



Ulrich Wallin,  
Chairman of the  
Executive Board

## Dear Shareholders, Ladies and Gentlemen,

The 2016 financial year marked Hannover Re's fiftieth year of doing business: on 6 June your company celebrated the first half-century of its existence. It is with great pleasure that I am able to present to you another very good business result for this special year in your company's history. As we have already reported in our ad hoc disclosure in early February, we were able to further improve on the very good result of the previous year and generated a fifth consecutive record profit with Group net income of EUR 1.17 billion.

Once again, the Property & Casualty reinsurance business group played the largest part. This shows that even in a difficult market climate your company can operate successfully in property and casualty reinsurance thanks to its good competitive positioning and low administrative expenses. Yet in life and health reinsurance, too, we achieved a solid result that entirely lived up to our expectations. It is also especially gratifying to note that despite the protracted low interest rate environment we again booked very good investment income that exceeded our targeted return on investment.

Nevertheless, it is also the case that for the first time in many years we recorded a decrease in gross premium, which fell by a modest 2 percent adjusted for exchange rate effects. This can be attributed on the one hand to the sustained competition in property and casualty reinsurance, which necessitates a profit-oriented, selective underwriting policy. As an additional factor, in life and health reinsurance a number of sizeable treaties from the previous year were not renewed for a variety of reasons. Ultimately, however, it must be stated that in the prevailing market climate the pursuit of profit targets clearly takes precedence over growth targets.

Shareholders' equity also developed satisfactorily, rising by around 12 percent compared to the position at the beginning of the year to reach EUR 9 billion as at 31 December 2016. Above all, this is a reflection of the further reinforcement of your company's financial strength. The higher shareholders' equity has inevitably had a restraining effect on the return on equity. Amounting to 13.7 percent, it nevertheless remains quite clearly above our minimum target. The capitalisation of the Hannover Re Group remains very comfortable, not least due to the increased IFRS shareholders' equity. This is the case both in terms of the requirements imposed by the Solvency II framework, which – as you know – entered into force in 2016, and with an eye to the important ratings that we receive from the rating agencies. With this in mind, it is our intention to adjust the further increase in shareholders' equity in keeping with the development of our business by distributing another special dividend. By taking this step we are seeking, among other things, to ensure a continued attractive return on equity going forward. In view of the pleasing business development, the Executive Board and Supervisory Board will therefore propose to the Annual General Meeting in May of this year that a dividend of altogether EUR 5.00 per share should be distributed. This is comprised of an increased regular dividend of EUR 3.50 and an unchanged special dividend year-on-year of EUR 1.50 per share.

I would now like to discuss in greater depth developments in our two business groups – Property & Casualty and Life & Health reinsurance – as well as on the investments side:

Property and casualty reinsurance remains under considerable competitive pressure. This is due not least to the overall good results posted by reinsurers since 2012. Investors such as pension funds and hedge funds, which as sources of so-called alternative capital are increasingly providing reinsurance capacity in the context of collateralised reinsurance arrangements, have similarly generated satisfactory results on the whole. The availability of reinsurance capacity from both traditional reinsurers and collateralised reinsurers backed by alternative capital has consequently continued to grow, with the result that supply far exceeds demand. This trend has been further facilitated by the fact that in each of the years since 2012 natural catastrophe losses, in particular, came in below the expected loss levels. This was also true of 2016, even though total expenditure on large losses was higher than in the previous years. Despite these general framework conditions, it should be noted that developments certainly varied across the individual lines and geographical regions. The market thus responded to loss-impacted reinsurance programmes, as it has in the past, with rate increases. Furthermore, in some areas of liability insurance – most notably in the motor sector – it continues to be possible to push through the higher rates needed to safeguard margins that are required from a technical risk perspective on account of lower interest rates. We also observed stronger demand in the North American market, extending among other things to reinsurance covers for cyber risks. Demand for reinsurance solutions offering solvency relief, which has been driven by more exacting capital adequacy regulations both in Europe and Asia, continued to rise. We benefited from these trends thanks to our very good market position. All in all, the premium volume for property and casualty reinsurance remained virtually stable – adjusted for exchange rate effects – at EUR 9 billion.

The most costly event for our company in 2016 was the devastating forest fires in the Canadian province of Alberta, with net loss expenditure of EUR 128 million. Further substantial losses were incurred from Hurricane Matthew and the earthquakes in Ecuador and New Zealand. Total net expenditure on large losses in the year under review came to around EUR 627 million, thereby exceeding the amount of EUR 573 million incurred in 2015. The burden of large losses for 2016 was, however, still well below our budgeted level of EUR 825 million. Our loss ratio consequently improved again to stand at 93.7 percent in the year under review, assisted in part by the release of reserves from prior years that were no longer required. The operating profit for property and casualty reinsurance remained stable on a thoroughly pleasing level at EUR 1.3 billion.

In life and health reinsurance we achieved a good result with EBIT of EUR 343 million. The fact that this figure came in below the previous year can be attributed largely to the non-recurrence of a special effect that had supported the operating result in the prior year. Earnings were impacted by adverse effects from parts of our US mortality portfolio, as had been the case in previous years. The vast bulk of our other business is nevertheless notable for its rising profitability. This is especially true of financial solutions business, which once again delivered very good results. Furthermore, it is our expectation that the steps taken to optimise our US mortality business will continue to contribute to improved profitability – as could already be seen to some extent in 2016. In the year under review we saw a rise in demand for reinsurance relating to the coverage of longevity risks, especially from pension funds. Similarly, the requirements of Solvency II have stimulated stronger demand for tailor-made reinsurance solutions.

After the vigorous growth booked in the previous year, the gross premium volume in life and health reinsurance contracted slightly in 2016 to EUR 7 billion owing to the fact that a number of large contracts were not renewed. Net premium, on the other hand, rose moderately – at constant exchange rates – on the back of an increased retention.

As mentioned at the outset, in the absence of any easing in the challenging framework conditions we are thoroughly satisfied with the development of our investments. The portfolio of assets under own management grew by six percent to around EUR 42 billion, driven primarily by the continued positive operating cash flow. This favourable performance was further assisted by increased hidden reserves and the appreciation of the US dollar against our reporting currency, the euro.

Income from our investments under own management reached another very gratifying level of EUR 1.2 billion, even though it did not quite match up to the previous year's figure owing to the non-recurrence of a special effect in life and health reinsurance.

For the current financial year, too, we see good prospects of achieving another healthy year-end result. We should benefit here from our position as one of the leading reinsurers and from our low administrative expense ratio relative to our competitors. As a further factor, profitability in property and casualty reinsurance is very well safeguarded by the continued high confidence level of our loss reserves. In life and health reinsurance, too, we have been able to write attractive new business, thereby establishing the platform for increased earnings. Although the return on our investments is expected to decline, we anticipate broadly stable income based on the growing portfolio.

We enjoyed a highly satisfactory round of treaty renewals as at 1 January 2017 in traditional property and casualty reinsurance. Particularly in North America, and here above all in Canada, as well as in parts of Europe and in credit and surety business, we were able to enlarge our portfolio. On the other hand, in keeping with our profit-oriented underwriting policy, we relinquished premium volumes in some Asian markets and in the aviation line, for example. With the total premium volume remaining virtually stable, we were thus able to preserve the quality and profitability of our portfolio in traditional property and casualty reinsurance. In addition, considerable growth was generated in the area of structured reinsurance, where we were able to leverage the increased demand for customised reinsurance solutions designed to provide solvency relief. We also wrote attractive new business in life and health reinsurance, most notably in Asia and North America.

With this in mind, we are revising upwards our growth expectation for 2017 and – adjusted for exchange rate effects – now anticipate a low single-digit percentage increase in gross premium. Furthermore, we are raising our guidance for Group net income. Reflecting the fact that we have been able to successfully close several financial solutions contracts in life and health reinsurance, we now expect Group net income to exceed EUR 1 billion. Our forecast is always subject to the proviso that major losses remain within the budget of EUR 825 million and assumes that there are no unforeseen distortions on capital markets. We anticipate a return on investment of 2.7 percent.

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 reliable 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