

somewhat
different

Excel Hannover Re

Our Strategy



hannover re[®]



Dear Colleagues,

Since 1996 we have been operating with our three-year strategy cycle. The next strategy review is therefore scheduled to take place in 2011. Having taken over as Chairman of the Executive Board on 1 July 2009, I asked myself whether – in a departure from this cycle – we should subject the recently approved strategy to fresh scrutiny. Ultimately, I decided against this step since it is envisaged that our strategic objectives – as set out in the present strategy – should continue to apply. As a further factor, I would note that as a Member of the Executive Board I played a pivotal role in the process that led to the development of the existing strategy.

In particular, the accomplishment of our profit and growth targets is of decisive importance for our company's sustainable success. Only a profitable undertaking will be able to stand up to the competitive environment and hence serve as a reliable partner for our clients, safeguard secure and stimulating jobs for ourselves as employees of the company and offer our shareholders a commensurate return on their invested capital. This awareness also explains why we have put economic profit and growth targets at the pinnacle of our strategy.

A further indispensable element of our company's sustainable success is responsible handling of the risk positions into which we have entered. We must strive to assume only those risks that, firstly, would not jeopardise the undertaking's continued survival if they were to materialise and, secondly, enable us at all times to act upon business opportunities emerging after catastrophe events or capital market distortions on the basis of our existing financial strength. For this reason, protection of capital is also accorded a very prominent status in our strategic objectives.

Notwithstanding the fact that we cannot transact our business as a reinsurer without the assumption of substantial risks – since this is, after all, the commercial purpose of a reinsurance undertaking – we must nevertheless make every effort to reduce the volatility that we have witnessed in our results over the past ten years.

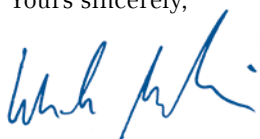
Our strategic objectives relating to our focus on clients and staff are similarly crucial factors in the success of our company's business and therefore continue to apply unchanged. Furthermore, I attach particularly great importance to preserving the competitive edge that we have long enjoyed thanks to the fact that our administrative expense ratio is appreciably lower than that of our competitors.

Our self-image as a very well diversified “somewhat different“ reinsurer is to be the foundation of our success going forward, as it has been in the past. The diversification effects between our strategic business groups of non-life and life/health reinsurance as well as diversification within these business groups are particularly vital in helping us to limit the capital required for our business and its volatility. The conception of being “somewhat different“ originally derives from the Hannover Re organisation and has since been increasingly picked up by the capital market. This was also the path via which the term entered into our strategy. In our current situation this idea of “somewhat different“ primarily implies a differentiation from our major competitors in the sense that we chart our own course and do not seek, for example, to imitate them. In this way we strive to position ourselves as our clients‘ best alternative to our major market rivals.

In some areas, however, we shall already see further refinements within our organisation prior to 2011. Most notably, we intend to enhance our management system of Performance Excellence such that it is actually usable for our company as a holistic management system. This will necessitate, in particular, the integration of all business activities into the Performance Excellence system as well as a clear alignment with our strategic objectives. Last but not least, it will also be necessary to attach greater binding force to the core elements of our Performance Excellence system.

I believe I can state that on the basis of the existing strategy we have currently attained a position that should give us every opportunity to continue our success in the years ahead.

Yours sincerely,



Ulrich Wallin

Chairman of the Executive Board

Our strategy at a glance

Our overriding objective

- One of the three most profitable reinsurers in the world
- Increasing our profit and the value of the company by a double-digit percentage every year

"Somewhat different"

- Well-diversified Multi Specialist
- Swift, flexible, undogmatic
- We are frugal and maintain lean structures

Strategic objectives

1. Profitable growth:
 - RoE of at least 750 bps > "risk-free" interest rate
 - Triple-10 target
 - Allocation of capital to generate the maximum risk-weighted profit
 - Increase in the share price > Global Reinsurance Index
 - Lowest cost of capital in the industry
2. Capital protection:
 - Positive RoE in at least nine out of ten years
3. Preferred business partner:
 - Highly capable
 - Rating of at least AA- from S&P and A+ from A.M. Best
4. Motivated employees:
 - Skills and motivation just as crucial to success as capital resources
5. Lean organisation:
 - Effective and efficient organisation geared to business processes
 - Safeguarding of know-how and cost leadership

Strategic action fields

1. Performance Excellence:
 - Holistic management system including regular external assessment
2. Corporate Governance:
 - Integrity in our dealings with all stakeholders
 - High ethical standards
3. Compliance:
 - Observance of all external requirements in order to avoid business, liability and reputational risks

Business group strategies

1. Non-life reinsurance:
 - Not one of the largest, but one of the most profitable non-life reinsurers in the world
 - Special attention paid to the correct assessment of risks
 - Pricing and conditions guided by technical considerations, appropriate level of reserves
2. Life/health reinsurance:
 - Within five years one of the three major, globally operating life and health reinsurers of above-average profitability
 - Annual double-digit growth in premium income and profit
 - Special attention devoted to the regional and biometric balance of the portfolio

Business center strategies/service center strategies

- Derived from the Group and business group strategies

Strategic objectives

Our overriding objective

Profit and value creation are the basis of sustainable development in the interest of our clients, shareholders, employees and other stakeholders. We therefore strive to be one of the three most profitable reinsurers worldwide. Furthermore, we seek to enhance our position as a large, globally operating reinsurer by increasing our profit as well as the value of the company by a double-digit percentage every year. All other goals are derived from this premise and are subordinate to this overriding objective.

We are the “somewhat different” reinsurer

We are a well diversified Multi Specialist striving for excellence with whom our clients enjoy doing business. We are swift, flexible, undogmatic and cut our own path. We are frugal and maintain lean structures.

1. Profitable growth

In order to generate above-average sustainable returns on our shareholders' equity, our profit target is an after-tax return on equity of at least 750 basis points above the “risk-free” interest rate¹.

In addition, our goal is to increase the operating profit², the earnings per share and the book value per share by a double-digit percentage every year (triple-10 target).

We allocate our scarce capital flexibly to those areas that promise the highest risk-adjusted profit.

The development of our share price is of pivotal importance for us in order to increase our shareholders' investment on a sustainable basis and keep the cost of raising equity as low as possible. We aim for a development in the share price that outperforms the weighted ABN Amro Global Reinsurance Index over a three-year period.

Our aim is to continue having the lowest cost of capital among the major global reinsurers.

Strategic measures

- We give priority to those investments which, under consideration of the effects of diversification, promise us a sustainable increase in the return on equity.
- In order to sustain our goal of annual double-digit profit growth, an expansion in business volume is required. This is pursued primarily through organic growth. Acquisitions are considered first and foremost in life and health reinsurance inasmuch as they enable us to achieve our strategic targets more quickly and satisfy our profit and return-on-investment requirements.
- We pursue an investment policy which emphasises the stability of the returns to be generated. To this end our portfolio is geared to the principles of broad diversification and a balanced risk/return ratio. The tactical asset allocation is guided by the requirements of our technical liabilities and takes into account liquidity needs as well as currency matching of assets and liabilities. We seek to generate a return on our investments equal to at least the “risk-free” interest rate¹ plus the cost of capital.
- In order to keep our cost of capital as low as possible, we prefer hybrid capital over equity. In addition, we make optimal use of equity substitutes (transfer of risks to the capital market as well as retrocessions).
- The development of the share price is supported by outstanding Investor-Relations activities. The objective is to consistently rank among the five best European

¹ Five-year average yield on ten-year government bonds

² Earnings before interest, taxes and minorities (EBIT)

(re-)insurers in the IR rankings of greatest relevance to our company (currently Institutional Investor).

- The core steering tool is our Intrinsic Value Creation (IVC) system.

2. Capital protection

Our risk position is designed such that a positive return on equity can be expected in at least nine out of ten years.

Strategic measures

- Our capital base is determined by the results of our risk modelling (economic capital) as well as the requirements of supervisory authorities (solvency capital) and rating agencies (rating capital).
- Our risk management system is geared to protect the Group's shareholders' equity. Priority is hereby given to risks relating to reserving, exposure, pricing and investment as well as to operational risks. The Executive Board defines the risk appetite and monitors its adherence on a regular basis.
- We proactively identify, evaluate and monitor our Group-wide risk landscape.

3. Preferred business partner

Our business partners trust our capabilities and enjoy working with us.

To underline the credibility of our value proposition, we strive to maintain a rating from the rating agencies of relevance to our industry (presently Standard & Poor's and A.M. Best) that facilitates and safeguards our access to all attractive business worldwide (currently at least AA- from S&P and A+ from A.M. Best).

Strategic measures

- We offer the entire spectrum of standard reinsurance products complemented by solutions which are tailored to our clients' needs and add value for both sides.
- Sustainable growth and the need to safeguard our future development compel us to systematically monitor the market and our competitors in order to adequately meet the future demands of our clients.
- We specialise in what we know best (= our definition of a specialist). Our positioning as a Multi Specialist with a global footprint enables us to reduce volatility thus stabilise earnings.

4. Motivated employees

We pay special attention to the skills and motivation of our staff. For a globally operating financial services organisation with professional business partners, they are just as important success factors as capital resources.

Strategic measures

- We offer a working environment designed to appeal to ambitious, performance-minded employees who identify with our corporate objectives.
- Through strategic personnel planning we align numbers and skills of our workforce with current and future market requirements.
- Our human resources development and leadership activities are geared towards the constant enhancement of our staff's skills, experience and motivation.
- By delegating as many tasks, authorities and responsibility as possible and by setting demanding performance targets, we create a culture of entrepreneurial thinking at all levels. This principle is, as far as possible, also reflected in performance-related compensation elements.

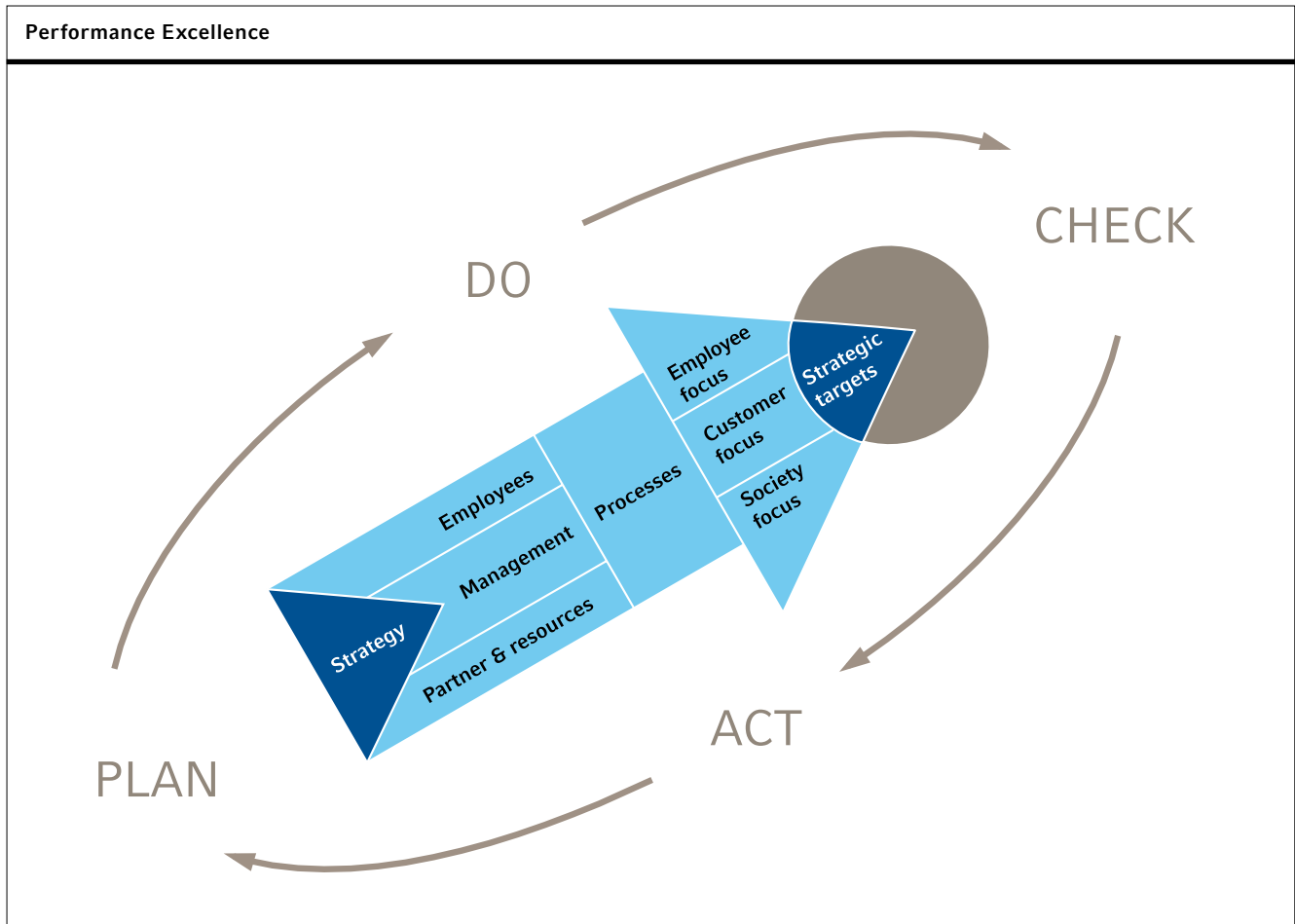
5. Lean organisation

We strive for an effective and efficient organisation that is geared to our business processes and safeguards both our know-how and our cost leadership.

Strategic measures

- Process management allows us the effective and efficient structuring of all business processes, thereby achieving a lean structure and organisation.
- Information management has become a crucial competitive factor. Our information and communication systems guarantee optimal support for our business processes and reflect, under cost/benefit considerations, state-of-the-art technology.

Strategic action fields



Performance Excellence

Our holistic management system of Performance Excellence ensures consistent execution of our strategy. We improve our performance systematically and continuously under all excellence criteria and subject our accomplishments to both internal and external assessments.

Corporate Governance

We support meaningful and pragmatic Corporate Governance principles and recognise these as guidelines for our activities. Ethical corporate conduct towards our business partners, employees, shareholders and all other stakeholders constitutes a core element of our corporate governance principles. We apply high ethical standards at all times, both in our strategy and in our day-to-day business operations.

Compliance

Our corporate guidelines and other rules and regulations as well as our business processes and daily actions are always consistent with external requirements. We thus avoid business, liability and reputational risks that could harm our commercial activities. By defining and implementing clear standards we also deliver efficient and effective support for attainment of our corporate objectives.

Non-life reinsurance

As a non-life reinsurer we see ourselves as a Multi Specialist competing with the best in each market. Centralised management combined with local talent is the key to our success. In cyclical markets we grow our market shares only during hard market phases; we scale them back in soft markets, regardless of the expense ratio. We systematically use retrocessions and capital market transactions to augment our capacity, protect our capital, reduce the volatility of our results and boost our return on equity.

Strategic objective

We transact our business with the aim of not being the largest but rather one of the most profitable companies in this segment worldwide. Particularly close attention is devoted to the correct assessment of risks, the enforcement of prices and terms and conditions adequately reflecting the exposure, and maintenance of always sufficient reserve levels.

Strategic measures

Clients/markets

We concentrate on market segments in which we have particular expertise: the United States, Germany, non-proportional natural catastrophe business, marine, aviation, credit, surety and political risks, facultative business and structured products. We are active in all countries that have a reliable legal system as well as a freely convertible currency.

We focus on those clients to whom reinsurance is of medium- to long-term strategic importance.

Services for business partners which go beyond the bounds of reinsurance are offered only where this is required (e.g. in Germany). Even in such exceptional cases we prefer not to establish fixed cost structures.

We strive for lead positions only where this is a necessary prerequisite for greater market penetration.

Distribution channels

In the majority of markets we operate through brokers. This distribution channel ensures that we can best retain our flexible and opportunistic market approach.

In the interests of concentrating our know-how, upholding our rigorous underwriting standards and ensuring rapid decision-making, treaty business is written on a centralised basis from Hannover or from selected centres of competence.

Local representative, service or branch offices are used if they facilitate better client liaison and support and hence improve access to business. This is especially true of growth markets.

Products

We offer our clients a comprehensive product range for all lines of business in treaty and facultative reinsurance as well as in the area of structured reinsurance solutions.

Life/health reinsurance

Hannover Life Re considers itself a professional, globally operating reinsurer that combines ambitious problem-solving models with a long-term, partnership-based approach. The focus of our activities is a client orientation that affords considerable importance to the leverage of mutually beneficial profit and growth potentials. In so doing, we define ourselves as the Multi Specialist that offers its clients market-leading consulting expertise and solution competence in a broad range of special areas.

Strategic objective

Within the next five years we intend to advance Hannover Life Re such that it evolves into one of the three major, globally operating life and health reinsurers of above-average profitability. We aspire to achieve this goal through annual double-digit growth in premium income and profitability. We devote special attention to the regional and biometric balance of the portfolio.

Strategic measures

Clients/products

We do not seek to offer everything to everyone, but rather – as a Multi Specialist – we concentrate on market segments in which we have particular expertise: financial solutions (new business financing and block assumption transactions), the development of new markets (e.g. senior citizens, takaful), bancassurance, close cooperation with multinational insurers as well as traditional life reinsurance in selected markets.

We structure our business relations to the benefit of both sides and avoid zero-sum games. We strive to achieve these objectives by providing solutions tailored to our clients' needs. These range from conventional risk transfer through support for business start-ups (new business financing) and financial optimisation (block assumption transactions) to issues of strategic market positioning.

With the aid of a modern Client Relationship Management (CRM) approach we structure our client relationships as long-term partnerships in which our value-creating clients enjoy preferential access to our resources.

We seek to be a market leader in financing reinsurance transactions for life, annuity and personal accident portfolios. We also aim to shape and play a leading role in the evolving market for senior citizens' products.

From the global perspective, our target clientele consists of small- to medium-sized niche and specialty insurers concentrating on clearly defined market or product niches, which are led by expert management. In addition, we are striving for closer cooperation with leading insurers in developed markets such as the United Kingdom, United States and South Africa.

Distribution channels

Our strategic objective necessitates a decentralised marketing structure on all five continents in which our different business centers cooperate worldwide as a single network. Distribution is carried out directly without intermediaries.

Resources are primarily allocated to the enlargement of our infrastructure in Asian growth markets and the strengthening of our position in selected continental European markets. The continuous expansion of our expertise sustainably preserves our power of innovation and profitability.

Markets

The major developed European markets, most notably the United Kingdom, Germany, France, Scandinavia and Italy, continue to play a vital role for Hannover Life Re. In addition, we devote special attention to the Eastern European markets.

Outside Europe, we shall seek to maintain our position as market leader in South Africa, Central America and Australia, whilst defining ourselves as Number 1 among specialty life reinsurers in the United States.

In the Asian growth markets such as China, Korea, India and Vietnam we shall significantly expand our local presence over the coming years. In the Islamic insurance market (family takaful), which has especially deep roots in the countries of the Middle East, we aspire to the role of market-leading reinsurer.

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