Ulrich Wallin
Chairman of the
Executive Board

Dear shareholders,

The 2012 financial year was a highly successful one for your company. We largely accomplished our strategic objective of consolidating and expanding our position as one of the world's leading reinsurers through profitable growth. Gross written premium was boosted by some 14 percent (10 percent adjusted for currency effects) to EUR 13.8 billion. Even more importantly, however, Group net income increased to EUR 858 million. This is the best result in our company's history.

This good performance was driven, above all, by a good underwriting result in non-life reinsurance and exceptionally pleasing investment income. The result in life and health reinsurance was also satisfactory overall, even though it was adversely affected by a higher than expected mortality for some underwriting years of our risk-oriented life reinsurance business in the United States.

The financial strength of Hannover Re, which we were able to substantially reinforce in 2012, also showed a pleasing increase. The book value per share rose by more than 20 percent to EUR 50.22. Not only that, based on another highly positive cash flow from operating activities and the favourable development of valuation reserves, the volume of investments under own management grew by more than 10 percent to EUR 31.9 billion. Despite considerably higher shareholders' equity we generated a very healthy return on equity of 15.6 percent.

The good performance of Hannover Re's business combined with the fact that our shareholders' equity exceeds the requirements of the rating agencies Standard & Poor's and A.M. Best for the ratings "AA-" and "A+" respectively as well as those of our own capital model have prompted us to distribute a bonus in addition to the dividend. The Supervisory Board and Executive Board will therefore propose to the Annual General Meeting that you should be paid a dividend of EUR 2.60 and a bonus of EUR 0.40 per share.

A number of significant events also occurred in 2012 for Hannover Re, all of them positive. For example, we moved forward well with the process for converting your company into a European limited company (Societas Europaea, SE). It is our expectation that this transformation can be completed in 2013. As we have already reported, this step reflects the increasingly international dimension of our company and our workforce. What is more, the transformation will give us greater flexibility in relation to your company's choice of location, thereby enabling us to respond to regulatory developments if the need were to arise. It should, however, be noted that we currently have no intention of relocating your company's home base from Hannover.

We used the low level of interest rates in the year under review to further optimise our capital structure. In November we successfully placed a EUR 500 million subordinated bond on the European capital market at a very favourable coupon rate. Such debt instruments qualify as hybrid capital and enable us to keep our cost of capital low.

Special mention should also be made of the decision by rating agency A.M. Best to upgrade our already very good rating of "A" (Excellent) to "A+" (Superior). A.M Best thereby recognised not only your company's outstanding capitalisation, but also its excellent risk management and consistently good results in a challenging environment. In the reinsurance industry top marks from the rating agencies continue to be vitally important for reinsurers seeking to be offered and awarded the entire spectrum of reinsurance cessions as a preferred partner for primary insurers.

The high esteem in which your company is held on global reinsurance markets was also underscored in the year under review when the highly respected UK insurance daily "Insurance Day" crowned Hannover Re as Reinsurance Company of the Year in September. In its citation the jury highlighted the fact that in the difficult and costly 2011 financial year Hannover Re had recorded the lowest ratio of catastrophe losses among all professional reinsurers at 14 percent of net premium.

The favourable development of Hannover Re in 2012 was similarly reflected in the share price, which gained more than 50 percent in the year under review. This performance was significantly more positive than had been forecast by virtually all analysts at the beginning of the year. We also achieved our strategic objective of beating the Global Reinsurance Index and can therefore point to a better-than-average performance in the sector comprised of reinsurance undertakings.

I would like now to explore in greater detail developments in our business groups of non-life and life and health reinsurance as well as on the investments side.

The state of the market in our largest business group, non-life reinsurance, was favourable for our company. Not least owing to the losses incurred from the natural disasters of 2011, reinsurers were able to push through price increases in most segments. As a result, we enjoyed a level of rates in 2012 that was considerably better than in the previous year. Along with the major losses of 2011, the adjustments made to natural catastrophe models – raising the assessment of risks in North America and Europe, in particular – helped to drive these rate increases. In the case of long-tail liability lines, another decisive factor is that the requirements placed on underwriting profitability – allowing for the cost of capital and administrative expenses – have risen sharply on account of the low level of interest rates.

Gross premium in non-life reinsurance grew by 13 percent year-on-year to EUR 7.7 billion. Adjusted for currency effects, this is equivalent to a pleasing increase of 9 percent. Growth was driven principally by markets in Asia and Australia that had suffered losses in 2011. We also recorded gratifying growth rates in our North American business and in our portfolio of facultative reinsurance. The combined ratio improved markedly from 104.3 percent to a good 95.8 percent, assisted not least by the substantially smaller burden of major losses than in 2011.

The largest single loss for the international insurance and reinsurance industry in the year under review was Hurricane Sandy, which caused extensive damage not so much because of its wind speeds but because of its vast diameter and the storm surges that it triggered. There are still some uncertainties surrounding the amount of insured damages, but they may exceed USD 20 billion – a figure that would make Sandy the second-largest insured hurricane event of all time in the United States. The net loss expenditure for Hannover Re was roughly EUR 258 million. However, given the additional premiums of around EUR 24 million booked for our net account due to experience-based treaty conditions, the strain is reduced to EUR 234 million. Major loss expenditures in the year under review nevertheless remained well below the expected level of EUR 560 million calculated at the beginning of the year.

The operating profit (EBIT) improved on the previous year by 82 percent, surging past the one billion euro threshold for the first time in Hannover Re's history to reach EUR 1.1 billion. Net income in non-life reinsurance also came in at a thoroughly pleasing EUR 686 million, an increase of 51 percent compared to the previous year.

In our second business group, life and health reinsurance, we also continued to chart our expansionary course. Gross written premium climbed 15 percent to EUR 6.1 billion (10 percent adjusted for currency effects). Above-average growth was generated most notably in the United States, where we were able to make the most of the platform acquired from Scottish Re in 2009 in the context of the ING transaction. In addition, we booked very strong growth in Australia and in emerging markets, above all China and Latin America.

In life and health reinsurance 2012 was the first year in which we conducted business under two areas of Board responsibility. This reflects the increased importance that we attach to the life and health reinsurance business group. Not least on account of this change at Board level, the structure of the business group was modified in 2012. By creating a "Longevity" business center and the newly established "Asia" business center, we are focusing even more closely on the markets offering the greatest new business potential.

As already mentioned, profitability in life and health reinsurance was overshadowed in the year under review by a higher than expected mortality experience for some underwriting years in our risk-oriented US life reinsurance portfolio. The fact that we were still able to generate satisfactory Group net income can be attributed not only to a better than anticipated underwriting result in some markets – such as Europe – but also to a positive performance of the so-called ModCo derivatives. The latter contributed around EUR 52 million to the operating profit (EBIT) of EUR 291 million, which came in 34 percent higher than in the previous year. IFRS accounting requires us to establish ModCo derivatives in relation to the credit risk associated with certain securities deposits held by US clients on our behalf. Group net income grew by 27 percent to EUR 231 million.

The development of our investment income was especially pleasing. Although interest rates continued to fall in the year under review, ordinary investment income climbed 13 percent to EUR 1.1 billion. This was attributable in part to the enlarged asset portfolio, driven particularly by the unchanged highly positive cash flow from operating activities, and partly to the planned expansion of corporate debt securities over the past two years. In this context we have paid close attention to the high quality and broad diversification of the risk as well as a below-average allocation of bank bonds.

We further reduced our already low exposure to countries with high credit spreads. It remains the case that our portfolio does not contain any Greek-issued bonds.

Along with the strong ordinary income, the good investment performance was also boosted by higher realised gains. Yet the valuation reserves in our portfolio of fixed-income securities also increased appreciably. This is ultimately due to the fact that in 2012 the current interest rate level was again well below the average interest rate level of previous years. In addition to realising gains through regrouping within our bond portfolio, we realised some substantial increases in value in our US real estate portfolio in the third quarter. Despite this, we moved forward with the strategic expansion of our real estate allocation.

The unrealised gains and losses recognised in the statement of income – amounting on balance to EUR 89 million – also made a positive contribution to the very healthy investment income. This derived principally from changes in the fair values of the aforementioned ModCo derivatives and the performance of our inflation swaps. As we have reported in the past, we purchased inflation swaps to partially hedge the loss reserves in our technical account against the inflation risk.

All in all, we generated very pleasing investment income of EUR 1.3 billion from assets under own management; this figure, which corresponds to a net return on our investments of 4.3 percent, thus came in 24 percent higher than in the previous year. Income from funds withheld and contract deposits also climbed by 5 percent to EUR 355 million, causing total net investment income to grow by almost 20 percent to EUR 1.7 billion.

I would now like to turn briefly to the current financial year: competition in non-life reinsurance has intensified sharply. This is partly because, owing to the good results generated by the reinsurance industry as a whole, the capital available to reinsurers and hence also the capacity on offer has continued to grow. The supply of reinsurance protection has consequently outstripped demand. This is especially true of mature markets, where in some cases demand for reinsurance has actually contracted as larger insurance groups run higher retentions. The situation is more favourable in many emerging markets, however, where the increased volume of primary insurance business is stimulating growth on the reinsurance side too.

Despite this increasingly challenging market climate, we were very largely able to maintain the good price level of 2012 in the treaty renewals as at 1 January 2013. Indeed, we even obtained further rate increases in certain areas – principally those that had suffered losses. This was especially true of non-proportional marine reinsurance, which was heavily impacted in 2012 both by the wreck of the "Costa Concordia" cruise ship and by marine losses resulting from Hurricane Sandy. It was also due to the latter that prices for property catastrophe business at least remained stable. Thanks to our low administrative expense ratio compared to rival providers as well as our long-standing good business relationships with primary insurance clients, we are well equipped for the prevailing competitive climate. In 2013, therefore, it is our expectation that we shall again be able to generate growth in non-life reinsurance (after adjustment for currency effects). Given the present state of the market, however, what is more crucial is that we maintain our disciplined focus on writing business that meets our margin requirements – also making allowance for the decline in the risk-free interest rate level.

In our assessment, the emerging markets of Asia as well as Central and Eastern Europe offer the greatest potential for further growth in life and health reinsurance. We shall also continue to grow our business in the United States and Australia. In addition, not least in light of demographic change, we see considerable growth opportunities in the reinsurance of longevity risks. With this in mind, we expect to generate growth of 5 to 7 percent (adjusted for currency effects) in 2013, with biometric results likely to improve on 2012.

In view of the protracted low level of interest rates, we must anticipate that the net return on our investments will fall to around 3.4 percent. On the other hand, we expect the portfolio of assets under own management to continue growing, which means that the reduced net return should not be entirely reflected in investment income. Overall, we are looking to post growth in the order of 5 percent (adjusted for currency effects) for 2013. Group net income is expected to come in around EUR 800 million.

I would like to thank you, our valued shareholders, most sincerely for your trust – also on behalf of my colleagues on the Executive Board. Furthermore, I would like to express my sincerest appreciation to all our employees for their successful efforts in the year under review. Going forward, as in the past, we shall do our utmost to continue to successfully grow Hannover Re's business with an eye to the existing opportunities and risks. 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