



Ulrich Wallin
Chairman of the
Executive Board

Dear Shareholders, Ladies and Gentlemen,

In the previous year I was able to report here on a record result for 2012. It is now my pleasure to inform you that in the year under review we were again able to very comfortably surpass that performance. Group net income for 2013 reached EUR 895 million, roughly 5 percent higher than the previous best result in the company's history. This was driven by a very good underwriting profit in non-life reinsurance, which improved by a further EUR 63 million on the good level of the previous year. Not only that, net income in both non-life and life and health reinsurance was supported by positive tax effects, which caused the tax expenditure under IFRS accounting to decrease by around 15 percent. The most significant effect here relates to a reduction of the provisions for deferred taxes in connection with the equalisation reserves established under German Commercial Code (HGB) accounting. These two positive components of our net income in the year under review enabled us to very clearly offset the result in life and health reinsurance, which fell short of expectations. Investment income, on the other hand, came in thoroughly reliably within the bounds of our expectations.

Shareholders' equity and the book value per share showed a largely stable development in the year under review. The good result virtually made up for the erosion in the valuation reserves. The return on equity, which at 15.0 percent continues to be well above our minimum target, was also especially pleasing.

After having generated average premium growth in the double-digit percentages since 2009, the pace slowed appreciably in the year under review. Gross written premium increased by just 1.4 percent in our reporting currency (euro) to EUR 14 billion. Adjusted for exchange rate effects, too, the growth of 4 percent fell somewhat short of our expectations. It is pleasing to note, however, that this is not because we have fewer opportunities to write new business, but rather is a reflection solely of our profit-oriented underwriting policy. This is based on our conviction that over the long term a prudent underwriting policy will help to strengthen your company's competitiveness. This is all the more the case in a market environment that is notable for increasingly fierce levels of competition, particularly in non-life reinsurance.

In view of the gratifying development of Hannover Re's business I am delighted to inform you, our valued shareholders, that we intend to distribute another attractive dividend. The Supervisory Board and Executive Board will propose to the Annual General Meeting that you should be paid a dividend of EUR 3.00 per share.

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

In non-life reinsurance we were able to maintain the operating profit (EBIT) virtually unchanged on a level in excess of EUR 1 billion, despite a 17 percent decline in investment income. This was made possible above all by the fact that the increase in the underwriting profit comfortably outweighed the contraction in ordinary investment income. The appreciable deterioration in extraordinary investment income, which in the year under review reached a level in line with normalised expectations, was to some extent offset by an improvement in other income. Net income in the non-life reinsurance business group climbed by 18 percent to EUR 808 million, thereby benefiting from the positive tax effect already described above in connection with provisions for deferred taxes.

Increasingly fierce competition was a hallmark of the market environment in non-life reinsurance in the year under review. Most notably, the cash inflow from capital markets for the underwriting of reinsurance risks prompted sometimes considerable rate reductions from the middle of the year under review onwards. Against this backdrop, it was especially important for us to maintain a disciplined focus only on business that could be precisely evaluated and that satisfied our margin requirements. Premium growth consequently contracted markedly relative to the previous year. With a currency-adjusted increase of 3 percent, it nevertheless remained within the bounds of our expectations.

Turning to the major loss situation in the year under review, it should be noted that our domestic German market was disproportionately impacted by the natural catastrophe losses recorded globally. Special reference should be made here to hailstorm "Andreas", the most costly event worldwide for the insurance industry in 2013, as well as to the flood damage in the middle of the year, with Germany the hardest-hit country in Europe. Given that we have a substantially larger market share in our domestic German market than we do worldwide, this resulted in our net burden of major losses rising by EUR 100 million year-on-year to EUR 578 million. At the same time, though, this figure remained below our expectation of EUR 625 million and was therefore comfortably outweighed by the portfolio as a whole. The combined ratio consequently decreased from 95.8 percent in the previous year to the current level of 94.9 percent. It should be borne in mind here that we have retained our highly conservative reserving policy, which means that the confidence level of our loss reserves is likely to have increased further.

Results in our second business group, life and health reinsurance, fell short of expectations in relation to both the operating profit (EBIT) and Group net income. The major reason here is substantial strengthening of the reserves set aside for our Australian disability business. This involves individual disability covers in respect of which the risk experience has deteriorated considerably not just for our company but industry-wide. Although we stopped writing this type of business back in 2009 owing to conditions which continue to be unfavourable for reinsurers, the aforementioned strengthening of our reserves led to an EBIT loss in the order of EUR 100 million in the year under review. Due to the special tax treatment of this business in Australia, this deficit also resulted in us having to show tax income under IFRS. As a further factor, the fair values of our financial assets measured at fair value through profit or loss recorded a negative change of around EUR 40 million compared to the previous year because the performance of the ModCo derivatives normalised at a virtually neutral level.

Aside from these negative effects, our life and health reinsurance portfolio continued to develop well on the whole. Most notably, we made significant advances with an eye to the current and future profitability of the risk-oriented life portfolio acquired from Scottish Re in 2009. On the one hand, we were able to commute by mutual agreement contracts with ceding companies that in the past had been a considerable drag on profitability. What is more, we were also able to sharply reduce the collateral costs for the loss reserves to the benefit of our US subsidiary. Our growing book of business from South America, Scandinavia, Asia and South Africa continued to deliver very positive profit contributions.

The pace of our growth temporarily slowed somewhat in 2013 on account of the complete or partial discontinuation of a number of large-volume treaties in UK longevity business and in US health reinsurance. Despite this, the currency-adjusted growth of 5 percent was in the region of our expectations.

In the face of a market environment that was not without its challenges, we are satisfied with the development of our investments. The portfolio of assets under own management remained on a par with the previous year at around EUR 32 billion. The decreases in the valuation reserves – due to higher interest rates on good-quality government bonds as well as a resurgent euro – and the dividend payment were thus entirely offset by the very positive operating cash flow. It is pleasing to note that the latter is still clearly in excess of EUR 2 billion. Ordinary investment income contracted slightly as expected owing to the protracted low interest rate environment. The reduction of almost EUR 200 million in extraordinary investment income can be attributed chiefly to a normalisation of this item. Not including the ModCo derivatives and inflation swaps, the net return on investments stood at 3.4 percent and thus reached the planned level. Investment income including interest on funds withheld and contact deposits came in at a pleasing EUR 1.4 billion.

The transformation of Hannover Rück AG into a European Company, Societas Europaea (SE), was completed as planned in the year under review. With the entry in the commercial register of Hannover County Court the conversion to the new legal form took effect on 19 March 2013. As already reported, this step reflects the increasingly international dimension of your company and our workforce. It will not give rise to any changes for you.

Permit me, if I may, to conclude by taking a brief look at the current financial year. The basic environment remains challenging in view of stubbornly low interest rates and increasingly intense competition, especially in non-life reinsurance. Yet even in this climate your company is well placed to succeed. Particularly key factors here are our tried and tested business model, which has proven itself over decades, and our recognised very good financial strength. Not only that, we also enjoy a tangible competitive edge through our lower cost of capital and administrative expenses.

In non-life reinsurance we put great emphasis on a disciplined treaty-based underwriting policy. With margins in overall business becoming ever tighter, we can show increasingly scant tolerance for poorly performing treaties. This was already evident in the treaty renewals as at 1 January 2014, when our premium volume contracted by a modest 2 percent.

We expect to see a significantly better result for life and health reinsurance than in the 2013 financial year, which was overshadowed in particular by losses from Australian disability business. Further profitable growth is anticipated above all from Asia, the Arab world and Central and Eastern Europe. We are also looking at growth contributions from Australia, where in some areas we can benefit from sharply improving market conditions, and from the United States as well as from longevity reinsurance, principally in the United Kingdom. All in all, we should be able to move forward on our growth track in life and health reinsurance.

In view of the sustained low interest rate environment the net return on investments under own management is likely to retreat slightly to 3.2 percent. The further stepping up of our investments in real estate should have particularly positive implications for investment income.

For our total business we anticipate a stable to slightly higher gross premium volume in 2014. Group net income for 2014 is expected to be in the region of EUR 850 million. As always, this is conditional upon major losses staying within the expected bounds and assumes that capital markets are spared any distortions.

I would like to thank you, our valued shareholders, most sincerely for your trust – also on behalf of my colleagues on the Executive Board. I would also like to express my appreciation to our employees for their very good work in the year under review. Going forward, as in the past, we shall do everything in our power to continue to successfully grow Hannover Re's business in the years ahead. It is and will remain our goal to increase the value of your company on a sustainable basis.



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