



somewhat
different

Creating value through reinsurance

Strategy cycle 2018 - 2020

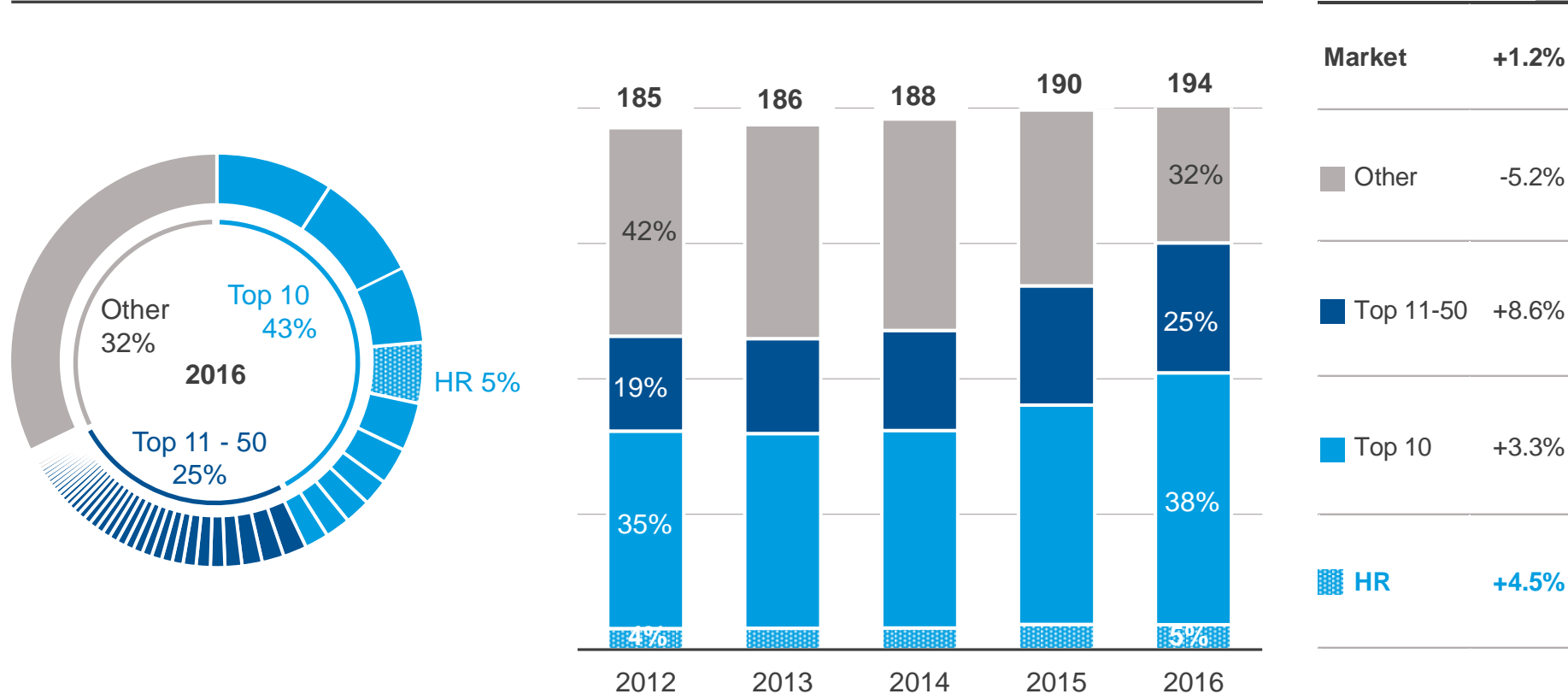
Ulrich Wallin, Chief Executive Officer

HR improved market position to No. 4 in P&C reinsurance

Market size and concentration

in bn. EUR

4-year CAGR



Source: own research (global market size based on estimate of total ceded premiums by primary insurers); as at April 2017
 Top 10 in 2016: Munich Re, Swiss Re, Lloyd's, Hannover Re, Berkshire Hathaway, SCOR, Everest Re, Alleghany, Partner Re, XL Catlin
 Top 10 ranking for each year

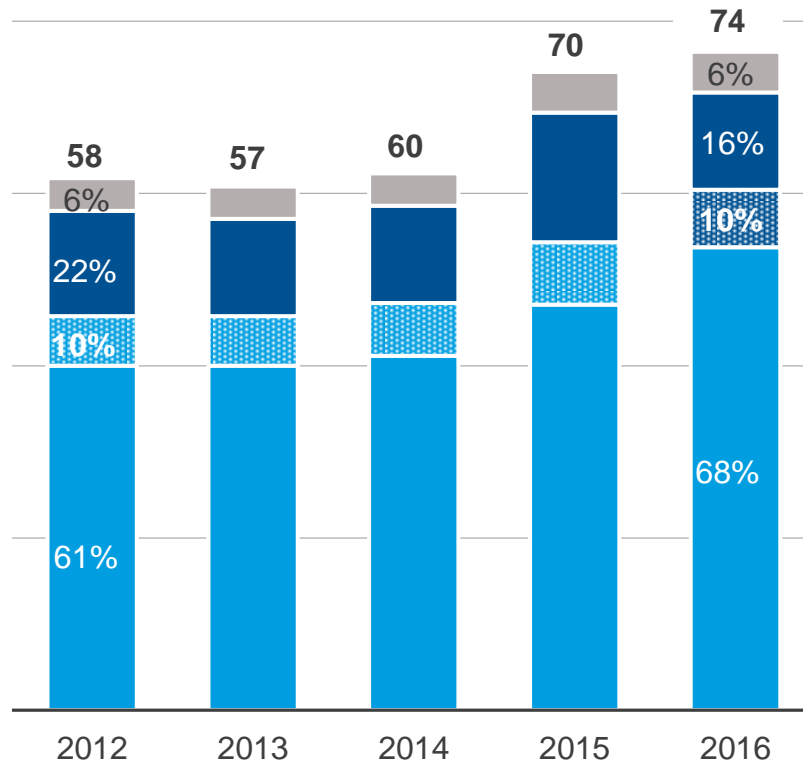
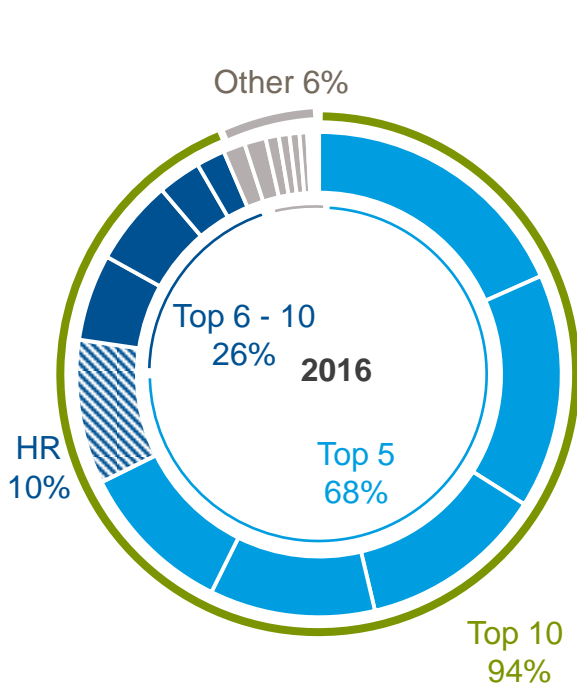
HR in 2016 number 6 of worldwide L&H business (2015: No. 5)

Market position in L&H influenced by volatile premium disclosure

Market size and concentration

in bn. EUR

4-year CAGR



Category	4-year CAGR
Market	+6.5%
Other	+7.9%
Top 6-10	+10.7%
Top 5	+5.0%
HR	+4.2%

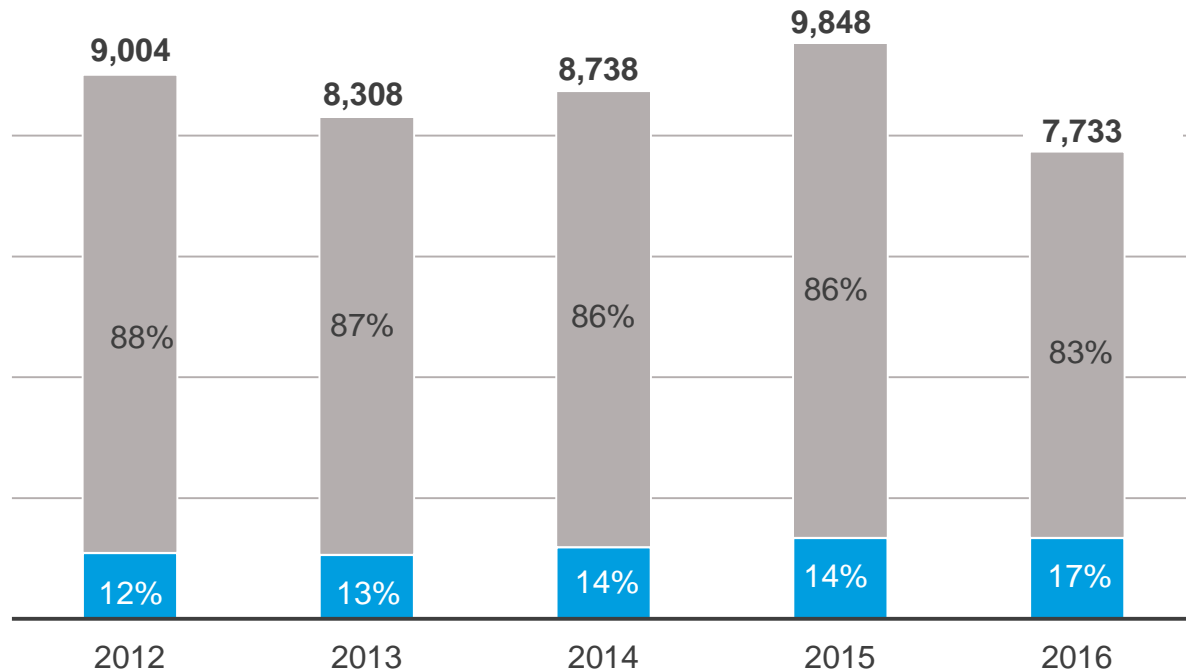
Source: own research; as at April 2017

Top 10: Munich Re, Swiss Re, RGA, SCOR, Great-West Lifeco, Hannover Re, China Re, Berkshire Hathaway, Korean Re, Pacific Life

Top 10 ranking for each year

Hannover Re: increasing P&C EBIT share within Top 5 and less volatile than peers

Market share of TOP 5 P&C EBIT in m. EUR



CAGR of EBIT (absolute)

Total	-3.7%
Peers	-5.2%
Hannover Re	+5.3%

► Entire market EBIT of ~EUR 20 - 25 bn.

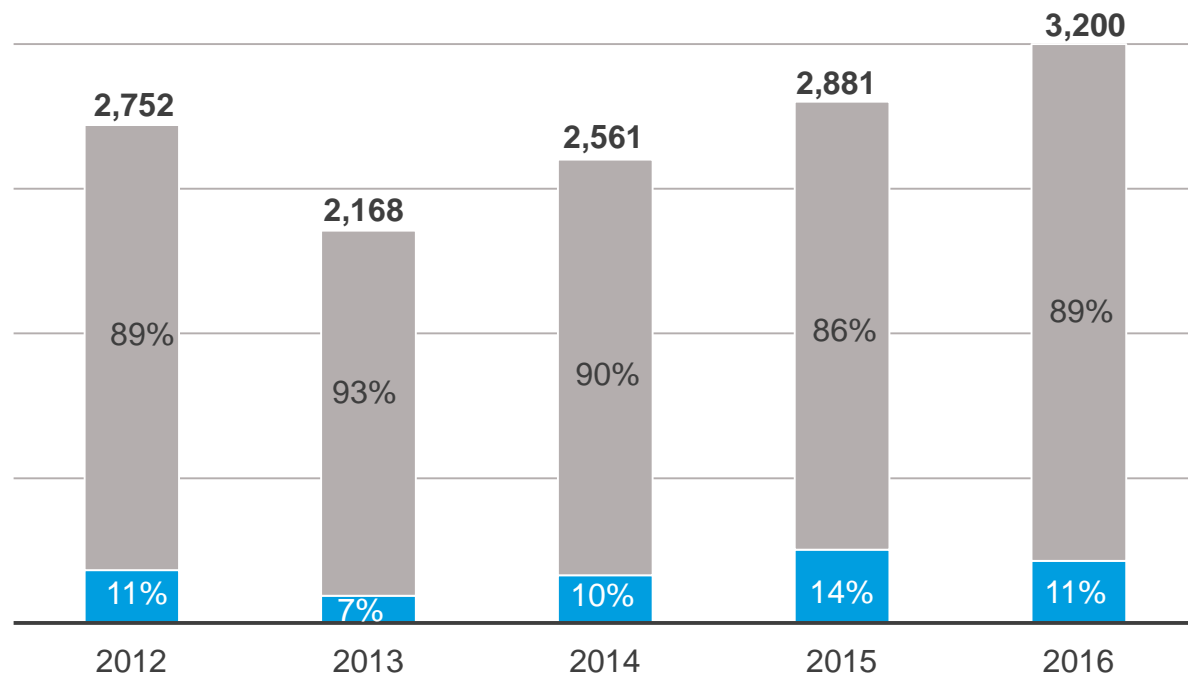
Source: own research and calculation
Peers: Munich Re, Swiss Re, SCOR, Everest Re

Stronger earnings growth than top peers

Hannover Re: L&H EBIT growth in line with market development

Market share of TOP 5 L&H EBIT

in m. EUR



CAGR of EBIT (absolute)

Total	+3.8%
Peers	+3.8%
Hannover Re	+4.2%

► Entire market EBIT of ~EUR 4 - 5 bn.

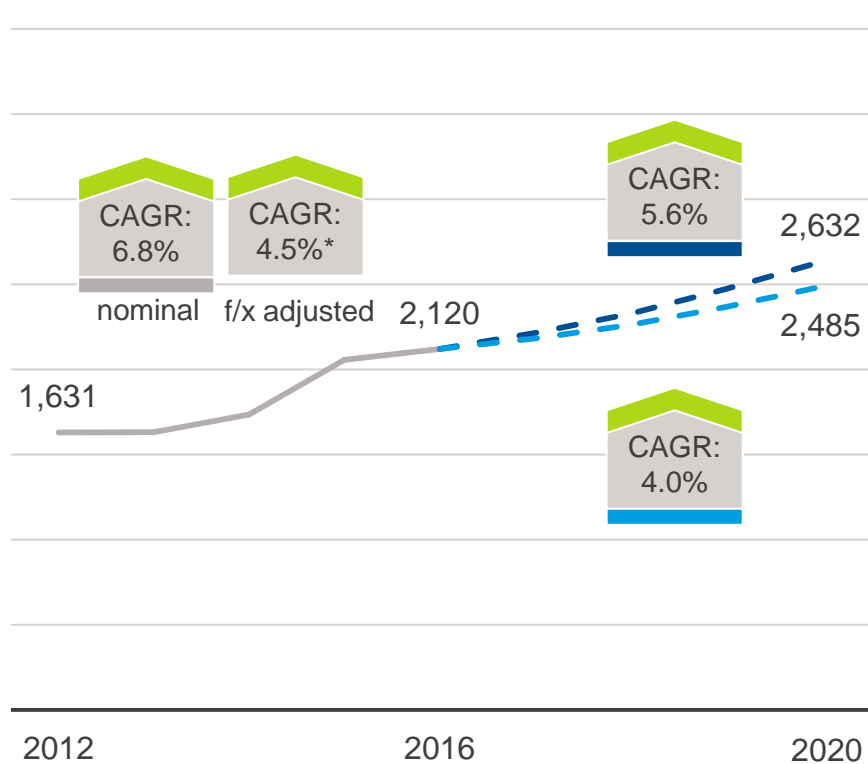
Source: own research and calculation
Peers: Munich Re, Swiss Re, SCOR, RGA

Earnings growth in line with market and top peers

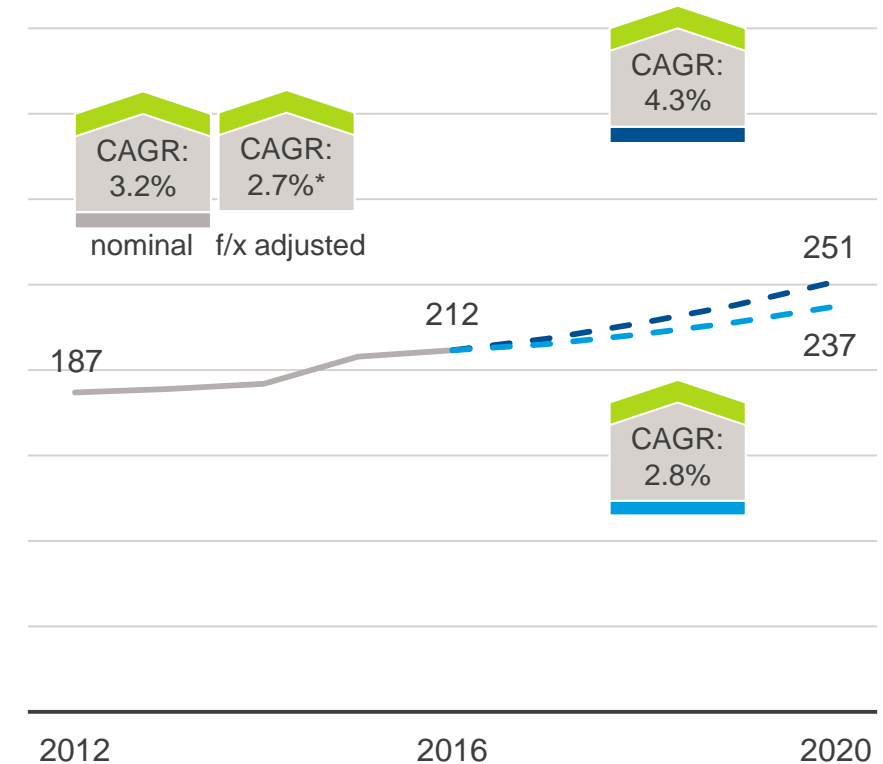
There will be further growth in the P&C R/I market ...

... but less pronounced than in the primary insurance market

Primary insurance in EUR bn.



Reinsurance in EUR bn.



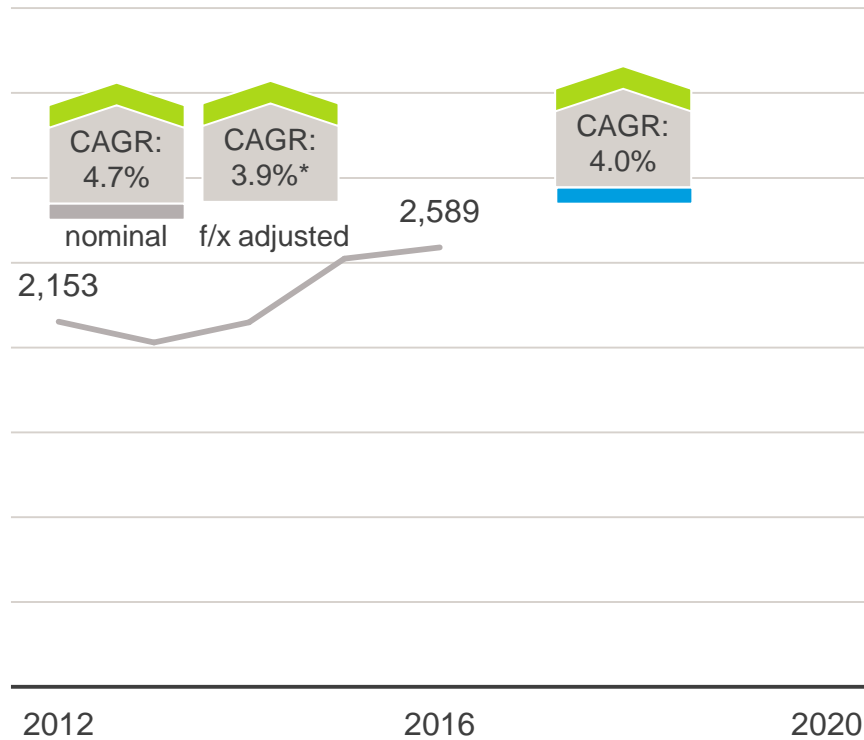
- Based on IMF macroeconomic forecast
- Based on IMF macroeconomic forecast incl. haircut

* Own estimates; as at October 2017

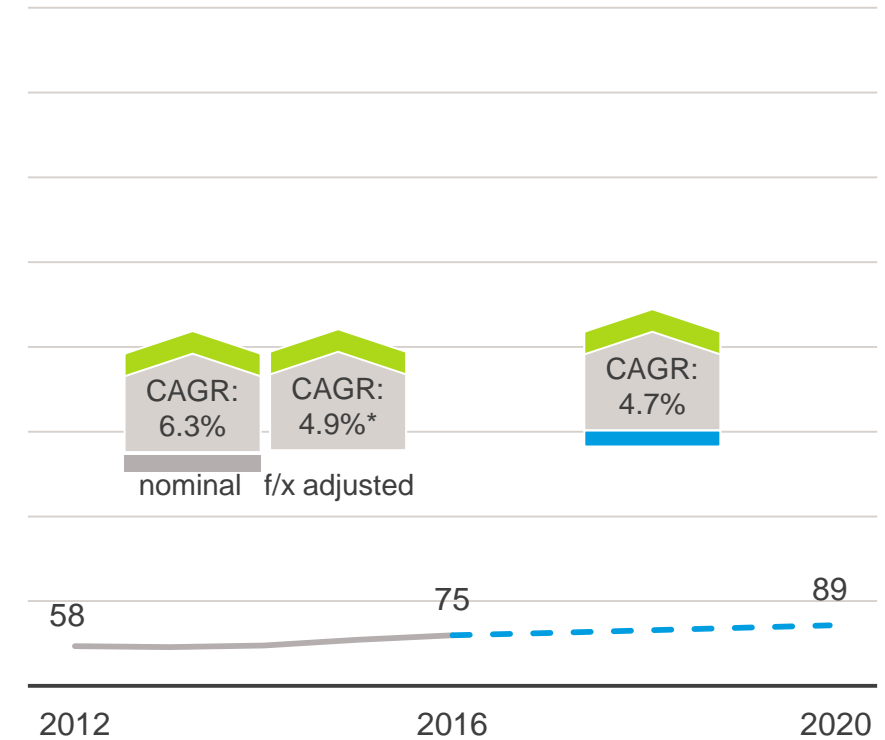
L&H reinsurance market to grow faster than primary market

Driven by service and capital management transactions

Primary insurance in EUR bn.



Reinsurance in EUR bn.



* Own estimates; as at October 2017

General considerations going into the strategy review

Increase competitive advantage!

Focus on primary insurance?

„Ryanair“ in reinsurance?

Digitalisation and automation!

Niche player?

Concentration in the reinsurance industry?

Cost efficiency!

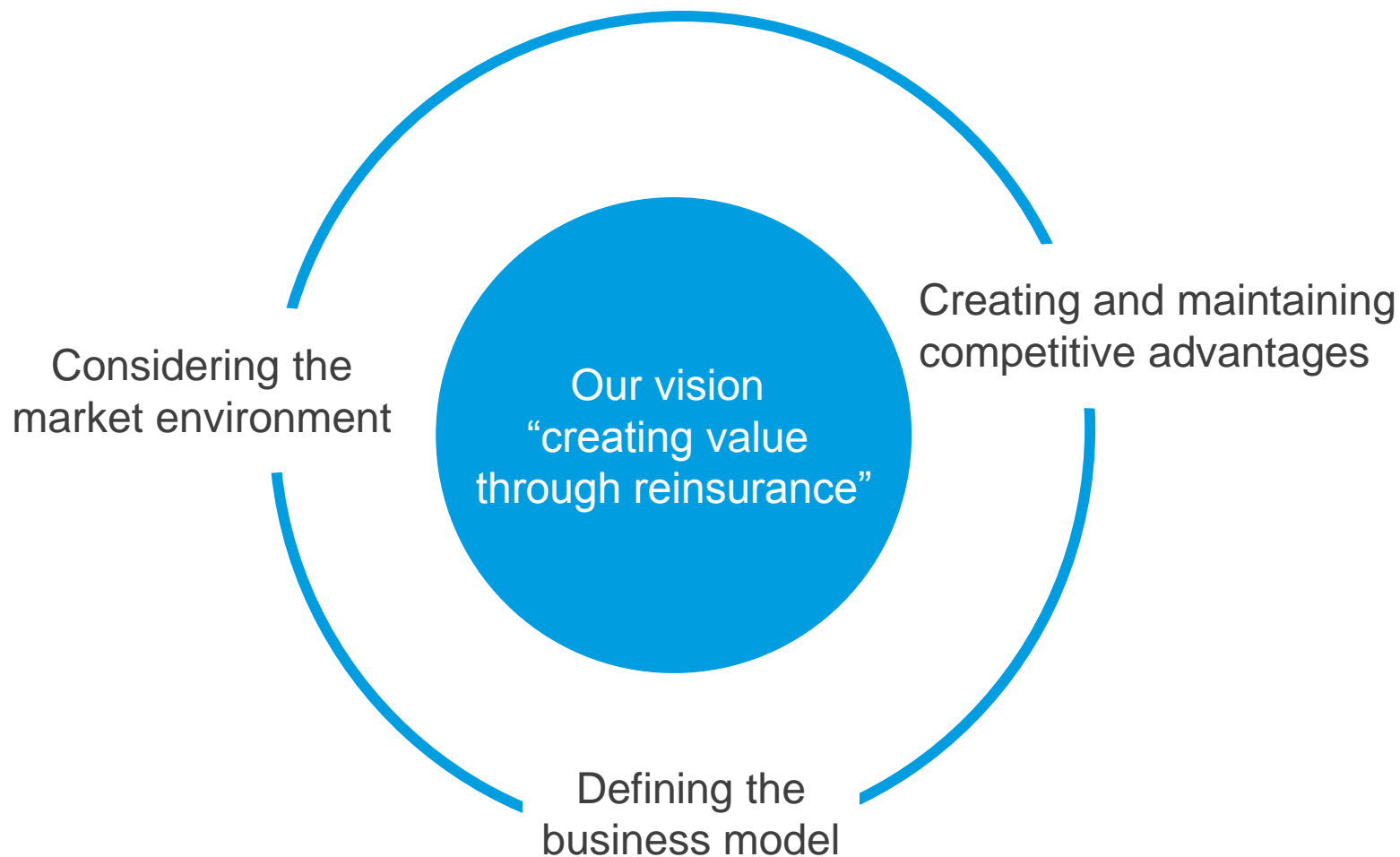
Less diversification?

Thoughts on the traditional reinsurance business model!

Smaller structures – reduced business scope?

Strategic options to be reflected in the strategy

Strategy review 2018 - 2020



Our vision: creating value through reinsurance

Q: Will reinsurance business continue to be an attractive field of activity for market players going forward?

- ▶ Reinsurance creates value for insurance companies, particularly when it comes to the management of capital and earnings volatility
- ▶ Reinsurance premiums will grow, albeit at a smaller pace than in primary insurance
- ▶ Market structure will remain competitive: margins continue to be under pressure
- ▶ However, almost all capacity is provided by publicly-listed companies or investment funds (ILS), which cannot tolerate negative results for an extended period
- ▶ Consequently, we can anticipate that market conditions will improve following deteriorating results of the market (rational competition)

A: Market players, that are able to develop a competitive advantage relative to the average have the opportunity for profitable growth

Our vision: creating value through reinsurance

Q: Why can HR be successful in the competitive reinsurance business?

- ▶ As 3rd largest reinsurer Hannover Re is a lead market/Top-Tier player
- ▶ Lower expense ratio than our competitors
- ▶ Consistent U/W approach (no surprises for our clients)
- ▶ Long-dated client relationship
- ▶ Positive diversification effect between P&C and L&H
- ▶ Efficient offering of tailor-made services

A: HR well positioned to compete successfully in the reinsurance business

Our vision: creating value through reinsurance

Q: Should we follow the vast majority of our competitors by putting our activities in primary insurance on an equal footing to those on the reinsurance side?

- ▶ We continue to see good opportunities for Hannover Re to generate earnings growth in reinsurance business in the coming years
- ▶ We wish to avoid competing with our clients and with the primary insurance activities of our sister companies of the Talanx primary group

A: Reinsurance remains our core business. As a complement to our core business, we write a limited amount of primary business on a co-insurance basis on large commercial risks and selected niche markets with partners

What does this mean for the business model?



Positive outlook for the market

- ▶ We can expand our position as a leading reinsurer
- ▶ We emphasize the focus on reinsurance
- ▶ We have a broad-based approach (all regions and lines of business)
- ▶ Primary business in selected niche markets only



We differentiate from competitors

- ▶ We continue with both business groups (P&C, L&H) to create diversification benefits
- ▶ We maintain our competitive cost advantage
- ▶ We are perceived as solution-oriented and innovative reinsurer



We defined our approach in digitalisation & automation

- ▶ Enabling us to generate new business and increase efficiency

We create value for clients, shareholders and employees

Our strategic principles

- 
1. We pursue ambitious economic growth targets
 2. We are a preferred business partner
 3. We aim for successful employees
 4. We strive for an optimal balance between stability and yield of our investments
 5. We manage risks actively
 6. We maintain an adequate level of capitalisation
 7. We conduct our business with lower costs than our competitors due to our high efficiency
 8. We support our business through efficient information technology and take advantage of digitalisation and automation
 9. We are committed to sustainability, integrity and compliance
 10. We strive for Performance Excellence and continuous improvement

1. We pursue ambitious economic growth targets

Amended Target Matrix

Business group	Key figures	2017	2018
Group	Return on investment ¹⁾	>2.7%	≥ 2.7%
	Return on equity ²⁾	≥9.7%	↓ ≥ 9.5%
	Earnings per share growth (y-o-y)	≥6.5%	↓ ≥ 5%
	Economic value creation ³⁾	≥7.5%	≥ 6.5%
	Solvency ratio ⁴⁾		≥ 200%
Property & Casualty R/I	Gross premium growth ⁵⁾	3% - 5%	3% - 5%
	Combined ratio ⁶⁾	≤96%	≤ 96%
	EBIT margin ⁷⁾	≥10%	≥ 10%
	xRoCA ⁸⁾	≥2%	≥ 2%
Life & Health R/I	Gross premium growth ⁹⁾	5% - 7%	↓ 3% - 5%
	Value of New Business (VNB) ¹⁰⁾	≥ EUR 220 m.	≥ EUR 220 m.
	EBIT growth ¹¹⁾		≥ 5%
	xRoCA ⁸⁾	≥3%	↓ ≥ 2%

1) Excl. effects from ModCo derivatives

2) After tax; target: 900 bps above 5-year average return of 10-year German government bonds

3) Growth in economic equity + paid dividend; target: 600 bps above 5-year average return of 10-year German government bonds

4) According to our internal capital model and Solvency II requirements

5) On average throughout the R/I cycle; at constant f/x rates

6) Incl. expected net major losses

7) EBIT/net premium earned

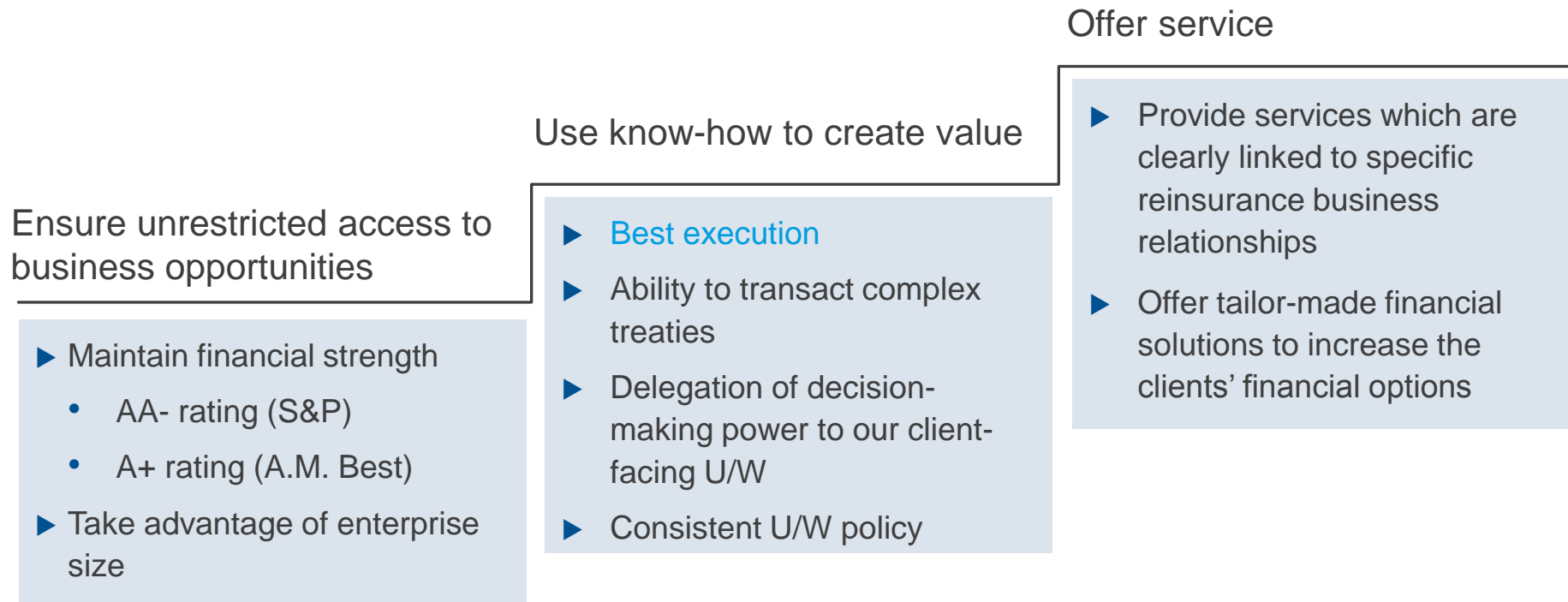
8) Excess return on allocated economic capital

9) Organic growth only; annual average growth (3-year period), at constant f/x rates

10) Based on Solvency II principles and pre-tax reporting

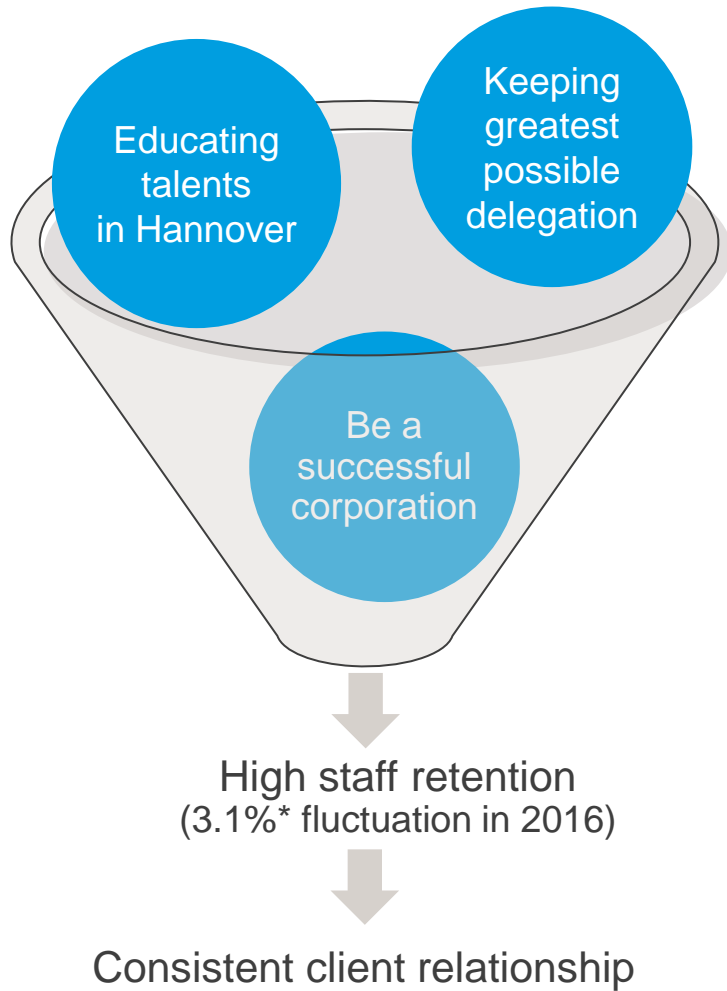
11) Annual average growth (3-years period)

2. We are a preferred business partner

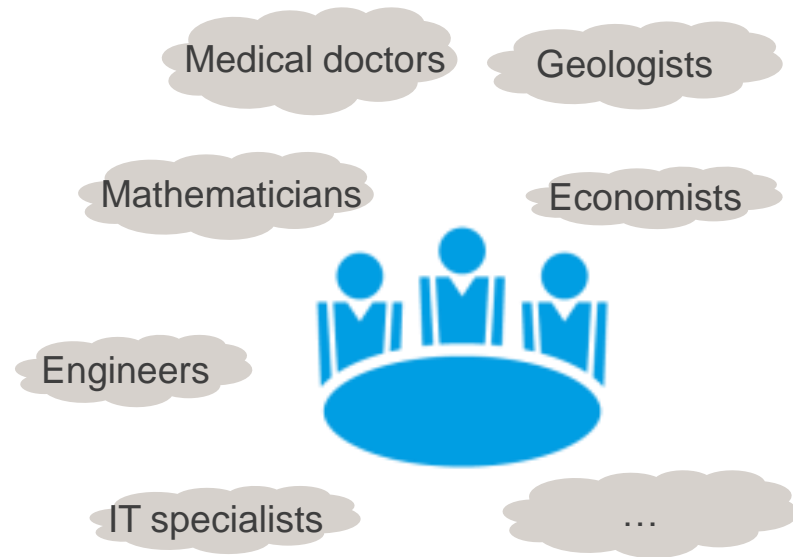


Best execution ability newly included in the strategy

3. We aim for successful employees



Ensure that skill sets of workforce match requirements...



... in particular with regard to digitalisation & automation

* Home Office Hannover

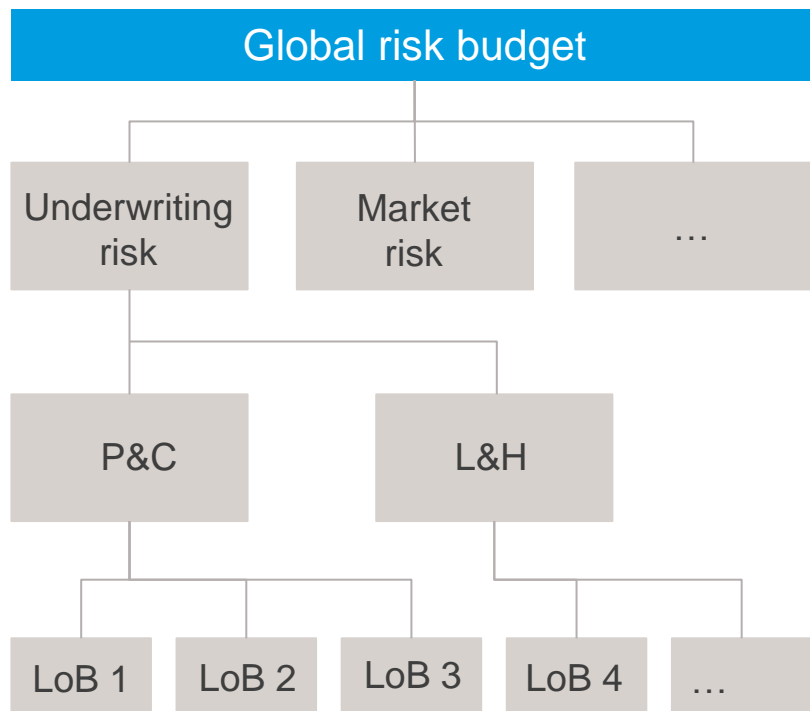
Should we follow a conservative or a hedge fund approach?

4. We strive for an optimal balance between stability and yield of our investments



Hannover Re continues with a conservative, liability-driven investment policy

5. We manage risks actively



- ▶ We manage risk-taking through our internal capital model as approved by the regulator
- ▶ Apply the following quantitative values to determine our risk position: 90% probability p.a. of a positive net income / default probability of 0.03% p.a.
- ▶ Limit for Solvency II ratio of 180% with a threshold of 200%
- ▶ This level reflects our ambition to be considered as having a AA credit quality and defines our risk appetite for the total risk budget as well as broken down to LoBs

Integration of Solvency II targets regarding risk management

6. We maintain an adequate level of capitalisation

How can we achieve the inherently conflicting goals?

Achieve an above-average RoE

- ▶ Meet expectations of capital market participants
- ▶ Be a successful corporation
- ▶ Have below-average cost of capital

Have adequate level of capitalisation

- Use of capital substitutes (hybrid, retro) in order to strengthen capital through leverage
- Pay special dividends to balance equity and profit growth in order to manage capital growth downwards in favour of a high RoE

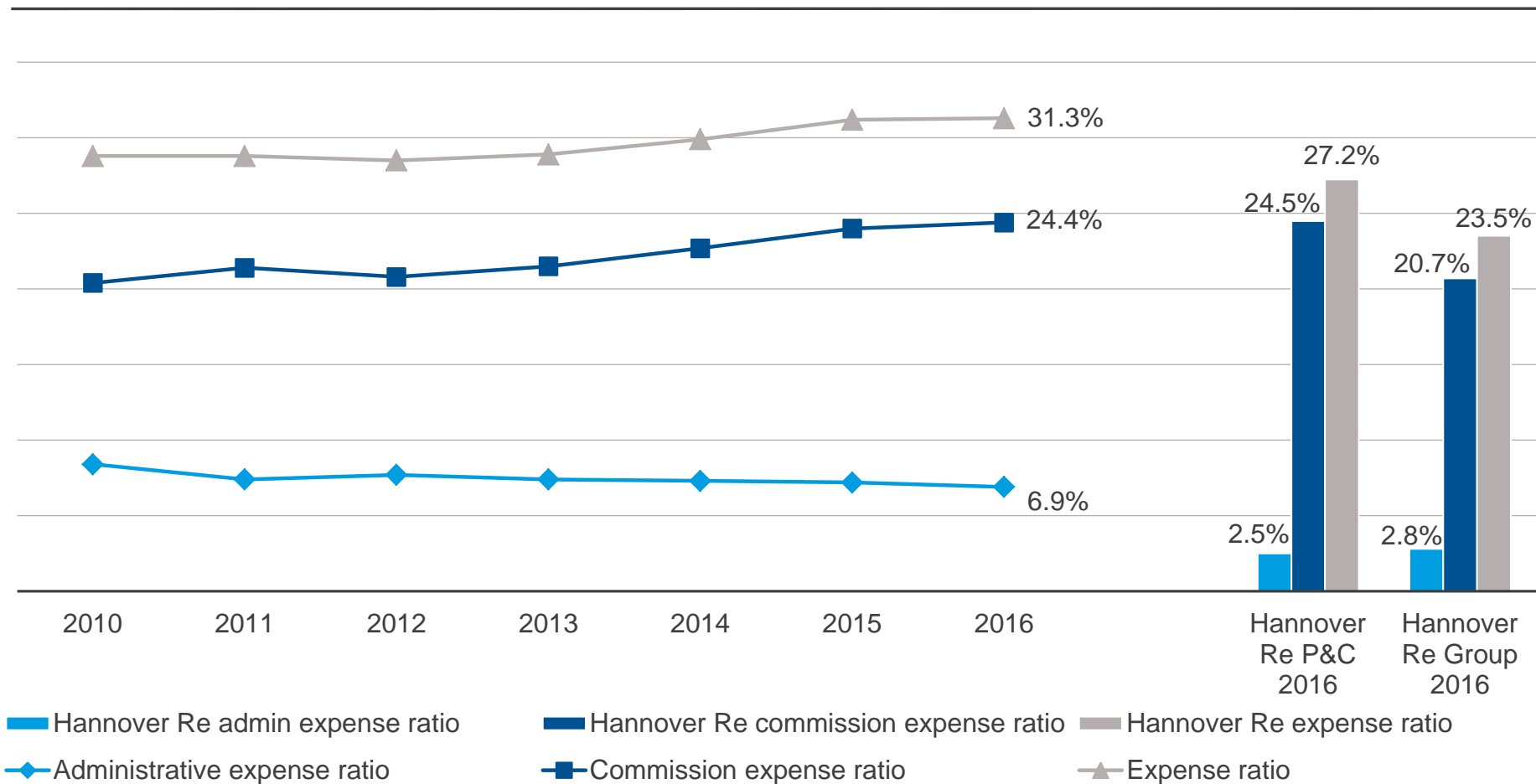
- ▶ Be able to act on available opportunities at all times
- ▶ Fulfil regulatory and rating requirements
- ▶ Meet expectations of clients

Special dividend policy integrated in new strategy

Low expense ratio is an important competitive advantage

Hannover Re largely maintained its ratio in contrast to increasing industry trend

Expense ratio (P&C reinsurance)*

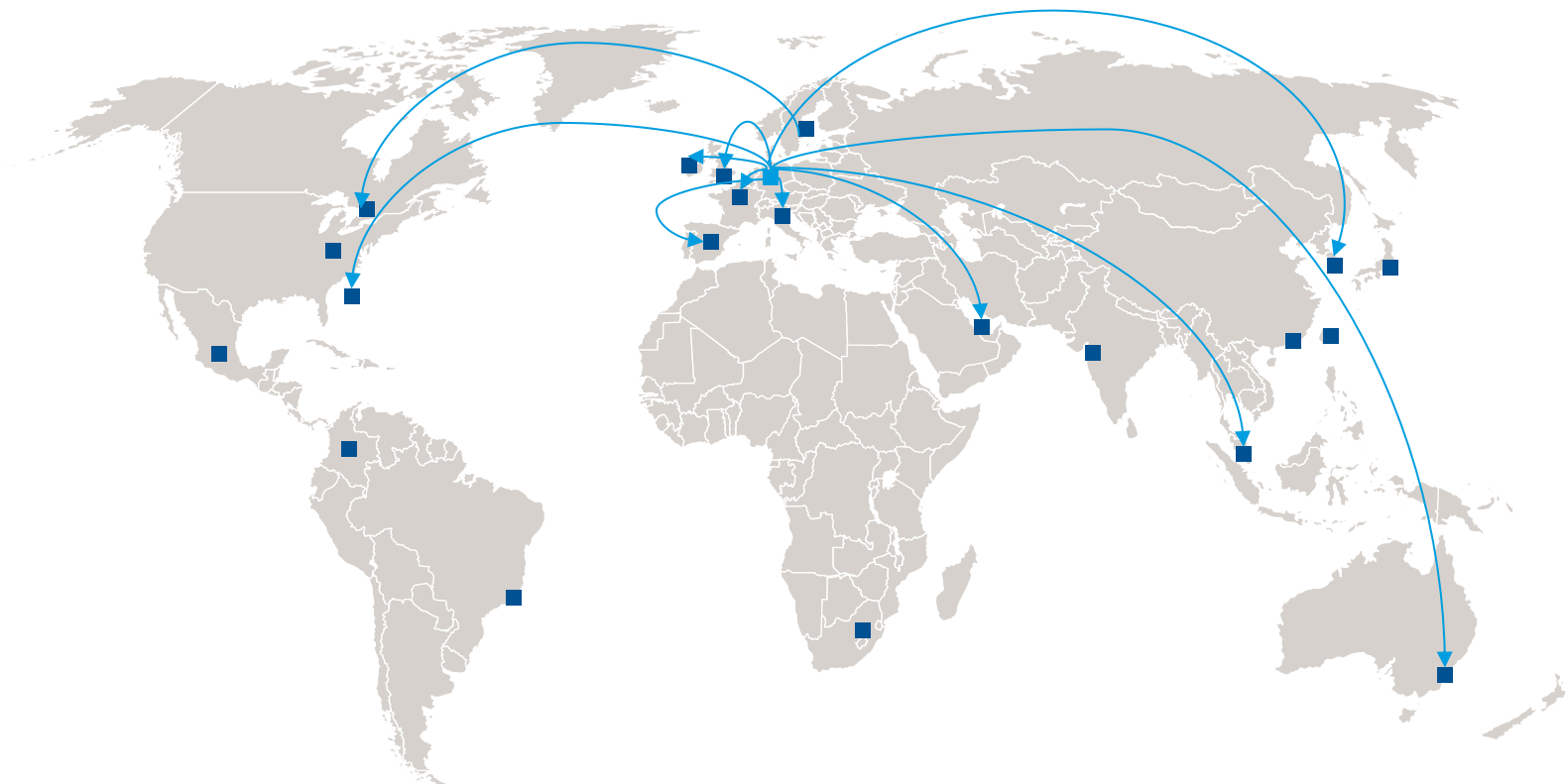


* Source: S&P Global Reinsurance Highlights 2017 (TOP 27 global reinsurers' P&C reinsurance business); Hannover Re figures own calculation

8. We support our business through efficient IT and D&A

Deliver state-of-the-art support to our business process at competitively low costs

Worldwide roll-out of standard contract administration system (currently 76% on one system) ...



... leads to consistent high data quality, enabling Hannover Re to steer the business successfully

* Based on gross written premium

8. We support our business through efficient IT and D&A

The goals of our Digital Strategy



Generate new business

- ▶ by reinsuring new start-up companies that operate digital business models
- ▶ by performing digital services for our clients along the entire value chain
- ▶ by writing new risks, such as the re-insurance of cyber insurance, as well as developing an understanding of the changing risk profiles of primary insurance & reinsurance risks through digitalisation



Increase our efficiency

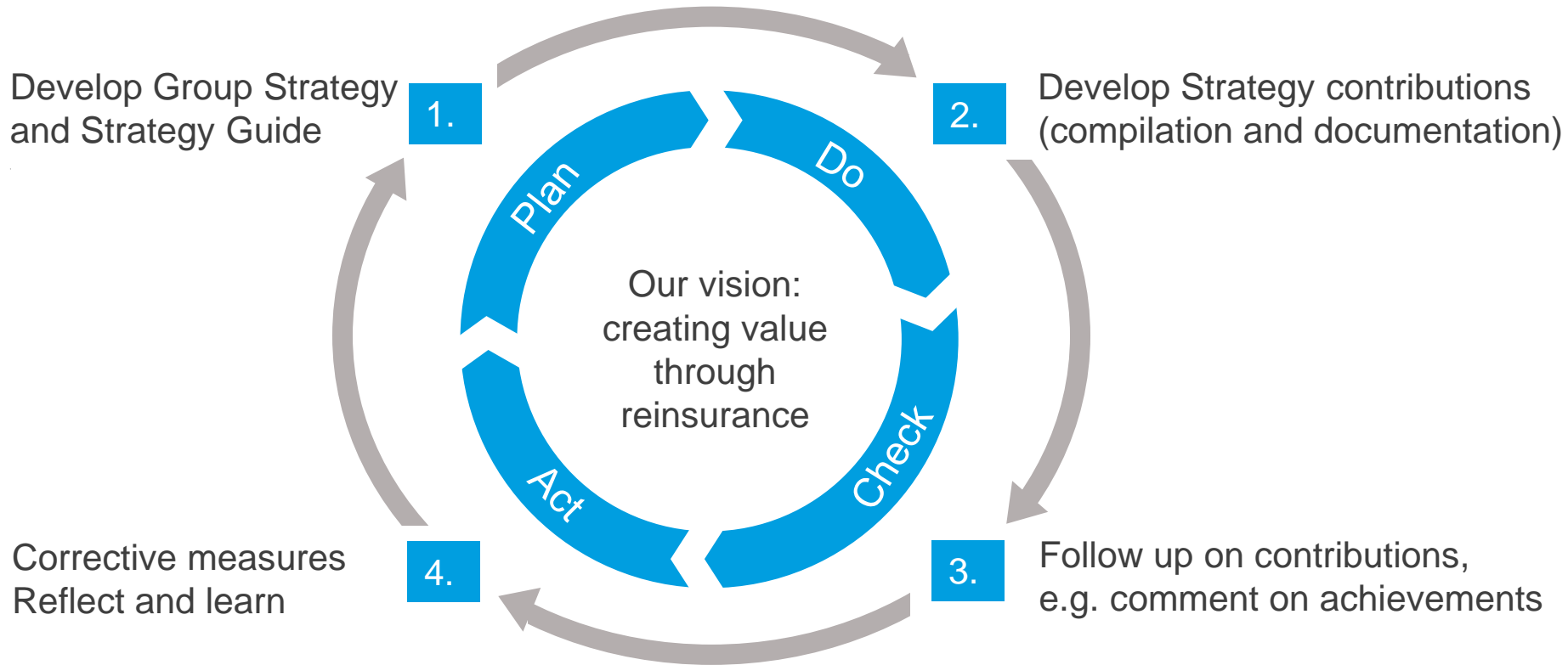
- ▶ by automating our internal processes “end-to-end”
- ▶ by supporting and launching initiatives to automate the interaction at the interfaces to our clients, intermediaries and other partners
- ▶ by making use of all internal and external data legally available to us (Big Data) in a profit-generating way

We live up to the challenges of digitalisation

9. We are committed to sustainability, integrity and compliance

- ▶ Fulfil the relevant compliance needs
 - ▶ Able to meet clients' requirements
 - ▶ Attract socially responsible-oriented investors
 - ▶ Be an attractive employer
- ➔ **In order to adhere to the goals of our sustainability strategy we are prepared to forgo short-term profit opportunities**

10. We strive for Performance Excellence and continuous improvement



Improve execution by more precisely defining the contribution and PDCA cycle

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