Ulrich Wallin
Chairman of the
Executive Board

Dear shareholders, ladies and gentlemen,

Your company's business developed favourably in the first half of 2014. This is all the more pleasing given that the general environment facing the reinsurance industry remains very challenging. The available reinsurance capacity continues to far outstrip demand, leading – especially on the non-life side – to sometimes considerable rate reductions. A further factor is the diminishing return on investments owing to the protracted low level of interest rates. Nevertheless, your company has set itself a demanding profit target for the full year with Group net income in the order of EUR 850 million. It is thoroughly gratifying to note that the grounds on which we based this guidance have been reinforced in almost every respect by the results of the first half-year.

Compared to the previous year, for example, we expect significantly increased profitability in our Life & Health reinsurance business group. This was achieved very comfortably in the first six months, with both the operating profit (EBIT) and Group net income boosted by almost 16 percent.

Based on our selective underwriting policy, the anticipated continued good quality of our portfolio and reduced retrocession costs, we expect further good results going forward in our largest business group, Non-Life reinsurance. On the back of a higher retention we recorded an EBIT margin of 15.5 percent, well above our target of 10 percent, and Group net income of almost EUR 350 million, hence living up to these expectations in the first half-year. Despite the low interest rate environment our investment income actually grew in the period under review; our assumption that investment income can be held stable in absolute terms is thereby supported by the results for the first six months.

Driven by this pleasing development, your company's net income increased by another 5 percent to EUR 444 million. It is also very positive to note that shareholders' equity grew by 9 percent relative to year-end 2013. Compared to the end of the first quarter, the book value per share thus rose again to EUR 53.17. Despite the higher shareholders' equity, the return on equity of 14.5 percent again reached a thoroughly gratifying level clearly in excess of our minimum target.

I would like to discuss below in greater detail the development of our two business groups and the investment portfolio:

In non-life business the oversupply of capacity relative to demand for reinsurance protection first led to rate reductions – sometimes on a very substantial scale – in the treaty renewals on 1 June and 1 July of the previous year. Insurers were able to push through further rate cuts, in some instances exceeding 10 percent, when this business came up for renewal in the second quarter of 2014. This clearly shows that the soft market trend with its associated rate reductions is continuing and will also likely prevail in the upcoming renewals, provided loss expenditure remains within the bounds anticipated by reinsurers. With a view to securing the profitability of our book of non-life reinsurance going forward, it has therefore been vitally important to pursue our profit-oriented underwriting policy in a disciplined manner. Although this approach resulted in modest premium erosion in the treaty renewals as at 1 April as well as 1 June and 1 July, it is something that we were more than willing to accept in order to preserve the quality of our non-life reinsurance portfolio.

The premium volume in non-life reinsurance nevertheless increased by 2 percent – adjusted for exchange rate effects – as at 30 June 2014. This can be attributed above all to the writing of a new, volume-boosting solvency relief reinsurance treaty from China as well as the successful expansion of our business activities in Southeast Asia. With an operating profit (EBIT) after six months of more than EUR 500 million, we have moved a good deal closer to achieving our goal of keeping full-year EBIT from non-life reinsurance above the EUR 1 billion threshold. The profit trend therefore continues to give grounds for satisfaction. Major loss expenditure remained significantly below our expected level in the first half-year. However, given that – as in past years – we did not release to income the portion of the major loss budget that was unused in the first six months, the low major loss burden had only a limited influence on the underwriting result. With this in mind, we assess the combined ratio of 95 percent as positive, not least because it was better than our target figure in this regard.

The sharply improved result in life and health reinsurance is due principally to the fact that the strains of the previous year in relation to our US mortality portfolio and Australian disability business were not repeated in the current year. In addition, we enjoyed very pleasing profitability in our Financial Solutions business as well as the business written out of our offices in Paris and Stockholm. With an operating profit (EBIT) of EUR 155 million and net income of EUR 115 million, we were thus able to achieve a gratifying improvement on the previous year's result.

We have continued to profitably expand our risk diversification in life and health reinsurance, inter alia by successfully closing another block transaction for longevity risks with a volume of EUR 2 billion. The fact that premium income in life and health business nevertheless contracted slightly can be attributed to specific large-volume transactions in US health business as well as the area of UK enhanced annuities, where a major shift in the legal framework has had the effect of reducing premium from this business. Despite this, we continue to see considerable underlying growth potential in life and health reinsurance, especially as regards the prospects for profitability in this business group.

Furthermore, we are thoroughly satisfied with the rise in investment income from assets under own management to EUR 533 million. It is striking to note that despite the decline in interest rates we have been able to maintain ordinary investment income virtually unchanged. This is all the more pleasing in view of the fact that the volume of investments grew only marginally owing to repayment of subordinated debt in the amount of EUR 750 million and the dividend of around EUR 360 million that we paid. The increased asset allocation to real estate was a particularly positive factor in this regard.

The pleasing development of business in the first half of 2014 enables us to reaffirm our guidance for Group net income in the order of EUR 850 million for the full financial year. As you are aware, this forecast is subject to the proviso that major loss expenditure does not significantly exceed the expected level of around EUR 670 million 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