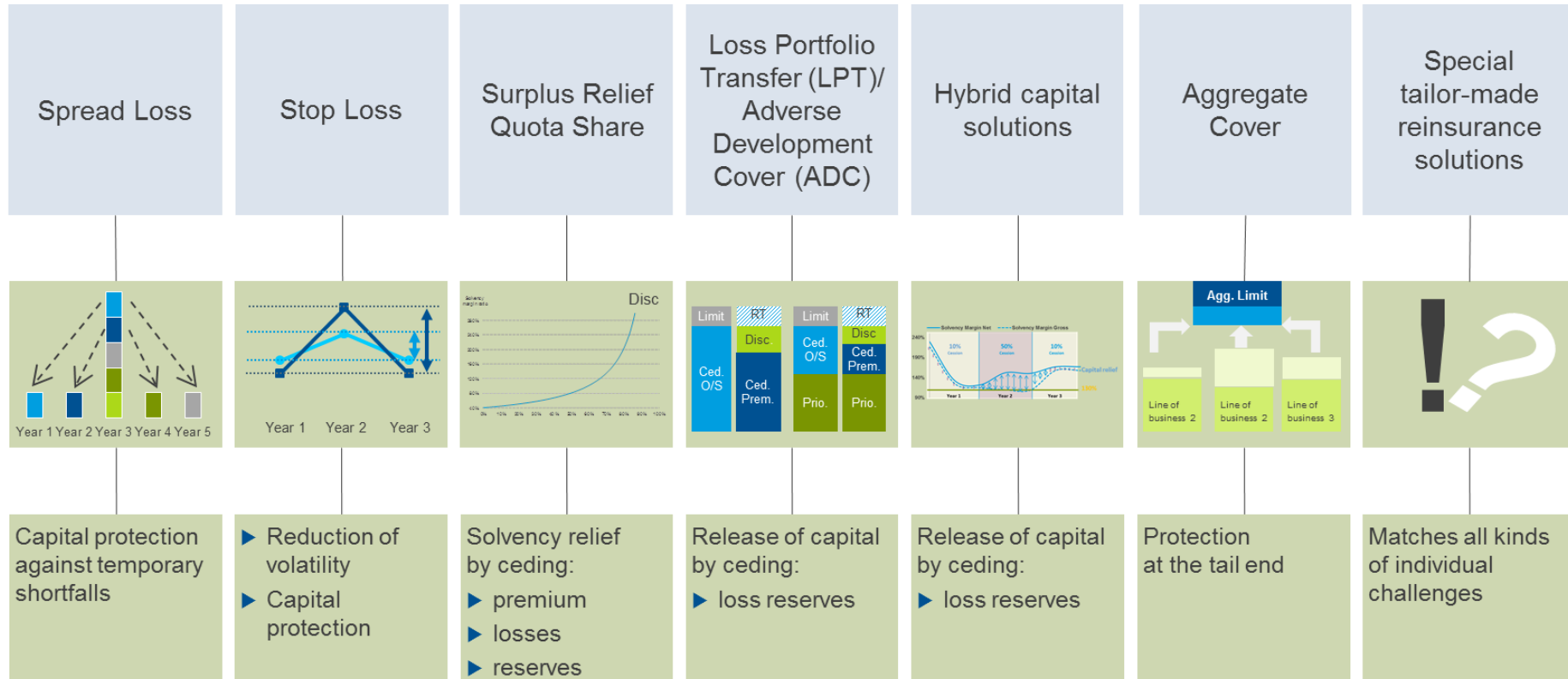
Advanced Solutions

From mere T&D contracts to an all-round structured reinsurer



IAS = International Accounting Standards

Advanced Solutions today



The fine line between structured and traditional reinsurance

Structured Reinsurance

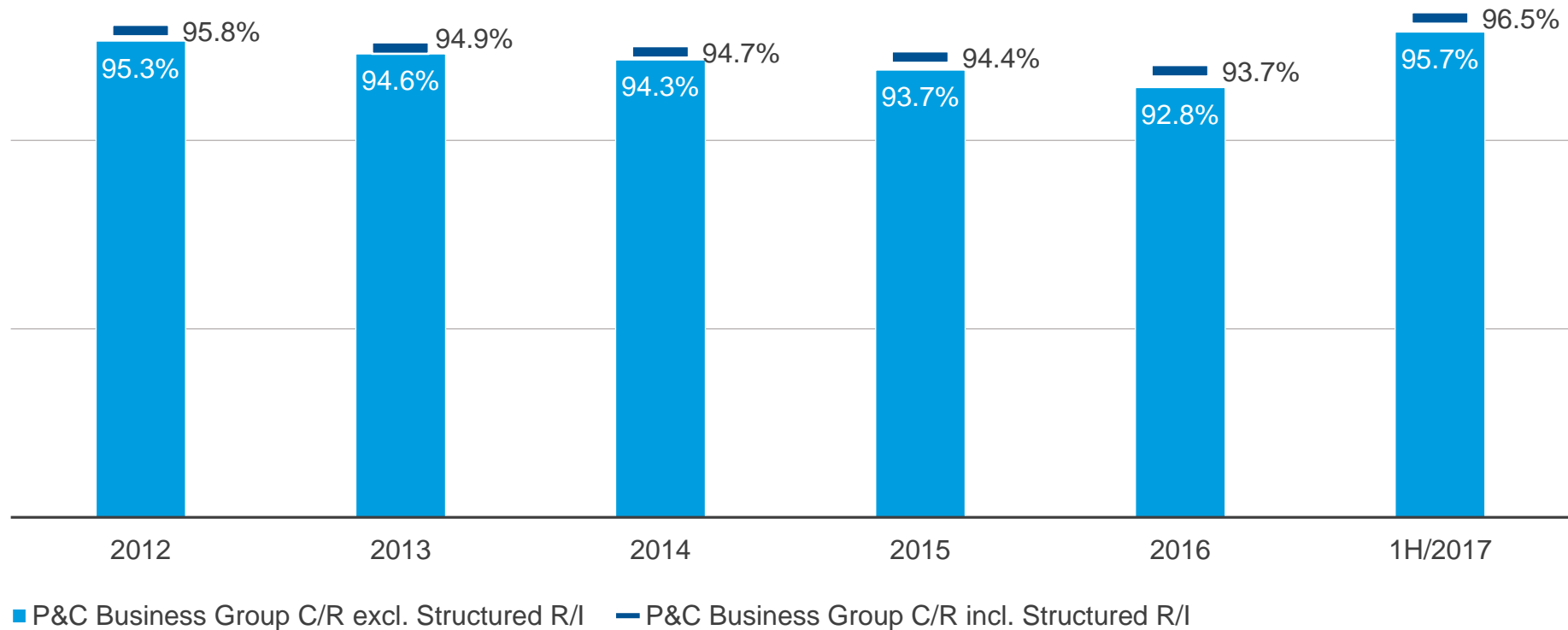
- ▶ Marketing approach
 - We focus on C-levels: CEO, CFO, etc.
- ▶ Solutions vs. products
 - Individual bespoke transactions
 - Mostly privately placed
- ▶ Cost of capital and margins
 - Lower, according to the risk transfer
- ▶ Deposit accounting and R/I accounting
- ▶ Risk transfer
 - ERD calculated for each transaction
 - Higher compliance standards including an internal compliance committee review process
- ▶ Conservative profit recognition policy

Traditional reinsurance

- ▶ Marketing approach
 - We focus on all levels
- ▶ Solutions vs. products
 - Mostly standardised business
 - Usually no private placements
- ▶ Cost of capital and margins
 - Higher, according to the risk
- ▶ R/I accounting
- ▶ Risk transfer
 - Standardised risk transfer checks

Diluting effect of 0.3% to 0.9% on C/R

Comparison of the Combined Ratio (C/R)



Combined ratio for AS is higher due to lower but less volatile margin

Large US Auto Quota Share on net basis

Case study 1

► Motivation:

- Supporting growth opportunities in presence of a hard US auto market
- GAAP premium leverage: reduction of NPW to common equity ratio

► Type:

- Auto Quota Share assumed from an US cedent

► Structure:

- 15% cession, sliding scale commission (~3%p loss ratio scale)
- Liability caps per risk and per event → net quota share
- Conditional option for the cedent to increase cession up to 20%

Ceded premium >USD 100 m. at expected margin of 3%

Solvency II Quota Share

Case study 2

▶ Motivation:

- Solvency relief under SII standard formula requirements during temporary capital add-on

▶ Type:

- Quota Share assumed from a UK general insurer

▶ Structure:

- Two-year net quota share after inuring reinsurance
- Sliding scale commission (~9%p loss ratio scale)
- Profit commission to share positive result with the client
- Maintenance fee attached to the ceded premium p.a. if not commuted 5 years after inception

Ceded premium >GBP 50 m. at expected net margin of more than GBP 2.5 m.

Multi-year Cat aggregate excess of loss

Case study 3

▶ Motivation:

- Reducing the volatility of medium-sized NatCat claims in the clients' P&L accounts

▶ Type:

- Multi-year natural catastrophe aggregate cover

▶ Structure:

- Three-year term
- Losses subject to a franchise deductible are aggregated and subject to a layer A xs B p.a.
- A single large loss can only erode the retention B, but cannot lead to ceded losses
- Profit commission to share positive result with the client

Expected margin: ~EUR 4 m. for our share (best margin possible ~EUR 8. m.)

What we expect

- ▶ Significant demand increase expected
- ▶ xRoCa accretive
- ▶ Deterioration of combined ratio and EBIT margin
- ▶ Diversifying effect
- ▶ Less exposed to NatCat business than traditional business
- ▶ New level of communication: CFO as main contact

We have 4 decades of experience and continuity

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