Ulrich Wallin,
Chairman of the
Executive Board

Dear shareholders, ladies and gentlemen,

The development of your company's business in the first half of 2018 was very pleasing overall. Despite a higher tax load, attributable not least to the US tax reform, we were able to increase the comparable period's good result by a further 3.8 percent to EUR 555 million. The same is true of the annualised return on equity, which rose from 12.2 percent to 13.2 percent and is thus quite comfortably ahead of our minimum target.

I would especially like to highlight the exceptionally positive growth in the operating profit (EBIT), which we boosted by 13.5 percent to EUR 907 million. This is due principally to a sharply improved underwriting result, most notably in life and health reinsurance.

Although this business group has also been adversely impacted in recent years by rising losses from our US mortality business, the loss experience here in the first half of 2018 proved to be considerably better than anticipated. For this reason, the loss from this business was more than halved. In the period under review the spotlight consequently turned to the healthy profitability of our life and health reinsurance portfolio excluding US mortality business. As a result, the EBIT surged by 33 percent to EUR 219 million.

On the one hand, this underscores the very healthy profit potential of our life and health reinsurance portfolio, but at the same time it makes very clear that we can only fully realise this potential if we contain the negative earnings situation in US mortality business. To this end we launched a project last year tasked with analysing the reasons for the unsatisfactory performance – particularly with respect to the large block of business acquired at the beginning of 2009. Based on these analyses we exercised our right to implement consistent rate increases across the entire block.

The resulting right of ceding companies to recapture the treaties will, however, lead to considerable strains on the IFRS result in life and health reinsurance in the second half of 2018. In the third quarter, for example, we have already been notified of recaptures in the period until 6 August 2018 that will result in a pre-tax charge of USD 264 million. This figure will likely increase in the course of the year and could, in an extreme scenario, rise to an amount in the order of USD 500 million to USD 600 million. On the other hand, though, this would also mean that the strains associated with US mortality business would be extensively eliminated in subsequent years, as a consequence of which we would be able to realise the entire profit potential of our life and health reinsurance business, as demonstrated in the first half of 2018.

In view of the business development to date, it remains our assumption that we shall generate Group net income of more than EUR 1 billion for 2018 despite the strains from the US mortality portfolio discussed above. As always, this is subject to the premise that major loss expenditure does not significantly exceed our budgeted amount of EUR 825 million and assumes that there are no unforeseen distortions on the capital market. It should also be pointed out that the greater the burden from the aforementioned treaty recaptures, the more difficult it will be for us to achieve our target.

As in the comparable period, large loss expenditure in the first six months was well below the budgeted level. In view of our unchanged prudent reserving policy, however, this was for the most part not reflected in the statement of income.

I would also like to elaborate on our decision to transfer our specialty insurer Inter Hannover SE in the coming year to a joint venture with our affiliate HDI Global SE. We are convinced that the company will be able to develop even more successfully through its repositioning and that we, as Hannover Re, can focus even more closely on our core business of reinsurance. We shall participate in the growth of the specialty company through corresponding reinsurance treaties, which means that we can expect to boost our earnings from this business more strongly than would have been the case if we had continued to operate Inter Hannover SE within the Hannover Re Group.

I would now like to explore the development of our business groups and the investments in greater detail.

Despite the considerable expenditure incurred by reinsurers from the large losses of 2017, the state of the property and casualty reinsurance markets remains fiercely competitive. The losses of the previous year did not prompt traditional market players or alternative capital providers on the ILS market to pull capacity from the market. Quite the contrary, in many instances the available capacity has even continued to grow. This means that, as before, the supply of reinsurance capacity exceeds demand, even though it should be noted that demand for reinsurance has also risen.

Nevertheless, we have succeeded – in part thanks to our very good market position – in pushing through higher reinsurance rates overall in the current year, although they were not on the scale anticipated by many market players. Despite this, we were able to write more business that met our margin requirements, hence enabling us to enlarge our premium volume. This was also true of the renewals as at 1 June and 1 July 2018, the dates when parts of the North American portfolio – most notably natural catastrophe risks in Florida – as well as business from Australia and New Zealand and in the area of credit and surety are traditionally renewed.

The renewal season in Florida, where hurricane Irma had caused considerable reinsured losses in 2017, proved particularly disappointing overall, prompting us not to increase our exposures here. On the whole, though, we were able to generate appreciable double-digit growth in these renewals by strengthening our position with some larger customer accounts.

The good development of property and casualty reinsurance business was reflected in a 37 percent increase in the underwriting result to EUR 205 million, corresponding to an improved combined ratio of 95.7 percent. The operating profit (EBIT) was boosted to EUR 689 million on the back of significant double-digit growth in premium income.

The development of life and health reinsurance outside of US mortality business was very positive overall, as mentioned. Financial solutions business continues to deliver excellent results. We also booked pleasing growth with healthy profitability in Asian markets. Not only that, we are seeing encouraging trends in longevity business, including for example in countries such as Australia and Canada.

Against this backdrop we were able to grow the premium income – adjusted for exchange-rate effects – by 3.7 percent.

Our investments continue to develop as planned, despite the protracted low level of interest rates and market volatility. The volume of assets increased slightly on the back of a sustained very positive operating cash flow. The return on investment generated from our portfolio of assets under own management stood at 3.1 percent, thereby clearly beating the minimum target of 2.7 percent set for the current year.

In view of our comfortable capital position we have raised the upper end of our payout range for the basic dividend from 40 percent to 45 percent of IFRS Group net income. This gives us more latitude to increase the basic dividend. As in recent years, we shall also consider paying a special dividend if the company's capitalisation appreciably exceeds the capital required for our business.

As things currently stand, and also bearing in mind the potential strains associated with treaty recaptures in US mortality business, it is our expectation that we should at least achieve a total dividend on the level of the previous year, with the proportion attributable to the basic dividend likely to grow at the expense of the special dividend.

I would like to thank you – also on behalf of my colleagues on the Executive Board – most sincerely for your trust in Hannover Re. Going forward, as in the past, our paramount concern will be to lead your company responsibly and securely into a continued profitable future.

Yours sincerely,

Ulrich Wallin
Chairman of the Executive Board