somewhat different

Annual Report 2011

hannover re

Key figures

in EUR million	2011	+/– previous year	2010	2009	2008	2007
Gross written premium	9,130.2	+5.9%	8,618.2	8,329.9	7,328.7	6,652.6
Net premium earned	6,965.6	+9.4%	6,366.6	6,357.6	5,429.4	4,979.3
Underwriting result	(151.9)		18.4	(14.5)	78.9	(111.1)
Allocation to the equalisation reserve and similar provisions	292.6	+107.1%	141.3	170.6	33.6	(309.1)
Investment result	953.9	+10.0%	867.2	740.0	66.9	451.2
Pre-tax profit	273.5	–53.6%	589.8	363.7	(104.2)	438.1
Profit or loss for the financial year	270.2	–33.5%	406.3	259.0	(209.6)	272.0
Investments	27,005.6	+15.8%	23,330.9	20,723.2	17,885.1	18,106.1
Capital and reserve[1]	1,381.7		1,380.9	1,378.8	1,378.8	1,585.8
Subordinated liabilities	1,300.0		1,300.0	800.0	500.0	500.0
Equalisation reserve and similar provisions	2,044.6	+16.7%	1,752.0	1,610.7	1,440.1	1,406.5
Net technical provisions	21,142.7	+20.1%	17,605.7	15,817.9	14,145.0	13,286.7
Total capital, reserves and technical provisions	25,869.0	+17.4%	22,038.6	19,607.4	17,463.9	16,779.0
Number of employees	1,041	+24	1,017	931	855	787
Retention	77.5%		76.4%	77.8%	75.2%	73.9%
Loss ratio[2]	75.8%		73.0%	75.4%	74.0%	80.0%
Expense ratio[2]	26.9%		26.6%	25.9%	24.5%	25.2%
Combined ratio[2]	102.7%		99.6%	101.3%	98.5%	105.2%

1 Excluding disposable profit
2 Excluding life reinsurance

Contents

Boards and officers

Executive Board (Vorstand)

Ulrich Wallin

Chairman of the Executive Board Hannover Rückversicherung AG, Hannover

Chairman of the Executive Board E+S Rückversicherung AG, Hannover

Chairman of the Board of Directors Hannover Life Reassurance Company of America, Orlando, USA

Chairman of the Board of Directors Hannover Reinsurance (Ireland) Limited, Dublin, Ireland

Chairman of the Board of Directors Hannover Re (Bermuda) Ltd., Hamilton, Bermuda

Member of the Board of Directors Hannover Life Reassurance (Ireland) Limited, Dublin, Ireland

Member of the Board of Directors Hannover Life Re of Australasia Ltd, Sydney, Australia

Member of the Board of Management Talanx AG, Hannover

Member of the Advisory Board Barmenia Allgemeine Versicherungs-AG, Wuppertal[1]

Member of the Advisory Board Barmenia Krankenversicherung a.G., Wuppertal[1]

Member of the Advisory Board Barmenia Lebensversicherung a.G., Wuppertal[1]

André Arrago

Member of the Executive Board Hannover Rückversicherung AG, Hannover

Member of the Executive Board E+S Rückversicherung AG, Hannover

Chairman of the Board of Directors Hannover ReTakaful B.S.C. (c), Manama, Bahrain

Deputy Chairman of the Board of Directors Hannover Re (Bermuda) Ltd., Hamilton, Bermuda

Member of the Board of Directors Hannover Re Services Japan K.K., Tokyo, Japan

Member of the Board of Directors Sciemus Power MGA Ltd., London, United Kingdom[1]

Member of the Supervisory Board April Group, Lyon, France[1]

Member of the Supervisory Board Groupement Français de Caution, Grenoble, France[1]

Member of the Supervisory Board Mutuelle des Transports Assurances (MTA), Paris, France[1]

Dr. Wolf Becke

Member of the Executive Board (until 31 December 2011) Hannover Rückversicherung AG, Hannover

Member of the Executive Board (until 31 December 2011) E+S Rückversicherung AG, Hannover

Chairman of the Board of Directors Hannover Life Reassurance Africa Limited, Johannesburg, South Africa

Chairman of the Board of Directors Hannover Life Reassurance Bermuda Ltd., Hamilton, Bermuda

Chairman of the Board of Directors Hannover Life Reassurance (Ireland) Limited, Dublin, Ireland

Vice Chairman of the Board of Directors Hannover Life Reassurance Company of America, Orlando, USA

Deputy Chairman of the Board of Directors Hannover Life Re of Australasia Ltd, Sydney, Australia

Member of the Board of Directors Hannover Reinsurance Group Africa (Pty) Limited, Johannesburg, South Africa

Managing Director (until 31 December 2011) Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover

Claude Chèvre

Member of the Executive Board (since 1 November 2011) Hannover Rückversicherung AG, Hannover
Member of the Executive Board (since 1 November 2011) E+S Rückversicherung AG, Hannover
Member of the Board of Directors Hannover Life Re of Australasia Ltd, Sydney, Australia
Member of the Board of Directors Hannover Re Services Japan K.K., Tokyo, Japan
Member of the Supervisory Board Hannover Life Re AG, Hannover

Jürgen Gräber

Member of the Executive Board Hannover Rückversicherung AG, Hannover
Member of the Executive Board E+S Rückversicherung AG, Hannover
Chairman of the Board of Directors Hannover Reinsurance Africa Limited, Johannesburg, South Africa
Chairman of the Board of Directors Hannover Reinsurance Group Africa (Pty) Limited, Johannesburg, South Africa
Chairman of the Board of Directors International Insurance Company of Hannover Limited, Bracknell, United Kingdom
Member of the Board of Directors Energi Holdings Inc., Peabody, USA
Member of the Board of Directors Hannover Re (Guernsey) PCC Ltd., St. Peter Port, Guernsey
Member of the Board of Directors Hannover Reinsurance (Ireland) Limited, Dublin, Ireland
Member of the Supervisory Board Talanx International AG, Hannover

Dr. Klaus Miller

Member of the Executive Board Hannover Rückversicherung AG, Hannover
Member of the Executive Board E+S Rückversicherung AG, Hannover
Chairman of the Board of Directors Hannover Life Reassurance (UK) Limited, Virginia Water, United Kingdom
Chairman of the Supervisory Board Hannover Life Re AG, Hannover

Dr. Michael Pickel

Member of the Executive Board Hannover Rückversicherung AG, Hannover
Member of the Executive Board E+S Rückversicherung AG, Hannover
Chairman of the Board of Directors Glencar Underwriting Managers, Inc., Itasca, USA
Chairman of the Board of Directors Hannover Re Services Italy S.r.l., Milan, Italy
Chairman of the Board of Directors Hannover Re Services USA, Inc., Illinois, USA
Chairman of the Board of Directors Mediterranean Reinsurance Services Ltd., Hong Kong, China
Managing Director Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover

Roland Vogel

Member of the Executive Board Hannover Rückversicherung AG, Hannover
Member of the Executive Board E+S Rückversicherung AG, Hannover
Chairman of the Board of Directors Hannover Finance, Inc., Wilmington, USA
Chairman of the Board of Directors Hannover Finance (Luxembourg) S.A., Luxembourg
Chairman of the Board of Directors Hannover Finance (UK) Limited, Virginia Water, United Kingdom
Deputy Chairman of the Board of Directors Hannover Life Reassurance Bermuda Ltd., Hamilton, Bermuda
Member of the Board of Directors Hannover Life Reassurance Company of America, Orlando, USA
Member of the Board of Directors Hannover Life Reassurance (Ireland) Limited, Dublin, Ireland
Member of the Board of Directors Hannover Life Reassurance (UK) Limited, Virginia Water, United Kingdom
Member of the Board of Directors Hannover Re (Bermuda) Ltd., Hamilton, Bermuda
Member of the Board of Directors Hannover Reinsurance (Ireland) Limited, Dublin, Ireland
Member of the Board of Directors International Insurance Company of Hannover Limited, Bracknell, United Kingdom
Member of the Supervisory Board Hannover Life Re AG, Hannover
Member of the Supervisory Board Talanx Asset Management GmbH, Cologne
Member of the Advisory Board Hannover Finanz GmbH, Hannover
Member of the Advisory Board WeHaCo Unternehmensbeteiligungs-GmbH, Hannover

1 Memberships of supervisory boards and comparable control boards required by law at other companies in Germany and abroad

Supervisory Board (Aufsichtsrat)

Herbert K. Haas[1, 2, 4]

Burgwedel

Chairman

Chairman of the Board of Management Talanx AG

Chairman of the Board of Management HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Chairman of the Supervisory Board E+S Rückversicherung AG, Hannover

Chairman of the Supervisory Board HDI Direkt Versicherung AG, Hannover

Chairman of the Supervisory Board HDI-Gerling Firmen und Privat Versicherung AG, Hannover

Chairman of the Supervisory Board HDI-Gerling Industrie Versicherung AG, Hannover

Chairman of the Supervisory Board HDI-Gerling Lebensversicherung AG, Cologne

Chairman of the Supervisory Board HDI-Gerling Leben Betriebsservice GmbH, Cologne

Chairman of the Supervisory Board Talanx Deutschland AG, Hannover

Chairman of the Supervisory Board Talanx International AG, Hannover

Chairman of the Supervisory Board Talanx Systeme AG, Hannover

Member of the Advisory Board Norddeutsche Landesbank Girozentrale, Hannover[5]

Dr. Klaus Sturany[1, 4]

Dortmund

Deputy Chairman

Member of various Supervisory Boards

Member of the Supervisory Board Bayer AG, Leverkusen[5]

Member of the Supervisory Board Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg[5]

Member of the Supervisory Board Österreichische Industrieholding AG, Vienna, Austria[5]

Member of the Administrative Board Sulzer AG, Winterthur, Switzerland[5]

Wolf-Dieter Baumgartl[1, 2, 4]

Berg

Chairman of the Supervisory Board Talanx AG

Chairman of the Supervisory Board HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Member of the Advisory Board E+S Rückversicherung AG, Hannover

Member of the Administrative Board HDI Assicurazioni S.p.A., Rome, Italy

Uwe Kramp[6]

Hannover

Karl Heinz Midunsky[4]

Gauting

(until 3 May 2011)

Former Corporate Vice President and Treasurer Siemens AG

Ass. jur. Otto Müller[6]

Hannover

Member of the Supervisory Board Talanx AG, Hannover

Dr. Andrea Pollak

Vienna, Austria

(since 3 May 2011)

Independent Management Consultant

Chairwoman of the Advisory Board Kuchen-Peter Backwaren GmbH, Hagenbrunn, Austria[5]

Deputy Chairwoman of the Supervisory Board Birner Gesellschaft m.b.H., Perchtoldsdorf, Austria[5]

Dr. Immo Querner

Hannover

Member of the Board of Management Talanx AG

Member of the Board of Management HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Chairman of the Supervisory Board Talanx Asset Management GmbH, Cologne

Deputy Chairman of the Supervisory Board AmpegaGerling Investment GmbH, Cologne

Deputy Chairman of the Supervisory Board ASPECTA Assurance International AG (Liechtenstein), Liechtenstein

Deputy Chairman of the Supervisory Board ASPECTA Assurance International AG (Luxembourg) S.A., Luxembourg

Deputy Chairman of the Supervisory Board HDI Asekuracja T.U.S.A., Warsaw, Poland

Deputy Chairman of the Supervisory Board HDI-Gerling Lebensversicherung AG, Cologne

Deputy Chairman of the Supervisory Board Talanx Immobilien Management GmbH, Cologne

Deputy Chairman of the Supervisory Board Talanx Reinsurance Broker AG, Hannover

Member of the Supervisory Board E+S Rückversicherung AG, Hannover

Member of the Supervisory Board HDI Direkt Versicherung AG, Hannover

Member of the Supervisory Board HDI-Gerling Firmen und Privat Versicherung AG, Hannover

Member of the Supervisory Board HDI-Gerling Leben Betriebsservice GmbH, Cologne

Member of the Supervisory Board HDI-Gerling Zycie T.U.S.A., Warsaw, Poland

Member of the Supervisory Board Talanx Deutschland AG, Hannover

Member of the Supervisory Board Talanx Finanz (Luxembourg) S.A., Luxembourg

Member of the Supervisory Board Talanx International AG, Hannover

Member of the Supervisory Board Talanx Service AG, Hannover

Member of the Supervisory Board Talanx Systeme AG, Hannover

Dr. Erhard Schipporeit[2, 3]

Hannover

Member of various Supervisory Boards

Member of the Supervisory Board BDO AG, Hamburg[5]

Member of the Supervisory Board Deutsche Börse AG, Frankfurt am Main[5]

Member of the Supervisory Board Fuchs Petrolub AG, Mannheim[5]

Member of the Supervisory Board HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover

Member of the Supervisory Board SAP AG, Walldorf[5]

Member of the Supervisory Board Talanx AG, Hannover

Member of the Board of Directors Fidelity Funds SICAV, Luxembourg[5]

Member of the Board of Directors TUI Travel, PLC, London, United Kingdom[5]

Gert Wächtler[6]

Burgwedel

1 Member of the Standing Committee
2 Member of the Finance and Audit Committee
3 Independent financial expert on the Finance and Audit Committee
4 Member of the Nomination Committee
5 Memberships of supervisory boards and comparable control boards required by law at other companies in Germany and abroad
6 Staff representative

Management report of Hannover Re

For the reinsurance industry the 2011 financial year was most notable for extraordinarily heavy strains from natural disasters. Only in 2005 were the insured catastrophe losses even higher. For Hannover Re, too, the year under review was the second most expensive in its history with net major loss expenditure of EUR 552 million.

Despite a protracted difficult capital market climate, the 2011 investment result increased by 10 percent. Given the challenging nature of the year under review overall, it is highly gratifying that Hannover Re was able to generate a profit for the financial year of EUR 270 million.

The company's financial strength was also further boosted in 2011. Total capital, reserves and technical provisions grew by 17 percent to around EUR 26 billion.

Macroeconomic climate

A more restrictive economic policy as well as debt problems affecting many advanced national economies led to a slowdown in the economic recovery in the year under review. Uncertainties as to the outlook for the global economy caused the climate in the major economic areas to deteriorate overall in the course of the year. The European sovereign debt crisis was a particularly significant factor in this regard. Yet doubts about the state of the financial sector also played a part in the more depressed mood.

Economic developments again varied widely from region to region. Emerging markets once more proved to be a pillar of the global economy in 2011, although they were unable to maintain the strong growth of previous years. It remains the case that Asian countries recorded the most vigorous growth rates among the emerging markets. The industrial nations were faced with considerable difficulties. Nagging structural problems and the necessity of fiscal consolidation were reflected in sometimes sharp drops in economic output. All in all, the global economy is estimated to have grown by around 3.8% – compared to 5.1% in the previous year.

USA

In the United States the economic upturn gathered pace as the year progressed, and the risk of sliding back into recession consequently receded into the background. Most significantly, private consumption remained robust despite muted income growth. A key pillar of the US economy, however, was gross investment in fixed assets, which includes the acquisition of durable and reproducible means of production; such investments made an appreciable contribution to the growth in gross domestic product (GDP) recorded in 2011. Prospects on the labour market have also picked up again of late, thereby confirming the at least moderate expansion of the US economy. Nevertheless, the US still struggled in the face of structural difficulties, levels of personal and public debt continued to be high and sales figures on real estate markets remained very subdued. Overall, GDP rose by 1.7% in the year under review.

Europe

Economic developments in the Eurozone showed a very mixed picture in the year under review. The economy cooled appreciably after a brisk start to 2011. An increasingly restrictive financial policy as well as uncertainties surrounding the unfolding of the European sovereign debt crisis crippled internal economic activity. Export-oriented countries with relatively healthy public finances and a strong ability to compete internationally, such as Germany, the Netherlands, Finland and Austria, delivered above-average increases in output. The situation was a different one in Greece, Ireland, Portugal and Spain, where the tendencies towards recession became more marked on account of intensive consolidation efforts. Particularly dramatic in 2011 was the plight of Greece, which was only able to avert a sovereign default thanks to considerable assistance from the European Union. The onset of this economic slowdown was also apparent on labour markets. Most notably, countries on the Eurozone periphery were faced with high jobless levels that continued to rise.

Germany

In Germany the economic upswing was sustained in the year under review. According to figures published by the Federal Statistical Office, real gross domestic product grew by 3.0% in the full year. Germany was thus a front-runner among the major industrial nations and delivered healthy growth contributions to gross domestic product within the area of the single currency. The most significant driver of growth for the German economy was domestic demand. Private consumption developed favourably and disposable incomes rose. The state of the labour market, which benefited from the surging economy, also improved. The consistently good year-end results cannot, however, conceal the fact that in Germany too economic prospects had become gloomier by the close of the year.

Asia

China continued to enjoy very vigorous expansion, although the pace slowed somewhat as the year progressed owing to a more restrictive monetary policy. All in all, the economic outlook remains positive. The Japanese economy was heavily affected by the earthquake and nuclear reactor disaster in the first half of 2011. After suffering a slump in output, Japan's economy moved back into growth in the third quarter. The labour market also saw a revival.

Capital markets

The European sovereign debt crisis became a renewed focus of concern for investors from August 2011 onwards. Overall, the 2011 financial year was again characterised by an expansionary monetary policy in our main currency areas. In the Eurozone the first steps towards a more restrictive monetary policy were undone in the second half of the year, causing the key interest rate for the euro area to slip back to the level at the end of 2010. The yield on 10-year German government bonds fell to 1.7% for a time. This level was assisted not only by a monetary policy that remained committed to a strong supply of liquidity but also by a preference among investors for government bonds of the highest quality. Government bonds issued by a number of other European countries came under increasing pressure on account of inadequate actions to bring about fiscal consolidation; this was reflected accordingly in the spreads on bond markets. The European Central Bank sought to stabilise the capital market by buying up government bonds. US treasury bonds also fell to record lows with yields of less than 2%. Despite the move by Standard & Poor's to downgrade the credit rating of the United States to "AA+", the US profited from the dollar's status as the global reserve currency and the perception of US treasuries as a safe haven investment.

The picture on equity markets was a mixed one. Considerable volatility and uncertainty were the hallmarks of the market environment. The losses seen in March in response to the nuclear disaster in Japan were initially made good again. In the second half of the year, however, the mood again became darker; along with the European sovereign debt crisis, equity markets were increasingly weighed down by fears of recession. While the DAX closed 2011 with a loss of 15%, the US Dow Jones Index surpassed the 2010 year-end mark by 5%.

After showing strength early on in the year, the euro ultimately remained broadly unchanged against the US dollar, pound sterling and the Canadian and Australian dollar over the course of the full 2011 financial year.

Industry-specific environment

2011 was a challenging year for the international insurance industry. Owing to numerous natural disasters, it went down as the second-most expensive year in industry history. Experts anticipate insured catastrophe losses of around USD 110 billion; in 2005 the figure was in the order of USD 125 billion. Yet international insurers proved to be robust: despite considerable loss burdens the capital resources of primary insurers and reinsurers remained on a high level. Overall, in a difficult environment insurance undertakings demonstrated their role as a stabilising element for the economy.

The European Commission's Solvency II Directive continues to be of great significance to the insurance industry. Solvency II is intended to introduce European insurance regulation and a risk-based solvency system; these moves will change the insurance landscape in Europe. The specifics are currently under consideration by various government bodies in consultation with the insurance industry. The new regulatory model of Solvency II is to be implemented from 2013 onwards and will be fully effective from 2014. Even at this late stage before its launch, the European insurance and reinsurance federation still sees some imperfections in the regulations that need to be remedied. The Solvency II Directive will be implemented in German law through an amendment to the Insurance Supervision Act (VAG).

In the United States the National Association of Insurance Commissioners (NAIC) adopted its "Credit for Reinsurance Model Law" in 2011. While this model law is not binding upon the individual states, some have already announced their intention to implement it in 2012. Upon adoption of the model law, the collateral requirements for loss reserves of foreign reinsurers in the state in question would be reduced from the current level of 100%. Some US states, such as Florida and New York, had already eased their collateral requirements for financially strong foreign reinsurers.

In Germany demand for insurance protection was stable. Investments, the profitability of the industry and employment in the insurance sector also remained largely unchanged. The industry has hitherto coped well with the challenges of the recent financial and economic crisis. The German Insurance Association (GDV) nevertheless expects premiums for 2011 to decline by 1.2%. This decrease is attributable to a normalisation of income from single premium business in life insurance and had already been anticipated by the GDV in the previous year.

Business development

Since 1 January 1997 the parent company has – with certain exceptions – transacted the Group's active reinsurance solely in foreign markets. Our subsidiary E+S Rückversicherung AG, on the other hand, bears responsibility within the Hannover Re Group for German business. Geographical risk spreading between Hannover Re and E+S Rück is ensured by means of reciprocal retrocessions.

The (re)insurance industry was faced with exceptionally heavy strains in the year under review, especially from natural disasters. Not only that, the sovereign debt of some European countries led to difficult conditions on international capital markets, which significantly reduced the investment income generated by companies. In view of these circumstances, we are satisfied with the development of our business.

Gross written premium in total business grew by 5.9% to EUR 9.1 billion (EUR 8.6 billion). The level of retained premium climbed from 76.4% to 77.5%. Net premium earned increased by 9.4% to EUR 7.0 billion (EUR 6.4 billion).

Non-life reinsurance markets developed more favourably in the year under review than initially expected. In the treaty renewals as at 1 January 2011 prices and conditions essentially remained stable. The severe natural disasters that occurred in the first quarter ushered in something of a trend reversal. In the aftermath of the devastating earthquake in Japan in March of the year under review, as anticipated, price increases were pushed through for non-proportional earthquake covers as well as improved conditions under proportional treaties. Prices also rose in personal accident reinsurance and for industrial fire programmes. During the renewals our company set great store by supporting our Japanese clients in these difficult times and providing them with the necessary capacity. The treaty negotiations for Australia and New Zealand as at 1 April and 1 July 2011 similarly brought about substantial price adjustments, both for loss-impacted programmes and those that had been spared losses. This was especially true of New Zealand, which suffered extensive damage from earthquakes in both 2010 and 2011. We were also satisfied with the treaty renewals in other Asian markets; here, too, we slightly enlarged our premium volume.

In North America we were similarly able to secure rate improvements over the course of the year. This was the result both of strains incurred by the US insurance industry from tornado and flood events as well as model adjustments made by the agency Risk Management Solutions (RMS).

The treaty renewals once again demonstrated that ceding companies continue to attach great importance to a reinsurer's financial strength. A very good rating is indispensable for a reinsurer seeking to be offered and awarded the entire spectrum of business. With its outstanding ratings ("AA–" from Standard & Poor's and "A" from A.M. Best) Hannover Re is one of the reinsurers that meets this requirement without reservation.

All in all, the markets were highly attractive for our company, enabling us to grow profitably in the year under review and expand our market share.

We anticipate growth stimuli from the more exacting requirements placed on the risk capital resources of insurance undertakings as a consequence of the introduction of Solvency II; for such companies, the transfer of risk to reinsurers with good ratings constitutes an economically attractive alternative.

Even though the hurricane season in North and Central America again passed off thoroughly moderately, the (re)insurance industry was nevertheless faced with extraordinarily heavy burdens in the year under review. The largest loss event for the insurance industry was the earthquake in Japan and the resulting tsunami. This event produced a net strain for our company of EUR 113.7 million. Yet the flooding in Thailand also resulted in considerable losses. The associated expenditures incurred by Hannover Re amounted to EUR 124.7 million. These and other major losses produced a net burden of catastrophe losses and major claims totalling EUR 552.0 million for the year under review.

In life reinsurance business the markets of the United States, United Kingdom, Germany, France and Scandinavia continue to play a pivotal role for our company. We appreciably stepped up our involvement in the emerging markets of Eastern Europe and Asia. Overall, we are satisfied with the development of our life reinsurance portfolio. Some adverse developments were recorded in the year under review, however, including for example in Australian disability business – for which we constituted additional reserves. Since the business is in run-off we do not anticipate any appreciable implications for the future. The biometric risk experience in the United Kingdom, Germany, Scandinavia and France, on the one hand, was exceptionally pleasing across the board. Our profit expectations here were realised, in some cases even surpassed. Claims experiences in the emerging markets of Asia, Africa and Latin America similarly remained favourable.

The underwriting result for total business (before changes in the equalisation reserve) contracted sharply in the year under review owing to the enormous burden of natural catastrophe losses. It closed with a deficit of EUR 151.9 million (+EUR 18.4 million). An amount of EUR 292.6 million (EUR 141.3 million) was allocated to the equalisation reserve and similar provisions.

We are very satisfied with our investment performance. Risk premiums on corporate bonds increased for the most part in both US and European markets as the year progressed. The resulting negative fair value effects were, however, more than offset by yield declines on US treasuries and German government bonds.

In March we sold our portfolio of listed equities with a gain of EUR 11.6 million. We decided to take this step because of the uncertain extended implications for capital and reinsurance markets of the still ongoing Fukushima nuclear disaster. The decision had become necessary in the context of our systematic approach to risk management. Since then we have only retained a minimal holding of listed equities as part of strategic participations. In the area of bonds our policy continues to be geared towards maintaining a well-diversified portfolio. The regional spread of our government bonds was largely unchanged in the reporting period. It remains the case that our exposure to countries on the Eurozone periphery (Ireland, Italy, Portugal and Spain) is relatively low measured by our total investment portfolio. Our portfolio does not contain any bonds of Greek issuers.

The positive cash flow from the technical account helped to substantially boost the book value of our assets under own management to EUR 17.5 billion by year-end, an increase of 10.5% compared to the level as at 31 December 2010 (EUR 15.8 billion). Ordinary investment income including deposit interest surpassed the previous year at EUR 912.4 million (EUR 807.1 million).

Net gains of EUR 64.0 million (EUR 107.6 million) were realised on disposals. Write-downs of EUR 33.1 million (EUR 76.3 million) were taken on our investments. Write-ups of EUR 88.1 million (EUR 100.9 million) were also made. Our net investment result thus recorded a pleasing increase to EUR 953.9 million (EUR 867.2 million).

All in all, we are very satisfied with our total result for the 2011 financial year. The profit on ordinary activities was assisted by the refund of excess taxes and interest paid thereon; this gave rise to an amount of EUR 101.6 million.

The profit on ordinary activities contracted in the year under review to EUR 273.5 million (EUR 589.8 million). In light of the considerable strains from major losses, however, this was still a very good result. The 2011 financial year closed with a profit for the year of EUR 270.2 million (EUR 406.3 million).

The Executive Board and Supervisory Board intend to propose to the Annual General Meeting that a dividend of EUR 2.10 per share should be paid.

Our capital and reserves – excluding the disposable profit – remained virtually unchanged from the previous year at EUR 1,381.7 million. The total capital, reserves and technical provisions – comprised of the capital and reserves excluding disposable profit, the subordinated liabilities, the equalisation reserve and similar provisions as well as the net technical provisions – grew during the year under review by EUR 3,830.4 million to EUR 25,869.0 million. The technical provisions rose particularly sharply. Based on the increase in the total capital, reserves and technical provisions, the balance sheet total of Hannover Re grew to EUR 30.2 billion (EUR 26.1 billion).

Development of the individual lines of business

The following section describes the development of the various lines of business. Through intra-Group retrocessions from E+S Rück we also participate in the German reinsurance market. The proportion of the parent company's gross written premium attributable to business accepted from E+S Rück stood at 4.6% (4.9%) in the year under review. We are very satisfied both with our result and with the development of business in our domestic market.

Fire

Fire insurance is one of the largest lines in our portfolio; we write this business worldwide. The United States remains our largest single market, followed by the United Kingdom, where we generated further growth in the year under review. In our domestic market, too, we enlarged our premium volume. Total gross premium for the fire line grew by a sizeable 12.2% in the year under review to EUR 1,044.5 million (EUR 931.4 million).

On the results side, the fire line came under strain from losses due to the natural disasters in Japan and New Zealand. The net loss ratio consequently rose in the year under review from 65.9% to 77.9%.

After an underwriting profit of EUR 60.6 million in the previous year, the year under review closed with a deficit of EUR 29.8 million. An amount of EUR 1.0 million was withdrawn from the equalisation reserve and similar provisions, compared with an allocation of EUR 57.0 million in the previous year.

Fire in EUR million	2011	2010
Gross written premium	1,044.5	931.4
Loss ratio (%)	77.9	65.9
Underwriting result (net)	(29,8)	60.6

Casualty

We are satisfied with the development of the casualty line. Following on from more marked growth in previous years, gross premium volume increased by a modest 2.6% in the 2011 financial year. The largest single market for our company in the casualty line is the United States, accounting for around one third of total premium. The results trend here was also satisfactory. Attractive market opportunities opened up in South America, prompting us to substantially enlarge our portfolio in this region. Growth was also generated in France, where our underwriting policy is focused on liability business. We are one of the leading providers there for builder's risk covers.

Our gross premium volume in casualty business grew by a modest 2.6% to EUR 1,120.4 million (EUR 1,091.7 million).

The loss ratio decreased from 93.0% to 87.0%. The underwriting result consequently improved to –EUR 88.9 million (–EUR 148.8 million).

An amount of EUR 85.4 million was allocated to the equalisation reserve and similar provisions in the year under review; the allocation in the previous year had totalled EUR 29.5 million.

Casualty in EUR million	2011	2010
Gross written premium	1,120.4	1,091.7
Loss ratio (%)	87.0	93.0
Underwriting result (net)	(88.9)	(148.8)

Accident

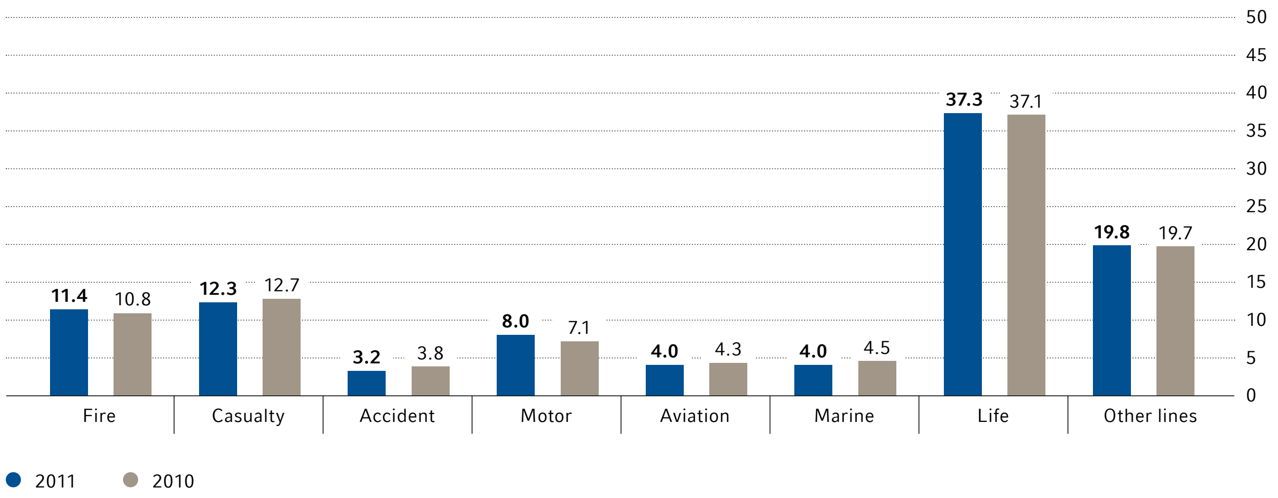
Our accident business, which we regard as one of our target lines, developed highly satisfactorily. After very strong growth in the previous year, the premium volume in the year under review fell short of 2010. Particularly in South America and China, appreciable declines in premium income were recorded. On the other hand, we were able to enlarge our portfolio in the United States and – to a slight extent – in Germany. In France, where we are one of the leading accident reinsurers, our premium volume remained constant.

Gross premium decreased by 11.3% year-on-year to EUR 293.9 million (EUR 331.2 million). Profitability was most gratifying: after a very good loss ratio of 64.8% in the previous year, the year under review closed with an even better 58.5%. On this basis we generated a pleasing underwriting result of EUR 14.0 million (–EUR 6.3 million).

An amount of 4.7 million was allocated to the equalisation reserve and similar provisions, as against a withdrawal of EUR 9.4 million in the previous year.

Accident in EUR million	2011	2010
Gross written premium	293.9	331.2
Loss ratio (%)	58.5	64.8
Underwriting result (net)	14.0	(6.3)

Development of the total portfolio by line of business in %



Motor

We are broadly satisfied with developments in motor business. Our portfolio performed very well in the United States and Canada.

In China we wrote a large-volume arrangement involving structured reinsurance covers, causing our premium income here to surge sharply.

In the year under review we again stepped up our involvement in European motor business. Attractive rates in the United Kingdom prompted us to further significantly enlarge our portfolio here. Germany saw the onset of the anticipated trend reversal in premium income in the year under review. Both in motor liability and own damage business premiums rose by 3.5%. The claims situation in the own damage sector nevertheless remained tense. As a further factor, hail damage in August and September took a toll on this line.

The premium volume in the motor line grew by 19.3% to EUR 731.8 million (EUR 613.5 million).

The loss ratio decreased slightly from 78.0% to 74.0%. The underwriting result declined from –EUR 12.5 million to –EUR 26.8 million.

An amount of EUR 41.8 million (EUR 5.5 million) was contributed to the equalisation reserve and similar provisions.

Motor in EUR million	2011	2010
Gross written premium	731.8	613.5
Loss ratio (%)	74.0	78.0
Underwriting result (net)	(26.8)	(12.5)

Aviation

Hannover Re ranks among the leading reinsurers worldwide in aviation and space business.

Although the year under review was notable for a number of basic losses, these had no major implications for reinsurers because for the most part they remained within the retention carried by primary insurers. For this reason, and also due to a further rise in reinsurance capacities, the pressure on prices increased as the year under review progressed. Against this backdrop our goal was essentially to maintain our current market shares and prices.

Gross written premium remained virtually on a par with the previous year at EUR 367.8 million. The major loss experience was again unremarkable. The largest single loss was an accident during an air show in the United States. The net loss ratio moved slightly higher to 64.6% (61.4%). The underwriting result came in at EUR 38.8 million (EUR 46.3 million).

Following an allocation of EUR 20.9 million in the previous year, we boosted the equalisation reserve and similar provisions by an amount of EUR 10.1 million in the year under review.

Aviation in EUR million	2011	2010
Gross written premium	367.8	370.1
Loss ratio (%)	64.6	61.4
Underwriting result (net)	38.8	46.3

Marine

In global marine reinsurance, too, Hannover Re ranks among the market leaders.

Demand was stable in the year under review. A primary objective of our underwriting policy in the 2011 financial year was to push through improved conditions for offshore risks. We were largely successful in achieving this aim. We nevertheless wrote such risks very prudently and tended to reduce our limits of liability. Most notably, we kept our exposure in the Gulf of Mexico on a low level. Our other marine business, by contrast, was expanded for reasons of better diversification.

On the claims side the year under review was characterised by a high frequency of smaller and mid-sized losses. The largest single event involved the damaging and putting out of operation of a large Danish FPSO (floating production, storage and offloading) unit, causing a market loss of some USD 1 billion. For Hannover Re this gave rise to a major loss with net expenditure of EUR 12.9 million.

Gross written premium contracted by 7.4% to EUR 363.1 million (EUR 392.1 million).

The net loss ratio improved markedly from 86.6% to 67.6%. Against this backdrop the underwriting result improved from –EUR 15.7 million to EUR 27.1 million.

An amount of EUR 62.8 million (EUR 15.3 million) was allocated to the equalisation reserve and similar provisions.

Marine in EUR million	2011	2010
Gross written premium	363.1	392.1
Loss ratio (%)	67.6	86.6
Underwriting result (net)	27.1	(15.7)

Life

On account of the comparatively low volatility and long-term nature of life and annuity insurance, this line is vital to the superb diversification of our overall portfolio and therefore enjoys considerable strategic importance.

Along with direct acceptances made by Hannover Home Office and our international branches in France, Sweden, Korea, Malaysia, Hong Kong and China, the business written also includes retrocessions from our foreign life subsidiaries based in Australia, Bermuda, the United Kingdom, Ireland, South Africa and the United States as well as a quota share retrocession of the German life and annuity business written by our subsidiary E+S Rück.

The year under review was overshadowed by the protracted tensions on capital and money markets as well as the sovereign debt crisis in Europe. In this challenging market climate we stood by our clients as a financially strong business partner, as a result of which we can look back on a business result that came in within the bounds of our expectations.

The growing importance attached by policyholders to insurance products for retirement provision had favourable implications for our business. In this segment we further stepped up our activities in the field of enhanced annuities – especially in the United Kingdom – and rank among the leading reinsurance providers.

In the United Kingdom our business with longevity swaps (block assumption transactions involving longevity risks) also fared well. In this context we assume the commitments associated with annuities that are already being paid out by large pension funds in exchange for an agreed fixed premium.

Although the market for longevity swaps is still in its infancy in many countries, we are confident of being able to expand our business in other markets too going forward thanks to our considerable expertise and positive experiences in the UK.

Bancassurance business, i.e. the sale of life and annuity products through banks, continued to flourish in the year under review – with favourable implications above all for profitability. In this segment we are especially active in France, Spain, Italy and Eastern European markets such as Poland and Hungary. In Asian markets, too, we further stepped up our efforts in this area in the year under review.

In addition, we expanded our position in the area of financing arrangements in the United States, United Kingdom, Germany, South Africa and the Asian region. Demand for financially-oriented reinsurance solutions was particularly vigorous in China (including Hong Kong).

Our gross premium income increased slightly by 6.7%, enabling us to show a premium volume of EUR 3.4 billion (EUR 3.2 billion) for the year under review.

The biometric results for the risks of mortality, morbidity and longevity were broadly in line with our expectations. Positive results in Europe, Africa and Asia did not, however, suffice to offset the below-average risk experience of Australian disability business. The net underwriting result consequently declined in the year under review to –EUR 24.1 million (EUR 6.4 million).

Life in EUR million	2011	2010
Gross written premium	3,408.9	3,194.4
Underwriting result (net)	(24.1)	6.4

Other lines

The lines of health, credit and surety, other indemnity insurance and other property insurance are reported together under other lines. Other property insurance consists of the extended coverage, comprehensive householder's (contents), comprehensive householder's (buildings), burglary and robbery, water damage, plate glass, engineering, loss of profits, hail, livestock and windstorm lines. Other indemnity insurance encompasses legal protection, fidelity as well as other pure financial losses and property damage.

In health insurance the focus of our underwriting in the US market continues to be on the reinsurance of private supplementary covers for seniors issued to some 49 million US citizens in connection with the federal Medicare programme.

In addition, we participated highly selectively in health business in some Asian markets (such as Hong Kong) and Latin America as well as the United Kingdom and France. In Germany our activities in the health line are restricted merely to a few selected non-proportional covers.

Gross premium in the year under review was influenced, on the one hand, by the cancellation of a US treaty and, on the other, by significant increases in Asia and France. Overall, this caused premium to decline to EUR 291.9 million (EUR 327.5 million). The underwriting result retreated accordingly to stand at EUR 6.1 million (EUR 14.3 million) for the year under review.

In credit and surety insurance the consolidation moves made by insurers and reinsurers had positive effects, as a consequence of which claims rates in credit insurance remained below the pre-crisis level of 2008 in the year under review. In surety business, too, results were scarcely impacted. Given the significant improvement in claims rates in original business, surplus capacities were common on the reinsurance side. On the heels of vigorous expansion in the previous two years, Hannover Re stabilised its portfolio in the year under review. We are thoroughly satisfied with the development of our business in the 2011 financial year. The credit line profited from an appreciable reduction in claims rates as the economy began to bounce back. The surety line and business with political risks also developed satisfactorily, with claims rates on a stable level.

Gross premium in credit and surety business grew from EUR 519.9 million to EUR 543.3 million. The underwriting result in the credit sector improved from –EUR 23.1 million to EUR 41.1 million, while the result in the surety line totalled EUR 25.3 million (EUR 15.6 million).

The total premium volume in the other lines increased by 6.3% to EUR 1,799.8 million (EUR 1,693.8 million). The loss ratio slipped back to 74.4% (63.0%). The underwriting result closed at –EUR 62.2 million, after +EUR 88.4 million in the previous year.

An amount of EUR 88.7 million (EUR 22.5 million) was allocated to the equalisation reserve and similar provisions in the other lines in the year under review.

Other lines in EUR million	2011	2010
Gross written premium	1,799.8	1,693.8
Loss ratio (%)	74.4	63.0
Underwriting result (net)	(62.2)	88.4

Investments

We are thoroughly satisfied with the development of our investments in the year under review. Driven primarily by positive operating cash flows, our portfolio of assets under own management grew to EUR 17.5 billion; this is equivalent to an increase of 10.5% relative to the level as at 31 December 2010 (EUR 15.8 billion). Deposits with ceding companies also rose sharply from EUR 7.5 billion to EUR 9.5 billion.

The US Federal Reserve left key interest rates unchanged at 0% to 0.25% during the year under review. The European Central Bank, on the other hand, reduced key interest rates to 1% in the second half of the year after making initial rate hikes and supported the European bond market by buying up government bonds.

The return on ten-year German government bonds declined from 3.0% to 1.8% in the course of the year. A comparable trend was also observed for US treasury bonds, with a marginally more marked decrease from 3.3% to 1.9%. Bonds issued by some European countries carried substantial risk premiums, especially in the second half of the year, leading to a patchy and volatile yield environment in Europe. Risk premiums on corporate bonds increased for the most part in both US and European markets as the year progressed. The resulting negative fair value effects were, however, more than offset by the yield declines on US treasuries and German government bonds across virtually all maturity segments during the year. Altogether, the net valuation reserves of our fixed-income portfolio increased to EUR 394.8 million (EUR 343.3 million) over the year.

In March we sold our portfolio of listed equities with a gain of EUR 11.6 million. We decided to take this step because of the uncertain extended implications for capital and reinsurance markets of the still ongoing Fukushima nuclear disaster. The decision had become necessary in the context of our systematic approach to risk management. Since then we have only retained a minimal holding of listed equities as part of strategic participations. In the area of bonds our policy remains geared towards a well-diversified portfolio. The regional spread of our government bonds was largely unchanged in the year under review. Our exposure to countries on the Eurozone periphery (Ireland, Italy, Portugal and Spain) continues to be comparatively low relative to our total investments. Our portfolio does not contain any bonds of Greek issuers.

Ordinary investment income including deposit interest surpassed the previous year at EUR 912.4 million (EUR 807.1 million). The balance of deposit interest and expenses stood at EUR 230.3 million (EUR 245.9 million). Given identical ordinary income, the decline was attributable to write-ups made in the previous year.

We took write-downs on investments totalling EUR 33.1 million (EUR 76.3 million), principally on fixed-income securities. The write-downs contrasted with write-ups of EUR 88.1 million (EUR 100.9 million) taken on account of increased fair values. This was especially true of shares in affiliated companies and fixed-income securities that had been written down in previous periods. Net gains of EUR 64.0 million (EUR 107.6 million) were realised on the disposal of investments. All in all, our net investment result therefore improved to EUR 953.9 million (EUR 867.2 million).

Hannover Re's investment policy continues to be guided by the following core principles:

- generation of stable and risk-commensurate returns while at the same time maintaining the high quality standard of the portfolio;
- ensuring the liquidity and solvency of Hannover Re at all times;
- high diversification of risks;
- limitation of currency exposures and maturity risks in accordance with the principle of matching currencies and maturities.

With these goals in mind we engage in active risk management on the basis of balanced risk/return analyses. In this context we observe centrally implemented investment guidelines and are guided by the insights of dynamic financial analysis. These measures, combined with positive cash flows from the technical account, ensure that we are able to meet our payment obligations at all times.

Within the scope of our asset/liability management (ALM) the allocation of investments by currencies and maturities is determined by the technical liabilities. The modified duration of our bond portfolio is geared largely to the average maturity of the technical liabilities. We thereby adjust the maturity pattern of the fixed-income securities to the expected payment patterns of our liabilities and reduce the economic exposure to the interest rate risk. In addition, through active and regular management of the currency spread in our fixed-income portfolio we bring about extensive matching of currencies on the assets and liabilities sides of the balance sheet, as a consequence of which fluctuations in exchange rates have no significant influence on our result.

Human resources

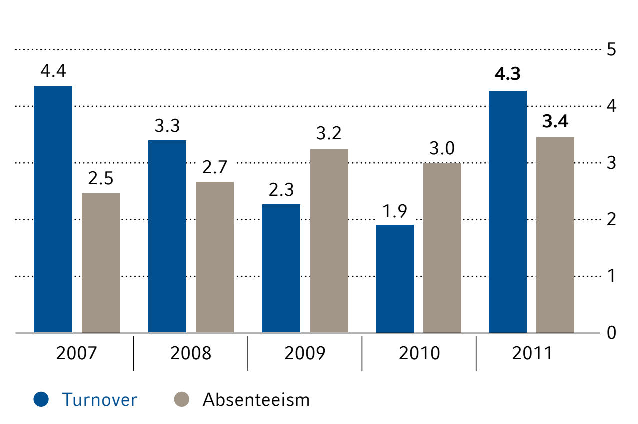
Our staff

As part of the review of the corporate strategy, we also revised our human resources strategy in 2011. The core of our human resources strategy nevertheless remained essentially unchanged since it has proven itself in the past. What has now been brought out more clearly is that the success of our company is directly dependent on the successful work of our people. We therefore pay special attention to the qualifications, experience and drive to perform of our staff and foster these attributes through excellent personnel development and leadership activities. Special importance attaches in this regard to our managerial staff. They lead their teams in the spirit of our management principles. For some years now we have used management feedback as a means of reviewing successful leadership. In the year under review we once again reworked this management feedback process. We are thus aligning our personnel development tools even more systematically with the human resources strategy. Further matters dealt with were the revision of the remuneration structure for executive staff, a pilot project for the launch of "blended learning", a linking of traditional face-to-face learning activities with virtual e-learning as well as the roll-out of state-of-the-art software to enhance the new appointments process.

Key personnel ratios

Hannover Re employed 1,041 (1,017) staff as at 31 December 2011. The turnover ratio at Home Office in Hannover of 4.3% (1.9%) was appreciably higher than in the previous year. The rate of absenteeism – at 3.4% – was slightly higher than in the previous year (3.0%). The turnover ratio and rate of absenteeism nevertheless continued to be below the industry average.

Staff turnover/absenteeism in %



Management feedback more strategically focused

Since 2001 our company has used the personnel development tool of management feedback for executives. This offers both the staff and superiors of our executives the opportunity to formulate criteria-driven feedback on an executive's management style as they perceive it. The participating executives thus receive structured feedback on their managerial impact as well as on any possible need for development.

The management feedback tool was extensively overhauled for the second time since its adoption. The focus was on its rigorous orientation towards our company's management principles. These are picked up on by way of targeted questions and their degree of fulfilment is made measurable. The additional assessment of the individual significance of the various management principles for each feedback provider simplifies both the identification of topical concentrations for the follow-up team discussion and the elaboration of personal development measures.

The intention thereby is to directly support implementation of the strategy item "We want successful employees"; pivotal importance attaches in this regard both to our managerial staff and to team interaction.

New remuneration model for executive staff

In order to satisfy the requirements of the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector (VersVergV), which entered into force on 13 October 2010, a consistent worldwide remuneration system has been in effect since 1 January 2012 for all Hannover Re managers; it satisfies the special requirements of § 4 VersVergV in its principles and parameters and is applied in an appropriate form according to the particular level of management. For further information please see the section "Remuneration report" from page 32 onwards.

Blended learning successfully implemented

In 2011 we successfully implemented another state-of-the-art learning method, namely "blended learning". This enables us to even better integrate our staff into internal training activities.

In blended learning, a seminar unit consists of a linkage between tutor-supported e-learning self-tuition phases and face-to-face training sessions. We thus exploit modern technical capabilities to make learning less place- and time-bound. Not only that, we are responding to the demands of a new generation that is already accustomed to learning and communicating by electronic means.

In the year under review we unveiled German- and English-language reinsurance seminars in the blended learning format. In addition, a learning program was developed under the auspices of our IT colleagues that provides training in the use of our electronic administration system for reinsurance treaties. Both blended learning courses were completed by members of staff at various locations.

Despite all the advantages of modern technology, we are still aware of the communicative, uniting and motivational value of traditional face-to-face instruction and we shall continue to use this where it is didactically appropriate – for example in new seminars that further reinforce the intercultural skills of our employees or their customer orientation.

Applicant targeting and Talentpool upgraded

Complementing its successfully launched employer branding campaign in 2010, Hannover Re went live with a new look to the career section of the company website in the year under review.

The emphasis is on a combination of colourful images (natural phenomena), eye-catching multi-titles and stimulating task descriptions. We also let our employees speak for us: their descriptions of their journey through life and their successful entry into Hannover Re round off the information provided.

Yet we have not only refined the look and text-based presentation of our Web presence, we have also brought the technology into line with the very latest state of the art. To this end, we rolled out software in the year under review to enhance the new applications process; candidates are able to input their profile intuitively and with less effort at the front end. This enables them, inter alia, to apply for several vacancies at the same time or to set up a so-called "job subscription service" in order to receive alerts of suitable new openings by e-mail. Needless to say, our applicants can also manage their applications themselves and check their processing status at any time.

Last but not least, we should also mention our applicant pool. Jobseekers whom we are unfortunately unable to offer an appropriate position at the time of their application are included in this medium, known as Talentpool. Our colleagues in recruiting search these profiles on a preferential basis when new job requirements arise and check their suitability.

Word of thanks to our staff

The Executive Board would like to thank all employees for their dedication in the past year. At all times the workforce identified with the company's objectives and purposefully pursued them. We would also like to express our appreciation to the representatives of staff and senior management who participated in our co-determination bodies for their critical yet always constructive cooperation.

Sustainability

The sustainability strategy of Hannover Re

Profit and value creation are indispensable prerequisites for sustainable development in the interests of our clients, shareholders, staff and business partners. As a leading player in the reinsurance industry, our commercial success is crucially dependent on the correct assessment of present and emerging risks. With this in mind, sustainability aspects are increasingly reflected in these risks. The issue therefore has a direct bearing on the operational activities of Hannover Re and hence forms part of how we see our business. Our goal is to generate economic success on the basis of a solid business model in conformity with legal regulations and the needs of our staff and the company, while also giving due consideration to conservation of the environment and natural resources. In so doing, our premises of financing growth through self-generated profits and avoiding imbalances that could necessitate capital measures continue to apply unchanged. Our operations are thus guided primarily by profitability considerations and we concentrate on attractive segments of reinsurance business.

In September 2011 Hannover Re explicitly committed to its strategic objective of sustainable value creation in the context of a sustainability strategy. The sustainability strategy is based on good and sustainable compliance and puts into more concrete terms the higher-level corporate strategy of Hannover Re. Within the scope of the strategy, altogether five action fields as well as concrete measures and targets have been defined for the period up until 2015.

Governance and dialogue

Entrepreneurial success is only sustainable if it is achieved on the basis of ethical behaviour. As an internationally operating company, Hannover Re bears responsibility in various senses. This is true of its compliance with relevant laws and regulations, but also applies to its relationship with staff, shareholders, the public at large and the cultural circles in which the company operates. In the context of face-to-face discussions, joint events, membership of societies and associations and regular surveys, we maintain an open and ongoing dialogue with our stakeholder groups – whose trust is a vital prerequisite for our entrepreneurial success. The considerable importance that we attach to this issue is also reflected in the associated responsibility within the organisation: the Executive Board of the company jointly drives and tracks implementation of the sustainability strategy.

As a company based in Germany, the formal framework that shapes our corporate governance is determined by German law. With one exception Hannover Re fulfils all the recommendations of the German Corporate Governance Code. Further details in this regard are provided in the section "Enterprise management" on page 29. What is more, our Code of Conduct – which we adopted Group-wide in 2003 – serves as a further guide for our day-to-day activities.

With effect from the autumn of 2012 we shall report on the degree of goal accomplishment as well as on the development of key performance indicators in an annually published sustainability report. In so doing, we shall be guided from the outset by the internationally recognised guidelines of the Global Reporting Initiative (GRI).

Product responsibility

Our range of reinsurance products and services is geared to the needs of the market and our clients. In response to changing social challenges, new economic, social and ecological risks are increasingly reflected in our risk assessment. We use these internally and externally acquired insights in order to be able to offer better insurance solutions. We devote special attention to protecting against risks that result from climate change and providing insurance coverage for socially vulnerable groups in developing countries.

We additionally include the management of our asset portfolio under product responsibility. Our investment strategy is designed to generate a commensurate market return in the interests of our clients, institutional investors and private investors. Nevertheless, going forward we shall seek to give even greater consideration to environmental, social and governance (ESG) criteria in our investment policy.

Successful staff

The success of our company is directly dependent on the successful work of our staff. We therefore pay special attention to their skills, experience and commitment and we attach considerable importance to superb personnel development and management activities. In this context, the work/life balance of our employees is especially significant. By way of flexible working-time models such as part-time employment and telecommuting Hannover Re promotes the compatibility of both these elements.

Since 2008 members of staff at Hannover Home Office have also been able to entrust the care of their children to trained childcare nurses at the public day nursery supported by the City of Hannover and the Federal State of Lower Saxony as well as Hannover Re and Concordia Versicherung AG. Set up on the premises of Hannover Re, the daycare centre provides all-day supervision for infants from the first to third year of life. The nursery is able to accept infants on a year-round basis in order to enable parents to return to work without delay.

Procurement and environmental protection

It is a stated aim of Hannover Re to keep the negative ecological impacts of its business activities as low as possible. The focus of our environmental efforts is on reducing CO_2 emissions caused by supplying power and heat to our premises as well as by our business travel. In addition, we make every effort to use (raw) materials in our offices in the most economic and environmentally friendly manner possible. In our procurement we pay close attention to compliance with social and environmental standards when it comes to selecting products and vendors.

Not only that, Hannover Re is a partner in numerous initiatives for climate and environmental protection such as the "Ecological Project for Integrated Environmental Technology" (Ecoprofit) and the "Climate Alliance Hannover 2020". The energy-saving successes already achieved are regularly publicised in the relevant project publications.

Since 2008 the company has also compensated for the CO_2 pollution caused by business flights through voluntary offsetting payments to the international organisation "atmosfair", thereby supporting selected climate protection projects in developing and emerging countries. We pay similar voluntary offsets for the CO_2 emissions from train travel as well. In addition, we purchased RECS (Renewable Energy Certificate System) certificates from our electricity supplier to promote the use of renewable forms of energy. From 2012 onwards Hannover Re will cover the power requirements at its Hannover location exclusively through renewable energies.

Hannover Re reviews other activities that contribute to the conservation and sustainable preservation of resources within the scope of regular Business Excellence assessments.

The carbon dioxide emissions of 8,123 tonnes caused by Hannover Re in 2011 at the Hannover Home Office location were 98% offset. All in all, CO_2 pollution increased by 438 tonnes or 5.7% relative to the previous year. In the year under review, as in past years, Hannover Re again participated in the survey conducted as part of the "Carbon Disclosure Project" (CDP). The CDP serves to gather and publish qualitative data on the subject of climate change in order to motivate investors, businesses and countries to contribute actively to climate protection. Through our involvement we receive information on where we stand with our efforts to economise – especially as regards carbon dioxide emissions – relative to international standards.

Resources consumed at Hannover Home Office	2011[2]	2010[2]	2009[2]	2008[1]	2007
Electricity (in kWh)	8,214,917	8,055,429	8,014,946	7,624,709	6,041,890
Heat (in kWh)	1,859,119	2,383,918	2,314,009	2,051,501	1,749,160
Water (in l)	14,464,500	14,722,000	12,100,000	14,505,000	16,571,000
Paper (in sheets)	9,172,180	9,074,300	8,488,368	9,174,260	8,934,350
Waste (in kg)	257,400	297,000	327,000	no data	no data
Business trips (in km)	17,658,598	16,018,500	15,179,745	14,766,598	13,379,064
CO_2-emissions[3] (in kg)	8,123,000	7,685,000	9,005,000	9,838,000	9,917,000

1 Karl-Wiechert-Allee 50 and Roderbruchstrasse 26, Hannover
2 Karl-Wiechert-Allee 50, Roderbruchstrasse 26 and infant daycare centre, Hannover
3 Radiative Forcing Index: 2.7

The table on page 19 below breaks down Hannover Re's consumption and emissions and presents the total figures for electricity, heat, water, paper, waste, business trips and CO_2 emissions.

Social commitment

Hannover Re's commitment as a sponsor of learning, art, culture and social projects dates back to its founding in 1966. Essentially, our social involvement is subdivided into four areas: sponsorship, foundation support, donations and assistance through words and deeds. The latter encompasses the voluntary activities performed by our staff as well as their passing on of know-how at our various locations worldwide.

Sponsorship

Hannover Re already maintains long-standing partnerships with various areas of society in the role of sponsor. Particularly close to our heart is support for research and learning as well as for music and art.

Research and learning

The reinsurance of catastrophe risks forms part of Hannover Re's core business. In order to correctly assess risks, a constant transfer of knowledge between business and research – which enables Hannover Re to apply the very latest insights – is of crucial importance. In this context the company supports the highly renowned Geo Research Center in Potsdam, an institution that engages in the systematic investigation and early detection of earthquakes.

Since 2009 Hannover Re has also supported the Global Earthquake Model (GEM) project initiated by the OECD with financial backing of altogether EUR 1 million. The model, which is scheduled to be developed by 2013, is intended among other things to help local authorities in earthquake-exposed zones to draw up more efficient contingency plans and, if disaster strikes, to facilitate the more rapid delivery of aid.

Dialogue with universities is another cornerstone of our support for research and learning. Among other things, Hannover Re sponsors an endowed professorship in actuarial science at the University of Hannover.

Art

Hannover Re also supports the Kestnergesellschaft, an art association whose roots in Hannover go back to 1916, through its participation in the latter's partner programme: in its role as a "kestnerpartner" the company is able to promote the society's work on a continuous and lasting basis.

Foundation

In 1991, on the occasion of the company's twenty-fifth anniversary, Hannover Re launched an art foundation that benefits the Sprengel Museum in Hannover. The Sprengel Museum ranks among the foremost German museums of twentieth-century art thanks to its extensive collection and diverse range of temporary exhibitions. The Foundation's mission is to promote Hannover as a centre for the fine arts through the acquisition of contemporary pieces, which are then made available to the Sprengel Museum on permanent loan. The Foundation is further tasked with financing publications and events to accompany the exhibitions.

Donations

In the year under review Hannover Re and E+S Rück jointly donated an amount of altogether EUR 121,000 to projects in the following categories:

- Social and scientific causes
- Staff (further and advanced training, compatibility of work and family life)
- Protection and welfare of young people
- Advancement of medicine/humanitarian projects

The awarding of donations is guided above all by the criterion of benefit to the public. We do not donate to organisations or projects in the following areas: politics, churches and religious movements, protection of historical buildings or animal welfare.

Risk report

Principles for the handling of opportunities and risks

With a view to accomplishing our business objectives we enter into a broad variety of risks which, on the one hand, open up opportunities for profit but, on the other hand, can also have adverse implications for our company. Our goal is to make optimal use of opportunities while at the same time adequately controlling and managing the risks associated with our commercial activities. Crucial importance therefore attaches to the qualitative and quantitative elements of our risk management. The parameters and decisions of the Executive Board with respect to the risk appetite of Hannover Re are fundamental to the acceptance of risks. The risk strategy derived from the corporate strategy constitutes the basis for our handling of opportunities and risks. We act on opportunities only by weighing up the associated risks. The risk strategy and the guidelines derived from it, such as the framework guideline on risk management and the central system of limits and thresholds, are subject to regular review. In this way, we ensure that our assumptions and hence also our risk management system are kept up-to-date. Operationalisation of our corporate strategy takes place on multiple levels and ultimately leads into local guidelines, including for example the local underwriting guidelines used by our treaty departments.

Functions within the risk management system

There is an interplay between the individual bodies and functions in our risk management system. Their roles and responsibilities are clearly defined.

Quantitative and qualitative risk management methods

For many years Hannover Re has managed and monitored its risks with the aid of quantitative methods. Compliance with regulatory solvency requirements is regularly monitored as part of Hannover Re's risk management. Qualitative methods and practices are a fundamental element of our internal risk management and control system as well as the future Own Risk and Solvency Assessment (ORSA) pursuant to Article 45 of the Solvency II Directive. Systematic risk identification, analysis, measurement, steering and monitoring as well as risk reporting are crucial to the effectiveness of risk management as a whole. Only by giving prompt consideration to risks can the continued existence of Hannover Re be assured. The system that is in place – in common with the corporate and risk strategy – is subject to a constant cycle of planning, action, control and improvement. The Risk Management Framework Guideline describes the existing elements of the risk management system that has been put in place. It is intended to establish homogeneous standards for risk management. The

Central elements of the risk management system

Body/function	Key risk management tasks
Supervisory Board	• Advising and supervising the Executive Board in its management of the company, inter alia with respect to risk management, on the basis of the Supervisory Board's Rules of Procedure
Executive Board	• Overall responsibility for risk management • Responsibility for the proper functioning of risk management • Definition of the risk strategy
Risk Committee	• Operational risk management, monitoring and coordinating body • Implementation and safeguarding of a consistent Group-wide risk management culture
Chief Risk Officer	• Responsibility for risk monitoring across the business groups (systematic identification and assessment, control/monitoring and reporting) of all material risks (technical risks in life/health and non-life reinsurance, market risks, credit risks, operational risks and other risks)
Group Risk Management	• Risk monitoring across the business groups of all material risks from the company perspective • Methodological expertise in the development of processes and methods for risk analysis, assessment and management as well as for risk limitation and reporting
Business units[1]	• Risk steering: primary responsibility for risk identification and assessment on the departmental level based on the guidelines of Group Risk Management • Setting up and monitoring of the department's internal control system (ICS)
Internal Auditing	• Process-independent and Group-wide supervision on behalf of the Executive Board

1 Treaty departments and service departments in the non-life and life/health reinsurance business groups as well as the investments sector

Framework Guideline defines, among other things, the major tasks, rights and responsibilities, the organisational framework conditions and the risk control process. Principles are also set out governing the evaluation of new products in light of risk considerations as well as risk reporting. Internal risk reporting safeguards systematic and timely communication within the company about all material risks. Risk reporting covers inter alia the defined limits and thresholds, expert assessments (e.g. emerging risks) and a summary presentation of the risk situation. The regular reporting is supplemented as necessary by immediate internal reporting on material risks and limit oversteps that emerge at short notice. The criteria for this reporting are also specified in the Risk Management Framework Guideline. Within the central system of limits and thresholds for the material risks, key ratios have been specified for steering and monitoring. Risk steering and monitoring is operationalised through the specification of suitable limits and thresholds for quantitatively measurable material risks. Material risks that cannot be quantified or are difficult to quantify (such as operational risks or reputational risks) are primarily steered using appropriate processes and practices and are monitored with the aid of qualitative measurement methods, such as expert assessments.

Internal control system

Another key element of the overall system is the Framework Guideline on the Internal Control System (ICS). The purpose of this set of rules is to systematically steer and monitor the execution of our corporate strategy. The Framework Guideline defines concepts, stipulates responsibilities and provides a guide for the description of controls. In addition, it forms the basis for the accomplishment of internal objectives and the fulfilment of external requirements imposed on Hannover Re. The ICS consists of systematically structured organisational and technical measures and controls within the enterprise. It serves, inter alia, to safeguard compliance with guidelines and to reduce risks in the interests of secure execution of corporate strategy. This includes, among other things:

- documentation of the controls within processes, especially in accounting,
- principle of dual control,
- separation of functions,
- technical plausibility checks and access privileges within the systems.

In the area of accounting, processes with integrated controls ensure the completeness and accuracy of the financial statement. These processes for the organisation and implementation of consolidation tasks and for the preparation of the financial statement as well as the accompanying controls are documented and subject to regular review. All accounting principles are collated in an Accounting Manual that is available in IT-supported form to all relevant organisational units.

Material risks

Technical risks in non-life reinsurance

We make a fundamental distinction here between risks that result from business operations of past years (reserving risk) and those stemming from activities in the current or future years (price/premium risk). In the latter case, special importance attaches to the catastrophe risk.

A significant technical risk is the reserving risk, i.e. the risk of under-reserving losses and the associated strain on the underwriting result. In order to counter this risk we calculate our loss reserves based on our own actuarial loss estimations; where necessary we also establish additional reserves supplementary to those posted by our cedants as well as an IBNR (incurred but not reported) reserve for losses that have already occurred but have not yet been reported to us.

Liability claims have a major influence on the IBNR reserve. The IBNR reserve is calculated on a differentiated basis according to risk categories and regions. The statistical run-off triangles used by our company are another monitoring tool. They show the changes in the reserve over time as a consequence of paid claims and in the recalculation of the reserves to be established as at each balance sheet date. Their adequacy is monitored using actuarial methods. Our own actuarial calculations regarding the adequacy of the reserves are also subject to annual quality assurance reviews conducted by external actuaries and auditors.

Licensed scientific simulation models, supplemented by the expertise of our own specialist departments, are used to assess our material catastrophe risks from natural hazards (especially earthquake, windstorm and flood). Furthermore, we establish the risk to our portfolio from various scenarios in the form of probability distributions. The monitoring of the natural hazards exposure of the portfolio (accumulation control) is rounded out by realistic extreme loss scenarios. Within the scope of accumulation controlling, the Executive Board defines the risk appetite for natural perils once a year on the basis of the risk strategy by specifying the portion of the economic capital that is available to cover risks from natural perils. This is a key basis for our underwriting approach in this segment. For the purposes of risk limitation, maximum underwriting limits (capacities) are stipulated for various extreme loss scenarios and return periods in light of profitability criteria. Adherence to these limits is continuously verified by Group Risk Management. The Risk Committee, Executive Board and Non-Life Executive Committee are kept regularly updated on the degree of capacity utilisation.

The price/premium risk lies primarily in the possibility of a random claims realisation that diverges from the claims expectancy on which the premium calculation was based. Regular and independent reviews of the models used for treaty quotation as well as central and local underwriting guidelines are vital management components. In addition, regular reports are prepared on the progress of the respective renewals. The reporting in this regard makes reference inter alia to significant changes in conditions, risks (such as inadequate premiums) as well as to emerging market opportunities and the strategy pursued in order to accomplish targets.

Technical risks in life and health reinsurance

All risks directly connected with the life of an insured person are referred to as biometric risks (especially the miscalculation of mortality, life expectancy, morbidity and occupational disability); they constitute material risks for our company in the area of life and health reinsurance. Counterparty, lapse and catastrophe risks are also material since we additionally prefinance our cedants' new business acquisition costs. As in non-life reinsurance, the reserves are essentially calculated according to information provided by our clients and are also determined on the basis of secure biometric actuarial bases.

Through our quality assurance measures we ensure that the reserves established by ceding companies in accordance with local accounting principles satisfy all requirements with respect to the calculation methods used and assumptions made (e.g. use of mortality and morbidity tables, assumptions regarding the lapse rate). New business is written in all regions in compliance with underwriting guidelines applicable worldwide, which set out detailed rules governing the type, quality, level and origin of risks. These global guidelines are revised annually and approved by the Executive Board. Special underwriting guidelines give due consideration to the particular features of individual markets.

By monitoring compliance with these underwriting guidelines we minimise the risk of an inability to pay or deterioration in the financial status of cedants. Regular reviews and holistic analyses (e.g. with an eye to lapse risks) are carried out with respect to new business activities. The interest rate risk, which in the primary sector is important in life business owing to the guarantees that are given, is of only minimal relevance to our company thanks to the structure of our contracts.

The Market Consistent Embedded Value (MCEV) is a ratio used for the valuation of life insurance and reinsurance business; it is calculated as the present value of the future shareholders' earnings from the worldwide life and health reinsurance portfolio plus the allocated capital. The calculation makes allowance as far as possible for all risks included in this business. The Market Consistent Embedded Value is established on the basis of the principles of the CFO Forum published in October 2009. For more detailed information please see the Market Consistent Embedded Value Report 2010.

Market risks

We pursue an investment policy in which the primary emphasis is on the stability of the generated return. With this in mind, our portfolio is guided by the principles of broad diversification and a balanced risk/return ratio. Risks in the investment sector consist primarily of market, credit default and liquidity risks. The most significant market price risks are share price, interest rate and currency risks.

Despite the sometimes difficult capital market environment in the year under review, our early-warning system consistently remained above the escalation levels.

The short-term "Value at Risk" (VaR) is another vital tool used for monitoring and managing market price risks. The VaR is determined on the basis of historical data, e.g. the volatility of the securities positions under own management and the correlation between these risks. As part of these calculations the decline in the fair value of our portfolio is simulated with a certain probability and within a certain period. The VaR determined in accordance with these principles specifies the decrease in the fair value of our securities portfolio under own management that with a probability of 95% will not be exceeded within ten trading days. A multi-factor model is used to calculate the VaR indicators. It is based on time series of selected representative market parameters (equity prices, yield curves, spread curves, exchange rates, commodity prices and macro-economic variables). All asset positions are mapped on the level of individual positions within the multi-factor model; residual risks (e.g. market price risks that are not directly explained by the multi-factor model) can be determined through back-calculation and are incorporated into the overall calculation.

Scenarios for changes in the fair value of our securities		in EUR million
	Scenario	Portfolio change based on fair value
Equity securities	Share prices –10%	–1.6
	Share prices –20%	–3.2
	Share prices +10%	+1.6
	Share prices +20%	+3.2
Fixed-income securities	Yield increase +50 basis points	–190.7
	Yield increase +100 basis points	–374.9
	Yield decrease –50 basis points	+197.2
	Yield decrease –100 basis points	+400.8

Stress tests are conducted in order to be able to map extreme scenarios as well as normal market scenarios for the purpose of calculating the Value at Risk. In this context, the loss potentials for fair values are simulated on the basis of already occurred or notional extreme events. Further significant risk management tools – along with various stress tests used to estimate the loss potential under extreme market conditions – include sensitivity and duration analyses and our asset/liability management (ALM).

Share price risks derive from the possibility of unfavourable changes in the value of equities, equity derivatives or equity index derivatives held in the portfolio. In March we disposed of our portfolio of listed equities at a profit. We decided to take this step because of the uncertain extended implications for capital and reinsurance markets of the still ongoing Fukushima nuclear disaster. The decision had become necessary in the context of our systematic approach to risk management. Since that time we have only retained a minimal portfolio of listed equities in the context of strategic participations. The scenarios for changes in equity prices consequently have only extremely slight implications for our portfolio. We spread the risks through systematic diversification.

The portfolio of fixed-income securities is exposed to the interest rate risk. Declining market yields lead to increases and rising market yields to decreases in the fair value of the fixed-income securities portfolio. The credit spread risk should also be mentioned. The credit spread refers to the interest rate differential between a risk-entailing bond and risk-free bond of the same quality. Changes in these risk premiums, which are observable on the market, result – analogously to changes in pure market yields – in changes in the fair values of the corresponding securities.

Currency risks are especially relevant if there is a currency imbalance between the technical liabilities and the assets. Through extensive matching of currency distributions on the assets and liabilities side, we reduce this risk on the basis of the individual balance sheets. The short-term Value at Risk therefore does not include quantification of the currency risk. We regularly compare the liabilities per currency with the covering assets and optimise the currency coverage in light of relevant collateral conditions by regrouping assets. Remaining currency surpluses are systematically quantified and monitored within the scope of economic modelling.

Real estate risks result from the possibility of unfavourable changes in the value of real estate held either directly or through fund units. They may be caused by a deterioration in particular qualities of a property or by a general downslide in market values (such as the US real estate crash). Real estate risks continued to grow in importance for our portfolio owing to our continuous involvement in this sector. We spread these risks through broadly diversified investments in high-quality markets of Germany, Europe as a whole and the United States.

We use derivative financial instruments only to a very limited extent. The primary purpose of such financial instruments is to hedge against potentially adverse situations on capital markets. In the year under review we took out inflation swaps to hedge part of the inflation risks associated with the loss reserves in our technical account. In addition, as in the previous year, a modest portion of our cash flows from the insurance business was hedged using forward exchange transactions.

The contracts are concluded solely with first-class counterparties and exposures are controlled in accordance with the restrictive parameters set out in the investment guidelines so as to avoid credit risks associated with the use of such transactions.

Credit risks

The credit risk consists primarily of the risk of complete or partial failure of the counterparty and the associated default on payment. Also significant here is the so-called migration risk, which results from the possibility of a deterioration in the counterparty credit quality and is reflected in a change in fair value. Since the business that we accept is not always fully retained, but instead portions are retroceded as necessary, the credit risk is also material for our company in reinsurance transactions. Our retrocession partners are carefully selected and monitored in light of credit considerations in order to keep the risk as small as possible. This is also true of our broker relationships, which entail a risk inter alia through the potential loss of the premium paid by the cedant to the broker or through possible double payments of claims. We minimise these risks, inter alia, by reviewing all broker relationships with an eye to criteria such as the existence of professional indemnity insurance, payment performance and proper contract implementation. The credit status of retrocessionaires is continuously monitored. On the basis of this ongoing monitoring a Security Committee decides on measures where necessary to secure receivables that appear to be at risk of default.

This process is supported by a Web-based risk management application, which specifies cession limits for the individual retrocessionaires participating in protection cover programmes and determines the capacities still available for short-, medium- and long-term business (cession management). Depending on the type and expected run-off duration of the reinsured business, the selection of reinsurers takes into account not only the minimum ratings of the rating agencies Standard & Poor's and A. M. Best but also internal and external expert assessments (e.g. market information from brokers). Overall, retrocessions conserve our capital, stabilise and optimise our results and enable us to act on opportunities across a broader front, e.g. following a catastrophe loss event. Regular visits to our retrocessionaires give us a reliable overview of the market and put us in a position to respond quickly to capacity changes. Through these close contacts with our retrocessionaires we are able to provide a stable renewals forecast.

Alongside traditional retrocessions in non-life reinsurance we also transfer risks to the capital market. Yet credit risks are relevant to our investments and in life and health reinsurance, too, because we prefinance acquisition costs for our ceding companies. Our clients, retrocessionaires and broker relationships as well as our investments are therefore carefully evaluated and limited in light of credit considerations and are constantly monitored and controlled within the scope of our system of limits and thresholds.

Credit risks from investments may arise out of the risk of a failure to pay (interest and/or capital repayment) or a change in the credit status (rating downgrade) of issuers of securities. We attach equally vital importance to exceptionally broad diversification as we do to credit assessment conducted on the basis of the quality criteria set out in the investment guidelines.

We measure credit risks in the first place using the standard market credit risk components, especially the probability of default and the potential amount of loss – making allowance for any collateral and the ranking of the individual instruments depending on their effect in each case. We then assess the credit risk first on the level of individual securities (issues) and in subsequent steps on a combined basis on the issuer level.

In order to limit the risk of counterparty default we define various limits on the issuer and issue level as well as in the form of dedicated rating quotas. A comprehensive system of risk reporting ensures timely reporting to the functions entrusted with risk management.

Operational risks

Operational risks refer to the risk of losses occurring because of the inadequacy or failure of internal processes or as a result of events triggered by employee-related, system-induced or external factors. Operational risks are monitored primarily by way of appropriate process management. These risk potentials are evaluated on the basis of expert assessments, the plausibility of which is verified by central risk management. These assessments enable us to prioritise operational risks. When it comes to the monitoring of such risks, we attach special emphasis to the following individual risks.

Business process risks are associated with the risk of inadequate or deficient internal processes, e.g. as a consequence of poor data quality. Data quality is a critical success factor, especially in risk management, because all enterprise processes are based on the information made available. The overriding goal of our data quality management is to bring about sustainable improvement and to safeguard data quality within Hannover Re, for example by way of regular data quality checks. In addition, as part of our process management, overarching and company-wide processes are continuously optimised and standardised.

Rating structure of our fixed-income securities[1]								
Rating classes	Bearer debt securities		Registered debt securities/debentures and loans		Bond funds		Sundry loans	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	23.4	2,137.7	49.1	760.0	–	–	–	–
AA	34.1	3,116.2	44.2	683.8	93.1	842.3	–	–
A	26.4	2,406.5	3.7	56.8	–	–	–	–
BBB	12.5	1,137.5	2.7	41.7	–	–	100.0	30.0
< BBB	3.6	324.6	0.3	4.4	6.9	62.4	–	–
Total	**100.0**	**9,122.5**	**100.0**	**1,546.7**	**100.0**	**904.7**	**100.0**	**30.0**

1 Securities held through investment funds are recognised pro rata with their corresponding individual ratings

Compliance risks are associated with the risk of breaches of standards and requirements, non-compliance with which may entail lawsuits or official proceedings with not inconsiderable detrimental implications for the business activities of Hannover Re (e.g. tax, anti-trust or regulatory law). Upon suspicion of breaches of the law pertaining to Hannover Re, our employees and business partners are able to report such suspicions anonymously using our electronic whistleblower system. These tips are brought to the attention of the company's Compliance Office, which is thus able to investigate the grounds for suspicion. Responsibilities within the compliance organisation are clearly regulated and documented in a manual. The process is documented in regular compliance reports and complemented by training activities. It is our assumption that the implementation of Solvency II will be accompanied not only by improved business opportunities but also by more exacting requirements for our risk management. We have therefore put in place extensive internal controls and advanced risk management methods and are tracking, for example, developments in connection with the "Own Risk and Solvency Assessment" very closely.

As a reinsurance specialist, we transact primary insurance business that complements our reinsurance activities in selected market niches. In so doing, just as on the reinsurance side, we always work together with partners from the primary sector – such as insurance brokers and underwriting agencies. This gives rise to risks associated with such sales channels, although these are minimised through the careful selection of agencies, mandatory underwriting guidelines and regular checks.

Fraud risks refer to the risk of intentional violations of laws or regulations by members of staff (internal fraud) and/or by externals (external fraud). This risk is reduced by the process-integrated internal control system as well as by the audits conducted by Internal Auditing on a line-independent basis.

The proper functioning and competitiveness of Hannover Re can be attributed in large measure to the expertise and dedication of our staff. In order to minimise personnel risks, we pay special attention to the skills, experience and motivation of our employees and foster these qualities through outstanding personnel development and leadership activities. Regular employee surveys, the monitoring of turnover rates and the holding of exit interviews ensure that such risks are identified at an early stage and scope to take the necessary actions is created.

Information technology risks and information security risks arise, inter alia, out of the risk of the inadequate integrity, confidentiality or availability of systems and information. Losses and damage caused by unauthorised access to IT systems or by computer viruses, for example, pose a serious threat to Hannover Re. Given the broad spectrum of such risks, a diverse range of steering and monitoring measures and organisational standards have been put in place. Among other things, our employees are made more conscious of such security risks through practically oriented tools, for example for the secure communication of information by e-mail.

When it comes to reducing business interruption risks, the paramount objective is the quickest possible return to normal operations after a crisis, for example through implementation of existing contingency plans. Guided by internationally accepted standards, we have defined the basic framework conditions for Hannover Re and – among other measures – we have assembled a crisis team to serve as a temporary body in the event of an emergency. The system is complemented by regular exercises and tests.

The partial or complete outsourcing of functions and/or services may give rise to associated risks. Regulatory and binding internal rules serve to minimise such risks. All risks associated with any instance of outsourcing must be identified, evaluated (e.g. by way of a performance assessment) and appropriately steered and controlled.

Other risks

Of material importance to our company in the category of other risks are primarily emerging risks, strategic risks, reputational risks and liquidity risks.

The hallmark of emerging risks is that the content of such risks cannot as yet be reliably assessed – especially with respect to our treaty portfolio. Such risks evolve gradually from weak signals to unmistakable tendencies. It is therefore vital to detect these risks at an early stage and then determine their relevance. For the purpose of early detection we have developed an efficient process that spans divisions and lines of business and we have ensured its linkage to risk management. Operational implementation is handled by an expert working group assembled specially for this task. The analyses performed by this working group are used in order to pinpoint any necessary measures (e.g. the implementation of contractual exclusions or the development of new reinsurance products). By way of example, the risks arising out of the emergence of large cities and urban conurbations – so-called megacities – are analysed by this working group. The growth of such urban centres goes hand-in-hand with a host of different problems, including a growing demand for food, drinking water, energy and living space. These challenges may also have implications for our treaty portfolio – in the form not only of risks but also opportunities, e.g. through increased demand for reinsurance products. Climate change, nanotechnology, political unrest, amendments to laws and changes in regulatory requirements as well as pandemics may be cited as examples of other emerging risks.

Strategic risks derive from a possible imbalance between the corporate strategy and the constantly changing general business environment. Such an imbalance might be caused, for example, by incorrect strategic policy decisions, a failure to consistently implement the defined strategies and business plans or an incorrect allocation of resources. We therefore regularly review our corporate strategy in a multi-step procedure and adjust our processes and the resulting guidelines as and when required. We have defined performance criteria and indicators for the operational implementation of the strategic guidelines; these are authoritative when it comes to determining fulfilment of the various targets. In accordance with our strategy cycle, we reviewed our strategy this year and adjusted it in line with current requirements. The cross-divisional section, which contains our ten strategic principles, safeguards realisation of our vision: the cementing and expansion of our position as one of the leading, globally operating reinsurance groups of above-average profitability. The business group strategies specify in concrete terms the contribution to be made by the business groups to attainment of the overarching objectives. With the "Strategy Cockpit" responsible managers have at their disposal strategy software that assists them with the planning, elaboration and management of strategic objectives and measures.

Reputational risks refer to the risk of a loss of trust in our company among clients, shareholders, employees or the public at large. This risk has the potential to jeopardise the business foundation of Hannover Re. A good corporate reputation is therefore an indispensable prerequisite for our core business as a reinsurer. It often takes decades to build up a positive reputation, yet this reputation can be damaged or even destroyed within a very brief space of time. Loss of reputation may occur, for example, if a data mishap becomes public knowledge or as a consequence of fraud. We use a number of different practices to minimise this risk, including for example our set communication channels, a professional approach to corporate communications, tried and tested processes for defined crisis scenarios as well as our established Code of Conduct. Our rules governing the use of social networks (social media) as well as the principles defined in our sustainability strategy for conducting business in a responsible and sustainable manner round off this set of tools.

The liquidity risk refers to the risk of being unable to meet our financial obligations when they become due. The liquidity risk consists of the refinancing risk, i.e. the necessary cash cannot be obtained or can only be raised at increased costs, and the market liquidity risk, meaning that financial market transactions can only be completed at a poorer price than expected due to a lack of market liquidity. Core elements of the liquidity management of our investments are, in the first place, management of the maturity structure of our investments on the basis of the planned payment profiles arising out of our technical liabilities and, secondly, regular liquidity planning as well as the asset structure of the investments.

Above and beyond the foreseeable payments, unexpected and exceptionally large payments may pose a threat to liquidity. Yet in reinsurance business significant events (major losses) are normally paid out after a lead time that can be reliably planned. We nevertheless always keep a substantial liquid asset reserve available that can be sold even in times of financial stress. In addition, we manage the liquidity of the portfolio through ongoing monitoring of the liquidity of the instruments contained therein; liquidity is verified on a monthly and ad hoc basis. These measures serve to effectively reduce the liquidity risk.

Assessment of the risk situation

The above remarks describe the diverse spectrum of risks to which Hannover Re is exposed as well as the steps taken to manage and monitor them. These risks can potentially have a significant impact on our assets, financial position or results of operations. Yet consideration solely of the risk aspect does not fit our holistic conception of risk, since it is always the case that we only enter into those risks that go hand-in-hand with opportunities. Our management and monitoring tools as well as our organisational and operational structures ensure that we are able to identify our risks in a timely manner and maximise our opportunities. The pivotal element in this regard is our effective and closely interlinked system of qualitative and quantitative risk management.

We are of the opinion that our risk management system affords us a transparent overview of the current risk situation at all times and that our overall risk profile is appropriate. Based on our currently available insights arrived at from a holistic analysis of the risk situation, the Executive Board of Hannover Re cannot discern any risks that could jeopardise the continued existence of our company in the short or medium term or have a material and lasting effect on our assets, financial position or results of operations.

For additional information on the opportunities and risks associated with our business please see the Forecast on pages 49 et seq. of the management report.

Enterprise management

Declaration on Corporate Governance

Declaration of the Executive Board regarding the Corporate Governance of the Company as defined by § 289 a Para. 1 Commercial Code (HGB):

German Corporate Governance Code

In the previous year Hannover Re was not in compliance with one recommendation of the German Corporate Governance Code (DCGK); this year, the company's implementation of the recommendations of the Code as amended 26 May 2010 again diverges in one respect. The recommendation in question refers to the inclusion of a cap on severance payments when concluding or renewing an Executive Board contract (Code Item 4.2.3 Para. 4). The reason for this divergence is set out in the following Declaration of Conformity pursuant to § 161 Stock Corporation Act (AktG). The present and all previous Declarations of Conformity of the company are published on its website (http://www.hannover-re.com/about/corporate/declaration/index.html).

Declaration of Conformity

pursuant to § 161 Stock Corporation Act (AktG) regarding compliance with the German Corporate Governance Code at Hannover Rückversicherung AG:

The German Corporate Governance Code sets out major statutory requirements governing the management and supervision of German listed companies. It contains both nationally and internationally recognised standards of good and responsible enterprise management. The purpose of the Code is to foster the trust of investors, clients, employees and the general public in German corporate governance. Under § 161 Stock Corporation Act (AktG) it is incumbent on the management board and supervisory board of German listed companies to provide an annual declaration of conformity with the recommendations of the "German Corporate Governance Code Government Commission" published by the Federal Ministry of Justice or to explain which recommendations of the Code were/are not applied.

The Executive Board and Supervisory Board declare pursuant to § 161 Stock Corporation Act (AktG) that in its implementation of the German Corporate Governance Code as amended 26 May 2010 Hannover Rückversicherung AG diverged in one respect from the Code recommendations:

Code Item 4.2.3 Para. 4; Caps on severance payments in management board contracts

Premature termination of a service contract without serious cause may only take the form of cancellation by mutual consent. Even if the Supervisory Board insists upon setting a severance cap when concluding or renewing an Executive Board contract, this does not preclude the possibility of negotiations also extending to the severance cap in the event of a member leaving the Executive Board. Whilst it is true that the legal literature discusses structuring options that would permit the legally secure implementation of the recommendation contained in Item 4.2.3 Para. 4, it is, however, open to question whether qualified candidates for a position on the company's Executive Board would accept appropriate clauses. In addition, the scope for negotiation over a member leaving the Executive Board would be restricted, which could be particularly disadvantageous in cases where there is ambiguity surrounding the existence of serious cause for termination. In the opinion of Hannover Rückversicherung AG, it is therefore in the interest of the company to diverge from the recommendation contained in Item 4.2.3 Para. 4.

We are in compliance with all other recommendations of the Code.

Hannover, 13 December 2011

Executive Board Supervisory Board

Statement of enterprise management practices

Hannover Re's objective continues to be the consolidation and further expansion of its position as one of the leading, globally operating reinsurance groups of above-average profitability. Through our worldwide presence and activities in all lines of reinsurance we achieve an optimal risk diversification while maintaining a balanced risk/opportunity profile. Profit and value creation constitute the foundation of our sustainable development in the interests of our clients, shareholders, employees and business partners. Our goal is to increase the IFRS net income before and after tax as well as the value of the company – including dividends paid – by a double-digit margin every year. We offer our shareholders the prospect of a sustained above-average return on their capital. Consequently, we strive for an IFRS return on equity that is at least 750 basis points above the risk-free interest rate.

When it comes to our staff, we pay special attention to their skills, experience and motivation, and we foster these qualities through our human resources and leadership development activities. Based on our strategic human resources planning, we align the size and qualifications of our workforce with the current and future requirements of our global market presence. Through the greatest possible delegation of tasks, authorities and responsibility we put ourselves in a position to be able to respond quickly and flexibly. We lead on the basis of Management by Objectives, and we expect our managers to encourage the self-reliance of their staff (http://www.hannover-re.com/about/strategy/index.html).

Corporate Governance

We support sensible and pragmatic Corporate Governance principles and recognise their central importance in guiding our activities. The principles of responsible and good enterprise management constitute the core of our Corporate Governance principles (http://www.hannover-re.com/resources/cc/generic/CGprinciples-e.pdf). Our efforts are intended to ensure integrity at all times in our dealings with business partners, staff, shareholders and other stakeholder groups. On this basis Hannover Re supports the principles of value-based and transparent enterprise management and supervision as defined in the German Corporate Governance Code (DCGK). The Code Report for 2011 published by the independent Berlin Center of Corporate Governance on acceptance of the Code's recommendations and suggestions found that, as in previous years, Hannover Re again ranks among the top companies listed on the DAX and MDAX with a degree of fulfilment of 98.9% in its compliance with the provisions of the Code.

This above-average level of compliance testifies to the considerable importance that Hannover Re attaches to good enterprise management and supervision in the spirit of state-of-the-art Corporate Governance. Following thorough revision of the Rules of Procedure of the Supervisory Board in the previous year and specification of the goal that the number of women on the Supervisory Board should be increased, a woman was for the first time elected to this body as a shareholder representative on the occasion of a special election to the Supervisory Board held at the Annual General Meeting in 2011. The Supervisory Board shall do its utmost to further increase the quota of women in the context of the upcoming fresh elections to the Supervisory Board in 2012. The Executive Board and Supervisory Board also considered at length the issue of sustainability and Corporate Social Responsibility. Hannover Re's strategic orientation towards sustainability forms a key element of its corporate strategy. The aim here is to achieve commercial success on the basis of a solid business model in accordance with the needs of our staff and the company as well as with an eye to protecting the environment and conserving natural resources. We strive to reduce as far as possible the greenhouse gas emissions produced by our day-to-day business activities in order to come closer to reaching our goal of carbon neutrality. In so doing, we are demonstrably taking responsibility for a sustainable future (http://www.hannover-re.com/csr/index.html).

In addition, we shall support our shareholders in the exercise of their rights at this year's Annual General Meeting even more than we have in the past by making postal voting possible for the first time.

Compliance

The revised Code of Conduct adopted in November 2010 remains in force (http://www.hannover-re.com/resources/cc/generic/codeofconduct-e.pdf). The rules defined therein reflect the high ethical and legal standards that guide our actions worldwide. It is our belief that integrity in dealings with our stakeholders constitutes the foundation of a successful enterprise. In both our strategic planning and our day-to-day business activities, we therefore aspire to consistently apply the highest ethical and legal standards; for our actions and the way in which every single one of us presents and conducts himself or herself are crucial in shaping the image of Hannover Re.

Complementing our corporate strategy and Corporate Governance principles, our Code of Conduct establishes binding rules worldwide governing integrity in the behaviour of all members of staff of the Hannover Re Group. They are intended to help us cope with the ethical and legal challenges that we face as part of day-to-day work. The Executive Board is expressly committed to observance of these rules.

The compliance report for the 2011 calendar year setting out the structure and diverse range of activities of Hannover Re in this regard was submitted to the Finance and Audit Committee in March 2012. After in-depth examination of topics such as directors' dealings, ad hoc and other reporting requirements, the insider register, adherence to internal guidelines, consulting agreements, data protection, international sanctions and the Group-wide whistleblower system, the report concludes that five inconsequential circumstances have been identified which point to breaches of relevant compliance standards. After detailed exploration of these incidents, the necessary safeguards were put in place to ensure that in future Hannover Re will be in full compliance with the external requirements for its business activities.

Risk monitoring and steering

The risk management system applicable throughout the entire Hannover Re Group is based on the risk strategy, which in turn is derived from the company strategy. A core component is the systematic and comprehensive recording of all risks that from the current standpoint could conceivably jeopardise the company's profitability and continued existence. Further details in this regard may be obtained from the risk report contained in the Annual Report on page 21 et seq.

Working practice of the Executive Board and Supervisory Board

The Executive Board and Supervisory Board of Hannover Re work together on a trusting basis to manage and monitor the company. In accordance with the Rules of Procedure of the Executive Board, matters of fundamental importance require the consent of the Supervisory Board. In addition, the Supervisory Board is kept informed on a regular and timely basis of the business development, the execution of strategic decisions, material risks and planning as well as relevant compliance issues. The Chairman of the Supervisory Board stays in regular contact with the Chairman of the Executive Board in order to discuss with him significant business occurrences. The composition of the Executive Board (including areas of responsibility) as well as of the Supervisory Board and its committees is set out on pages 2 to 5 of the present Annual Report.

The Rules of Procedure of the Executive Board are intended to ensure that a consistent business policy is elaborated and implemented for the company in accordance with its strategic objectives. Within the framework of a consistent business policy, the principle of "delegation of responsibility" enjoys special status. In the interests of shareholders, importance is expressly attached to an organisation that facilitates cost-effective, quick and unbureaucratic decision processes. Open and trusting cooperation geared to the interest of the whole is the foundation of success. In this context, the members of the Executive Board bear joint responsibility for the overall management of business. Irrespective of their overall responsibility, each member of the Executive Board leads their own area of competence at their individual responsibility within the bounds of the resolutions adopted by the Executive Board. Only persons under the age of 65 may be appointed to the Executive Board. The term of appointment shall be determined such that it expires no later than the end of the month in which the member of the Executive Board turns 65.

The Rules of Procedure of the Supervisory Board provide inter alia that each member of the Supervisory Board must have the knowledge, skills and professional experience required for orderly performance of their tasks and that the Supervisory Board must have a sufficient number of independent members. At least one independent member shall have technical expertise in the fields of accounting and the auditing of financial statements. It is envisaged that at least two members shall be women. Persons suggested to the Annual General Meeting as candidates for election to the Supervisory Board may not be older than 72 at the time of their election. Nominations shall take account of the company's international activities as well as diversity. For their part, each member of the Supervisory Board shall ensure that they have sufficient time to discharge their mandate. The Supervisory Board meets at least twice each calendar half-year. If a member of the Supervisory Board participates in less than half of the meetings of the Supervisory Board in a financial year, this shall be noted in the Supervisory Board's report. No more than two former members of the company's Executive Board may belong to the Supervisory Board.

The committees of the Supervisory Board prepare the decisions of the Supervisory Board within their area of competence and take decisions in lieu of the Supervisory Board within the scope of competence defined by the Rules of Procedure applicable to the committee in question.

The Finance and Audit Committee monitors the accounting process and the effectiveness of the internal control system, the risk management system and the internal auditing system. It also handles issues relating to compliance and the information system for the Supervisory Board and discusses the interim reports as well as the semi-annual reports prior to their publication. It prepares the Supervisory Board's examination of the annual financial statement, management report and proposal for the appropriation of profit as well as of the consolidated financial statement and Group management report. In this context, the Finance and Audit Committee receives detailed information on the auditor's view of the net assets, financial position and results of operations as well as explanations of the effects of any modified recognition and measurement principles on the net assets, financial position and results of operations together with available alternatives. In addition, the committee prepares the Supervisory Board's decision on the commissioning of the independent auditor for the financial statements. It considers matters associated with the necessary independence of the auditor, the awarding of the audit mandate to the independent auditor, the determination of the audit concentrations and the fee agreement.

The Standing Committee prepares personnel decisions for the Supervisory Board and decides in lieu of the Supervisory Board on the content, formation, amendment and termination of contracts of employment with the members of the Executive Board with the exception of remuneration-related content as well as resolutions regarding their implementation. It bears responsibility for the granting of loans to the group of persons specified in §§ 89 Para. 1, 115 Stock Corporation Act and those considered equivalent pursuant to § 89 Para. 3 Stock Corporation Act as well as for the approval of contracts with Supervisory Board members in accordance with § 114 Stock Corporation Act. It exercises the powers arising out of § 112 Stock Corporation Act in lieu of the Supervisory Board and – in cooperation with the Executive Board – ensures that long-term succession planning is in place.

The Nomination Committee is tasked with proposing to the Supervisory Board appropriate candidates for the nominations that it puts forward to the Annual General Meeting for election to the Supervisory Board.

For further details of the activities of the Supervisory Board committees please see the explanations provided in the Supervisory Board Report on pages 85 to 88.

Information regarding the following items is provided in the remuneration report:

- Remuneration report for the Executive Board and individualised disclosure of the remuneration received by Supervisory Board members pursuant to Items 4.2.5 and 5.4.6 of the German Corporate Governance Code
- Securities transactions pursuant to Item 6.6 of the German Corporate Governance Code
- Shareholdings pursuant to Item 6.6 of the German Corporate Governance Code
- Information on share-based payment pursuant to Item 7.1.3 of the German Corporate Governance Code.

Remuneration report

The remuneration report summarises the principles used to determine the remuneration of the Executive Board of Hannover Re and explains the structure, composition and amount of the components of the remuneration received by the Executive Board in the 2011 financial year on the basis of the work performed by the Board members for Hannover Re and its affiliated companies.

In addition, the amount of remuneration paid to the Supervisory Board on the basis of its work for Hannover Re and its affiliated companies and the principles according to which this remuneration is determined are described; we also explain the principles on which the remuneration for managers below the level of Executive Board is based.

The remuneration report is guided by the recommendations of the German Corporate Governance Code and observes the provisions of the Act on the Adequacy of Management Board Remuneration (VorstAG) and of the Insurance Supervision Act in conjunction with the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector (VersVergV) – which entered into force in the previous year. In addition, we took into account the more specific provisions of DRS 17 (amended 2010) "Reporting on the Remuneration of Members of Governing Bodies". Under German commercial law, too, this information includes data specified as mandatory for the notes (§ 285 (9) and (10) HGB) and the management report (§ 289 (5) HGB). These details are discussed as a whole in this remuneration report. We have therefore dispensed with an additional presentation in the notes of the information explained in the remuneration report.

Remuneration of the Executive Board

Responsibility

Responsibility for determining the amount of remuneration received by the Executive Board of Hannover Re rests with the full Supervisory Board.

As has been the case since 2009, the Standing Committee continues to decide in lieu of the Supervisory Board on the content, formation, modification and cancellation as well as termination of employment contracts with the members of the Executive Board, but it no longer decides upon remuneration-related content. The latter has been decided upon at a full meeting of the Supervisory Board since 2009.

Objective, structure and system of Executive Board remuneration

The remuneration model for the Executive Board of Hannover Re was revised in the context of regulatory developments. The amendments were undertaken with the assistance of an independent firm of consultants specialising in the field of remuneration systems. In this way, it is ensured that the total remuneration and the split into fixed and variable components conform to regulatory requirements – especially the provisions of the Act on the Adequacy of Management Board Remuneration (VorstAG) and the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector (VersVergV). The new remuneration system is applicable from the 2011 financial year onwards.

The Supervisory Board regularly reviews the system of remuneration for the Executive Board.

The amount and structure of the remuneration of the Executive Board are geared to the size and activities of the company, its economic and financial position, its success and future prospects as well as the customariness of the remuneration, making reference to the benchmark environment and the remuneration structure otherwise applicable at the company. The remuneration is also guided by the tasks of the specific member of the Executive Board, his or her individual performance and the performance of the full Executive Board.

With an eye to these objectives, the remuneration system has two components: fixed salary/non-cash compensation and variable remuneration. The variable remuneration elements have a multi-year assessment basis and thereby promote the sustainable development of the company. In the event of 100% goal accomplishment, the share of the total remuneration attributable to variable elements is 60%.

Fixed remuneration (40% of total remuneration upon 100% goal accomplishment)

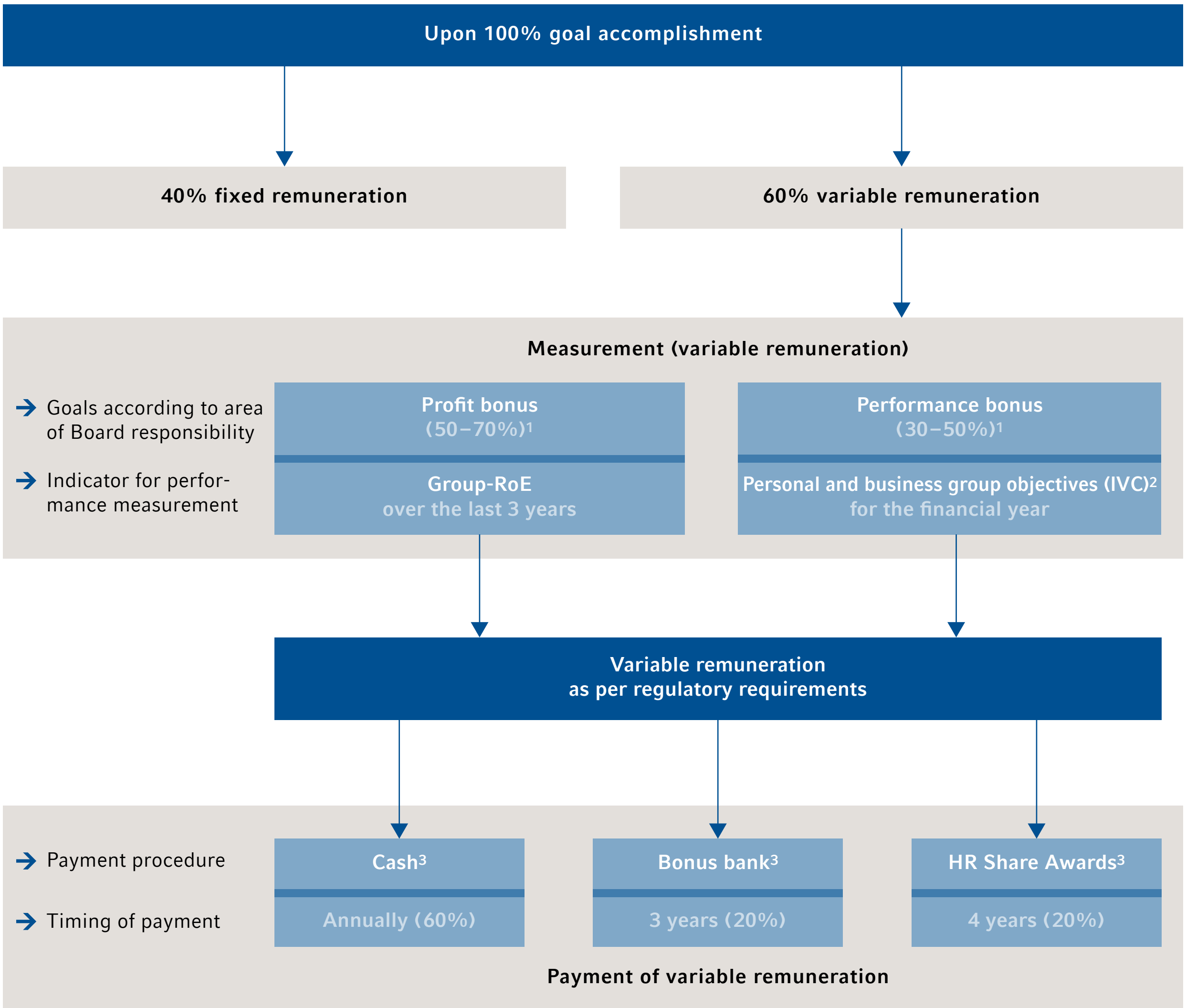
Measurement basis and payment procedures for fixed remuneration

Component	Measurement basis/parameter	Condition of payment	Paid out
Basic remuneration, non-cash compensation, fringe benefits (company car, insurance)	Function, responsibility, length of service on the Executive Board	Contractual stipulations	12 equal monthly instalments

Variable remuneration (60% of total remuneration upon 100% goal accomplishment)

The following chart summarises the revised make-up of the variable remuneration components. For details of measurement and payment procedures please see the two tables and explanations following the chart.

Overview of the revised composition of variable remuneration



1 Chief Executive Officer/Chief Financial Officer 70% profit bonus, 30% performance bonus (personal objectives); all other Board members: 50% profit bonus, 50% performance bonus (25% personal objectives/25% business group objectives)

2 An instrument of value-based management used to measure the attainment of long-term objectives on the level of the Group, business groups and operational units.

3 Split defined by legal minimum requirements.

Measurement bases/conditions of payment for variable remuneration		
Component	Measurement basis/parameter	Condition of payment
Profit bonus		
Proportion of variable remuneration: Chief Executive Officer/Chief Financial Officer: 70%; Board members except for CEO/CFO: 50%	Group return on equity (RoE); x individual basic amount (graduated according to area of responsibility and professional experience) for each 0.1 percentage point by which the average RoE of the past three financial years exceeds the risk-free interest rate of 2.8%; 100% = 11.6% RoE Cap max: 200% Cap min: –100% (penalty); Change in the risk-free interest rate by one percentage point or more necessitates adjustment of the bonus calculation; RoE calculation: IFRS Group net income (excluding non-controlling interests) ./. arithm. mean of IFRS Group shareholders' equity (excluding non-controlling interests) at the beginning and end of the financial year.	Contractual stipulation Attainment of three-year targets
Performance bonus		
Business group bonus Proportion of variable remuneration: Board members except for CEO/CFO: 25%	Measurement of the Intrinsic Value Creation (IVC)[1] of the business groups in the respective area of responsibility; Primary IVC criteria: relative change year-on-year, absolute amount, comparison with target value, dividend payout or profit transfer ratio, general market environment; 100% = amount x = targets achieved in full Cap max: 200% Cap min: EUR 0; Initial application in 2013, until then refinement of the IVC concept and resolution of the Supervisory Board according to its best judgement.	Attainment of annual targets Until 2013: The Supervisory Board determines degree of goal accomplishment according to its best judgement. From 2013 onwards: Attainment of the IVC
Individual bonus Proportion of variable remuneration: Chief Executive Officer/Chief Financial Officer: 30%; Board members except for CEO/CFO: 25%	Personal qualitative, quantitative objectives; individual contribution to the overall performance, leadership skills, innovative skills, entrepreneurial skills, specific features of area of responsibility. 100% = amount x = targets achieved in full Cap max: 200% Cap min: EUR 0	Attainment of annual targets The Supervisory Board determines degree of goal accomplishment according to its best judgement.

1 An instrument of value-based management used to measure the attainment of long-term objectives on the level of the Group, business groups and operational units.

Payment procedures for total variable remuneration		
Short-term	Medium-term	Long-term
60% of the variable remuneration with the next monthly salary payment following the Supervisory Board resolution	**20% of the variable remuneration in the bonus bank;** withheld for 3 years; the positive amount contributed 3 years prior to the payment date is available for payment, provided this does not exceed the balance of the bonus bank in light of credits/debits up to and including those for the financial year just-ended; an impending payment not covered by a positive balance in the bonus bank is omitted; loss of claims due from the bonus bank in special cases: resignation from office without a compelling reason; contract extension on the same conditions is rejected; no interest is paid on credit balances.	Automatic granting of **virtual Hannover Re Share Awards** with a value equivalent to **20%** of the variable remuneration; payment of the value calculated at the payment date after a **vesting period of 4 years;** value of the share on awarding/payment: unweighted arithm. mean of the Xetra closing prices five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statement; additional payment of the sum total of all dividends per share paid out during the vesting period; changes in a cumulative amount of 10% or more in the value of the Share Awards caused by structural measures trigger an adjustment.
Negative variable total bonus = payment of EUR 0 variable remuneration. Any minus value of the variable total bonus for a financial year is transferred in full to the bonus bank (see "Medium-term" column).		

Fixed annual salary

The fixed annual salary is paid in twelve equal monthly instalments – on the last occasion for the month in which the contract of employment ends. The salary is reviewed at two-year intervals.

Non-cash compensation/fringe benefits

The company insures the members of the Executive Board against accidents in an appropriate amount until the end of their appointment to the Executive Board and takes out an adequate level of luggage insurance for them.

For the duration of the appointment to the Executive Board a passenger car is made available for business and personal use. The member of the Executive Board is responsible for paying tax on the pecuniary advantage associated with private use of the company car.

The Board member is reimbursed to an appropriate extent for travel expenses and other expenditures incurred in the interest of the company.

Measurement of the variable remuneration

The profit- and performance-based variable remuneration is contingent on certain defined results and the attainment of certain set targets. The set targets vary according to the function of the Board member in question. The variable remuneration consists of a profit bonus and a performance bonus. In the event of goal accomplishment of 100%, the share of the variable remuneration attributable to the profit bonus amounts to 70% for the Chief Executive Officer and Chief Financial Officer and 50% for the members of the Executive Board with business group responsibility. The performance bonus accounts for the remaining 30% or 50%.

Profit bonus

The profit bonus is dependent on the risk-free interest rate and the average return on equity (RoE) over the last three financial years. Goal accomplishment can amount to a maximum of 200% and a minimum of –100%.

The RoE is calculated using the IFRS Group net income (excluding non-controlling interests) and the arithmetic mean of the IFRS Group shareholders' equity (excluding non-controlling interests) at the beginning and end of the financial year.

The risk-free interest rate is the average market rate over the past five years for 10-year German government bonds and is set at an agreed value of 2.8%. The arrangements governing the profit bonus can be adjusted if the risk-free interest rate of 2.8% changes to such an extent that an (absolute) deviation of at least one percentage point arises.

Performance bonus

The performance bonus for the Chief Executive Officer and the Chief Financial Officer is arrived at from individual qualitative and, as appropriate, quantitative targets defined annually by the Supervisory Board that are to be accomplished in the subsequent year. For members of the Executive Board with responsibility for a certain business group, the performance bonus consists in equal parts of the business group bonus and the individual bonus.

The criteria for the individual bonus for all members of the Executive Board include, for example, the individual contribution to the overall result, leadership skills, innovative skills, entrepreneurial skills and other quantitative and qualitative personal targets, making special allowance for the specific features associated with the Board member's area of responsibility. The degree of goal accomplishment is determined by the Supervisory Board according to its best judgement. The individual bonus for goal accomplishment of 100% is contractually defined. The lowest individual bonus amounts to EUR 0 and the highest is equivalent to double the bonus upon complete fulfilment of the targets.

The business group bonus is guided by the average Intrinsic Value Creation (IVC) achieved in the three-year period just-ended for the business group that falls within the relevant Board member's area of responsibility. A generally valid concept for measuring the IVC is currently undergoing further refinement and will be applied for the first time to the 2013 financial year.

For the years 2011 and 2012 the business group bonus is established by the Supervisory Board according to its best judgement. In so doing, the Supervisory Board pays special attention to the following five criteria: relative change in the IVC in the remuneration year, absolute amount of the IVC in the remuneration year, IVC in the remuneration year relative to the target value, payout ratio or profit transfer ratio of the business group relative to the target value and the general market environment. Upon complete fulfilment of the criteria the amount stipulated in the contract of employment for 100% goal accomplishment is awarded. The lowest business group bonus amounts to EUR 0, while the highest is equivalent to double the bonus upon complete fulfilment of the criteria.

Total amount of variable remuneration
The total amount of variable remuneration is arrived at by adding the amounts for the individual remuneration components. If addition of the individual amounts gives rise to a negative amount, the variable remuneration is EUR 0. A negative amount is, however, taken into consideration when calculating the bonus bank (cf. next section "Payment of the variable remuneration").

The variable remuneration is defined at the Supervisory Board meeting that approves the consolidated financial statement for the financial year just-ended.

Payment of the variable remuneration

Payment arrangements
Of the total amount of defined variable remuneration, a partial amount of 60% is paid out in the month following the Supervisory Board meeting that approves the consolidated financial statement. The remaining amount of 40% is initially withheld. With a view to encouraging long-term value creation, half of the withheld portion (i.e. 20% of the total amount of defined variable remuneration) is allocated to a "bonus bank", while the other half is granted in the form of Hannover Re share awards (HR-SAs) in accordance with the rules explained in the following sections.

Retained portion of the variable remuneration
Bonus bank (retention for a period of three years):
Each year 20% of the mathematically determined positive variable remuneration is allocated to the bonus bank. If the mathematically calculated amount of variable remuneration is negative, 100% of this negative amount is allocated to the bonus bank.

A positive balance in the bonus bank is carried forward to the following year after deduction of any amount paid out, while a negative balance is not carried forward to the next year.

The amount allocated to the bonus bank in each case is paid out after three years to the extent that it is covered by the balance existing at that time. Any portion of the variable remuneration due for disbursement that is not covered by the balance in the bonus bank is forfeited.

The bonus bank has no opening balance and no interest is payable upon the balance in the bonus bank.

Share awards (vesting period of four years):
20% of the mathematically determined variable remuneration is granted as share-based remuneration in the form of virtual Hannover Re share awards (HR-SAs). The total number of HR-SAs granted is based on the value per share of Hannover Re at the time when the award is made. The value per share of Hannover Re is established according to the unweighted arithmetic mean of the Xetra closing prices of the Hannover Re share in a period of five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statement. The HR-SAs are awarded automatically without any requirement for a declaration by Hannover Re or the member of the Executive Board.

For each HR-SA the value of the Hannover Re share calculated on the disbursement date (value calculated in the same way as when the award is made) – plus an amount equivalent to the total dividends distributed during the vesting period – is paid out after expiry of a vesting period of four years. Taxes and social security contributions due are borne by the member of the Executive Board. Board members have no entitlement to delivery of shares.

Handling of payment of variable remuneration components in special cases

In the event of voluntary resignation or termination/dismissal by the company for a compelling reason or if an offered contract extension on the same conditions (exception: the member of the Executive Board has reached the age of 60 and has served as a member of the Executive Board for two terms of office) is declined, all rights to payment of the balances from the bonus bank and from the HR-SAs are forfeited.

If the contractual relationship ends normally prior to the end of the vesting period for the bonus bank and HR-SAs, and if a contract extension is not offered, the member of the Executive Board retains his entitlements to payment from the bonus bank – making allowance for a defined forward projection of the bonus bank – and for already awarded HR-SAs.

All claims to the allocation of amounts to the bonus bank and/or awarding of HR-SAs after leaving the company are excluded. In cases where an individual leaves the company because of non-reappointment, retirement or death this shall not apply with respect to claims to variable remuneration acquired (pro rata) in the final year of the Board member's work for the company.

Total remuneration received by active members of the Executive Board pursuant to DRS 17 (amended 2010)					in EUR thousand
Name	Non-performance-based remuneration		Performance-based remuneration[1]		
	Basic salary	Non-cash compensation/ fringe benefits[2]	Short-term		Medium-term
			Variable remuneration payable		Bonusbank
			60%	Remuneration from seats with Group bodies[3]	20% (Granting)[4]
Ulrich Wallin	364.0	23.0	488.7		162.9
André Arrago	224.0	7.1	246.8		82.3
Dr. Wolf Becke[8]	210.0	10.1	312.0	18.7	
Claude Chèvre[9]	37.3	120.5	45.3		15.1
Jürgen Gräber	280.0	16.9	343.1		114.4
Dr. Klaus Miller	224.0	7.6	264.4		88.1
Dr. Michael Pickel	224.0	9.0	261.9		87.3
Roland Vogel	224.0	14.1	299.5	13.2	104.2
Total 2011[10]	**1,787.3**	**208.3**	**2,300.2**	**31.9**	**654.4**
Total 2010[11]	1,170.8	78.1	1,714.9	42.6	

1 As at the balance sheet date no Board resolution was available regarding the performance-based remuneration for 2011. The variable remuneration is recognised on the basis of estimates and the provisions constituted accordingly.
2 The non-cash compensation has been carried in the amounts established for tax purposes.
3 Remuneration from seats with Group bodies netted with the variable remuneration payable.
4 The nominal amount is stated; full or partial payment in 2015, depending on the development until such time of the balance in the bonus bank.
5 The nominal amount is stated; virtual Hannover Re share awards are automatically granted in an amount equivalent to 20% of the variable remuneration. The equivalent amount will be paid out in 2016 at the prevailing share price of Hannover Re.
6 The stock appreciation rights granted in 2011 for 2010 were included at their fair value (according to the Black-Scholes option pricing model) at the time when they were granted (8 March 2011). Since the Supervisory Board decides upon the final allocation of stock appreciation rights at the meeting after the balance sheet date and given that the period of the stock appreciation rights commences in each case on 1 January of the following year, the stock appreciation rights awarded for the financial year are expensed in subsequent years.
On account of the changeover from the stock appreciation rights programme to the share awards programme in 2011 and the different booking rules applicable to these programmes, DRS 17 requires that both share-based payment programmes be shown in 2011 even though they refer to different years.
7 In order to calculate the number of share awards reference was made to the Xetra closing price of the Hannover Re share on 30 December 2011 (EUR 38.325). The number to be actually awarded is established from the arithmetic mean of the Xetra closing prices of the Hannover Re share in a period from five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statement in March 2012.
8 The remuneration of Dr. Becke continues to be based on the remuneration structure prior to 2011 since his appointment ends on age grounds on 31 December 2011, i.e. the bonus bank and Hannover Re share awards components do not apply.
9 The non-cash compensation and fringe benefits for Mr. Chèvre include the contractually agreed reimbursement of his relocation costs as well as compensation for the forfeited stock options and 2011 bonus from his previous employer.
10 For the 2010 annual bonus altogether EUR 38,600 more was paid out than reserved. The total amount for the variable remuneration payable in 2011 was increased accordingly.
11 The 2010 amounts reflect the old remuneration structure and cannot be compared 1:1 with the figures for 2011.

Total remuneration received by active members of the Executive Board pursuant to DRS 17 (amended 2010) (contd.)				in EUR thousand
Performance-based remuneration[1]		Total	Estimated number of share awards for 2011[7]	Number of stock appreciation rights awarded for 2010
	Long-term			
Share-Awards	Stock appreciation rights			
20% (Granting)[5]	Stock appreciation rights awarded for 2010[6]			
162.9	207.8	1,409.3	4,250	40,250
82.3	108.4	750.9	2,146	21,000
	189.8	740.6		36,750
15.1		233.3	395	
114.4	180.7	1,049.5	2,984	35,000
88.1	30.1	702.3	2,300	5,835
87.3	162.7	832.2	2,278	31,500
104.2	90.4	849.6	2,720	17,500
654.3	**969.9**	**6,606.3**	**17,073**	**187,835**
	1,022.8	3,986.5		234,905

Variable remuneration under the old remuneration structure

Members of the Executive Board whose appointment does not extend beyond 31 December 2011 on age grounds shall continue to receive their remuneration according to the remuneration model applicable until 31 December 2010. In contrast to the current remuneration structure, the variable remuneration for the profit bonus is in this case measured by the arithmetic mean of the actual earnings per share (EPS under IFRS) for the last three complete financial years; the performance bonus corresponds roughly to the individual bonus in the new remuneration model. The old remuneration structure does not include any partially deferred disbursement through a bonus bank. Instead of the virtual Hannover Re share awards, stock appreciation rights are awarded under the old remuneration structure.

The virtual stock option plan with stock appreciation rights remains in force for all members of the Executive Board until all stock appreciation rights have been exercised or have lapsed. In the 2011 financial year 187,835 (164,434) stock appreciation rights with a value of EUR 1.0 million (EUR 1.0 million) were granted to active Board members for the 2010 (2009) allocation year. Of the stock appreciation rights granted in previous years, active and former Board members exercised amounts totalling EUR 0.8 million (EUR 0.1 million).

As at 31 December 2011 active members of the Executive Board had at their disposal a total of 505,463 (383,531) granted, but not yet exercised stock appreciation rights with a fair value of EUR 3.4 million (EUR 3.3 million).

Continued payment in the event of disability/death

In the event of temporary incapacity for work the fixed annual salary shall continue to be paid in the same amount, at most until termination of the contract of employment. Contracts from 2009 onwards count any disability benefits paid to the eligible recipient by HDI Unterstützungskasse towards the continued salary payment.

If the Board member dies during the period of the contract of employment, his widow – or alternatively the eligible children – shall be entitled to continued payment of the fixed annual salary for the month in which the Board member dies and the six months thereafter, at most until termination of the contract of employment.

Other information

The contracts of the Board members do not include a commitment to benefits in the event of a premature termination of employment on the Executive Board owing to a change of control. Only the conditions for the granting of share-based remuneration in the form of stock appreciation rights provide for special exercise options in the event of the merger, spin-off or demerger of Hannover Re into another legal entity.

With regard to Item 4.2.3 Para. 4 of the German Corporate Governance Code – "Caps on severance payments in management board contracts" – we would refer the reader to our remarks in the Declaration of Conformity contained in the section "Enterprise management" on p. 29 of this Annual Report.

If the company insists on a non-competition clause with Mr. Wallin for two years after the termination of his contract of employment, he shall be recompensed in a monthly amount of 50% of his most recent fixed remuneration. Income earned through the application of his working capacity elsewhere shall be counted towards this compensation insofar as such income in combination with the compensation exceeds 100% of the most recently received fixed remuneration. The non-competition clause shall not apply if the contract ends prior to the age of 65 because the company does not extend it or because Mr. Wallin declines an extension offered to him on what are for him inferior terms, or if the premature termination or non-extension is due to a compelling reason that is the responsibility of the company.

Amount of remuneration received by the Executive Board

The total remuneration received by the Executive Board of Hannover Re on the basis of its work for Hannover Re and its affiliated companies is calculated from the sum of all the components set out in the following table pursuant to DRS 17 (amended 2010).

After utilisation of the option contained in the Act on the Disclosure of Management Remuneration (VorstOG) not to specify the remuneration of the Executive Board on an individualised basis for a period of altogether five years in accordance with a corresponding resolution of the Annual General Meeting of 12 May 2006, the remuneration is now specified on an individualised basis by name for the first time in the year under review.

The remuneration (excluding pension payments) received by former members of the Executive Board totalled EUR 0.1 million (EUR 0.6 million).

Sideline activities of the members of the Executive Board

The members of the Executive Board require the approval of the Supervisory Board to take on sideline activities. This ensures that neither the remuneration granted nor the time required for this activity can create a conflict with their responsibilities on the Executive Board. If the sideline activities involve seats on supervisory boards or comparable control boards, these are listed and published in the Annual Report of the parent company Hannover Re. The remuneration received for such seats at Group companies and other board functions is deducted when calculating the variable bonus and shown separately in the table of total remuneration.

The following table shows the expense for share-based remuneration of the Executive Board in the financial year. The table is to be viewed independently of the presentation of the total remuneration received by active members of the Executive Board pursuant to DRS 17.

Total expense for share-based remuneration of the Executive Board in 2011 — in EUR thousand

Name	Stock appreciation rights exercised	Allocation to reserve for stock appreciation rights in 2011	Expense for share awards in 2011[1]	Total
Ulrich Wallin	97.3	20.1	144.4	**261.8**
André Arrago	–	46.3	72.9	**119.2**
Dr. Wolf Becke[1]	188.6	(64.5)	–	**124.1**
Claude Chèvre	–	–	13.4	**13.4**
Jürgen Gräber	180.7	(61.5)	101.4	**220.6**
Dr. Klaus Miller	–	6.0	78.1	**84.2**
Dr. Michael Pickel	156.4	(46.3)	77.4	**187.4**
Roland Vogel	31.5	20.2	92.4	**144.1**
Total 2011	**654.5**	**(79.7)**	**580.0**	**1,154.8**
Total 2010	29.8	1,143.2	–	1,173.1

1 The old remuneration structure (prior to 2011) applicable to Dr. Becke does not provide for the granting of share awards.

Cash remuneration actually accruing to active members of the Executive Board in the year under review				in EUR thousand
Name	Fixed remuneration	Variable remuneration (for 2010)	Stock appreciation rights exercised	**Total**
Ulrich Wallin	364.0	381.8	97.3	**843.1**
André Arrago	224.0	234.7	–	**458.7**
Dr. Wolf Becke	210.0	344.7	188.6	**743.3**
Claude Chèvre	37.3	–	–	**37.3**
Jürgen Gräber	280.0	321.5	180.7	**782.2**
Dr. Klaus Miller	224.0	49.8	–	**273.8**
Dr. Michael Pickel	224.0	261.3	156.4	**641.7**
Roland Vogel	224.0	195.0	31.5	**450.5**
Total 2011	**1,787.3**	**1,788.8**	**654.5**	**4,230.6**
Total 2010	1,170.8	1,675.8	29.8	2,876.4

Retirement provision

Final-salary pension commitment (appointment before 2009)
The contracts of members of the Executive Board first appointed prior to 2009 contain commitments to an annual retirement pension calculated as a percentage of the pensionable fixed annual remuneration (defined benefit). The target pension is at most 50% (appointment from 1997 onwards) or 65% (appointment prior to 1997) of the monthly fixed salary payable on reaching the age of 65. A non-pensionable fixed remuneration component was introduced in conjunction with the remuneration structure applicable from 2011 onwards.

In the event of pension entitlement, a claim to life-long retirement pay exists. The pensionable event occurs on or after reaching the age of 65 or on account of a permanent incapacity for work.

If a member of the Executive Board is permanently incapacitated for work during the period of the contract of employment, the contract of employment shall terminate at the end of the sixth month after which the permanent incapacity for work is established – although no later than the end of the contract of employment. A permanent incapacity for work exists if the Board member will probably be permanently unable to perform without reservation the tasks assigned to him.

The early granting (before reaching the age of 65) of retirement pay upon termination/non-extension of the contract of employment is conditional upon at least eight years of service on the Executive Board. In addition, the member of the Executive Board may not have declined an extension of the contract on at least equivalent terms and there cannot have been any grounds for termination without notice on the part of the company.

The amount of the benefits is determined according to the pensionable income and the qualifying period of employment. The benefit level as a percentage of the pensionable fixed remuneration is contractually defined upon appointment and increases annually by 0.75 percentage points to 2 percentage points to a maximum of 50% or 65% upon reaching age 65. For the purpose of calculating the retirement pay for Board members appointed from 1997 to 2008 in the event of a pension entitlement due to permanent incapacity for work, half of the difference between the percentage attained and the percentage that the Board member would have attained upon reaching age 65 is added to the percentage attained until leaving the company. This arrangement does not apply to Board members appointed prior to 1997.

Until age 65 is reached 50% of other income earned by the Board member is counted towards the retirement pay if the Board member was appointed from 1997 onwards. In the event of appointment prior to 1997, income earned by the eligible recipient from self-employment and work performed in an employed capacity can be counted towards retirement pay paid prior to reaching age 65 insofar as the total amount of retirement pay and income exceeds the pensionable remuneration of the eligible recipient.

Benefits from previously earned pension payments are counted towards the retirement pay in the case of members of the Executive Board appointed prior to 1997.

Contribution-based pension commitment (appointment from 2009 onwards)
The commitments given to members of the Executive Board from 2009 onwards are based on a defined contribution scheme. An indirect commitment is granted by HDI Unterstützungskasse. A precondition for benefits (retirement pension, disability pension and surviving dependants' pension) is that the Board member must consent to insurance cover being taken out for the pension commitments.

A Board member who has reached the age of 65 and left the company's employment receives a life-long retirement pension. The amount of the monthly retirement pension is calculated according to the reference date age (year of the reference date less year of birth) and the funding contribution on the reference date. The annual funding contribution for these contracts is paid by the company in an amount of 25% of the pensionable income (fixed annual remuneration as at the reference date of 1 July of each year).

An early retirement pension is paid to a member of the Executive Board who documents that he is receiving a full pension through submission of the pension notice.

If a member of the Executive Board is permanently incapacitated for work during the period of the contract of employment, the contract of employment shall terminate at the end of the sixth month after which the permanent incapacity for work is established – although no later than the end of the contract of employment. A permanent incapacity for work exists if the Board member will probably be permanently unable to perform without reservation the tasks assigned to him. If the Board member is permanently incapacitated for work, he shall receive after termination of the contract of employment – in the event that HDI Unterstützungskasse does not grant him a disability pension – a pension that the said HDI Unterstützungskasse would grant him if he were at least 50% incapable of exercising his profession or another occupation that can be performed on the basis of his training and experience and that corresponds to his existing position in life.

A member of the Executive Board who leaves the company prior to occurrence of the pensionable event also retains the entitlement to pension benefits. The pension benefits are, however, only paid from the occurrence of the pensionable event onwards. The vesting of the benefits is contractually guaranteed.

Defined benefit commitments			in EUR thousand
Name	Attainable annual pension (age 65)	Provision amount 31.12.2011	Personnel expense
Ulrich Wallin	154.0	1,714.8	108.4
André Arrago	88.9	1,223.5	78.2
Dr. Wolf Becke[1]	132.3	1,775.2	(245.4)
Jürgen Gräber	111.0	1,150.0	72.4
Dr. Michael Pickel	84.0	537.2	57.6
Roland Vogel[2]	49.3	346.2	30.4
Total 2011	**619.5**	**6,746.9**	**101.6**
Total 2010	622.7	6,645.3	2,200.2[3]

1 Pension payment to Dr. Becke from 1 January 2012 onwards.
2 Mr. Vogel was appointed as a member of the Executive Board effective 1 April 2009. He was first granted a pension commitment on the basis of his service to the company prior to 2001; the earned portion of the commitment from the Unterstützungskasse is therefore established as a proportion (in the ratio [currently attained service years since entry]/[attainable service years from entry to exit age]) of the final benefit. Measurement under IFRS therefore uses the defined benefit method. An annual premium of EUR 56,000 (25% of the pensionable income) was paid for Mr. Vogel in 2011. The guaranteed interest rate of his commitment is 3.25%.
3 The calculation of the provision was adjusted in 2010 in accordance with the Act on the Modernisation of Accounting Law (BilMoG). The option to spread the adjustment amounts over 15 years was not exercised.

Defined contribution commitments			in EUR thousand
Name	Annual funding contribution[1]	Attainable annual pension (age 65)	Premium
Claude Chèvre[2]	25%	47.7	56.0
Dr. Klaus Miller[2]	25%	33.8	56.0
Total 2011		**81.5**	**112.0**

1 Percentage of pensionable income (fixed annual remuneration as at the reference date of 1 July of each year)
2 Guaranteed interest rate 2.25%

Surviving dependants' benefit (in the case of a final-salary pension commitment)
If the member of the Executive Board dies after pension payments begin, the surviving spouse (appointment prior to 1997)/surviving spouse and alternatively dependent children (appointment from 1997 onwards) shall receive continued payment of the retirement pension for the month of death and the following three months (appointment prior to 1997) or six months (appointment from 1997 onwards).

The widow's pension amounts to 60% of the retirement pay that the Board member received or would have received if he had been incapacitated for work at the time of his death. There shall be no entitlement to a widow's pension if the spouse is more than 25 years younger or the marriage was entered into after the occurrence of the pensionable event or solely in order to substantiate a benefit entitlement in favour of the spouse.

An orphan's pension shall be granted in the amount of 15% – 25% if the widow's pension does not apply – of the retirement pay that the Board member received or would have received on the day of his death if the pensionable event had occurred owing to a permanent incapacity for work. The orphan's pension is payable at most until the age of 27. Income from an employment or training relationship is partially counted towards the orphan's pension (contracts from 1997 onwards).

The widow's and orphan's pension takes effect as soon as there is no further entitlement to continued payment of salary or retirement pay.

Widow's and orphan's benefits combined may not exceed the amount of the retirement pay; otherwise, the orphan's pensions are reduced pro rata by the excess amount. If a widow's or orphan's pension ceases to apply, orphan's pensions that have been reduced are increased accordingly.

Surviving dependant's benefit (in the case of a contribution-based pension commitment)
Following the death of an eligible benefit recipient, the surviving spouse receives a life-long spouse's pension. The amount of the spouse's pension is equivalent to 60% of the pension that the deceased Board member received or would have received if he had been incapacitated for work at the time of his death.

The spouse's pension is only paid if the marriage was entered into before the Board member reached the age of 60 and before occurrence of the pensionable event and provided the marriage existed until the date of the Board member's death.

The surviving children receive an orphan's pension. The orphan's pension for each half-orphan amounts to 15% (30% for each full orphan) of the pension that the deceased Board member received or would have received if he had been incapacitated for work at the time of his death.

The orphan's pension is paid until the age of 18. A child who is still attending school or undergoing vocational training at this time shall continue to receive the orphan's pension until completion of such education, although only for as long as child benefits could have been claimed for the child under the Federal Child Benefit Act.

The spouse's pension and orphan's pension combined may not exceed the pension that the eligible benefit recipient received or would have received if he had been incapacitated for work at the time of his death; otherwise, they are reduced pro rata.

Continued salary payments rendered by Hannover Re are counted towards the pension benefits.

Adjustments
The following parameters are used for adjustments to retirement, widow's and orphan's benefits: the price index for the cost of living of all private households in Germany (contracts from 2001 onwards), the price index for the cost of living of four-person households of civil servants and higher-income salaried employees (contracts from 1997 to 2000) or the unadjusted group amount for Group S established according to the statutes and benefits plan of the Bochumer Verband (contracts prior to 1997).

Current pensions based on the commitments given from 2009 onwards (defined contribution commitment) are increased annually by at least 1% of their most recent (gross) amount.

The pension payments to former members of the Executive Board and their surviving dependants, for whom 13 (13) pension commitments existed, totalled EUR 0.7 million (EUR 0.8 million) in the year under review; an amount of altogether EUR 11.4 million (EUR 9.8 million) has been reserved for them.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is determined by the Annual General Meeting of Hannover Re and regulated by the Articles of Association.

Individual remuneration received by the members of the Supervisory Board in EUR thousand[1]			2011	2010
Name	Function	Type of remuneration		
Herbert K. Haas	Chairman of the – Supervisory Board – Standing Committee – Finance and Audit Committee – Nomination Committee	Fixed remuneration	60.0	30.0
		Variable remuneration	39.7	102.8
		Remuneration for committee work	46.5	59.7
		Attendance allowances	8.0	5.0
			154.2	197.5
Dr. Klaus Sturany	Deputy Chairman of the – Supervisory Board Member of the – Standing Committee – Nomination Committee (from 3 May 2011)	Fixed remuneration	45.0	15.0
		Variable remuneration	28.9	51.4
		Remuneration for committee work	3.7	10.0
		Attendance allowances	4.0	3.0
			81.6	79.4
Wolf-Dieter Baumgartl	Member of the – Supervisory Board – Standing Committee – Finance and Audit Committee – Nomination Committee	Fixed remuneration	30.0	10.0
		Variable remuneration	19.3	34.3
		Remuneration for committee work	23.0	19.9
		Attendance allowances	8.0	5.0
			80.3	69.2
Uwe Kramp[2]	Member of the Supervisory Board	Fixed remuneration	30.0	10.0
		Variable remuneration	19.3	34.3
		Remuneration for committee work	–	–
		Attendance allowances	3.0	2.0
			52.3	46.3
Karl Heinz Midunsky	Member (until 3 May 2011) of the – Supervisory Board – Nomination Committee	Fixed remuneration	10.3	10.0
		Variable remuneration	7.3	34.3
		Remuneration for committee work	–	–
		Attendance allowances	1.0	2.0
			18.6	46.3
Ass. jur. Otto Müller[2]	Member of the Supervisory Board	Fixed remuneration	30.0	10.0
		Variable remuneration	19.3	34.3
		Remuneration for committee work	–	–
		Attendance allowances	3.0	2.0
			52.3	46.3
Dr. Andrea Pollak	Member of the Supervisory Board (from 3 May 2011)	Fixed remuneration	19.8	–
		Variable remuneration	12.0	–
		Remuneration for committee work	–	–
		Attendance allowances	2.0	–
		Reimbursement of expenses	5.9	–
			39.7	–
Dr. Immo Querner	Member of the Supervisory Board	Fixed remuneration	30.0	10.0
		Variable remuneration	19.3	34.3
		Remuneration for committee work	–	–
		Attendance allowances	3.0	2.0
			52.3	46.3

Individual remuneration received by the members of the Supervisory Board in EUR thousand[1]			2011	2010
Name	Function	Type of remuneration		
Dr. Erhard Schipporeit	Member of the – Supervisory Board – Finance and Audit Committee (Independent financial expert)	Fixed remuneration	30.0	10.0
		Variable remuneration	19.3	34.3
		Remuneration for committee work	15.3	13.3
		Attendance allowances	6.0	4.0
			70.6	61.6
Gert Wächtler[2]	Member of the Supervisory Board	Fixed remuneration	30.0	10.0
		Variable remuneration	19.3	34.3
		Remuneration for committee work	–	–
		Attendance allowances	3.0	2.0
			52.3	46.3
Total			**654.2**	**639.2**

1 Amounts excluding reimbursed VAT
2 Employee representatives

Management report

In accordance with § 12 of the Articles of Association as amended on 3 May 2011, the members of the Supervisory Board receive fixed annual remuneration of EUR 30,000 per member in addition to reimbursement of their expenses. Furthermore, each member of the Supervisory Board receives variable remuneration measured according to the average earnings per share (EPS) of the company over the past three financial years preceding the Annual General Meeting at which the actions of the Supervisory Board for the last of these three years are ratified. The variable remuneration amounts to EUR 330.00 for each EUR 0.10 average earnings per share (EPS) of the company; it is limited to an annual maximum of EUR 30,000. The Chairman of the Supervisory Board receives twice the aforementioned remuneration amounts and the Deputy Chairman of the Supervisory Board receives one-and-a-half times the said amounts.

In addition, the members of the Finance and Audit Committee formed by the Supervisory Board receive remuneration of EUR 15,000 for their Committee work and the members of the Standing Committee formed by the Supervisory Board receive remuneration of EUR 7,500. In this case, too, the Chairman of the Committee receives twice and the Deputy Chairman one-and-a-half times the stated amounts. No remuneration is envisaged for the Nomination Committee.

Members who have only belonged to the Supervisory Board or one of its Committees for part of the financial year receive the remuneration pro rata temporis.

All the members of the Supervisory Board receive an attendance allowance of EUR 1,000 for their participation in each meeting of the Supervisory Board and the Committees in addition to the aforementioned remuneration. If a meeting of the Supervisory Board and one or more Committee meetings fall on the same day, the attendance allowance for this day is only paid once in total.

This arrangement applies for the first time to the 2011 financial year, with the variable remuneration being measured according to the average earnings per share of the years 2009, 2010 and 2011.

Compared to the previous remuneration arrangements most recently applicable to the 2010 financial year, the new arrangement contains the following material changes:

The fixed remuneration of the members of the Supervisory Board was increased from EUR 10,000 to EUR 30,000.

The variable remuneration was restructured. Previously, the variable remuneration amounted to 0.03‰ of the earnings before interest and taxes (EBIT) recognised in the consolidated financial statement drawn up by the company in accordance with IFRS.

The members of the Finance and Audit Committee additionally received remuneration of 30% and the members of the Standing Committee 15% of the previously described fixed and variable Supervisory Board remuneration for their Committee work.

Group of participants and total number of eligible participants in variable remuneration systems

Participants	Level		Variable remuneration system	Number of eligible participants in the variable remuneration system
Managing Director	E1MD	Management level 2	Management by Objectives (MbOs), stock appreciation rights	All 78 managers participate in both the MbO process and the stock appreciation rights scheme
Director	E2D	Management level 3		
General Manager	E2GM			
Chief Manager	E3CM		Group Performance Bonus (GPB)	**Home Office Hannover** 551 GPB-eligible staff out of altogether 1,001 staff below the management level
Senior Manager	E3SM			
Manager	E4AU			
Deputy Manager	E4DA			
Assistant Manager	E5			
Staff undergoing job familiarisation	E6			

The Chairman of the Supervisory Board or a Committee previously received three times and the Deputy Chairman one-and-a-half times the stated amounts.

The attendance allowance for participation in the meetings of the Supervisory Board or the specified Committees was increased from EUR 500 to EUR 1,000.

The individualised presentation of the remuneration shows the expense charged to the financial year in question. Since the remuneration for a financial year becomes due at the end of the Annual General Meeting that ratifies the acts of the Supervisory Board for the financial year, the relevant reserve allocations are recognised allowing for any fractional amounts. Value-added tax payable upon the remuneration is reimbursed by the company.

In the year under review no payments or benefits were granted to members of the Supervisory Board in return for services provided individually outside the Committee work described above, including for example consulting or mediation services, with the exception of the remuneration paid to employee representatives on the basis of their employment contracts.

Loans to members of the management boards and contingent liabilities

In order to avoid potential conflicts of interest, Hannover Re or its subsidiaries may only grant loans to members of the Executive Board or Supervisory Board or their dependants with the approval of the Supervisory Board.

In 2011 no loan relationships existed with members of Hannover Re's Executive Board or Supervisory Board, nor did the company enter into any contingent liabilities for members of the management boards.

Securities transactions and shareholdings (directors' dealings)

Dealings in shares, options and derivatives of Hannover Rückversicherung AG effected by members of the Executive Board or Supervisory Board of Hannover Re or by other persons with managerial functions who regularly have access to insider information concerning the company and who are authorised to take major business decisions – as well as such dealings conducted by certain persons closely related to the aforementioned individuals – in excess of EUR 5,000 are to be reported pursuant to § 15a Securities Trading Act (WpHG). No such reportable transactions took place in the 2011 financial year.

Members of the Supervisory Board and Executive Board of Hannover Re as well as their spouses or registered partners and first-degree relatives hold less than 1.0% of the issued shares. The total holding as at 31 December 2011 amounted to 0.055% (0.055%) of the issued shares, i.e. 65,862 (66,146) shares.

Remuneration of employees and managers

Structure and system

Performance management is embedded into the Performance Excellence process at Hannover Re. Departmental and individual goals are derived from the strategic corporate objectives. By linking Management-by-Objectives agreements and Performance Excellence criteria we ensure that the efforts of our staff contribute directly to the success of the business strategy. We are convinced that performance-based remuneration components foster individual initiative. Through the delegation of tasks, powers and responsibility as well as the agreement of exacting goals we create a culture of entrepreneurial thinking on all hierarchical levels – among the ranks of both management and staff alike. This principle is reflected as far as possible in performance-based remuneration components.

MbO bonus		
Participants	Economic department targets	Individual targets
Managing Directors of TDs/RDs	50%	50%
General Managers of TDs/RDs	25%	75%
Managing Directors and General Managers of Service Departments		100%

A system of variable remuneration is in place for management ranks below the Executive Board on the levels of Managing Director, Director and General Manager. It consists, firstly, of a long-term remuneration component (stock appreciation rights) and, secondly, of short-term variable remuneration dependent upon accomplishment of the agreed goals for the year in question (Management by Objectives, MbO). Members of staff on the levels of Chief Manager, Senior Manager and Manager are able to participate in the Group Performance Bonus (GPB). The group of participants and the total number of eligible participants in the variable remuneration system of Hannover Re are set out in the table on page 46.

For staff on the level of Manager or higher we introduced a remuneration model linked to the company's success in 2004, namely the Group Performance Bonus (GPB). This tool is geared to the minimum return on equity of 750 basis points above the risk-free interest rate and the return on equity actually generated. For those participating in the GPB 14.15 monthly salary payments are guaranteed; a maximum of 16.7 salary payments is attainable. Since its launch the maximum amount of the GPB was paid out in 2006, 2007, 2009 and 2010.

Remuneration of managers in the 2011 financial year

The present remuneration system for managers at Hannover Re consists of the following components: an annual fixed salary, a performance-based bonus and stock appreciation rights. The fixed salary and performance-based bonus upon attainment of the targets agreed for a particular year (Management by Objectives) produce the total cash compensation. The ratio of annual fixed salary to short-term variable MbO bonus varies at Hannover Home Office according to hierarchical level as follows:

- 60/40 for Managing Directors
- 65/35 for Directors
- 70/30 for General Managers

Outside Germany this ratio is not as clear-cut as it is at Home Office, but the average figures for all Managing Directors are 62% fixed and 38% variable and for General Managers 74% fixed and 26% variable.

The targets agreed in the context of the MbO bonus are broken down into economic and individual targets, as shown in the table above.

Economic department targets are agreed on the basis of the combined ratio and IVC in non-life reinsurance and the premium growth, technical result and IVC in life/health reinsurance. At the subsidiaries abroad agreements are reached on the basis of net income, EBIT, EPS contribution and IVC.

Since 2006 the degree of goal attainment has been indexed if goal attainment exceeds 80%. A good performance with attainment of all agreed targets corresponds to an average overall goal attainment of 80%. Only an above-average performance ("stellar performance"), in other words a performance in excess of 80%, triggers indexation of the degree of goal attainment. A maximum goal attainment of 100% corresponds after indexation to a maximum degree of goal attainment of 125%.

While the MbO process takes into account the attainment of short-term targets, the long-term performance of the company is reflected in Hannover Re's virtual stock option plan. At Home Office the cash value of the basic allocation of stock appreciation rights corresponds on average to 5.9% of the total cash compensation and is awarded to the entitled manager outside the total cash compensation. The cash value of the basic allocation of stock appreciation rights at the Local Offices abroad amounts on average to 10% of the total cash compensation.

Each participant in the virtual stock option plan of Hannover Re is first awarded an individual basic number of stock appreciation rights. Depending upon the extent to which the target level of the internal (EPS) and external (RBS Global Reinsurance Index) performance criterion is surpassed or undershot, this basic number increases or decreases to produce the final number of stock appreciation rights. The awarded stock appreciation rights may be exercised up to 10 years after the end of the respective allocation year, provided the vesting period has expired (for the first 60% after four years, with one further year for each additional 20%).

There are four exercise periods each year. In this respect, however, there is no entitlement to delivery of shares of Hannover Re, but merely to payment of a cash amount geared to the performance of the Hannover Re share. This is established from the difference between the market price of the Hannover Re share at the beginning of the allocation year (basic price) and the current market price at the time when the stock appreciation rights are exercised. Both figures are determined by averages.

Remuneration of managers from the 2012 financial year onwards

In order to fulfil the requirements of the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector (Versicherungs-Vergütungsverordnung – VersVergV), which entered into force on 13 October 2010, a uniform remuneration system is applicable worldwide to all managers of the Hannover Re Group with effect from 1 January 2012 which – in its basic principles and parameters – satisfies the special requirements of Section 4 VersVergV and is appropriately realised according to the various management levels. As part of the reorientation of the remuneration system, the share-based remuneration of the Executive Board – the so-called share award programme – is also to be extended to include managers. At the same time, the stock appreciation rights plan for managers is terminated with effect from the 2012 allocation year. This ensures adherence to a consistent share-based remuneration component for the Executive Board and managers alike.

The measurement of the variable remuneration is based on three elements: Group net income, business group targets and individual targets. The weighting of the elements is dependent upon whether responsibility is carried in a treaty/regional department or in a service department. In the treaty/regional departments the Group net income is weighted at 20%, the business group targets at 40% and the individual targets also at 40%. In the service departments the Group net income carries a 40% weighting, while the individual targets account for 60%.

The Group net income is measured by the average return on equity (ROE) of the Hannover Re Group over the last three financial years. The maximum possible goal attainment is 200%. A lower limit is placed on goal attainment of –50% (penalty) for Management Level 2 (Managing Directors) and 0% for Management Level 3 (Directors and General Managers).

The measurement of the business group targets is geared to the actual value created. The Intrinsic Value Creation (IVC) of the business group encompassing the relevant area of responsibility is therefore used as a one-year measurement basis. Negative performance contributions are excluded here – the minimum possible goal attainment is 0%. The maximum possible goal attainment is limited to 150%.

Individual targets are agreed and measured for a period of one year. The degree of goal attainment is between 0% and 100%. Agreements on business group targets and individual targets as well as on their degree of goal attainment will continue to be arrived at as part of the MbO process.

The overall degree of goal attainment determines the amount of variable remuneration including share awards. On Management Level 2 (Managing Directors) 60% of the variable remuneration is paid out annually in cash and 40% is granted in the form of share awards. On Management Level 3 (Directors and General Managers) the variable remuneration is split into 65% cash payment and 35% granted as share awards.

The total number of share awards granted is determined according to the value per share of Hannover Re. This value is arrived at from the average of the closing prices of the shares in a period extending from 20 trading days before to 10 trading days after the meeting of the Supervisory Board at which the consolidated financial statement is approved. The number of share awards is established by dividing the specified portion of the total bonus (40% or 35%) by the value per share, rounded up to the next full share.

Following expiry of a vesting period of four years the value of one Hannover Re share calculated at the disbursement date is paid out for each share award. The value of the Hannover Re share is again determined from the average of the closing prices of the shares in a period from 20 trading days before to 10 trading days after the meeting of the Supervisory Board that approves the consolidated balance sheet. In addition, a sum in the amount of the dividend is paid out for each share award. The level of the dividend payment is the sum total of all dividends per share paid out during the period of the share awards multiplied by the number of share awards.

Forecast

Economic development

Forecasts for 2012 are subject to considerable uncertainty since the development of the global economy will depend heavily on how the debt crisis in the Eurozone is handled. The Ifo Institute, for example, has outlined a basic scenario for 2012 under which it is possible to calm financial markets on a lasting basis and prevent intensification of the European debt crisis. This is contingent upon appropriate efforts being made to put public finances back on a sound footing in the critical member states of the Eurozone. It is, however, far from certain that this basic scenario will materialise; numerous other scenarios are conceivable.

According to this basic scenario, a further slowdown is to be anticipated in economic expansion in 2012 on account of the growing uncertainties and the debt problems facing many industrialised nations. The financing conditions for banks and businesses on the open market are likely to deteriorate and hence considerable consumer spending and capital expenditures will be postponed. The savings drive among private households should heavily curtail private consumption in some European countries and the United States. Not only that, fiscal policy in Europe and the US alike will probably have a heavily restrictive orientation. The softening economic trend in the industrialised countries may put the brakes on growth in emerging markets. Nevertheless, with growth rates still expected to be healthy, emerging markets should again prove to be a stabilising factor for the world economy in 2012. All in all, global output is therefore likely to show only weak growth.

The US economy is initially expected to slow further, although it may then stabilise in the second half of the year. Given the protracted heavy indebtedness of private households and what is only a slow improvement in the jobless rate, private consumption will struggle to pick up. The continued restrictive fiscal policy will likely have further negative implications for domestic demand. It is also anticipated that US companies will have a reduced appetite for capital spending in 2012. The Ifo Institute forecasts growth of 1.8% in US gross domestic product for 2012.

In the Eurozone the debt crisis and a strict budgetary policy in many countries should mean that the economy will manage only weak growth overall. In this context, the differences between individual countries will likely continue to be considerable. Internal demand will in all likelihood barely rise, since public consumption will contract on account of spending cuts and private consumption will be flat as a consequence of sharp tax increases. Domestic demand is likely to be particularly soft in Italy, France and the countries on Europe's south-eastern periphery. Only the external sector will probably deliver positive stimuli in 2012, although this will merely be a reflection of the weak import trend rather than sharp growth in exports. Although the economic gloom is forecast to lift somewhat in the second half of the year, the Ifo Institute expects gross domestic product to contract overall by 0.2% in 2012.

After an upswing over the past two years, economic activity may soften again in Germany in 2012. Key factors here are the weaker global economy and the restraining effects of the European debt crisis. The drive towards consolidation and the austerity efforts undertaken in the Eurozone will probably take a heavy toll on exports. Furthermore, equipment spending is also likely to slow. On the other hand, private consumption – which tends to lag behind cyclical developments – will be supported by the favourable state of the labour market and a still healthy income situation, hence enjoying robust growth. Contrary to many European countries, therefore, Germany is unlikely to slip into recession. The Ifo Institute forecasts an increase of 0.4% in gross domestic product in 2012.

By global standards China's economy should continue to record above-average growth in 2012, although the pace will likely slow somewhat. Gross domestic product is expected to come in at around 8.2%, a slight contraction relative to 2011. The rebuilding efforts in Japan will serve to boost output. Japanese GDP is expected to show growth of 2.0% in 2012.

Capital markets

In 2012 international bond markets will probably again be shaped by a low interest rate level. In the relevant currency areas for our company we do not expect any hike in key interest rates. After the European Central Bank had been compelled to cut interest rates again in 2011 on account of the tense economic situation, interest rates can likely only be raised in 2012 if there is a sharp rise in prices. The US Federal Reserve Board will probably take initial steps towards a more restrictive monetary policy in 2013 at the earliest.

Against the backdrop of the expansionary fiscal policy and the uncertainty stemming from the Eurozone debt crisis, German and US government bonds will remain on a low level. Bonds issued by certain states belonging to the European Monetary Union will continue to come under pressure. Last but not least, the incremental strategy adopted for solving the Euro debt crisis will lead to further volatility in the capital market environment. The necessary consolidation of public finances will serve as a further drag on the economic climate.

The insurance industry

Having demonstrated its robustness in the recent years of crisis, the international insurance industry will make another important contribution to economic stability in the volatile climate of 2012. In global terms, the insurance sector should be able to consolidate its role in the economy and society. Insurers operate in the field of loss limitation, loss prevention and risk diversification; in this way they support economic development. They not only spread risks across a number of actors, they also help to shape markets and serve as a catalyst for financing and investments. The German Insurance Association (GDV) anticipates slight growth in premium income overall for the German insurance industry, provided the broader economic environment does not take a significant turn for the worse.

By international standards, the insurance industry in Germany is growing, if anything, at a below-average pace. In property and casualty insurance changes in the market cycle are likely to encourage premium growth. The concept of private individual provision will also take on increasing prominence, with favourable implications for growth in life and health insurance – not only in Germany but also in many other industrialised nations.

The preparations for Solvency II, which envisages the implementation of insurance supervision on the European level and a risk-based solvency system, is creating incentives to take an even more professional approach to risk management. Not only that, Solvency II will lead to greater stability and increased competitiveness in the industry, which can ultimately only benefit policyholders. For reinsurers, the arrival of Solvency II means new business opportunities, since it will promote not only the supply of but also demand for insurance protection.

Non-life reinsurance

Overview

We are largely satisfied with market conditions in non-life reinsurance. The outcome of the renewals as at 1 January 2012 – the date when around two-thirds of our treaties in non-life reinsurance (excluding facultative business and structured reinsurance) were renegotiated – was pleasing for our company. Given the continuing uncertain capital market environment and the associated difficulties generating sufficient investment income, reinsurers exhibited considerable discipline in quoting prices that were commensurate with the risks. On average, we obtained conditions and rates that were better than in the previous year. In light of this attractive climate, we enlarged our premium volume by around 6%.

We achieved particularly substantial rate increases in the property catastrophe sector – and not only under loss-impacted programmes. In Australia price increases of up to 60% were possible; in the US, too, we achieved percentage increases in the low double-digit range. The treaty renewals also passed off highly satisfactorily for us in Canada. Treaties in Japan and New Zealand – countries that were hard hit by natural disasters in 2011 – are renewed within the year. We expect to see further significant rate increases at this time.

In marine business we enlarged our premium volume by some 12%. Rate increases were recorded primarily in the offshore energy sector. Broadly stable prices were obtained in other marine business. Rate erosion was observed in both primary insurance and reinsurance on account of the good results booked in the aviation sector in recent years. The business nevertheless remains attractive, and we therefore boosted our premium volume by around 7%. In credit and surety reinsurance we also noted moderate rate erosion on the back of reduced claims rates. Yet here, too, we were satisfied with the outcome of the treaty renewals because they offered sufficient opportunities to write profitable business. The trend towards rising prices has still to take hold in the liability lines, prompting us to stand by our highly selective approach to writing US casualty risks.

We were thoroughly satisfied with the outcome of the renewals in structured reinsurance. Brisk demand for reinsurance solutions that afford capital relief could be observed in the face of more exacting capital requirements associated with risk-based solvency models such as Solvency II.

Based on our very good rating ("AA–" from Standard & Poor's and "A" from A.M. Best) we are a sought-after reinsurance partner among our clients, enabling us to profit in especially large measure from the available market opportunities.

The following sections describe the outlook for our major markets and lines of business.

Target markets

In view of the favourable outcome for our company of the treaty renewals as at 1 January 2012, we are looking to the present year with optimism. We currently expect to grow our premium income from German business by some 3%. Our client base here has also been further enlarged. The situation in motor insurance showed a pleasing development. Hail damage in August and September 2011 as well as claims from prior years contributed to the increase in premiums in own damage business, from which we – as the second-largest reinsurer in Germany – were able to profit.

Demand for reinsurance protection is rising in connection with the planned implementation of Solvency II in 2013. Given that it serves to alleviate capital requirements and in view of its contractual flexibility compared to other instruments, reinsurance will become even more appealing in the eyes of many primary insurers.

The 1 January treaty renewals for our business in North America passed off satisfactorily. In US property business it was for the most part possible to push through rate increases. Price rises of up to 30% were attainable under loss-impacted programmes. It was also gratifying to note that the rate erosion in US casualty business was halted. Rates in standard casualty business, an important line for our company, remained stable. In the professional indemnity lines we were able to make the most of profitable opportunities. We were particularly satisfied with the outcome of the renewals in Canada, where substantial price increases were obtained not only in catastrophe business but also in the property sector. Rates in casualty business showed single-digit increases.

It is our assumption that market conditions in North America will improve further in the course of 2012, since only half of our portfolio comes up for renewal on 1 January. We are looking to further price rises at the 1 June/1 July renewal dates, including in the casualty lines. All in all, we expect to grow our premium in the current financial year.

Specialty lines

We were thoroughly satisfied with the treaty renewals in specialty lines. In marine business we anticipate a sharply enlarged premium volume for the current financial year. In view of the loss events incurred in 2010 in the offshore energy sector, it was possible to push through further improvements in conditions and prices on both the primary and reinsurance sides; this was true of property and casualty business alike. Our goal is to expand our portfolio in countries outside Western Europe and the United States. We shall move forward with our policy of consolidation in the energy sector.

Thanks to our very good positioning we continue to see attractive business opportunities in aviation reinsurance. Although rates declined slightly, the business remains attractive. We were able to enlarge our client base, especially in the BRIC countries. Gross premium is expected to grow in the current financial year.

Business should also develop well in credit and surety reinsurance in 2012. As expected, the rate level is slightly below that of the previous year. Whether or not results in the current financial year can build on those of the comparable period will depend on how the broader economic environment shapes up. In the surety line we anticipate a good experience, although a moderately higher claims frequency is possible in some regions. In the area of political risks we again expect to see good claims rates. Overall, the total credit and surety reinsurance portfolio is expected to deliver increased premium income.

With an eye to preparations for the European Solvency II framework, stronger demand can be observed for structured reinsurance products. In emerging markets, too, we are looking to expand our business in view of the adoption of risk-based models. We shall persevere with our strategy of optimised geographical diversification over the coming years. Our premium volume should increase in the year under review.

We shall continue to step up our activities in the area of Insurance-Linked Securities in the current financial year. In this context, our focus will be on packaging and structuring non-life and life reinsurance risks. We shall also continue to play an active part as an investor in catastrophe bonds.

Our reinsurance business written in the United Kingdom is expected to deliver an enlarged premium volume in 2012.

Similarly, the total premium generated by our portfolio of direct business will also increase significantly. The higher growth rates in this segment will be driven, among other things, by the branch that we opened in Canada in 2011. Our casualty business is expected to show price increases, especially in certain professional indemnity lines, such as for surveyors. Liability covers for professions such as auditors and architects are likely to see modest decreases. The direct business and reinsurance that we write in the UK is expected to generate an increased premium volume. Similarly, the direct business written in South Africa is also expected to record further premium growth.

Global reinsurance

Treaty reinsurance worldwide

Our portfolio of global treaty reinsurance will generate a larger premium volume in 2012 than in the previous year. Growth rates were especially marked in Asia.

In the markets of Central and Eastern Europe demand for high-quality reinsurance protection remains strong. In 2012, therefore, we see further good opportunities to write profitable – above all non-proportional – business. We shall continue to post above-average growth rates in this region going forward. For the current financial year we anticipate by and large stable prices on account of the fiercely competitive environment. Only under loss-impacted programmes – e.g. fire claims in Russia and Romania – were we able to obtain improved rates in the treaty renewals as at 1 January 2012. For 2012 and beyond, we are looking to write more new business and grow our premium income.

We have been anticipating improved conditions for reinsurance business in France for a number of years now, yet a trend towards rising prices has hitherto failed to emerge. For the current year we expect to see stable rates and conditions. The premium volume should come in on a par with 2011. In the Netherlands we are expanding our business; our portfolio in Scandinavia is also developing very favourably.

With competition intensifying in Latin America and given the low claims expenditure of the previous year, we expect prices for reinsurance covers to decline. In Brazil the two major sporting events – namely the 2014 Football World Cup and the 2016 Olympic Games – will deliver significant growth impetus for the country's economy and hence boost demand for (re) insurance covers. In Argentina new supervisory regulations enter into force in the year under review, bringing restrictions on the activities of foreign reinsurers; in this respect our premium volume from Latin America is likely to contract.

In Japan, our largest Asian market, we anticipate stronger demand and further increases in rates for catastrophe covers in both 2012 and 2013 on the back of the enormous loss expenditures incurred in the year under review. The premium volume should rise in the current financial year.

In the Southeast Asian markets we also expect to see increased demand and substantially higher prices; this is especially true of Thailand, not only due to the impacts of the flooding suffered by this country but also owing to its booming economy.

Motor business in China remains intensely competitive. This can be attributed to the deregulation of motor tariffs. As a result, we expect prices for motor covers to soften slightly. The other lines will also likely see no let-up in the existing fierce competition, which scarcely lends itself to implementation of the necessary rate adjustments. Over the coming years we shall step up our cooperation with selected ceding companies and align our portfolio with the prevailing market conditions.

In view of the heavy losses stemming from natural disasters in the previous year, further price increases and considerable improvements in conditions are expected for the markets of Australia and New Zealand. The current financial year should bring an enlarged gross premium volume and at the same time a reduction in the risk.

In the area of agricultural covers we obtained stable or slightly higher prices in the treaty renewals as at 1 January 2012. On account of the expansion of government subsidy programmes we expect to see additional growth in demand for agricultural covers, as a consequence of which premium income is likely to show further appreciable increases in 2012 and 2013. We shall also continue to support projects run by the World Bank and other international organisations in the field of micro-insurance, which protect individuals with scant financial means in the developing world against crop failures. We shall stand by our strategy of geographical diversification in the years ahead.

It remains our assessment that our retakaful business offers potential going forward. Infrastructure measures – specifically in Saudi Arabia and Qatar – should promote further economic growth in 2012 and beyond. Demand for (re)insurance products can therefore be expected to increase, especially in the construction sector and in the liability lines. Gross premium volume is expected to rise in 2012.

Global catastrophe business

In view of the significant losses recorded in international property catastrophe business, rates increased again in the treaty renewals as at 1 January 2012 – especially under programmes that had suffered losses. In Australia, for example, prices surged by an average of 60%; the increase in the United States was in the double-digit million euro range. The increases in Europe – at up to 5% – were more moderate. We expect to see further substantial rate increases at the 1 April 2012 renewal date in Japan and in the New Zealand renewals.

For the current financial year our catastrophe business is expected to deliver increased premium income and stronger profitability.

Global facultative reinsurance

Given the brisk demand for facultative covers, we see attractive scope to generate further profitable growth in the current year. Market conditions are likely to improve overall. The price rises should be most marked in property catastrophe business. In the casualty sector, however, we do not yet anticipate a trend reversal; nevertheless, rates should at least hold stable. For the current financial year we are looking to profitably grow the premium volume in our facultative portfolio.

Life and health reinsurance

Going forward, as in the past, we expect to see vigorous growth in our national and international activities in the area of life, annuity and health reinsurance. The ageing of the population in industrialised nations, progressive globalisation and the consistent improvement in living standards in emerging markets will be the key drivers of further expansion in the worldwide life/health reinsurance market in the years ahead.

In this context, the trend towards life insurers increasingly demanding customised reinsurance solutions tailored to their needs will be sustained. As one of the leading international life and health reinsurers, we are facing up to the challenge of satisfying the individual requirements of our clients in a more competitive market climate. As part of our Customer Relationship Management (CRM) approach we have been working closely together with our clients for years now and therefore consider ourselves to be optimally positioned for the future.

A point of emphasis will be the enlargement of our conventional US mortality business, which commenced in 2009 with the acquisition of the ING portfolio. Through the acquisition of another mortality-exposed portfolio in the year under review we further strengthened our market position in this segment while extending our leading role in the reinsurance of international longevity risks. What is more, we shall focus strategically on profitable growth in key emerging markets such as Asia and Latin America as well as in Eastern Europe.

The envisaged adoption of Solvency II in 2013 is already casting its shadow. The new regime will compel European (re) insurers to satisfy more rigorous regulatory requirements and implement risk-based enterprise management. For regional supervisory systems of third countries beyond Europe's borders – including among others those of the United States, Bermuda, South Africa and Australia –, efforts are presently being made to bring about regulatory equivalence with the provisions of Solvency II.

Our business opportunities and risks

Non-life reinsurance

Irrespective of statements made regarding individual markets in non-life reinsurance, it should be noted that the probabilities of occurrence for (natural) catastrophe events in terms of their number and scale as well as their magnitude for the insurance industry are subject to considerable fluctuations.

The 2011 financial year was overshadowed by a large number of natural disasters, which resulted in significant loss expenditures for the insurance and reinsurance industry. It was striking to note that sizeable loss burdens also resulted from disasters that could not be modelled or could only be modelled to a limited extent. It should be recognised that the risk associated with such modelling limitations will be countered with even more systematic risk management and the withdrawal of reinsurance capacities.

The sovereign debt of some member countries of the Single European Currency and the low interest rate level in 2011 caused investment income to come under pressure. In some major insurance markets it was necessary to eliminate reserve redundancies in order to achieve earnings targets. These effects serve to ratchet up even further the demands placed on a profit-oriented underwriting policy, which is reflected in an increased price level. Considerable uncertainties remain when it comes to estimating the number and amount of possible insolvencies that could take a toll on the credit and surety lines.

Further growth opportunities will derive from changes in natural hazards models for the main perils in the United States and Europe as well as from demand prompted by Solvency II requirements. Similar considerations relating to capital resources and an associated rise in demand patterns can also be observed in emerging markets.

Life and health reinsurance

The general framework conditions in international life and health reinsurance remain favourable. Over the coming years, too, the demographic shift in industrialised nations such as Germany, the United Kingdom, United States and Japan will continue to boost the strong demand for retirement provision, long-term care and health insurance products.

In emerging markets the life insurance market is evolving rapidly, hence also opening up new business opportunities for the life and health reinsurance sector. Progressive globalisation and vigorous economic growth in these countries are fostering an expanding, affluent middle class which is taking a stronger interest in insurance solutions designed to protect surviving dependants and afford individual retirement provision.

Primary insurers benefit from tailored reinsurance protection when it comes to optimising their capital, liquidity and risk management as well as reducing their underwriting risk. Particularly with an eye to Solvency II, we expect to see growing demand for individual reinsurance solutions through which the required risk capital can be reduced for primary insurers. Under these conditions, we are convinced that the life and health reinsurance market will offer pleasing earnings opportunities for our company in the years ahead, as it has in the past.

In general terms, life and health reinsurance is characterised by its stable growth and minimal exposure to random fluctuations in results. There are nevertheless economic risks (such as the interest rate risk, default risk and exchange rate risk) and technical risks that need to be borne in mind; the latter include, most notably, mortality and longevity, morbidity and disability as well as lapse. These factors are fully integrated into our risk management. We conduct regular adequacy checks with respect to the underlying pricing assumptions, carry out fundamental research into developments affecting the biometric actuarial bases and ensure complete reserving of all technical liabilities as well as risk diversification (both geographically and in terms of risk types, e.g. between mortality and longevity). In this context we take account of the preeminent importance of risk management and safeguard corporate profitability.

Investments

Against the backdrop of the protracted European debt crisis and associated uncertainties, we shall maintain the conservative orientation of our investment portfolio. Similarly, with regard to our holdings of corporate bonds from the financial sector we shall continue to attach considerable importance to broad diversification. The share of these instruments in our total portfolio will not be further expanded. What is more, we shall strive for a neutral interest rate positioning.

We expect the enlargement of the investment portfolio to positively affect investment income. In view of the low level of returns on secure investments, we shall step up our investments in products with attractive credit spreads and selectively enlarge our portfolio in the areas of alternative investments and real estate.

Given the present economic expectations, high degree of volatility and considerable capital requirements, we are currently adopting a sceptical stance on investments in listed equities. New investments will only be made when the anticipated volatility is appreciably lower.

Outlook for the full 2012 financial year

In the current year we expect to further enlarge our total gross premium volume. Gross premium income should grow by 5% to 7% at constant exchange rates.

The expected positive cash flow that we generate from the technical account and our investments should – subject to stable exchange rates – lead to further growth in our asset portfolio. In the area of fixed-income securities we continue to stress the high quality and diversification of our portfolio.

Bearing in mind the satisfactory to good market conditions described above in non-life and life/health reinsurance as well as our strategic orientation, we are looking forward to a good financial year in 2012. For 2012, as in recent years, we are therefore aiming for a dividend in the range of 35% to 40% of Group net income.

Outlook for 2013/2014

Looking beyond the current financial year, we expect essentially favourable conditions in non-life reinsurance and life/health reinsurance.

In non-life reinsurance we are guided exclusively by profit rather than growth targets. Our goal here is to achieve an EBIT margin of at least 10% each year.

The life and health reinsurance business group expects to generate organic growth of between 5% and 7% in gross premium income. We continue to attach considerable importance to safeguarding the profitability and earning power of the business written and are targeting – depending on the nature of the underlying business – an EBIT margin in the range of 4% to 8% per year. It remains our aim to generate consistent double-digit growth in the value of new business.

Other information

Affiliated companies

We received an adequate consideration for all transactions with affiliated companies according to the circumstances of which we were aware at the time when the transactions were effected. We incurred no losses requiring compensation as defined by § 311 (1) of the Stock Corporation Act (AktG).

Information pursuant to § 289 Para. 4 German Commercial Code (HGB)

The share capital of Hannover Rückversicherung AG amounts to EUR 120,597,134.00. It is divided into 120,597,134 registered no-par shares.

The Executive Board of the company is not aware of any restrictions relating to voting rights or the transfer of shares, including cases where these may arise out of agreements between shareholders.

The following company holds direct or indirect capital participations that exceed 10% of the voting rights:

Talanx AG, Riethorst 2, 30659 Hannover, holds 50.2% (rounded) of the company's voting rights. There are no shares with special rights granting their holders powers of control, nor is there any specially structured voting control for employees who have capital participations and do not directly exercise their rights of control.

The appointment and recall of members of the Executive Board are determined by §§ 84 et seq. Stock Corporation Act. Amendment of the Articles of Association is governed by §§ 179 et seq. Stock Corporation Act in conjunction with § 16 Para. 2 of the Articles of Association of Hannover Re.

The powers of the Executive Board with respect to the issue and repurchase of shares are defined in Hannover Re's Articles of Association as well as in §§ 71 et seq. Stock Corporation Act. In this connection the Annual General Meeting authorised the Executive Board on 4 May 2010 pursuant to § 71 Para. 1 No. 8 Stock Corporation Act to acquire treasury shares for a period of five years – until 3 May 2015 – on certain conditions.

The following paragraphs explain major agreements concluded by the company that are subject to reservation in the event of a change of control, inter alia following a takeover bid, and describe the resulting effects.

Letter of credit lines extended to Hannover Re contain standard market change-of-control clauses that entitle the banks to require early repayment if Talanx AG loses its majority interest or drops below the threshold of a 25 percent participation or if a third party acquires the majority interest in Hannover Rückversicherung AG.

In addition, the retrocession covers in non-life and life business contain standard market change-of-control clauses which in each case grant the other contracting party a right of termination if a significant change occurs in the ownership structure and participation ratios of the affected contracting party.

The company has not concluded any compensation agreements with the members of the Executive Board or with employees in the event of a takeover bid being made.

Miscellaneous information

Hannover Re maintains branches in Australia, Bahrain, Canada, China, France, Korea, Malaysia and Sweden.

Joint administration arrangements exist between our company and our subsidiary E+S Rückversicherung AG and extend to all functions of the two companies.

Tax matters are largely handled on a central basis for the Group by Talanx AG.

Investments are managed by Talanx Asset Management GmbH and real estate matters are handled by Talanx Immobilien Management GmbH.

With regard to remuneration arrangements the reader is referred to the remuneration report on pages 32 et seq.

Proposal for the distribution of profits

The Executive Board and Supervisory Board intend to propose to the Annual General Meeting that the disposable profit should be distributed as follows:

Proposal for the distribution of profits	in EUR
	2011
Payment of a dividend of EUR 2.10 on each eligible no-par value share	253,253,981.40
Profit carried forward to new account	40,746,018.60
Disposable profit	**294,000,000.00**

Events after the balance sheet date

The incident involving the "Costa Concordia" cruise liner in January 2012 is expected to have a sizeable impact on profits.

Accounts

Balance sheet

Assets in EUR thousand	2011				2010
A. Intangible assets:					
I. Purchased franchises, trademarks, patents, licences and similar rights and assets			25,949		29,777
II. Prepayments on intangible assets			395		274
				26,344	30,051
B. Investments					
I. Land and buildings, rights to land and buildings, leasehold			18,739		19,516
II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies		4,932,678			4,706,931
2. Loans to affiliated companies		226,797			289,199
3. Participating interests		60,870			60,009
4. Loans to enterprises in which the company has a participating interest		0			0
			5,220,345		5,056,139
III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities		1,112,650			1,282,820
2. Bearer debt securities and other fixed-income securities		9,122,497			8,048,943
3. Other loans					
a) Registered debt securities	669,391				449,763
b) Debentures and loans	877,316				653,635
c) Sundry loans	30,000				30,000
		1,576,707			1,133,398
4. Deposits with banks		429,166			270,057
5. Other investments		13,256			14,119
			12,254,276		10,749,337
IV. Deposits with ceding companies			9,512,253		7,505,898
				27,005,613	23,330,890

Liabilities in EUR thousand	2011				2010
A. Capital and reserves					
I. Subscribed capital			120,597		120,597
II. Capital reserve			880,608		880,608
III. Retained earnings					
1. Statutory reserve		511			511
2. Other retained earnings					
as at 1.1.	379,187				377,100
Withdrawal	–				107,913
Allocation	813				110,000
as at 31.12.		380,000			379,187
			380,511		379,698
IV. Disposable profit			294,000		302,000
				1,675,716	1,682,903
B. Subordinated liabilities				1,300,000	1,300,000
C. Technical provisions					
I. Provision for unearned premiums					
1. Gross		1,413,663			1,281,293
2. Less: reinsurance ceded		250,552			244,099
			1,163,111		1,037,194
II. Life assurance provision					
1. Gross		8,881,883			7,257,402
2. Less: reinsurance ceded		1,681,376			2,094,035
			7,200,507		5,163,367
III. Provisions for outstanding claims					
1. Gross		16,091,692			13,886,321
2. Less: reinsurance ceded		3,440,324			2,586,844
			12,651,368		11,299,477
IV. Provision for bonuses and rebates					
1. Gross		842			823
2. Less: reinsurance ceded		514			485
			328		338
V. Equalisation reserve and similar provisions			2,044,597		1,751,992
VI. Other technical provisions					
1. Gross		157,813			124,148
2. Less: reinsurance ceded		30,394			18,797
			127,419		105,351
				23,187,330	19,357,719

Assets in EUR thousand	2011				2010
C. Receivables					
I. Accounts receivable arising out of reinsurance operations			2,513,484		2,150,819
from affiliated companies:					
449,136 (2010: 421,657)					
II. Other receivables			257,264		279,598
from affiliated companies:				2,770,748	2,430,417
191,432 (2010: 218,346)					
D. Other assets					
I. Tangible assets and stocks			15,669		16,070
II. Current accounts with banks, cheques and cash in hand			193,695		185,920
III. Sundry assets			2,134		8,044
				211,498	210,034
E. Prepayments and accrued income					
I. Accrued interest and rent			149,911		117,571
II. Other accrued income			3,205		3,398
				153,116	120,969
F. Excess of plan assets over pension liability				–	12
				30,167,319	26,122,373

Liabilities in EUR thousand	2011				2010
D. Provisions for other risks and charges					
I. Provisions for pensions and similar obligations			62,071		62,002
II. Provisions for taxation			140,161		222,059
III. Other provisions			147,809		161,075
				350,041	445,136
E. Deposits received from retrocessionaires				2,359,263	2,547,126
F. Other liabilities					
I. Accounts payable arising out of reinsurance operations			1,234,675		730,675
to affiliated companies:					
337,182 (2010: 401,690)					
II. Liabilities due to banks			453		–
III. Miscellaneous liabilities			59,835		54,419
				1,294,963	785,094
thereof					
from taxes:					
1,917 (2010: 1,292)					
for social security:					
6 (2010: –)					
to affiliated companies:					
52,479 (2010: 37,146)					
G. Accruals and deferred income				6	4,395
				30,167,319	26,122,373

Profit and loss account

Figures in EUR thousand	2011			2010
	1.1.–31.12.			1.1.–31.12.
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross written premiums	9,130,245			8,618,199
b) Retrocession premiums	2,050,164			2,038,196
		7,080,081		6,580,003
c) Change in the gross provisions for unearned premiums	(118,538)			(248,416)
d) Change in the provisions for unearned premiums, retrocessionaires' share	4,039			34,989
		(114,499)		(213,427)
			6,965,582	6,366,576
2. Allocated investment return transferred from the non-technical account, net of retrocession			180,177	123,732
3. Other technical income, net of retrocession			–	0
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	5,235,344			5,479,353
bb) Retrocessionaires' share	1,232,193			1,312,111
		4,003,151		4,167,242
b) Change in provisions for outstanding claims				
aa) Gross	(1,957,008)			(754,299)
bb) Retrocessionaires' share	784,588			173,562
		(1,172,420)		(580,737)
			5,175,571	4,747,979
5. Changes in other technical provisions, net of retrocession				
a) Net life assurance provision		(173,469)		164,177
b) Other net technical provisions		0		(9)
			(173,469)	164,168
6. Bonuses and rebates, net of retrocession			52	176
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses		2,313,593		2,298,857
b) Less: commissions and profit commissions received on retrocession		367,687		412,725
			1,945,906	1,886,132
8. Other technical charges, net of retrocession			2,688	1,823
9. Subtotal			(151,927)	18,366
10. Change in the equalisation reserve and similar provisions			(292,605)	(141,287)
11. Net technical result			(444,532)	(122,921)

Figures in EUR thousand	2011				2010
	1.1.–31.12.				1.1.–31.12.
Balance brought forward				(444,532)	(122,921)
II. Non-technical account					
1. Investment income					
a) Income from participating interest		19,477			17,994
affiliated companies:					
17,728 (2010: 16,088)					
b) Income from other investments					
affiliated companies:					
43,549 (2010: 45,167)					
aa) Income from land and buildings, rights to land and buildings, leasehold	2,790				4,192
bb) Income from other investments	703,571				596,529
		706,361			600,721
c) Appreciation on investments		88,092			100,858
d) Gains on the realisation of investments		142,564			120,375
e) Income from profit pools, profit and loss transfer agreements or partial profit and loss transfer agreements		186,605			188,343
			1,143,099		1,028,291
2. Investment charges					
a) Investment management charges, including interest		77,557			72,031
b) Depreciation		33,078			76,300
Impairments in accordance with § 253 (3) sentence 3 of the Commercial Code (HGB):					
9,115 (2010: 11,489)					
c) Losses on the realisation of investments		78,519			12,798
			189,154		161,129
			953,945		867,162
3. Allocated investment return transferred to the technical account			(224,995)		(172,304)
				728,950	694,858
4. Other income			162,881		189,256
5. Other charges			173,835		171,371
				(10,954)	17,885
6. Profit or loss on ordinary activities before tax				273,464	589,822
7. Extraordinary income			–		11
8. Extraordinary expenses			–		12,534
9. Extraordinary profit/loss				–	(12,523)
10. Taxes on profit and income			1,563		168,974
11. Other taxes			1,714		2,071
				3,277	171,045
12. Profit for the financial year				270,187	406,254
13. Profit brought forward from previous year				24,626	5,746
14. Allocation to retained earnings				813	110,000
15. Disposable profit				294,000	302,000

Notes

Valuation of assets

Valuation is carried out in accordance with the provisions of §§ 341 et seq. of the Commercial Code (HGB).

Other intangible assets are valued at acquisition cost less scheduled amortisation in accordance with the normal operational useful life.

Property is valued at the purchase or construction cost less scheduled depreciation and, as appropriate, impairments in accordance with § 253 (3) of the Commercial Code (HGB).

Shares in affiliated companies and participations are valued on a purchase cost basis taking into account write-downs to the lower fair value. Interests in funds that invest in private equity are valued at amortised cost or the lower fair value allowing for time effects.

Loans to affiliated companies and loans to enterprises in which the company has a participating interest are valued at acquisition cost less amortisation or at the lower fair value.

The portfolio of securities is allocated to fixed assets or current assets depending on the intended use and valued at purchase cost less write-downs to the lower fair value in accordance with the provisions of § 341 b of the Commercial Code (HGB).

Shares, units in unit trusts and other variable-yield securities as well as bearer debt securities and other fixed-income securities are valued according to the strict or modified lower-of-cost-or-market principle depending on the intended use.

Derivative instruments are valued on a mark-to-market basis.

Registered debt securities, debentures and loans as well as other loans are carried at acquisition cost – taking into account amortisation – or at the lower fair value.

Other investments are carried as current assets at cost in observance of the strict lower-of-cost-or-market principle. Deposits and cash at banks in current accounts, cash in hand, other assets, deposits and accounts receivable arising out of reinsurance operations and other receivables are valued at the nominal amounts. Valuation adjustments are set up for default risks.

Various models are used for the valuation of alternative investments allocated to fixed assets. In the case of leveraged loan funds and high-yield funds, actually incurred defaults on individual investments in the various funds are used as a corrective factor. The valuation of credit opportunity funds and CLO equity positions makes allowance for collateral tests of the higher tranche as the basis for fair value calculation.

Fixed assets are valued at purchase cost less straight-line or declining-balance depreciation. Low-value items are written off in the year of acquisition.

Write-ups are effected in accordance with § 253 (5) of the Commercial Code (HGB).

Valuation of liabilities

The provision for unearned premiums, life assurance provision, provisions for outstanding claims, provisions for bonuses and rebates and other technical provisions are entered as liabilities according to the information provided by the ceding companies.

The basis for the valuation of the provision for unearned premiums is the reinsurance premium less 92.5% of the reinsurance commission in accordance with the order of the Minister of Finance of the State of North Rhine-Westphalia dated 29 May 1974. In marine insurance the provision for unearned premiums and the provisions for outstanding claims are regarded as one unit and shown as provisions for outstanding claims. The provision is determined on the basis of the so-called English system. It is replaced by a provision established in accordance with general principles no later than three years after the year following the underwriting year.

Where the provisions indicated by the ceding companies are not expected to be adequate, they are increased by appropriate additional amounts. Where no information is available from cedants, the provisions are estimated in the light of the business experience to date. The results of new treaties are at least neutralised. In some cases, provisions are determined on an actuarial basis. If necessary, additional or complete estimates of the corresponding portfolio or profit elements including relevant retrocessions are carried out where ceding company accounts with substantial premium income are missing. Missing ceding company accounts with a low premium income are included in the following year. The estimated gross premium income for treaties of the 2011 underwriting year is 31,37% of the total volume.

In all major lines IBNR claims reserves have been set up. The calculation is largely carried out in accordance with statistical mathematical methods.

From 2010 onwards the run-off result of the previous year's provision for outstanding claims is calculated by Hannover Re on an accident-year basis and hence allocated according to source.

The shares of retrocessionaires in the technical reserves are determined on the basis of the reinsurance contracts. Provision is made for bad debts.

The equalisation reserve is set up in accordance with the notes to § 29 of the regulation on the presentation of insurance company accounts (RechVersV); the similar provisions are constituted in accordance with § 30 of the regulation on the presentation of insurance company accounts (RechVersV). With respect to insurance lines 28 Other property insurance and 29 Other indemnity insurance, separate profit and loss accounts are drawn up only for the fidelity line.

The provision for nuclear plants is calculated in accordance with § 30 (2) of the regulation on the presentation of insurance company accounts (RechVersV).

The catastrophe risk provision for pharmaceutical product liability is calculated in accordance with § 30 (1) of the regulation on the presentation of insurance company accounts (RechVersV).

The catastrophe risk provision for terrorism risks is calculated in accordance with § 30 (2a) of the regulation on the presentation of insurance company accounts (RechVersV).

The pension commitments are carried in the settlement amount required according to reasonable and prudent business judgement. They are discounted at 5.13% using the average interest rate for the last seven years published by the German Bundesbank pursuant to the Regulation on the Discounting of Provisions (RückAbzinsVO) with an assumed maturity of 15 years. The provision for pensions is calculated according to the projected unit credit method. A rate of compensation increase of 2.75% and pension indexation of 2.00% are assumed. Fluctuation probabilities are determined separately according to age and gender. The benefit adjustment based on surplus participations from insured pension commitments is recognised in an amount of 1.00%. The 2005G standard tables of Dr. Klaus Heubeck are used as a basis for the calculations.

With respect to employee-funded pension commitments, the amount of which is determined solely according to the fair value of a claim under a pension insurance policy, valuation is carried out in accordance with § 253 (1) Sentence 3 of the Commercial Code (HGB). For these commitments the settlement amount corresponds to the fair value of the actuarial reserve plus surplus participation.

In the case of certain employee-funded commitments the pension insurance policies qualify as plan assets pursuant to § 246 (2) Sentence 2 of the Commercial Code (HGB) and § 253 (1) Sentence 4 of the Commercial Code (HGB) and are netted with the corresponding liabilities. An assets-side surplus is shown as "Excess of plan assets over pension liability".

The provisions for taxation and other provisions take into account all identifiable risks and uncertain liabilities.

Deferred tax liabilities, which refer largely to the balance sheet items shares in affiliated companies, receivables from affiliated companies and participating interests (owing to diverging recognition of shares in partnerships and out-of-phase booking of income from participating interests), are netted in particular with deferred tax assets from the balance sheet item provisions for outstanding claims.

The other provisions are established in the settlement amount required according to reasonable and prudent business judgement, in some cases on the basis of actuarial opinions. Provisions with a maturity of more than one year are discounted using the average market rate published by the German Bundesbank for the last seven years in accordance with their maturity.

A provision is constituted for virtual stock options in accordance with actuarial principles on the basis of a recognised financial option pricing model (Black-Scholes Model with the aid of a trinomial tree method). Discounting is carried out pursuant to § 253 (2) of the Commercial Code (HGB) not using risk-free interest rates but with the average interest rates for the last seven years published by the German Bundesbank.

The other liabilities are valued at the settlement amounts.

Currency conversion

Transactions booked in foreign currencies are converted to the reporting currency at the applicable monthly exchange rate at the date of entry in the accounts. Assets and liabilities entered in the balance sheet are converted to euros at the average exchange rates on the balance sheet date.

In order to reduce currency risks as far as possible, matching cover is extensively established for liability elements by setting up corresponding asset elements in the different currencies. In the case of foreign currencies in which investments are held, the profits arising out of revaluation are allocated – after offsetting against losses within the financial year – to the reserve for currency risks as unrealised profits. Exchange-rate losses from these investment currencies are – where possible – neutralised by releases from the reserve. In addition, this reserve is written back on a year-by-year basis.

Miscellaneous

The technical interest results in the main from the interest income earned on the basis of the life assurance provision. Standard methods are used for the calculation.

The declaration of conformity required pursuant to § 161 German Stock Corporation Act (AktG) regarding compliance with the German Corporate Covernance Code has been submitted and made permanently available to the stockholders.

Change in asset items A.I. to A.II., B.I, to B.III.								
in EUR thousand		2010	2011					
		Book values 31.12.	Additions	Reclassi-fication	Disposals	Write-ups	Depre-ciation	Book values 31.12.
A.	Intangible assets							
A.I.	Purchased franchises, trade-marks, patents, licences and similar rights and assets	29,777	5,176	689	3	–	9,690	25,949
A.II.	Prepayments on intangible assets	274	810	(689)	–	–	–	395
B.	Investments							
B.I.	Land and buildings, rights to land and buildings, leasehold	19,516	39	–	–	–	816	18,739
B.II.	Investments in affiliated companies and participating interests							
	1. Shares in affiliated companies	4,706,931	228,608	–	71,824	69,233	270	4,932,678
	2. Loans to affiliated companies	289,199	214,095	–	276,497	–	–	226,797
	3. Participating interests	60,009	1,017	–	–		156	60,870
	4. Loans to enterprises in which the company has a participating interest	0	–	–	–	–	–	0
	5. Total B.II.	5,056,139	443,720	–	348,321	69,233	426	5,220,345
B.III.	Other financial investments							
	1. Shares, units in unit trusts and other variable-yield securities	1,282,820	1,114,938	–	1,284,082	492	1,518	1,112,650
	2. Bearer debt securities and other fixed-income securities	8,048,943	6,440,076	–	5,355,764	18,367	29,125	9,122,497
	3. Other loans							
	a) Registered debt securities	449,763	234,847	–	15,219	–	–	669,391
	b) Debentures and loans	653,635	447,819	–	224,138	–	–	877,316
	c) Sundry loans	30,000	–	–	–	–	–	30,000
	4. Deposits with banks	270,057	172,383	–	13,274	–	–	429,166
	5. Other investments	14,119	–	–	4	–	859	13,256
	6. Total B.III.	10,749,337	8,410,063	–	6,892,481	18,859	31,502	12,254,276
Sum Total		**15,855,043**	**8,859,808**	–	**7,240,805**	**88,092**	**42,434**	**17,519,704**

Land and buildings and rights to land and buildings

On 31 December 2011 the company had at its disposal six developed properties with business and other buildings in Hannover, Bremen and near Paris as well as one floor of offices in Madrid. The book value of the floor of offices in Madrid amounted to EUR 804 thousand as at 31 December 2011.

Two buildings in Hannover are for own use (book value: EUR 9,360 thousand).

Shares in affiliated companies and participations

Our major shares in affiliated companies and participations are listed below.

We have omitted companies of subordinate economic importance with no material influence on the assets, financial position or net income.

A complete list of shareholdings has been deposited with the electronic company register.

List of shareholdings in 2011

Name and registered office of the company Figures in currency units of 1,000	Participation (in %)	Capital and reserves (§ 266 (3) Commercial Code)		Result for the last financial year	
Shares in affiliated companies					
Companies resident in Germany					
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany	100.00	EUR	2,621,855	EUR	–
holds 63.69% of the shares in:					
E+S Rückversicherung AG, Hannover/Germany		EUR	716,413	EUR	133,000
holds 20% of the shares in:					
WeHaCo Unternehmensbeteiligungs-GmbH[1], Hannover/Germany		EUR	77,311	EUR	3,112
holds 100.00% of the shares in:					
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda		EUR	888,307	EUR	30,260
holds 100.00% of the shares in:					
Hannover Reinsurance (Ireland) Limited, Dublin/Ireland		EUR	460,232	EUR	36,853
holds 95.00% of the shares in:					
Hannover ReTakaful B.S.C. (c), Manama/Bahrain		BHD	34,302	BHD	6,103
Hannover Life Re AG, Hannover/Germany	100.00	EUR	1,032,596	EUR	–
holds 100.00% of the shares in:					
Hannover Life Reassurance (Ireland) Limited, Dublin/Ireland		EUR	981,765	EUR	31,700
holds 100.00% of the shares in:					
Hannover Life Reassurance Company of America, Orlando/USA		USD	175,264	USD	4,103
holds 100.00% of the shares in:					
Hannover Life Reassurance Bermuda Ltd., Hamilton/Bermuda		EUR	183,262	EUR	23,815
holds 100.00% of the shares in:					
Hannover Life Re of Australasia Ltd., Sydney/Australia		AUD	297,281	AUD	45,537

Name and registered office of the company Figures in currency units of 1,000	Participation (in %)	Capital and reserves (§ 266 (3) Commercial Code)		Result for the last financial year	
Hannover Euro Private Equity Partners II GmbH & Co. KG, Cologne/Germany	35.21	EUR	2,056	EUR	232
holds 100.00% of the shares in:					
HEPEP II Holding GmbH, Cologne/Germany		EUR	6,181	EUR	6,136
Hannover Euro Private Equity Partners III GmbH & Co. KG, Cologne/Germany	40.98	EUR	47,892	EUR	1,159
holds 100.00% of the shares in:					
HEPEP III Holding GmbH, Cologne/Germany		EUR	9,152	EUR	(523)
Hannover America Private Equity Partners II GmbH & Co. KG, Cologne/Germany	87.00	EUR	171,011	EUR	3,202
holds 100.00% of the shares in:					
HAPEP II Holding GmbH, Cologne/Germany		EUR	27,016	EUR	3,487
Hannover Euro Private Equity Partners IV GmbH & Co. KG, Cologne/Germany	36.76	EUR	82,836	EUR	5,812
Hannover Re Euro PE Holdings GmbH & Co. KG, Cologne/Germany	75.00	EUR	46,685	EUR	474
HILSP Komplementär GmbH, Hannover/Germany	100.00	EUR	26	EUR	2
Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover/Germany	100.00	EUR	39,274	EUR	7,068
Funis GmbH & Co. KG, Hannover/Germany	100.00	EUR	25,040	EUR	44
holds 95.90% of the shares in:					
Glencar Underwriting Managers, Inc.[2], Itasca/USA		USD	2,502	USD	–
holds 74.99% of the shares in:					
Integra Insurance Solutions Limited[2], Bradford/United Kingdom		GBP	115	GBP	100
holds 71.20% of the shares in:					
Svedea AB[1], Stockholm/Sweden		SEK	255	SEK	(18,515)
Oval Office Grundstücks GmbH, Hannover/Germany	50.00	EUR	59,553	EUR	1,765
Hannover Re Euro RE Holdings GmbH, Cologne/Germany	50.00	EUR	142,612	EUR	1,105
HAPEP II Komplementär GmbH, Cologne/Germany	50.00	EUR	27	EUR	–
Companies resident abroad					
Hannover Finance (Luxembourg), S.A., Luxembourg/Luxembourg	100.00	EUR	31,719	EUR	475
Secquaero ILS Fund Ltd., Georgetown, Grand Cayman/Cayman Islands	100.00	USD	53,277	USD	1,805
Hannover Finance (UK) Limited, Virginia Water/United Kingdom	100.00	GBP	131,122	GBP	27
holds 100.00% of the shares in:					
Hannover Life Reassurance (UK) Limited, Virginia Water/United Kingdom		GBP	34,654	GBP	(5,856)
holds 100.00% of the shares in:					
Hannover Services (UK) Limited, Virginia Water/United Kingdom		GBP	663	GBP	(60)
holds 100.00% of the shares in:					
International Insurance Company of Hannover Limited, Bracknell/United Kingdom		GBP	116,406	GBP	5,702

Name and registered office of the company Figures in currency units of 1,000	Participation (in %)	Capital and reserves (§ 266 (3) Commercial Code)		Result for the last financial year	
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa	100.00	ZAR	155,600	ZAR	109,787
holds 100.00% of the shares in:					
Hannover Life Reassurance Africa Limited, Johannesburg/South Africa		ZAR	368,337	ZAR	22,482
holds 100.00% of the shares in:					
Hannover Reinsurance Africa Limited, Johannesburg/South Africa		ZAR	755,497	ZAR	147,341
holds 100.00% of the shares in:					
Compass Insurance Company Limited, Johannesburg/South Africa		ZAR	109,365	ZAR	(21,717)
holds 51.00% of the shares in:					
Lireas Holdings (Pty) Ltd., Johannesburg/South Africa		ZAR	199,836	ZAR	57,019
Hannover Re Real Estate Holdings, Inc., Orlando/USA	86.50	USD	280,345	USD	12,939
holds 100.00% of the shares in:					
5115 Sedge Corporation, Chicago/USA		USD	1,899	USD	(585)
holds 99.90% of the shares in:					
GLL HRE CORE PROPERTIES LP, Wilmington/USA		USD	111,771	USD	391
Hannover Finance, Inc., Wilmington/USA	100.00	USD	494,803	USD	61,969
holds 100.00% of the shares in:					
Clarendon Insurance Group, Inc., Wilmington/USA		USD	221,640	USD	66,885
Kaith Re Ltd., Hamilton/Bermuda	88.00	USD	386	USD	(254)
Hannover ReTakaful B.S.C. (c), Manama/Bahrain	5.00	BHD	34,302	BHD	6,103
Participations					
ITAS Vita S.p.A.[1], Trient/Italy	34.88	EUR	76,299	EUR	1,449
HANNOVER Finanz GmbH[1], Hannover/Germany	25.00	EUR	69,063	EUR	5,629
WeHaCo Unternehmensbeteiligungs-GmbH[1], Hannover/Germany	20.00	EUR	77,311	EUR	3,112

1 Financial year ending 31 December 2010
2 Company was newly established in 2011; an annual statement is not yet available

Key exchange rates	
1 EUR corresponds to:	**Exchance rates on 31.12.2011**
AUD	1.27234
BHD	0.48807
GBP	0.83624
USD	1.29457
ZAR	10.48002

Other notes on investments

Assets with a balance sheet value of EUR 4,489,556 thousand (EUR 4,161,107 thousand) were blocked as security for ceding companies. Securities deposits were sometimes made available to banks for securities loan transactions in favour of third parties.

Fair values pursuant to § 54 of the Regulation on the Presentation of Insurance Company Accounts (RechVersV)

The fair values of land and buildings are determined annually using the gross rental method.

Income values or net asset values are determined for shares in affiliated companies and participating interests. In individual cases the amortised cost is taken as the fair value.

Shares, units in unit trusts, bearer debt securities and other securities are carried at market values. These are obtained from publically available prices and bid prices as at the balance sheet date. In the case of special investments for which there are no publically available prices, valuation is made at cost of acquisition or net asset value (NAV).

The fair values of securities traded in illiquid markets as well as those of the sundry loans and loans to affiliated companies and participating interests are calculated on the basis of yield curves, taking into account the creditworthiness of the specific debtor and the currency of the loan.

Deposits with banks and other investments are carried at nominal values and in individual cases at book value.

Fair values pursuant to § 54 RechVersV of asset items B.I. to B.III.

Figures in EUR thousand		2011		
		Book values 31.12.	Fair values 31.12.	Difference 31.12.
B.I.	Land and buildings, rights to land and buildings, leasehold	18,739	32,563	13,824
B.II.	Investments in affiliated companies and participating interests			
	1. Shares in affiliated companies	4,932,678	6,314,494	1,381,816
	2. Loans to affiliated companies	226,797	227,047	250
	3. Participating interests	60,870	69,159	8,289
	4. Loans to enterprises in which the company has a participating interest	–	–	–
	5. Total B.II.	5,220,345	6,610,700	1,390,355
B.III.	Other investments			
	1. Shares, units in unit trusts and other variable-yield securities	1,112,650	1,254,843	142,193
	2. Bearer debt securities and other fixed-income securities	9,122,497	9,370,032	247,535
	3. Other loans			
	a) Registered debt securities	669,391	700,890	31,499
	b) Debentures and loans	877,316	930,836	53,520
	c) Sundry loans	30,000	29,077	(923)
	4. Deposits with banks	429,166	429,166	–
	5. Other investments	13,256	15,039	1,783
	6. Total B.III.	12,254,276	12,729,883	475,607
Total		**17,493,360**	**19,373,146**	**1,879,786**

Other receivables

Figures in EUR thousand	2011	2010
Receivables from affiliated companies	191,432	218,346
Receivables from reinsured pension schemes	41,589	38,406
Receivables from the revenue authorities	14,958	10,963
Receivables from securities transactions	3,329	–
Receivables from representative offices	2,433	1,373
Interest and rent due	1,439	157
Receivables from letters of credit provided	–	7,100
Other receivables	2,084	3,253
Total	**257,264**	**279,598**

Sundry assets

The sundry assets relate to tax refund claims in an amount of EUR 2,134 thousand (EUR 8,044 thousand).

Prepayments and accrued income

Figures in EUR thousand	2011	2010
Accrued interest and rent	149,911	117,570
Accrued administrative expenses	2,739	2,650
Deferred premium on bonds pursuant to § 341c Commercial Code (HGB)	–	303
Other	466	446
Total	**153,116**	**120,969**

Notes on liabilities

Subscribed capital

The company's subscribed capital remained unchanged as at 31 December 2011 in the amount of EUR 120,597 thousand. It is divided into 120,597,134 no-par-value registered shares.

Authorised capital of up to EUR 60,299 thousand is available with a time limit of 3 May 2015. Of this amount, up to EUR 1,000 thousand can be used to issue employee shares.

In addition, contingent capital of EUR 60,299 thousand is available. It can be used to grant shares to holders of convertible bonds and bonds with warrants as well as to convert participating bonds or profit-sharing rights. This contingent capital has a term until 2 May 2016.

Treasury shares

By a resolution of the Annual General Meeting of Hannover Rückversicherung AG adopted on 4 May 2010, the company was authorised until 3 May 2015 to acquire treasury shares of up to 10% of the capital stock existing on the date of the resolution. The company did not hold fully paid, no-par-value treasury shares as at 31 December 2011.

Within the financial year just-ended the company acquired shares for employees, which it subsequently sold to them.

	2011	
	Date of acquisition	Date of sale
	6 May	30 May
Number of shares	24,305	24,305
Amount of capital stock attributable to the shares (EUR)	24,305.00	24,305.00
Proportion of capital stock	0.02%	0.02%
Price (EUR)	38.39	38.39

Capital reserve

The company's capital reserve remained unchanged as at 31 December 2011 in the amount of EUR 880,608 thousand. The capital reserve refers solely to the amount generated upon the issue of shares in excess of the par value of the subscribed capital.

Retained earnings

An amount of EUR 813 thousand is allocated to retained earnings from the 2011 profit for the year.

Pursuant to § 268 (8) Sentence 3 in conjunction with Sentence 1 of the Commercial Code (HGB) there is a limitation on profit distribution of EUR 21 thousand for the fair value of the plan assets less corresponding deferred tax liabilities if it is higher than their historic acquisition costs.

Subordinated liabilities

Under a loan agreement dated 7 June 2005 Hannover Finance (Luxembourg) S.A. granted Hannover Re a junior loan of EUR 500,000 thousand at a coupon of 5.11% and with a term until 27 May 2015.

In addition, under a loan agreement dated 11 November 2009 Hannover Finance (Luxembourg) S.A. granted Hannover Re a junior loan of EUR 300,000 thousand at a coupon of 8.4%; it is perpetual with a first call option at 12 November 2014.

Under a loan agreement dated 15 September 2010 Hannover Finance (Luxembourg) S.A. granted Hannover Re a junior loan of EUR 500,000 thousand at a coupon of 5.85% and with a term until 11 September 2040.

Provision for unearned premiums

Figures in EUR thousand	2011		2010	
Insurance line	gross	net	gross	net
Fire	215,287	174,757	195,359	155,461
Casualty	253,541	214,783	271,751	226,581
Accident	57,638	49,717	57,044	48,985
Motor	169,055	148,065	126,013	104,167
Aviation	136,066	99,341	124,834	90,386
Life	110,667	88,805	96,805	77,720
Other lines	471,409	387,643	409,487	333,894
Total	**1,413,663**	**1,163,111**	**1,281,293**	**1,037,194**

Life assurance provisions

Figures in EUR thousand	2011		2010	
Insurance line	gross	net	gross	net
Accident	3,467	3,144	2,422	2,271
Life	8,846,863	7,170,502	7,229,648	5,139,964
Other lines	31,553	26,861	25,332	21,132
Total	**8,881,883**	**7,200,507**	**7,257,402**	**5,163,367**

Provisions for outstanding claims

Figures in EUR thousand	2011		2010	
Insurance line	gross	net	gross	net
Provision for reimbursements and surrenders (except annuities)				
Fire	1,774,341	1,058,271	1,034,421	844,553
Casualty	6,115,734	5,046,651	5,554,327	4,591,937
Accident	327,241	284,520	313,916	265,208
Motor	2,098,638	1,759,424	1,953,589	1,630,843
Aviation	1,143,534	803,101	1,047,586	749,772
Marine	1,159,963	782,010	1,054,201	732,945
Life	1,241,245	1,117,043	1,115,103	999,801
Other lines	2,209,120	1,776,778	1,793,155	1,462,392
	16,069,816	12,627,798	13,866,298	11,277,451
Separate value adjustment on retrocessions		2,589	–	2,653
	16,069,816	12,630,387	13,866,298	11,280,104
Provision for annuities				
Casualty	1,141	1,097	1,136	1,093
Accident	8,028	8,021	6,533	6,526
Motor	12,707	11,863	12,354	11,754
	21,876	20,981	20,023	19,373
Total	**16,091,692**	**12,651,368**	**13,886,321**	**11,299,477**

Equalisation reserve and similar provisions

Figures in EUR thousand	2011			
Insurance line	Position at 1.1.	Addition	Withdrawal and release	Position at 31.12.
Equalisation reserve				
Fire	478,616	5,312	2,994	480,934
Casualty	259,331	80,410	–	339,741
Accident	50,174	4,717	–	54,891
Motor	246,322	41,799	–	288,121
Aviation	131,777	10,057	–	141,834
Marine	78,208	62,799	–	141,007
Other lines	401,370	109,288	24,862	485,796
	1,645,798	314,382	27,856	1,932,324
Provisions which are similar to the equalisation reserve – major risks –				
Fire	31,585	–	3,252	28,333
Casualty	29,080	5,030	–	34,110
Accident	846	–	–	846
Motor	128	15	–	143
Aviation	1	–	–	1
Marine	2,414	42	–	2,456
Other lines	42,140	4,244	–	46,384
Total	**1,751,992**	**323,713**	**31,108**	**2,044,597**

Other technical provisions

Figures in EUR thousand	2011		2010	
Type of provision	gross	net	gross	net
Profit commission	154,334	123,634	114,027	94,685
Commissions	3,469	3,771	10,111	10,649
Road accident victims' assistance, premium cancellation	10	14	10	17
Total	**157,813**	**127,419**	**124,148**	**105,351**

Notes

Technical provisions – total

Figures in EUR thousand	2011		2010	
Insurance line	gross	net	gross	net
Fire	2,510,640	1,751,864	1,750,619	1,519,612
Casualty	6,805,092	5,686,163	6,175,261	5,157,246
Accident	463,146	411,183	435,632	378,554
Motor	2,573,674	2,211,793	2,347,296	2,000,590
Aviation	1,432,475	1,053,863	1,314,501	980,901
Marine	1,311,660	932,118	1,141,791	819,273
Life	10,219,178	8,392,085	8,448,951	6,223,497
Other lines	3,274,625	2,745,673	2,687,928	2,275,393
	28,590,490	23,184,742	24,301,979	19,355,066
Separate value adjustment on retrocessions	–	2,589	–	2,653
Total	**28,590,490**	**23,187,331**	**24,301,979**	**19,357,719**

Provisions for other risks and charges

Figures in EUR thousand	2011	2010
Provisions for pension and similar liabilities	62,071	62,002
Provision for taxation	140,161	222,059
Sundry provisions		
Provisions for currency risks	60,196	78,761
Provisions for hedges	27,089	25,202
Provisions for outstanding payments	21,748	20,162
Provisions for interest pursuant to § 233a AO (Fiscal Code)	20,510	20,510
Provisions for partial retirement	4,029	3,198
Provisions for annual accounts costs	2,570	2,733
Provisions for suppliers' invoices	2,000	1,906
Provisions for costs of legal action	737	712
Other provisions	8,930	7,891
	147,809	161,075
Total	**350,041**	**445,136**

Assets and the corresponding expenses and income were offset pursuant to § 246 (2) Sentence 2 of the Commercial Code (HGB) with respect to the provisions for pensions and the provisions for partial retirement. Pension liabilities and pension insurance policies were netted in an amount of EUR 3,226 thousand (EUR 2,654 thousand). The provisions for partial retirement of EUR 4,719 thousand (EUR 3,869 thousand) were netted with plan assets with a fair value of EUR 690 thousand (EUR 671 thousand). In this connection income of EUR 16 thousand (EUR 3 thousand) was offset against total expenses of EUR 1 thousand (EUR 152 thousand).

The plan assets for partial retirement were measured on the basis of fair values pursuant to § 253 (2) Sentence 3 of the Commercial Code (HGB). The acquisition cost of the plan assets amounted to EUR 659 thousand (EUR 657 thousand).

Miscellaneous liabilities

Figures in EUR thousand	2011	2010
Accounts due to affiliated companies	52,479	37,146
Liabilities from interest and LOC	2,276	1,106
Liabilities in respect of the revenue authorities	1,917	1,292
Liabilities in respect of permanent establishments	1,169	6,168
Liabilities from hedging	974	–
Liabilities from deliveries and services	677	423
Liabilities from leases	40	6
Liabilities from advance distribution	–	7,819
Other liabilities	303	459
Total	**59,835**	**54,419**

Deferred items

Figures in EUR thousand	2011	2010
Disagio	–	4,369
Other accruals and deferred income	6	26
Total	**6**	**4,395**

Notes on the profit and loss account

Figures in EUR thousand	2011	2010	2011	2010	2011	2010	2011	2010
	Gross written premium		Gross premium earned		Net premium earned		Technical result for own account	
Fire	1,044,552	931,384	1,025,582	881,059	784,816	666,026	(28,886)	3,546
Casualty	1,120,391	1,091,693	1,143,699	1,006,868	922,842	822,439	(174,296)	(178,264)
Accident	293,859	331,167	295,296	319,804	248,500	268,091	9,248	3,089
Motor	731,818	613,472	688,368	611,854	573,165	502,204	(68,589)	(18,055)
Aviation	367,814	370,096	358,686	361,305	240,215	238,408	28,768	25,428
Marine	363,139	392,148	363,139	392,148	238,471	254,394	(35,742)	(30,945)
Other lines	1,799,799	1,693,798	1,740,704	1,622,225	1,312,457	1,254,151	(150,962)	65,834
Total property and casualty	5,721,372	5,423,758	5,615,474	5,195,263	4,320,466	4,005,713	(420,459)	(129,367)
Life	3,408,873	3,194,441	3,396,233	3,174,520	2,645,116	2,360,863	(24,073)	6,446
Total insurance business	**9,130,245**	**8,618,199**	**9,011,707**	**8,369,783**	**6,965,582**	**6,366,576**	**(444,532)**	**(122,921)**

Total insurance business

Figures in EUR thousand	2011	2010
Gross claims incurred	7,192,352	6,233,652
Gross operating expenses	2,313,593	2,298,857
Reinsurance balance	(338,343)	104,809

Expenses for personnel

Figures in EUR thousand	2011	2010
1. Wages and salaries	76,601	71,105
2. Social security payments and expenses for welfare	10,997	12,003
3. Expenses for old-age pension scheme	1,488	3,003
Total	**89,086**	**86,111**

Expenses for investments

Figures in EUR thousand	2011	2010
Shares, units in unit trusts, participating interests	49,083	31,653
Fixed-income securities	42,976	73,759
Shares in affiliated companies and participations as well as loans to affiliated companies and enterprises in which the company has a participating interest	38,726	7,975
Separate value adjustment on interest receivable	27,093	–
Administrative expenses	11,726	11,759
Futures and options contracts	7,951	4,108
Inflation swaps	5,562	25,202
Land and buildings	2,539	4,868
Deposit and bank fees	1,935	1,805
Other investments	1,198	–
Registered bonds and other loans	365	–
Total	**189,154**	**161,129**

Other income

Figures in EUR thousand	2011	2010
Exchange rate gains	75,379	72,198
Allocated investment return	49,838	5,318
Reimbursement of expenses	16,335	14,408
Separate value adjustment on accounts receivable and retrocessions	10,740	36,937
Profit from services	4,972	4,932
Release of non-technical provisions	1,394	49,805
Income from reinsurance contracts	952	408
Profit from clearing transactions	401	1,385
Expenses from discounting pursuant to § 277 (5) HGB (Commercial Code)	160	12
Amounts realised	31	57
Profit from liquidation of a trust account	4	4
Payment for renewal rights	–	345
Other income	2,675	3,447
Total	**162,881**	**189,256**

Other expenses

Figures in EUR thousand	2011	2010
Financing interest	80,739	59,873
Deposit interest	54,379	58,513
Expenses for the company as a whole	24,864	22,639
Exchange rate losses	20,250	21,330
Costs paid in advance	13,869	11,939
Separate value adjustment on accounts receivable and retrocessions	10,289	13,086
Expenses from services	4,741	4,739
Expenses for letters of credit	4,440	2,681
Interest charges on old-age pension scheme	3,283	3,328
Expenses from reinsurance contracts	190	82
Interest charges from reinsurance transactions	292	143
Expenses from discounting pursuant to § 277 (5) HGB (Commercial Code)	42	1,548
Interest pursuant to § 233a AO (Fiscal Code)	–	15,920
Other interest and expenses	1,275	4,122
	218,653	219,943
Less: Technical interest	44,818	48,572
Total	**173,835**	**171,371**

Extraordinary profit/loss

In the previous year extraordinary income of EUR 11 thousand and extraordinary expenses of EUR 12,534 thousand were recognised in the context of implementation of the Act on the Modernisation of Accounting Law (BilMoG).

Other information

Notes on § 285 and § 341 b of the Commercial Code (HGB)

The taxes relate solely to the profit or loss on ordinary activities.

The average number of employees was 1,033 in the year under review, of whom 518 were male and 515 female.

The remuneration report is provided in the management report on pages 32 to 48. The total remuneration of the Executive Board of Hannover Re amounted to EUR 6.6 million (EUR 4.0 million). In the year under review 17,072 share awards with a provisionally estimated fair value of EUR 0.7 million were granted to active members of the Executive Board. In addition, 187,835 (164,434) stock appreciation rights with a fair value of EUR 1.0 million (EUR 1.0 million) were granted for the 2010 (2009) financial year. The remuneration of the Supervisory Board amounted to EUR 654 thousand (EUR 639 thousand).

The names of the members of the Supervisory Board and Executive Board are listed on pages 2 to 5.

The list of shareholdings is provided on pages 68 to 70.

Talanx AG holds a majority interest in our company.

Talanx AG, Hannover, and HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover, include our financial statements in their consolidated financial statements, which are published in the electronic federal gazette.

On 13 December 2011 the Executive Board and Supervisory Board of Hannover Re submitted an updated Declaration of Conformity pursuant to § 161 Stock Corporation Act (AktG) regarding compliance with the German Corporate Governance Code and made it permanently accessible on the company's website (http://www.hannover-re.com/about/corporate/declaration/index.html).

With respect to the fees paid to the auditor, we availed ourselves of the exemption afforded by § 285 (17) of the Commercial Code (HGB); the required information is included in the consolidated financial statement of Hannover Rückversicherung AG.

Of the securities totalling EUR 1,112,650 thousand (EUR 1,282,820 thousand) shown under the "Other investments" in the item "Shares, units in unit trusts and other variable-yield securities", an amount of EUR 1,054,637 (EUR 958,328 thousand) was allocated to fixed assets.

The fair value of the holdings allocated to fixed assets amounts to EUR 1,195,781 thousand (EUR 1,118,376 thousand). Based on the assumption that the impairments will not be permanent, write-downs of EUR 3,753 thousand (EUR 902 thousand) were not taken on a portfolio with a book value of EUR 55,494 thousand (EUR 30,439 thousand). With effect from the year under review the permanence of the impairment for high-yield and emerging market funds is established on the basis of the difference between the cost price and fair value and depending on the ratings of the assets held within the funds. This calculation did not establish any permanent impairments.

In the year under review bearer debt securities with a book value of EUR 1,516,949 thousand were reclassified from current assets to fixed assets. Altogether, bearer debt securities and other fixed-income securities with a book value of EUR 3,827,141 thousand (EUR 1,579,288 thousand) and a fair value of EUR 3,929,629 thousand (EUR 1,713,139 thousand) were allocated to fixed assets. Write-downs of EUR 72,002 thousand (EUR 15,289 thousand) were not taken on bearer debt securities with a book value of EUR 1,215,336 thousand (EUR 119,627 thousand) because it is expected that the securities will be repaid in full upon maturity and hence a permanent impairment is not anticipated.

The holdings that were not written down to fair value relate inter alia to CDO/CLO investments, comprised of both first loss positions and mezzanine tranches (hybrid products). In order to determine the sustainability of the book values, the calculation logic used for model-based fair value measurement and for establishing the share of fair value changes attributable to impairments was adjusted with the aim of measuring such items on a more market-oriented basis. This calculation did not establish any permanent impairments for these investments in the year under review.

With regard to the bearer debt securities and other fixed-income securities (government bonds and securities issued by semi-governmental entities) of countries on the Eurozone periphery (Ireland, Italy, Portugal and Spain) with a book value of EUR 82,455 thousand and fair value of EUR 78,135 thousand that are included in the portfolio and allocated to fixed assets, no impairments were taken on account of the stabilisation measures that have been initiated. The unrealised losses on Spanish bonds amounted to EUR 134 thousand, with a book value of EUR 53,578 thousand.

In addition, there were unrealised losses of EUR 326 thousand on Irish bonds, the book value of which stood at EUR 7,663 thousand. The unrealised losses on Italian securities – with a book value of EUR 7,757 thousand – amounted to EUR 678 thousand. The fair value of Portuguese bonds was EUR 3,182 thousand below the book value of EUR 13,457 thousand. The portfolio does not contain any government or semi-governmental bonds from Greece.

On the valuation of alternative investments please see page 64.

The company's portfolio included fixed payer inflation swaps of notionally EUR 425,000 thousand (EUR 380,000 thousand) and USD 2,116,800 thousand (USD 1,890,000 thousand). Their fair value of altogether –EUR 21,455 thousand (–EUR 25,202 thousand) is comprised of positive and negative fair values of EUR 5,598 thousand and –EUR 27,053 thousand respectively. The negative fair value is recognised in full in the balance sheet as a provision for contingent losses. The calculation is made on the basis of inflation swap rates, historical index fixings and yield curves using the present value method – allowing for the seasonality correction for the inflation leg.

The portfolio contains derivatives associated with the technical account in a nominal volume of EUR 6.1 million which relate to natural perils and earthquake risks in the United States and New Zealand. The risks are offset by countertrade transactions. The fair value of –EUR 36 thousand is recognised in full through provisions for contingent losses. Valuation is based on loss probabilities that are considered in proportion to the incoming and outgoing premiums.

The company has combined opposing forward exchange transactions in notional amounts of ZAR 748.2 million and EUR 39.3 million into a single valuation unit. The risk entered into vis-à-vis the counterparty is passed on in full – including the default risk – to two affiliated companies. The opposing effects from the valuation unit are fully correlated and therefore balance each other out. The forward exchange transactions, which were concluded in several tranches, have various maturity dates; the last contract expires in 2019.

The portfolio includes a special fund launched exclusively for Hannover Re and E+S Rück by an external manager. The company's share of the fund is 100.0%. The fund in question is a high yield fund investing in European fixed-income securities. The Merrill Lynch Index G0F0/15/HP is used as the benchmark. For Hannover Re a total amount of EUR 26,291 thousand (EUR 25,294 thousand) was distributed in the year under review. The units can be returned at any time within at most five days. The fund units have a fair value of EUR 897,449 thousand (EUR 798,730 thousand) and a book value of EUR 842,310 thousand (EUR 747,726 thousand), producing unrealised gains of EUR 55,139 thousand (EUR 51,004 thousand).

We received an adequate consideration for all transactions with affiliated companies according to the circumstances of which we were aware at the time when the transactions were effected. We incurred no losses requiring compensation as defined by § 311 (1) of the Stock Corporation Act (AktG).

Hannover Re has placed three subordinated debts on the European capital markets through its subsidiary Hannover Finance (Luxembourg) S.A. Hannover Re has secured by subordinated guarantee both the debt issued in 2004, the volume of which now stands at EUR 750.0 million, and the debts from financial years 2005 and 2010 in amounts of EUR 500.0 million each.

As security for technical liabilities, various financial institutions have furnished sureties for our company in the form of letters of credit. The total amount of the letters of credit, which also provide security for subsidiaries, was EUR 3,051.7 million (EUR 2,722.5 million) as at the balance sheet date.

Outstanding capital commitments with respect to special investments and shares in affiliated companies exist in the amount of EUR 802.8 million (EUR 492.9 million).

Under novation clauses in reinsurance contracts written by the subsidiaries with outside third parties we shall – in certain constellations – assume the rights and duties of the subsidiaries under the contracts. In the event of the contracts being transferred to Hannover Re, assets shall be transferred from the relevant subsidiary in the amount of the reserves. As at 31 December 2011 reserves equivalent to EUR 2,391,246 thousand (EUR 2,338,732 thousand) existed at the subsidiaries.

Hannover Re has given an affiliated company a guarantee in an amount of USD 250.0 million. The term of the guarantee is determined by the secured liabilities of the affiliated company. Hannover Re receives a guarantee commission of 10% of the amount guaranteed.

There are no further contingent liabilities or other financial commitments that are not evident from the annual balance sheet.

Information on § 27 Paras. 3 and 4 of the Regulation on the Presentation of Insurance Company Accounts (RechVersV)

Insurance contracts with the HDI-Gerling property/casualty group are booked with a time delay of one quarter. The premium volume for 2011 amounts to altogether EUR 84.4 million, of which EUR 31.1 million relates to the fourth quarter of 2010.

Lawsuits

No significant court cases were pending during the year under review or as at the balance sheet date – with the exception of proceedings within the scope of ordinary insurance and reinsurance business activities.

Long-term commitments

Following the termination of the German Aviation Pool with effect from 31 December 2003, our participation consists of the run-off of the remaining contractual relationships.

Membership of the association for the reinsurance of pharmaceutical risks and the association for the insurance of German nuclear reactors gives rise to an additional call in accordance with the quota participation if one of the other pool members should fail to meet its liabilities. There were no further commitments with a remaining duration of more than five years.

Hannover, 5 March 2012

Executive Board

Wallin Arrago Chèvre Gräber

Dr. Miller Dr. Pickel Vogel

Auditors' report

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the financial statements – together with the bookkeeping system, and the management report of the Hannover Rückversicherung AG, Hannover, for the business year from 1 January to 31 December 2011. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Hannover, 8 March 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

Husch	Busch
Wirtschaftsprüfer	Wirtschaftsprüfer

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the management report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Hannover, 5 March 2012

Executive Board

Wallin Arrago Chèvre Gräber

Dr. Miller Dr. Pickel Vogel

Report of the Supervisory Board

of Hannover Rückversicherung AG

In our function as the Supervisory Board we considered at length during the 2011 financial year the position and development of the company and its major subsidiaries. We advised the Executive Board on the direction of the company and monitored the management of business on the basis of written and verbal reports from the Executive Board. The Supervisory Board held four meetings in order to adopt the necessary resolutions after appropriate discussion. Resolutions were adopted by a written procedure with respect to three matters requiring attention at short notice. We received quarterly written reports from the Executive Board on the course of business and the position of the company and the Group. These reports describe, inter alia, the current planned and expected figures for the company as a whole and the individual business groups. The reporting also covers strains from major losses as well as the investment portfolio, investment income, ratings and the development of the Group's global workforce. The quarterly reports with the quarterly financial statements and key figures for the Hannover Re Group constituted a further important source of information for the Supervisory Board. We received an analysis of the 2010 results in non-life and life/health reinsurance as well as a presentation from the Executive Board covering the profit expectations for the 2011 financial year and the operational planning for the 2012 financial year. In addition, the Chairman of the Supervisory Board was constantly advised by the Chairman of the Executive Board of major developments and impending decisions as well as of the risk situation within the company and the Group. All in all, we were involved in decisions taken by the Executive Board and assured ourselves of the lawfulness, regularity and efficiency of the company's management as required by our statutory responsibilities and those placed upon us by the company's Articles of Association. No audit measures pursuant to § 111 Para. 2 Sentence 1 German Stock Corporation Act were required in the 2011 financial year.

Key points of deliberation

As in every year, we were given a description of the major pending legal proceedings. We were regularly updated on the work of the Supervisory Board committees and received reports on the current structure of the protection covers, especially in light of the heavy burden of major losses in 2011, on capital market risks as they affect the technical account of Hannover Life Re, on the insurance of energy-saving warranties in the United States and on the progress of moves to build a strategic equity portfolio. What is more, we again looked at the existing collateral structures for reinsurance liabilities and adopted the necessary resolutions in order to be able to quickly and flexibly maximise available opportunities in life reinsurance business. The operational planning for 2012, the medium-term outlook until 2016 as well as the development and status of the Market Consistent Embedded Value in life and health reinsurance and the strategy for assuming longevity risks were also considered at length. A focus of our deliberations was the adoption of a resolution regarding the updated strategic principles and objectives. The 2011 strategy contains for the first time a clear definition of the target business and specifies that – when it comes to enlarging the business volume – acquisitions are no longer restricted to life and health reinsurance but can also be contemplated in non-life reinsurance, provided their integration into the Hannover Re Group will generated value-added and the strategic objectives can be accomplished more quickly. Furthermore, active risk management was elaborated with considerably more prominence and attention to detail than had been previously been the case. In the context of the annual review of the investment guidelines, the work concentrated on the specification of the real estate limits, the restructuring of the liquidity requirements and organisational adjustments. With an eye to § 87 Para. 1 Sentence 1 German Stock Corporation Act, the full Supervisory Board again considered the definition of the performance bonuses of the members of the Executive Board. One new member of the Executive Board was appointed, two Board members were reappointed and the schedule of Executive Board responsibilities was updated.

Committees of the Supervisory Board

Of the committees formed by the Supervisory Board within the meaning of § 107 Para. 3 German Stock Corporation Act, the Finance and Audit Committee met on four occasions and the Standing Committee met three times. No decisions were taken by way of a written procedure. The Chairman of the Supervisory Board updated the full Supervisory Board on the major deliberations of the committee meetings at its next meeting and provided an opportunity for further questions.

The Finance and Audit Committee considered inter alia the consolidated annual and quarterly financial statements drawn up in accordance with IFRS and the corresponding individual financial statements of the parent company Hannover Re drawn up in accordance with the German Commercial Code (HGB) and discussed with the independent auditors their reports on these financial statements. As in the previous year, an expert opinion on the adequacy of the loss reserves in non-life reinsurance, a review of the accumulated prefinancing volume in life reinsurance including a comparison of the expected return flows with the repayments actually made, the risk report pursuant to the Act on Control and Transparency in Business (KonTraG), the compliance report/report on adherence to Corporate Governance principles and reports on the major subsidiaries were received and discussed. In addition, the Committee examined the investment structure and investment income – including the stress tests with regard to the investments and their implications for net income and the equity base – and defined the audit concentrations for the 2011 financial year. The Committee received a detailed submission on the performance of UK annuity business and was informed about risk management/controlling and the assessment of longevity risks in the life and health reinsurance portfolio. With an eye to IFRS 4 Phase II and Solvency II the current status and next steps planned were discussed. The Committee also received a detailed report on the audits conducted by the Internal Auditing unit as well as a summary presentation of key audit findings including the implementation of measures arising out of audit reports and a description of the audit plan for 2011.

The Standing Committee dealt with the determination of the performance bonuses of the members of the Executive Board for the 2010 financial year, the total number of stock participation rights to be awarded to the Executive Board and the basic number of stock participation rights for the 2011 financial year and drew up corresponding recommendations for the full Supervisory Board. Substantial time was devoted to discussing and adopting a resolution on the individual targets for 2012 of the members of the Executive Board in accordance with their contracts of employment. The Standing Committee also considered at length the personnel changes on the company's Executive Board, discussed the medium- and long-term succession arrangements for the Executive Board and recommended to the full Supervisory Board the appointment of Mr. Claude Chèvre.

Since no elections to the Supervisory Board were upcoming, the Nomination Committee did not meet.

Corporate Governance

The Supervisory Board once again devoted considerable attention to the issue of Corporate Governance. The Corporate Social Responsibility strategy defined by the Executive Board and the strategic orientation of Hannover Re towards sustainability were noted with approval after extensive discussion. Furthermore, a new remuneration scheme for the Supervisory Board was considered and a recommendation was submitted to the Annual General Meeting that the Articles of Association should be amended accordingly. The new arrangements include greater weighting of the fixed remuneration relative to the variable remuneration, which in future is to be measured by the company's average net income after tax and non-controlling interests over the last three years prior to the Annual General Meeting that ratifies the actions of the Supervisory Board for the most recent of these three years. The greater weighting of the fixed remuneration and the orientation of the variable remuneration towards a three-year average is in the spirit of sustainability and will reduce the volatility of the Supervisory Board remuneration. The revised remuneration system conforms to both legal provisions and those of the German Corporate Governance Code (DCGK) and reflects the more exacting requirements placed on supervisory board work as well as the increased liability risks. An outside expert opinion confirms that the new remuneration concept is appropriate in all respects. Despite the high importance that the Supervisory Board attaches to the standards of good and responsible enterprise management defined in the German Corporate Governance Code, the Supervisory Board again decided not to comply with the recommendation in Code Item 4.2.3 Para. 4 of the German Corporate Governance Code concerning a cap on severance payments in management board contracts. The justification in this respect is provided in the Declaration of Conformity pursuant to § 161 German Stock Corporation Act regarding compliance with the German Corporate Governance Code, which is reproduced in this Annual Report in the context of the Corporate Governance declaration. Further information on the topic of corporate governance is available on Hannover Re's website.

Audit of the annual financial statements and consolidated financial statements

The accounting, annual financial statements, consolidated financial statements and the corresponding management reports were audited by KPMG AG Wirtschaftsprüfungsgesellschaft. The Supervisory Board selected the auditor and the Chairman of the Supervisory Board awarded the audit mandate. The auditor's independence declaration was received. In addition to the usual tasks performed by the auditors, key points of focus in the audit of the individual and consolidated financial statements of Hannover Re for 2011 were the issues defined by the Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung) and the examination of the accounting-related internal control system with an eye to completeness and documentation. The mandate for the review report by the independent auditors on the interim financial report as at 30 June 2011 was also awarded again. The special challenges associated with the international aspects of the audits were met without reservation. Since the audits did not give rise to any objections KPMG AG issued unqualified audit certificates. The Finance and Audit Committee discussed the annual financial statements and the management reports with the participation of the auditors and in light of the audit reports, and it informed the Supervisory Board of the outcome of its examination. The audit reports were distributed to all members of the Supervisory Board and scrutinised in detail – with the participation of the auditors – at the Supervisory Board meeting held to consider the annual results. The auditors will also be present at the Annual General Meeting.

The report on the company's relations with affiliated companies drawn up by the Executive Board has likewise been examined by KPMG AG and given the following unqualified audit certificate:

"Having audited the report in accordance with our professional duties, we confirm that

1. its factual details are correct;
2. in the case of the transactions detailed in the report, the expenditure of the company was not unreasonably high."

We have examined

a) the annual financial statements of the company and the management report prepared by the Executive Board,
b) the consolidated financial statements of the Hannover Re Group and the Group management report prepared by the Executive Board and
c) the report of the Executive Board pursuant to § 312 German Stock Corporation Act (Report on relations with affiliated companies)

– in each case drawn up as at 31 December 2011 – and have no objections. Nor do we have any objections to the statement reproduced in the dependent company report. The Supervisory Board thus concurred with the opinions of the auditors and approved the annual financial statements and the consolidated financial statements; the annual financial statements are thereby adopted. We concur with the Executive Board's proposal regarding the appropriation of the disposable profit for 2011.

Changes on the Supervisory Board and the Executive Board

Following Mr. Karl Heinz Midunsky's resignation of his seat on the Supervisory Board with effect from 3 May 2011, Dr. Andrea Pollak was elected to the Supervisory Board at the Annual General Meeting on 3 May 2011 for the remaining term of office of the Supervisory Board, i.e. until the end of the Annual General Meeting that decides upon ratification of the actions of the Supervisory Board for the 2011 financial year. After Mr. Midunsky had also stepped down from the Nomination Committee with effect from 2 May 2011, Dr. Klaus Sturany was elected as a member of the Nomination Committee for the remaining term of office. The Supervisory Board thanked Mr. Midunsky for his many years of work on the company's supervisory bodies.

With effect from 1 November 2011 Mr. Claude Chèvre was appointed as a member of the Executive Board for a period of three years. Mr. Roland Vogel and Mr. Jürgen Gräber were both reappointed as members of the Executive Board for terms of five years until 31 March and 31 August 2017 respectively with effect from expiry of their appointments. Dr. Wolf Becke left the Executive Board at the end of 2011. The Supervisory Board thanked Dr. Becke for his constructive contribution and praised the considerable achievements made during his many years of service on the company's Executive Board. Most notably, the development of Hannover Life Re and the life and health reinsurance business group are closely associated with his name.

Word of thanks to the Executive Board and members of staff

The result generated by Hannover Re for 2011 despite the considerable burden of major losses was made possible by the exceptional performance of the company's Executive Board and members of staff. The Supervisory Board would like to express its special appreciation to the Executive Board and all the employees for their efforts in the year under review.

Hannover, 13 March 2012

For the Supervisory Board

Herbert K. Haas
Chairman

Glossary

Accumulation loss: sum of several individual losses incurred by various policyholders as a result of the same loss event (e.g. windstorm, earthquake). This may lead to a higher loss for the direct insurer or reinsurer if several affected policyholders are insured by the said company.

Alternative risk financing: use of the capacity available on the capital markets to cover insurance risks, e.g. through the securitisation of natural catastrophe risks.

Bancassurance: partnership between a bank and an insurance company for the purpose of selling insurance products through the banking partner's branches. The link between the insurer and the bank is often characterised by an equity participation or a long-term strategic cooperation between the two parties.

Benefit reserves: value arrived at using mathematical methods for future liabilities (present value of future liabilities minus present value of future incoming premium), primarily in life and health insurance.

Block assumption transaction (BAT): proportional reinsurance treaty on a client's life or health insurance portfolio, by means of which it is possible for our clients to realise in advance the future profits so as to be able to efficiently ensure the attainment of corporate objectives, e.g. in the areas of financial or solvency policy.

Capital, reserves and technical provisions: an insurer's capital and reserves, also including the provisions committed to technical business and the equalisation reserve. Total maximum funds available to offset liabilities.

Cedant: direct insurer or reinsurer which passes on (also: cedes) shares of its insured or reinsured risks to a reinsurer in exchange for premium.

Cession: transfer of a risk from the direct insurer to the reinsurer.

Claims and claims expenses: sum total of paid claims and provisions for loss events that occurred in the business year; this item also includes the result of the run-off of the provisions for loss events from previous years, in each case after the deduction of own reinsurance cessions.

Combined ratio: sum of the loss ratio and expense ratio.

Credit status (also: creditworthiness): ability of a debtor to meet its payment commitments.

Creditworthiness: cf. → credit status

Critical illness coverages: cf. → dread disease coverages

Deposits with ceding companies/deposits received from retrocessionaires (also: Funds held by ceding companies/funds held under reinsurance treaties): collateral provided to cover insurance liabilities that a (re-)insurer retains from the liquid funds which it is to pay to a reinsurer under a reinsurance treaty. In this case, the retaining company shows a deposit received, while the company furnishing the collateral shows a deposit with a ceding company.

Derivatives, derivative financial instruments: these are financial products derived from underlying primary instruments such as equities, fixed-income securities and foreign exchange instruments, the price of which is determined on the basis of an underlying security or other reference asset. Notable types of derivatives include swaps, options and futures.

Direct (also: primary) insurer: company which accepts risks in exchange for an insurance premium and which has a direct contractual relationship with the policyholder (private individual, company, organisation).

Dread disease (also: critical illness) coverages: personal riders on the basis of which parts of the sum insured which would otherwise only become payable on occurrence of death are paid out in the event of previously defined severe illnesses.

Equalisation reserve: provision for the equalisation of substantial fluctuations in the claims experience of individual lines of business over several years.

Excess of loss treaty: cf. → non-proportional reinsurance

Expense ratio: administrative expenses (gross or net) in relation to the (gross or net) premium earned.

Exposure: level of danger inherent in a risk or portfolio of risks; this constitutes the basis for premium calculations in reinsurance.

Facultative reinsurance: participation on the part of the reinsurer in a particular individual risk assumed by the direct insurer. This is in contrast to → obligatory (also: treaty) reinsurance.

Fair value: price at which a financial instrument would be freely traded between two parties.

Financial solutions: targeted provision of financial support for primary insurers through reinsurance arrangements under which the reinsurer participates in the original costs of an insurance portfolio and receives as a consideration a share of the future profits of the said portfolio. This approach is used primarily for long-term products in personal lines, such as life, annuity and personal accident insurance.

Free float: the free float refers to the part of the capital stock held by shareholders with a low stockholding in both absolute and relative terms.

Funds held by ceding companies/funds held under reinsurance treaties: cf. → deposits with ceding companies/deposits received from retrocessionaires

Gross/Retro/Net: gross items constitute the relevant sum total deriving from the acceptance of direct insurance policies or reinsurance treaties; retro items constitute the relevant sum total deriving from own reinsurance cessions. The difference is the corresponding net item (gross – retro = net, also: for own account).

IBNR (Incurred but not reported) reserve: provision for claims which have already occurred but which have not yet been reported.

Issuer: private enterprise or public entity that issues securities, e.g. the federal government in the case of German Treasury Bonds and a joint-stock corporation in the case of shares.

Leader: if several (re-)insurers participate in a contract, one company assumes the role of leader. The policyholder deals exclusively with this lead company. The lead (re-) insurer normally carries a higher percentage of the risk for own account.

Letter of credit (LOC): bank guarantee; at the request of the guaranteed party, the bank undertakes to render payment to the said party up to the amount specified in the LOC. This method of providing collateral in reinsurance business is typically found in the USA.

Life business: this term is used to designate business activities in our life and health reinsurance business group.

Life and health (re-)insurance: collective term for the lines of business concerned with the insurance of persons, i.e. life, pension, health and personal accident insurance.

Loss, economic: total loss incurred by the affected economy as a whole following the occurrence of a loss. The economic loss must be distinguished from the → insured loss.

Loss, insured: the insured loss reflects the total amount of losses covered by the insurance industry (insurers and reinsurers).

Loss ratio: proportion of loss expenditure (gross or net) relative to the (gross or net) premium earned.

Major loss: loss which has special significance for the direct insurer or reinsurer due to the amount involved; it is defined as a major loss in accordance with a fixed loss amount or other criteria.

Mark-to-market valuation: the evaluation of financial instruments to reflect current market value or → fair value.

Matching currency cover: coverage of technical liabilities in foreign currencies by means of corresponding investments in the same currency in order to avoid exchange-rate risks.

Net: cf. → Gross/Retro/Net

Non-life business: by way of distinction from business activities in our life and health reinsurance business group, we use this umbrella term to cover our lines of non-life reinsurance business.

Non-proportional reinsurance: reinsurance treaty under which the reinsurer assumes the loss expenditure in excess of a particular amount (→ priority) (e.g. under an excess of loss treaty). This is in contrast to → proportional reinsurance.

Obligatory (also: treaty) reinsurance: reinsurance treaty under which the reinsurer participates in a → cedant's total, precisely defined insurance portfolio. This is in contrast to → facultative reinsurance.

(Insurance) Pool: a risk-sharing partnership under civil law formed by legally and economically independent insurers and reinsurers in order to create a broader underwriting base for particularly large or unbalanced risks. The members undertake to write certain risks only within the scope of the insurance pool. They include such risks – while maintaining their commercial independence – in the insurance pool against a commission fee. Each insurer participates in the profit or loss of the insurance pool according to its proportionate interest. Reinsurance is often ceded or accepted in order to further diversify the risk. Pools can be divided into two types: coinsurance pools, in which all members take the role of primary insurers according to their interests, and reinsurance pools, in which a primary insurer writes the risks and then spreads them among the participating insurers by way of reinsurance.

Portfolio: a) all risks assumed by an insurer or reinsurer in a defined sub-segment (e.g. line of business, country) or in their entirety; b) group of investments defined according to specific criteria.

Premium: agreed remuneration for the risks accepted from an insurance company. Unlike the earned premium, the written premium is not deferred.

Primary insurer: cf. → direct insurer

Priority: direct insurer's loss amount stipulated under → non-proportional reinsurance treaties; if this amount is exceeded, the reinsurer becomes liable to pay. The priority may refer to an individual loss, an → accumulation loss or the total of all annual losses.

Property and casualty (re-)insurance: collective term for all lines of business which in the event of a claim reimburse only the incurred loss, not a fixed sum insured (as is the case in life and personal accident insurance, for example). This principle applies in all lines of property and casualty insurance.

Proportional reinsurance: reinsurance treaties on the basis of which shares in a risk or → portfolio are reinsured under the relevant direct insurer's conditions. → Premium and losses are shared proportionately on a pro-rata basis. This is in contrast to → non-proportional reinsurance.

Protection cover: protection of segments of an insurer's portfolio against major losses (per risk/per event), primarily on a non-proportional basis.

Provision: liability item as at the balance sheet date to discharge obligations which exist but whose extent and/or due date is/are not known. Technical provisions, for example, are for claims which have already occurred but which have not yet been settled, or have only been partially settled (= provision for outstanding claims, abbreviated to: claims provision).

Provision for unearned premium (also: unearned premium reserve): premium written in a financial year which is to be allocated to the following period on an accrual basis. This item is used to defer written premium.

Quota share reinsurance: form of proportional reinsurance under which the reinsurer assumes a contractually set percentage share of the written risk. Since the insurer is responsible for acquisition, pricing, policy administration and claims handling, the administrative expenditure for the reinsurer is very low. The latter therefore participates in the aforementioned expenses through payment of a reinsurance commission. This commission can amount to 15%–20% of the original premium depending upon the market and cost situation.

Rate: percentage rate (usually of the premium income) of the reinsured portfolio which is to be paid to the reinsurer as reinsurance premium under a → non-proportional reinsurance treaty.

Rating: systematic evaluations of companies with respect to their → credit status or the credit status of issuers with regard to a specific obligation. They are awarded by a rating agency or bank.

Reinsurer: company which accepts risks or portfolio segments from a → direct insurer or another reinsurer in exchange for an agreed premium.

Reserve ratio: ratio of (gross or net) technical provisions to the (gross or net) premium.

Retention: the part of the accepted risks which an insurer/reinsurer does not reinsure, i.e. shows as → net (retention ratio: percentage share of the retention relative to the gross written premium).

Retro: cf. → Gross/Retro/Net

Retrocession: ceding of risks or shares in risks which have been reinsured. Retrocessions are ceded to other reinsurers in exchange for a pro-rata or separately calculated premium.

Risk, insured: defines the specific danger which can lead to the occurrence of a loss. The insured risk is the subject of the insurance contract.

Securitisation instruments: innovative instruments for transferring reinsurance business to the capital markets with the goal of refinancing or placing insurance risks.

Segmental reporting: presentation of items from the annual financial statements separated according to functional criteria such as segments and regions.

Structured products: reinsurance with limited potential for profits and losses; the primary objective is to strive for risk equalisation over time and to stabilise the → cedant's balance sheet.

Surplus reinsurance: form of proportional reinsurance under which the risk is not spread between the insurer and reinsurer on the basis of a previously agreed, set quota share. Instead, the insurer determines a maximum sum insured per risk up to which it is prepared to be liable. Risks that exceed the ceding company's retention (surpluses) are borne by the reinsurer. The reinsurer's lines thus vary according to the level of the retention and the sum insured of the reinsured contract. The reinsurer's liability is generally limited to a multiple of the ceding company's retention.

Technical result: the balance of income and expenditure allocated to the insurance business and shown in the technical statement of income (after additional allowance is made for the allocation to/withdrawal from the equalisation reserve: net technical result).

Treaty reinsurance: cf. → obligatory reinsurance

Underwriting: process of examining, accepting or rejecting (re-) insurance risks and classifying those selected in order to charge the proper premium for each. The purpose of underwriting is to spread the risk among a pool of (re-)insureds in a manner that is equitable for the (re-) insureds and profitable for the (re-)insurer.

Unearned premium reserve: cf. → provision for unearned premium

Value of in-force business (VIF): present value of expected future profit flows from the portfolio of in-force retained business, discounted by a currency-specific risk discount rate. It is determined in accordance with local accounting principles.

Contacts

Corporate Communications
Karl Steinle
Tel. +49 511 5604-1500
Fax +49 511 5604-1648
karl.steinle@hannover-re.com

Media Relations
Gabriele Handrick
Tel. +49 511 5604-1502
Fax +49 511 5604-1648
gabriele.handrick@hannover-re.com

Investor Relations
Julia Hartmann
Tel. +49 511 5604-1529
Fax +49 511 5604-1648
julia.hartmann@hannover-re.com

A printed version of the Annual Report of Hannover Rückversicherung AG is also available in German. The report can be downloaded online in PDF format in English and German at **www.hannover-re.com**.

This is a translation of the original German text; the German version shall be authoritative in case of any discrepancies in the translation.

We would also be pleased to provide you with the Hannover Re Group's Annual Report in German or English. If you wish to receive paper copies of any of these versions, please contact Corporate Communications on:

Tel. +49 511 5604-1889
Fax +49 511 5604-1648 or order them online at **www.hannover-re.com** under
"Media Centre/Financial Reports".

Published by
Hannover Rückversicherung AG
Karl-Wiechert-Allee 50
30625 Hannover
Tel. +49 511 5604-0
Fax +49 511 5604-1188
info@hannover-re.com
www.hannover-re.com

Concept and design
ANZINGER | WÜSCHNER | RASP
Agentur für Kommunikation, Munich

Production
herbstwerbung
Agentur für Kommunikation, Hannover

Print
Druckerei Biewald, Hannover

Printed on paper from environmentally responsible, socially compatible and economically viable forest management

FSC www.fsc.org MIX From responsible sources FSC® C009467

Printed carbon neutral to offset green-house gas emissions

Print CO2 compensated Ident-No. 104274

www.hannover-re.com