Ulrich Wallin
Chairman of the
Executive Board

# Dear shareholders, ladies and gentlemen,

The first quarter of 2014 was notable for the difficult and challenging business environment faced by the international reinsurance industry. The supply of reinsurance capacity once again surged sharply. This can be attributed in part to the good results posted by reinsurers over the past two years and also to the inflow of new capital into the so-called alternative reinsurance market, i. e. the assumption of reinsurance risks by way of collateralised reinsurance products and catastrophe bonds. The expanded supply of reinsurance capacity contrasts, however, with increasingly soft demand for reinsurance covers in some areas – frequently driven by the higher retentions carried by primary insurance companies and groups, which are enjoying improved capital resources after similarly good results in recent years and are thus able to carry more risk for net account. At this moment in time, therefore, the reinsurance market can be described as a buyer's market. This is putting considerable pressure on prices for reinsurance covers and hence on the margins that can be achieved. This is especially true of non-life reinsurance owing to the lower barriers to entry facing new market players. Yet in life and health reinsurance, too, competition on the market has grown in intensity. What is more, the protracted period of low interest rates is reflected in a steady decline in investment returns – a development which is particularly relevant to reinsurers because a not inconsiderable part of their income is generated from investments.

In view of this general business climate, we can be thoroughly satisfied with our net profit of EUR 233 million in the first quarter of 2014. This demonstrates that we have adjusted well to the challenging environment; after the first quarter we are therefore in a position to state that the assumptions underlying our net income expectation of EUR 850 million for the full financial year are supported by the results for the first quarter. These assumptions are, as we have already communicated on a number of occasions, that we anticipate an improved result in life and health reinsurance relative to 2013, that we can profit from the high confidence level of our loss reserves in non-life reinsurance, that we have maintained the high quality of our non-life portfolio while at the same time cutting retrocession costs und that we can generate stable investment income in absolute terms.

While net income in life and health reinsurance was still merely satisfactory, we note that the operating profit (EBIT) of EUR 66 million is some 75 percent higher than the average quarterly EBIT reported in 2013.

The underlying business experience in non-life reinsurance was highly favourable in the first quarter as far as the volume of basic losses was concerned. As a further factor, we incurred only one major loss, as a consequence of which the major loss budget for the first quarter was far from fully utilised. As in past quarters, we did not release this amount to income but instead maintained the corresponding loss reserves. This means that the high confidence level of our loss reserves remains intact and, what is more, we are very well equipped to absorb any major losses that may occur in the remaining three quarters of the year.

We have continued to adhere to our profit-oriented underwriting policy in non-life reinsurance. One effect of this approach is that we have seen a modest contraction in our gross premium volume. Nevertheless, we take the view that by relinquishing marginal business and concentrating on our renewal business we can safeguard a profitable book of non-life reinsurance – especially with an eye to the currently very soft state of the market. The rise of 1.4 percentage points in our retention in non-life reinsurance is reflected in the decreasing costs of our retrocessions. This will serve to boost profitability compared to the previous year.

We are thoroughly satisfied with our investment income in the first quarter. The fact that ordinary income remained virtually unchanged supports our assumption that we can maintain stable investment income year-on-year in absolute terms. Indeed, net income from assets under own management actually rose by 4.6 percent in the first quarter owing to higher realised gains. The latter derived primarily from portfolio regrouping carried out in connection with the changeover in reporting currency from EUR to USD at our subsidiaries in Bermuda and the repayment of the bond that we issued in 2004.

As you can see, we have got off to a good start in 2014. This is also borne out by the continuing highly attractive annualised return on equity, which stood at 15.3 percent for the first quarter and thus comfortably beat our minimum target. This return on equity was achieved despite an increase of seven percent in Hannover Re’s shareholders equity. The book value per share consequently rose to EUR 52.26 – the highest level in the history of your company.

In view of this encouraging opening quarter of 2014, I am able to reaffirm our guidance for Group net income in the order of EUR 850 million for the full financial year. This forecast is subject to the proviso that major loss expenditure does not significantly exceed the expected level of around EUR 670 million and that there are no unforeseen downturns 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 profitable future.

Yours sincerely,

Ulrich Wallin
Chairman of the Executive Board