Hannover Rück SE

AMB #: 084092 | **AIIN#:** AA-1340125
Associated Ultimate Parent: AMB # 085259 - HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Best's Credit Rating Effective Date
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Information

Best's Credit Rating Methodology

Guide to Best's Credit Ratings

Market Segment Outlooks

Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: Best's Financial Report.

Best's Credit Ratings - for the Rating Unit Members

Financial Strength Rating (FSR)	Issuer Credit Rating (ICR)
A+	**aa**
Superior	**Superior**
Outlook: **Stable**	Outlook: **Stable**
Action: **Affirmed**	Action: **Affirmed**

Assessment Descriptors

Balance Sheet Strength	**Strongest**
Operating Performance	**Strong**
Business Profile	**Very Favorable**
Enterprise Risk Management	**Very Strong**

Rating Unit - Members

Rating Unit: Hannover Rück SE | AMB #: 084092

AMB #	Rating Unit Members	AMB #	Rating Unit Members
085064	E+S Rückversicherung AG	068031	Hannover Life Reassurance Amer
020599	Glencar Insurance Company	085314	Hannover Re (Bermuda) Ltd
094351	Hannover Life Re Co of America	084133	Hannover Re (Ireland) DAC
088859	Hannover Life Reasr BM Ltd	085070	Hannover Rück SE

Rating Rationale

Balance Sheet Strength: Strongest

- Balance sheet strength is underpinned by the strongest level of risk-adjusted capitalisation, as measured by Best's Capital Adequacy Ratio (BCAR), supported by strong capital generation from a diversified earnings profile, conservative and low-risk asset allocation and moderate underwriting leverage.
- Prospective risk-adjusted capitalisation is expected to remain comfortably within the strongest category, despite the COVID-19 pandemic and the general market volatility experienced in 2020.
- Effective capital management, supported by access to capital markets and a track record of hybrid debt issues, contributes to strong capital buffers and reduces the potential for liquidity strain in a crisis. Dependence on soft capital components, including value of in-force life business, is modest.
- Comprehensive retrocession cover and effective catastrophe exposure management, utilizing a combination of traditional and collateralised alternative solutions, have proven to limit operating volatility and protect the group's capital base.
- The assessment also considers the group's strong liquidity measures and net cash flow, as well as excellent asset/liability management.
- Prudent reserving practices in place, underpinned by a track record of stable and positive reserve redundancies.

Operating Performance: Strong

- Track record of strong operating performance, supported by material contributions from investment income and profitable underwriting over the business cycle. The group has produced a weighted average return on equity of 12.3% and combined ratio of 97.1% over the past five years (2015-2019) (as calculated by AM Best), underpinned by disciplined underwriting practices and controlled growth.
- At the end of the third quarter of 2020, Hannover Re reported a combined ratio of 101.4% (same period 2019: 98.6%) (as calculated by AM Best), with the deterioration in claims experience largely driven by the impact of the COVID-19 pandemic.
- Performance of the non-life book is supported by moderate net catastrophe exposure, stringent underwriting and effective expense management due to the group's lean organisational structure. Superior diversification of its non-life book supported the group to manage difficult global market conditions, which enabled the group to report technical performance ratios that have been market leading over the past four years (2016-2019).
- Investment return remains stable and robust, reflected by a five-year weighted average net investment return of 4% (2014-2018) (as calculated by AM Best). Investment return continues to materially support overall operating earnings, benefiting from a large asset base with yield limited by the low interest rate environment and the group's low-risk investment approach.

Business Profile: Very Favorable

- Globally diversified group with a defensible leading position in the global property/casualty and life reinsurance markets supported by excellent brand recognition and long-standing relationships with stakeholders.
- Excellent diversification by line of business and product type, with strong positions in niche market segments.
- Tailor-made financial solutions and structured reinsurance complement core traditional reinsurance business.
- Lean and efficient infrastructure partly mitigates the impact of a highly competitive environment and enables greater influence over pricing.

Enterprise Risk Management: Very Strong

- Sophisticated enterprise risk management (ERM) framework embedded throughout the organisation and effectively utilised for strategic decision-making, resulting in a risk-aware culture at all levels.
- Overall conservative management approach in place. The group maintains a clearly defined and consistent view of risk tolerances and appetites, including a conservative policy to support catastrophe risk management.
- A dynamic and sophisticated group internal capital model is in place and updated continuously to accurately reflect the evolving risk universe of Hannover Re.
- Extensive use of sophisticated tools and modelling techniques demonstrates a highly developed risk culture required to support the complexity of global operations.

- Major risks are statistically quantified, with their impact on capital assessed via various stress and scenario assessments.

Rating Lift/Drag

- Hannover Re group of companies maintains a high degree of financial and operational independence from the other operations of Talanx AG, an intermediate operating holding company, which is in turn owned by HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI V.a.G.); therefore, no drag is applied.

Outlook

- The stable outlooks reflect AM Best’s expectation that Hannover Re will maintain risk-adjusted capitalisation at the strongest level, as measured by BCAR, supported by continuous rigorous capital management and excellent financial flexibility. It is also assumed that the group will be able to sustain its overall track record of strong operating earnings over the medium term, supported by excellent risk controls and disciplined underwriting practices. Hannover Re's excellent market standing and competitive advantage as a leading global reinsurer is expected to allow the group to benefit significantly from a potentially further hardening market rate environment. It is also assumed that Hannover Re's very favourable business profile will continue to profit from continuous growth in the group's structured reinsurance segment. The group’s very strong ERM is expected to continue to provide some protection against the challenging operating environment in the reinsurance sector.

Rating Drivers

- Positive rating actions are unlikely in the near term. Over a longer term, positive rating actions could arise if Hannover Re demonstrates strengthening of its key rating fundamentals to a standard commensurate with a higher rating level.
- Additionally, a track record of good performance of Hannover Re's life and health segment will be required to support upwards rating pressure.
- Negative rating pressure could occur if Hannover Re's risk-adjusted capitalisation or operating performance falls to a level outside of AM Best's expectations due to factors such as outsized losses or deterioration in technical results.
- In addition, negative pressure may arise if AM Best revises its assessments on the level of independence between Hannover Re and its parent company, Talanx AG.

Key Financial Indicators

AM Best may recategorize company-reported data to reflect broader international reporting standards and increase global comparability.

Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	64.9	52.3	47.1	45.2

Source: Best's Capital Adequacy Ratio Model - Universal

Key Financial Indicators	2019 EUR (000)	2018 EUR (000)	2017 EUR (000)	2016 EUR (000)	2015 EUR (000)
Net Premiums Written:					
Life	6,931,919	6,484,807	6,472,779	6,425,048	6,492,412
Non-Life	12,797,639	10,804,172	9,158,732	7,985,047	8,099,717
Composite	20,345,381	17,397,532	16,094,424	14,603,998	14,849,569
Net Income	1,373,366	1,145,527	1,044,577	1,226,426	1,214,713
Total Assets	71,356,404	64,508,637	61,196,846	63,594,547	63,214,938
Total Capital and Surplus	11,354,479	9,542,028	9,286,558	9,740,547	8,777,470

Source: BestLink® - Best's Financial Suite

Key Financial Indicators & Ratios	2019	2018	2017	2016	2015	Weighted 5-Year Average
Profitability:						
Balance on Life Technical Account	280,937	103,828	74,621	276,145	369,173	...
Balance on Non-Life Technical Account	187,708	337,027	-2,312	479,093	432,246	...
Net Income Return on Revenue (%)	6.4	6.1	6.0	7.7	7.5	6.7
Net Income Return on Capital and Surplus (%)	13.1	12.2	11.0	13.2	14.3	12.7
Non-Life Combined Ratio (%)	98.5	96.9	100.0	94.0	94.7	97.1
Net Investment Yield (%)	3.9	3.7	4.3	3.8	4.4	4.0
Leverage:						
Net Premiums Written to Capital and Surplus (%)	193.3	198.2	188.7	162.3	184.0	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

Hannover Re group's balance sheet strength is characterised as strongest by AM Best. The BCAR scores presented under the "Best Capital Adequacy Ratio Summary" section of this report are based on financial year-end data as at December 2019.

Capitalisation

Hannover Re's balance sheet strength is underpinned by risk-adjusted capitalisation at the strongest level as measured by BCAR, and benefits from significant capital buffers that are in place to support its exposures. Hannover Re’s risk-adjusted capitalisation is supported by prudent capital management and a track record of strong and stable earnings generation, which has been above the industry average over the past five years (2015-2019).

Within the BCAR model, AM Best gives capital credit to Hannover Re for its hybrid debt issue and the value-in-force of the life business, however, the group is not over-dependent of these softer capital elements. On a catastrophe-stressed basis, Hannover Re's BCAR scores show resilience and remain at the strongest level due to its effective catastrophe exposure risk management.

Hannover Re has demonstrated its ability to manage its capital effectively and limit its earnings volatility through the use of comprehensive retrocession cover and a prudent reserving approach that is underpinned by a track record of stable reserve redundancies. The group has reported a compound annual growth rate (CAGR) of its capital and surplus of 7% over the period 2015 to 2019, supported by strong internal capital generation through solid earnings in each of those years, both from technical margins as well as investment income. At third quarter 2020, Hannover Re's total capital and surplus increased to EUR 11.65 billion from EUR 11.35 billion at year-end 2019. Positive changes in shareholder’s equity were driven by continuous earnings generation that covered dividend payment as well as positive changes in unrealised gains.

Capital management:

Hannover Re has a comprehensive capital management strategy and manages capital both on an economic and regulatory perspective with decision making based on its internal capital model. Capital is managed at the group level and is considered to be fungible across group subsidiaries. The allocation of capital across the group's operational companies is based upon the economic risk content of the respective business operation, after taking into consideration the local capital and solvency requirements.

The group maintained a Solvency II ratio of 251% at year-end 2019 (2018: 246%) and 222% at nine months of 2020 which is comfortably above its minimum target ratio threshold of 200%. The decrease in the Solvency II ratio at the end of third quarter 2020 is mainly due to higher capital requirements reflecting growing business and stable capital levels. Prospectively it is anticipated that over the medium term, strong growth across the business could lead to a modestly declining Solvency II ratio.

The group's capital management strategy also encompasses the utilisation of other sources of capital, which include hybrid debt and traditional and alternative retrocession protection, to offset the high costs associated with the use of equity capital.

Financial flexibility:

Balance Sheet Strength (Continued...)

Hannover Re's financial flexibility is considered excellent, due to a track record of strong capital generation, moderate financial leverage, good coverage ratios and a good standing in the equity and debt markets. The group's access to the debt markets, as well as to the traditional and alternative markets to support its retrocession needs, is a factor that underpins AM Best's assessment of the group's financial flexibility. Additionally, the group has access to letters of credit and other facilities with various financial institutions to support its operations. Hannover Re maintains financial leverage and interest coverage ratios at levels that are within AM Best's tolerances for the strongest balance sheet strength assessment, despite an additional issue of a subordinated hybrid bond with a nominal amount of EUR 750 million in 2019. In 2020 the group called a EUR 500 million hybrid capital bond which was replaced by a new issue with the same nominal amount.

Hannover Re's financial flexibility was also enhanced by the initial public offering of its intermediate parent, Talanx AG, in 2012, which also maintains strongest risk-adjusted capitalisation. AM Best believes that the Hannover Re group of companies maintains a high degree of financial and operational independence from other operations of Talanx AG. Hannover Re has both, direct access to capital markets being a publicly listed entity as well as through the group.

Capital Generation Analysis	2019 EUR (000)	2018 EUR (000)	2017 EUR (000)	2016 EUR (000)	2015 EUR (000)
Beginning Capital and Surplus	9,542,028	9,286,558	9,740,547	8,777,470	8,252,960
Net Income	1,373,366	1,145,527	1,044,577	1,226,426	1,214,713
Net Unrealized Capital Gains (Losses)	915,866	-473,793	-71,909	166,457	-444,923
Currency Exchange Gains (Losses)	182,389	267,406	-752,976	173,829	325,652
Stockholder Dividends	-687,252	-657,728	-647,067	-612,953	-557,435
Other Changes in Capital and Surplus	28,082	-25,942	-26,614	9,318	-13,497
Net Change in Capital and Surplus	1,812,451	255,470	-453,989	963,077	524,510
Ending Capital and Surplus	11,354,479	9,542,028	9,286,558	9,740,547	8,777,470
Net Change in Capital and Surplus (%)	19.0	2.8	-4.7	11.0	6.4

Source: BestLink® - Best's Financial Suite

Liquidity Analysis (%)	2019	2018	2017	2016	2015
Liquid Assets to Total Liabilities	71.1	69.1	69.6	70.7	66.1
Total Investments to Total Liabilities	79.6	76.9	77.3	77.7	72.4

Source: BestLink® - Best's Financial Suite

Asset Liability Management - Investments

Hannover Re maintains a conservative investment profile which is actively managed to ensure that the group can react to changing market conditions. The group maintains a low-risk investment portfolio, which is of high credit quality and well diversified. It consists mainly of fixed-income securities and cash which are considered to be highly liquid in nature. Additionally, at mid-year 2020, approximately 5% of total investment portfolio consisted of direct or indirect real estate investment, 2% of private equities and 1% of listed equities. Hannover Re's equity portfolio has remained marginal although a minor increase in listed equities (1%) was undertaken in the first quarter of 2020. The group's credit quality remains defensive but is adjusted to geographical shifts in operational exposure as the group aims to match its liabilities which includes a modestly increasing shift towards emerging markets.

Hannover Re also invests in structured fixed-income securities: fixed-to-float notes, callable or puttable bonds and inflation linked bonds. These types of bonds accounted for approximately 28% of the group's total investment portfolio in mid-2020 and are subject to strict investment guidelines. While the major part of the callable bonds are related to the corporate bond portfolio where a call feature at the end of maturity becomes more dominant in the market, the inflation linked bonds are held for hedging purposes and match the group's liability profile.

Hannover Re continuously monitors its investment guidelines but new investment initiatives are undertaken conservatively and are not expected to increase the overall investment risk profile of the group. The group pursues a duration neutral strategy in its assets liability management. Its investment portfolio largely matches its liabilities in terms of currency and duration. Although the average duration of its reserves profile increased slightly during 2020, the modified duration of fixed income remains predominantly congruent.

Balance Sheet Strength (Continued...)

Composition of Cash and Invested Assets	2019 EUR (000)	2018 EUR (000)	2017 EUR (000)	2016 EUR (000)	2015 EUR (000)
Total Cash and Invested Assets	47,738,612	42,260,889	40,121,514	41,860,666	39,413,639
Cash (%)	3.3	3.5	4.5	4.0	4.8
Bonds (%)	86.0	86.2	85.5	84.7	85.3
Equity Securities (%)	0.1	0.1	0.1	2.2	1.1
Real Estate, Mortgages and Loans (%)	5.0	5.2	5.1	4.4	4.4
Other Invested Assets (%)	5.1	4.7	4.6	4.4	4.0
Total Cash and Unaffiliated Invested Assets (%)	99.5	99.7	99.7	99.7	99.7
Investments in Affiliates (%)	0.5	0.3	0.3	0.3	0.3
Total Cash and Invested Assets (%)	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

Reserve Adequacy

The group has demonstrated a very conservative reserving approach, characterised by the establishment of sizeable reserve buffers. Reserves are determined based on statistical (stochastic and deterministic) methods, with the adequacy verified and agreed upon by an independent third party on an annual basis.

The group's strategy is to maintain an adequate reserve buffer, particularly in light of challenging market environment over the past years. This strategy has been underpinned by relatively stable to slightly declining reserve redundancy levels during the past five years (2016-2020). Traditionally, the group has a high confidence level in its reserves. Contributions from prior-year run-off profits have generally been within AM Best's expectations, with positive claims development illustrated over the past five years. It is anticipated that Hannover Re would use the hardening market phase to further strengthen its reserves buffers.

Historically, the group maintains a non-life large loss reserve budget set each year. In 2020, the large loss budget was EUR 975 million net (EUR 875 million in 2019). This budget was exceeded in 2020 to due to the impact of the COVID-19 pandemic on claims activity. However, with regards to natural and man-made losses the net experience remained below the group’s net large loss reserve budget. In 2021, the group is expected to increase this budget to about EUR 1,100 million. This reflects the planned growth of the group’s non-life business at an unchanged risk appetite.

Hannover Re's L&H reserves are dominated by mortality and longevity risks. The reserving practices use cedants' data, with Hannover Re's adopting its own assumptions and utilising market-specific information. Specific concerns in the past relating to a book of US life business that Hannover Re acquired in 2009 are considered to be largely resolved, following consistent in-force management since 2017.

Overall, AM Best believes that Hannover Re's reserving strategy is likely to continue to support the generation of strong technical profits, despite continuous challenging market fundamentals.

Operating Performance

Hannover Re has a track record of maintaining stable and strong operating results through business cycles. The group has a track record of stable and strong operating performance, underpinned by a highly diversified earnings profile, which is reflective of its diverse spread of risks both geographically and by line of business, conservative investment strategy as well as effective catastrophe management. The group's performance metrics have been moderately above its peers over the past four years.

Hannover Re has an excellent ten-year average return of equity (ROE) of 12.3% (2010-2019), as calculated by AM Best, with a track record of limited earnings volatility during that period. Despite the various large catastrophe events that occurred in 2011, 2017 and 2018, the group was able to generate an ROE of 13%, 11% and 12% respectively in those years.

The group benefits from relatively stable and diversified earnings contributions, with non-life and life operations having contributed positively to earnings over the past five years (2015-2019). Additionally, investment income has historically been a large earnings contributor, as the group benefits from a large asset base and a low-risk investment strategy. The history of good technical results is mainly underpinned by a strong performance of the non-life book, with technical performance being supported by moderate net

Operating Performance (Continued...)

catastrophe exposure, effective expense management due to the group's lean organisational structure and a conservative reserving policy. The stringent management of the group's natural catastrophe exposures and a less volatile business mix also contributed to strong and stable earnings over the cycle. The benefit of Hannover Re's less volatile operating model is demonstrated by the group's stable performance (underwriting and overall) since 2009. Additionally, the prudency in Hannover Re's reserves built within the company over time helps it to limit underwriting volatility. Positive run-offs have allowed the group to continue generate strong technical profits despite deterioration in market fundamentals in recent years. As an illustration, Hannover Re reported a five-year standard deviation in its non-life combined ratio of 2.5% over 2015-2019.

Non-Life Reinsurance:

The underwriting performance of the group's P&C portfolio remains strong over the cycle, a reflection of its highly diversified profile. Hannover Re has produced a five-year (2015 to 2019) average non-life combined ratio of 97%, ranging between 94% and 100% (as calculated by AM Best).

The group has been able to achieve consistent underwriting results in its non-life book which were close to its target levels over the past years, despite being exposed to two of the largest aggregated market losses over the last decades, with results being notably better than those of its main peers. Over the past ten years, the group's weakest performance was recorded in 2011 with a combined ratio of 104.5%, driven by global natural catastrophe losses.

The group has a track record of benefiting from its diversified retrocession cover to manage earnings volatility as well as its flexible use of its conservative reserve holdings. Positive run-offs have allowed the group to continue to generate strong technical profits despite the deterioration of market fundaments and a number of major losses in recent years. In 2019, Hannover Re's reserve run-off profit was about EUR 834 million (2018: 997 million), or 7% of the group's net earned P&C premium (2018: 9%).

For the first nine months of 2020, the group reported a combined ratio of 101.4% largely impacted by COVID-19 losses. These losses contributed about EUR 700 million to the group's overall loss activity and were the main driver for exceeding the large loss budget by 3.8% of net premiums earned. COVID-19 related losses are largely IBNR reserves. The main lines that recorded a significant loss were business interruption, event cancellation as well as credit insurance. However, the impact of COVID-19 related losses has been relatively modest compared to peers, partly due to the group's prudent underwriting.

Life and Health Reinsurance:

The technical performance of the life and health segment has been subject to fluctuations in recent years, largely owing to the underperformance of the group's mortality portfolio. However, corrective measures that had been taken to improve the profitability of the sub-portfolio have led to an overall improved performance by end of 2019. Corrective measures included renegotiating terms where possible and optimising the collateral costs. In mid-2018, the group launched a major project where significant rate increase notifications were applied to certain treaties. Ceding companies had an option to recapture their policy if they decided not to accept a rate increase. Recapturing charges that the group had to book as a result of its corrective measures have developed in line with the group's expectation and are not expected to lead to a significant income burden going forward. At the same time, the new life business is noted to have better performance partially offsetting losses from the older book. Value of New Business for L&H has significantly improved in 2019 to EUR 663 million (2018: EUR 290 million), driven by financial solutions and longevity solutions.

The total Life & Health net income for the nine months of 2020 deteriorated to EUR 297 million compared to EUR 403 million for the same period of 2019, largely driven by the impact of COVID-19 on this segment.

Hannover Re's target is to generate an EBIT of above 5% of net earned premium on its overall life and health book. As of third quarter 2020, the group's financial solutions business supported a strong EBIT margin of around 6%, despite the adverse impact of COVID-19 on the book.

Investment Results:

Hannover Re has a track record of relatively strong investment income with low volatility, underpinned by a ten-year weighted average investment yield (2010-2019) of 4% and a standard deviation of 1% (as calculated by AM Best). The group reported positive investment returns in recent years above its target return of at least 2.8%, supported by a diversified and conservative asset allocation with small pockets of alternative investments boosting ordinary investment income over the past years. For the first nine months of 2020, Hannover Re reported return on investments of 2.8% benefiting from realised gains as a result from some reallocations within its fixed income portfolio and regular portfolio adjustments, as well as the disposals of real estate investments.

Operating Performance (Continued...)

Financial Performance Summary	2019 EUR (000)	2018 EUR (000)	2017 EUR (000)	2016 EUR (000)	2015 EUR (000)
Pre-Tax Income	1,766,097	1,518,388	1,292,619	1,617,655	1,670,920
Net Income after Non-Controlling Interests	1,284,167	1,059,493	958,555	1,171,229	1,150,725

Source: BestLink® - Best's Financial Suite

Operating and Performance Ratios (%)	2019	2018	2017	2016	2015
Overall Performance:					
Return on Assets	2.0	1.8	1.7	1.9	2.0
Return on Capital and Surplus	13.1	12.2	11.0	13.2	14.3
Non-Life Performance:					
Loss and LAE Ratio	69.0	66.9	71.3	66.8	69.3
Expense Ratio	29.5	30.0	28.8	27.2	25.3
Non-Life Combined Ratio	98.5	96.9	100.0	94.0	94.7

Source: BestLink® - Best's Financial Suite

Business Profile

Hannover Re maintains a very favourable business profile as a leading global reinsurer. Hannover Re's leading market position reflects its highly diversified business mix (by product offerings and geographic spread), excellent financial strength, strong brand recognition and long-standing relationships with various stakeholders in the market. The established group's brand is underpinned by the expertise of its management team and successful track record of executing its strategy. The wide product offering allows Hannover Re to remain flexible and competitive in times of adverse market conditions or economic volatility, which in turn should support robust future operating results and long-term financial strength.

The group also benefits from strong underwriting and claims service abilities, as well as long standing relationships with brokers and clients. Hannover Re’s ability to offer and access tailor-made structured reinsurance deals is one of its main competitive advantages as this business is only accessible to a few larger reinsurance players. In addition, its expertise across all lines of business enables it to cater to the growing demand for sophisticated multi-line solutions. The group is also one of the market leaders in Marine, Aviation and Credit & Surety reinsurance.

The group's excellent competitive position is a reflection of its business strategy, which pursues value-driven growth and the generation of risk-based returns in excess of the cost of capital. Hannover Re follows these strategic objectives through its ability to undertake active cycle management, allowing the group to optimally diversify its portfolio whilst balancing its risk return profile. Hannover Re therefore benefits from its ability to effectively deploy capital across its various business segments, thereby providing the group with the flexibility to maneuver through the varying market cycles.

Furthermore, Hannover Re's lean and efficient structures support its ability to focus on selective underwriting and bottom-line profits, particularly in challenging market conditions, without immediate concerns of the expense strain.

Market position:

At year-end 2019, Hannover Re ranked as the third largest composite reinsurer globally with GWP of EUR 22.6 billion, according to AM Best. As the operating conditions in the global reinsurance market, although still competitive, have shown somewhat hardening pricing conditions, the group was able to benefit notably from this shift due to primary insurers looking to cede risks to reinsures with a strong market standing and high credit profile. Hannover Re was able to increase its share and rates in most of its main lines of business. It is expected that Hannover Re will significantly continue to benefit from potential further hardening market conditions. The group indicated that at 1/1/2020 and during the pandemic (April and July renewals) it had a very strong position to dictate terms and rates due to a general desire by the market to get protection by reinsurers with strong profile and balance sheet. Hannover Re recorded GWP growth of 12.3% in the first nine months of 2020.

AM Best believes that Hannover Re's excellent diversification and lean operational structure support its ability to focus on selective underwriting and bottom-line profits during the challenging market conditions.

The group benefits from a well-balanced portfolio by geography and lines of business. In 2019, approximately 38% (2018: 39%) of Hannover Re’s P&C GWPs originated from North America, followed by Asia 15% (13%), Germany 9% (8%), United Kingdom 10%

Business Profile (Continued...)

(9%), Latin America 4% (4%), Australia 3% (5%), Africa 2% (2%) and the rest of Europe 19% (20%). Hannover Re holds a strong position in the US and is the third largest life reinsurer there measured by life insurance in force (at year-end 2019). This position is likely to remain stable over the medium term, due to the high barriers to entry in the US life reinsurance segment.

In its domestic market of Germany, Hannover Re benefits from its affiliation with Talanx AG, a leading multi-brand insurance group in Europe, and the excellent competitive position of its subsidiary, E+S Rueckversicherung AG, one of the largest composite reinsurer in Germany and a leading player within the domestic motor segment.

Opportunities:

The Asia-Pacific region continuous to be the group’s growth engine. The group has a strong market position in China as a local reinsurer and enjoys good customer relationships. Hannover Re regards Asia-Pacific as a key growth market due to strong demographic growth and increasing insurance density in emerging markets. The segment (Asia-Pacific) showed strong growth in GWP and contributed 4% increase, to an overall share of 21%, for L&H in 2019; and 2% to an overall growth of GWP of 15%, for P&C. The group normally pursues a central underwriting approach with local talent as leads. However, for the Asia expansion the group is building up local underwriting expertise. This is a controlled transformation, by bringing key people back to Hannover to teach about the culture and underwriting skills. No significant cost increase is expected due to the choice of low cost hubs.

Going forward the group expects overall growth to be largely driven by cyber risk (P&C), structured solutions (P/C), longevity (L&H) business, and more broadly in the Asia-Pacific region.

Management quality:

The management team of Hannover Re demonstrates an in-depth expertise and understanding of the group's business. In recent years, the group has proven its ability to execute on its key strategic plans and adapt its expectations as required by the changing operating environment. This was shown in recent years, when, after a series of natural catastrophe events, the group was able to adjust its outlook and outperform its guidance for the year.

In 2019, Jean-Jacques Henchoz succeeded Ulrich Wallin as CEO. He has continued to successfully manage the group - including maneuvering it through the COVID-19 pandemic. Prior to joining Hannover Re, Jean-Jacques was in charge of Europe, Middle East and Africa (EMEA) at Swiss Re, where, starting in 2011, he was responsible for both the life and non-life business of Swiss Re in these regions. In January 2012, he was appointed as a member of the executive committee of the Swiss Re Group in this capacity. He has deep expertise in the life and non-life reinsurance business, and has worked in the reinsurance industry for over 20 years holding various roles. In September 2020 Roland Vogel (CFO) retired after 30 years at Hannover Re and was succeeded by Clemens Jungsthöfel who was the CFO of HDI Global SE prior to his appointment and is considered as a very experienced finance manager.

Distribution:

Hannover Re maintains excellent relationships with its stakeholders which ensures access to business even during periods of intense competition. Long-standing relationships with clients allow the group to write tailor-made solutions on individual basis. Traditionally, around 33% of the non-life business is written directly, with the rest being placed via brokers. Outside of its domestic market, the majority of the business is sourced through brokers, especially for non-proportional business. The relatively high share of direct business supports a flexible cost base. In view of the digitalisation processes taking place in the insurance industry, Hannover Re places great focus on cooperation with cedants in order to offer the end-customers on-line underwriting and distribution solutions.

Operations:

Hannover Re reports through two business segments: Non-life Reinsurance and Life and Health Reinsurance.

Non-life Reinsurance:

The non-life portfolio (representing approximately 65% of consolidated GWP in 2019) is highly diversified by line of business and territory. The group operates through two market segments: regional markets make up about 53% of its non-life book and mainly comprise markets of North America and Continental Europe and an increasing share of the Asian market. Global lines comprise the remaining 47% which consist of marine and aviation, credit surety and political risks, London markets, facultative reinsurance, agricultural risks, retakaful business, structured reinsurance and insurance-linked securities (ILS).

Business Profile (Continued...)

The non-life portfolio has achieved a good growth over the past five years (2015-2019), as demonstrated by a CAGR of 13.3%. However, growth has been subject to fluctuations, ranging between -1.4% and 23.4% over the period, which has been partially attributable to foreign exchange rate fluctuations. The 23.4% rise in GWP in 2019 was largely driven by strong demand for traditional reinsurance and structured solutions.

Hannover Re continued to benefit from its strong market profile as a provider of alternative reinsurance products and services, with structured reinsurance and ILS offerings supporting the group's expansion in recent years. Additionally, Hannover Re's expansion continued to benefit from strong economic demand in the emerging markets.

Life and Health Reinsurance:

The life and health portfolio (representing approximately 35% of consolidated GWP in 2019) has been a growth story for Hannover Re overall, supported both organically and through acquisitions. In 2009, Hannover Re acquired the ING US individual life reinsurance business from Scottish Re Group Limited, along with its infrastructure to support the underwriting of new term reinsurance treaties. This transaction enhanced Hannover Re's profile in the US life segment.

Hannover Re operates its life and health business through two categories, namely financial solutions (approximately 13% of life and health GWP at year-end 2019) and risk solutions, which consists of mortality (42%), morbidity (29%) and longevity (16%) business. The group is a leading provider of financial solutions, which seeks to optimise cedants' balance sheets through capital and reserve relief. Such transactions provide funding for new business strain and mergers and acquisitions, release embedded values in maturing portfolios and optimise tax, solvency and surplus requirements.

North America, Asia and the UK are Hannover Re's largest life markets representing 67% of life and health GWP in 2019 (combined), followed by Australia/New Zealand, Rest of Europe, Latin America, Germany and Africa. In the US, Hannover Re is focused on the areas of mortality and financial solutions, whilst in Europe the group targets the areas of longevity, retirement provisions and long-term care. Life and health business is generally sourced on a direct basis through a worldwide network of branch offices and subsidiaries.

Growth of the life and health portfolio has also been subject to significant fluctuations over the past five years (2015-2019) as demonstrated by the CAGR for the segment of 3.9%, with GWP development fluctuating between -7.5% and 19.7% over the period. In addition to the group's acquisitive expansion in the period, the movement in premium volumes has been affected by the prevailing strong competitive conditions, particularly in Europe; demand for capital relief offerings, especially in regions moving to a risk-based insurance regulatory approach; and the strong economic activity of the emerging markets.

At year-end 2019, life and health GWP rose by 8.6% (2018: 1.7%), driven by growth of the group’s morbidity and mortality book, with longevity business remaining stable. Financial solutions business grew by 6%.

Group structure and affiliations:

Hannover Re is the intermediate operating holding company of the Hannover Re group of companies. The reinsurer is indirectly owned by Talanx AG (which held a 50.22% share of the group as of June 2020), institutional investors (40.9%) and private investors (8.9%). Hannover Re became a Societas Europea (SE) (a European public limited company) in March 2013.

Talanx AG is the intermediate operating holding company of the Talanx group of companies, a leading multi-brand insurance holding group in Europe. Talanx AG became an operating holding company in January 2019, following changes in its structure to an intra group reinsurer. Talanx AG consists mainly of primary insurance companies, in addition to its stake in Hannover Re. Less than 5% of Hannover Re's business is derived from subsidiaries of the Talanx group. AM Best believes that the Hannover Re group of companies maintains a high degree of financial and operational independence from the other operations of Talanx AG. The change in the Talanx AG structure is not impacting the business of Hannover Re, as internal reinsurance was previously provided by another Talanx group company.

In October 2012, Talanx AG was listed on the Frankfurt Stock Exchange resulting in its majority ultimate parent, HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI V.a.G.), maintaining a 79.04% stake in Talanx AG (as of June 2020). HDI V.a.G. is a mutual holding company and its stake in Talanx remained relatively unchanged in recent years.

In 2018, Hannover Re and HDI Global SE announced the establishment of a new joint venture, HDI Global Specialty SE, using Hannover Re's subsidiary, Inter Hannover, as the main carrier to write specialty lines insurance. The transaction entailed HDI Global SE acquiring the majority of the shares in Inter Hannover (approximately 50.2%), leaving Hannover Re with a non-controlling stake in the entity. As a result, Hannover Re ceased to consolidate the entity in its accounts. Although Hannover Re lost its key source of direct premium income originating from Inter Hannover/HDI Global SE post sale, this has not materially impacted the group’s business profile

Business Profile (Continued...)

due to the relatively small volume of Inter Hannover/HDI Global SE's premium base contributed to Hannover Re's overall earnings. Hannover Re continuous to benefit from cessions of that business.

In January 2018, Hannover Re (through its subsidiary Hannover Finance Inc.) completed its purchase of Omaha Indemnity Co., a Wisconsin-domiciled property/casualty insurer in run-off. The main purpose of the acquisition was to enhance Hannover Re's operational flexibility in the US by having a licenced carrier there. The company has been renamed to Glencar Insurance Co. and is writing a small amount of business produced by Glencar Underwriting Managers Inc., which is also a part of the Hannover Re group.

Company History:

Hannover Re was founded in Germany in 1966 as a reinsurance and direct insurance company and was incorporated under the name Aktiengesellschaft fuer Transport und Rueckversicherung. In 1976, the company adopted the name, Hannover Rueckversicherung Aktiengesellschaft, after transferring its direct marine portfolio to its parent company, HDI Haftpflichtverband der Deutschen Industrie V.a.G. Since then, the company has written reinsurance business.

In 1997, Hannover Re acquired part of the in-force reinsurance portfolios of Skandia International Insurance Company of Stockholm, as well as Skandia's related infrastructure. The transaction complemented Hannover Re's activity in certain growth segments, namely, life and health reinsurance, facultative reinsurance and aviation/space reinsurance. The transaction provided further geographic diversification and consequently positioned the group as a leader in the worldwide aviation market. Hannover Re also acquired the renewal rights of all the property and casualty reinsurance business as of 1 January 1998.

Hannover Re played a pioneering role in the securitisation of insurance risk and announced the first financing securitised by life insurance policies in 1998. The company established a reinsurer in Bermuda in 2001 and has since participated successfully in the global catastrophe market.

With the disposal of Praetorian Financial Group Inc. (Praetorian) in 2007, Hannover Re decided to concentrate on its core business of non-life and life and health reinsurance. Based in New York, Praetorian is a primary specialty insurer, established in 2005 to take over the inforce business of Clarendon Insurance Group, Inc. (Clarendon). Hannover Re acquired Clarendon in 1999 providing the group with access to US programmes via the specialty segment of the market. In 2010, an agreement was reached to sell the run-off business of Clarendon, which was undertaken in 2011.

Geographical Breakdown of Gross Premium Written	2019 EUR (000)	2018 EUR (000)	2017 EUR (000)	2016 EUR (000)	2015 EUR (000)
Other Africa	570,707	524,109	495,844	454,514	503,754
Total Africa	570,707	524,109	495,844	454,514	503,754
Other Asia	3,793,197	2,955,658	2,535,295	2,416,250	2,950,202
Total Asia	3,793,197	2,955,658	2,535,295	2,416,250	2,950,202
France	954,044	813,904	748,266	682,894	701,380
Germany	1,490,616	1,168,186	1,215,478	1,241,991	1,368,419
Other Europe	2,673,085	2,389,166	2,215,680	1,880,892	1,776,980
United Kingdom	3,017,091	2,560,443	2,455,796	2,532,399	2,759,809
Total Europe	8,134,836	6,931,699	6,635,220	6,338,176	6,606,588
United States	7,788,325	6,608,779	6,160,822	5,332,901	5,089,930
Total North America	7,788,325	6,608,779	6,160,822	5,332,901	5,089,930
Australia	1,245,897	1,263,171	997,036	913,780	1,008,059
Other World-Wide	1,064,678	892,942	966,289	898,001	910,130
Total	22,597,640	19,176,358	17,790,506	16,353,622	17,068,663

Source: BestLink® - Best's Financial Suite

Enterprise Risk Management

Hannover Re's enterprise risk management (ERM) is supportive of a very strong assessment. The group's risk management capabilities are superior and suitable for its complex and globally diversified operations, underpinned by the utilisation of a strong risk management

Enterprise Risk Management (Continued...)

framework. The ERM framework is highly sophisticated and is fully embedded across the organisation from the Board, through to individual business units.

The group has demonstrated active use of its risk management tools, including its internal model, to identify, quantify and measure risks and risk correlations in order to mitigate and manage its relatively high risk exposure. This has enabled Hannover Re to implement its strategic plan and maintain successful performance over the long term. Hannover Re’s corporate governance and risk culture promotes strong risk awareness and a disciplined risk-return approach. The group's risk framework is time and stress tested.

In AM Best's opinion, Hannover Re maintains a relatively high insurance risk profile, driven by its exposure to worldwide property catastrophe business and specialty lines. In addition, the group maintains exposure to long-tail lines of business, such as life and casualty, which can be sensitive to changes in the regulatory and economic environment. To manage its insurance risk, Hannover Re conducts regular reviews of underwriting and pricing guidelines.

The group's risk strategy, risk register and central system of limits and thresholds are reviewed at least annually and form a key component of its Risk and Capital Management Guideline. Hannover Re's Group Risk Management Division is responsible for naming, measuring and evaluating the main risks of the group. It develops models to estimate various loss probabilities, reserve recommendations, assesses risks of catastrophes and large losses and develops Hannover Re's internal capital model, which lies at the foundation of the group's ERM.

The group operates the "three lines of defence" model within its ERM. The first line of defence consists of risk steering and original risk responsibility for risk identification and assessment on the divisional or company level. The second line of defence - risk monitoring - is supported by the actuarial and compliance functions. The third line of defence represents the process-independent and group-wide risk monitoring performed by the internal audit function on behalf of the Executive Board. The group's Supervisory Board is at the top of its risk management system and is advising and supervising the Executive Board in its management of the company, inter alia with respect to risk management.

The group manages its total enterprise risk so that it can expect to generate positive group net income with a probability of 90% p.a. and the likelihood of the complete loss of its economic equity and shareholders' equity does not exceed 0.03% p.a. These indicators are monitored using the internal capital model. As a result, Hannover Re's business is managed on a risk-adjusted basis. Additionally, the group utilises the "intrinsic value creation" (IVC) concept to support strategic decisions - a measure which indicates whether the group's business is generating a profit in excess of the cost of capital. Where the business segment fails to meet the IVC metric, the group is active in its response of applying corrective measures.

Special attention is given to emerging risks, from which potential danger is not yet known. In this regard, Hannover Re has established a working group called Emerging Risks and Scientific Affairs, which identifies, evaluates and monitors emerging risks. It analyses risks associated with climate change, technological developments, shortage of resources and supply chain, amongst others. Appropriate risk management actions are taken as needed by Hannover Re in order to control these risks and may include, for example, the implementation of contractual exclusions or the development of new reinsurance products. Hannover Re employees are kept updated on these topics through an in-house information system. The group has also built up capabilities to include scenario based cyber modelling explicitly in its internal model, which in light of its increasing exposure to cyber risk will support the group to manage its risk profile adequately.

During the past few years, Hannover Re was subject to a number of risks related to recent changes in the political and regulatory environment in countries where it operates. In particular, the group had to prepare for the potential consequences of the UK's vote in favour of leaving the EU ("Brexit") and the US tax reform. The group has sought necessary regulatory approvals and restructured its business activities as needed in order to mitigate any downside scenarios that may arise from these changes.

Catastrophe Exposure and Management:

Hannover Re has a conservative framework in place to support its catastrophe risk management. This process begins with the implementation of the group's potential catastrophe risk appetite within the strategic planning process, in which a defined portion of Hannover Re's capital is then allocated to the planned exposures for the year, according to the outcome of an internal model. The group's retrocession protection is then considered, based on underwriters' capacity demands and considering the risk budget for the group's catastrophic exposures.

Continuous monitoring of Hannover Re's exposures is being undertaken with the use of sophisticated modelling tools and support from the actuarial function. Additionally, stress tests are applied based on scenarios of various catastrophic events and their impact on the

Enterprise Risk Management (Continued...)

group's financial profile. Model validations are regularly undertaken to assess the limitations of the model and to test the validity of the model's outcome. In AM Best's opinion, Hannover Re demonstrates a thorough understanding of its catastrophe models and compensates prudently for any shortfalls.

Hannover Re's evaluation of its exposures to major catastrophic events also encompasses terrorism risk. The group utilises various tools, along with company- and market-specific data to support the assessment of its exposures based on several realistic disaster scenarios (RDS) in key locations. Pandemic risk and the risk of adverse long-term mortality trends associated with its life and health portfolio are also actively monitored. One of the tools to manage this risk is an index-based pandemic cover which Hannover Re introduced in 2013. This collateralised swap instrument has been placed with different investors in various tranches since then.

Reinsurance Summary

In AM Best's opinion, Hannover Re's retrocession strategy is a successful component within its risk management framework. The group has a comprehensive retrocession programme, which supports the stabilisation of its technical results through the elimination of peak exposures and therefore provides long-term protection of the group's capital. In addition to its traditional retrocession placements, Hannover Re benefits from its securitisation programmes allowing the group to control its aggregate exposures thereby maintaining losses within its risk appetite. The group’s retrocession programme is considered to be appropriate for its underwriting exposure, including the management of its Nat-Cat exposures.

The group's retrocession programme includes a "whole account" protection which is a world-wide treaty consisting of two sections for peak and non-peak scenarios and a unique "K-cession" arrangement representing a modelled programme which has been utilised by the group for many years, as well as a large loss aggregate excess of loss cover, and additional covers which Hannover Re purchases with restricted territorial scope for its subsidiaries and branches.

The K-cession represents a modelled programme consisting of non-proportional reinsurance treaties for property, catastrophe, aviation and marine lines placed primarily in the capital markets. This transaction provides fully collateralised retrocession protection on peak worldwide catastrophe exposures. Despite losses experienced on this programme in recent years, Hannover Re continues to attract capacity to the K-cession, meeting its targets of obtaining above USD 500 million of retrocession cover. The group has traditionally benefited from its high risk diversification and strong relationships with its retrocessionaires, which has supported consistency in its placement of its retrocession cover.

At the same time, the group is not over-dependent on its retrocession, as demonstrated by an average retention ratio (non-life) of 87.2% over the past five years (2015-2019). Furthermore, AM Best believes that the credit risk exposure to its panel of retrocessionaires is limited. This reflects the low counterparty exposure to a single party and the excellent credit quality of its panel. Additionally, a large portion of recoverables are collateralised with deposits or letters of credit. Hannover Re also transact incoming business and is therefore able to potentially offset any liabilities.

Financial Statements

Balance Sheet	12/31/2019 EUR (000)	%	12/31/2019 USD (000)
Cash and Short Term Investments	1,559,202	2.2	1,746,306
Bonds	41,064,351	57.5	45,992,073
Equity Securities	29,215	...	32,721
Other Invested Assets	5,085,844	7.1	5,696,145
Total Cash and Invested Assets	47,738,612	66.9	53,467,245
Reinsurers' Share of Reserves	3,028,243	4.2	3,391,632
Debtors / Amounts Receivable	5,684,362	8.0	6,366,485
Other Assets	14,905,187	20.9	16,693,809
Total Assets	71,356,404	100.0	79,919,172
Unearned Premiums	4,068,957	5.7	4,557,232
Non-Life - Outstanding Claims	28,717,710	40.2	32,163,835
Life - Outstanding Claims	4,951,742	6.9	5,545,951
Life - Long Term Business	9,350,891	13.1	10,472,998
Total Gross Technical Reserves	47,089,300	66.0	52,740,016
Debt / Borrowings	3,372,767	4.7	3,777,499
Other Liabilities	9,539,858	13.4	10,684,641
Total Liabilities	60,001,925	84.1	67,202,156
Capital Stock	120,597	0.2	135,069
Retained Earnings	8,077,123	11.3	9,046,378
Other Capital and Surplus	2,330,269	3.3	2,609,901
Non-Controlling Interests	826,490	1.2	925,669
Total Capital and Surplus	11,354,479	15.9	12,717,016
Total Liabilities and Surplus	71,356,404	100.0	79,919,172

Source: BestLink® - Best's Financial Suite
US $ per Local Currency Unit 1.12 = 1 Euro (EUR)

Income Statement	Non-Life EUR (000)	Life EUR (000)	Other EUR (000)	12/31/2019 Total EUR (000)	12/31/2019 Total USD (000)
Gross Premiums Written	14,781,000	7,816,382	...	22,597,640	25,309,357
Net Premiums Earned	12,797,639	6,931,919	...	19,729,726	22,097,293
Net Investment Income	...	684,452	1,069,437	1,753,889	1,964,356
Other Income	...	...	...	3,458	3,873
Total Revenue	12,797,639	7,616,371	1,069,437	21,490,245	24,069,074
Benefits and Claims	8,831,517	5,828,332	...	14,659,849	16,419,031
Net Operating and Other Expense	3,778,414	1,507,102	-225,188	5,064,299	5,672,015
Total Benefits, Claims and Expenses	12,609,931	7,335,434	-225,188	19,724,148	22,091,046
Pre-Tax Income	187,708	280,937	1,294,625	1,766,097	1,978,029
Income Taxes Incurred	...	...	...	392,731	439,859
Net Income before Non-Controlling Interests	...	...	...	1,373,366	1,538,170
Non-Controlling Interests	...	...	...	89,199	99,903
Net Income/(loss)	...	...	...	1,284,167	1,438,267

Source: BestLink® - Best's Financial Suite
US $ per Local Currency Unit 1.12 = 1 Euro (EUR)

Related Methodology and Criteria

Best's Credit Rating Methodology, 11/13/2020

Catastrophe Analysis in A.M. Best Ratings, 10/13/2017

Available Capital & Holding Company Analysis, 10/13/2017

Scoring and Assessing Innovation, 03/05/2020

Understanding BCAR for U.S. and Canadian Life/Health Insurers, 05/28/2020

Understanding Universal BCAR, 06/11/2020

Additional Rating Types

AM Best assigns Best's Issue Credit Ratings. Refer to the profile page to view current Issue Ratings for Hannover Rück SE (AMB#085070)

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Issue/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

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