



Ulrich Wallin,
Chairman of the
Executive Board

Dear Shareholders, Ladies and Gentlemen,

While the past five years had seen insured losses from natural catastrophe events below the modelled expectations, the picture in 2017 was markedly different: most notably, the hurricanes “Harvey”, “Irma” and “Maria” – along with a number of other natural disasters – caused insured losses well in excess of USD 100 billion. This is on a similar scale to the expenditures incurred in 2005 from hurricanes “Katrina”, “Rita” and “Wilma” and in 2011 from the earthquakes in Japan and New Zealand. It is therefore evident that, as a reinsurer, we must anticipate insured losses in an order of magnitude comparable with 2017 at relatively frequent intervals.

In 2017, as had been the case in 2005 and 2011, your company – in common with other industry players – was impacted by the aforementioned natural catastrophe losses to a considerable extent. Reinsuring our clients against just such events is at the very heart of our business model in property and casualty reinsurance. It is therefore crucially important that we accurately capture these exposures in our risk management system in order to avoid having to carry unexpectedly heavy losses that could impair the company’s financial strength. With this in mind, I am pleased to report that the losses incurred by your company from these natural disasters were very much in line with the expected values from our risk management system relative to our defined risk appetite.

Even in the challenging 2017 financial year, therefore, the generated result delivered a return on equity of 10.9 percent that comfortably beats our minimum target of 900 basis points above the risk-free interest rate. The Group net income of EUR 959 million thus constitutes a satisfactory result.

This was made possible, in the first place, because we avoided an underwriting deficit in property and casualty reinsurance despite the quite considerable large losses. Along with the good underlying claims experience, especially in our European and Asian business, we were further assisted here by the very conservatively calculated loss reserves that we have established over many years. This is true of large individual losses and applies equally to the reserves that we set aside for losses that have already been incurred but not yet reported (IBNR). The result consequently benefited from substantial releases of loss reserves, without this causing any significant change in the confidence level of our loss reserves as determined by internal and external analyses. Your company thus continues to enjoy very prudent and comfortably calculated loss reserves.

As a further factor, we generated exceptionally healthy investment income in 2017. Driven by good earnings from our real estate portfolio and from special investments, above all in private equity, we were able to boost ordinary investment income by almost 11 percent. Extraordinary investment income rose even more strongly following the sale of our listed equities in the third quarter, causing investment income from assets under own management to surge by 26 percent overall.

The performance of our life and health reinsurance portfolio, however, was less pleasing. Net income contracted by a good 31 percent to EUR 173 million. Despite an otherwise rather good business experience, this was due to losses from our US mortality portfolio, which came in significantly higher than we had anticipated. The primary reasons here were, firstly, that – contrary to the expectations at the time of pricing the business – the mortality improvement in the US population has for some time now failed to materialise to the anticipated extent. Furthermore, the exercise of the various options available to policyholders, particularly in relation to cancellation of their policies, had resulted in a more sharply negative portfolio mix than anticipated, especially in relation to older underwriting years. Although these changes should not produce negative results for our new business due to the applied pricing parameters, the situation is different with a large block of business that we assumed from Scottish Re at the beginning of 2009. In this case there can be no doubt that the reinsurance premiums are not sufficient to cover the anticipated future claims, especially for policyholders at an advanced age. Consequently, based on detailed analysis of the business, we are now making intensive efforts to exercise contractually agreed options in such a way as to raise the reinsurance rates for this legacy portfolio to an adequate level. The resulting additional premium income that is expected to be generated in the future has already been factored into the valuation of the business.

Your company's shareholders' equity contracted from EUR 9 billion to EUR 8.5 billion, a decrease attributable primarily to exchange rate movements and in particular the softening of the US dollar against the euro. The various parts of shareholders' equity are affected accordingly, especially those that we hold in US dollars. This is opposed, however, by USD exposures on at least the same scale, with the result that the risk-bearing capacity of your company has in no way deteriorated; quite the contrary, it actually improved slightly.

Driven by substantial growth in property and casualty reinsurance as well as a largely stable development in life and health reinsurance, premium income also fared well. Gross written premium climbed 9 percent to EUR 17.8 billion. Adjusted for exchange rate effects, growth would have been as strong as 11 percent. In view of your company's unchanged very good equity position, we envisage a stable distribution on the level of the previous year and will propose to the Annual General Meeting that a dividend of EUR 5 per share should be paid. This is composed of an ordinary dividend of EUR 3.50 and an unchanged special dividend of EUR 1.50 per share.

Turning to the prospects for the current 2018 financial year, we have a good platform in property and casualty reinsurance for once again achieving good results in 2018. In the latest treaty renewals we obtained thoroughly pleasing rate increases overall; the premium quality for 2018 is consequently better than was the case for 2017. The reason here is the market response to the considerable losses of 2017. While the available reinsurance capacity still clearly exceeded demand, reinsurers were successful in securing moderate rate increases. This brought about a trend reversal, after primary insurers had consistently been able to push through reduced rates for their reinsurance cessions since mid-2013. Based on our strong competitive position and our very good ratings, we made the most of the improved market climate and booked premium growth of more than 20 percent in the renewal season as at 1 January 2018. This was true of virtually all regions and lines, but derived again in special measure from the area of structured reinsurance, where demand for bespoke reinsurance solutions tailored to provide solvency relief showed further growth. In life and health reinsurance, too, we anticipate slightly higher premium income because we are continuing to write attractive new business. The total result in life and health reinsurance will again be heavily influenced by the performance of our US mortality portfolio. What is particularly essential here is that we can actually achieve the targeted rate increases in relation to the previously mentioned large block of business. What is more, in individual cases this may lead to strains due to recaptures of business by our ceding companies. Given that a large part of the portfolio has negative earnings expectations for the future, such recaptures are generally economically desirable for us.

As far as our investments are concerned, we anticipate largely stable ordinary income despite the low level of interest rates. The return on investment is expected to be in the order of 2.7 percent. If we also bear in mind the good outcome of the treaty renewals as at 1 January 2018 in property and casualty reinsurance, it is now our assumption that gross premium will grow by more than 5 percent at constant exchange rates. We expect to generate Group net income of more than EUR 1 billion. As always, our guidance is subject to the proviso that major loss expenditure remains within the budgeted EUR 825 million and assumes that there are no unforeseen distortions on the capital market.

I would like to take this opportunity to thank you, our valued shareholders, most sincerely for your trust – also on behalf of my colleagues on the Executive Board. I would also like to express my appreciation to our employees for their very good and responsible work. Going forward, as in the past, we shall do everything in our power to safeguard Hannover Re's successful development. It is and will remain our goal to increase the value of your company on a sustainable basis.

Yours sincerely,



Ulrich Wallin
Chairman of the Executive Board