Ulrich Wallin
Chairman of the
Executive Board

Dear shareholders, ladies and gentlemen,

After a very pleasing development on the whole in the first half of the year, our business continued to perform satisfactorily in the third quarter. With Group net income of EUR 613 million for the nine months of the current financial year, we are well on track to achieve our overall target for 2013. The positive performance was again driven in the third quarter by a good underwriting result in non-life reinsurance. Life and health reinsurance showed slightly improved profitability in this quarter too. Although Australian disability business fell short of expectations in the third quarter, the rest of the portfolio continues to deliver good results. While returns on our investments declined as a consequence of the protracted low level of interest rates, investment income was within the bounds of our expectations given the challenging climate.

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 we generated a very good result in the first nine months of the year. Although investment income came in sharply lower as expected on the back of stubbornly low interest rates, substantially improved underwriting results enabled us to improve further on what was already a very good performance in the previous year. The operating profit (EBIT), for example, climbed 5 percent to EUR 805 million; this is equivalent to an EBIT margin of 15.8 percent, which is very comfortably in excess of our strategic target. In view of the increasingly intense competitive pressure in non-life reinsurance, we achieved this result on the basis of our selective underwriting policy – according to which we only write business that satisfies our margin requirements. This was, however, also reflected in slower premium growth, with the increase standing at just 2.8 percent in the first nine months after adjustment for exchange rate effects. The diminished pace of growth can be attributed to our active cycle management, under which we relinquish business that our analyses identify as inadequately priced – even if this leads to contraction of our market shares in certain areas.

We nevertheless remain convinced that we can grow profitably in our non-life reinsurance business group over the medium to long term. Key factors here are our competitive advantage based on our low administrative expenses as well as our long-standing business relationships with our clients. Our excellent ratings from the relevant rating agencies also play an important part. We are thus very well positioned in relation to the available growth opportunities in emerging markets of Asia and Latin America and particularly in speciality lines on mature markets.

Treaties in non-life reinsurance came up for renewal primarily in North America, Australia and New Zealand in the third quarter. All in all, the picture was a mixed one in terms of movements in conditions. The treaty renewals in Australia and New Zealand passed off satisfactorily overall. The same was true of renewals in US business, with the exception of modellable natural catastrophe risks. The latter came under very considerable competitive pressure, which led to rather substantial rate reductions. The principal driver here was "alternative capacity", which refers to the investments made by financial investors either in catastrophe bonds or in other collateralised reinsurance products. However, given that our exposure to US natural catastrophe reinsurance is disproportionately low overall relative to our market shares, the treaty renewals nevertheless passed off satisfactorily for Hannover Re in the third quarter. We were able to slightly enlarge our premium volume.

Turning to the major loss situation in the third quarter, it is true that the hurricane season in North America and the Caribbean was again unremarkable for your company. However, our domestic market recorded an accumulation of natural disasters. The severe flooding in the second quarter was followed by a number of local hailstorms. The total market loss for these natural perils events is put at around EUR 5 billion. Despite the losses incurred by your company – in common with other market players – from these events, the major loss expenditure of EUR 447 million as at 30 September 2013 was within our expectations. Against this backdrop we posted a good combined ratio of 95.0 percent.

In the life and health reinsurance business group we generated currency-adjusted growth in gross premium of 7.4 percent in the first nine months. Although growth was slower owing to reduced premium income in enhanced annuity business from the United Kingdom, we still anticipate attractive growth opportunities in life and health reinsurance. This is especially true of emerging markets in Asia and South America, where we see good growth prospects through the support that we give our customers with regard to product development as well as in the area of automated underwriting on the sales side. In addition, we achieved substantial profitable growth in US mortality business and in the vitally important UK longevity sector in the first nine months. It is our expectation that this trend can be sustained going forward.

The results for our life and health reinsurance business group came in well short of our expectations, however. This was due to the quite substantial losses that we had to absorb from Australian disability business. The bulk of these losses stemmed from the reinsurance of individual disability income insurance (DII) products, the experience of which has continued to deteriorate, hence compelling us to strengthen our reserves. Given that we had already very largely stopped writing this business in 2009, it is gratifying to note that our exposure here is diminishing with each passing year. A smaller portion of the negative results also relates to group covers of Australian superannuation funds. In this case, however, conditions are adjusted in a three-year cycle to reflect the observed claims experience, and we can therefore already expect to restore this business to profitability in the coming years. The net profit of EUR 136 million that we generated despite the considerable strains from Australian disability business is a testament to the fact that our life and health reinsurance portfolio is now able to absorb even such adverse developments. It is pleasing to report that we have already achieved initial successes when it comes to the portfolio management of our US mortality business in the difficult underwriting years prior to 2005. In this way we have reduced the associated strain quite substantially.

Faced with a continued challenging and volatile capital market climate, particularly high importance attaches to preserving the value of assets under own management and the stability of the return. Our portfolio is therefore guided by the principles of a balanced risk/return profile and broad diversification. Based on a risk-averse asset mix, our investments reflect both the currencies and the durations of our liabilities.

Against a backdrop of broadly sustained low interest rates, the yield increases already observed towards the end of the second quarter continued, especially in the area of high-quality government bonds. This was not entirely offset by narrowing credit spreads for securities issued by semi-governmental entities and corporate bonds. Overall, this resulted in partial erosion of the valuation reserves which – in combination with payment of the dividend in the second quarter – also gave rise to a modest reduction in your company's shareholders' equity. The annualised return on equity of 13.9 percent is comfortably in excess of our minimum target of 750 basis points above risk-free. As expected, ordinary investment income as at 30 September 2013 was lower than in the comparable period of the previous year owing to the protracted low level of interest rates. Extraordinary income similarly declined year-on-year. This can be attributed principally to the balance of unrealised gains and losses, but was also due to increased profit-taking in the previous year.

With the results presented as at 30 September 2013 we have put in place a good foundation for achieving our targeted post-tax Group net income in the order of EUR 800 million for 2013. As you are aware, this forecast is always made subject to the proviso 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,

Ulrich Wallin
Chairman of the Executive Board