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PRESS RELEASE

Net income generated despite extraordinary losses associated with 11 September

- **Property and casualty reinsurance heavily impacted, all other business segments on target or above**
- **Net embedded value of the life and health reinsurance portfolio surpasses EUR 1 billion for the first time**
- **Stronger demand causes premium income in financial reinsurance to double**
- **Program business on the upswing again**

Hannover, 25 April 2002: The largest loss in the history of the insurance industry – the terrorist attacks in the USA on 11 September 2001 – interrupted the long streak of record results generated by Hannover Re. As reported by Wilhelm Zeller, Chairman of the Executive Board, at today's press briefing on the annual results in Hannover, the company is nevertheless proud to have successfully withstood an event of such unimaginable dimensions and even achieved net income – albeit on a modest level – of EUR 11 million (previous year: EUR 365 million).

Strong organic growth boosts gross premium income by 38%

The portfolio developed very favourably, albeit this success was overshadowed by the losses due to the terrorist attacks. Gross premium income comfortably surpassed EUR 10 billion for the first time, reaching EUR 11.5 billion. This corresponds to a growth of EUR 3.2 billion or 38% (previous year: 24%). Of this increase 1.3 percentage points were attributable to exchange rate movements.

Following an unattractive phase, which prevailed well into 2000, the property and casualty reinsurance market began to recover appreciably in the first half of 2001 – a trend that gained substantial added impetus from the events of 11 September. Hannover Re optimally exploited this recovery. With premium growth of 45.9% or around EUR 1.6 billion as well as far-reaching improvements in terms and conditions, the group successfully increased both its market share and the profitability. Financial reinsurance doubled its premium volume. Program business also showed pleasing growth of 24.5%, or as much as 66.1% for net account (i.e. in terms of premiums retained). Gross premium income in life and health reinsurance climbed by 13% to EUR 2.4 billion; including the premium

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deposits for unit-linked products as well as similar revenues not recognised as premiums under US GAAP, gross premiums were as high as EUR 2.7 billion (previous year: EUR 2.5 billion).

With disproportionately strong premium growth and a highly satisfactory result, the fourth quarter was extremely favourable, including extremely low losses. Hannover Re, one of the few reinsurers to maintain quotation service without interruption in the hard-hit lines even after 11 September, responded rapidly and was therefore able to write very lucrative high-premium business. This served to expand the market share and profitability as early as the fourth quarter 2001.

Diversification strategy prevents balance sheet deficit

The major markets for **property and casualty reinsurance** had already bottomed out by the beginning of the year under review, and conditions had begun to improve. While the burden of losses in the first half-year was within our expectations, this situation changed abruptly with the events of 11 September. In particular, aviation insurance – in which Hannover Re ranks among the market leaders – suffered losses on a hitherto unheard-of scale. The aviation market responded, however, by immediately implementing substantial premium increases and by reducing the scope of liability. As Mr. Zeller emphasised: "We exploited fully the improved terms and conditions and thus made the most of the profit opportunities. In aviation business alone we generated premium growth in excess of 150% due to these market conditions".

Overall, the events of 11 September produced a net burden before tax in the order of EUR 400 million. The anticipated consolidated net income before tax for 2001 was thus almost entirely eroded. The profit contribution of property and casualty reinsurance amounted to EUR -75.5 million (previous year EUR 267 million) after tax.

The terrorist attacks on the USA placed an unprecedented strain on the property and casualty reinsurance segment. As Mr. Zeller pointed out: "Had it not been for the compensatory effect of our other strategic segments, we would have been unable to absorb the 11 September losses without depletion of our equity base". Mr. Zeller observed that the value of the diversification strategy pursued for a number of years – under which the Group is able to draw on four earnings sources that are independent from each other – had been impressively demonstrated.

The expansion of premium income in **life and health reinsurance** (incl. premium deposits) of 13% was primarily attributable to unit-linked life and annuity products. The drivers of growth were especially the German-speaking markets and Great Britain. Net income before tax improved by a pleasing 44% to EUR 44.4 million. Mr. Zeller remarked: "With our business model as a financing reinsurer and as a product partner for innovative life and annuity products, we belong to the leading worldwide reinsurers and we are operating in a market with little competition". The terrorist attacks on the World Trade Center and the Pentagon only minimally impacted Hannover Re's life and health portfolio, since in the US the company scarcely transacts business involving a traditional risk transfer. Measured in terms of its so-called net embedded value, the value of Hannover Re's portfolio of life and health reinsurance surpassed EUR 1 billion for the first time.

Following a disappointing financial year 2000 – owing to the performance of the subsidiary Clarendon Insurance Group, New York – results in **program business** improved significantly. By acquiring attractive new programs and securing sizeable premium increases for existing programs, Clarendon substantially expanded its position in the US market. It now ranks as the undisputed market leader in the United States. The enlargement of European program business, which is transacted by Inter Hannover in London, also progressed very well. In Great Britain it was already possible to generate a premium volume of EUR 200 million. The motor insurance market, in particular, currently offers highly profitable business, and disproportionately strong growth was achieved in this sector. The company's conviction that program business – primarily known to date in the USA – can be successfully transacted in the European market has thus been reinforced. Overall, the combined ratio of 92% was satisfactory. The technical result improved from EUR -7 million to EUR 40 million, while net income before and after taxes amounted to EUR 29 million (previous year: EUR 3 million) and EUR 18 million (previous year: EUR 3 million), respectively.

Financial reinsurance continued to profit from growing demand for non-traditional reinsurance solutions where the primary emphasis is not on risk transfer. With prices for property and casualty reinsurance rising steeply on major markets in the wake of 11 September, clients increasingly looked to alternative reinsurance products. Hannover Re grew its gross premium income by 100% to EUR 1.7 billion. The operating result increased – despite the high level of the previous year – by a further 23.4% to EUR 66.7 million. As Mr. Zeller emphasised: "Financial reinsurance once again constitutes the Group's most profitable business segment".

Pleasing rise in net investment income

Given the extremely difficult general climate on the capital markets in 2001, Hannover Re was able to generate satisfactory net investment income. Despite the lower average return on investments, ordinary income rose by 18% to EUR 942 million due to strong portfolio growth. After allowing for price gains/losses and deducting expenses, net investment income was boosted by 9% to EUR 946 million.

Overall result positive despite "annus horribilis"

Net income before taxes declined in the year under review from EUR 304 million to EUR 53 million, largely due to the losses associated with 11 September. Unlike in the previous year, the result was not improved by special tax effects. The tax charge for the year under review was EUR 18 million (previous year: positive tax result of EUR 129 million). Overall, this produced consolidated net income of EUR 11 million and earnings per share of EUR 0.34. Had it not been for these extraordinary loss events, net income would have been higher by roughly EUR 230 million. Earnings per share would have reached EUR 7.44 and once more met the target figure. In view of the immense strain placed on the total result by the terrorist attacks, for the first time a dividend distribution will not be proposed to the Annual General Meeting.

Outlook for 2002

Mr. Zeller considers the prospects for the current year to be extremely promising. Following the hardening of the reinsurance markets in late 2000/early 2001, significant rate increases and improvements in conditions were possible in **property and casualty reinsurance** – especially in those markets and lines of business most severely impacted by the terrorist attacks. "Hannover Re will take full advantage of these circumstances in order to profit disproportionately strongly from the market opportunities", explained Mr. Zeller. The company reinforced the foundations necessary to achieve this goal by implementing a series of capital measures, raising more than EUR 800 million of equity and equity substitutes in the course of the past twelve months. The division for specialty business (responsible for the specialty lines of aviation and marine as well as London Market reinsurance business – all of which suffered enormous losses on 11 September) is, for example, planning to enlarge its premium volume by an average of 150% in 2002. "In some areas of our aviation business we anticipate a tenfold increase in premium volume", explained Mr. Zeller. Furthermore, Hannover Re expects to significantly enhance the profitability of the business by reducing the risk in many areas of property and casualty reinsurance at the same or even increased rates. Lines of business unaffected by the terrorist attacks also showed significant rate increases. Overall, the treaty renewal season for the financial year 2002 promises a sharp rise in the profitability of property and casualty reinsurance. "Our goal is to recoup the losses from the terrorist attacks within at most three years", emphasised Mr. Zeller.

In **life and health reinsurance** Hannover Re's medium-term objective is to reach the number three ranking in the world market. Organic growth in the order of 10 - 20% per year is planned. In the future the company will continue to focus on the non-traditional business model of "stochastic banking". The company expects that further expansion of unit-linked life insurance in continental Europe will generate a consistent need for financing among clients, thereby creating further growth potential.

In **program business** Clarendon will continue to realign its underwriting orientation. The other US writer of program business, the Chicago-based Insurance Corporation of Hannover, will maintain its focus on profitable niche business. Inter Hannover in London, which has performed extremely successfully in the year under review, will further expand program business in Europe. Program business as a whole is therefore expected to show a further improvement in results.

The hardening of the worldwide traditional reinsurance market has fostered growing interest in **financial reinsurance**. In the future this will lead to an enlargement of the customer base and diversification of the product range, but there will be a slowdown in the very rapid premium growth of recent years.

Based on current expectations, Hannover Re anticipates that its four strategic business segments will generate clear double-digit growth in total gross premium income. As Mr. Zeller explained: "In this hard market the structure of our portfolio will shift again in favour of property and casualty reinsurance".

The situation of the **capital markets** remains difficult. The increase in the investment portfolio should boost ordinary income, so that overall net investment income is anticipated to be on par with the previous year.

Based on the expected performance of technical business and assuming that both the major loss incidence and capital market developments remain within normal parameters, **net income before tax** should at least revert to the level of previous years. Accordingly, Mr. Zeller emphasised that he anticipates net income after tax and earnings per share to be highly satisfactory.

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 approx. EUR 12 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 worldwide network consists of more than 100 subsidiaries, branch and representative offices in 19 countries. The American rating agencies Standard & Poor's and A.M. Best have awarded Hannover Re a rating of AA ("Very Strong") and A+ ("Superior"), respectively*

2001 RESULTS *by segment*

in m. €	Property/Casualty 2001	Property/Casualty 2000	Life/Health 2001	Life/Health 2000	Financial 2001	Financial 2000	Program Business 2001	Program Business 2000	Total 2001	Total 2000
Gross written premiums	4,938	3,385	2,371	2,091	1,741	870	2,457	1,974	11,507	8,320
Change in GWP	45.9%	29.5%	13.4%	(5.8%)	100.0%	71.1%	24.5%	44.8%	38.3%	24.1%
Net premiums earned	2,989	2,524	1,740	1,592	1,280	801	486	293	6,496	5,210
Underwriting result	(481)	(206)	(146)	(122)	(291)	(114)	40	(7)	(878)	(449)
Net investment income	361	472	197	204	358	168	30	25	946	869
Operating result before other expenses	(120)	266	51	83	67	54	70	17	67	419
Other income and expenses*	38	(46)	(6)	(52)	(5)	(3)	(40)	(15)	(14)	(115)
Pre-tax result	(82)	220	44	31	61	51	29	3	53	304
Taxes	14	109	(16)	28	(6)	(4)	(10)	(3)	(18)	129
Minority interest	(8)	(62)	(5)	(5)	(10)	(6)	(1)	4	(25)	(68)
Net income	(76)	267	23	54	46	41	18	3	11	365
Operating Ratio	104,0 %	89,5 %	97,1 %	94,8 %	94,8 %	93,3 %	85,6 %	94,1 %	99,0 %	91,9 %

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

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