somewhat different

Hannover Rückversicherung AG

Annual Report 2012

hannover re®

Key figures

in EUR million	2012	+/– previous year	2011	2010	2009	2008
Results						
Gross written premium	10,457.3	+14.5%	9,130.2	8,618.2	8,329.9	7,328.7
Net premium earned	7,808.2	+12.1%	6,965.6	6,366.6	6,357.6	5,429.4
Underwriting result	93.2		(151.9)	18.4	(14.5)	78.9
Allocation to the equalisation reserve and similar provisions	340.7	+16.4%	292.6	141.3	170.6	33.6
Investment result	1,233.9	+29.4%	953.9	867.2	740.0	66.9
Pre-tax profit	546.0	+99.6%	273.5	589.8	363.7	(104.2)
Profit or loss for the financial year	410.3	+51.9%	270.2	406.3	259.0	(209.6)
Investments	30,452.0	+12.8%	27,005.6	23,330.9	20,723.2	17,885.1
Capital and reserve [1]	1,381.7	+0.0%	1,381.7	1,380.9	1,378.8	1,378.8
Subordinated liabilities	1,800.0	+38.5%	1,300.0	1,300.0	800.0	500.0
Equalisation reserve and similar provisions	2,385.3	+16.7%	2,044.6	1,752.0	1,610.7	1,440.1
Net technical provisions	22,891.3	+8.3%	21,142.7	17,605.7	15,817.9	14,145.0
Total capital, reserves and technical provisions	**28,458.3**	**+10.0%**	**25,869.0**	**22,038.6**	**19,607.4**	**17,463.9**
Number of employees	1,074	+ 33	1,041	1,017	931	855
Retention	76.0%		77.5%	76.4%	77.8%	75.2%
Loss ratio [2]	73.6%		75.8%	73.0%	75.4%	74.0%
Expense ratio [2]	26.0%		26.9%	26.6%	25.9%	24.5%
Combined ratio [2]	99.6%		102.7%	99.6%	101.3%	98.5%

[1] Excluding disposable profit
[2] Excluding life reinsurance

Contents

Boards and officers

Executive Board

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 Re (Bermuda) Ltd., Hamilton, Bermuda
Chairman of the Board of Directors Hannover Re (Ireland) Public Limited Company, 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]

Claude Chèvre
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 Africa Limited, Johannesburg, South Africa
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
Member of the Board of Directors Hannover ReTakaful B.S.C. (c), Manama, Bahrain
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, 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 Re (Ireland) Public Limited Company, 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 Bermuda Ltd., Hamilton, Bermuda
Chairman of the Board of Directors Hannover Life Reassurance (UK) Limited, Virginia Water, United Kingdom
Vice Chairman of the Board of Directors Hannover Life Reassurance Company of America, Orlando, USA
Member of the Board of Directors Hannover Re (Ireland) Public Limited Company, Dublin, Ireland
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 (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 Re (Ireland) Public Limited Company, Dublin, Ireland
Member of the Board of Directors International Insurance Company of Hannover Limited, Bracknell, United Kingdom
Deputy Chairman 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

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

Frauke Heitmüller [6]
Hannover
(since 3 May 2012)

Uwe Kramp [6]
Hannover
(until 3 May 2012)

Otto Müller [6]
Hannover
Member of the Supervisory Board Talanx AG, Hannover

Dr. Andrea Pollak
Vienna, Austria
Independent Management Consultant
Chairwoman of the Advisory Board Kuchen-Peter Backwaren GmbH, Hagenbrunn, 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 HDI Lebensversicherung AG, Cologne
Deputy Chairman of the Supervisory Board Talanx Deutschland AG, Hannover
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 Versicherung 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

The 2012 financial year passed off highly successfully for Hannover Re. Both non-life and life/health reinsurance played a part here. On the back of a moderate major loss experience as well as a very healthy investment result, we almost doubled the profit on ordinary activities to EUR 546 million.

The year under review closed with a profit of EUR 410 million. Thanks to the exceptionally pleasing result, the Executive Board and Supervisory Board will propose to the Annual General Meeting that a dividend of EUR 2.60 and a bonus of EUR 0.40 per share be paid to shareholders.

Macroeconomic climate

Overshadowed by the European sovereign debt crisis and the crisis of confidence on financial markets, the expansion of the global economy lost further impetus in the year under review. Moves by the European Central Bank (ECB) and the US Federal Reserve (Fed) to intervene on the monetary policy side helped to lighten the mood on financial markets; they did not, however, bring about an economic recovery.

Industrialised nations pressed ahead with consolidation measures intended to reduce levels of debt. While in the United States this was especially true of the private sector, in the United Kingdom and in the Eurozone considerable efforts were made to consolidate public finances. The resulting slumps in growth and faltering demand triggered an economic slowdown among emerging nations. In China the pace of expansion had already slowed in the previous year. In Japan, where economic activity started the year at a brisk tempo, the economy began to cool from the spring onwards. All in all, therefore, the ifo Institute estimates that global output grew by just 3.0% (previous year: 3.8%).

USA

The US economy continued to recover at a moderate pace. Effective growth stimuli were once again lacking in the year under review. While spending on residential construction picked up again, uncertainties surrounding future tax burdens and fiscal policy (e.g. resulting from the "fiscal cliff" budget decision) were reflected in a general reluctance to invest. Private consumption, the key driver of US economic output, remained solid but – with disposable incomes virtually flat – was unable to boost growth. Government spending was restrained, although it rose again slightly towards the end of the year. Despite a generally positive trend on the US labour market, the continued high jobless number poses a risk and works against a more vigorous expansion of the economy. Gross domestic product (GDP) rose by 2.2% in 2012 as estimated by the ifo Institute.

Europe

The Eurozone was dominated by the sovereign debt crisis in 2012. Economic data therefore tended to be correspondingly weak: while economic output in Europe was initially flat, it contracted as the year progressed and ultimately plummeted in the last quarter. The situation deteriorated in almost all Eurozone countries. A payment default by Greece was prevented when supporters of the rigorous austerity measures proposed by the European Union (EU) and International Monetary Fund (IMF) prevailed in new elections. On the other hand, Spain and Italy slipped into a deep recession owing to urgently needed consolidation measures. France also showed clear signs of economic weakness. In Germany economic activity similarly declined appreciably in the year under review, although it is still better than average compared to other member countries of the EU Economic and Monetary Union. According to ECB calculations, gross domestic product (GDP) in the Eurozone contracted by 0.5% in 2012.

Following a favourable ruling by Germany's Federal Constitutional Court the European Stability Mechanism (ESM) was able to begin its work in October 2012. With the launch of this permanent bailout fund and the ECB's new outright monetary transactions (OMT) programme for buying government bonds, significant steps were taken in the year under review to stem the debt crisis. At the same time they signalise a clear commitment to the preservation of monetary union. Another important element for stabilising the financial markets was put in place in December 2012 with the agreement among EU finance ministers on the architecture of common Eurozone bank supervision: in future some 150 financial institutions are to be subject to the automatic control of the ECB. They include up to 30 German banks. Crisis-ridden banks will already be able to receive bailout funds directly from the ESM in the current year. The ECB is not, however, expected to fully assume its new banking supervisory role before March 2014 at the earliest.

Germany

In Germany the upswing of the past two years has been checked for the time being: after getting off to a solid start, growth declined appreciably from the spring onwards. The Federal Statistical Office calculated a rise of 0.7% in GDP for the full year in 2012. Despite a challenging economic environment, the German economy thus at least remained on an expansionary course. The contraction in growth resulted primarily from the European debt crisis. To some extent the rise in exports to other regions offset the softer demand from European markets. Overall, however, the increase in exports slowed, as did growth rates for imports. Once again, foreign trade was a major driver of GDP growth in 2012.

In view of the difficult economic climate German businesses took a cautious approach to their capital expenditure, cutting spending on machinery and equipment and holding back on inventory investments. The labour market trend in Germany softened slightly as the year progressed in tandem with the economic trend, although it remained positive. The Federal Statistical Office calculated that the size of the working population with jobs in Germany increased by 422,000 in 2012 compared to the previous year.

Asia

Economic expansion in Asia was curtailed in the year under review. A slowdown could be observed in emerging markets, triggered in part by faltering demand from industrialised nations but also often rooted partly in problems at home. India's large economy, for example, suffered from overregulation and inadequate infrastructure. The surge in private consumption and also capital expenditure slowed markedly there in the year under review. The ifo Institute put GDP growth at just 3.7%. In China wage costs began to rise with increasing industrialisation and also due to demographic factors. The real estate sector has also been experiencing a downturn since the previous year. What is more, the country found itself caught up in the economic weakness affecting the industrialised world. As a result, GDP grew by just 7.8% in the year under review.

Japan enjoyed a sizeable boost in economic output at the beginning of 2012, only to be followed by a decline as the year progressed. With the strained state of the US economy easing only slowly, and given the crisis in the Eurozone as well as the cooldown in China's economy, Japan's foreign trade was significantly impacted. GDP rose by 2.1% relative to the previous year.

Capital markets

The mood on capital markets in 2012 was once more dominated by the Euro debt crisis. For detailed remarks on the development of capital markets please see the "Investments" section on page 15.

Industry-specific environment

The volatile economic environment and accompanying economic policy measures also shaped developments in the international insurance industry in the year just ended: with many markets in a state of stagnation, the order of the day for insurers was once again to demonstrate their stability. Long-term investment strategies and sophisticated risk management systems paid off. The year under review was spared claims on the exceptional scale incurred in 2011 as a result of that year's devastating natural disasters.

On the economic policy side, the continued adherence to low interest rates caused concern in the major economic areas. This intervention has now come to represent a powerful control mechanism of a more sustained nature, which also puts increasing pressure on the insurance industry. This was reflected in 2012 in the ongoing reform efforts in matters of insurance industry policy and regulation – as exemplified in the US by continuing work on the Solvency Modernization Initiative (SMI) and in Europe by the regulatory process as part of Solvency II.

In 2012, following on from Florida and New York, more US states created a legal avenue – subject to strict conditions – for financially strong foreign reinsurers to collateralise their liabilities to US cedants at a lower rate than the otherwise prescribed 100%. Hannover Re is currently authorised in Florida and New York with a reduced collateral requirement of 20%. If additional states follow suit and adopt the regulatory reform contained in the non-binding model law of the National Association of Insurance Commissioners (NAIC), Hannover Re can look forward to the prospect of more equitable framework conditions here too.

Implementation of the Solvency II Directive continued to be a central preoccupation for the European insurance industry. As things currently stand, the previously announced 2014 deadline for entry into force cannot be met. Solvency II envisages more demanding requirements for insurance undertakings with respect to capital resources, risk management and reporting obligations.

Increasingly exacting capital requirements are prompting stronger demand for reinsurance protection among primary insurers: in this way insurers are able to reduce possible risks associated with fulfilment of their minimum capital requirements. At the same time, they can retain the flexibility to adjust their capital resources through short contract periods.

The German Federal Parliament adopted a package of measures in 2012 as part of the SEPA (Single Euro Payments Area) Accompanying Act with a view to strengthening the risk-bearing capacity of the life insurance industry. The steps taken by the federal government address the resilience of life insurers in times of crisis such as the currently protracted phase of low interest rates. Even though German life insurers continue to be able to meet their guarantee commitments over the medium and long term, a sustained policy of low interest rates will pose a challenge to them.

Despite the ongoing uncertainty in the markets and the generally weak state of the economy, German insurers enjoyed a stable business development in 2012: premium income across all lines climbed by 1.5% in 2012 to EUR 180.7 billion. Indeed, German credit insurers could even chalk the year up as an all-time success: thanks to stronger demand for credit insurance coverage in the market they wrote 10% more contracts overall in credit, surety and fidelity insurance and boosted their gross premium by 2% to around EUR 1.6 billion.

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.

We are highly satisfied with the development of our business in 2012. For a financially strong reinsurer such as Hannover Re, the market opportunities for profitable growth were good – both in non-life and life and health reinsurance. Despite a challenging capital market climate, we booked a very healthy investment result. As a further factor, the profit for the year benefited from the fact that strains from major losses – unlike in the previous year – were very much on the moderate side. Overall, markets were thoroughly attractive for our company, enabling us to generate profitable growth in the year under review and enlarge our market share.

Gross written premium in total business grew by a pleasing 14.5% to EUR 10.5 billion (EUR 9.1 billion). The level of retained premium retreated slightly from 77.5% to 76.0%. Net premium earned increased by 12.1% to EUR 7.8 billion (EUR 7.0 billion).

The development of our business in **non-life reinsurance** was thoroughly satisfactory. Demand for reinsurance covers remained strong in the year under review. The greater importance attached to risk-based models and the requirements placed on primary insurers' equity resources were both factors here. In view of the heavy losses from natural disasters in the previous year, the premium increases – especially for property catastrophe business – were as expected appreciable. The outcome of the treaty renewals in our domestic market was also pleasing. In US property business it was for the most part possible to push through rate increases; the rate erosion in the casualty sector was halted. Our specialty lines, in which we include inter alia marine and aviation reinsurance as well as credit and surety business, developed satisfactorily. The picture in our global reinsurance segment was a mixed one: whereas in mature markets the portfolio remained broadly stable, further significant growth was recorded in Asia.

The treaty renewals once again clearly showed the considerable importance that ceding companies attach to their reinsurer's financial strength. A very good rating is indispensable for a reinsurer seeking to succeed in all lines. With its outstanding ratings ("AA–" from Standard & Poor's and "A+" from A.M. Best) Hannover Re is one of the reinsurers to meet this requirement without reservation.

Unlike in the previous year, the major loss situation was comparatively moderate in the year under review. The largest single loss event for the international insurance industry – at a cost of more than USD 20 billion – was Hurricane Sandy, which caused death and extensive devastation along the East Coast of the United States. The net strain for the parent company from this event was EUR 168.8 million. Our marine business incurred a net loss of EUR 42.5 million from the wreck of the "Costa Concordia" cruise ship. Our portfolio of agricultural risks also suffered a large loss: the most severe period of drought in decades in the United States resulted in a net strain for our account of EUR 34.6 million. These events, together with other less sizeable major losses, combined to produce net expenditure for the year under review of EUR 318.3 million; the previous year's figure had been EUR 552.0 million.

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 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. In view of the demographic shift we responded to the rising importance of retirement provision, annuity and pension insurance products by setting up a dedicated business center for longevity risks. In the financial year just ended our business developed within the bounds of our expectations despite the uncertain situation on capital markets and the protracted period of low interest rates, which is putting the life insurance industry under particularly heavy strain.

The underwriting result for total business (before changes in the equalisation reserve) improved to EUR 93.2 million after a deficit of EUR 151.9 million in the previous year. An amount of EUR 340.7 million (EUR 292.6 million) was allocated to the equalisation reserve and similar provisions.

We are very satisfied with our **investments**. Our portfolio of assets under own management grew in the year under review to EUR 19.5 billion (EUR 17.5 billion). This corresponds to an increase of 11.7% and can be attributed above all to cash inflows from the technical account. The balance of unrealised gains on fixed-income securities and bond funds amounted to EUR 798.3 million (EUR 395.6 million) as at year-end. Yield declines on US treasuries and European government bonds were a particularly significant factor here.

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 year under review. It remains the case that our exposure to countries on the Eurozone periphery is relatively low measured by our total investment portfolio. Our portfolio does not contain any bonds of Greek issuers.

Ordinary investment income including deposit interest clearly surpassed the previous year at EUR 1,205.9 million (EUR 912.4 million).

Net gains of EUR 68.9 million (EUR 64.0 million) were realised on disposals. Write-downs of EUR 25.4 million (EUR 33.1 million) were taken on our investments. Write-ups of EUR 29.6 million (EUR 88.1 million) were also made. Our net investment result thus recorded a substantial increase to EUR 1,233.9 million (EUR 953.9 million).

We are very satisfied with our total result for the 2012 financial year. The profit on ordinary activities climbed sharply in the year under review to EUR 546.0 million (EUR 273.5 million). The 2012 reporting year closed with a profit for the year of EUR 410.3 million (EUR 270.2 million).

The Executive Board and Supervisory Board intend to propose to the Annual General Meeting that a dividend of EUR 2.60 and a bonus of EUR 0.40 per share should be paid.

Our capital and reserves – excluding the disposable profit – stood at EUR 1,381.7 million (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 to EUR 28,458.3 million (EUR 25,869.0 million). Based on the increase in the total capital, reserves and technical provisions, the balance sheet total of Hannover Re grew to EUR 33.1 billion (EUR 30.2 billion).

Overall assessment of the business position

The Executive Board of Hannover Re assesses the development of business in 2012 as highly satisfactory. The parent company improved significantly on the previous year in all key indicators such as the underwriting result, investment result and profit on ordinary activities. Especially given the challenging situation on international capital markets and the overall decline in interest rates, we are exceptionally satisfied with our investment result. The total capital, reserves and technical provisions also increased appreciably in the 2012 financial year. At the time of preparing the management report the favourable business position of Hannover Re remains unchanged; the company's financial strength has been further reinforced.

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 3.8% (4.6%) 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 again grew by a substantial 21.8% in the 2012 financial year to EUR 1,272.1 million (EUR 1,044.5 million).

The net loss ratio improved in the year under review from 77.9% to 59.4%. After an underwriting deficit of EUR 29.8 million in the previous year, the fire line closed with a profit of EUR 157.6 million in 2012. An amount of EUR 201.3 million was allocated to the equalisation reserve and similar provisions, after a withdrawal of EUR 1.0 million in the previous year.

Fire

in EUR million	2012	2011
Gross written premium	1,272.1	1,044.5
Loss ratio (%)	59.4	77.9
Underwriting result (net)	157.6	(29.8)

Casualty

The gross premium volume increased sharply in the 2012 financial year. The largest single market for our company in the casualty line continues to be the United States, accounting for around one third of total premium. The results trend here was also satisfactory. Attractive market opportunities opened up in the United Kingdom, prompting us to enlarge our business. We also grew our portfolio in France while at the same time boosting profitability. In this market we are one of the leading providers for builder's risk covers.

Gross premium in casualty business grew by 12.4% to EUR 1,259.5 million (EUR 1,120.4 million). The loss ratio increased from 87.0% to 92.4%. The underwriting result consequently slipped back to -EUR 164.8 million (-EUR 88.9 million).

An amount of EUR 27.5 million was allocated to the equalisation reserve and similar provisions in the year under review; the allocation in the previous year had totalled EUR 85.4 million.

Casualty

in EUR million	2012	2011
Gross written premium	1,259.5	1,120.4
Loss ratio (%)	92.4	87.0
Underwriting result (net)	(164.8)	(88.9)

Accident

Our accident business, which we regard as one of our target lines, developed according to plan in the year under review. With the premium volume virtually unchanged, we generated a very good result. Although we wrote less business in Asia, premium income in Europe increased. In Germany we slightly scaled back our premium volume, whereas in France we booked modest growth.

Gross premium decreased slightly by 2.1% year-on-year to EUR 287.8 million (EUR 293.9 million). Profitability was gratifying: after the already very good loss ratio of 58.5% in the previous year, the year under review improved to an even better 51.1%. The underwriting result came in at a very pleasing EUR 41.0 million, after EUR 14.0 million in the previous year.

An amount of EUR 8.1 million was allocated to the equalisation reserve and similar provisions, following an allocation of EUR 4.7 million in the previous year.

Accident

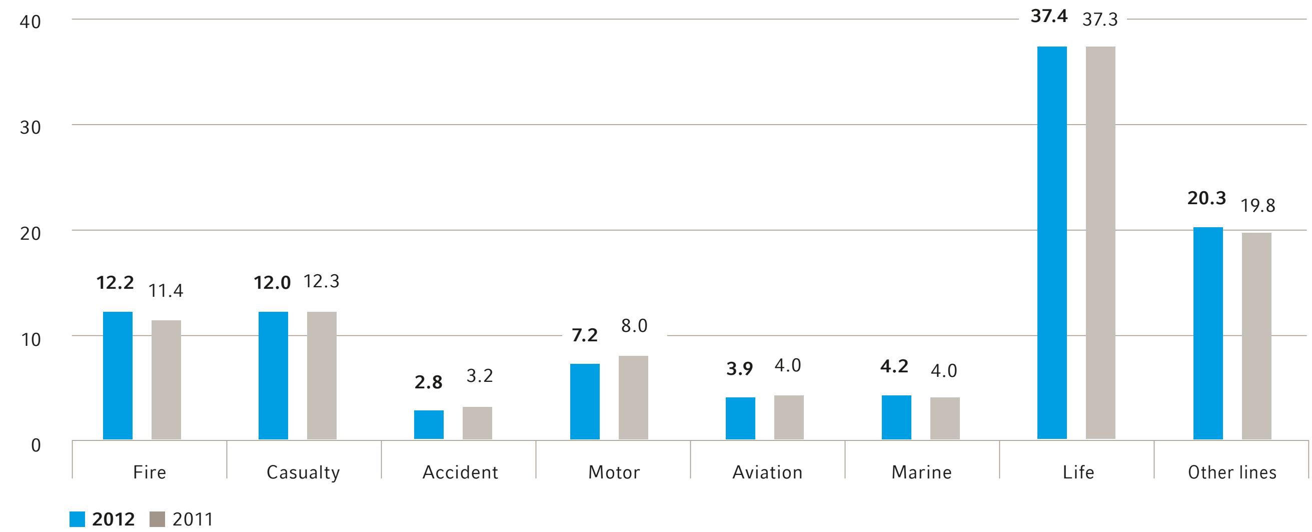
in EUR million	2012	2011
Gross written premium	287.8	293.9
Loss ratio (%)	51.1	58.5
Underwriting result (net)	41.0	14.0

Motor

We are satisfied with developments in motor business.

In 2012 we again expanded our premium volume in European motor business. Attractive rates prompted us to enlarge our portfolio, especially in the United Kingdom.

Development of the total portfolio by line of business
in %



In Germany the positive trend in motor insurance was sustained. Price increases were obtained in both motor liability and own damage business. Motor business as a whole was boosted in our domestic market in the year under review.

The premium volume for the motor line worldwide grew by a modest 2.3% to EUR 748.6 million (EUR 731.8 million).

The loss ratio of 74.7% was virtually on a par with the previous year (74.0%). The underwriting result stood at -EUR 20.6 million, after -EUR 26.8 million in 2011.

An amount of EUR 1.8 million was withdrawn from the equalisation reserve and similar provisions, contrasting with a contribution of EUR 41.8 million in the previous year.

Motor

in EUR million	2012	2011
Gross written premium	748.6	731.8
Loss ratio (%)	74.7	74.0
Underwriting result (net)	(20.6)	(26.8)

Aviation

Hannover Re is one of the world's leading reinsurers in aviation and space business. Despite the difficult economic climate in Europe and North America, the state of the airline industry continued to stabilise in the year under review. Passenger numbers rose slightly, which also benefited the (re)insurance sector.

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. The greater use of aircraft fitted with state-of-the-art technology is having positive effects on losses in the aviation line.

Gross written premium increased by 10.1% to EUR 405.2 million (EUR 367.8 million). The major loss experience was once again thoroughly unremarkable. The net loss ratio moved only slightly higher to 69.6% (64.6%). The underwriting result came in at EUR 27.5 million (EUR 38.8 million).

Following an allocation of EUR 10.1 million in the previous year, we boosted the equalisation reserve and similar provisions by an amount of EUR 6.8 million in the year under review.

Aviation

in EUR million	2012	2011
Gross written premium	405.2	367.8
Loss ratio (%)	69.6	64.6
Underwriting result (net)	27.5	38.8

Marine

In global marine reinsurance, too, Hannover Re ranks among the market leaders. The strategy behind our underwriting policy in the 2012 financial year was once again to further improve the regional diversification of our portfolio. We gained market shares inter alia in Asia and Brazil. On the other hand, we continue to write offshore risks in the Gulf of Mexico conservatively in view of the considerable natural hazards potential.

The general business environment in this segment improved in the year under review, as world trade increasingly bounced back from the adversities of the 2008 financial and economic crisis. The pace of recovery was, however, slowed by the euro crisis, since uncertainties about the stability of the currency and the Eurozone's ability to hold together had negative repercussions on the transport of goods. Overall, though, we are satisfied with conditions in marine business; demand largely remained stable, while the Asian region actually delivered growth.

The underwriting result for our marine business was significantly impacted by major losses in the year under review. Particularly important here was the wreck of the "Costa Concordia" cruise ship, which resulted in an insured market loss in excess of EUR 1 billion. The burden from this loss event for Hannover Re amounted to EUR 42.5 million. We also incurred sizeable losses from Hurricane Sandy.

Gross written premium rose by 19.8% to EUR 435.2 million (EUR 363.1 million).

The net loss ratio deteriorated from 67.6% to 81.3%. The underwriting result consequently declined from EUR 27.1 million to -EUR 11.7 million.

An amount of EUR 35.3 million (EUR 62.8 million) was nevertheless allocated to the equalisation reserve and similar provisions.

Marine

in EUR million	2012	2011
Gross written premium	435.2	363.1
Loss ratio (%)	81.3	67.6
Underwriting result (net)	(11.7)	27.1

Life

Hannover Re booked further growth in life and health reinsurance in 2012. Fluctuations in results in the profitable but by its very nature more volatile non-life reinsurance portfolio can thus be very effectively offset by life and health reinsurance, the performance of which over time is relatively stable. Life and health reinsurance thereby contributes to the outstanding risk diversification of the overall portfolio.

In the financial year just ended our business developed within the bounds of our expectations, despite the challenging situation on capital markets and the protracted phase of low interest rates – which is putting the life insurance industry, in particular, under increasing strain. Based on our approach of catering individually to the market-driven needs of our clients, we were able to support them in the year under review with tailored reinsurance solutions.

We attach considerable strategic importance to supporting our clients with reinsurance solutions in the area of capital and solvency management. In the year under review we were able to further expand our business in Australia as well as, most notably, in the United States and Asian markets. Our growth in Asia was supported by the launch of an "Asia" business center with regional responsibility, in which all activities are centrally coordinated. Going forward, this will enable us to continue with our holistic market cultivation and profit from the promising business potential inherent in these high-growth economies. We respond to different customer needs with bespoke reinsurance solutions as well as smart systems support and other services. The growing significance of retirement provision, annuity and pension insurance products, especially in the industrial nations, is reflected in our setting up of a dedicated "Longevity" business center.

In view of our decentralised structure, the life and health reinsurance written by Hannover Re includes not only direct acceptances in Hannover but also business written by our local units in Bahrain, China, France, Hong Kong, Korea, Malaysia and Sweden. In addition, retrocessions from our subsidiaries based in Australia, Bermuda, the United Kingdom, Ireland, South Africa and the United States as well as a quota share retrocession from our subsidiary E+S Rück further enlarge our business volume.

Gross premium income of EUR 3.9 billion (EUR 3.4 billion) was generated in the year under review, corresponding to a pleasing increase of 14.8%.

The risk experience in Australia fell short of our expectations in the financial year just ended. It was, however, offset by positive risk results elsewhere, most notably in Europe, Asia and Latin America. In the year under review retakaful business also delivered a gratifying profit contribution to the net underwriting result, which came in at EUR 67.2 million (-EUR 24.1 million).

Life

in EUR million	2012	2011
Gross written premium	3,912.1	3,408.9
Underwriting result (net)	67.2	(24.1)

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.

Our US portfolio continues to account for the bulk of business in the **health reinsurance** line. The need and demand in the US market remain considerable, and we shall therefore maintain our involvement here going forward. In addition, we have appreciably expanded our health reinsurance business in a number of European countries, such as Denmark and France, as well as in Latin America and also Asia. In the German health reinsurance market we continue to participate in a few selected reinsurance programmes. By systematically stepping up our activities in health reinsurance we enlarged our gross premium in the financial year just ended to EUR 453.5 million (EUR 291.9 million). This corresponds to exceptionally pleasing premium growth of 55.3%. The underwriting result stood at EUR 3.3 million (EUR 6.1 million).

With economic growth softening across a broad front, **credit and surety insurance** saw a renewed rise in the number of insolvencies. Whereas two to three years ago loss ratios were still below average, they rose in original business back to a level that can be considered average over the cycle. On the reinsurance side there has been a significant capacity surplus since 2009 owing to the sharp improvement in claims rates. With this in mind, further expansion of our market share was not a priority. We maintained our position in the credit sector. Only in cases where our required margins were met did we undertake measured expansion of our portfolio. In surety reinsurance our goal was to consolidate existing positions. No major losses were recorded.

Gross premium in credit and surety business grew from EUR 543.3 million to EUR 576.9 million. The underwriting result in the credit sector totalled EUR 22.9 million (EUR 41.1 million), while the result in the surety line deteriorated from EUR 25.3 million to -EUR 32.4 million owing to significant strengthening of the equalisation reserve and similar provisions.

The total premium volume in the **other lines** increased by 18.7% to EUR 2,136.8 million (EUR 1,799.8 million). The loss ratio improved to 73.1% (74.4%). The underwriting result closed at -EUR 3.0 million, after -EUR 62.2 million in the previous year.

An amount of EUR 63.4 million was allocated to the equalisation reserve and similar provisions in the other lines in the year under review, after an allocation of EUR 88.7 million in the previous year.

Other lines

in EUR million	2012	2011
Gross written premium	2,136.8	1,799.8
Loss ratio (%)	73.1	74.4
Underwriting result (net)	(3.0)	(62.2)

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 19.5 billion; this is equivalent to an increase of 11.7% relative to the level as at 31 December 2011 (EUR 17.5 billion). Deposits with ceding companies also rose sharply from EUR 9.5 billion to EUR 10.9 billion.

During the year under review the US Federal Reserve (Fed) left prime rates unchanged in the range of 0.00% to 0.25%. The European Central Bank (ECB) further trimmed the key interest rate from 1.00% to 0.75%.

The return on 10-year German government bonds fell to a historically low 1.16% as the year progressed and had rallied only slightly to 1.30% by year-end. US treasuries also moved in a comparable direction, touching historic lows with yields of less than 1.4%. The government bonds issued by most European countries, which had come under increasing pressure in 2011 owing to the inadequate steps taken towards fiscal consolidation, posted gains in 2012. This came about not least because the ECB decided, where necessary, on a programme of unlimited buying-up of sovereign bonds issued by struggling Eurozone countries, provided they submit to strict oversight by the European Financial Stability Facility or its successor, the European Stability Mechanism. Risk premiums on European and US corporate bonds also decreased across all rating categories, sometimes appreciably so. Altogether, the net valuation reserves of our fixed-income portfolio increased to EUR 798.3 million (EUR 395.6 million) over the year.

The picture on equity markets was a mixed one over the course of the year. Marked volatility and uncertainty once again characterised the market environment. After getting off to a bright start in the first three months, the DAX lost ground sharply in the second quarter against a backdrop of mounting economic concerns and worries about the stability of the Eurozone. In the second half of the year the DAX posted clear gains. The Dow Jones index significantly underperformed the DAX over the year as a whole.

Despite a period of softness around the middle of 2012, the euro ultimately closed largely unchanged year-on-year against the US dollar, pound sterling and the Canadian and Australian dollars.

Ordinary investment income including deposit interest comfortably surpassed the previous year at EUR 1,205.9 million (EUR 912.4 million). This was due principally to the growth in assets under own management, although the substantial expansion of the asset classes of corporate bonds and asset-backed securities over the past two years also played a part here. We have now almost reached the envisaged target allocation in these areas. The balance of deposit interest and expenses stood at EUR 271.2 million (EUR 230.3 million).

With a view to protecting our future investment income against the effects of inflation, we took out inflation-linked USD and EUR government bonds – in addition to the inflation swaps – in the fourth quarter in a nominal amount of EUR 396.0 million.

Net gains of EUR 68.9 million (EUR 64.0 million) were realised on the disposal of investments; they derived primarily from regrouping moves out of government bonds and into corporate bonds and asset-backed securities. Additional amounts realised within the portfolio of corporate bonds were due to application of the parameters set out in our Corporate Social Responsibility strategy, according to which the composition of our assets under own management is guided by criteria of sustainability and corporate responsibility.

We took write-downs on investments totalling EUR 25.4 million (EUR 33.1 million), principally on fixed-income securities. The write-downs contrasted with write-ups of EUR 29.6 million (EUR 88.1 million) that were made on assets written down in previous periods in order to reflect increased fair values. In addition, we released provisions for contingent losses of EUR 23.3 million due to higher fair values of some of our inflation swaps. These reversals were opposed by the establishment of new provisions for contingent losses in an amount of just EUR 0.4 million.

All in all, our net investment result therefore increased substantially to EUR 1,233.9 million (EUR 953.9 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 the company 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 only a limited influence on our result.

Human resources

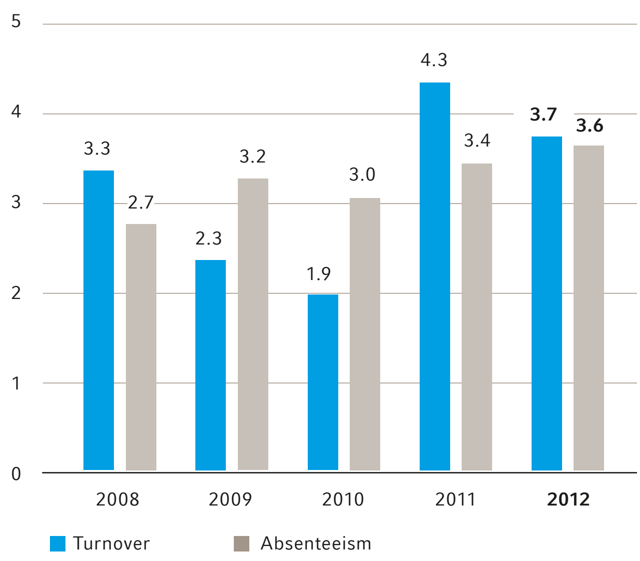
Our staff

Making optimal use of our employees' broad-ranging skills and different ways of thinking as well as their individual strengths and cultural diversity is a central factor in our corporate success. It is for this reason that the topics of leadership and diversity management were key areas of emphasis in our human resources activities in 2012. In the context of the review of our Management Principles, all managerial staff around the world worked together for the first time to arrive at a shared understanding of leadership. Appreciation of our employees as well as their diversity – in professional, personal and cultural terms – were highlighted as overriding values that will form the foundation of our Management Principles going forward. Our diversity management has been enhanced through the addition of a mentoring programme designed to promote the advancement of women within the organisation. As Chief Executive Officer Ulrich Wallin notes: "The advancement of women is crucial to securing our future. As a company pursuing ambitious objectives, it is absolutely essential for us to recognise, foster and maximise in the company's interest the potential inherent in every member of staff".

Key personnel ratios

Hannover Re employed 1,074 (1,041) staff as at 31 December 2012. The turnover ratio at Home Office in Hannover of 3.7% (4.3%) was appreciably lower than in the previous year. The rate of absenteeism – at 3.6% – was virtually unchanged from the previous year (3.4%). The turnover ratio and rate of absenteeism continued to be below the average expected across the industry as a whole.

Staff turnover/absenteeism
in %



Diversity management expanded

Diversity in human resources management refers to the social diversity of the workforce, usually in relation to gender, ethnicity, age and disability. Diversity management denotes the approach adopted so as to ensure that this diversity is positively valued as well as to make constructive use of it for corporate success.

For some years now Hannover Re has been well placed in many areas of diversity management, especially when it comes to supporting the compatibility of family and working life. A broad range of part-time working solutions, flexibility for members of staff returning from parental leave, individual opportunities for teleworking, an infant daycare centre and cooperation with a family service provider have long been part of day-to-day practice at our company.

An important topic in the current debate surrounding diversity management is the proportion of women and men on various hierarchical levels. Although the total workforce is split virtually down the middle into men and women, it is the case at Hannover Re – as is widely found elsewhere – that women are significantly less well represented at higher levels of the corporate hierarchy. With a view to changing this, the Executive Board has now decided to initiate a range of further measures that will bring the advancement of women, in particular, more sharply into focus.

Thus, for example, the existing personnel development tools have been enhanced through the addition of a mentoring programme. This is intended to bring together female employees (mentees) and seasoned managers (mentors) for a regular exchange over a period of 12 months. The focus of their discussions is to be on interdisciplinary topics that further strengthen the mentees in their general reflection on themselves and their actions and assist with their character development. The programme is consistently geared to the individual issues and needs of the mentees. The significance attached to this programme is evident not least from the fact that Board members will also serve as mentors.

In the 2012/2013 implementation cycle five mentee-mentor tandems will initially pass through the programme, which – along with the regular face-to-face dialogue – also encompasses impulse seminars and opportunities for networking. The fact that the identified mentees and mentors were all willing to participate without exception shows how positively this personnel development tool has been received and demonstrates that both female employees and managers can see a benefit in it for themselves and the company.

Among further measures planned for the advancement of women are seminars that will deal with gender-specific communication patterns and roles. In the interests of change management, awareness is to be raised in this regard among both managers and female employees and they are to be given pointers for reflection on their existing modes of thought and patterns of behaviour.

Management Principles reviewed

Good interaction between our managers and staff is imperative if we are to achieve our strategic objectives. For Hannover Re, leadership in the spirit of our Management Principles has long been of high importance and it favourably influences the dedication of our employees and the overall working atmosphere as it is experienced within the company.

Drawn up back in the late 1990s, the currently valid Management Principles have now been revised; they constitute the basis for actions taken by our managerial staff and have come to form part of our personnel development tools alongside management feedback and our management seminars.

For the first time since their adoption, the Management Principles were subjected to detailed scrutiny in 2012. This was prompted, among other things, by the strategy review conducted in 2011, which put even greater emphasis on the importance of the Management Principles worldwide. The opportunity for this review was presented by the Global Management Forum 2012, at which Hannover Re Group managers from around the world explored in depth the topic of leadership. The purpose of their deliberations was to revise our Management Principles in order to ensure that all managers worldwide could commit to them. In this way, complementary to the existing Management Principles, two additional values were defined that had not previously been explicitly put down in writing: firstly, the aspect of appreciation as the basis for our daily actions and our mutual trust; secondly, diversity in professional, personal and cultural terms, which we consider to be an enrichment and which gives rise to fresh impetus for extending our commercial success. Going forward, then, these two aspects will therefore precede our Management Principles as the higher-order values of "appreciation" and "diversity" and they will henceforth constitute the foundation of these principles.

Negotiating skills refined

Hannover Re's stated strategic aim is to be the best option for our clients when they come to choose their reinsurance partner. Since 2012 our personnel development activities have supported attainment of this goal with the new seminar offering entitled "Client Centric Re Skills".

This specially designed training measure is internationally oriented and seeks to address and individually enhance the situational negotiating skills of our already successful team of underwriters. The programme offers fresh approaches to the increasingly complex requirements of our clients and markets in order to enable underwriters to respond in a client-oriented manner and in keeping with our strategy going forward, as they have in the past.

More than 40 seasoned underwriters from Germany and abroad have already participated in the two seminars held in the year under review. The consistently positive feedback confirms that even for experienced negotiators we have developed a valuable skills training tool, and over the coming years this seminar will therefore become an integral part of our further training programme.

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 pursued them with motivation. 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 a reliable assessment of present and emerging risks. The topic of sustainability therefore has a direct bearing on the operational activities of Hannover Re. Not only that, sustainability also forms an important part of how we see our business. Our goal is to achieve economic success in conformity with legal regulations and in light of 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.

With this in mind, in September 2011 we drew up a Sustainability Strategy for Hannover Re in which we explicitly commit to our strategic objective of sustainable value creation. This Sustainability Strategy is based on good and sustainable compliance and puts into more concrete terms the higher-level corporate strategy of Hannover Re. For us, sustainability encompasses the following five aspects:

- Governance and dialogue
- Product responsibility
- Successful employees
- Procurement and environmental protection
- Social commitment

Governance and dialogue

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 values within which the company operates. As a company based in Germany, the formal framework that shapes our corporate governance is determined by German law. With few exceptions Hannover Re fulfils all the recommendations of the German Corporate Governance Code (DCKG), cf. page 29. What is more, our Code of Conduct serves as a further guide for our day-to-day actions.

In 2012 we reported for the first time on our achievements as a responsible enterprise in the form of a stand-alone Sustainability Report. From the outset we followed the currently applicable and internationally recognised guidelines of the Global Reporting Initiative (GRI), and we have received confirmation that we fulfil Application Level "B" – the medium level of transparency – defined by the GRI. In total, we reported on 42 Profile Disclosures, 6 Management Approaches to altogether 34 Aspects and 84 Performance Indicators as well as all Financial Services Sector Disclosures.

Our detailed Sustainability Report can be accessed on our website (http://www.hannover-re.com/sustainability/index.html).

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 – known as emerging risks – are increasingly reflected in our risk assessment. Examples include climate change and its impacts on global development (natural disasters, environmental damage, shortage of resources) as well as pandemics and demographic change. We use all internally and externally acquired insights in order to be able to offer better insurance solutions. In so doing, 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 investment portfolio under product responsibility. The goal of our investment strategy is to generate a commensurate market return in the interests of our clients, institutional investors and private investors. In this context we pay attention not only to traditional financial considerations but also to environmental, social and governance (ESG) criteria. Since 2012 our investment policy has been guided specifically by the ten principles of the United Nations Global Compact and thus also factors in aspects relating to human rights, working conditions, the environment and anti-corruption.

Successful employees

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 outstanding personnel development and management activities. In this context, the compatibility of career and private life for our employees is especially significant. By way of flexible working-time models such as part-time employment and telecommuting as well as flexitime arrangements without core working hours Hannover Re promotes the balance between these two elements.

Furthermore, we attach particular importance to maintaining the physical and mental well-being of our staff. The focus is on the prevention of disease. Through medical check-ups by the company physician, workplace inspections, advice on matters of general medicine as well as an extensive range of sporting opportunities we seek to play our part in helping our employees to stay healthy.

Procurement and environmental protection

Hannover Re is committed to keeping negative environmental impacts of its business operations as low as possible. With this in mind, the focus of our efforts is on reducing carbon dioxide (CO_2) emissions as we move towards climate neutrality by the year 2015. A major step towards achieving this goal was the implementation of our Environmental Management System at Hannover Home Office in 2012. Shortly after launch it was successfully certified according to DIN EN ISO 14001.

For several years now Hannover Re has been an active partner in numerous initiatives to protect the climate and the environment, such as the "Ecological Project for Integrated Environmental Technology" (Ecoprofit) and the Climate Alliance Hannover 2020. The latter initiative, which enjoys the support of businesses, organisations, the City of Hannover and the public utility company Stadtwerke Hannover AG, has set itself the goal for 2020 of emitting 40% less harmful greenhouse gases than in 1990 across the municipal area. Under this partnership Hannover Re took part in, among other things, the "multimobil-Tag" day of action held in the year under review, which was intended to raise awareness among both city residents and throughout the Greater Hannover region of environmentally friendly mobility methods.

In addition, we again participated last year in the Carbon Disclosure Project (CDP) by reporting at length on our consumption of resources that affect climate change – a report which we also published for the first time. This information is taking on growing significance for capital market players when they come to make their investment decisions.

Hannover Re's carbon dioxide emissions at the Hannover Home Office location amounted to 4,984 tonnes in 2012. Compared to the previous year, CO_2 pollution was cut by 3,139 tonnes or 38.6%. This saving was attributable principally to our changeover at the beginning of 2012 to electricity generated exclusively from renewable sources. Furthermore, despite the increased size of its workforce Hannover Re was again able to reduce the number of kilometres travelled on business. This was made possible, among other things, by greater use of video conferences.

In 2012, as in previous years, we also offset our absolute CO_2 footprint of 4,743 tonnes caused by airline and train travel by making voluntary offsetting payments to the international organisation "atmosfair" and to Deutsche Bahn AG.

The table below breaks down Hannover Re's consumption and emissions over the past 5 years.

Resources consumed at Hannover Home Office

	2012[4]	2011[3]	2010[2]	2009[2]	2008[1]
Electricity (in kWh)	8,802,262	8,214,917	8,055,429	8,014,946	7,624,709
Heat (in kWh)	2,319,854	1,859,119	2,383,918	2,314,009	2,051,501
Water (in l)	14,961,000	14,464,500	14,722,000	12,100,000	14,505,000
Paper (in sheets)	8,766,000	9,172,180	9,074,300	8,488,368	9,174,260
Waste (in kg)	205,790	257,400	297,000	327,000	no data
Business trips (in km)	16,654,504	17,658,598	16,018,500	15,179,745	14,766,598
CO_2 emissions[5] (in kg)	4,984,000	8,123,000	7,685,000	9,005,000	9,838,000

1 Karl-Wiechert-Allee 50 and Roderbruchstrasse 26, Hannover
2 Karl-Wiechert-Allee 50, Roderbruchstrasse 26 and infant daycare centre, Hannover
3 Karl-Wiechert-Allee 50, Roderbruchstrasse 21 and 26 as well as infant daycare centre, Hannover
4 Karl-Wiechert-Allee 50, Roderbruchstrasse 21 and 26 as well as infant daycare centre, Karl-Wiechert-Allee 57 (pro rata) Hannover
5 Radiative Forcing Index: 2.7

Social commitment

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

More detailed information on our social commitment is published on our website (http://www.hannover-re.com/sustainability/index.html).

Risk report

Principles for the handling of opportunities and risks

With a view to accomplishing Hannover Re's 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. Through our operations in all lines of reinsurance we achieve extensive risk equalisation. In particular, diversification between our non-life and life and health reinsurance business groups enables us to effectively deploy our capital. As a reinsurance specialist, we also transact primary insurance business in selected niche markets on a complementary basis to our traditional reinsurance activities. Of material significance to all segments are the underwriting results and the investment of the premium payments. Overall, crucial importance 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 guidelines, including for example the underwriting guidelines used by our treaty and regional departments.

Opportunities for Hannover Re are to be anticipated inter alia as a consequence of the impending adoption of risk-based solvency systems, such as Solvency II in Europe. Irrespective of the date of implementation of Solvency II on the European level, risk-based national regulations are already in force and others will likely follow. We have long practised a risk-based and value-based management approach of the type which regulators will call for under Solvency II and we began to make our preparations for the requirements of Solvency II at an early stage. We see Solvency II as an opportunity for the convergence of international regulatory and internal corporate approaches and consider ourselves well-equipped to provide the markets with tailored products. Stronger demand for reinsurance covers can also be expected as a consequence of content-based adjustments to the natural catastrophe simulation models used by many companies (including Hannover Re) as well as the vigorous growth recorded in a number of markets. Business ideas and opportunities are systematically analysed by our Business Opportunity Management unit with the aim of generating new business and thereby enabling Hannover Re to enjoy continued sustainable growth going forward. This is complemented by initiatives such as our "future radar", a systematic analysis of relevant factors that will drive future success. All activities and decisions are guided not only by profit targets but also increasingly by sustainability considerations. We have defined what we consider to be the most important issues in the context of our sustainability strategy.

Functions within the risk management system

There is an interplay between the individual bodies and functions in our risk management system (see also the illustration on page 22). Their roles and responsibilities are clearly defined.

Quantitative and qualitative risk management methods

In the interests of our shareholders and clients we strive to ensure that our risks remain commensurate with our capital resources. Our quantitative risk management provides a uniform framework for the evaluation and steering of all risks affecting the company as well as of our capital position. 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 of potential future requirements for the Own Risk and Solvency Assessment (ORSA). 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.

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 and 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 and health reinsurance business groups as well as the investments sector

The Framework Guideline on Risk Management 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 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 takes place quarterly and covers inter alia the defined limits and thresholds, key ratios of our internal capital model, expert assessments (e.g. emerging risks) and a summary presentation of the risk situation. The regular quarterly reporting is supplemented as necessary by immediate internal reporting on material risks and limit oversteps that emerge suddenly. The criteria for this reporting are also specified in the Framework Guideline on Risk Management. 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 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. We therefore always organise our business activities in such a way that they are in conformity with all legal requirements. In accordance with these principles, the Framework Guideline puts in place a consistent understanding of controls as well as a uniform procedure and standards for implementation of the ICS across all organisational units.

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 and
- technical plausibility checks and access privileges within the systems.

In the area of accounting and financial reporting, processes with integrated controls ensure the completeness and accuracy of the financial statement. A structure made up of differentiated criteria and materiality thresholds ensures that we can identify and minimise the risk of material errors in the financial statement at an early stage. Given that our financial reporting is heavily dependent on IT systems, these systems also need to be subject to controls, e.g. by way of authorisation concepts regulating system access.

Risk landscape of Hannover Re

The risk landscape of Hannover Re encompasses technical risks in non-life and life and health reinsurance, market risks, credit risks, operational risks and other risks. The specific risk characteristics and the principal monitoring and management mechanisms are described in the following sections.

Technical risks in non-life reinsurance

Risk management in non-life reinsurance is geared to the following strategic objectives:

- We maximise our risk capacities in accordance with the parameters of the risk management system and make limited use of retrocessions to reduce volatility and conserve capital.
- We steer the acceptance of risks systematically through our underwriting guidelines. We have confidence in the entrepreneurial abilities of our underwriters and grant them the most extensive possible powers.
- We impose the highest requirements on the processing of product-related data. Excellent data quality, security and integrity are the key hallmarks of our service processes.
- Given that the establishment of inadequate reserves constitutes our greatest risk, we take care to maintain a conservative reserving level.

We make a fundamental distinction 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 estimations and establish, where necessary, additional reserves supplementary to those posted by our cedants as well as the IBNR reserve for losses that have already occurred but have not yet been reported to us. Liability claims have a major influence on this reserve. The IBNR reserve is calculated on a differentiated basis according to risk categories and regions.

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 risks resulting from natural hazards is rounded out by realistic extreme loss scenarios. Within the scope of this process, 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. As part of our holistic approach to risk management across business groups, we take into account numerous relevant scenarios and extreme scenarios, determine their effect on portfolio and performance data, evaluate them in relation to the planned figures and identify alternative courses of action. For the purposes of risk limitation, maximum amounts are also 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, Hannover Re's regional and treaty departments prepare regular reports on the progress of their 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

Risk management in life and health reinsurance is geared to the following strategic objectives:

- In order to be able to reliably meet future expectations arising out of our long-term customer relationships, we strive for a balanced mix of risks. Our risk management is concentrated on material risks, although we give consideration to all risks according to their significance.
- We have confidence in the entrepreneurial abilities of our underwriters and grant them the most extensive possible powers. In our decentralised organisation we manage risks where they arise using a consistent approach in order to obtain an overall view of the risks in life and health reinsurance. Our underwriting guidelines provide underwriters with an appropriate framework for this purpose.

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 and the assumption of international portfolios. 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 actuarial reports and documentation required by local regulators ensure that regular scrutiny also takes place on the level of the subsidiaries.

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.

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. The most significant market price risks are share price, interest rate and currency risks.

The short-term loss probability measured as the "Value at Risk" (VaR) is another vital tool used for monitoring and managing market price risks. It is calculated 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 macroeconomic 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. 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 and shareholders' equity (before tax) 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).

Scenarios for changes in the fair value of our securities

in EUR million	Portfolio change based on fair value
Equity securities	
Share prices –10%	-1.8
Share prices –20%	-3.6
Share prices +10%	+1.8
Share prices +20%	+3.6
Fixed-income securities	
Yield increase +50 basis points	-285.8
Yield increase +100 basis points	-561.4
Yield decrease –50 basis points	+296.1
Yield decrease –100 basis points	+602.5

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. We have made such new investments only on a very modest scale as part 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. We reduce this risk through extensive matching of currency distributions on the assets and liabilities side. 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.

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. 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.

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. Currency risks were also hedged using FX forwards in cases where currency matching could not be efficiently established. 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. The remaining exposures are controlled according to the restrictive parameters set out in the investment guidelines.

Credit risks

The credit risk consists primarily of the risk of complete or partial failure of the counterparty and the associated default on payment.

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. We minimise these risks, inter alia, by reviewing all broker relationships once a year 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. 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.

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 inter alia on the basis of expert assessments and by means of scenario analyses. Such evaluations enable us to prioritise operational risks. When it comes to the monitoring of these 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, 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.

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 business activities (e.g. tax, anti-trust, embargo or regulatory law). Upon suspicion of breaches of the law, our employees and business partners are able to report such suspicions anonymously using our electronic whistleblower system, which can be accessed through our website. These tips are brought to the attention of the Compliance Office, which is thus able to investigate the grounds for suspicion. Responsibilities within the compliance organisation are regulated and documented in a manual. The process is documented in regular compliance reports and complemented by training activities.

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	25.4	2,874.8	46.3	604.7	1.4	12.9	0.0	0.0
AA	31.6	3,578.1	41.0	535.9	93.8	877.4	0.0	0.0
A	24.5	2,770.5	6.9	90.9	1.7	15.9	0.0	0.0
BBB	14.8	1,669.6	5.3	69.5	0.0	0.0	0.0	0.0
<BBB	3.7	424.1	0.5	7.1	3.1	29.1	100.0	7.0
Total	**100.0**	**11,317.1**	**100.0**	**1,308.1**	**100.0**	**935.3**	**100.0**	**7.0**

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

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 and training opportunities, e.g. with regard to the handling of personal data.

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 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 on the underwriting side 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. With the "Strategy Cockpit" the Executive Board and responsible managers have at their disposal a strategy tool that assists them with the planning, elaboration and management of strategic objectives and measures and safeguards their overall perspective on the company and its strategic risks.

Reputational risks refer to the risk that the trust put in our company by clients, shareholders, employees or the public at large may be damaged. This risk has the potential to jeopardise the business foundation of the company. A good corporate reputation is therefore an indispensable prerequisite for our core business as a reinsurer. Loss of reputation may occur, for example, as a consequence of a data mishap or a case 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. As part of our liquidity management we have nevertheless defined asset holdings that have proven to be highly liquid – 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 we, as an internationally operating reinsurance company, are exposed as well as the steps taken to manage and monitor them. Individual and especially accumulation risks can potentially have a significant impact on our assets, financial position and net income. Yet consideration solely of the risk aspect does not fit our 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 risks in a timely manner and maximise our opportunities. The pivotal element in this regard is our effective 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 15 May 2012 diverges from the recommendations in three respects. The recommendations in question are that a cap on severance payments should be included when concluding or renewing an Executive Board contract (Code Item 4.2.3 Para. 4), that the Chairman of the Supervisory Board should not chair the Audit Committee (Code Item 5.2 Para. 2) and that the Chairman of the Audit Committee should be independent (Code Item 5.3.2). The reasons for these divergences are 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 Hannover Rückversicherung AG diverges in three respects from the recommendations contained in the version of the Code dated 15 May 2012:

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.

Code Item 5.2 Para. 2; Chairman of the Audit Committee

The current Chairman of the Supervisory Board of Hannover Rückversicherung AG served as the company's Chief Financial Officer in the period from 1994 to 2002. During this time he acquired superb knowledge of the company and he is equipped with extensive professional expertise in the topics that fall within the scope of responsibility of the Finance and Audit Committee. With this in mind, the serving Chairman of the Supervisory Board is optimally suited to chairing the Audit Committee. In the opinion of Hannover Rückversicherung AG, it is therefore in the interest of the company to diverge from the recommendation contained in Item 5.2 Para. 2.

Code Item 5.3.2; Independence of the Chairman of the Audit Committee

The current Chairman of the Audit Committee is at the same time also the Chairman of the Board of Management of the controlling shareholder and hence cannot, in the company's legal assessment, be considered independent. As already explained above in the justification for divergence from Code Item 5.2 Para. 2, the current Chairman of the Supervisory Board is, however, optimally suited to chairing the Audit Committee. This assessment is also not cast into question by the fact that the Committee Chairman cannot therefore be considered independent within the meaning of the German Corporate Governance Code. Furthermore, since his service as Chief Financial Officer of Hannover Rückversicherung AG already dates back ten years, it is also the case that the reviews and checks performed by the Finance and Audit Committee no longer relate to any period in which he himself was still a member of the Executive Board or decisions initiated by him as a member of the Executive Board were still being realised. In the opinion of Hannover Rückversicherung AG, it is therefore in the interest of the company to diverge from this recommendation contained in Item 5.3.2.

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

Hannover, 5 November 2012

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 consider the organic growth of our business volume, which exceeds the growth of the reinsurance market over the long term, to be a crucial success factor in this regard. This does not preclude temporary losses of market share. 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 and a share price performance that beats the weighted Global Reinsurance Index over a rolling three-year period.

When it comes to our staff, we pay special attention to their skills, experience and motivation, which we foster through our attractive workplaces, personnel development activities and leadership practices. 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. We put our trust in the greatest possible delegation of tasks, authorities and responsibility and thereby establish the conditions needed to be able to respond quickly and flexibly. We lead on the basis of Management by Objectives, we enable our employees to participate in our sustained success 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). This is not contradicted by the fact that for the first time in the year under review we did not comply with three recommendations of the Code, since a well justified deviation from the recommendations of the Code may – as in the present case – be in the interests of good corporate governance (cf. Foreword to the DCKG). Based on what is still a high degree of fulfilment of the recommendations and suggestions of the DCGK, Hannover Re continues to rank very highly among the companies listed on the DAX and MDAX.

In 2010 the Supervisory Board had set out in its Rules of Procedure the goal of increasing the number of women on the Supervisory Board to at least two (at the time no women were represented on the body). This goal was accomplished in 2012. In the middle of the year a concept designed to promote the advancement of women was adopted for the company's workforce and brought to the attention of the Supervisory Board. Through a variety of measures the company is seeking to do more to foster promising young female professionals and to enlarge the proportion of women in management positions. 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. In 2011 we defined for the first time a concrete Sustainability Strategy setting out our primary objectives in this field. Not only that, for the first time in the year under review we also presented a Sustainability Report and an initial so-called "GRI Report". Further information on the topic of sustainability is provided on our website (www.hannover-re.com/sustainability/index.html).

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 employees of Hannover Re. 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 2012 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 2013. 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 two circumstances of lesser importance 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 of Hannover Re applicable Group-wide 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 opportunity and 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. Currently, four of the six shareholder representatives are independent as defined by Item 5.4.2 of the German Corporate Governance Code. At least one independent member shall have technical expertise in the fields of accounting and the auditing of financial statements. 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.

In the year under review the Supervisory Board carried out another regularly scheduled audit of the effectiveness of its work. An extensive questionnaire addressed, among other aspects, issues such as the organisation of the Supervisory Board and the conduct of meetings, the cooperation between the Executive Board and the Supervisory Board and the supply of information to the Supervisory Board. The findings will be explained and discussed at the first Supervisory Board meeting of 2013.

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 service with the members of the Executive Board with the exception of matters of remuneration-related content and 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 83 to 85.

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 2012 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). In addition, we took into account the more specific provisions of DRS 17 "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 service 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 current remuneration model for the Executive Board of Hannover Re has been applicable since the 2011 financial year and was revised against the backdrop of regulatory developments with the involvement 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 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 attainment, the share of the total remuneration attributable to variable elements is 60%.

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

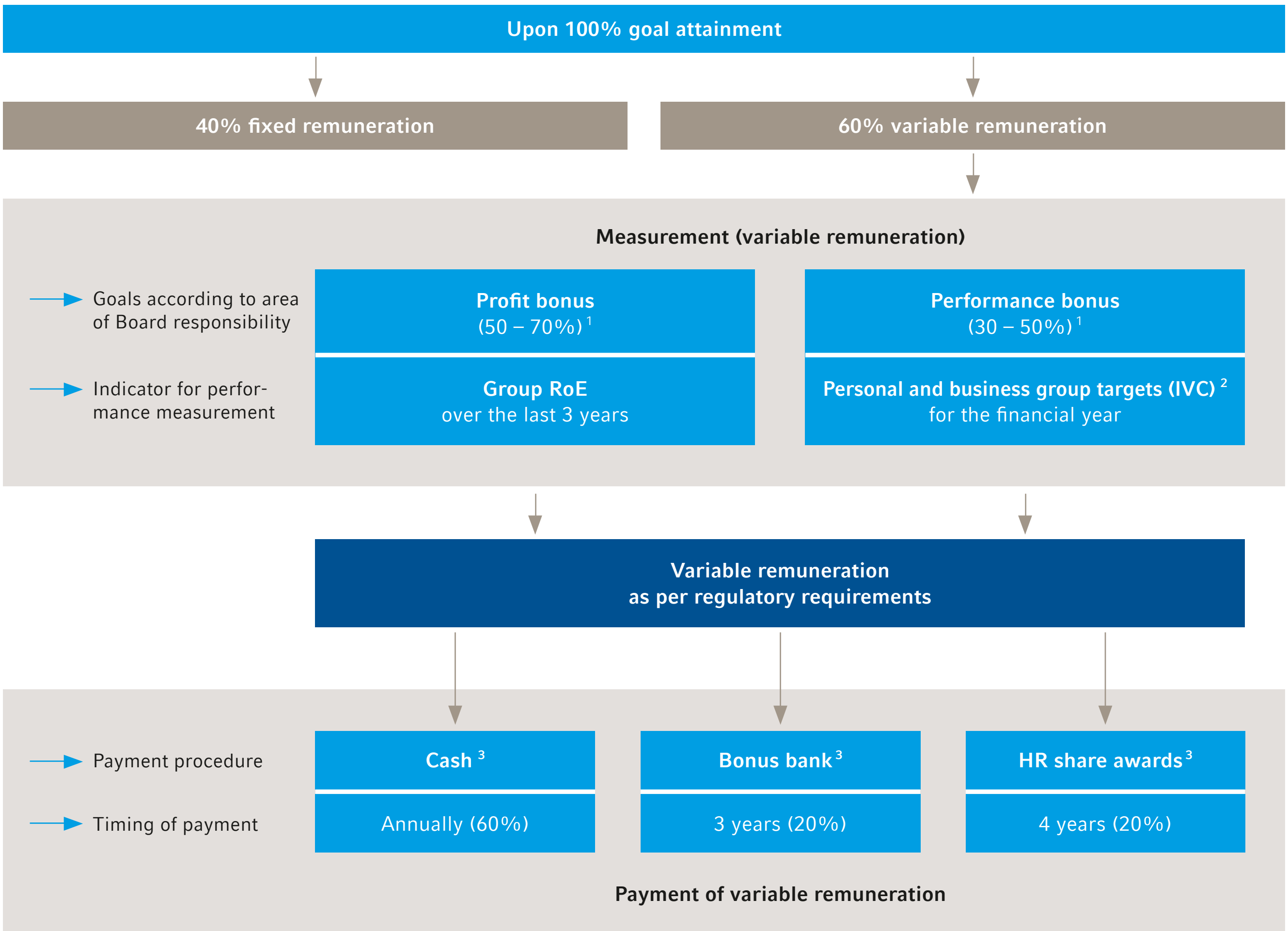
Measurement basis and payment procedures for fixed remuneration

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 attainment)

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

Overview of the composition of variable remuneration



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

[2] An instrument of value-based management used to measure the attainment of long-term goals 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 Chief Executive Officer/ Chief Financial Officer: 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 Chief Executive Officer/ Chief Financial Officer: 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 attainment 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 Chief Executive Officer/ Chief Financial Officer: 25%	Personal qualitative, quantitative targets; individual contribution to the overall result, 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 attainment according to its best judgement

[1] An instrument of value-based management used to measure the attainment of long-term goals 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 service contract 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 attainment 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 attainment 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 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 attainment is determined by the Supervisory Board according to its best judgement. The individual bonus for goal attainment of 100% is contractually defined. Overfulfiment and underfulfilment result in additions and deductions respectively. The lowest individual bonus amounts to EUR 0 and the highest is equivalent to double the bonus upon complete fulfilment of 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 finalised at the Supervisory Board meeting in March 2013. It is envisaged that the criteria adopted in March 2013 will apply retroactively from 1 January 2013 onwards.

For the 2012 financial year 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 service contract for 100% goal attainment 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.

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.

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.

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.

Variable remuneration under the old remuneration structure (until 2011)

The virtual stock option plan with stock appreciation rights existing under the old remuneration structure remains in force for all members of the Executive Board until all stock appreciation rights have been exercised or have lapsed. In the 2012 financial year no further stock appreciation rights were granted to active Board members. Of the stock appreciation rights granted in previous years, active and former Board members exercised amounts totalling EUR 3.0 million (EUR 0.8 million) in 2012.

As at 31 December 2012 active members of the Executive Board had at their disposal a total of 274,324 (505,463) granted, but not yet exercised stock appreciation rights with a fair value of EUR 2.2 million (EUR 3.4 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 service contract. 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 service contract, 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 service contract.

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 Paragraph 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 service contract, 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

Total remuneration received by active members of the Executive Board pursuant to DRS 17 (amended 2010)

Name	Financial year	Non-performance-based remuneration		Performance-based remuneration [1]	
		Basic salary	Non-cash compensation / fringe benefits [2]	Short-term	
				Variable remuneration payable	
in EUR thousand				60% [3]	Remuneration from seats with Group bodies [4]
Ulrich Wallin	**2012**	**364.0**	**10.5**	**430.6**	**0.0**
	2011	364.0	23.0	488.7	0.0
André Arrago	**2012**	**224.0**	**4.8**	**246.5**	**0.0**
	2011	224.0	7.1	246.8	0.0
Claude Chèvre	**2012**	**224.0**	**3.6**	**246.3**	**0.0**
	2011 (2 months)	37.3	120.5	45.3	0.0
Jürgen Gräber	**2012**	**280.0**	**14.5**	**308.1**	**0.0**
	2011	280.0	16.9	343.1	0.0
Dr. Klaus Miller	**2012**	**224.0**	**12.5**	**246.5**	**0.0**
	2011	224.0	7.6	264.4	0.0
Dr. Michael Pickel	**2012**	**224.0**	**6.7**	**246.5**	**0.0**
	2011	224.0	9.0	261.9	0.0
Roland Vogel	**2012**	**224.0**	**11.0**	**265.0**	**17.5**
	2011	224.0	14.1	299.5	13.2
Dr. Wolf Becke [9]	**2012**	**–**	**0.1**	**–**	**–**
	2011	210.0	10.1	312.0	18.7
Total	**2012**	**1,764.0**	**63.7**	**1,989.5**	**17.5**
Total [10]	2011	1,787.3	208.3	2,300.2	31.9

1 As at the balance sheet date no Board resolution was available regarding the performance-based remuneration for 2012. 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 In 2012 altogether EUR 2,200 more in variable remuneration was paid out to Board members for 2011 than had been reserved.
4 Remuneration from seats with Group bodies netted with the variable remuneration payable.
5 The nominal amount is stated; full or partial payment in 2016, depending on the development until such time of the balance in the bonus bank. In 2012 altogether EUR 600 more than had been originally reserved was allocated to the bonus bank for 2011.
6 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 2017 at the prevailing share price of Hannover Re. In 2012 nominal amounts of EUR 600 more than had been originally reserved were used as a basis for allocation of the 2011 share awards.
7 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). On account of the changeover from the stock appreciation rights programme to the Share Award Plan in 2011 and the different booking rules applicable to these schemes, DRS 17 requires that both share-based payment programmes be shown in 2011 even though they refer to different years. The stock appreciation rights granted to Dr. Becke in 2012 for 2011 were recognised at their fair value on the date when they were granted (13 March 2012).

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 for which the company is responsible.

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).

The remuneration (excluding pension payments) received by former members of the Executive Board totalled EUR 1.7 million (EUR 0.1 million).

	Performance-based remuneration [1]			Total	Number of share awards [8]
	Medium-term	Long-term			2011 = Actual 2012 = Estimate
	Bonus bank	Share awards	Stock appreciation rights		
in EUR thousand	20% (allocation) [5]	20% (allocation) [6]	Stock appreciation rights awarded for 2010 in 2011 and 2011 in 2012 [7]		
	143.6	**143.6**	**–**	**1,092.3**	**2,432**
	162.9	162.9	207.8	1,409.3	3,875
	82.2	**82.2**	**–**	**639.7**	**1,392**
	82.3	82.3	108.4	750.9	1,957
	82.1	**82.1**	**–**	**638.1**	**1,392**
	15.1	15.1	0.0	233.3	360
	102.7	**102.7**	**–**	**808.0**	**1,740**
	114.4	114.4	180.7	1,049.5	2,720
	82.2	**82.2**	**–**	**647.4**	**1,392**
	88.1	88.1	30.1	702.3	2,096
	82.2	**82.2**	**–**	**641.6**	**1,392**
	87.3	87.3	162.7	832.2	2,076
	88.3	**88.3**	**–**	**694.1**	**1,496**
	104.2	104.2	90.4	849.6	2,480
	–	–	74.9	75.0	–
	0.0	0.0	189.8	740.6	
	663.3	663.3	74.9	5,236.2	11,236.0
	654.3	654.3	969.9	6,606.3	15,564.0

8 In order to calculate the number of share awards for 2012 reference was made to the Xetra closing price of the Hannover Re share on 28 December 2012 (EUR 58.96). 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 2013. The applicable market price of the Hannover Re share had increased from EUR 38.325 (30 December 2011) to EUR 42.09 by the allocation date (13 March 2012) of the share awards for 2011; the share awards actually allocated for 2011 are shown here, not those estimated in the 2011 Annual Report.

9 The appointment of Dr. Becke ended on age grounds on 31 December 2011. He was therefore subject to the remuneration structure existing prior to 2011, i.e. the bonus bank and Hannover Re share awards components do not apply. The non-cash compensation for Dr. Becke in 2012 relates to telephone expenses arising out of his active service on the Executive Board that had still to be reimbursed.

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.

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

Name in EUR thousand	Year	Stock appreciation rights exercised	Change in reserve in 2012 for stock appreciation rights	Change in reserve for share awards from previous year [1]	Expense for share awards allocated in current financial year [2]	Total
Ulrich Wallin	**2012**	**287.9**	**(75.5)**	**89.4**	**143.3**	**445.1**
	2011	97.3	20.1	0.0	144.4	261.8
André Arrago	**2012**	**62.0**	**142.5**	**45.1**	**82.1**	**331.7**
	2011	0.0	46.3	0.0	72.9	119.2
Claude Chèvre	**2012**	**0.0**	**0.0**	**8.3**	**82.1**	**90.4**
	2011 (2 months)	0.0	0.0	0.0	13.4	13.4
Jürgen Gräber	**2012**	**470.1**	**(185.2)**	**62.6**	**102.6**	**450.1**
	2011	180.7	(61.5)	0.0	101.4	220.6
Dr. Klaus Miller	**2012**	**0.0**	**10.9**	**48.3**	**82.1**	**141.3**
	2011	0.0	6.0	0.0	78.1	84.1
Dr. Michael Pickel	**2012**	**417.8**	**(161.4)**	**47.8**	**82.1**	**386.3**
	2011	156.4	(46.3)	0.0	77.4	187.5
Roland Vogel	**2012**	**102.6**	**(20.3)**	**57.2**	**88.2**	**227.7**
	2011	31.5	20.2	0.0	92.4	144.1
Dr. Wolf Becke [3]	**2012**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
	2011	188.6	(64.5)	0.0	0.0	124.1
Total	**2012**	**1,340.4**	**(289.0)**	**358.7**	**662.5**	**2,072.6**
Total	2011	654.5	(79.7)	0.0	580.0	1,154.8

1 The change in the reserve for share awards from previous years derives from the increased market price of the Hannover Re share and the dividend approved for 2011.
2 The expense for share awards is spread across the remaining period of the individual service contracts. This gives rise to a difference relative to the nominal amount shown in the table of total remuneration.
3 Dr. Becke left the company on 31 December 2011. An expense in connection with the stock appreciation rights of Dr. Becke is therefore no longer recognised with respect to the active members of the Executive Board.

Cash remuneration actually accruing to active members of the Executive Board

Name in EUR thousand	Year	Fixed remuneration	Variable remuneration	Stock appreciation rights exercised	Total
Ulrich Wallin	**2012**	**364.0**	**489.2**	**287.9**	**1,141.1**
	2011	364.0	381.8	97.3	843.1
André Arrago	**2012**	**224.0**	**247.0**	**62.0**	**533.0**
	2011	224.0	234.7	0.0	458.7
Claude Chèvre	**2012**	**224.0**	**45.4**	**0.0**	**269.4**
	2011 (2 months)	37.3	0.0	0.0	37.3
Jürgen Gräber	**2012**	**280.0**	**343.4**	**470.1**	**1,093.5**
	2011	280.0	321.5	180.7	782.2
Dr. Klaus Miller	**2012**	**224.0**	**264.6**	**0.0**	**488.6**
	2011	224.0	49.8	0.0	273.8
Dr. Michael Pickel	**2012**	**224.0**	**262.1**	**417.8**	**903.9**
	2011	224.0	261.3	156.4	641.7
Roland Vogel [1]	**2012**	**224.0**	**317.4**	**102.6**	**644.0**
	2011	224.0	195.0	31.5	450.5
Dr. Wolf Becke [1, 2]	**2012**	**0.0**	**312.3**	**0.0**	**312.3**
	2011	210.0	344.7	188.6	743.3
Total [3]	**2012**	**1,764.0**	**2,281.4**	**1,340.4**	**5,385.8**
Total	2011	1,787.3	1,788.8	654.5	4,230.6

1 Remuneration for seats with Group bodies that is counted towards the variable remuneration accrues in the year of occurrence.
2 Dr. Becke left the company on 31 December 2011. Any exercises of stock appreciation rights on his part are therefore no longer reported for 2012 with respect to the active members of the Executive Board.
3 In 2012 altogether EUR 2,200 more in variable remuneration was paid to the members of the Executive Board for 2011 than had been reserved.

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.

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% 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 service contract, the service contract 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 service contract. 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 service contract 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 1 to 2 percentage points to a maximum of 50% upon reaching age 65. For the purpose of calculating the retirement pay for Board members appointed in the years up to and including 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.

Until age 65 is reached 50% of other income earned by the Board member is counted towards the retirement pay.

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 service contract, the service contract 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 service contract. 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 service contract – 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.

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 and alternatively the dependent children shall receive continued payment of the retirement pension for the month of death and the following six months.

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.

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) or 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).

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 0.9 million (EUR 0.7 million) in the year under review; an amount of altogether EUR 11.5 million (EUR 11.4 million) has been reserved for them.

Defined benefit commitments

Name in EUR thousand	Financial year	Attainable annual pension (age 65)	Amount of provision 31.12.2012	Personnel expense
Ulrich Wallin	**2012**	**154.0**	**1,836.40**	**36.9**
	2011	154.0	1,714.80	108.4
André Arrago	**2012**	**88.9**	**1,312.90**	**29.1**
	2011	88.9	1,223.50	78.2
Jürgen Gräber	**2012**	**111.0**	**1,231.60**	**24.8**
	2011	111.0	1,150.00	72.4
Dr. Michael Pickel	**2012**	**84.0**	**601.0**	**37.3**
	2011	84.0	537.2	57.6
Roland Vogel [1]	**2012**	**71.2**	**547.7**	**56.0**
	2011	49.3	346.2	30.4
Total	**2012**	**509.1**	**5,529.60**	**184.1**
Total	2011	487.2	4,971.70	347.0

[1] 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 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 and 2012. The guaranteed interest rate of his commitment is 3.25%.

Defined contribution commitments

Name in EUR thousand	Financial year	Annual funding contribution [1]	Attainable annual pension (age 65)	Premium
Claude Chèvre [2]	**2012**	**25%**	**47.7**	**56.0**
	2011	25%	47.7	56.0
Dr. Klaus Miller [2]	**2012**	**25%**	**34.0**	**56.0**
	2011	25%	33.8	56.0
Total	**2012**		**81.7**	**112.0**
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%

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.

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 for each EUR 0.10 average earnings per share (EPS) of the company. The measurement of this performance-based remuneration component according to the average earnings per share of the last three financial years ensures that the variable remuneration is geared to sustainable corporate development. The variable remuneration 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.

Individual remuneration received by the members of the Supervisory Board

Name in EUR thousand[1]	Function	Type of remuneration	2012	2011
Herbert K. Haas	Chairman of the • Supervisory Board • Standing Committee • Finance and Audit Committee • Nomination Committee	Fixed remuneration	60.0	60.0
		Variable remuneration	40.4	39.7
		Remuneration for committee work	45.0	46.5
		Attendance allowances	9.0	8.0
			154.4	**154.2**
Dr. Klaus Sturany	Deputy Chairman of the • Supervisory Board Member of the • Standing Committee • Nomination Committee	Fixed remuneration	45.0	45.0
		Variable remuneration	30.3	28.9
		Remuneration for committee work	7.5	3.7
		Attendance allowances	5.0	4.0
			87.8	**81.6**
Wolf-Dieter Baumgartl	Member of the • Supervisory Board • Standing Committee • Finance and Audit Committee • Nomination Committee	Fixed remuneration	30.0	30.0
		Variable remuneration	20.2	19.3
		Remuneration for committee work	22.5	23.0
		Attendance allowances	9.0	8.0
			81.7	**80.3**
Frauke Heitmüller[2]	Member of the Supervisory Board (from 3 May 2012)	Fixed remuneration	19.8	–
		Variable remuneration	12.9	–
		Remuneration for committee work	–	–
		Attendance allowances	2.0	–
			34.7	**–**

Continued on next page

Name in EUR thousand [1]	Function	Type of remuneration	2012	2011
Uwe Kramp [2]	Member of the Supervisory Board (until 3 May 2012)	Fixed remuneration	10.3	30.0
		Variable remuneration	7.4	19.3
		Remuneration for committee work	–	–
		Attendance allowances	2.0	3.0
			19.7	**52.3**
Karl Heinz Midunsky	Member (until 3 May 2011) of the • Supervisory Board • Nomination Committee	Fixed remuneration	–	10.3
		Variable remuneration	0.2	7.3
		Remuneration for committee work	–	–
		Attendance allowances	–	1.0
			0.2	**18.6**
Otto Müller [2]	Member of the Supervisory Board	Fixed remuneration	30.0	30.0
		Variable remuneration	20.2	19.3
		Remuneration for committee work	–	–
		Attendance allowances	4.0	3.0
			54.2	**52.3**
Dr. Andrea Pollak	Member of the Supervisory Board	Fixed remuneration	30.0	19.8
		Variable remuneration	19.9	12.0
		Remuneration for committee work	–	–
		Attendance allowances	4.0	2.0
		Reimbursement of expenses	–	5.9
			53.9	**39.7**
Dr. Immo Querner	Member of the Supervisory Board	Fixed remuneration	30.0	30.0
		Variable remuneration	20.2	19.3
		Remuneration for committee work	–	–
		Attendance allowances	4.0	3.0
			54.2	**52.3**
Dr. Erhard Schipporeit	Member of the • Supervisory Board • Finance and Audit Committee	Fixed remuneration	30.0	30.0
		Variable remuneration	20.2	19.3
		Remuneration for committee work	15.0	15.3
		Attendance allowances	7.0	6.0
			72.2	**70.6**
Gert Wächtler [2]	Member of the Supervisory Board	Fixed remuneration	30.0	30.0
		Variable remuneration	20.2	19.3
		Remuneration for committee work	–	–
		Attendance allowances	3.0	3.0
			53.2	**52.3**
Total			**666.2**	**654.2**

1 Amounts excluding reimbursed VAT
2 Employee representatives

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 for the variable remuneration 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 2012 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). The reportable transactions listed in the following table took place in the 2012 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 2012 amounted to 0.056% (0.055%) of the issued shares, i. e. 67,118 (65,862) shares.

Remuneration of staff and senior executives

Structure and system

The remuneration scheme for senior executives below the Executive Board (management levels 2 and 3) consists of a fixed annual salary and a system of variable remuneration. This is comprised of a short-term variable remuneration component, the annual cash bonus, and a long-term share-based remuneration component, the Share Award Plan. This variable remuneration has been uniformly applied worldwide since 1 January 2012 to all senior executives (i.e. Managing Directors, Directors and General Managers). It satisfies 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, inasmuch as – in its basic principles and parameters – it meets the special requirements of § 4 VersVergV and is appropriately realised according to the various management levels. As part of the reorientation of the remuneration system for senior executives the Share Award Plan of the Executive Board was consciously extended to include management levels 2 and 3. Given that at the same time the stock appreciation rights plan for senior executives was cancelled with effect from the 2012 allocation year, this means that a uniform share-based remuneration component has been maintained for the Executive Board and senior executives alike.

Members of staff on the levels of Chief Manager, Senior Manager and Manager are also able to participate in a variable remuneration system through the Group Performance Bonus (GPB). The Group Performance Bonus (GPB) is a remuneration model launched in 2004 that is linked to the success of the company. 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.

The group of participants and the total number of eligible participants in the variable remuneration systems of Hannover Re are set out in the table on the following page.

Securities transactions

Name	Type of transaction	Type of security	ISIN	Transaction date	Number of shares	Price in EUR	Total volume in EUR
Irene Arrago (mother of André Arrago)	Purchase	Share	DE0008402215	28.8.2012	750	48.00	36,000.00

Group of participants and total number of eligible participants in variable remuneration systems
Valid: 31 December 2012

Participants	Level		Variable remuneration system	Number of eligible participants in the variable remuneration system
Managing Director	E1MD	Management level 2	Cash bonus and Share Award Plan	**Home Office Hannover** 547 staff (excl. seconded employees) out of the altogether 1,146 at Hannover Home Office (incl. 89 senior executives) are GPB-eligible.
Director	E2D	Management level 3		
General Manager	E2GM			
Chief Manager	E3CM		Group Performance Bonus (GPB)	
Senior Manager	E3SM			
Manager	E4AU			
Deputy Manager	E4DA			
Assistant Manager	E5			
Staff undergoing job familiarisation	E6			

Measurement of variable remuneration for senior executives

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%. Agreements on business group targets and individual targets as well as on their degree of goal attainment are arrived at as part of the Management by Objectives (MbO) process.

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 Director) and 0% for management level 3 (Director and General Manager).

If the average return on equity over the last three financial years reaches the risk-free interest rate, goal attainment is 0%. The risk-free interest rate is the average market interest rate over the past five years for 10-year German government bonds. If the average return on equity over the last three financial years is less than the risk-free interest rate or if it is negative, this results in a negative performance contribution/degree of goal attainment for management level 2 (Managing Director). If the average return on equity over the last three financial years reaches the expected minimum return on equity (750 basis points above risk-free), goal attainment stands at 85%. Given an average return on equity over the last three financial years of 882 basis points above the applicable risk-free interest rate, goal attainment of 100% is recorded.

The measurement of the business group targets – which in the case of the treaty/regional departments account for 40% of overall goal attainment – 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%.

Attainment of the agreed IVC results in goal attainment of 100%. Outperformance of the business group targets, i. e. a degree of goal attainment in excess of 100%, requires at least the agreement and attainment of a positive IVC. Furthermore, a degree of goal attainment in excess of 100% should be geared to a real comparison of planned IVC with actual IVC. A maximum degree of goal attainment of 150% is conditional upon attainment of an excellent positive IVC and implies that the actual IVC of the business group is significantly in excess of the planned IVC.

Individual targets are agreed and measured for a period of one year. The degree of goal attainment is between 0% and 100%.

Amount and payment of variable remuneration for senior executives

The overall degree of goal attainment determines the amount of variable remuneration including share awards. On management level 2 (Managing Director) 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 (Director and General Manager) the variable remuneration is split into 65% cash payment and 35% granted as share awards.

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%

On management level 3 (Director and General Manager) the minimum variable remuneration amounts to EUR 0 on the premise that the degree of attainment for all goals is 0%. For management level 2 (Managing Director) in treaty/regional departments the minimum limit for the variable remuneration is set at -10% if the degree of goal attainment for Group net income is -50% while at the same time goal attainment of 0% is determined for the business group targets and individual targets. For management level 2 (Managing Director) in service departments -20% of the variable remuneration is possible as the lower limit, if the degree of goal attainment for Group net income is -50% and at the same time goal attainment of 0% is determined for the individual targets.

In view of the fact that outperformance of up to 200% is possible for Group net income and up to 150% for business group targets, a maximum total degree of goal attainment of 140% can be attained in both treaty/regional departments and service departments. Given outperformance of all targets, a maximum of 140% of the variable remuneration can therefore be attained on management levels 2 and 3.

Allocation and payment of share awards to senior executives

The total number of share awards allocated 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, insofar as dividends were distributed to shareholders. 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.

In the case of the allocation and payment of share awards to participants in the Share Award Plan who are located abroad, the rate of exchange used to convert the average share price is the average of the relevant exchange rate 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. For payment of the dividend to participants in the Share Award Plan who are located abroad, the rate of exchange used to convert the dividend per share is the average of the relevant exchange rate in a period from 20 trading days before to 10 trading days after the Annual General Meeting that approves the dividend payment for the financial year just ended.

The cash bonus will be paid for the first time in June 2013 for the 2012 financial year. In view of the fact that the share awards will also be allocated for the first time in June 2013 for the 2012 financial year, they will be paid out for the first time in the spring of 2017 including dividends paid for the 2012, 2013, 2014 and 2015 financial years.

Forecast

Economic development

The forecast for the global economy in 2013 is subject to numerous uncertainties. As the world economy put 2012 behind it and moved into 2013, it was heavily overshadowed by the Eurozone crisis and the unpredictable direction of fiscal policy in the United States. At the beginning of 2013, it was only after an agonising struggle that an initial last-minute compromise was reached in the US budget dispute surrounding the so-called fiscal cliff. What is more, the pace of growth in emerging markets remains muted.

All in all, developments in 2013 will depend first and foremost on how the crisis in the Eurozone unfolds. Just how well it is managed will in turn depend on the success of consolidation measures taken by the individual member states. In its basic scenario for the current year, the Ifo Institute assumes that member states will continue unchanged and on schedule along the path towards consolidation and that there will be no re-escalation of the financial situation in the Eurozone.

Mature national economies will be dominated in 2013 by the consolidation efforts undertaken in the private and public sector and their fundamentally restraining effect on economic activity. This tendency will be assisted above all by a monetary policy set on keeping interest rates extremely low. If governments act systematically on their moves towards reform, the trust of investors, the business community and households in the stabilisation of the Eurozone will likely begin to grow again. In the United States output is expected to trend higher, accompanied by stronger domestic demand. In many emerging markets, too, the measures taken in the areas of monetary and fiscal policy will likely make themselves felt and have a favourable effect on the economy. Disposable incomes will probably rise, thereby stimulating private consumption. The Kiel Institute for the World Economy estimates growth of 3.4% in global real GDP.

At the beginning of the year a looming recession in the United States was narrowly averted after Democrats and Republicans found a last-minute solution to the budget wrangling over the fiscal cliff. The debt level and deficit reduction will nevertheless continue to be the issues which shape economic policy. However, the debate about raising the debt ceiling and the question of automatic spending cuts will require further negotiations between the parties. An economic upturn early in 2013 is unlikely because uncertainties in US fiscal policy are still hampering the willingness of companies to commit to capital expenditures. Nevertheless, as the year goes on the upswing in investment in residential construction and favourable effects on the labour market could stimulate private consumption and give fresh impetus to the tame pace of economic growth. The export sector is expected to deliver only minimal stimuli, since weak demand from key US trading partners – such as in the Eurozone – is hindering any rise in exports. Demand for imports in the US will probably also remain low as a consequence of the ongoing consolidation efforts. Overall, exports may pick up slightly. According to the calculations of the Ifo Institute, GDP will likely grow by 1.6% in 2013.

Within the Eurozone the situation will doubtless vary from country to country. Private consumption and public spending will remain muted on account of the restrictive fiscal policy. Domestic demand is therefore likely to decline, as a consequence of which corporate investment will probably also contract further – at least in the first half of the year. Positive stimuli are expected to come from the export sector, for which orders from foreign markets outside Europe are particularly important. In view of the weak state of the economy, further increases in jobless rates are to be expected; allowing for considerable regional differences, the Ifo Institute estimates the average unemployment rate in 2013 could be as high as 12.2%. Private consumption will probably also continue to fall, at least for the time being, although it may stabilise towards the end of 2013. All in all, the Ifo Institute forecasts a contraction of 0.2% in GDP for 2013.

Germany enters the 2013 financial year with a diminished pace of growth. Working on the assumptions of its basic scenario, i. e. that there will be no further intensification of the crisis in the Eurozone and that consolidation measures will be systematically implemented, the Ifo Institute anticipates a delayed upturn in Germany over the course of the year. This may be driven by stimuli from the domestic economy as well as by growing non-European demand for German export goods. As a result, private consumption and equipment spending could also pick up again; exports may begin to rise again as well. No appreciable improvement is expected on the labour market for the time being; unemployment will probably rise slightly to 6.9%. According to the Ifo Institute, GDP should grow by around 0.7% overall.

Additional stimulus packages will likely be approved in China so as to enable the country to achieve its growth targets. The Ifo Institute anticipates an increase of 9.0% in GDP. Driven by rising exports to China and the United States, the Indian economy could also see further modest expansion. GDP in India will likely grow by 4.6% overall. In Japan, on the other hand, the economy is hampered by weak demand for exports; an increase of just 0.8% in GDP is expected.

Capital markets

In 2013 international bond markets will probably still be shaped by low interest rates. In the relevant currency areas for our company we expect at most marginal increases in key interest rates. After the European Central Bank had further cut interest rates in 2012 on account of the tense economic situation, hikes in key rates will likely only be seen in 2013 if there is a sharp rise in prices. Given the current state of the economy and the unemployment numbers, the US Federal Reserve Board can probably only take initial steps towards a more restrictive monetary policy late in 2013 at the earliest. Against the backdrop of the sustained expansionary fiscal policy and the uncertainty stemming from the Eurozone debt crisis, German and US government bonds will remain persistently on a low level. Yields may, however, pick up slightly in longer maturity segments. Sovereign debt with high credit spreads issued by member states of the single European currency that are currently under the spotlight may see some stabilisation in 2013. Last but not least, the incremental strategy adopted for solving the Euro debt crisis will lead to further volatility on capital markets. The necessary consolidation of public finances will continue to drag on the economic climate.

Insurance industry

In 2013 the international insurance industry once again finds itself facing the challenge of negotiating an uncertain market climate and economic situation. The financial and debt crises in Europe have still not been resolved and are casting a shadow over international markets. Despite this general environment, the insurance sector will probably be able to maintain its stable course. Given that there has been no easing in competition, the challenge of generating more growth is likely to be the dominant topic again.

The improvement of risk management systems remains a key concern for insurers. As a general principle, investment strategies will likely take a long-term view. Life insurers, in particular, face the problem of creating attractive individual retirement provision products for consumers despite the sustained policy of low interest rates. In view of climate change, strategies to protect against risks associated with the repercussions of extreme weather conditions are taking on increased significance around the world.

The German insurance industry anticipates a robust development in 2013. Assuming that the economy as a whole does not deteriorate, the German Insurance Association (GDV) expects premium income to build on 2012 with another moderate increase.

Primary insurance business is becoming increasingly internationalised around the world. This trend will likely continue in the coming years, even if the business written by primary insurers remains essentially national by nature. The move towards uniform competitive standards within the European insurance market has met with delays: preparations for implementation of the European Solvency II Directive are still ongoing. Solvency II will bring about fundamental Europe-wide reform of insurance supervision and solvency requirements.

Non-life reinsurance

Overview

Market developments in non-life reinsurance have been broadly satisfactory so far, although competition has intensified sharply in the current financial year. The greater competitive intensity can be attributed above all to the fact that sufficient capacity is generally available in the market, as a consequence of which the supply of reinsurance protection – especially in mature markets – exceeds demand. A further factor here was the move by many ceding companies to retain more business for net account. The situation is different in many emerging markets, where demand for reinsurance covers is rising on the back of increased business in the primary sector.

We were satisfied with the renewals as at 1 January 2013, when around two-thirds of our treaties in non-life reinsurance (excluding facultative business and structured reinsurance) were renegotiated. Although the environment was considerably more competitive than in the previous year, our selective underwriting approach enabled us to attain a price level at least equivalent in quality to the good year of 2012. In the more profitable non-proportional sector we generated pleasing growth of 6%. Proportional business, on the other hand, contracted slightly.

Although prices declined in markets and segments that had suffered few losses in 2012 – such as aviation –, the business is still profitable. In regions and lines that had incurred significant losses, it was possible to push through sometimes appreciable price increases. The most substantial hikes were obtained in marine reinsurance: in view of the losses from the wreck of the "Costa Concordia" cruise ship as well as from Hurricane Sandy, rates in marine business moved sharply higher under both loss-impacted programmes and those that had been spared any loss expenditures. We also booked further sizeable price increases for non-proportional motor liability covers in the United Kingdom.

The development of our North American portfolio was very pleasing, although in US casualty business there was a noticeable trend towards clients ceding less and less business to reinsurers.

We see growth potential in Latin America, the countries of Central and Eastern Europe and in business with agricultural risks.

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

Target markets

As far as primary insurance business in **Germany** is concerned, we expect premium income to grow. The business volume in our portfolio is likely to remain virtually stable owing to changes in the reinsurance structure. With the implementation of Solvency II postponed again until probably after 2016, the expected surge in demand for reinsurance protection will be delayed – although in certain isolated cases we did see our clients decide to increase their purchasing of reinsurance protection.

The situation in motor insurance should continue to improve. As regards the loss-making state of affairs in fire and fire loss of profits insurance we are also seeing efforts to rehabilitate the business in the current year. Overall, given the protracted low level of interest rates and the associated difficulties in generating sufficient investment income, it is our expectation that the discipline shown on the technical pricing side will be maintained.

The treaty renewals as at 1 January 2013 for our portfolio in **North America** delivered a pleasing outcome in terms of the rate level. Demand for high-quality reinsurance protection continued to rise in these markets too. Rates in US property business were broadly stable, although increases were obtained owing to the effects of so-called "Superstorm Sandy". The trend towards an adequate rate level should also be sustained on the casualty side in 2013. We shall continue to benefit from this as the year progresses, since barely half of our North American portfolio was renewed on 1 January 2013. In some areas, including for example professional indemnity, we noted a trend towards clients carrying higher retentions. In Canada we are seeing a stable market environment with indications of further improvements in rates, and we are therefore looking to expand our portfolio here.

For the current financial year we anticipate an enlarged premium volume, driven both by new business and the enlargement of existing participations. We are also seeking to further expand our agency business. All in all, we expect the result generated by our portfolio in North America to show further improvement on the previous year.

Specialty lines

We were satisfied with the treaty renewals in specialty lines.

In **marine business** we expect premium volume to rise in the current year. Given the loss events of 2012, including the wreck of the "Costa Concordia" cruise ship, increased prices and improved conditions are anticipated for marine business. Higher sums insured for offshore risks will be reflected in moderate price increases in this area too. In the other lines, such as hull, cargo and marine liability, the rate environment is likely to remain broadly stable, although higher prices should be attainable under loss-impacted programmes. We continue to strive for further diversification in international markets. Price increases are particularly likely in Protection & Indemnity (P&I) business. The heavy losses caused by Hurricane Sandy helped to improve rates.

Based on our very good positioning we also see good business prospects in **aviation reinsurance**. Although rates softened slightly in the renewals, the business is still very attractive. We further enlarged our client base, most notably in the BRIC countries. Gross premium volume is expected to grow in the current financial year.

Unless the state of the global economy improves, claims rates in **credit and surety reinsurance** will again tend to move higher in the current financial year. With this in mind, as in the previous year, we are not seeking to expand our market share in 2013, but rather to maintain our share unchanged. In view of the considerable capacities in the market we shall continue to write our business highly selectively. The premium volume for our credit and surety business is likely to remain stable in the current financial year.

Our business with **structured reinsurance products**, in which we offer our clients tailored and innovative reinsurance solutions, is expected to enjoy stable or rising demand again in the current financial year. This is especially true in light of the more exacting requirements placed on companies' capital resources. More and more emerging markets are adopting risk-based solvency systems, which should prompt further demand for surplus relief treaties – which ease the strain on a ceding company's surplus and assist with fulfilment of solvency requirements imposed by regulators. Overall, the premium volume should increase slightly.

We intend to further 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. Our collateralised reinsurance portfolio will also be systematically expanded, and we shall continue to play an active part as an investor in catastrophe bonds.

In 2013 we were able to renew our "K" quota share – a collateralised modelled quota share cession of non-proportional reinsurance treaties in the property catastrophe, aviation and marine (including offshore) lines that we have placed in the ILS market for almost 20 years – with a capacity of USD 328 million.

We anticipate a further rise in premium income for our non-proportional reinsurance business in the **United Kingdom** in 2013. In the other lines we expect the price level to remain stable. Our involvement in non-proportional motor reinsurance will be expanded. While our Irish portfolio is currently still modest, we are seeking to further enlarge it in the years ahead. Our **direct business** in South Africa is also expected to deliver an increased premium volume.

Global reinsurance

Treaty reinsurance worldwide

The premium volume for our portfolio of global treaty reinsurance is expected to remain stable.

Although improved conditions have been anticipated for several years in **France**, a trend towards higher prices cannot currently be discerned. On average, we are assuming prices will be slightly lower in 2013. The premium volume should remain stable overall.

In the **Netherlands**, where more mergers are likely, we expect to see a stable premium level in catastrophe business, slight erosion for casualty covers and a rate decline for property business. With that in mind, a modest contraction in gross premium volume is anticipated.

In the markets of **Central and Eastern Europe** demand for high-quality reinsurance protection should remain strong in 2013 and beyond. We expect reinsurance rates to remain stable overall. Despite the worldwide financial and economic crisis, we are convinced that further profitable growth can be generated here going forward. It is our assumption that the premium volume in the current financial year will again show double-digit growth.

In most **Latin American** countries we expect reinsurance conditions to worsen and rates to fall on the back of the low losses recorded in the previous year. The premium volume should, however, remain stable. Rates in Brazil are expected to remain broadly unchanged. Demand for (re)insurance covers is likely to continue rising here, driven by extensive construction activity and energy projects in the run-up to the 2014 FIFA World Cup and the Olympic Games two years later. In the next four years alone, for example, 50 hydroelectric power plants are to be built. Not only that, all the needs of a growing middle class will help to further boost demand for insurance products. In Argentina the regulatory restrictions placed on foreign reinsurers are continuing to hamper premium growth in this market.

In view of the more exacting local capital requirements we expect to see rising demand in **Japan**. Rates for catastrophe covers should stabilise on a high level. Our premium volume will likely show a modest increase in the current financial year.

The region of **Southeast Asia** is expected to deliver an enlarged premium volume for our portfolio. Appreciable growth in business with agricultural risks is likely in India, although this line is also developing very well in the markets of Indonesia, Malaysia and Vietnam. Further growth stimuli are anticipated from the implementation of risk-based capital models and the associated more demanding solvency requirements.

Market conditions in **China** continue to be competitive, and rates must therefore be expected to soften. With this in mind, we are writing our business highly selectively. Growth potential is evident in the areas of agricultural risks, aviation and credit/surety, where we are looking to further enlarge our portfolio.

Premiums and conditions for the markets of **Australia and New Zealand** are expected to be adequate in the current financial year. Higher capital requirements should be reflected in greater demand for capacity. Overall, we expect a slightly larger premium volume from this region.

In the area of **agricultural covers** we obtained stable or slightly higher prices in the treaty renewals as at 1 January 2013. Under programmes that had incurred losses rates increased accordingly and conditions improved. In view of the growing demand for food and with weather conditions becoming increasingly extreme, we can anticipate a continued rise in demand for agricultural covers; further significant premium growth is therefore likely in 2013 and 2014. We shall stand by our strategy of geographical diversification in the years ahead.

Retakaful business will again be heavily influenced in the current year by major investments in infrastructure and in the energy and construction sectors, first and foremost in relation to sports. We shall remain focused on expanding profitable business; this includes construction risks and liability covers in Qatar and Abu Dhabi as well as participations in energy business. The gross premium volume for our total portfolio of retakaful business should rise in 2013.

Global catastrophe business

In part owing to the low interest rate environment, further capital can be expected to flow into global catastrophe reinsurance. As was already observed in the past year, activities in the area of insurance-linked securities should continue to gather momentum in 2013. As an additional factor, the (re)insurance industry enjoyed a thoroughly successful 2012, hence leaving the capital base of insurers further strengthened. Nevertheless, the losses incurred from Hurricane Sandy should help to significantly ease the pressure for price reductions. Both the impacted programmes and those with a negative experience from earlier loss events should see marked rate increases. We expect to show a modest increase in our premium volume from global catastrophe business.

Global facultative reinsurance

Given the varied nature of demand for facultative covers, we believe that the current year offers further good prospects for generating profitable growth. Market conditions are favourable overall, and we expect rates to hold broadly stable. In the area of energy production, however, rates are likely to come under increasing pressure. Price increases should be possible under treaties that suffered losses. Both in Latin America and in Europe we are looking to enlarge our profitable catastrophe business and non-proportional property business. The premium volume for our total portfolio of facultative covers is expected to rise.

Life and health reinsurance

Hannover Re has for years been an internationally established and valued business partner in the field of life, annuity and health reinsurance.

In the markets of Central and Eastern Europe we have already acquired numerous new clients in recent years through our successful activities. Over the coming years we anticipate a similarly large business potential and will therefore continue our systematic cultivation of the region. The Asian markets around China also offer promising prospects on account of their vigorously growing economies. Demand here remains exceptionally strong in the area of financially oriented reinsurance solutions. We are equally confident of our ability to successfully maximise the available business opportunities in the Latin American market.

In industrial nations the demographic shift is reflected most strikingly in demand for longevity covers. Retirement provision, pension and long-term care insurance products are enjoying growing demand among an ageing population. This sector therefore remains an important growth market for our company in which we see strong business potential.

Implementation of Solvency II, which was planned for 2013, has been postponed again. It is anticipated that the rules will probably not fully come into effect until after 2016. The new, more rigorous regulatory requirements – including for example the putting up of adequate risk capital, the implementation of risk-based enterprise management and the more extensive reporting and disclosure duties – will nevertheless continue to preoccupy European insurers and reinsurers.

In the coming year we anticipate stable premium growth in life, annuity and health reinsurance. We shall continue to attach great importance to the profitability of our business and expect further positive results going forward. In view of the favourable framework conditions, it is to be assumed that the proportion of Hannover Re's total portfolio deriving from this business group will remain on a consistently high level.

Our business opportunities and risks

Non-life reinsurance

Irrespective of statements made regarding individual markets in non-life reinsurance, it should be noted – as in past years – 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.

Two major trends emerged in the demand for reinsurance protection in the year under review. Firstly, financially strong insurers are raising their retentions and carrying a larger share of the risk themselves. As a result, the proportion of administrative expenses caused by basic losses has been reduced for reinsurers. Secondly, diversification considerations are continuing to take on added importance when it comes to buying reinsurance, in part against the backdrop of risk management requirements. As these developments gather momentum they entail risks for reinsurers, but also offer opportunities.

The continued strained economic state of some member countries of the single European currency, combined with the protracted low level of interest rates, is stepping up the pressure on investment income. Many fixed-income investments made in years when the yield curve was higher are gradually maturing. For companies seeking to achieve their earnings targets primarily by eliminating reserve redundancies, the protracted low interest rate environment is increasingly becoming a critical factor as the volumes available for reserve releases dwindle from period to period. These effects serve to ratchet up even further the demands placed on a profit-oriented underwriting policy – a situation which in 2012 was again reflected in a stable price level. Price increases, however, could only be pushed through in light of the supply environment, which was characterised by sufficient availability of reinsurance capacity. This underscores the significance attached to a high service quality and sustainable innovation management.

Actors with efficient processes and structures can in fact profit from the current economic situation by using the margins made possible by their low costs as competitive advantages. Profitable growth can be safeguarded, in particular, by taking a forward-looking approach to emerging risks such as climate change, health risks (e. g. through resistance to antibiotics or due to endocrine disruptors) as well as cyber risks such as digital wildfires. Furthermore, major losses such as Hurricane Sandy (2012), the floods in Thailand (2011) and the earthquakes in Japan and Australia (2011) have shown that not only the continuous enhancement and rechecking of models but also the assurance of rapid, objective and reliable major loss management so as to be able to meet client concerns in a flexible manner are crucial success factors.

Life and health reinsurance

Stable growth and minimal exposure to random fluctuations in results are the traditional hallmarks of life and health reinsurance that make it an attractive business sector.

Nevertheless, life and health reinsurance is subject to technical and economic risks. The most significant economic risks are the interest rate risk, counterparty / default risk and exchange rate risk, which are influenced principally by the international economic environment and developments on financial markets. The technical risks include, above all, mortality, longevity, morbidity, disability and lapse. If the actual loss experience of the individual risks contained in the portfolio diverges from the previously calculated assumptions, this can have adverse implications for the performance of the underlying business. We counter this risk by adequately and appropriately selecting the basic arithmetical assumptions and by systematically and continuously reviewing the biometric actuarial bases. In addition, we take care to ensure adequate and complete reserving of all technical liabilities and we take into account the diversification of the portfolio as a whole, both geographically and in terms of risk types. We attach extraordinarily great importance to our risk management and thereby safeguard corporate profitability.

The progressive demographic shift and vigorously growing national economies with an increasingly affluent middle class are sustaining strong demand both for reinsurance solutions in the areas of seniors', long-term care and annuity covers and for products designed to protect the family, preserve wealth and safeguard health. Going forward, then, the life and health reinsurance market continues to offer promising business prospects not only in mature markets such as the United States, United Kingdom, Japan and Germany but also in growth and emerging markets such as India, Brazil and Russia.

In addition, particularly attractive business opportunities are available in the optimisation of capital, liquidity and risk management. The planned implementation of Solvency II will play a pivotal role here. Individually tailored reinsurance concepts will come into sharper focus on account of the possibility of using reinsurance solutions to reduce the risk capital that insurers are required to hold to cover risks.

Under these conditions, we are looking positively to the future development of life and health reinsurance business. In the years ahead, as in the past, we anticipate healthy earnings opportunities that will contribute to the stability of Hannover Re's overall portfolio.

Investments

Against the backdrop of the European debt crisis – which has still to be overcome – and the 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 be kept largely unchanged. What is more, we shall strive for a neutral maturity structure of assets and liabilities.

We expect the further enlargement of the investment portfolio to positively affect investment income, although the average return will decline owing to the protracted low level of interest rates. In view of the low returns on secure investments, we shall step up our investments in products with attractive risk premiums and selectively enlarge our portfolio in the areas of alternative investments and real estate.

Given the present economic expectations and high capital requirements, our cautious stance on investments in listed equities remains unchanged.

Outlook for the full 2013 financial year

In the current year we anticipate a good overall result for Hannover Re. Based on constant exchange rates we expect further growth in our gross premium.

The expected positive cash flow that we generate from the technical account and the investments themselves should – subject to stable exchange rates – lead to further growth in our asset portfolio. We are targeting a return on investment of 3.4%.

Bearing in mind the satisfactory to good market conditions described above in non-life and life and health reinsurance as well as our strategic orientation, we are looking forward to a good financial year in 2013. For 2013, as in recent years, we are therefore aiming for a dividend in the range of 35% to 40% of Group net income.

Outlook for 2014/2015

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

In non-life reinsurance we anticipate stable growth in premium volume. We are looking to generate an EBIT margin of at least 10%.

In the coming years, as in recent years, organic growth of between 5% and 7% should be attainable in life and health reinsurance. We expect an EBIT margin of at least 6% for the areas of mortality and morbidity business; in financial solutions and longevity business an EBIT margin of at least 2% is anticipated.

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 the company 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 (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 33 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

Figures in EUR	2012
Payment of a dividend of EUR 2.60 on each eligible no-par value share	313,552,548.40
Payment of a bonus of EUR 0.40 on each eligible no-par value share	48,238,853.60
Profit carried forward to new account	89,208,598.00
Disposable profit	**451,000,000.00**

Events after the balance sheet date

In a press release dated 21 February 2013 we announced the completion of another block transaction for longevity risks in our life and health reinsurance business group. Under the transaction pension obligations assumed by a UK cedant are transferred to Hannover Re with contractual effect from 31 January 2013. Hannover Re assumes only the biometric risk under this transaction, not the investment risk. The parent company anticipates gross premium in the mid-double-digit million euro range from the transaction in 2013. Premium income over the entire term is expected to come in between one and two billion euro.

Accounts

Balance sheet as at 31 December 2012

Assets in EUR thousand	2012				2011
A. Intangible assets					
I. Purchased franchises, trademarks, patents, licences and similar rights and assets			23,216		25,949
II. Prepayments on intangible assets			712		395
				23,928	**26,344**
B. Investments					
I. Land and buildings, rights to land and buildings, leasehold			31,717		18,739
II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies		5,075,979			4,932,678
2. Loans to affiliated companies		228,147			226,797
3. Participating interests		61,626			60,870
4. Loans to enterprises in which the company has a participating interest		0			0
			5,365,752		5,220,345
III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities		1,135,709			1,112,650
2. Bearer debt securities and other fixed-income securities		11,317,141			9,122,497
3. Other loans					
a) Registered debt securities	539,941				669,391
b) Debentures and loans	768,081				877,316
c) Sundry loans	7,000				30,000
		1,315,022			1,576,707
4. Deposits with banks		357,757			429,166
5. Other investments		12,227			13,256
			14,137,856		12,254,276
IV. Deposits with ceding companies			10,916,677		9,512,253
				30,452,002	**27,005,613**

Liabilities
in EUR thousand

	2012				2011
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.	380,000				379,187
Withdrawal	1,021				–
Allocation	1,021				813
as at 31.12.		380,000			380,000
			380,511		380,511
IV. Disposable profit			451,000		294,000
				1,832,716	**1,675,716**
B. Subordinated liabilities				**1,800,000**	**1,300,000**
C. Technical provisions					
I. Provision for unearned premiums					
1. Gross		1,568,185			1,413,663
2. Less: reinsurance ceded		273,844			250,552
			1,294,341		1,163,111
II. Life assurance provision					
1. Gross		10,089,567			8,881,883
2. Less: reinsurance ceded		1,913,469			1,681,376
			8,176,098		7,200,507
III. Provisions for outstanding claims					
1. Gross		16,782,226			16,091,692
2. Less: reinsurance ceded		3,488,995			3,440,324
			13,293,231		12,651,368
IV. Provision for bonuses and rebates					
1. Gross		765			842
2. Less: reinsurance ceded		492			514
			273		328
V. Equalisation reserve and similar provisions			2,385,254		2,044,597
VI. Other technical provisions					
1. Gross		155,741			157,813
2. Less: reinsurance ceded		28,380			30,394
			127,361		127,419
				25,276,558	**23,187,330**

Accounts

Assets in EUR thousand	2012				2011
C. Receivables					
I. Accounts receivable arising out of reinsurance operations			1,760,255		2,513,484
from affiliated companies:					
444,734 (2011: 449,136)					
II. Other receivables			435,917		257,264
from affiliated companies:				**2,196,172**	**2,770,748**
377,175 (2011: 191,432)					
D. Other assets					
I. Tangible assets and stocks			15,326		15,669
II. Current accounts with banks, cheques and cash in hand			196,712		193,695
III. Sundry assets			17,029		2,134
				229,067	**211,498**
E. Prepayments and accrued income					
I. Accrued interest and rent			176,340		149,911
II. Other accrued income			2,844		3,205
				179,184	**153,116**
Total assets				**33,080,353**	**30,167,319**

Liabilities in EUR thousand	2012				2011
D. Provisions for other risks and charges					
I. Provisions for pensions and similar obligations			65,799		62,071
II. Provisions for taxation			149,749		140,161
III. Other provisions			120,357		147,809
				335,905	**350,041**
E. Deposits received from retrocessionaires				**2,882,346**	**2,359,263**
F. Other liabilities					
I. Accounts payable arising out of reinsurance operations			810,941		1,234,675
to affiliated companies:					
288,420 (2011: 337,182)					
II. Liabilities due to banks			–		453
III. Miscellaneous liabilities			141,887		59,835
thereof				**952,828**	**1,294,963**
from taxes:					
2,323 (2011: 1,917)					
for social security:					
6 (2011: 6)					
to affiliated companies:					
131,979 (2011: 52,479)					
G. Accruals and deferred income				–	**6**
Total liabilities				**33,080,353**	**30,167,319**

Profit and loss account for the 2012 financial year

in EUR thousand			2012 1.1.–31.12.	2011 1.1.–31.12.
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross written premiums	10,457,301			9,130,245
b) Retrocession premiums	2,509,057			2,050,164
		7,948,244		7,080,081
c) Change in the gross provisions for unearned premiums	(166,366)			(118,538)
d) Change in the provisions for unearned premiums, retrocessionaires' share	26,305			4,039
		(140,061)		(114,499)
			7,808,183	**6,965,582**
2. Allocated investment return transferred from the non-technical account, net of retrocession			**214,966**	**180,177**
3. Other technical income, net of retrocession			**1**	**–**
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	6,891,071			5,235,344
bb) Retrocessionaires' share	1,802,935			1,232,193
		5,088,136		4,003,151
b) Change in provisions for outstanding claims				
aa) Gross	(845,683)			(1,957,008)
bb) Retrocessionaires' share	90,366			784,588
		(755,317)		(1,172,420)
			5,843,453	**5,175,571**
5. Changes in other technical provisions, net of retrocession				
a) Net life assurance provision		(8,907)		(173,469)
b) Other net technical provisions		5		0
			(8,902)	**(173,469)**
6. Bonuses and rebates, net of retrocession			**1**	**52**
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses		2,660,767		2,313,593
b) Less: commissions and profit commissions received on retrocession		587,203		367,687
			2,073,564	**1,945,906**
8. Other technical charges, net of retrocession			**3,988**	**2,688**
9. Subtotal			**93,242**	**(151,927)**
10. Change in the equalisation reserve and similar provisions			**(340,657)**	**(292,605)**
11. Net technical result			**(247,415)**	**(444,532)**

in EUR thousand				2012 1.1.–31.12.	2011 1.1.–31.12.
Balance brought forward				(247,415)	(444,532)
II. Non-technical account					
1. Investment income					
a) Income from participating interests		45,582			19,477
affiliated companies:					
38,067 (2011: 17,728)					
b) Income from other investments					
affiliated companies:					
41,103 (2011: 43,549)					
aa) Income from land and buildings, rights to land and buildings, leasehold	3,271				2,790
bb) Income from other investments	794,072				703,571
		797,343			706,361
c) Appreciation on investments		29,603			88,092
d) Gains on the realisation of investments		84,663			142,564
e) Income from profit pools, profit and loss transfer agreements or partial profit and loss transfer agreements		363,006			186,605
			1,320,197		**1,143,099**
2. Investment charges					
a) Investment management charges, including interest		45,037			77,557
b) Depreciation		25,429			33,078
Impairments in accordance with § 253 (3) sentence 3 of the Commercial Code (HGB):					
12,373 (2011: 9,115)					
c) Losses on the realisation of investments		15,809			78,519
			86,275		**189,154**
			1,233,922		**953,945**
3. Allocated investment return transferred to the technical account			**(265,880)**		**(224,995)**
				968,042	**728,950**
4. Other income			**77,868**		**162,881**
5. Other charges			**252,530**		**173,835**
				(174,662)	**(10,954)**
6. Profit or loss on ordinary activities before tax				**545,965**	**273,464**
7. Taxes on profit and income			**131,353**		**1,563**
8. Other taxes			**4,358**		**1,714**
				135,711	**3,277**
9. Profit for the financial year				**410,254**	**270,187**
10. Profit brought forward from previous year				**40,746**	**24,626**
11. Withdrawals from other retained earnings				**1,021**	**–**
12. Allocations to other retained earnings				**1,021**	**813**
13. Disposable profit				**451,000**	**294,000**

Accounts

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 at the lower of amortised cost or fair value allowing for write-downs. Interests in funds that invest in private equity are valued at the lower of amortised cost or 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 the lower of amortised cost or 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.

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 2012 underwriting year is 22.87% 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 appropriately allocated.

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 5.07% 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 2.06% 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.

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 recognized 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.

Notes on assets

Change in asset items A.I. to A.II., B.I, to B.III.

in EUR thousand		2011	2012					
		Book values 31.12.	Additions	Reclassification	Disposals	Write-ups	Depreciation	Book values 31.12.
A.	Intangible assets							
A. I.	Purchased franchises, trademarks, patents, licences and similar rights and assets	**25,949**	**6,636**	**230**	**1**	**–**	**9,598**	**23,216**
A. II.	Prepayments on intangible assets	**395**	**547**	**(230)**	**–**	**–**	**–**	**712**
B.	Investments							
B. I.	Land and buildings, rights to land and buildings, leasehold	**18,739**	**14,326**	**–**	**–**	**–**	**1,348**	**31,717**
B. II.	Investments in affiliated companies and participating interests							
	1. Shares in affiliated companies	4,932,678	756,552	13	613,079	–	185	5,075,979
	2. Loans to affiliated companies	226,797	689,823	–	688,473	–	–	228,147
	3. Participating interests	60,870	1,000	(13)	–	–	231	61,626
	4. Loans to enterprises in which the company has a participating interest	0	–	–	–	–	–	0
	5. Total B.II.	**5,220,345**	**1,447,375**	**–**	**1,301,552**	**–**	**416**	**5,365,752**
B. III.	Other financial investments							
	1. Shares, units in unit trusts and other variable-yield securities	1,112,650	119,258	–	97,692	1,516	23	1,135,709
	2. Bearer debt securities and other fixed-income securities	9,122,497	6,606,270	–	4,414,800	26,782	23,608	11,317,141
	3. Other loans							
	a) Registered debt securities	669,391	11	–	129,461	–	–	539,941
	b) Debentures and loans	877,316	308	–	109,543	–	–	768,081
	c) Sundry loans	30,000	–	–	23,000	–	–	7,000
	4. Deposits with banks	429,166	80,955	–	152,364	–	–	357,757
	5. Other investments	13,256	–	–	2,301	1,305	33	12,227
	6. Total B.III.	**12,254,276**	**6,806,802**	**–**	**4,929,161**	**29,603**	**23,664**	**14,137,856**
Total		**17,519,704**	**8,275,686**	**–**	**6,230,714**	**29,603**	**35,026**	**19,559,253**

Land and buildings and rights to land and buildings

On 31 December 2012 the company had at its disposal seven 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 787 thousand as at 31 December 2012. Four buildings in Hannover are for own use (book value: EUR 27,335 thousand). An impairment loss of EUR 372 thousand was taken on one property.

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 2012

Name and registered office of the company Figures in currency units of 1,000	Participation (in %)	Currency	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	2,071,855	–
holds 63.69% of the shares in: E+S Rückversicherung AG, Hannover/Germany		EUR	733,413	142,000
holds 20.00% of the shares in: WeHaCo Unternehmensbeteiligungs-GmbH [1], Hannover/Germany		EUR	87,625	5,314
holds 100.00% of the shares in: Hannover Re (Bermuda) Ltd., Hamilton/Bermuda		EUR	1,056,837	169,716
holds 95.00% of the shares in: Hannover ReTakaful B.S.C. (c), Manama/Bahrain		BHD	41,070	6,768
Hannover Life Re AG, Hannover/Germany	100.00	EUR	1,582,596	–
holds 100.00% of the shares in: Hannover Re (Ireland) Public Limited Company [3], Dublin/Ireland		EUR	1,318,616	106,336
holds 100.00% of the shares in: Hannover Life Reassurance Company of America, Orlando/USA		USD	180,976	9,378
holds 100.00% of the shares in: Hannover Life Reassurance Bermuda Ltd., Hamilton/Bermuda		EUR	202,559	29,928
holds 100.00% of the shares in: Hannover Life Re of Australasia Ltd., Sydney/Australia		AUD	336,480	38,073
Hannover Euro Private Equity Partners II GmbH & Co. KG, Cologne/Germany	35.13	EUR	8,709	8,422
holds 100.00% of the shares in: HEPEP II Holding GmbH, Cologne/Germany		EUR	4,539	4,508
Hannover Euro Private Equity Partners III GmbH & Co. KG, Cologne/Germany	40.98	EUR	42,815	6,394
holds 100.00% of the shares in: HEPEP III Holding GmbH, Cologne/Germany		EUR	9,546	393
Hannover America Private Equity Partners II GmbH & Co. KG, Hannover/Germany	87.00	EUR	205,314	20,299
holds 100.00% of the shares in: HAPEP II Holding GmbH, Hannover/Germany		EUR	30,305	8,638
Hannover Euro Private Equity Partners IV GmbH & Co. KG, Cologne/Germany	36.76	EUR	86,192	3,542
Hannover Re Euro PE Holdings GmbH & Co. KG, Hannover/Germany	74.99	EUR	83,826	1,219
HILSP Komplementär GmbH, Hannover/Germany	100.00	EUR	25	(1)

Name and registered office of the company Figures in currency units of 1,000	Participation (in %)	Currency	Capital and reserves (§ 266 (3) Commercial Code)	Result for the last financial year
Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover/Germany	100.00	EUR	55,855	5,036
Funis GmbH & Co. KG, Hannover/Germany	100.00	EUR	24,353	(10,687)
holds 95.90% of the shares in: Glencar Underwriting Managers, Inc.[1], Itasca/USA		USD	1,789	(713)
holds 74.99% of the shares in: Integra Insurance Solutions Limited, Bradford/United Kingdom		GBP	509	636
holds 53.00% of the shares in: Svedea AB [1], Stockholm/Sweden		SEK	4,630	(44,890)
Leine Investment General Partner S.a.r.l [2], Luxembourg/Luxembourg	100.00	EUR	30	–
Leine Investment SICAV-SIF [2], Luxembourg/Luxembourg	99.95	USD	200	–
Oval Office Grundstücks GmbH. Hannover/Germany	50.00	EUR	59,657	1,804
Hannover Re Euro RE Holdings GmbH [1], Hannover/Germany	50.00	EUR	181,975	1,163
holds 90.91% of the shares in: HR GLL Central Europe GmbH & Co, KG [2], Munich/Germany		EUR	110	–
HAPEP II Komplementär GmbH, Hannover/Germany	50.00	EUR	27	–
Affiliated companies resident abroad				
Hannover Finance (Luxembourg), S.A., Luxembourg/Luxembourg	100.00	EUR	30,475	(1,304)
Hannover Finance (UK) Limited, Virginia Water/United Kingdom	100.00	GBP	131,102	19
holds 100.00% of the shares in: Hannover Life Reassurance (UK) Limited, Virginia Water/United Kingdom		GBP	38,751	2,834
holds 100.00% of the shares in: Hannover Services (UK) Limited, Virginia Water/United Kingdom		GBP	666	4
holds 100.00% of the shares in: International Insurance Company of Hannover Limited, Bracknell/United Kingdom		GBP	121,759	6,259
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa	100.00	ZAR	210,017	154,417
holds 100.00% of the shares in: Hannover Life Reassurance Africa Limited, Johannesburg/South Africa		ZAR	416,212	(7,678)
holds 100.00% of the shares in: Hannover Reinsurance Africa Limited, Johannesburg/South Africa		ZAR	781,523	145,608
holds 100.00% of the shares in: Compass Insurance Company Limited, Johannesburg/South Africa		ZAR	109,595	229
holds 51.00% of the shares in: Lireas Holdings (Pty) Ltd., Johannesburg/South Africa		ZAR	189,537	21,353
Hannover Re Real Estate Holdings, Inc., Orlando/USA	86.50	USD	377,855	32,023
holds 100.00% of the shares in: 5115 Sedge Corporation, Chicago/USA		USD	564	(1,075)
holds 100.00% of the shares in: 5115 Sedge Boulevard LP, Chicago/USA		USD	(1,574)	(1,622)
holds 99.90% of the shares in: GLL HRE CORE PROPERTIES LP, Wilmington/USA		USD	198,698	38,168
Hannover Finance, Inc., Wilmington/USA	100.00	USD	509,913	9,087

Notes

Name and registered office of the company Figures in currency units of 1,000	Participation (in %)	Currency	Capital and reserves (§ 266 (3) Commercial Code)	Result for the last financial year
holds 100.00% of the shares in: Clarendon Insurance Group, Inc., Wilmington / USA		USD	221,640	–
Kaith Re Ltd., Hamilton / Bermuda	88.00	USD	95	(291)
Secquaero ILS Fund Ltd,. Georgetown, Grand Cayman / Cayman Islands	74.09	USD	73,651	2,884
holds 100.00% of the shares in: Secquaero Re Vinyard IC Ltd. [2], St. Peter Port / Guernsey		USD	2,075	–
Hannover ReTakaful B.S.C. (c), Manama / Bahrain	5.00	BHD	41,070	6,768
Participations				
ITAS Vita S.p.A. [1], Trient / Italy	34.88	EUR	76,354	55
HANNOVER Finanz GmbH [1], Hannover / Germany	25.00	EUR	70,674	7,194
WeHaCo Unternehmensbeteiligungs-GmbH [1], Hannover / Germany	20.00	EUR	87,625	5,314

1 Financial year ending 31 December 2011
2 Company was newly established in 2012; an annual financial statement is not yet available
3 Formerly Hannover Life Reassurance (Ireland) Limited

Key exchange rates

1 EUR corresponds to:	Exchange rates on 31.12.2012
AUD	1.26895
BHD	0.49700
GBP	0.81795
USD	1.31822
ZAR	11.20686

Other notes on investments

Assets with a balance sheet value of EUR 4,783,776 thousand (EUR 4,489,556 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.

in EUR thousand	2012		
	Book values 31.12.	Fair values 31.12.	Difference 31.12.
B.I. Land and buildings, rights to land and buildings, leasehold	**31,717**	**46,763**	**15,046**
B.II. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies	5,075,979	6,872,603	1,796,624
2. Loans to affiliated companies	228,147	227,679	(468)
3. Participating interests	61,626	73,235	11,609
4. Loans to enterprises in which the company has a participating interest	0	0	0
5. Total B.II.	**5,365,752**	**7,173,517**	**1,807,765**
B.III. Other investments			
1. Shares, units in unit trusts and other variable-yield securities	1,135,709	1,373,916	238,207
2. Bearer debt securities and other fixed-income securities	11,317,141	11,850,624	533,483
3. Other loans			
a) Registered debt securities	539,941	594,430	54,489
b) Debentures and loans	768,081	844,427	76,346
c) Sundry loans	7,000	7,020	20
4. Deposits with banks	357,757	357,757	–
5. Other investments	12,227	16,043	3,816
6. Total B.III.	**14,137,856**	**15,044,217**	**906,361**
Total	19,535,325	22,264,497	2,729,172

Other receivables

in EUR thousand	2012	2011
Receivables from affiliated companies	377,175	191,432
Receivables from reinsured pension schemes	44,729	41,589
Receivables from the revenue authorities	8,332	14,958
Interest and rent due	1,928	1,439
Receivables from representative offices	1,700	2,433
Receivables from securities transactions	–	3,329
Other receivables	2,053	2,084
Total	435,917	257,264

Sundry assets

The sundry assets relate to tax refund claims in an amount of EUR 17,029 thousand (EUR 2,134 thousand).

Prepayments and accrued income

in EUR thousand	2012	2011
Accrued interest and rent	176,340	149,911
Accrued administrative expenses	2,435	2,739
Other	409	466
Total	179,184	153,116

Notes on liabilities

Subscribed capital

The company's subscribed capital remained unchanged as at 31 December 2012 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 2012.

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

	2012	
	Date of acquisition	Date of sale
	4 May	7 May
Number of shares	23,160	23,160
Amount of capital stock attributable to the shares (EUR)	23,160.00	23,160.00
Proportion of capital stock	0.02%	0.02%
Price (EUR)	45.09	29.40

Capital reserve

The company's capital reserve remained unchanged as at 31 December 2012 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

The retained earnings were reduced on balance by EUR 363 thousand due to the issue of employee shares. An amount of EUR 363 thousand was allocated in advance to retained earnings from the 2012 profit for the year. Pursuant to § 268 (8) Sentence 3 in conjunction with Sentence 1 of the Commercial Code (HGB) there is a restriction on distribution and profit transfer of EUR 19 thousand for the fair value of the pension plan assets less corresponding deferred tax liabilities in excess of original cost.

Disposable profit

The disposable profit for the financial year includes a profit carried forward from the previous year of EUR 40,746 thousand.

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 as well as a first call option as at 7 June 2012.

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 as 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 as well as a first call option as at 11 November 2020.

Under a loan agreement dated 19 November 2012 Hannover Finance (Luxembourg) S.A. granted Hannover Re a junior loan of EUR 500,000 thousand at a coupon of 5.131% and with a term until 20 November 2042 as well as a first call option as at 20 June 2023.

Provision for unearned premiums

in EUR thousand	2012		2011	
Insurance line	gross	net	gross	net
Fire	258,125	208,140	215,287	174,757
Casualty	275,765	230,914	253,541	214,783
Accident	49,990	42,472	57,638	49,717
Motor	170,792	147,481	169,055	148,065
Aviation	128,857	93,164	136,066	99,341
Life	183,107	156,928	110,667	88,805
Other lines	501,549	415,242	471,409	387,643
Total	**1,568,185**	**1,294,341**	**1,413,663**	**1,163,111**

Life assurance provisions

in EUR thousand	2012		2011	
Insurance line	gross	net	gross	net
Accident	2,908	2,542	3,467	3,144
Life	10,059,938	8,150,601	8,846,863	7,170,502
Other lines	26,721	22,955	31,553	26,861
Total	**10,089,567**	**8,176,098**	**8,881,883**	**7,200,507**

Provisions for outstanding claims

in EUR thousand	2012		2011	
Insurance line	gross	net	gross	net
Provision for reimbursements and surrenders (except annuities)				
Fire	1,559,648	1,126,364	1,774,341	1,058,271
Casualty	6,537,542	5,385,594	6,115,734	5,046,651
Accident	305,747	264,214	327,241	284,520
Motor	2,204,746	1,852,512	2,098,638	1,759,424
Aviation	1,171,565	833,589	1,143,534	803,101
Marine	1,230,359	830,324	1,159,963	782,010
Life	1,299,077	1,174,755	1,241,245	1,117,043
Other lines	2,449,276	1,801,605	2,209,120	1,776,778
	16,757,960	**13,268,957**	**16,069,816**	**12,627,798**
Separate value adjustment on retrocessions	–	923	–	2,589
	16,757,960	**13,269,880**	**16,069,816**	**12,630,387**
Provision for annuities				
Casualty	1,117	1,070	1,141	1,097
Accident	10,218	10,207	8,028	8,021
Motor	12,931	12,074	12,707	11,863
	24,266	**23,351**	**21,876**	**20,981**
Total	**16,782,226**	**13,293,231**	**16,091,692**	**12,651,368**

The net run-off result in property and casualty insurance is positive overall and amounts to 0.9 % (1.3 %) relative to the original provision.

Equalisation reserve and similar provisions

in EUR thousand	2012			
Insurance line	Position at 1.1.	Addition	Withdrawal and release	Position at 31.12.
Equalisation reserve				
Fire	480,934	194,907	–	675,841
Casualty	339,741	22,434	–	362,175
Accident	54,891	8,081	–	62,972
Motor	288,121	–	1,793	286,328
Aviation	141,834	6,797	–	148,631
Marine	141,007	35,260	–	176,267
Other lines	485,796	80,497	18,656	547,637
	1,932,324	**347,976**	**20,449**	**2,259,851**
Provisions which are similar to the equalisation reserve – major risks –				
Fire	28,333	7,091	692	34,732
Casualty	34,110	5,113	–	39,223
Accident	846	–	–	846
Motor	143	17	–	160
Aviation	1	–	–	1
Marine	2,456	45	–	2,501
Other lines	46,384	1,889	333	47,940
Total	**2,044,597**	**362,131**	**21,474**	**2,385,254**

Other technical provisions

in EUR thousand	2012		2011	
Type of provision	gross	net	gross	net
Profit commission	153,314	124,843	154,334	123,634
Commissions	2,413	2,504	3,469	3,771
Road accident victims' assistance, premium cancellation	14	14	10	14
Total	**155,741**	**127,361**	**157,813**	**127,419**

Technical provisions – total

in EUR thousand	2012		2011	
Insurance line	gross	net	gross	net
Fire	2,541,645	2,055,390	2,510,640	1,751,864
Casualty	7,271,692	6,065,201	6,805,092	5,686,163
Accident	446,875	395,764	463,146	411,183
Motor	2,677,966	2,301,176	2,573,674	2,211,793
Aviation	1,460,666	1,085,364	1,432,475	1,053,863
Marine	1,417,471	1,015,701	1,311,660	932,118
Life	11,564,172	9,499,710	10,219,178	8,392,085
Other lines	3,601,251	2,857,329	3,274,625	2,745,673
	30,981,738	**25,275,635**	**28,590,490**	**23,184,742**
Separate value adjustment on retrocessions	–	923	–	2,589
Total	**30,981,738**	**25,276,558**	**28,590,490**	**23,187,331**

Provisions for other risks and charges

in EUR thousand	2012	2011
Provisions for pension and similar liabilities	65,799	62,071
Provision for taxation	149,749	140,161
Sundry provisions		
Provisions for currency risks	38,251	60,196
Provisions for interest pursuant to § 233a AO (Fiscal Code)	30,818	20,510
Provisions for outstanding remuneration payments	24,022	21,748
Provisions for hedges	9,792	27,089
Provisions for partial retirement	2,924	4,029
Provisions for annual accounts costs	2,572	2,570
Provisions for suppliers' invoices	900	2,000
Provisions for costs of legal action	810	737
Other provisions	10,268	8,930
	120,357	**147,809**
Total	**335,905**	**350,041**

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 680 thousand (EUR 3,226 thousand). The provisions for partial retirement of EUR 3,976 thousand (EUR 4,719 thousand) were netted with plan assets with a fair value of EUR 1,052 thousand (EUR 690 thousand). In this connection income of EUR 1 thousand (EUR 16 thousand) was offset against total expenses of EUR 3 thousand (EUR 1 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 1,023 thousand (EUR 659 thousand).

Miscellaneous liabilities

in EUR thousand	2012	2011
Accounts due to affiliated companies	131,979	52,479
Liabilities in respect of the revenue authorities	2,323	1,917
Liabilities from interest and LOC	2,158	2,276
Liabilities from deliveries and services	1,819	677
Liabilities from hedging	1,580	974
Liabilities in respect of permanent establishments	953	1,169
Liabilities from outstanding commitments to old-age pension scheme	872	–
Liabilities from leases	45	40
Other liabilities	158	303
Total	**141,887**	**59,835**

Deferred items

in EUR thousand	2012	2011
Other accruals and deferred income	–	6
Total	**–**	**6**

Notes on the profit and loss account

in EUR thousand	2012	2011	2012	2011	2012	2011	2012	2011
Insurance line	Gross written premium		Gross premium earned		Net premium earned		Technical result for own account	
Fire	1,272,096	1,044,552	1,224,940	1,025,582	993,692	784,816	(43,673)	(28,886)
Casualty	1,259,491	1,120,391	1,235,041	1,143,699	1,002,808	922,842	(192,304)	(174,296)
Accident	287,824	293,859	296,197	295,296	243,878	248,500	32,937	9,248
Motor	748,648	731,818	747,602	688,368	541,077	573,165	(18,803)	(68,589)
Aviation	405,173	367,814	411,537	358,686	273,801	240,215	20,719	28,768
Marine	435,168	363,139	435,168	363,139	272,277	238,471	(46,987)	(35,742)
Other lines	2,136,784	1,799,799	2,100,374	1,740,704	1,585,237	1,312,457	(66,455)	(150,962)
Total property and casualty	**6,545,184**	**5,721,372**	**6,450,859**	**5,615,474**	**4,912,770**	**4,320,466**	**(314,566)**	**(420,459)**
Life	3,912,117	3,408,873	3,840,076	3,396,233	2,895,413	2,645,116	67,151	(24,073)
Total insurance business	**10,457,301**	**9,130,245**	**10,290,935**	**9,011,707**	**7,808,183**	**6,965,582**	**(247,415)**	**(444,532)**

Total insurance business

in EUR thousand	2012	2011
Gross claims incurred	7,736,754	7,192,352
Gross operating expenses	2,660,767	2,313,593
Reinsurance balance	2,248	(338,343)

Expenses for personnel

in EUR thousand	2012	2011
1. Wages and salaries	88,284	76,601
2. Social security payments and expenses for welfare	13,477	10,997
3. Expenses for old-age pension scheme	3,672	1,488
Total	**105,433**	**89,086**

Expenses for investments

in EUR thousand	2012	2011
Fixed-income securities	38,398	42,976
Administrative expenses	23,977	11,726
Futures and options contracts	19,332	7,951
Land and buildings	2,849	2,539
Deposit and bank fees	745	1,935
Shares in affiliated companies and participations as well as loans to affiliated companies and enterprises in which the company has a participating interest	416	38,726
Inflation swaps	389	5,562
Other investments	142	1,198
Shares and units in unit trusts	27	49,083
Separate value adjustment on interest receivable	–	27,093
Registered bonds and other loans	–	365
Total	**86,275**	**189,154**

Other income

in EUR thousand	2012	2011
Exchange rate gains	32,389	75,379
Reimbursement of expenses	20,867	16,335
Profit from services	6,557	4,972
Separate value adjustment on accounts receivable and retrocessions	6,155	10,740
Release of non-technical provisions	3,775	1,394
Income from reinsurance contracts	2,283	952
Profit from clearing transactions	2,018	401
Allocated investment return	1,520	49,838
Payment for renewal rights	352	–
Income from discounting pursuant to § 277 (5) HGB (Commercial Code)	89	160
Amounts realised	41	31
Profit from liquidation of a trust account	–	4
Other income	1,822	2,675
Total	**77,868**	**162,881**

Other expenses

in EUR thousand	2012	2011
Financing interest	84,586	80,739
Deposit interest	74,871	54,379
Exchange rate losses	58,009	20,250
Expenses for the company as a whole	24,059	24,864
Costs paid in advance	17,987	13,869
Separate value adjustment on accounts receivable and retrocessions	16,801	10,289
Interest pursuant to § 233a AO (Fiscal Code)	10,308	–
Expenses from services	5,933	4,741
Expenses for letters of credit	3,652	4,440
Interest charges on old-age pension scheme	3,263	3,283
Expenses from reinsurance contracts	457	190
Compounding of interest on provisions/expense from compounding pursuant to § 277 (5) HGB (Commercial Code)	145	42
Interest charges from reinsurance transactions	80	292
Other interest and expenses	3,293	1,275
	303,444	**218,653**
Less: Technical interest	50,914	44,818
Total	**252,530**	**173,835**

Notes

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 size of the workforce was 1,066 in the year under review, of whom 114 were executive staff and 952 employees.

The remuneration report is provided in the management report on pages 33 to 48. The total remuneration of the Executive Board of Hannover Re amounted to EUR 5.2 million (EUR 6.6 million). In the year under review 11,237 share awards with a provisional fair value of EUR 0.7 million were granted to active members of the Executive Board. The remuneration of the Supervisory Board amounted to EUR 666 thousand (EUR 654 thousand). In the previous year 187,835 stock appreciation rights with a fair value of EUR 1.0 million were granted for the 2010 financial year.

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 5 November 2012 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 (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 No. 17 of the Commercial Code (HGB); the required information is included in the consolidated financial statement of Hannover Re.

Of the securities totalling EUR 1,135,709 thousand (EUR 1,112,650 thousand) shown under the "Other investments" in the item "Shares, units in unit trusts and other variable-yield securities", an amount of EUR 1,044,787 thousand (EUR 1,054,637 thousand) was allocated to fixed assets. The fair value of the holdings allocated to fixed assets amounted to EUR 1,279,947 thousand (EUR 1,195,781 thousand).

Based on the assumption that the impairments will not be permanent, write-downs of EUR 1,002 thousand (EUR 3,753 thousand) were not taken on a portfolio with a book value of EUR 18,184 thousand (EUR 55,494 thousand). 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 3,253 thousand were reclassified from fixed assets to current assets. Altogether, bearer debt securities and other fixed-income securities with a book value of EUR 3,461,115 thousand (EUR 3,827,141 thousand) and a fair value of EUR 3,702,535 thousand (EUR 3,929,629 thousand) were allocated to fixed assets. Write-downs of EUR 3,646 thousand (EUR 72,002 thousand) were not taken on bearer debt securities with a book value of EUR 121,540 thousand (EUR 1,215,336 thousand) because it is expected that the nominal value will be repaid in full upon maturity and hence a permanent impairment is not anticipated. Write-downs of EUR 1,646 thousand (EUR 83 thousand) were not taken on shares in affiliated companies with a book value of EUR 90,303 thousand (EUR 78,871 thousand) because a permanent impairment is not anticipated. Write-downs of EUR 2,002 thousand (EUR 965 thousand) were not taken on loans to affiliated companies with a book value of EUR 125,719 thousand (EUR 161,384 thousand) because here too 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). Model-based fair value measurement is used to determine the sustainability of the book values. 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 54,660 thousand and fair value of EUR 55,204 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 155 thousand on holdings with a book value of EUR 23,889 thousand.

In addition, there were no unrealised losses on Irish bonds, the book value of which stood at EUR 7,969 thousand. Italian securities with a book value of EUR 8,063 thousand also did not contain any unrealised losses. Nor were there any unrealised losses on Portuguese bonds with a book value of EUR 14,739 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 425,000 thousand) and USD 2,116,800 thousand (USD 2,116,800 thousand). Their fair value of altogether EUR 3,182 thousand (-EUR 21,455 thousand) is comprised of positive and negative fair values of EUR 6,845 thousand and -EUR 3,663 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 264.4 million which relate to windstorm and earthquake risks as well as natural perils in Japan, the United States and New Zealand. The risks are offset by countertrade transactions. The fair value of -EUR 6.1 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 638.4 million (EUR 32.7 million) and USD 93.5 million (EUR 70.5 million) into valuation units. 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 units 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.

For the purpose of hedging currency risks associated with business transacted by foreign branches, Hannover Re took out further forward exchange contracts within the year. They involved two rolling transactions in each of CAD and AUD. The hedged volumes amounted to CAD 154.0 million and CAD 159.0 million with respect to the permanent establishment in Canada as well as AUD 327.0 million each in the case of the permanent establishment in Australia. Altogether, then, this gave rise to volumes of CAD 313.0 million (EUR 238,734 thousand) and AUD 654.0 million (EUR 509,285 thousand) within the year. The positions were payable in full or closed within the year, as a result of which no open positions existed at year-end. The volumes in euro were valued at forward rates.

The portfolio includes a special fund launched for Hannover Re 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 27,524 thousand (EUR 26,291 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 995,803 thousand (EUR 897,449 thousand) and a book value of EUR 877,410 thousand (EUR 842,310 thousand), producing unrealised gains of EUR 118,393 thousand (EUR 55,139 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 four 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 is EUR 750.0 million, and the debts from financial years 2005, 2010 and 2012 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 3,306.4 million (EUR 3,051.7 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 665.0 million (EUR 802.8 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 2012 reserves equivalent to EUR 1,170,758 thousand (EUR 908,145 thousand) existed at the subsidiaries. No soft letters of comfort were provided in the 2012 financial year.

Hannover Re has given an affiliated company guarantees in an amount of altogether USD 2,044.3 million. The term of the guarantees is determined by the secured liabilities of the affiliated company. Hannover Re receives guarantee commissions. A long-term compensation obligation exists with respect to HDI Unterstützungskasse in an amount of EUR 547 thousand.

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

Information on § 27 (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 2012 amounts to altogether EUR 129.4 million, of which EUR 25.3 million relates to the fourth quarter of 2011.

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, 1 March 2013

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 2012. 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, 5 March 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Husch
Wirtschaftsprüfer

Busch
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, 1 March 2013

Executive Board


Wallin


Arrago


Chèvre


Gräber


Dr. Miller


Dr. Pickel


Vogel

Report by the Supervisory Board
of Hannover Rückversicherung AG

In our function as the Supervisory Board we considered at length during the 2012 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 regular meetings and one constituent meeting in order to adopt the necessary resolutions after appropriate discussion. A resolution was adopted by a written procedure with respect to one matter 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 and the Group as a whole and the individual business groups. 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 2011 results in non-life and life and health reinsurance as well as a presentation from the Executive Board covering the profit expectations for the 2012 financial year and the operational planning for the 2013 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 2012 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, received an analysis of the direct insurance business transacted by the Hannover Re Group as well as reports on the pre-application phase for approval of the internal model, on the merger of the Hannover Re Group's Irish subsidiaries, on potential acquisitions as well as on the measures taken to reduce exchange rate volatility in the statement of income. In addition, we gave intensive consideration to the restructuring of the strategic objectives (target matrix) and – in the course of several meetings – the establishment of a Societas Europaea (SE) and we adopted the necessary resolutions. The operational planning for 2013 and the medium-term outlook until 2017 as well as the development and status of the Market Consistent Embedded Value in life and health reinsurance were also considered at length. Another focus of our deliberations was the adoption of a resolution regarding the refinancing of hybrid capital, as a consequence of which a new subordinated bond with a volume of EUR 500 million was placed in the European capital market in mid-November 2012 through Hannover Finance (Luxembourg) S.A. In the context of the annual review of the investment guidelines, the work concentrated on the redefinition of the issuer limit system, changes with regard to real estate investments and the allocation of various limits. Furthermore, corporate social responsibility (CSR) standards were incorporated into the investment guidelines for the first time as part of the Group-wide sustainability concept. The full Supervisory Board considered the determination of the performance bonuses of the members of the Executive Board with an eye to § 87 Para. 1 Sentence 1 German Stock Corporation Act as well as the appropriateness of the remuneration system for the members of the Executive Board pursuant to § 3 Para. 1 Sentence 3 of the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector. The fixed remuneration of members of the Executive Board as at 1 January 2013 was also reviewed. At a constituent meeting of the Supervisory Board the Chairman of the Supervisory Board and his deputy as well as the members and Chairman of the Finance and Audit Committee and the members of the Standing Committee and the Nomination Committee were elected.

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 twice. The Standing Committee adopted a resolution by a written procedure with respect to one matter requiring attention at short notice. 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 was noted, and 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 reports, 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 2012 financial year. The Committee received a detailed description of the organisation of risk management in life and health reinsurance with a specific focus on the system for controlling reserves, received a report on the adequacy of the reserves constituted in life and health reinsurance and a report on the current situation and likely development of the UK subsidiary International Insurance Company of Hannover, which complements the core business of the Hannover Re Group – reinsurance – by writing direct business in selected markets. In addition, the Committee received an explanation of the European Commission's legislative proposals for reform of the audit sector and 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 2012.

The Standing Committee dealt with the adequacy of the system of remuneration for the members of the Executive Board, the review of the fixed remuneration with respect to those members of the Executive Board for whom a review was due, the determination of the performance bonuses of the members of the Executive Board for the 2011 financial year, the stock participation rights to be awarded and the definitive maximum amount for the 2011 allocation year. In all these cases the Committee drew up corresponding recommendations for the full Supervisory Board. Substantial time was devoted to discussing and adopting a resolution on the individual targets for 2013 of the members of the Executive Board in accordance with their service contracts. The Committee also discussed at length the revised arrangements for the business group bonus in the service contracts of the members of the Executive Board and recommended to the full Supervisory Board the reappointment of Dr. Michael Pickel.

Since no changes were to be made in the context of the election of shareholder representatives to the Supervisory Board in May 2012 and given that the same individuals were standing for reelection, the Nomination Committee did not meet.

Corporate Governance

The Supervisory Board once again devoted considerable attention to the issue of Corporate Governance. The Supervisory Board considered the various new items contained in the German Corporate Governance Code (DCKG) as amended on 15 May 2012 and defined the appropriate number of independent Supervisory Board members within the meaning of Item 5.4.2 of the Code. This also resulted in an adjustment to the Rules of Procedure of the Supervisory Board. The Rules of Procedure of the Executive Board were revised and the value limits for measures and transactions requiring the approval of the Supervisory Board were adjusted to reflect the increased business volume. In addition, the Supervisory Board adopted an Information Policy in which the Executive Board's duties to provide information and reporting obligations with respect to the Supervisory Board are specified in greater detail. Furthermore, the Supervisory Board was advised by the Executive Board of a concept to promote the advancement of female employees. 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 decided not to comply with the recommendations contained in Code Item 4.2.3 Para. 4 concerning a cap on severance payments in management board contracts, in Code Item 5.2 Para. 2 concerning the Chair of the Audit Committee and in Code Item 5.3.2 concerning the independence of the Chair of the Audit Committee. The justification in these respects 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 2012 were the issues defined by the Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung DPR e.V.) and the examination of the non-accounting-related internal control system with an eye to the effectiveness of the underwriting guidelines in selected areas of non-life reinsurance as well as adherence to investment guidelines. The mandate for the review report by the independent auditors on the interim financial report as at 30 June 2012 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 2012 – 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 2012.

Changes on the Supervisory Board and the Executive Board

The composition of the shareholder representatives on the Supervisory Board and on the committees of the Supervisory Board did not change in the year under review. The employees of the company elected Ms. Frauke Heitmüller to serve on the Supervisory Board with effect from 3 May 2012. Ms. Heitmüller succeeded Mr. Uwe Kramp, who had been a member of the Supervisory Board since 3 May 2007. The Supervisory Board thanked Mr. Kramp for his many years of valuable work on the Supervisory Board.

With effect from 1 January 2013 Dr. Michael Pickel was reappointed as a member of the Executive Board for a term of five years until 31 December 2017.

Word of thanks to the Executive Board and members of staff

The very good result generated by Hannover Re for 2012 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, 6 March 2013

For the Supervisory Board

Herbert K. Haas
Chairman

Contact information

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 individual Annual Report of Hannover Rückversicherung AG 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, Germany

Tel. +49 511 5604-0
Fax +49 511 5604-1188

Concept, design and realisation

Whitepark GmbH & Co., Hamburg
www.whitepark.de

Print

Eberl Print GmbH, Immenstadt
Printed on paper from environmentally responsible, socially compatible and economically viable forest management

MIX
Paper from responsible sources
FSC® C002727

Printed carbon neutral to offset greenhouse gas emissions

carbon neutral
natureOffice.com | DE-141-382261
print production