



Ulrich Wallin Chairman of the Executive Board

Dear shareholders, ladies and gentlemen,

The 2010 financial year was an eventful but successful one overall for your company Hannover Re. In the fourth quarter, for example, we reached an agreement on the sale of the operational units of our subsidiary Clarendon Insurance Group. Although this put a strain on the result for the year under review, it will save us considerable administrative expenses from the coming year onwards while at the same time relieving us of the operational risks associated with a US primary insurer. What is more, we can use the expected cash inflow and the freeing up of risk capital previously committed to Clarendon in order to further strengthen our core business of reinsurance.

Through the placement of subordinated debt in the amount of EUR 500 million that qualifies as hybrid capital we were again able to reinforce your company's financial strength in the year under review.

Our operational business was impacted by a heavy incidence of major losses that was significantly higher than the expected level calculated at the beginning of the year.

We were, however, able to more than offset this burden thanks to a gratifyingly low incidence of basic losses, very healthy investment income and the release of provisions following a favourable ruling for our company by the Federal Fiscal Court.

Your company was therefore able to further improve on the record result of 2009. The net income of EUR 749 million even surpassed our expectations.

Based on this good performance and equity-affecting increases in the valuation of our assets, our shareholders' equity grew by more than 20 percent in the year under review. The book value per share amounted to EUR 37.39 (EUR 30.80) as at 31 December 2010. This improved financial strength of Hannover Re is also the basis for the company's growth and its resulting need for greater risk capital.

It is pleasing to note that your company's success has also been reflected in a favourable share price movement. The value of the Hannover Re share increased by around 23 percent in the year under review.

Reducing the volatility of results and hence also improving the reliability of dividend payments has been and continues to be one of our central objectives. With a view to achieving this goal, we maintained our risk appetite for property catastrophe risks unchanged despite the increased shareholders' equity while at the same time further enlarging the proportion of the total portfolio generated by the comparatively less volatile life and health business.

Despite growing competitive pressure, the development of our operational business was highly satisfactory overall. Leaving aside some areas of life and health reinsurance, with demand in Asian markets seeing a particularly marked surge, the demand for reinsurance remained broadly stable in the year under review. On the other hand, the increased capital resources available to reinsurers have led to a substantially enlarged supply of capacity. With reinsurers generally exercising considerable discipline in their underwriting practice, it was nevertheless possible to keep prices and conditions for the most part on a level that can be considered commensurate with the risks. Thanks to our solid financial strength and our market position, we held our ground well in the competitive environment and were able to further boost our premium volume in both non-life and life/health reinsurance.

Although it was shaped by various special effects with differing implications, our result in the non-life reinsurance business group was very pleasing from an overall perspective. First and foremost, mention should be made of the considerable burden of catastrophe losses: even though the hurricane season spared the US mainland from any damage, the (re)insurance industry worldwide found itself faced with very appreciable losses, especially from natural disasters. To start with, the year under review witnessed three severe earthquakes – in Haiti, Chile and New Zealand. Then there was winter storm “Xynthia” in Europe, numerous flood events all over the world and the sinking of the “Deepwater Horizon” drilling rig, which caused an environmental disaster on a hitherto unprecedented scale in the Gulf of Mexico as well as a substantial insured loss. All in all, the major loss expenditure of EUR 662 million incurred by Hannover Re was well in excess of the expected level of EUR 500 million.

Not only that, the result in non-life reinsurance was impacted by the aforementioned strains connected with the sale of Clarendon. On the other hand, a positive special effect derived from the decision of the Federal Fiscal Court regarding the taxation of foreign sourced investment income generated by our Irish subsidiaries. All tax risks were reassessed in this context. As a result, Group net income was boosted by altogether EUR 112 million.

The fact that the combined ratio came in at a very good 98.2 percent despite the major loss expenditure described above can be attributed to the favourable basic loss experience and the run-off profits booked on reserves constituted for previous years. The operating profit (EBIT) amounted to EUR 880 million, corresponding to a highly gratifying EBIT margin of 16.3 percent. Net income after tax was also thoroughly satisfactory at EUR 581 million.

Another significant development for your company was the decision taken by US regulators in Florida at the beginning of the year under review to allow Hannover Re – as the first foreign reinsurer – to qualify as an “Eligible Reinsurer”; the state of New York followed suit at the beginning of 2011. Thanks to this status we are now able to write our non-life reinsurance business in these US states under significantly improved conditions. In the past, ceding companies were only able to recognise technical reserves ceded to foreign reinsurers as balance sheet relief if collateral for these reserves was posted in the full amount. In the two US states mentioned above this requirement has now been reduced to 20 percent for Hannover Re.

Our life and health reinsurance business group also developed exceptionally well. It is notable for stable results that are subject to only minimal volatility. We shall therefore continue to strive for growth in life and health reinsurance. With double-digit percentage gains in both gross and net premium, we again accomplished our goals here in the year under review. Growth was driven in particular by the very positive development of our business in the United Kingdom, especially in the area of longevity risks. In the first place, mention should be made of the substantial expansion in reinsurance business involving portfolios of immediate enhanced annuities with a single premium payment. This segment, which we played a crucial role in shaping in the United Kingdom, is accounting for an ever-increasing market share of UK annuity business – a trend from which we profit disproportionately strongly as a leading reinsurer. Secondly, we significantly stepped up our acceptances of longevity risks from pension funds. Particularly noteworthy is the fact that we were able to act as the largest participating reinsurer in the highest-volume transaction of this type to date. The returns on our longevity business are thoroughly satisfactory overall. In accordance with current IFRS accounting practice, however, only future financial years will be able to significantly profit from this development; this is because the income is only booked after a delay, since the longevity risk builds up over time. Nevertheless, the considerable appeal of this business is already evident now in the substantial value of new business, which recognises all expected future cash flows on a discounted basis.

We again expanded particularly vigorously in China, generating growth of more than 50 percent thanks to our status as a locally licensed reinsurer. Most notable here is that we were the first reinsurer to write liquidity-affecting financing arrangements in China. These transactions were concluded in consultation with the local regulator.

Since the acquisition of the ING life reinsurance portfolio in 2009 we have been increasingly active on the US mortality market – also in relation to new business. We have gone on to successfully expand this business and currently enjoy a market share of 5 percent. For 2011 we have set our sights on 7 percent. The successful enlargement of our customer base thus far brings us a step closer to attaining our goal of a 10 to 15 percent share over the medium term.

The results of our life and health reinsurance business in the year under review were similarly highly satisfactory. If the figures for the previous year are adjusted for the already described non-recurring effects, we achieved a substantial increase. Investment income, which was better than expected, was a particularly significant factor

here, while the experience of our biometric risks of mortality and morbidity came in somewhat below expectations. With an operating profit (EBIT) of EUR 284 million we generated an EBIT margin of 6.1 percent; this is within the range of our target return. Net income after tax was highly satisfactory at around EUR 220 million.

Our investment performance continues to be overshadowed by the low level of interest rates. While this curtailed the investment income, we were able to book gains on the sale of government bonds. During the second half of the year under review – in accordance with our strategic asset allocation – we stepped up investments in corporate bonds as part of our reinvestment activities. We increased the percentage share of this asset class overall, while always paying close attention to the quality of debtors and a broad spread of the risks. What is more, in the third quarter of 2010 we began to move back into listed equity with a limited budget. At the end of the year under review 2.1 percent of our investment portfolio was invested in this asset class – a proportion that we plan to increase moderately during the current year. Thanks not least to the continued highly positive cash flow from operating activities, our portfolio of assets under own management grew by almost EUR 3 billion to more than EUR 25 billion. This led to a pleasing increase of 8.6 percent in current investment income. All in all, then, we generated income of EUR 943 million from the assets under own management – a performance with which we are thoroughly satisfied. Including deposit interest and expenses, net investment income rose by 12 percent to EUR 1.3 billion.

The efforts that we have made over the past two years to tap into new business opportunities in non-life reinsurance are bearing initial fruit. In cooperation with a partner in the United States, for example, we launched a new insurance product on the market designed to guarantee the energy savings promised by companies that make energy-improving upgrades to buildings. In this way we are able to play our part in reducing energy consumption and hence the emission of greenhouse gases. We are pleased to report that we have already written business in this area.

Even though the trend towards softer markets in non-life reinsurance looks set to continue in the current financial year, we expect to achieve a very good result for 2011. In life and health reinsurance it is our expectation that the business written in past

years will generate increasing income in 2011. What is more, we continue to assess the prospects for writing new business as good to very good, and we therefore take an optimistic view of the results trend in life and health reinsurance over the medium term as well.

We expect to record further substantial growth in both non-life and life/health reinsurance in 2011. At constant exchange rates growth should be in the region of 5 percent overall. In view of the unchanged good quality of our portfolio, we anticipate net income in the order of EUR 650 million for the current year – always assuming that the burden of major losses remains within expectations and there are no fresh distortions on financial markets.

On my own behalf and that of my colleagues on the Executive Board I would like to thank you, our valued shareholders, most sincerely for your confidence.

Yours sincerely,



Ulrich Wallin
Chairman of the Executive Board