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Hannover Rueck SE

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Hannover Rueck SE

SACP* Assessments				SACP*		Support		Ratings		
Anchor	aa-	+	Modifiers	0	=	aa-	+	0	=	Financial Strength Rating
Business Risk			ERM and Management	0		Liquidity	0	Group Support	0	AA-/Stable/--
Very Strong			Holistic Analysis	0		Sovereign Risk	0	Gov't Support	0	
Financial Risk										
Strong										

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Major Rating Factors

Strengths	Weaknesses
<ul style="list-style-type: none"> One of the global leaders in the property/casualty (P/C) and life reinsurance market with a very strong franchise. Very strong diversification by products and geography, with selective and stringent underwriting as demonstrated by a more stable operating performance compared to most peers in 2017 after severe catastrophe losses. Solid capital adequacy under solvency requirements and our risk-based capital model, being well above the 'AA' range even after 2017 catastrophe events. 	<ul style="list-style-type: none"> Potential capital and earnings volatility, owing to tail risks, such as natural catastrophes and pandemics. Somewhat limited access to equity markets compared with some peers due to its shareholder structure.

Rationale

S&P Global Ratings' issuer credit and financial strength ratings on Hannover Rueck SE and its core operating companies (jointly, Hannover Re) reflect our view on the group being a market-leaders in the global reinsurance sector, with a very strong franchise and sound diversification by line of business and regions. Furthermore, the group has robust capital adequacy under Solvency II based on its internal model and our risk-based capital model even after the 2017 severe natural catastrophe losses. However, we also consider that the global reinsurance sector is inherently more volatile than many other insurance sectors.

Hannover Re is a publicly listed reinsurance company based in Germany. Its ultimate majority shareholder is HDI Haftpflichtverband der Deutschen Industrie V.a.G. (A+/Stable/--) which has a 50.2% stake in the group through intermediate holding company Talanx AG. From the remaining 49.8% of the group's shares that are in free float, 3.1% are held by BlackRock, 11.2% by private investors, and 35.5% by institutional investors.

In 2017, Hannover Re's P/C operations represented 60% of the group's gross written premiums (GWP); life and health, 40%. The group is widely regional diversified, with 38% of its premiums generated in Europe, 34% in North America, 14% in Asia, and 14% in Latin America, Australia, and Africa. Similarly, for the first half of 2018 Hannover Re posted 65% of its GWP for P/C and 35% for life and health.

Outlook: Stable

The stable outlook reflects our view that the group will defend its competitive advantage as a global leading reinsurer. We also anticipate that the group will enjoy the benefits of modest price increases in global P/C reinsurance business in 2018 and growth from structured reinsurance products. In addition, sound earnings in 2018-2020 will likely enable the group to maintain capital securely above the 'AA' level in 2018-2020.

Downside scenario

The possibility of a downgrade is remote over the next 12-24 months. However, rating pressure could emerge if the group's capital adequacy fell markedly below the 'AA' level in our capital model. This could occur because of large unexpected losses, higher-than-currently-expected risk capital charges, and a material erosion of underlying earnings. Moreover, we could take a negative rating action if Hannover Re's underwriting controls deteriorated or if it assumed an overall riskier profile through heightened underwriting or investment risks.

Upside scenario

We assess the likelihood of an upgrade as limited over the next 12-24 months. This reflects still-challenging business conditions in the global P/C reinsurance sector since large capacity of traditional and alternative capital providers continuously fuels competition.

Macroeconomic Assumptions

- Moderate global economic growth and inflation.
- Long-term risk-free rates to increase to 3.2% in the U.S. and to 0.9% in Germany in 2018.

Key metrics

	--Year ends Dec. 31--							
	2020F	2019F	2018F	2017	2016	2015	2014	2013
Gross premiums written (mil. €)	>19,000	>19,000	~19,000-20,000	17,791	16,354	17,069	14,362	13,963
Net income (mil. €) *	1,000-1,200	1,000-1,200	1,000-1,200	1,045	1,226	1,215	1,065	939

--Year ends Dec. 31--

	2020F	2019F	2018F	2017	2016	2015	2014	2013
Fixed-charge coverage (x)	>10	>10	>10	12.3	14.9	10.1	9.0	6.1
Financial leverage (%)	~15	~15	~15	11.5	10.3	10.4	13.4	16.6
S&P capital adequacy	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong	Extremely Strong	Extremely Strong	Extremely Strong
Return on shareholder's equity (%)	10%-12%	10%-12%	10%-12%	11.0	13.2	14.3	14.4	14.2
Net investment yield (%)	~3.0-3.2	~3.0-3.2	~3.0-3.2	3.5	3.4	4.2	4.0	4.1
P/C: Net combined ratio (%)	96-98%	96-98%	96-98%	100.0	94.0	94.7	95.0	95.1
P/C: Net expense ratio (%)	N.A.	N.A.	N.A.	28.8	27.2	25.3	26.1	24.9
P/C: Net loss ratio (%)	N.A.	N.A.	N.A.	71.3	66.8	69.3	68.9	70.2
Common equity (mil. \$)	N.A.	N.A.	N.A.	9,287	9,741	8,777	8,253	6,530
Reinsurance utilization (%)	N.A.	N.A.	N.A.	9.5	10.7	13.0	12.4	11.0
Return on revenue (%)	N.A.	N.A.	N.A.	5.6	9.3	9.9	9.4	8.2

*Net income before minorities. F--S&P Global Ratings' forecast. N.A.--Not applicable.

Business Risk Profile: Very Strong

Hannover Re has a broad business portfolio offering P/C and life/health reinsurance across the globe. Within P/C reinsurance, we believe that Hannover Re is exposed to product risk, particularly because of the unpredictable nature of natural catastrophes. This has been demonstrated by the severe market losses in third-quarter 2017. However, the group was able to perform better than its reinsurance peers, with a combined (loss and expense) ratio of about 100%, profiting from a well-diversified product portfolio and sound retrocession cover.

In the life operations, higher barriers to entry exist in life reinsurance operations; the market is dominated by only a handful of reinsurers. We think this will likely continue to insulate Hannover Re from potential destabilization effects from new entrants, as witnessed with alternative capital within the P/C sector.

Hannover Re continues to be one of the global leading reinsurance companies with a well-established brand, strong underwriting and claims services abilities, and long-standing relationships with brokers and clients. In our view, Hannover Re is well in place to leverage modest price increases in the global P/C reinsurance segment in 2018. We also think that the group's competitive advantage will enable the group access to larger so-called structured reinsurance deals, which bolstered its P/C growth by 19.2% on a gross basis and 20.0% on a net basis in the first half of 2018. Such deals appear accessible to Hannover Re and some larger peers, but not to the majority peers in the reinsurance sector, underlining Hannover Re's competitive advantage.

We view the group's strong diversification across regions in which it writes business as a major competitive advantage over its regional and more concentrated competitors. In P/C reinsurance, business written in Europe accounted for 39%, North America for 38%, and Asia-Pacific for 16%, with Latin America and Africa representing the remainder in

2017. The picture is similar in life reinsurance, with 36% of GWP stemming from Europe, 29% from North America, 27% from Asia-Pacific, and the rest from Latin America and Africa.

Financial Risk Profile: Strong

Based on the analysis of our risk-based capital model, we assess Hannover Re's capital adequacy firmly in the 'AA' range in 2017, amid the costly market catastrophe events and slight decline in net income to €950 million, coupled with stable dividends of about €600 million. We assume capitalization to remain in the 'AA' range over 2018-2020. Equally, we expect regulatory capital to remain securely above the group target of more than 200%. The regulatory solvency ratio was 260% in 2017 and 256% in first-quarter 2018. We note that the group's financial risk profile is supported by very strong and prudent reserves, which we take into account in our assessment of the group's capital. We also view positively Hannover Re's good internal economic capital model.

On a group level, we expect Hannover Re to generate return on equity of 10%-12% in 2018-2020. This is based on our expectation that the group will generate a stable net income of about €1 billion per year, with a net combined ratio of 96%-98% over 2018-2020, assuming net catastrophe losses not exceeding Hannover Re's budget of €825 million. We also assume the net investment yield to decline to 3.0%-3.2% over the forecast period following 3.5% in 2017. This is because the 2017 result benefitted from one-off realized gains on equity divestments, as well as reflecting the continued low interest rates, which remain below historic norms.

Hannover Re is exposed to tail risks from severe natural catastrophes, man-made claims, and pandemics which could cause some volatility of capital and earnings as demonstrated in 2017. Man-made and natural catastrophe losses of €1.1 billion net of retrocession exceeded the group's budget of €825 million, weighing on the combined ratio by about 3%. However, we think that Hannover Re fared the 2017 events better than its reinsurance peers thanks to its diversified portfolio, strong modelling and risk controls, and comprehensive retrocession program. Hannover Re also maintains a conservative stance on its investments, via relatively low-risk asset allocation, limits for foreign currency exposure, and prudent diversification by sectors and single obligors. We do not expect the overall risk profile to change materially in the next two years.

Hannover Re has demonstrated access to different sources of capital, and we expect it to continue to be able to regularly access different sources of capital via hybrid securities, reinsurance coverage, and insurance-linked securities. We continue to believe that the group has a limited access to equity markets compared with some peers, owing to its shareholder's structure. At year-end 2017, the financial leverage was at 11.5% and we assume it will increase to about 15% in 2018-2020 following the issuance of a senior bond amounting €750 million in 2018. We also assume fixed-charge coverage to be impacted by the additional interest payments on the senior bond, but to remain above 10x.

Other Assessments

Our assessment of Hannover Re's enterprise risk management (ERM) is one of the strongest of the sector and we believe it unlikely that the group will experience losses outside its defined risk tolerances. We see ERM as highly

important given the complexity of its business and operating structure, as well as its exposure to financial volatility mainly through catastrophe risks. The major factors supporting our overall assessment are a positive risk-management culture, risk controls, and emerging risk and strategic risk management. We also factor in our assessment of the group's good economic capital model.

We believe that the management team has a consistent and successful track record of strategic planning, strong execution, and transparent, demanding, and sophisticated financial management. Hannover Re has a strong track record of meeting its financial and strategic targets and reviews its strategy regularly and at least every three years.

We expect Hannover Re's liquidity to remain exceptional over the next two years. The group has ample liquidity sources available, mainly premium income and a highly liquid asset portfolio. Moreover, there are no refinancing concerns in our view.

Ratings Score Snapshot

Hannover Re -- Ratings Score Snapshot	
Financial Strength Rating	AA-
Anchor	aa-
Business Risk Profile	Very Strong
IICRA	Intermediate
Competitive Position	Very Strong
Financial Risk Profile	Strong
Capital and Earnings	Very Strong
Risk Position	Moderate Risk
Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Very Strong
Management and Governance	Strong
Holistic Analysis	0
Liquidity	Exceptional
Support	0
Group Support	0
Government Support	0

Other Considerations

Group support

Our assessment of Hannover Re reflects the group's stand-alone characteristics. The group is 50.2%-owned by ultimate parent Talanx AG, while the remainder of its shares is widely held. We understand that Hannover Re's strategy, capital management, and cash flows are independent from Talanx AG. However, we believe that there is some strategic alignment between both groups, evidenced by the announcement of the joint venture in the primary

industrial specialty business, where the nucleus will be Inter Hannover, and HDI Global SE will take control of the joint venture. As such, we re-aligned the group status of Inter Hannover in 2018 (which will be re-branded to HDI Global Specialty SE in January 2019) from core for Hannover Re to core for Talanx Primary Insurance Group

Related Criteria

- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria - Insurance - General: Insurer Hybrid Capital Instruments With Nonviability Contingent Capital (NVCC) Features, July 24, 2014
- Criteria - Insurance - Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Insurance - General: A New Level Of Enterprise Risk Management Analysis: Methodology For Assessing Insurers' Economic Capital Models, Jan. 24, 2011
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related Research

- Germany-Based Global Reinsurance Group Hannover Re 'AA-' Ratings Affirmed On Strong Earnings And Capital; Outlook Stable, June 22, 2018
- Germany-Based Specialty Insurer Inter Hannover Downgraded To 'A+' On Change Of Group Structure; Outlook Stable, May 18, 2018

Ratings Detail (As Of August 29, 2018)

Operating Company Covered By This Report

Hannover Rueck SE

Financial Strength Rating

Local Currency

AA-/Stable/--

Ratings Detail (As Of August 29, 2018) (cont.)

Issuer Credit Rating	AA-/Stable/--
Senior Unsecured	AA-
Related Entities	
E+S Rueckversicherung AG	
Financial Strength Rating	
<i>Local Currency</i>	AA-/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	AA-/Stable/--
Hannover Life Reassurance Africa Ltd.	
Financial Strength Rating	
<i>Local Currency</i>	A-/Stable/--
Hannover Life Reassurance Bermuda Ltd.	
Financial Strength Rating	
<i>Local Currency</i>	AA-/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	AA-/Stable/--
Hannover Life Reassurance Co. of America	
Financial Strength Rating	
<i>Local Currency</i>	AA-/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	AA-/Stable/--
Hannover Life Reassurance Company of America (Bermuda) Ltd.	
Financial Strength Rating	
<i>Local Currency</i>	AA-/Stable/--
Hannover Life Reassurance of Australasia Ltd.	
Financial Strength Rating	
<i>Local Currency</i>	AA-/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	AA-/Stable/--
Hannover Re (Bermuda) Ltd.	
Financial Strength Rating	
<i>Local Currency</i>	AA-/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	AA-/Stable/--
Hannover Reinsurance Africa Ltd.	
Financial Strength Rating	
<i>Local Currency</i>	A-/Stable/--
Hannover Re (Ireland) DAC	
Financial Strength Rating	
<i>Local Currency</i>	AA-/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	AA-/Stable/--
Domicile	Germany

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable

Ratings Detail (As Of August 29, 2018) (cont.)

across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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