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PRESS RELEASE

Sixth record result in succession

Gross premium income + 24% -- Property and casualty reinsurance + 30% -- Program business + 45% -- Financial reinsurance + 71% -- Consolidated net income and earnings per share + 81% -- Return on equity 26% after tax -- Seventh consecutive dividend increase

Hannover, 5 June 2001: For the sixth year in succession the Hannover Re Group generated a record result in the 2000 financial year. The news was announced by Wilhelm Zeller, Chairman of the Executive Board of Hannover Re, at today's press briefing on the annual results held in Hannover. Net income and the earnings per share recorded an extraordinary year-on-year increase of 81% to reach EUR 365 million and EUR 12.38 per share respectively. The after-tax result benefited substantially from the effects of German tax reform. With a return on equity of 26% after tax, Hannover Re once again comfortably surpassed its profit targets. Hannover Re's consolidated financial statements are based upon United States Generally Accepted Accounting Principles (US GAAP) and they therefore satisfy international standards with regard to the transparency and comparability of the business development.

Strong organic growth boosts premium income by 24%

The gross premium income of the Hannover Re Group grew by 24.1% in the 2000 financial year to EUR 8.3 billion. Of this increase, 9 percentage points were attributable to exchange rate movements. Following a period of stagnation and indeed – after factoring out exchange rate effects – not insignificant decline in recent years due to unattractive market conditions, property and casualty reinsurance accounted for the highest share of growth in absolute terms in the year under review (12 percentage points). Hannover Re also achieved vigorous growth in its newest segment of program business; its share of overall growth was 9 percentage points. In relative terms, financial reinsurance – the most profitable business segment – actually showed the greatest year-on-year growth of 71%. Its contribution to overall growth was thus 5 percentage points. In life and health reinsurance, two extraordinary effects on the development of business must be explained: certain premium components in this segment (most notably savings elements under unit-linked life insurance policies) were for the first time no longer shown as premium under US GAAP. In addition, the previous year was influenced by a major single transaction in Australia, as a consequence of which nominally a decrease of 6% is in fact to be reported. Once these special effects are factored out, however, life and health reinsurance posted further highly satisfactory growth of 23%.

Strategic business segments deliver qualitatively different profit contributions

The results in the four business segments were of varying quality. In this context, Mr. Zeller stressed the strategic importance of being able to draw on various sources of income. It had thus once again been possible to generate satisfactory overall bottom line results, despite the fact that one segment – as was the case with program business in the year under review – failed to live up to expectations.

In **property and casualty reinsurance** a positive trend reversal as regards conditions was observed in selected markets in 2000, thereby opening up the possibility of once again writing very profitable business in specific areas. Pursuing its opportunistic and anti-cyclical business policy, Hannover Re took full advantage of this situation. The decrease in natural catastrophe and other major losses also favourably impacted the result in property and casualty reinsurance. Overall, gross payments for major losses dropped from EUR 510 million in 1999 to approximately EUR 178 million in 2000 (in net terms from EUR 252 million to EUR 63 million). The combined ratio, however, decreased disproportionately modestly to 108% (previous year: 111%). This was attributable to the after-effects of the previous depressed market phase as well as the expansion of casualty business; this growth initially produces high claims expenditure, but subsequently generates commensurate investment income.

The premium income growth of 23% in **life and health reinsurance** (incl. premium deposits) was again primarily due to contracts with a pre-financing component. It was possible, particularly in Germany, to profit from the strong growth in unit-linked life assurance. In the USA the company enjoyed continued success with its speciality of block assumption transactions (BATs). Allowance is made for the investment-orientated nature of these products under US GAAP through the capitalisation of the pre-financed acquisition costs, and their profit contribution consequently closely reflects the true situation. The operating result increased by a pleasing 78% to EUR 83 million. A long-term assessment of the value added should take into account not only the US GAAP result but also the development of the net embedded value of the portfolio, i.e. the present value of future profits (PVFP). The increase in the net embedded value not reflected in the operating result amounted to EUR 42 million. The total net embedded value not reported thus stood at EUR 277 million (previous year: EUR 235 million).

The portfolio of **program business** continues to be largely dominated by the Clarendon Insurance Group, New York; nevertheless, in accordance with the strategically envisaged export of this business model, two other international subsidiaries also enjoyed an appreciable share of the growth. Results were for the most part, however, still determined by Clarendon, whose operating profit declined markedly from EUR 52 million to EUR 17 million, due primarily to two non-recurring factors. Despite these effects, Hannover Re remains convinced of the profitability of this business segment and will continue to pursue the global expansion of its program business. Thus, for example, the subsidiary International Insurance Company of Hannover, London, which writes program business in Great Britain, has set about establishing this business model in Europe.

Financial reinsurance was generally influenced by the growing demand for non-traditional reinsurance solutions. Hannover Re made the most of this environment and expanded its premium volume by a vigorous 71%. With regard to the marked technical deficit of EUR -114 million, Mr. Zeller pointed out that in financial reinsurance little insight is to be gained by looking at the technical account in isolation, since non-technical items form an integral part of the reinsurance transaction. The true profit contribution can thus be derived from the operating result, which despite the high level of the previous year climbed a further 43% to reach EUR 54 million.

Investment income again higher

Despite the continuing low average returns on fixed-income securities, ordinary investment income – especially due to the expansion of life & health and financial reinsurance – was up 28% to EUR 799 million. As in the previous year, the rise reflected a modest increase in the investment portfolio as well as the weakness of the Euro. Realised profits on the disposal of securities derived primarily from the first half of the year. In total, net investment income increased from EUR 828 million to EUR 869 million.

Pleasing overall result

While the pre-tax result having declined slightly, the after-tax result was decisively impacted by the cut in the rate of corporate tax from 40% to 25%. This reduction caused the recalculation of deferred taxes and consequently led to additional proceeds of EUR 219 million. The after-tax result and the earnings per share therefore climbed by 81% to EUR 365 million and EUR 12.38 respectively.

Further increase in the dividend

The parent company generated a profit on ordinary activities – calculated on the basis of German accounting principles – of EUR 121.5 million in the year under review. This corresponds to an increase of 11.7% on the previous year. Particularly due to lower tax-exempt income than in 1999, however, the tax burden grew to around EUR 50 million. Net income thus amounted to EUR 71.7 million (EUR 95.8 million in the previous year).

As has been its policy to date, Hannover Re will distribute its operating profit in full to shareholders. The Annual General Meeting will be asked to approve the proposal that a 12% higher dividend of EUR 2.30 plus a bonus of EUR 0.25 be paid. This bonus derives from the paying out in full of retained earnings, taxed at 45%, the distribution of which is economically expedient due to the corporate tax reform. By way of this distribution, Hannover Re is thus passing on the full amount of this tax advantage to its shareholders. Shareholders will also enjoy a corporate tax credit of EUR 1.09 per share, thereby producing a total gross dividend of EUR 3.64.

The total gross amount distributed consequently exceeds EUR 100 million in absolute terms. Hannover Re intends to claw back this gross distribution from its shareholders through a corresponding capital increase (pay-out/claw-back principle). This capital increase is expected to be implemented in the fourth quarter of 2001.

Outlook for 2001

For the current year Mr. Zeller again anticipates a predominantly favourable business development.

In **property and casualty reinsurance** the moderately favourable basic conditions will be adversely affected by the fact that – owing to the ongoing concentration in the insurance market – the number of clients is steadily decreasing and ceding companies are constantly growing in size and capital strength. This will lead to higher retentions and the increasing use of non-proportional reinsurance. On the other hand, Mr. Zeller stressed that the reinsurance capacity available world-wide for the coverage of natural catastrophes is by no means sufficient and therefore offers good opportunities for growth. For the current year, improved conditions in important markets will have positive implications and, given normal major loss experience, premiums are likely to rise and technical results improve. All indicators suggest that the favourable trend will continue through 2001 and beyond. Mr. Zeller therefore anticipates that business in currently loss-making markets, such as certain casualty sectors in the USA and motor insurance in Germany, may become more attractive. The incidence of major claims and catastrophe losses is currently within normal bounds. In 2001, Hannover Re's account has been affected by the explosion and subsequent total loss of an oil rig off the Brazilian coast, an earthquake in Central America and a train accident in Great Britain. In these cases, however, the company's retrocessions responded, and hence the share of these losses retained for own account will not be unusually high.

In **life and health reinsurance** the business model of "stochastic banking", in other words pre-financing of the acquisition costs of innovative, rapidly growing insurers, will continue to offer favourable opportunities in coming years. Sustained strong demand for unit-linked life and annuity policies is expected, most notably from European markets such as Germany, Austria, Italy and Spain. In the USA the company will be able to further expand its position as the leading specialist reinsurer of block assumption transactions, thereby enabling it to tap into sufficient opportunities for profitable growth in this area too. Overall, Mr. Zeller anticipates premium growth of 20-25% in the life and health reinsurance segment, accompanied by a similar increase in profits.

Financial reinsurance will be favourably influenced by the trend reversal in property and casualty reinsurance. Since traditional risk transfer is becoming significantly more expensive, more affordable innovative concepts with a limited risk transfer will enjoy a resurgence in demand. Hannover Re has therefore further expanded its infrastructure and expects to build on the very strong growth in 2000 with substantial rates of increase and a corresponding growth in profits for 2001.

In **program business** the Clarendon Insurance Group will continue to expand its position as market leader. Attractive new conditions are emerging, for example, in Californian workers' compensation business as well as in certain areas of commercial motor insurance. The US subsidiary Insurance Corporation of Hannover is also planning to accelerate the growth of its program business, and through the International Insurance Company of Hannover in London steps are being taken to promote this business model in Europe. Overall, further growth in this segment is to be expected. As far as the results are concerned, Mr. Zeller again anticipates significant profit contributions.

On the basis of these expectations in the four strategic business segments, Mr. Zeller anticipates further substantial double-digit growth in total gross premium income coupled with an appreciable improvement in the technical result. Investment income is by its very nature difficult to forecast. Against the backdrop of insignificant interest rate movements and sluggish stock markets, profits on disposals are likely to decline sharply while ordinary investment income will continue to climb. Following the exceptional years characterised by booming stock markets, net investment income for the current financial year is therefore expected to decrease.

The after-tax result will of course be impacted by the elimination of the special factors that affected the previous years. Since both 1999 and 2000 constitute a distorted basis due to the tax effects, Mr. Zeller explained that the strategic objective of increasing the earnings per share by at least 10% annually can only be based upon the 1998 financial statements. In the absence of extraordinary capital market strains or natural catastrophe losses, he anticipates that the corresponding result of roughly EUR 230 million and earnings per share of EUR 7.76 will be attainable.

For further information, please contact **Ralf Arndt** (tel. +49/511/56 04-15 00; fax +49/511/56 04-16 48, e-mail

ralf.arndt@hannover-re.com) or visit our website **www.hannover-re.com**

Hannover Re, *with gross premiums of EUR 8,3 bn., is the fifth-largest reinsurance group in the world. It transacts all lines of property/casualty, life/health and financial/finite-risk reinsurance as well as program business. It maintains business relations with more than 2,000 insurance companies in over 100 countries. Its world-wide network consists of more than 100 subsidiaries, branch and representative offices in 20 countries. The American rating agencies Standard & Poor's and A.M. Best have awarded Hannover Re their second-highest rating of AA+ ("Very Strong") and A+ ("Superior"), respectively.*

2000 RESULTS *by segment*

in m. EUR	Property/Casualty R/I 2000	Property/Casualty R/I 1999	Life/Health R/I 2000	Life/Health R/I 1999	Financial R/I 2000	Financial R/I 1999	Program Biz 2000	Program Biz 1999	Total 2000	Total 1999
Gross written premiums	3,385	2,614	2,091	2,220	870	509	1,974	1,364	8,320	6,706
Change in GWP	29.5%	(4.4%)	(5.8%)	58.3%	71.1%	38.3%	44.8%	-	24.1%	48.9%
Net premiums earned	2,524	2,069	1,592	1,485	801	463	293	163	5,210	4,180
Underwriting result	(206)	(228)	(122)	(171)	(114)	(37)	(7)	42	(449)	(395)
Net investment income	472	526	204	217	168	75	25	10	869	828
Operating result before other expenses	266	297	83	46	54	38	17	52	419	433
Other income and expenses*	(46)	(63)	(52)	(23)	(3)	8	(15)	(24)	(115)	(103)
Pre-tax result	220	234	31	23	51	45	3	28	304	330
Taxes	+109	(73)	+28	+7	(4)	(4)	(3)	(10)	+129	(80)
Minorities	(62)	(33)	(5)	(8)	(6)	(5)	4	(2)	(68)	(48)
Net income	267	128	54	22	41	36	3	16	365	202

* e.g. interest for hybrid capital, goodwill write-off, general overhead expenses

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