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Southern United States under threat

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### Despite "Katrina": Hannover Re expects a return on equity in the double digits

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## Despite "Rita" Hannover Re reiterates its profit target

"Katrina" had scarcely abated when the southern United States came under threat from Hurricane "Rita". The densely populated city of Houston was evacuated as a precautionary measure. Although "Rita" fortunately spared the Texan metropolis and the nearby oil facilities, the hurricane still caused massive damage in Texas and Louisiana. Experts put the total insured losses from "Rita" in the range of USD 4 to 7 billion. As one of the world's leading reinsurers Hannover Re, in common with its competitors, will carry a portion of these losses. "Estimated conservatively, the pre-tax drag from 'Rita' on Hannover Re's net income can be as much as USD 150 million", the company announced at the end of September. For the full financial year Hannover Re nevertheless continues to expect a net profit at least on a par with the previous year (EUR 309 million).



### Double-digit return on equity

This is an impressive achievement given the fact that the major claims already incurred worldwide by Hannover Re between January and August - at almost EUR 500 million - were roughly double the level of average years. As CEO Wilhelm Zeller explained, however, these losses, and indeed the hurricane losses incurred in September, "will be paid out of current business ? they merely diminish our profit, they do not erode our equity base". Neither "Katrina" nor "Rita" has had any impact on Hannover Re's reserves and stockholders' equity. On the contrary, despite these record burdens the Group will again generate a double-digit return on equity in the current financial year.

### Rate increases across a broad front

In view of the series of hurricanes in the US Hannover Re even anticipates some positive repercussions for its business. As Mr. Zeller suggests: "The losses caused by "Katrina" and "Rita" could be enough to eat into some reinsurers' capital resources, and that will reduce global reinsurance capacity and hence further push up prices". "Whatever the case", the CEO adds, "we will see rate increases across a broad front".

Mr. Zeller is by no means alone in his assessment. At this year's industry conference in Monte Carlo in September, there was sector-wide agreement that in light of the latest catastrophe losses rate cuts can be ruled out - as indeed can any talk of an end to the hard market that has held sway for the past six years. On the contrary, according to observations of analysts at Bear, Stearns International, rate hikes of 30 to 50 percent can be expected in those lines directly affected by the hurricane damage. The industry also anticipates rate increases of 10 to 15 percent in global property catastrophe risk and an average rise of 5 percent in worldwide (re-)insurance prices overall.

As a further positive factor, severe hurricanes also generate new business. Immediately after "Katrina" some insurers had already taken out additional catastrophe excess of loss (XL) protection with Hannover Re. Chief Executive Officer Zeller anticipates "another wave of demand" over the coming months.

### Rate increases across a broad front

The burden of losses inflicted by "Rita" will also be cushioned by an upbeat trend on capital markets, which of late has enabled Hannover Re to realise additional gains on its investment portfolio.

What is more, it is precisely in years heavily impacted by catastrophic events that the systematic strategy of diversification pursued by Hannover Re pays off. By diversifying its portfolio into four business groups the Hannover Re Group enjoys four largely independent sources of income. Even if the performance of one business group falls short of expectations, it is still possible to generate a good overall result. This was borne out only recently in the aftermath of 11 September 2001.

Hannover Re was the only major reinsurer in the world to absorb the strains of the attack on New York's Twin Towers without slipping into the red.

In the present situation too Hannover Re will be able to offset a large portion of the losses in natural catastrophe reinsurance through very healthy margins in other profitable lines. Even in difficult times this is a concept that the financial experts find persuasive. As recently as 25 September the highly reputed investment bank Goldman Sachs upgraded its rating of the Hannover Re share to ["Outperform"](#).

## Despite "Katrina": Hannover Re expects a return on equity in the double digits

Tens of thousands dead, a hundred of thousands without a home, the complete destruction of entire cities, the breakdown of civil order - hurricane 'Katrina' brought tragedy of unforeseen dimensions to the Southern Part of the United States. It is already clear for the international insurance industry that 'Katrina' goes down in the history of the insurance industry as the most costly natural catastrophe so far. Experts estimate the insured loss of the record storm in the beginning of September to be up to USD 35 billion.



Just as its competitors, Hannover Re is, of course, affected by 'Katrina' as well. The group has calculated a net loss resulting from the storm of up to USD 250 million before taxes. Therefore, the profit expectation of EUR 430 to 470 million that was given at the beginning of the year is not attainable anymore. Profit expectations, of course, are always based on the premise that the major loss expenditure remains within the multi-year average and that the capital markets do not experience any negative movements.

### Above-average intensity of major claims

As at 30 June 2005 the major loss expenditure of Hannover Re was at EUR 112.3 million and therefore at 6.1% of net premiums earned in property and casualty reinsurance, an amount that was almost exactly within the multi-year average burden of 6%. The third quarter, however, - even before 'Katrina' - was characterised by an unusually high intensity of major claims: Hurricane 'Dennis' in the USA, damage to an oil platform in the Indian Ocean, several aviation claims, flooding in Mumbai, India, and most recently the floods in German-speaking parts of the Alpine region. All in all, the major loss expenditure incurred to date in 2005 is as high as between EUR 400 and 500 million, which is already double the multi-year average.

### Higher Prices

The Group is now operating on the premise that the overall result is at least at the level of the previous year (EUR 309.1 million) allowing that this year, too, a double-digit return on equity can be achieved. "In view of the extraordinarily heavy burden of losses this is a very good result", CEO Wilhelm Zeller emphasised. Unscathed by hurricane 'Katrina', the rest of Hannover Re's property and casualty reinsurance portfolio continues to perform in a very pleasing manner. "It is our assumption that 'Katrina' - just like the hurricanes of the previous year - will have further favourable implications for the treaty negotiations as at 1-1-2006 and we expect to see additional significant hardening of prices and conditions in natural catastrophe reinsurance", Mr. Zeller stressed.

### Recommendation to buy confirmed

The share price of Hannover Re, which had dropped slightly on the morning of 2 September, the day of the announcement of the revised profit expectation, recovered during the course of the day and closed unchanged. The Group had clarified the situation by announcing its estimate, thereby supporting the share price development according to WestLB-analyst Thomas Noack who gave his assessment to the news agency vwd. Analysts with Merrill Lynch stressed, that although the burden of loss for the Hannover Re among others is to be evaluated as 'substantial', the negative effect on profits would be at least partially softened by the improvement in premium income.

Even after 'Katrina' there will be no change in the policy on dividends at Hannover Re. According to Chief Financial Officer Dr. Elke Koenig a dividend rate of 40% is still being aimed at. Shareholders at Hannover Re can count on a dividend for the business year 2005 of at least the previous year's level.

## Solvency II - New opportunities for the reinsurance business

Reinsurers are looking confidently into the future. Solvency II, the new regulations on equity requirements planned by the EU-Commission for 2007 are offering many advantages for well set-up companies like Hannover Re. 'Solvency II introduces increased professionalism at all levels of the reinsurance business', according to the recent commentary by the 'Handelsblatt'. The EU guardians of the insurance business are pressing for a risk-oriented capital position, an approach similar to the one applied by the rating agencies when evaluating the financial strength of a reinsurer.

### Wholistic Strategies

So far the regulators oriented themselves purely by the business volume of a reinsurer. In the future Solvency II will include the risks contained in the invested assets of a reinsurer when calculating their minimum level of required equity. This forces the industry to a yet more conscientious handling of its risks. Additionally, it will be more strongly considered when evaluating an insurance risk what it truly entails. Thus, it will be differentiated between an insurer only selling private liability insurance and an insurer, which also covers high-risk pharma insurances. Therefore, so the 'Handelsblatt', "only the ones that know their risk situation well, will be able to deal with Solvency II easily". Hannover Re won't have any problems. While many reinsurers still evaluate their risks as factors that are isolated from each other, thereby steering them individually which leads to not being able to register possible repercussions on other business segments in their group or company, Hannover Re has been managing its reinsured risks in a wholistic fashion for an already long time. Risk-management at Hannover Re is on the one hand coordinated centrally, but is still based on a decentralised risk responsibility in the various business segments. Through this effective interaction between centralised and decentralised processes risks are identified and steered in as timely a manner as possible in order to most effectively reduce any risk potential. Thus Hannover Re has had the type of internal risk model in place for quite some time that other companies are now just beginning to build up.

### Additional business

Reinsurance protection will in any case continue to be recognised as capital substitute after the introduction of Solvency II. Currently primary insurers are allowed to cover half of their stipulated minimum equity via reinsurance policies. Experts think that after Solvency II a further increase of this share is possible, which would mean additional business for reinsurers. According to the expectations of industry experts Solvency II could also have a positive influence on reinsurance premiums. So far the reinsurance market has experienced cyclical ups and downs, which always depend on the capacity currently available on the market. When the new solvency system forces the industry into a more professional handling of its risks, then an improvement in the transparency of the pricing between primary and re-insurers could likely occur. The reinsurers hope for more stable prices in the reinsurance market, once it becomes possible for their customers, the primary insurers, to better understand the pricing process.



## Extremus and Co. - Pool solutions against Terror

New York City, Madrid, and now London - the series of terror attacks seems to not stop. Mega-cities in the industrialised nations have been the target of murderous attacks and there is no reason to believe that this will change. The danger for the population is real but cannot be calculated for individual cases. However, the insurance industry is nowadays much better prepared to deal with the financial problems resulting from terrorist attacks than was the case before 11 September 2001. After the WTC attack the industry created the necessary structures and adapted its covers to the new risks. In former times terrorprotection was automatically included in the liability policies of the (re-) insurers, in industrial policies it was insured separately for an extra premium.



### Support by the Federal Government

Possible gaps in coverage have been filled in many advanced industrial nations through pool solutions with the backup of the state. This is the case in Germany, too. As an answer to the New York City disaster a new insurer specifically for terror risks - 'Extremus' - was founded in September 2002. The 16 German insurance companies that were founding members of 'Extremus' with the support of the Federal Government are also the shareholders of this company. The HDI, which is an affiliate to Hannover Re, participates in the German terror insurer as well. The coverage offered by Extremus in cases of terrorist attacks pertains only to damages sustained within the country, as is the case in all insurance solutions that receive support by the state. Coverage is offered for real values (buildings and their contents, stocks, and supplies) along with damages sustained due to interruptions in operations as a result of the property damage. As long as the cause of the loss is a terrorist attack, damages within the country through fire, explosion, collision damage caused by missiles or vehicles and other intentionally caused damages are covered. Terror damages of up to EURO 2 billion are carried by German and international reinsurers. After that amount the state is held liable for a maximum of an additional EURO 8 billion. The maximum yearly compensation is limited to EURO 1.5 billion per company or group.

### Rising Demand

So far the demand for terror policies has been a bit muted here. Especially smaller and medium-sized companies, but also state or public enterprises save expenses when it comes to terror protection. International groups are a bit put off by the limitation that only claims within Germany are covered. The head of Extremus, Bruno Gas, expects, however, a rise in demand for coverage in the wake of the London attacks. The German Federal Government has extended its acceptance of liability for the German terror insurer, which was at first to run out at the end of 2005. The material effects of the terrorist attacks in London - initial estimates are at less than £ 100 million - will be compensated by the company Pool Reinsurance Company Limited (Pool Re). This reinsurer was created in 1993 by the insurance companies of London specifically for the compensation of damages to buildings caused by terrorist attacks. The catalyst for this initiative was an attack by the IRA in the City of London. According to the existing rules the primary insurer is responsible for damages up to £ 100 000, in each individual area of the policy: building, furnishings, and interruption of operations. Everything that goes above that amount is now Pool Re's responsibility. Currently Pool Re has liquid assets at a volume of just short of £ 2 billion. Should there be loss occurrences above that level the British government has to stand in without a limit set on the amount. So far in its history, Pool Re has been utilised a good half dozen times. All together the company - since its initiation - has paid out £ 600 million.

### Pool solutions extended

In other European countries, too, for example Spain or France, the existing pool solutions have been extended as of recently. The situation in the US is currently wide open. The 'Terrorism & Risk Insurance Act' (Tria) regulating the state coverage in cases of losses due to terrorist attacks expires towards the end of the year. The insurance industry is pushing for an extension.

## Balance Sheet (as of August 31, 2005)

 [Download table in excel format \(248 KB\)](#)

in m. €	31 Dec 2004	30 Jun 2005	Variance
<b>Balance Sheet</b>			
<b>1 Total investments and cash</b>	<b>15,770.5</b>	<b>17,905.1</b>	<b>13.5%</b>
Bonds	81.2%	82.5%	+1.3% p
Equities	7.0%	7.6%	+0.6% p
Real Estate	1.3%	1.2%	-0.1% p
Others	10.4%	8.7%	-1.7% p
<b>2 Investments incl. funds withheld</b>	<b>24,735.8</b>	<b>27,317.7</b>	<b>10.4%</b>
<b>Total assets</b>	<b>35,372.0</b>	<b>38,508.9</b>	<b>8.9%</b>
<b>3 Policyholders' surplus</b>	<b>4,213.0</b>	<b>4,791.5</b>	<b>13.7%</b>
Stockholders' equity	2,556.7	2,871.4	12.3%
Minority interests	535.0	545.8	2.0%
Hybrid capital	1,121.3	1,374.3	22.6%
<b>11 ROE (annualized)</b>	<b>12.5%</b>	<b>16.9%</b>	<b>+4.4% p</b>
<b>12 RoRBC</b>	<b>11.1%</b>	<b>16.5%</b>	<b>+5.4% p</b>
P/C R/I	13.8%	15.5%	+1.7% p
L/H R/I	19.7%	18.9%	-0.8% p
Fin R/I	37.0%	48.2%	+11.2% p
Specialty	-20.9%	7.2%	+28.1% p

## Income Statement (as of August 31, 2005)

 Download table in excel format (248 KB)

in m. €	Q1/2005	Q2/2005	1H/2004	1H/2005	Variance
<b>Income Statement</b>					
<b>5</b> <b>Gross written premiums</b>	<b>2,617.3</b>	<b>2,213.1</b>	<b>4,795.3</b>	<b>4,830.4</b>	<b>0.7%</b>
P/C R/I	1,318.6	1,077.2	2,115.4	2,395.8	13.3%
L/H R/I	538.7	582.8	939.4	1,121.5	19.4%
Fin R/I	352.6	156.0	674.8	508.6	-24.6%
Specialty	407.5	397.1	1,065.6	804.5	-24.5%
<b>Net premiums earned</b>	<b>1,779.6</b>	<b>1,894.9</b>	<b>3,461.0</b>	<b>3,674.6</b>	<b>6.2%</b>
<b>8</b> Loss ratio P/C R/I	74.1%	73.1%	72.7%	73.6%	+0.9% p
<b>7</b> Expense ratio P/C R/I	23.0%	22.9%	21.7%	22.9%	+1.3% p
Combined ratio P/C R/I	97.1%	96.0%	94.3%	96.5%	+2.2% p
<b>6</b> <b>Operating profit (EBIT)</b>	<b>179.5</b>	<b>168.3</b>	<b>375.4</b>	<b>347.8</b>	<b>-7.3%</b>
P/C R/I	108.2	121.1	228.4	229.2	0.4%
L/H R/I	27.2	18.2	39.2	45.4	16.0%
Fin R/I	28.0	22.1	65.3	50.1	-23.3%
Specialty	16.1	7.0	42.5	23.1	-45.6%
<b>Net income</b>	<b>107.7</b>	<b>121.4</b>	<b>211.5</b>	<b>229.0</b>	<b>8.3%</b>
P/C R/I	62.6	91.4	115.9	154.0	32.9%
L/H R/I	16.7	9.0	23.7	25.7	8.2%
Fin R/I	17.7	18.3	45.9	36.0	-21.6%
Specialty	10.6	2.7	25.9	13.3	-48.6%
<b>13</b> <b>EPS (in €)</b>	<b>0.89</b>	<b>1.01</b>	<b>1.75</b>	<b>1.90</b>	<b>8.3%</b>
P/C R/I	0.52	0.76	0.96	1.28	32.9%
L/H R/I	0.14	0.07	0.20	0.21	8.2%
Fin R/I	0.15	0.15	0.38	0.30	-21.6%
Specialty	0.09	0.02	0.21	0.11	-48.6%
<b>10</b> <b>EBIT-margin</b>	<b>10.1%</b>	<b>8.9%</b>	<b>10.9%</b>	<b>9.5%</b>	<b>-1.4% p</b>
<b>3</b> <b>Return on investment</b>	<b>3.9%</b>	<b>4.4%</b>	<b>4.9%</b>	<b>4.1%</b>	<b>-0.8% p</b>

## Share (as of September 30, 2005)

 [Download table in excel format \(227 KB\)](#)

Profit Forecast	2005	2006	2007
<b>Hannover Re guidance</b>			
Gross written premiums	n.a.	n.a.	n.a.
Net income (after tax) in m. €	≥ 309.1	n.a.	n.a.
EPS (in €)	≥ 2.56	n.a.	n.a.
<b>Analysts' estimates</b>			
Net income (after tax) in m. €	305	465	449
EPS (in €)	2.53	3.88	3.75
DPS (in €)	1.15	1.45	1.42

Share Info	Sep 30, 2005
<sup>14</sup> Book value per share	23.81
Share price	28.80
<sup>15</sup> Price-to-book ratio	1.21
<sup>18</sup> P/E ratio 06	7.42
<sup>13</sup> Share performance (year-to-date)	0.2%
<sup>16</sup> Dividend per share in 2004 (in €)	1.00
<sup>17</sup> Dividend yield	3.5%
<sup>20</sup> Market capitalization (in m. €)	3,473.2

Analysts' Recommendations	Sep 30, 2005
Buy	17
Hold	12
Sell	4
Consensus	3.7

**To all our readers: Now it's your turn!**  
**Questions? We look forward to hearing from you.**

**Q: From time to time I read that Hannover Re offers funding products for life insurers. Is that also part of the job of financial reinsurance?**

A: clear line must be drawn between funding reinsurance and financial reinsurance. Financial reinsurance is one of the four strategical business areas of Hannover Re and it operates under the brand name "Advanced Solutions" both in Hannover as well as our irish subsidiaries.

But at Hannover Re funding reinsurance refers to the area of Life and Health reinsurance. This means on one side the funding of new businesses in the life and initial annuity insurances as well as the taking over of existing life, medical and accident insurance inventories in their entirety - so-called block transactions (read more about it in our article Block Assumption - Transactions: The silent revolution in life reinsurance). In these areas we have developed into a market leader in the past few years.

Hannover Re assumes, within the framework of Life and Health Reinsurance, among other things, the funding of the acquisition costs for new businesses. In doing this we support primary life insurers with the organisation of their portfolios. This help is especially of great importance to fast growing smaller and mid-sized primary insurers, our target group. Specially the setting up phase of a portfolio creates a lot of costs for the primary insurer, which usually exceed premium income in the first year and as a result cause a loss. Our support in such cases consists of taking over a proportional share of premium, losses and costs. Starting into the second year, when the corresponding portfolio is not so inordinately burdened with costs and therefore starts earning, the primary insurer then reimburses the pre-funding from the recurring revenue. Concerning the block transactions, the future returns of defined life portfolios will be preferred from a temporal vantage point, the relevant risks will be transferred to the reinsurer. The necessary solvency securitisation of the life insurer's portfolio stock will have been significantly reduced.



**Q: Hannover Re emphasizes repeatedly that they are not affected by the current investigation in the area of financial reinsurance. Which types of contracts do you offer concretely in financial reinsurance?**

A: Hannover Re's financial reinsurance trades under the brand name Hannover Re Advanced Solutions. The aim of financial reinsurance is not only to stabilize the earnings of our clients, but also to protect their balances. Because of differences in the needs of our customers, solutions in financial reinsurance are, as a rule, tailored to fit the respective situation and meet the individual needs of our clients. They do not represent a standard product. Basically there are three types of contracts in financial reinsurance at Hannover Re:

With the "Aggregate Excess of Loss" the reinsurer takes over the claim's payments for a part of the contract which exceeds a certain retention and up to certain amount. At the same time, a partially interest-bearing account is set up at the reinsurer, in which the primary insurer has to pay in a certain premium rate.

An extension of this contract is the "Spread Loss Treaty" (SLT). It is similar in its functions to equalisation reserves and makes it possible to spread out the claim's payments of one year over several years.

The stabilisation and improvement of the solvability (equity provisions) is in the forefront with "Surplus Relief Quota Share.." With it, the primary insurer cedes a portion of his written premiums to the reinsurer and receives a high reinsurance commission.

The underwriting guidelines at Hannover Re clearly prohibit such transactions, which are right now under fire, especially in the USA. Those are transactions like taking out contracts after a loss has occurred ("post-funding only"), backdating contracts, side agreements and contracts that do not have sufficient risk transfer cover, but are booked as a reinsurance deal. (Read more about this in our interview with Silke Sehm, Associate Director Advanced Solutions Germany).

Please [send](#) us your questions and comments.

## So what are journalists and analysts saying about Hannover Re?

### Press

#### Reuters, 2005-09-29

The world's fourth-largest reinsurer Hannover Re expects the burden of losses from Hurricane "Rita" to run into the triple-digit million euros. "The conservative estimate for the pre-tax losses caused by 'Rita' is up to EUR 150 million", a spokesperson for Hannover Re stated on Thursday. There was thus no need to revise the already adjusted net profit guidance for 2005. The source added that the company, which is listed on the German MDax mid-cap index, was still targeting net income at least on a par with the previous year (EUR 309 million). (...) The estimate for Rita is based on an expectation of total insured losses in the range of USD 4 to 7 billion. (...) There was no change to the existing assessment of the loss burden from Katrina, which the Hannover-based company expects to come in at around EUR 250 million before tax. "This estimate is valid for a total insured loss of up to USD 45 billion", the spokesperson added. (...) Hannover Re shares were virtually unchanged on the market, listing at EUR 28.89 on Thursday.

#### Frankfurter Allgemeine Zeitung, FAZ, 2005-09-10

(...) There can also be no doubt that even the most unfavourable claims experience will not derail the insurance industry. Since this is a single major loss event, the burden will have to be borne primarily by the reinsurers - in contrast to the four hurricanes of last year. These companies are globally diversified and evidently able to draw on sufficient capital resources. It is at least the case that the rating agencies - unlike in the aftermath of the attacks on New York - have not yet announced any downgrades. The reinsurers will meet their obligations and earn back some of the losses through rate increases in the forthcoming round of renewal negotiations. As a result, prices for reinsurance cover are likely to at least remain at their already high level and may even rise further. (...)

#### Handelsblatt, 2005-09-05

Over the weekend insurers again revised upwards their loss estimates for the disaster-hit areas of the southern United States. They now anticipate insured losses ranging up to USD 30 billion. (...) While certain companies, including Hannover Re, have reacted by adjusting their net profit targets downwards, they are by no means heading for negative territory. The major rating agencies are responding in appropriately circumspect fashion, seeing no need for sweeping downgrades. Financial strength ratings are particularly vital since confidence in the availability of emergency financial assistance is the very lifeblood of insurance business. It is for this reason that the capital market crisis following the 2001 terrorist attack on the World Trade Center hit the insurance industry harder than the actual material losses, the scale of which can be compared to "Katrina". Back then the rating agencies downgraded virtually the entire sector. The markets have since recovered, however, and insurers have bolstered their reserves. (...) Downgrades are likely to be at most isolated, according to Moody's. Rival rating agency A.M. Best points to the industry's substantially improved financial strength of late. (...)

### Research Notes

#### From In-Line to Outperform

Following our meeting with management last week, we are upgrading Hannover Re from In-Line to Outperform. A weaker-than-expected landfall of Hurricane Rita is clearly a relief for the stock. However, we now have a greater level of comfort on other issues: management's EUR250mn estimate for Hurricane Katrina appears well supported; there are no issues with retrocession coverage; and management have no intention of raising capital, even if their rating is jeopardised by further hurricanes. Following Hurricane Katrina, pricing should improve in many areas, which means the bias to our earnings estimates in 2006 and 2007 is clearly upwards. Even without factoring in pricing gains, Hannover Re trades on 7.5x and 6.0x 2006E reported and

normalised earnings respectively, and on 1.2x EV for a sustainable RoEV of 12.8%. We see 34% potential upside to our SOTP fair value estimate of EUR37.1/share.

*Goldman Sachs, 2005-09-25*  
*Responsible: Will Morgan*

### **Compensatory measures**

Hannover Re yesterday (29 Sep) announced that it expects EUR150m pre-tax losses from hurricane Rita. (...) Hannover Re reiterated its net profit guidance for 2005, projecting net profit "at least as high as in 2004". As this guidance was first announced prior to the incurrence of the EUR150m losses from hurricane Rita, Hannover Re must have some compensatory measures in place. These may include 1) a EUR70-80m cushion from Lloyds Central Fund and profits from high-margin non-nat. cat. business, 2) additional capital gains from the sale of equities in Q3-05 (we expect EUR25m), 3) high profits from the sale of backup coverage to primary insurers following hurricane Katrina (we estimate EUR45m in H2-05). (...)

*Cheuvreux Europe, 2005-09-30*  
*Responsible Michael Haid*

### **Limited impact**

(...) Despite the additional loss incurred with Rita, the group has decided not to change its FY 05 guidance for net income. After its statement on Katrina, Hannover Re had indicated that the group was expecting an overall result that was at least at the level of the previous year (EUR 309.1 million), thus also in 2005 generating a return on equity in the double-digit percentage range. The limited impact on FY 05 net income can be explained by the following: 1) The remaining NatCat buffer left for the end of the year of EUR70-EUR80m (including positive settlement on the Lloyd's central funds) offsets part of the loss but has now been fully exhausted; 2) New business on NatCat written by its clients buying back-up covers to increase their protection for events that may occur before the end of the year. We have been given an indicative price increase of +20% in the case of specific contracts recently underwritten; 3) Capital gains realised in Q3 05 principally on equities and more marginally on bonds. (...)

*Exane BNP Paribas, 2005-09-29*  
*Responsible Thomas Fossard*

### **European reinsurers undervalued**

The insurance industry breathed a collective sigh of relief over the weekend as Hurricane Rita made landfall east of Houston and within 24 hours slowed from a category four hurricane to a tropical storm. Consequently we do not believe the loss burden for the industry will exceed a \$3-\$7bn range. For the European reinsurers the losses are unlikely to be significant from a balance sheet perspective. (...) We still believe European reinsurers are undervalued. We expect positive sentiment to lead the reinsurers to outperform prior to the year-end. (...)

(...) Rate increases will certainly occur after the losses. (...) Rate expectations outlined at the Monte Carlo conference were as follows:

- 30%-50% increase in loss-affected lines, as insurers look to earn back losses
- 10%-15% increase in global property catastrophe risk, as insurers adjust risk models to take into consideration Katrina, Rita, Pacific typhoons, European windstorms and floods.
- 5% average increase in global insurance prices, due to the reduction in capacity. (...)

*Bear, Stearns, 2005-09-26*  
*Responsible William Allen*