



Ulrich Wallin,
Chairman of the
Executive Board

Dear shareholders, ladies and gentlemen,

The development of our business in the first half of 2017 was on the whole satisfactory. We generated Group net income of EUR 535 million, a very pleasing figure in view of the challenging business environment in the reinsurance sector. As a reinsurer, we continue to find ourselves facing an excess of supply over demand. In property and casualty reinsurance we are now looking back on five years of soft market conditions, which we increasingly see reflected in the underwriting result. The insurance industry has also been adversely impacted by the UK government's decision to reduce the discount rate for compensation payments associated with personal injury claims. Another challenge that we, as a large investor, have faced – and continue to do so – is the low interest rate environment. Even though the returns that can be generated are shrinking, we can nevertheless be highly satisfied with our ordinary investment income, which benefited in the first six months from strong returns on private equity and our real estate portfolio. As things currently stand, we believe that even in this challenging climate we are well placed to achieve our profit target of more than EUR 1 billion for the current financial year.

The gross written premium booked for the entire Group increased by 8.6 percent year-on-year to EUR 9.0 billion. This was driven by stronger demand for reinsurance solutions offering solvency relief, which enable our customers to respond to the more exacting requirements brought about by the implementation of risk-based solvency regimes.

I would also like to take this opportunity to report that we have successfully completed the acquisition of the UK holding company Argenta Holdings Limited. We received the necessary regulatory approvals in July. This acquisition gives us additional means of accessing the London Market and we expect it to open up attractive business opportunities for our company.

I would now like to explore the business results of the first half-year 2017 in greater detail:

As I mentioned at the outset, the situation in reinsurance business around the world remains largely unchanged from the previous year. Markets are still intensely competitive. Along with an excess supply of reinsurance capacity, additional providers from the insurance-linked securities (ILS) market are putting prices and conditions under sustained pressure. In keeping with our maxim that the profitability of the business written is more important than premium volume, we are guided exclusively by margin considerations in our underwriting. In the latest treaty renewals as at 1 June and 1 July this was once again the approach that we adopted. Parts of the North American portfolio, some natural catastrophe risks and certain areas of credit and surety business are traditionally renewed at this time of the year. In addition, it is the main renewal season for business in Australia and New Zealand. All in all, we are satisfied with the outcome of the renewals.

While the first quarter of 2017 had seen significantly heavier losses than the corresponding period of the previous year, the second quarter was entirely spared any large losses, hence increasing our cushion for potential losses in the second half of the year. Altogether, major loss expenditure for the first six months of 2017 came to around EUR 123 million; in 2016 the figure for the same period was EUR 353 million.

The effects of the change in the discount rate in the United Kingdom for compensation payments associated with personal injury claims, which I had already referred to above, left their mark in the second quarter as well. As at 30 June 2017 we have booked additional loss reserves of EUR 291 million in this connection. Overall, in view of our very comfortable reserves for claims that have been incurred but not yet reported (IBNR), we have been able to offset the establishment of these additional reserves.

The underwriting result in property and casualty reinsurance decreased by 10.5 percent. Thanks to significantly improved investment income, the operating profit (EBIT) rose by 13 percent to EUR 634 million. The combined ratio deteriorated from 95.4% to 96.5%.

We cannot be entirely satisfied with developments in life and health reinsurance. Here, too, market conditions – especially in the more mature markets – are challenging. Yet we also see attractive business opportunities. As an example, demand among life and annuity insurers for reinsurance transactions offering capital relief has risen sharply. Consequently, our financial solutions business again performed exceptionally well and delivered a good profit contribution. The development of our US mortality portfolio, on the other hand, was inconsistent: positive results here were once again overshadowed by a higher-than-expected mortality in blocks of business from older underwriting years.

It is our assumption that further strains will be incurred here in the second half of the year. For example, we are already expecting non-recurring losses of around USD 50 million in the third quarter from treaty commutations carried out as part of our portfolio management activities. While this will avoid further losses over the long term, it will negatively impact the result for the current financial year.

We therefore anticipate that the operating result (EBIT) in life and health reinsurance for 2017 will only be in the order of EUR 300 million.

The EBIT of EUR 165 million generated for the first six months – a decline of just under 8 percent – fell short of our expectations. The premium volume booked in life and health reinsurance business decreased slightly in the first half-year to EUR 3.2 billion.

The development of our investments, on the other hand, was highly satisfactory. Although our portfolio of assets under own management contracted from EUR 41.8 billion as at 31 December 2016 to EUR 40.4 billion owing to exchange rate effects and the dividend payment, ordinary investment income developed very favourably despite the protracted low interest rate environment. It climbed by around 12 percent relative to the corresponding period of the previous year, driven principally by strong income from private equity investments and our real estate portfolio.

Income from assets under own management grew to EUR 656 million as at 30 June 2017, an increase of 15 percent compared to the previous year's figure. Along with the aforementioned favourable investment income, lower write-downs were also a factor in this very good performance. The return on investment of 3.2 percent for our assets under own management is comfortably in excess of our 2.7 percent target.

Shareholders' equity fell to EUR 8.6 billion as at 30 June 2017 owing to an increased dividend distribution of EUR 603 million and significantly less favourable net gains on foreign currency translation; it had stood at EUR 9.0 billion as at 31 December 2016. The annualised return on equity amounted to 12.2 percent and thus continues to be above our minimum target.

As I have already indicated, the challenges facing the reinsurance and capital markets are currently very considerable. We are nevertheless standing by our full-year guidance for Group net income of more than EUR 1 billion. As always, this forecast is subject to the proviso that major loss expenditure does not significantly exceed the budgeted level of EUR 825 million for 2017 and that there are no unforeseen distortions on capital markets.

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