Ulrich Wallin,
Chairman of the
Executive Board

Dear Shareholders,
Ladies and Gentlemen,

When we published our results for the first nine months of 2013 in November of that year we provided a first preview of our expectations for your company's performance in the 2014 financial year. At the same time, we had explained in considerable detail why we anticipated good results for 2014 despite a challenging climate characterised by significantly increased competition in property and casualty reinsurance and a protracted period of low interest rates. It is with great pleasure that I can now inform you that our performance in 2014 did indeed live up to these expectations – and in many areas actually surpassed them. Net income in life and health reinsurance improved, for example, by EUR 41 million or 25 percent. Despite the rather soft market, we also further boosted the underwriting profit in property and casualty reinsurance and not only recorded stable investment income, but even appreciably increased it in absolute terms. All this means that we surpassed the record result of 2013 by another 10 percent to deliver net income of EUR 986 million. Hannover Re's financial strength also developed favourably in the year under review. Shareholders' equity excluding non-controlling interests rose by 28 percent from EUR 5.9 billion to EUR 7.6 billion. The key factors here were a substantial increase in retained earnings due to the good result as well as a rise of more than EUR 1 billion in the valuation reserves. Despite this substantial surge in shareholders' equity, the return on equity remained virtually on a par with the previous year at 14.7 percent. The book value per share climbed to EUR 62.61, the first time it has exceeded the EUR 60 level.

This gratifying business development enables us in turn to distribute to you, our valued shareholders, an attractive dividend. The Supervisory Board and Executive Board will propose to the Annual General Meeting that you should be paid a dividend of EUR 3.00 and a special dividend of EUR 1.25 per share. This is a reflection of the fact that your company's capitalisation now comfortably exceeds the required capital. With this in mind, such a special dividend makes sense as a capital management measure. I would now like to explore below in greater detail the developments in our business groups of Property & Casualty reinsurance and Life & Health reinsurance as well as on the investments side.

The state of the market in property and casualty reinsurance continues to be fiercely competitive. With the supply of reinsurance capacity significantly exceeding demand, we are faced with what can only be described as a buyer's market. This is due not least to the very good results enjoyed by reinsurers in recent years and, furthermore, to the inflow of capital from so-called alternative markets. What is more, the healthy capital resources of most primary insurers have prompted a tendency for them to raise their retentions. As a consequence of these factors, covers to protect against losses from natural catastrophes – in particular – could only be placed at appreciable price mark-downs. Rate reductions were observed in many other reinsurance sectors too. In view of this general climate, we can be satisfied with the development of property and casualty reinsurance business at Hannover Re. Through disciplined underwriting and a concentration first and foremost on our renewal business, we succeeded in preserving the quality of our portfolio on a good level. We were further helped by the fact that we were able to purchase our reinsurance protection at more reasonable prices. Despite our quality-driven, prudent underwriting policy, we thus modestly increased the premium volume in property and casualty reinsurance to around EUR 8 billion.

The underwriting result additionally benefited from another decline year-on-year in the major loss incidence for 2014. This was due above all to the absence of large natural disasters, supported in particular by another benign hurricane season. An exceptional accumulation of major losses was, however, incurred in the aviation line. Despite this, expenditure on major losses – at EUR 426 million – was substantially lower than the figure of EUR 670 million that we had budgeted. On the one hand this gave us the latitude to maintain the very high confidence level of our loss reserves, while at the same time positively affecting the underwriting result. The combined ratio consequently improved to 94.7 percent after 94.9 percent in the comparable period. Combined with higher investment income in property and casualty reinsurance and improved other income, this caused the operating profit in property and casualty reinsurance to surge by an appreciable 12 percent to EUR 1.2 billion.

Turning now to life and health reinsurance, it is particularly gratifying here that after the somewhat disappointing experience in 2013 we were able, as expected, to generate substantially better results. While the international market environment was thoroughly challenging on account of stubbornly low interest rates, our partnership-based relationships with our clients and our global presence nevertheless enabled us to act on sufficient opportunities for sustainable growth. This is especially true of our sizeable growth in the field of reinsurance solutions for longevity risks relating to pension liabilities from annuity policies. We have traditionally written this business mainly in the United Kingdom. Now, however, we are seeing lively interest in such reinsurance solutions outside the United Kingdom as well. In the financial year just ended, for example, we reinsured a substantial block of pension commitments in France for the first time. In addition, we successfully sustained our growth in Asia, and here especially China, in Australia and in US mortality business. Gross premium in life and health reinsurance consequently grew by a pleasing 5 percent – adjusted for currency translation effects – to EUR 6.5 billion.

The operating profit (EBIT) in life and health reinsurance soared by 75 percent to EUR 264 million. The surge in the result compared to the previous year, which had been impacted by losses in Australian disability business and to some extent also in US mortality business, shows that the steps taken to improve profitability were effective. In addition, we booked a particularly pleasing profit contribution from our underwriting of financially oriented reinsurance covers in the United States.

Particularly bearing in mind that the general environment was by no means straightforward, we are thoroughly satisfied with the development of our investments. Our portfolio of assets under own management grew by an appreciable EUR 4 billion to EUR 36 billion. This was attributable to a continued very positive operating cash flow, a substantial rise in hidden reserves – especially for our fixed-income securities – and exchange rate effects. Despite falling interest rates around the world, we boosted net investment income by almost 4 percent to EUR 1.1 billion. It was highly gratifying to note that the operating investment result also increased by around 3 percent. Particularly important positive factors here were our increased exposure to real estate and income from private equity investments, thereby offsetting the declines in interest rates. The net return on our investments stood at 3.3 percent and thus beat the anticipated planned figure despite the considerably higher portfolio values. We consider the net investment income including interest on funds withheld and contract deposits of EUR 1.5 billion – equivalent to an increase of more than 4 percent – to be highly satisfactory.

Permit me, if I may, to close by taking a forward glance at the current financial year.

The general environment facing reinsurers continues to be highly challenging in 2015. Little has changed, whether it comes to the fierce competitive intensity in property and casualty reinsurance or the ongoing very low interest rates and their dampening effect on investment income. Nevertheless, we remain convinced that we can generate another good result in the current year, provided major losses do not come in significantly over budget and as long as capital markets are spared any distortions.

In property and casualty reinsurance it is our expectation that we can maintain the combined ratio – depending on the burden of major losses – on the level of recent years. In this regard, we should benefit from our good market position as a broadly diversified reinsurer as well as our low administrative expenses compared to our competitors. This was borne out by the treaty renewals as at 1 January 2015. Despite the soft market and associated rate erosion, we were able to preserve the good quality of our portfolio. In so doing, we were helped by the fact that we concentrated primarily on our renewal business; for the most part, our clients here recognise us as an enduring and reliable partner. In addition, we wrote new business selectively, most notably in North America and Asia, thereby enabling us to moderately enlarge our premium volume. Just as it was at the turn of the year, the market environment is expected to remain intensely competitive over the months ahead. It is nevertheless our expectation that we can keep our premium volume stable at unchanged exchange rates.

In life and health reinsurance we anticipate a further rise in profitability for the current year. Among other things, the substantial rate increases in Australian group business should leave a clearly positive mark on our results. Similarly, our US portfolio and the business written by our branch in Paris are expected to generate higher profits. Furthermore, we continue to identify healthy potential for growth, especially at our newly established branch in Canada. In Asia we are seeing promising signs, not only in China but also in Japan. For the coming year, therefore, we are looking to book slightly higher gross premium – adjusted for exchange rate effects – in life and health reinsurance.

In view of the substantially enlarged asset portfolio, we expect to be able to hold net income from investments under own management broadly stable. This will, however, mean a decrease in the net return on investment to an anticipated 3 percent.

When it comes to our total business, we expect the gross premium volume for the current year to remain stable or show low single-digit percentage growth after adjustment for exchange rate effects. We are targeting Group net income in the order of EUR 875 million. As always, these statements are subject to the proviso that major losses stay within the expected bounds of EUR 690 million and that there are no exceptionally adverse movements on capital markets.

I would like 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 reliable work in the year just ended. Going forward, as in the past, you can rest assured that 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