



Ulrich Wallin  
Chairman of the  
Executive Board

## Dear shareholders, ladies and gentlemen,

Overall, your company's business developed satisfactorily in the first half of 2013. The modest increase in Group net income to EUR 408 million was driven above all by a rise of 85 percent in the underwriting result booked in non-life reinsurance. This more than made up for the decline in the underwriting result for life and health reinsurance as well as the reduced investment income. The good underwriting performance of non-life reinsurance reflects a rate level that is still commensurate with the risks and was also assisted by a positive run-off of the loss reserves constituted for prior years – although these were largely in line with our expectations. Our life and health reinsurance portfolio, which in all other respects developed very favourably, saw its result impacted by losses from parts of our US mortality business. As far as investment income is concerned, the low level of interest rates led to a result slightly below that of the previous year. The return on investment of 3.2 percent nevertheless continued to be thoroughly respectable.

I would now like to discuss in greater detail developments to date in our two business groups as well as our investment portfolio:

In non-life reinsurance, our largest business group, the pace of growth in our gross and net premium income has slowed appreciably. This is due partly to increased competition and the associated implications for conditions in reinsurance treaties and partly also to our disciplined underwriting policy. Based on the cost of capital – determined using our internal capital model – that we can apply to individual treaties, we establish the minimum margins that we need to generate in order to earn the calculated cost of capital. We concentrate our acceptances only on business that meets these requirements, even if this means a reduction in premium volume in certain areas.

The second quarter brought treaty renewal phases in North America, Japan and Korea. Reinsurance rates remained largely stable in these renewals, enabling us to broadly maintain our premium volume and in some areas even to expand it. This was especially true of Japanese business, which continues to offer very adequate rates on the back of substantial increases resulting from the natural catastrophe losses of 2011.

After exceptionally low major loss expenditure in the first quarter of 2013, major losses increased appreciably in the second quarter. The largest single losses were the flood events in Germany and other European countries caused by heavy rainfall in May. Experts put the resulting insured losses at more than EUR 3 billion, of which some EUR 2 billion is apportionable to Germany. The resulting net strain for your company of around EUR 137 million is also a reflection of the fact that we are one of the two largest reinsurers of non-life business in Germany. Despite a number of other large losses in the second quarter, major loss expenditure for the first half-year nevertheless came in only slightly above our expectations – and hence also our major loss budget. This explains the thoroughly good combined ratio of 94.4 percent, which enabled us to boost the operating profit (EBIT) by 28 percent to a highly satisfactory level in the order of EUR 550 million.

Gross and net premiums in our second business group, life and health reinsurance, showed further very pleasing growth. Adjusted for currency effects, gross premium increased by 13 percent. The most notable factors here were new transactions written for the assumption of UK pension business as well as substantial growth in business from emerging markets, especially in Asia and South America. Group net income fell short of our expectations at around EUR 84 million. This can be attributed to the result in US mortality business, which was considerably weaker than anticipated. In this regard, a markedly negative performance for underwriting years prior to 2005 can be observed for the market as a whole – and also for our portfolio. As a further factor, US mortality business continues to be adversely affected by elevated suicide rates.

The capital market environment remains challenging and volatile, and with this in mind our investments developed in line with expectations. Against a backdrop of stubbornly low interest rates, appreciable yield increases were recorded at the end of the second quarter, especially on high-quality government bonds. This resulted in moderate erosion of the valuation reserves which – in combination with payment of the dividend in the second quarter – also gave rise to a slight reduction in your company's shareholders equity. The annualised return on equity stands at 14 percent, a figure comfortably in excess of our minimum target of 750 basis points above risk-free.

Ordinary investment income as at 30 June 2013 was slightly lower than in the comparable period of the previous year. This is a reflection of the protracted low level of interest rates in recent years. Extraordinary income similarly declined year-on-year. This can be attributed principally to the balance of unrealised gains and losses; in this regard, the inflation swaps which we took out to hedge part of the inflation risk associated with our loss reserves in the technical account resulted in a charge of some EUR 40 million.

With the results recorded for the first half of the year we have put in place a good foundation for achieving our guidance for the full 2013 financial year. It remains our expectation that Group net income after tax will come in around EUR 800 million. As always, this forecast assumes that major loss expenditure does not significantly exceed the expected level of around EUR 625 million for the full year 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,

A handwritten signature in blue ink, appearing to read 'U. Wallin', with a small dot at the end.

Ulrich Wallin  
Chairman of the Executive Board