somewhat different

Long-term success in a competitive business

Our Strategy

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Our Strategy

Foreword 4

Our vision: Long-term success in a competitive business 6

1. We have ambitious profit and growth targets 8
2. We are a preferred business partner 10
3. We aim for successful employees 12
4. We strive for an optimal balance between stability and yield of our investments 13
5. We manage risks actively 14
6. We maintain an adequate level of capitalisation 15
7. We ensure low costs through an efficient organisational set-up 16
8. We use Information Technology to achieve a competitive advantage 17
9. We are committed to sustainability, integrity and compliance 18
10. We strive for Performance Excellence and continuous improvement 19

Ulrich Wallin
Chairman of the
Executive Board

Ladies and Gentlemen, dear Colleagues,

The strategy presented here is the outcome of our strategic review conducted in 2014 in line with our long-standing practice of reviewing our corporate strategy every three years. The most recent strategic review dated back to 2011, when we had given our strategy the overarching title of "Growing Hannover Re profitably". Looking back on what has been achieved over the last three years, I am pleased to say that this mission has been accomplished quite successfully. From 2011 to 2014 we increased our gross premium volume from EUR 12 billion to EUR 14 billion, equivalent to growth of 17 percent. At the same time the profit guidance, which is based on our annual planning, rose from EUR 650 million to EUR 850 million – representing bottom-line growth of 31 percent.

Bearing in mind this successful implementation of our strategy, we left its foundations largely unchanged during the revision process. We did, however, adapt the strategy to the changing business environment on global reinsurance markets, which have become significantly more competitive in recent times. This is due to the fact that the capital flowing into reinsurance markets has increased substantially both from traditional carriers as well as from capital market players such as pension funds and hedge funds via the market for insurance-linked securities. Consequently, the supply of reinsurance capacity considerably exceeds demand, in turn leading to more intense competition. Short of very marked volatility either on capital markets or in insurance results, it has to be anticipated that this competitive environment will continue to prevail in the coming years. This is particularly evident for our property and casualty business, but also extends to life and health reinsurance.

From a strategic perspective it is therefore vitally important for us to position Hannover Re in the markets such that we can succeed in this more challenging business environment. Furthermore, we should not only look at the necessary short-term success, but also need to recognise the importance of sustainability in our performance over the medium and long term. These were the primary considerations in framing our vision for the coming strategic cycle as “Long-term success in a competitive business”.

In line with our established and proven practice, the new version of our strategy has been developed by the Executive Board in collaboration with all managers of the worldwide Hannover Re Group. This was done during strategic retreats of the Executive Board and the Property & Casualty and Life & Health business groups as well as during the 2014 Hannover Re Global Management Forum. As with the previous version, the strategy consists of the overarching vision and business model descriptions as well as our ten strategic principles. The strategic contributions of our Property & Casualty and Life & Health business groups – which are consistent with the overall strategic objectives – are also included.

Reflecting our holistic management system of Performance Excellence 2.0, implementation of the strategy will take the form of each organisational unit of the Hannover Re Group defining their own strategic contribution to the overall Group strategy with the aid of our internal Strategy Guide and our Strategy Cockpit. In this way, all initiatives and activities within Hannover Re can be clearly linked to the corporate strategy.

Based on these contributions by all our employees and managers, I am convinced that we will continue to accomplish our strategic objectives in the challenging environment that we face on both reinsurance and capital markets in the years ahead.

Sincerely,

Ulrich Wallin
Chairman of the Executive Board

Our vision: Long-term success in a competitive business

Excellent solutions for our business partners are the basis to strengthen and further expand our position as a leading, globally operating reinsurance group. This will enable us to deliver a long-term sustainable profitability and being one of the most profitable reinsurers worldwide.

We are passionate about reinsurance and chart our own course. We are quick, flexible and independent; striving for excellence in our actions. We enlarge the scope of our business by creating new business opportunities from emerging risks. And being organised for efficiency we offer our business partners an attractive value proposition.

Our business model

We transact reinsurance business in our business groups of Property & Casualty and Life & Health.

For the benefit of our clients and shareholders we achieve a competitive advantage by transacting our business with a lower cost of capital and lower management expenses compared to our peers.

This enables us to deliver a profit that is above the average for the sector, while at the same time providing our clients with competitive terms on our reinsurance offerings.

By assuming risk through the largely uncorrelated activities of our Property & Casualty and Life & Health business groups in all lines of business based on our global presence we enjoy optimal diversification. Besides our capital management, this is the key to our comparatively low cost of capital.

In order to ensure our long-term financial strength, we steer our business towards maintaining a capital base in line with our long-term business opportunities. We achieve this position by managing the annual volatility of our earnings through the practice of vigorous risk management.

As a reinsurance specialist, we transact primary insurance business as a complement to our core reinsurance activities in selected niche markets. In this context we work together with partners from the primary insurance sector, just as we do in our reinsurance business.

Our subsidiary E+S Rückversicherung AG, the “dedicated reinsurer for the German market”, offers a range of products and services focused on the specificities of the German market – especially for those mutual insurers with whom we have established a particularly trusting cooperation that is underscored through their shareholding in E+S Rück.

Contribution of our Property & Casualty business group

We consider ourselves to be a reliable, flexible and innovative market player that is amongst the best in any given market. Cost leadership, effective cycle management and excellent risk management are the key components of our competitive positioning.

Contribution of our Life & Health business group

We are recognised as one of the top three providers of life and health reinsurance and the number one provider of innovative solutions, measured by customer surveys. We achieve this by creating new markets and satisfying future client demands through the anticipation of trends.

Hub for international flows of goods: the global trade in goods continues to present a market climate in which our reinsurance solutions constitute attractive products for our clients. As one of the leading reinsurers we are active in this business environment and practise underwriting discipline in order to deliver profitable results.

1.

We have ambitious profit and growth targets

Profit and value creation are the cornerstones of our sustainable development as an organisation. This is in the best interests of our clients, shareholders, employees and business partners. This means generating profitable growth. Our goal is to increase the earnings per share and the value of the company – including dividends – in line with our return on equity target.

We are therefore committed to growing our premium volume at a pace that in the long term exceeds that of the reinsurance sector. Temporary market share losses are not contrary to this objective. We intend to achieve this primarily through organic growth. Acquisitions are considered only if their integration into the Hannover Re Group adds value to Hannover Re and expedites the accomplishment of our strategic objectives.

Our Economic Capital Model is the foundation of our management strategy and, based on this model, we aim to achieve a profit in excess of the cost of capital. This profit, which we refer to as Intrinsic Value Creation (IVC), is the key ratio used to manage our business activities.

We offer our shareholders the prospect of a sustained above-average return on their capital. As such, we target an IFRS return on equity of at least 900 basis points above the risk-free interest rate [1].

Our ability to succeed in sustainably increasing the investment made by our shareholders is also reflected in the movement of our share price. We aim to outperform the weighted Global Reinsurance Index (GloRe) over a three-year rolling period. Furthermore, we also aspire to achieve a sustained level of profitability that consistently enables us to pay a dividend that is attractive to our shareholders.

[1] 900 basis points above 5-year rolling average of 10-year German government bond rate (risk-free), after tax

Profit contribution of our Property & Casualty business group

We transact property and casualty reinsurance with two goals: to be amongst the world's most profitable companies in this industry and to steer the volatility of our business in line with our profit targets.

In so doing, we expect to deliver a substantial profit contribution which – measured by the xRoCA – is at least 2% of capital allocated. In addition, we have set a goal of generating a pre-tax profit (EBIT) of at least 10% of net premium earned with a net combined ratio on a calendar-year basis of 96% or less.

To achieve this, we pay particular attention to the comprehensive understanding and assessment of risks and to appropriate technical pricing.

In highly cyclical markets we increase our market share only during hard markets and after-market-changing events, while we scale it back during soft markets without regard to the impact on the management expense ratio. We control the latter by keeping fixed management expenses to a necessary minimum and working efficiently with variable cost structures, e. g. outsourcing and broker distribution channels.

Profit contribution of our Life & Health business group

We aim to outperform the worldwide growth of the life and health business in areas with an expected net income exceeding our cost of capital over rolling three-year periods. This will be achieved by building on our current positioning and set of solutions and by expanding our presence through a focus on high growth markets, underserved consumers in the life and health market, alternative distribution channels, risks that are not easily quantifiable and companies in a transition phase. Important success factors are our client-centric approach, outstanding time to market, efficient organisational set-up and fully empowered staff at all levels.

We target a substantial profit contribution which – measured by the xRoCA – is at least 3% of capital allocated. Furthermore, we aim for an average yearly value of new business in excess of EUR 180 million. Apart from that, our goal is to generate a pre-tax profit (EBIT) of at least 6% for mortality and morbidity business and 2% for financial solutions and longevity business.

We are a preferred business partner for our clients and we set great store by continuity in our customer relationships. Particularly in times of intense competition, reliability and expertise are crucially important to our business partners.

2.

We are a preferred business partner

Our commercial success hinges on our status as a preferred business partner for our clients. This is dependent upon our ability to enhance our clients' commercial success through the services that we provide as a reinsurer. The value proposition is the decisive factor here to make us the preferred business partner for our clients.

As evidence of our financial capability, we seek to maintain a rating from the rating agencies most relevant to our industry that facilitates and ensures access to all desirable business worldwide. Currently, this means ensuring "AA-" from Standard & Poor's (with a "very strong" for Enterprise Risk Management) and "A+" from A.M. Best.

Value proposition of our Property & Casualty business group

Our guiding principle is customer satisfaction. We have a comprehensive range of products which can be tailored to our customers' needs. We constantly monitor markets in order to identify trends and our flexible organisation enables us to redirect our underwriting policy towards risks and classes of business that show specific potential for the future.

We work towards fair business relationships and are constantly available to listen to our customers and discuss their concerns. Our aim is to be the reinsurer who comes to mind first when our customers are looking for a solution. We also pride ourselves on short lines of communication between us and the customer, thereby enabling the speedy delivery of our solutions.

We utilise all distribution channels, i. e. direct as well as intermediaries, thus ensuring that we are able to optimally review and act on business opportunities. We particularly emphasise cooperation with brokers in non-proportional and facultative business, but we attach great value to direct contacts with our ceding companies even in the case of business relationships via brokers.

Value proposition of our Life & Health business group

For clients in need of risk management solutions we provide competitive terms, appropriate capacities and reinsurance solutions for all types of technical risks.

For clients requiring financial solutions we offer tailored reinsurance structures for efficient capital or liquidity management.

For clients reaching out for reinsurance services, we improve sales and underwriting processes and provide access to our worldwide expertise.

Our clients appreciate our outstanding time to market as we are flexible and responsive. We have a client-centric approach as we are listening and open-minded. We have an efficient set-up in that we are a one-stop provider of comprehensive solutions. We give high priority to an entrepreneurial mind-set by having empowered staff with a non-dogmatic approach.

3.

We aim for successful employees

The success of our company depends directly on the successful work of our employees. We therefore pay particularly close attention to the qualifications, experience and commitment of our staff and foster these attributes through our excellent personnel development and leadership practices. As such, our strategic human resources planning enables us to harmonise the size and skills of our workforce with the current and future requirements of our global market presence.

As a global entity, we are able to offer our employees an attractive workplace that fosters motivation, dedication and teamwork. Our attractiveness as an employer is further supported by planned career development programmes, a commitment to expressing our appreciation of employees and an approach that allows them to participate in the sustained success of the business. Our employees are proud to work for a successful company in the reinsurance industry.

Through the greatest possible delegation of tasks, responsibilities and authority, we ensure that employees are able to act in a quick and flexible manner. This is supported by management by objectives, and we expect our managers to instil a strong sense of accountability in their staff.

Our managers play a particularly important role. They manage their staff according to our management principles. We support our managers in developing their leadership skills. Where qualifications are equivalent, vacant management posts are occupied wherever possible from within the Group.

Our staff are experts who make a long-term commitment and thereby actively cultivate close customer relationships. The diversity of nationalities and cultures in our workforce ensures a high global quality standard.

4.

We strive for an optimal balance between stability and yield of our investments

The structure of our investment holdings is guided by the requirements of our technical liabilities and our capitalisation. It particularly reflects the maturities of our liabilities as well as the currency exposure, which we cover on a matching basis to the greatest possible extent. Furthermore, we secure the liquidity required for our business.

With this in mind, we pursue an investment policy that emphasises the stability and predictability of the return that we intend to generate. As such, our portfolio is guided by the basic principles of broad diversification across a wide variety of asset classes and issuers. Our focused approach is backed by calculations within our internal capital model so as to ensure a well-balanced risk/return ratio.

On this basis we allocate part of our economic capital to the risk associated with our asset holdings which we assume in excess of a risk-free investment structure. Regular crosschecking of the composition of our assets against our defined risk budget forms part of our careful approach. Our minimum target is a return on investment equivalent to the risk-free interest rate plus the cost of capital.

Commensurate profitability: we practise active risk management on the basis of balanced risk/return analyses.

5.

We manage risks actively

In order to accomplish our business objectives, we enter into a broad range of risks which – while offering opportunities for profit – can also have adverse implications for the company. Risk management therefore forms an integral component of our value-based enterprise management and hence of all underlying decision-making processes. It comprises quantitative and qualitative methods.

The foundation of our quantitative risk management is our internal capital model. We manage our risk exposure in order to achieve a positive IFRS net income with a probability of 90%. We also ensure that the probability of a complete loss of our economic as well as IFRS shareholders' equity does not exceed 0.03% p. a.

On this basis, our economic capital is allocated to the individual areas of our business activity, which determines our minimum margins.

The details of our risk management approach are set out in the risk strategy which is approved and regularly reviewed by the risk management function and the Executive Board. In this regard special importance is given to the initiative of the Chief Risk Officer. We utilise our risk capacities according to the risk appetite as defined under the Hannover Re Group limit and threshold system.

Scientific simulation models are used to assess our material catastrophe risks from natural hazards and meteorological phenomena. Early identification and subsequent evaluation of risks is vital.

6.

We maintain an adequate level of capitalisation

Our required equity resources are determined by the requirements of our economic capital model, solvency regulations, the expectations of the rating agencies in relation to our target rating and the expectations of our clients and shareholders. In addition, we maintain a sufficient equity buffer to enable us to act on available business opportunities at all times.

Our IFRS shareholders' equity is managed in such a way that our targeted return of 900 basis points above risk-free is not endangered. For the sake of optimisation of our overall cost of capital we use capital substitutes such as hybrid capital and we transfer risks to the capital or retrocession markets.

In order to act on profitable business opportunities and at the same time minimise risks, we take care to maintain an adequate equity buffer.

7.

We ensure low costs through an efficient organisational set-up

We believe that our low cost ratio – relative to our competitors – gives us a sustained competitive advantage. We safeguard this through an effective and efficient organisation – geared to our business processes – that preserves both the necessary expertise and high-quality, goal-oriented service for our clients.

8.

We use Information Technology to achieve a competitive advantage

Information management has evolved into a crucial competitive factor. Our information and communication systems assure optimal support for our business processes. We support the acquisition of new technology provided that the cost/benefit considerations are favourable.

New communication media as well as information and communication technologies within Hannover Re guarantee optimal business processes. Our (infra)structures are lean and efficient.

9.

We are committed to sustainability, integrity and compliance

We organise all our activities such that they conform to all legal requirements. Furthermore, we satisfy all justifiable public requirements placed on our global operations in connection with our business activities. We support social objectives particularly in the area of skills training, not only within but also outside the company. We also encourage sustainability in the transaction of our business, with a special focus on the avoidance of adverse impacts on the environment. Our objectives in this regard are set out in detail in the Corporate Social Responsibility Strategy approved by the Executive Board.

We support considered and pragmatic principles of corporate governance and we recognise their central role in guiding our activities. At the core of our Corporate Governance principles is integrity in our dealings with our business partners, employees, shareholders and other stakeholders. In the context of our strategy and in our day-to-day business we adhere to high ethical standards.

Sustainability has many facets – environmental issues are one key element. We keep the negative environmental impacts of our business operations as minimal as possible.

10.

We strive for Performance Excellence and continuous improvement

In order to ensure the execution of our strategy across all areas of our organisation, we apply our holistic management system of Performance Excellence. In this way, we ensure that the actions of all our corporate units are geared to the accomplishment of our strategic objectives and that our goal-oriented performance is continuously enhanced.

We cooperate across our worldwide locations and departments and leverage synergies to deliver optimal results.

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