Ulrich Wallin
Chairman of the
Executive Board

Dear shareholders, ladies and gentlemen,

After the first half of the year passed off on a broadly pleasing note, our business again fared very well in the third quarter of 2014. Group net income for the first nine months improved on the already good result of the previous year's period by roughly another 10 percent to reach EUR 695 million. We can therefore be very confident at this point in time of achieving our profit target for the full financial year in the order of EUR 850 million. This performance is especially gratifying given that the basic conditions facing the reinsurance industry are currently even more challenging than in the previous year and the protracted low interest rate environment is hampering the potential scope for returns on our investments.

Both our business groups and the investment portfolio played a part in the excellent result as at 30 September 2014. Along with another good underwriting result in property and casualty reinsurance, profitability was boosted in life and health reinsurance. Despite the challenging conditions on financial markets, the income from our investments under own management also increased. We are similarly satisfied with the development of our premium volume: gross premium – on a currency-adjusted basis – grew by around 3 percent to EUR 11 billion.

I would like to go into more detail below on developments in property/casualty and life/health reinsurance and in the investment portfolio:

Most property and casualty reinsurance markets remain fiercely competitive. The reasons for this continue to be the absence of market-changing major losses as well as the fact that ceding companies are able to carry more risks in their retention thanks to solid levels of capital resources. As a further factor, the additional capacities from the insurance-linked securities (ILS) market, especially in US natural catastrophe business, are giving rise to significant price erosion. Based on our profit-oriented underwriting policy, we nevertheless believe that we are well placed to navigate the soft market and we shall be disciplined in our adherence to this approach. In segments where the prices that can be obtained are not commensurate with the risks we are prepared to relinquish business going forward, as we have in the past. Indeed, we acted accordingly in the treaty renewals as at 1 July 2014, when parts of the North American portfolio as well as some agricultural risks and business from Latin America were up for renewal. In keeping with our strategy, we accepted modest premium erosion in order to preserve the quality of our property and casualty reinsurance portfolio.

Despite our disciplined underwriting approach, gross premium in property and casualty reinsurance – adjusted for exchange rate effects – rose slightly by around 3 percent as at 30 September 2014 to EUR 6 billion. Increases in emerging markets were a particularly key driver of this growth.

The profit trend in property and casualty reinsurance also gave grounds for satisfaction: having already achieved a very good operating result (EBIT) in the previous year, the figure for the period under review was boosted by another 5 percent to some EUR 847 million. This also means that we should again be able to generate full-year EBIT in excess of EUR 1 billion.

Major losses came in comfortably below the expected level for the first nine months at EUR 242 million. The resulting positive effect on our underwriting result is nevertheless limited because – as in the past – we did not release the unused major loss budget to income. With this in mind, the combined ratio of 95.3 percent is an especially pleasing achievement. With an EBIT margin of 16.6 percent – well above our target of 10 percent – and Group net income of EUR 561 million, property and casualty reinsurance entirely lived up to our expectations as at 30 September 2014.

We are also satisfied with the development of our life and health reinsurance portfolio: the strains that we incurred in the previous year in Australian disability business and to some extent also in US mortality business played virtually no further role in the current reporting period. The measures that we had initiated to improve the profitability of this business began to bear fruit.

With an operating profit (EBIT) of EUR 234 million for life and health reinsurance we therefore booked a pleasing improvement overall on the previous year's result (EUR 168 million). The EBIT margins recorded for business in our reporting categories of Financial Solutions/Longevity and Mortality/Morbidity each beat their respective targets. This reaffirms our expectation that for 2014 as a whole we will also be able to substantially improve the result in life and health reinsurance.

Gross premium in life and health reinsurance – adjusted for exchange rate effects – grew by almost 3 percent to around EUR 5 billion. Although this puts us closer to the lower end of our range of expectations, we still see further potential for growth. This is true of both mature insurance markets, where supervisory and regulatory changes necessitate individually tailored solutions, and emerging markets, where growing prosperity is generating a greater need for insurance.

We are once again thoroughly satisfied with the development of our investments: in view of higher fair values due to declining yields on government bonds and narrowing credit spreads on US corporate bonds – but above all also driven by currency translation effects associated with our USD and GBP holdings and the cash inflow from the technical account – our portfolio of assets under own management grew by an appreciable EUR 3 billion to EUR 35 billion. Ordinary investment income rose slightly despite a further fall in interest rates. We were able to more than offset declines in interest income with stronger returns from our exposure to private equity and real estate. Net income from assets under own management climbed to a very pleasing EUR 836 million. This is equivalent to an average return of 3.3 percent. We expect to achieve our target of 3.2 percent for the full financial year.

Owing to sharply higher valuation reserves and movements in exchange rates, your company's shareholders' equity increased by around 19 percent relative to the position at year-end 2013 to stand at EUR 7 billion. Despite this increase the return on equity of 14.4 percent once again reached a very pleasing level clearly in excess of our minimum target. The book value per share rose to EUR 58.01.

As mentioned at the outset, based on the Group net income reported here as at 30 September 2014 we are very confident of achieving our year-end target in the order of EUR 850 million. As you are aware, 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 objective will be to lead your company responsibly and securely into a continuing profitable future.

Yours sincerely,

Ulrich Wallin
Chairman of the Executive Board